

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. 12,520  
)

APPLICATION OF BP AMOCO FOR ESTABLISHMENT )  
OF A DOWNHOLE COMMINGLING REFERENCE CASE )  
AND PRE-APPROVAL OF DOWNHOLE COMMINGLING )  
FOR FORMATIONS AND POOLS IN THE GALLEGOS )  
CANYON UNIT PURSUANT TO DIVISION RULE )  
303.C.(4) AND THE ADOPTION OF SPECIAL )  
ADMINISTRATIVE RULES THEREFOR, SAN JUAN )  
COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 25th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 25th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Pacheco, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

01 FEB - 7 PM 3:05

CAL. CO. 257-71 DM

## I N D E X

January 25th, 2001  
Examiner Hearing  
CASE NO. 12,520

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## E X H I B I T S

Applicant's	Identified	Admitted
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\* \* \*

Additional submission by BP Amoco:

	Identified	Admitted
Letter dated January 24, 2001, from Carroll Crawford to Steve Ross, OCD	14	14

\* \* \*

## A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P.  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

ALSO PRESENT:

RICHARD K. DEMBOWSKI  
Petroleum Management Team Leader  
Bureau of Land Management  
Farmington, New Mexico

\* \* \*

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

3           EXAMINER STOGNER: Let's go back on the record,  
4   and at this time I'm going to call Case Number 12,520,  
5   which is the Application of BP Amoco for establishment of a  
6   downhole commingling reference case and pre-approval of  
7   downhole commingling for formations and pools in the  
8   Gallegos Canyon Unit pursuant to Division Rule 303.C.(4)  
9   and the adoption of special administrative rules therefor,  
10   San Juan County, New Mexico.

11           MR. CARR: May it please the Examiner, my name is  
12   William F. Carr with the Santa Fe office of the law firm  
13   Holland and Hart, L.L.P. We represent BP Amoco in this  
14   matter, and I have one witness.

15           EXAMINER STOGNER: Any other appearances?

16           MR. DEMBOWSKI: I'm Rich Dembowski, Petroleum  
17   Team Leader with the Bureau of Land Management in  
18   Farmington.

19           EXAMINER STOGNER: Will the witness please -- Oh,  
20   okay. Is this witness -- Did he also appear previous?

21           MR. CARR: Mr. Examiner, as you'll recall, this  
22   case was originally heard in October. It was continued,  
23   and in December an interest owner, Mr. Carroll Crawford,  
24   appeared. The case was then continued at the end of that  
25   hearing to afford to Amoco an opportunity to meet with Mr.

1 Crawford and address his concern.

2 And so we are here today to refer to you on what  
3 has occurred, and Mr. Hawkins was the engineering witness  
4 in the original case, and he was placed under oath at that  
5 time, and his qualifications were accepted and made a  
6 matter of record at that time in this case.

7 EXAMINER STOGNER: Mr. Hawkins, let me remind you  
8 that you're still under oath in this matter, and your  
9 credentials are accepted as was on the previous record.

10 Mr. Carr, you may proceed.

11 J.W. "BILL" HAWKINS,  
12 the witness herein, having been previously duly sworn upon  
13 his oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. CARR:

16 Q. Mr. Hawkins, are you familiar with the testimony  
17 presented by Mr. Carroll Crawford and the letters that were  
18 offered into evidence at the December 21st, 2000, Examiner  
19 Hearing in this case?

20 A. Yes, I've spoken with Mr. Crawford and read his  
21 letters, and I'm familiar with his testimony.

22 Q. Are you prepared to provide Examiner Stogner with  
23 an update on the status of BP Amoco's negotiations with Mr.  
24 Crawford and otherwise respond to his questions and  
25 concerns?

1           A.    Yes.

2           Q.    Our exhibit packet contains a copy of a letter  
3           from Mr. Crawford dated January 24th, 2001, which was sent  
4           to the Commission yesterday by Mr. Crawford. Are you  
5           familiar with that letter?

6           A.    Yes.

7           Q.    I think it would be helpful if we first looked at  
8           the technical issues which were raised by Mr. Crawford in  
9           December, and in this regard I would direct your attention  
10          to what has been marked as Amoco Exhibit 19, and I would  
11          ask that you identify and review that for Mr. Stogner.

12          A.    Yes, Exhibit 19 was prepared to address the  
13          concerns that Mr. Crawford raised about well completion and  
14          implementing of downhole commingling, and at that time he  
15          was concerned with the potential for the Dakota wells to  
16          load up and not produce, and I think he was mistakenly  
17          believing that we were going to complete the wells without  
18          any tubing.

19                On Exhibit Number 19, just the four points that I  
20          wanted to make here are that the wells will be completed  
21          with tubing, the liquid will be produced up the tubing, and  
22          the gas will be produced up the tubing/casing annulus.

23                We're going to install pumping units to lift the  
24          liquids, to make sure that the Dakota -- the deep zones can  
25          stay on production and not load up.

1           We're going to install compression to reduce  
2 backpressure on the well, increase production rate of gas,  
3 and equip the wells with an automated electronic flow  
4 measurement system so that we can monitor these things in  
5 our office and determine if there's any well problem and  
6 get out to the well to fix it as soon as possible.

7           Q.   Have you reviewed this proposed implementation of  
8 downhole commingling personally with Mr. Crawford?

9           A.   Yes, I have.

10          Q.   Now, Mr. Crawford outlined his understanding of  
11 your communication and commingling procedures to be used by  
12 BP Amoco on page 2 of his letter and stated that if your  
13 testimony was in agreement with these procedures as set out  
14 in that exhibit, that he would withdraw his exceptions to  
15 the technical work. You have reviewed Mr. Crawford's  
16 letter, have you not?

17          A.   Yes, I have.

18          Q.   Are the commingling procedures to be used by BP  
19 Amoco in the Gallegos Canyon Unit in agreement with the  
20 procedures both as presented by you and as outlined by Mr.  
21 Crawford in his letter?

22          A.   Yes, what Mr. Crawford has in his letter is  
23 exactly what I discussed with him when we had our  
24 conversation, and this is our testimony. We are in  
25 agreement on this now.

1           Q.    The next matter set forth in Mr. Crawford's  
2   January 24th letter concerns administrative notification,  
3   and Mr. Crawford requests that actual notification of  
4   proposed commingling be given to noncommitted royalty  
5   interest owners to ensure the allocation adopted is  
6   properly determined.

7                   What assurances are there that the allocation  
8   adopted will, in fact, be accurate under the BP Amoco  
9   proposal?

10          A.    Well, first I wanted to have the Examiner recall  
11   that we presented testimony in October on the allocation  
12   methods that we plan on implementing: subtraction method  
13   for wells that have been on production and have established  
14   declines, and the fixed-percentage method for new wells  
15   that are coming on and don't have any historical  
16   production. And these are methods that have been routinely  
17   used by industry in numerous downhole commingling wells in  
18   the Basin.

19                   In addition to that we're going to, you know,  
20   gather the information, submit the allocation percentages  
21   to both the BLM and the NMOCD for their approval.

22          Q.    Now, these methods would be approved by the  
23   District Office of the OCD, and the allocation would be  
24   approved pursuant to the new commingling rule, 303?

25          A.    That's correct.



1 Q. Now, this is also a federally supervised unit; is  
2 that not correct?

3 A. It is. Yes, it is.

4 Q. As such, and based on the character of the lands  
5 in this unit, is the BLM the largest royalty owner in this  
6 unit?

7 A. Yes, they are.

8 Q. And it will be submitted to them, and the  
9 allocation will be approved by them when you commingle?

10 A. Yes, it will be.

11 Q. In your opinion, do these assurances -- OCD  
12 approval, BLM approval and the relatively standard methods  
13 being utilized -- do these assure fairness of the  
14 allocation to all royalty interest owners, whether  
15 committed or noncommitted?

16 A. Yes, they do.

17 Q. Has the Oil Conservation Division granted relief  
18 similar to the notice relief that's being -- or  
19 modification of the notice rules being sought by BP Amoco  
20 in this matter?

21 A. Yes, they have on a number of occasions.

22 Q. And they have been in the San Juan Basin,  
23 correct?

24 A. That's correct.

25 Q. And there have been a number of units for which

1 the modified-notice rules have been approved?

2 A. That's correct. I've got a list here that I've  
3 been able to research a little bit, and there are probably  
4 some others out there, but the Burlington Canyon Largo Unit  
5 was exempted from notification by Order Number R-10,786, in  
6 1997.

7 Phillips Petroleum has had four of their federal  
8 units exempted from notification for downhole commingling,  
9 and those are the San Juan 32-and-8 Unit -- that's under  
10 R-11,189 -- the San Juan 31-and-6 Unit in Order R-11,188,  
11 the San Juan 29-and-6 Unit in Order R-11,187, and the San  
12 Juan 32-and-7 Unit in Order R-11,1210. Those were all in  
13 1999.

14 Q. And there also have been others, have there not?

15 A. Yes, I know Conoco has received an order for  
16 their 28-and-7 Unit.

17 Q. In your opinion, will BP Amoco's recommended  
18 methods of allocation protect the interest of all royalty  
19 and overriding interest owners in the Gallegos Canyon Unit?

20 A. Yes, it will.

21 Q. Now, Mr. Crawford also expressed concern about  
22 his royalty interest was being handled and paid by Amoco.  
23 You're familiar with that?

24 A. Yes, I am.

25 Q. Initially, it would be helpful, I think, to just

1 state what interests Mr. Crawford and those he represents  
2 -- what interests do they own?

3 A. Well, I know Mr. Crawford, and I've seen the  
4 leases and discussed with our landman that he owns about 10  
5 acres in either Section 25 or 26 in the unit, and 20 acres  
6 in another section, and he owns 1/8 royalty plus 4-percent  
7 overriding royalty. And so what that equates to on a 320-  
8 acre spacing unit is generally about one percent, or maybe  
9 a little less, on the ten-acre tract.

10 Q. Now, he has a small interest in these tracts.  
11 The rest of the interests in these tracts have been  
12 committed to the unit; is that correct, in both cases?

13 A. Yes, that's correct.

14 Q. At page 5 of his letter, Mr. Crawford summarizes  
15 contacts between him and a representative of BP Amoco  
16 concerning the status of royalty payments to him; is that  
17 correct?

18 A. Yes.

19 Q. That's on page 5 of his letter, numbered page 5.  
20 I think it's 6 of the handout, perhaps.

21 Have you reviewed with other BP Amoco people this  
22 summary of the contacts with Mr. Crawford?

23 A. Yes, I've spoken with Mr. Max Eddington -- he's  
24 our landman that handles the Gallegos Canyon Unit -- and he  
25 has had a number of conversations and received letters from

1 Mr. Crawford and is working with him to address these  
2 royalty issues.

3 Q. In your opinion, is Mr. Crawford's summary  
4 accurate?

5 A. Yes.

6 Q. And as to the particular matter where he has  
7 identified that you hold a \$3800 balance, is it your  
8 understanding, then, that check is or has been drawn?

9 A. Yes.

10 Q. How will BP continue to pursue this matter with  
11 Mr. Crawford?

12 A. Well, we're going to continue to work with him to  
13 make sure that we address his concerns, review the, you  
14 know, historical accounting and make sure that his  
15 interests are fairly treated.

16 I would point out that the check for \$3800 or so  
17 was originally sent to his mother at her address that we  
18 had on record, and they had moved. And subsequently with  
19 these conversations, we've been able to get their new  
20 address and make sure that we can re-send that check to her  
21 at her new address.

22 But we had attempted to pay that prior to this,  
23 and they had not received it.

24 Q. Would you identify what has been marked as BP  
25 Exhibit Number 20?

1           A.    Yes, Exhibit Number 20 is just a summary of the  
2           benefits that we see for downhole commingling for all of  
3           the owners in the Gallegos Canyon Unit.

4                    Our plan is to open up additional formations to  
5           production, to increase rates and recovery from those  
6           zones. We want to improve producing rates from the  
7           existing wells using compression and artificial lift, and  
8           we want to use the existing wellbores and well pads to  
9           prevent additional disturbance in this unit.

10           Q.    In your opinion, do you believe that approval of  
11           the BP Amoco Application and the authorization for blanket  
12           commingling and for the reference case that you're seeking  
13           in the Gallegos Canyon Unit -- do you believe these would  
14           be in the best interest of conservation, the prevention of  
15           waste and the protection of correlative rights?

16           A.    Yes, I do.

17           Q.    Were Exhibits 19 and 20 prepared by you?

18           A.    Yes, they were.

19           Q.    Does that conclude your prepared report to the  
20           Examiner this morning?

21           A.    Yes, it does.

22                    MR. CARR: And Mr. Stogner, at this time we would  
23           move the admission of BP Exhibits 19 and 20.

24                    EXAMINER STOGNER: Exhibits 19 and 20 will be  
25           accepted.

1 MR. CARR: And I would also recommend that  
2 although it is not our exhibit, that Mr. Crawford's letter  
3 yesterday be made an official part of the record of this  
4 case.

5 EXAMINER STOGNER: At this time I'll take notice  
6 that the letter that Mr. Carr has referenced was also  
7 provided us, via the fax machine, dated January 24th with a  
8 cover page plus eight pages, and that was from Mr. Carroll  
9 Crawford. This will be made part of the record in this  
10 case also.

11 MR. CARR: And that concludes my examination this  
12 morning of Mr. Hawkins.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Mr. Hawkins, in the unit that we're discussing,  
16 other than Mr. Carroll Crawford, can you tell me how many  
17 other interest owners out there that are noncommitted?

18 A. I believe there's about -- on the order of 12. I  
19 don't know the exact number. And that may be 12 tracts  
20 that are uncommitted, and some of those tracts may have  
21 multiple owners. But I don't think there's a huge number  
22 of uncommitted owners out there.

23 Q. Now, would Amoco's bookkeeping department have  
24 that information readily available to them?

25 A. Well, I'm certain we can generate the list of

1 uncommitted owners.

2 Q. In some instances I'm sure they're getting  
3 payments; is that correct?

4 A. I'm sure they are getting payments, if their  
5 wells are on production.

6 Q. Well, how big of a problem would it be for Amoco  
7 to notify those parties if a well is to be downhole  
8 commingled in this unit that took in some of this  
9 noncommitted interest?

10 A. Well, I think, you know, certainly it would be  
11 some work to notify those parties. It's not going to be an  
12 undue burden. However, we don't really see that the  
13 uncommitted owners or uncommitted owners in the unit have  
14 any differences in, you know, how their revenue is  
15 distributed versus the unit owners. It simply is a  
16 different calculation the well on what percentage of the  
17 production do they receive, the same as many of the  
18 committed owners have differences in ownership, in how  
19 their ownership is calculated.

20 Q. But from Mr. Crawford's letter, he still has a  
21 problem with this, this notification issue. Am I correct  
22 in reading that into his letter, or are you reading the  
23 same thing?

24 A. Well, what I'm reading is that he would like to  
25 get notification in order to determine that the allocation

1 method is -- Let me look and see if I can find his wording.

2 MR. CARR: Page 3.

3 THE WITNESS: "...to ensure that the allocation  
4 adopted is properly determined..." And we already have the  
5 NMOCD as a regulatory agency looking at the allocation to  
6 make sure it's properly determined, and we have the  
7 federally supervised unit, you know, looking at the  
8 allocation method that's being adopted to make sure that  
9 it's properly determined.

10 And we -- I guess in my opinion, I believe that  
11 those two agencies would be sufficient to ensure that all  
12 of the owners are getting a proper allocation method.

13 Q. (By Examiner Stogner) So everything that the  
14 federal government and the OCD does, Amoco has no problem  
15 with, no matter what it is?

16 A. Well, no, I'm saying their review of this  
17 allocation method should be sufficient to protect all of  
18 the owners.

19 Q. You referenced five other previous orders that  
20 were issued in similar instances. I believe that was a  
21 waiver of notification?

22 A. Yes, there were reference cases for downhole  
23 commingling, and they asked for exceptions to a number of  
24 the items in the rule, including relief from the  
25 notification of all of the owners in their federal unit.



1 Q. Of those, since you obviously have looked at  
2 them, were there any instances in those five cases where a  
3 noncommitted interest owner objected?

4 A. Not that I'm aware of.

5 Q. But they had the opportunity to object --

6 A. Yes.

7 Q. -- is that your understanding?

8 EXAMINER STOGNER: Mr. Carr, I have no other  
9 questions of this witness.

10 MR. CARR: Thank you, Mr. Stogner.

11 EXAMINER STOGNER: BLM, do you have a question?

12 MR. DEMBOWSKI: I'm sorry, I just have -- I'd  
13 like to just make a general statement of support for  
14 Amoco's position. We concur with Mr. Hawkins' testimony  
15 concerning the technical aspects of the Gallegos Canyon  
16 Unit. That's based upon my personal review of the BLM  
17 records and the plan of development for the area.

18 I'd also like to make the Examiner aware that  
19 neither Mr. Crawford nor his representatives attempted to  
20 avail themselves of a review of the BLM unit nor PA records  
21 as was offered to him at the last hearing in December and  
22 as the Examiner recommended that he do.

23 As far as notification of nonparticipating  
24 royalty interests and overriding royalty interests,  
25 holders, our review of Mr. Crawford's letter suggests that

1 he may want to be notified in any case, of any downhole  
2 commingling application. We think that's excessive. The  
3 unit order, the exception, the test case, reference case,  
4 will establish notification for all parties.

5 My staff conducts an extensive review, both on a  
6 land basis and on an engineering and reservoir basis for  
7 all downhole commingling, and we feel comfortable that our  
8 review in addition to the OCD's is adequate.

9 I'd like to restate that we support very strongly  
10 the establishment of this reference case.

11 EXAMINER STOGNER: Thank you, sir.

12 If there's nothing further from Mr. Hawkins, you  
13 may be excused.

14 Mr. Carr, do you have anything further?

15 MR. CARR: Mr. Stogner, we believe that at this  
16 point the record is complete, and we'd ask that the case be  
17 taken under advisement.

18 EXAMINER STOGNER: At this time I'll ask you for  
19 a draft order --

20 MR. CARR: Yes, sir.

21 EXAMINER STOGNER: -- in this instance.

22 When do you think you might have one available  
23 for me?

24 MR. CARR: Two weeks.

25 EXAMINER STOGNER: Any time sooner?

1 MR. CARR: I will try to do it sooner. I have  
2 another very complicated draft order I'm working on as a  
3 result of a hearing two weeks ago. I will try and get both  
4 of them to you as quickly as I can, hopefully next week.

5 EXAMINER STOGNER: I appreciate your position in  
6 this matter. As you know -- you may not know -- I'm under  
7 the similar instances --

8 MR. CARR: Sure.

9 EXAMINER STOGNER: -- and there are certain  
10 members --

11 MR. CARR: Right.

12 EXAMINER STOGNER: -- of the NMOGA Regulatory  
13 Practices Committee that regularly complain about -- I'm  
14 late on that.

15 MR. CARR: I will go into high gear to stay ahead  
16 of them and you on this and get them quickly to you.

17 EXAMINER STOGNER: Okay. So I expect it in one  
18 week.

19 With that, Case Number 12,520 will be taken under  
20 advisement.

21 (Thereupon, these proceedings were concluded at  
22 10:12 a.m.)

23

24

25

\*\*\*  
25 January 2001  
12520  
STEVEN T. BRENNER, CCR  
(505) 989-9317

## 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 January 27th, 2001.



---

STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002