

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)

CASE NO. 12,239

APPLICATION OF MARKS AND GARNER)
PRODUCTION, LTD. CO. FOR AN EXCEPTION)
TO DIVISION RULES 305 AND 309 TO PERMIT)
LEASE COMMINGLING AND APPROVAL OF A)
CENTRAL DELIVERY POINT, EDDY COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 16th, 1999

Santa Fe, New Mexico

OIL CONSERVATION DIV.
99 SEP 24 AM 11:35

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, September 16th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

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 Examiner Hearing
 CASE NO. 12,239

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:45 a.m.:

3 EXAMINER CATANACH: Okay, we'll call the hearing
4 back to order at this time and call Case 12,239.

5 MR. CARROLL: Application of Marks and Garner
6 Production, Limited Company for an exception to Division
7 Rules 305 and 309 to permit lease commingling and approval
8 of a central delivery point, Eddy County, New Mexico.

9 EXAMINER CATANACH: Call for appearances in this
10 case.

11 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
12 representing the Applicant. I have one witness.

13 EXAMINER CATANACH: Call for additional
14 appearances.

15 Will the witness please stand to be sworn in.

16 (Thereupon, the witness was sworn.)

17 TOMMY FOLSOM,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name and city of
23 residence?

24 A. My name is Tommy Folsom. I live in Carlsbad, New
25 Mexico.

1 Q. What is your relationship to Marks and Garner in
2 this case?

3 A. I've worked for Marks and Garner for
4 approximately four years as an agent to help in completing
5 paperwork and some workover work.

6 Q. Okay, so you're an independent contractor?

7 A. Yes.

8 Q. Have you previously testified before the
9 Division?

10 A. No.

11 Q. Would you summarize your work background?

12 A. I've been in the business for approximately 25
13 years. I worked for Santa Fe Energy for 15 years, and at
14 the end of my relationship with Santa Fe I was the senior
15 supervisor over New Mexico production, completion and
16 workover operations. And since then I've left and started
17 my own small oil company and consult for various companies.

18 Q. And you've been doing that for approximately ten
19 years?

20 A. Ten years.

21 Q. In southeast New Mexico, primarily?

22 A. Yes.

23 Q. And are you familiar with the operational matters
24 pertaining to this Application?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I'd tender Mr. Folsom
2 as a practical oil and gas man.

3 EXAMINER CATANACH: Mr. Folsom is so qualified.

4 Q. (By Mr. Bruce) Mr. Folsom, what is it that Marks
5 and Garner seeks in this case?

6 A. To commingle the gas from wells in this area and
7 bring them to a central delivery point.

8 Q. What pool are the subject wells completed in?

9 A. Grayburg Jackson.

10 Q. Now, that is an oil pool, is it not?

11 A. Yes.

12 Q. But we're only seeking to commingle the gas
13 production from the wells?

14 A. That's correct.

15 Q. Before we go to the exhibits, why is Marks and
16 Garner making this request? What was the reason that this
17 Application was filed?

18 A. The wells had been connected to Conoco pipeline
19 for some time, and they're very marginal wells.

20 Conoco told Marks and Garner that they were going
21 to take 80 percent of the revenue -- up to 80 percent of
22 the revenue, for the -- in the case, to handle the metering
23 and to handle the gas, or they were going to discontinue
24 gathering the gas, and if the wells are so marginal, the
25 gas is so important to the economics of the operation, that

1 if that was lost then the wells would be plugged and
2 abandoned.

3 Q. So unless this is accomplished, Conoco would
4 either take too much revenue from its gathering system or
5 from its gathering costs, or the wells would have to be
6 plugged and abandoned?

7 A. Yes.

8 Q. Okay. Let's move on to your exhibits. What is
9 Exhibit 1, Mr. Folsom?

10 A. This is a diagram of the facility that the wells
11 produce into and how we would test the gas on a monthly
12 basis to allocate to the CDP.

13 Q. Okay. Now, page 1 of this exhibit just lists the
14 wells involved, does it not?

15 A. Yes.

16 Q. And you submitted this to the State Land Office
17 as well as to the Bureau of Land Management?

18 A. Yes.

19 Q. Okay. Could you -- Then the second page of this
20 exhibit, could you describe how you're going to measure the
21 production from the wells and how it will be delivered to
22 the central delivery point?

23 A. Conoco had their meter where valve A would be, so
24 gas would flow through that valve to the cells, or CDP.
25 The valve A would be isolated and the gas then would go

1 through valve B and be measured through a vent test for
2 that facility.

3 Q. How often would a vent test be conducted on each
4 well?

5 A. Once a month.

6 Q. And how long does that test take?

7 A. One hour should be sufficient, because we
8 wouldn't be changing any of the parameters that the gas
9 produces from.

10 Q. Are these wells fairly old?

11 A. Yes, they are.

12 Q. With a flat rate of decline on the gas and the
13 oil?

14 A. Yes.

15 Q. So you would expect much variation from month to
16 month in these vent tests?

17 A. No, the only thing that would change that would
18 be mechanical problems, because they do pump, most of the
19 wells do pump.

20 Q. Okay. In your opinion, will this monthly vent
21 test accurately measure the gas production from each well?

22 A. Yes.

23 Q. And then you can then allocate production back to
24 each well on each lease based on the results of that test?

25 A. Yes.

1 Q. Okay. And the third page of Exhibit 1, is that
2 simply a plat identifying the location of each of the wells
3 involved in this Application?

4 A. Yes.

5 Q. And it also highlights in green the location of
6 the central delivery point?

7 A. Yes.

8 Q. Now, what is Exhibit 2, Mr. Folsom?

9 A. This is a list of the overriding royalty interest
10 owners and the royalty interest owners pertaining to these
11 wells, properties.

12 Q. And this was taken from Marks and Garner's
13 current pay list for these wells?

14 A. Yes, Division order pay list.

15 Q. Now, these are all state and federal leases
16 involved; is that correct?

17 A. Yes.

18 Q. And so the Bureau of Land Management and the
19 Commissioner of Public Lands are the royalty owners, and
20 the rest of these are overriding royalty owners?

21 A. That's correct.

22 Q. Were these persons notified of this hearing?

23 A. Yes, sir, they were.

24 Q. And is Exhibit 3 a copy of my affidavit of
25 notice, Mr. Folsom?

1 A. Yes, it is.

2 Q. Have you received, or has Marks and Garner
3 received any objections from any of the interest owners, to
4 the best of your knowledge?

5 A. Not to my knowledge.

6 Q. Okay. And is Exhibit 4 the approval of the
7 Commissioner of Public Lands to the surface commingling?

8 A. Yes.

9 Q. Were Exhibits 1 through 4 prepared by you or
10 under your direction or compiled from Marks and Garner's
11 business records?

12 A. Yes.

13 Q. And in your opinion, is the granting of this
14 Application in the interests of conservation and the
15 prevention of waste?

16 A. Yes, it is.

17 MR. BRUCE: Mr. Examiner, I'd move the admission
18 of Marks and Garner's Exhibits 1 through 4.

19 EXAMINER CATANACH: Exhibits 1 through 4 will be
20 admitted as evidence.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Mr. Folsom, what did you submit to the State Land
24 Office? Was it this same Application, Exhibit Number 1?

25 MR. BRUCE: Yes, Mr. Examiner.

1 THE WITNESS: Yes.

2 Q. (By Examiner Catanach) And it listed -- So it
3 listed all the federal wells that you're going to commingle
4 with the state wells?

5 A. Yes.

6 Q. Okay, so they're aware that you're going to be
7 doing that.

8 Have you had any response from the Bureau of Land
9 Management at all?

10 A. No, not to my knowledge.

11 Q. But you did send them this same Application?

12 A. We filed an application -- I filed an application
13 with the Bureau of Land Management on their form of this
14 intent. I don't know that this particular one was sent to
15 them. I did not send it to them myself, but I met with
16 them and talked to them directly too.

17 Q. Did it seem like they might have any problem with
18 this?

19 A. No.

20 Q. Who did you talk to?

21 A. I talked to Jim Amos in the Carlsbad District
22 Office.

23 Q. Okay. If you receive something in writing from
24 them, would you forward that to us?

25 A. Yes.

1 Q. Okay. What do these wells on average produce?

2 A. The lease, the entire lease, will make up about
3 100 MCF a day if all wells are producing. Right now, only
4 six of the wells are producing, and they make 14 to 15 MCF
5 a day. So the CDP is producing anywhere from 60 to 80 a
6 day right now.

7 Q. So they're very marginal wells --

8 A. Yes, sir.

9 Q. -- as far as gas production?

10 A. And oil production.

11 Q. And each of these wells is equipped with its own
12 separator?

13 A. Yes.

14 Q. Is that right?

15 A. Some of the properties have more than one well in
16 a property, State 1 and 2, and they both go through the
17 meter.

18 However, on the State 1 and 2 only one of them
19 produces gas, and on that particular lease it only makes
20 about 2 MCF a day -- a month. And that was allocated from
21 Conoco's sales delivery in the past, from their
22 measurement.

23 Q. Okay. There are more than one well on several of
24 these leases; is that right? Like on the Red 12 Federal
25 Number 1 and 2?

1 A. Those are separate -- Those are separate
2 facilities.

3 Q. Okay. Are there more than one well that goes
4 into a common separator, that you know of?

5 A. Yes, like I said on the State 1 and 2, they both
6 go to one facility, and they're under one battery. So
7 they're like interest. However, only one well produces
8 gas. There's allocated gas from Conoco's previous
9 production --

10 Q. Okay.

11 A. -- 2 MCF a month.

12 Q. Are there any other wells that --

13 A. No.

14 Q. So each of the other wells --

15 A. All the other wells are separate facilities.

16 Q. Separate facilities, and you're able to measure
17 those separately?

18 A. Yes.

19 Q. Okay. And do you have to go in and actually
20 equip each of these wells with that meter on the vent line?

21 A. Yes.

22 Q. And when will that be done?

23 A. Well, what we do -- we did this yesterday. This
24 is a vent test where the well, each well, is connected at
25 that point and the gas is vented through it, and so we've

1 done that now.

2 Q. So it's not a permanent installation?

3 A. No, it's a third-party test, will come out and
4 install a meter, run a chart and get the gas measurement
5 from that -- each facility.

6 Q. And that will be done once a month for about an
7 hour for each well?

8 A. Yes.

9 Q. And that gas actually is vented --

10 A. Yes.

11 Q. -- each time you test it?

12 A. Yes.

13 Q. And that provides you with enough data to derive
14 what the monthly production would be?

15 A. Yes.

16 Q. Okay. And you've had no objections from any of
17 the interest owners that you notified?

18 A. Not to my knowledge.

19 Q. Does this list include working interest owners as
20 well?

21 A. Marks and Garner is the --

22 Q. That's the only --

23 A. -- owner.

24 Q. -- working interest?

25 A. The only working interest owner. There was one

1 other one that did own an interest, and they purchased his
2 interest.

3 Q. Okay. Now, do you have any plans to add wells to
4 this gathering system --

5 A. No.

6 Q. -- in the future?

7 A. Not to my knowledge.

8 Q. Okay, so this is going to be a --

9 A. Yeah. You know, and that could change if they
10 went out and worked over a well and made changes, but to my
11 knowledge right now, no.

12 MR. BRUCE: Okay. I have nothing further of this
13 witness.

14 Anything further?

15 MR. BRUCE: Just one thing, Mr. Examiner.

16 You asked about contacts. I did receive phone
17 calls from two interest owners, or one interest owner,
18 Edmund Ely from El Paso, and he told me he had no
19 objection.

20 And then I received a letter from what was
21 originally listed on Exhibit 2 as J.S. Schmidhammer, and I
22 received a letter from her saying I got her first initial
23 wrong, but she had no objection to the Application. She
24 merely chastised me for getting her name wrong.

25 EXAMINER CATANACH: Okay.

1 MR. BRUCE: And I have nothing further.

2 EXAMINER CATANACH: Okay. There being nothing
3 further in this case, Case 12,239 will be taken under
4 advisement.

5 (Thereupon, these proceedings were concluded at
6 10:00 a.m.)

7 * * *

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11
12 I do hereby certify that the foregoing is
13 a complete and correct transcript of the proceedings in
the Ex parte hearing of Case No. 12239,
14 heard by me on September 16, 1999.
15 David R. Catnach, Examiner
16 Of Conservation Division
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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL September 18th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002