

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. 12,827

APPLICATION OF XTO ENERGY, INC., FOR)
APPROVAL OF SURFACE COMMINGLING, SAN)
JUAN COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 7th, 2002

Santa Fe, New Mexico

OIL CONSERVATION DIVISION
02 MAR 21 AM 10:40

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, March 7th, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

March 7th, 2002
 Examiner Hearing
 CASE NO. 12,827

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<u>RAY MARTIN</u> (Engineer)	
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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:

JAMES G. BRUCE, Attorney at Law
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ALSO PRESENT:

FRED G. ARMENTA
Interest owner
766 Road 4990
Bloomfield, New Mexico 87413

* * *

1 WHEREUPON, the following proceedings were had at
2 9:16 a.m.:

3 EXAMINER CATANACH: At this time I will call Case
4 12,827, the Application of XTO Energy, Incorporated, for
5 approval of surface commingling, San Juan County, New
6 Mexico.

7 This case is styled such that in the absence of
8 objection this matter will be taken under advisement.

9 At this time I will call for appearances in this
10 case.

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

14 EXAMINER CATANACH: Okay, I will call for
15 additional appearances in this case.

16 MR. ARMENTA: Fred Armenta, I'm the interest
17 owner.

18 EXAMINER CATANACH: Fred Armenta?

19 MR. ARMENTA: Fred Gilbert Armenta.

20 EXAMINER CATANACH: Thank you, sir.

21 Mr. Bruce, did you plan on putting testimony in
22 this case?

23 MR. BRUCE: I was planning on putting on --

24 EXAMINER CATANACH: You were?

25 MR. BRUCE: Yes.

1 EXAMINER CATANACH: Okay.

2 MR. BRUCE: Since Mr. Armenta is here.

3 EXAMINER CATANACH: Mr. Armenta, if you want to
4 you can move up here and sit at this table, if you want to
5 ask questions of the witness.

6 Mr. Armenta, where are you from, sir?

7 MR. ARMENTA: I'm from Bloomfield, New Mexico.

8 EXAMINER CATANACH: Thank you. And you are an
9 interest owner in this well, or one of these wells?

10 MR. ARMENTA: I'm the interest owner, because my
11 great grandfather homesteaded it, filed on it 1882,
12 patented 1889. From that date on it belonged to us under
13 the government.

14 EXAMINER CATANACH: Okay, thank you.

15 You may proceed. Oh, did we swear in the
16 witness? Please stand to be sworn in.

17 (Thereupon, the witness was sworn.)

18 RAY MARTIN,

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Will you please state your name for the record?

24 A. Ray Martin, from Farmington.

25 Q. Who do you work for and in what capacity?

1 A. I'm an engineer for XTO.

2 Q. Have you previously testified before the
3 Division?

4 A. No, I have not.

5 Q. Would you summarize your educational and
6 employment background for the Examiner, please?

7 A. I graduated from the University of Kansas with a
8 bachelor's in petroleum engineering, worked for ARCO Oil
9 and Gas, various reservoir operations, drilling
10 assignments, for 16 years. After ARCO I went to work for
11 XTO. I've been an operations engineer there the last eight
12 years.

13 Q. And your area of responsibility with XTO includes
14 the San Juan Basin properties of XTO?

15 A. That is correct.

16 Q. And are you familiar with the operation of the
17 wells involved in this case?

18 A. Yes, I am.

19 MR. BRUCE: Mr. Examiner, I'd tender Mr. Martin
20 as an expert operations engineer.

21 EXAMINER CATANACH: Mr. Martin is so qualified.

22 Q. (By Mr. Bruce) Mr. Martin, what does XTO seek in
23 this case?

24 A. We ask an order allowing the surface commingling
25 and production from two wells in Section 27, 29 North, 10

1 West in San Juan County.

2 Q. Please identify Exhibit 1 and identify it for the
3 Examiner.

4 A. Okay, Exhibit 1 is a table, the information on
5 the wells. It has the proration units attached. It lists
6 two wells. They're the Armenta Gas Com C 1A, which is a
7 Blanco-Mesaverde Pool well. It was drilled in 1983 and has
8 the north of Section 21 dedicated to it. The second well
9 is the Armenta Gas Com G Number 1, which is completed in
10 the Basin Fruitland Coal Pool. It was drilled in December
11 of 2001. It has the east half of Section 27 dedicated to
12 it.

13 Q. And this is the information that is required to
14 be attached to an Application under Rule 303, is it not?

15 A. Yes.

16 Q. Okay. Now, you give the producing rates of these
17 wells. You know what the current producing rate of the
18 Mesaverde well is, do you not?

19 A. Correct.

20 Q. Has the new well, the Fruitland Coal well, been
21 hooked up to the pipeline yet?

22 A. No. No, it has not. We're waiting on this
23 surface commingling.

24 Q. Okay. Why does XTO want to commingle production?

25 A. By setting one compressor, we'll reduce the

1 operating cost, reduce the fuel usage and extend the
2 economic life of the wells, compared to running two
3 compressors, which will benefit all the interest owners.

4 Q. Okay. Now, is this a residential area, or are
5 there residences in the area?

6 A. It's in the county, some farmhouses. You know,
7 it's not in a residential area, but there are some
8 farmhouses around, river on one side of it.

9 Q. Now, the alternative to doing this would be what,
10 to have a compressor for each well?

11 A. Yes, if you didn't surface commingle the other
12 option would be to set two compressors.

13 Q. And there's really no economic -- There's no
14 sense in doing that, is there, if you can do it with one?

15 A. It makes more economic sense to do it with one.
16 You can always do it with two, but --

17 Q. Yeah.

18 A. -- economically...

19 Q. But there's less surface use with one also, isn't
20 there?

21 A. Less surface use, less fuel use, lower operating
22 costs.

23 Q. What is Exhibit 2, Mr. Martin?

24 A. Exhibit 2 is a diagram of the proposed battery
25 installation, the surface commingle installation.

1 Q. Could you just briefly describe how it will
2 measure the gas from each well?

3 A. Okay. The Armenta Gas Com C 1A was the original
4 well, and its existing meter will be used as the CDP meter,
5 central distribution point meter. We set a new meter on
6 the Armenta Gas Com G1, and that will be used as an
7 allocation meter. The G1's production will be measured
8 independently with the allocation meter. The C 1A's
9 production will be calculated by the difference between the
10 two meters. The fuel use will be allocated between the two
11 wells, and liquids will not be commingled.

12 Q. Okay. Will this proposal accurately measure gas
13 produced from each well?

14 A. Yes.

15 Q. Will the value of the commingled production be
16 less than the total value of production from each source of
17 supply?

18 A. No.

19 Q. Was notice of this hearing given to all interest
20 owners in both wells?

21 A. Yes.

22 Q. And is Exhibit 3 the affidavit of notice with the
23 notice letter, et cetera?

24 A. Yes.

25 Q. These names and addresses were taken from XTO's

1 Division order files, were they not?

2 A. That is correct.

3 Q. Okay. Were Exhibits 1 through 3 prepared by you
4 or under your supervision or compiled from company business
5 records?

6 A. Yes.

7 Q. In your opinion, is the granting of XTO's
8 Application in the interests of conservation and the
9 prevention of waste?

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I'd move the admission
12 of XTO Exhibits 1 through 3.

13 EXAMINER CATANACH: XTO Exhibits 1 through 3 will
14 be admitted as evidence in this case.

15 Mr. Armenta, are you here to object to this
16 Application?

17 MR. ARMENTA: That's correct.

18 EXAMINER CATANACH: And you're objecting for what
19 reason, sir?

20 MR. ARMENTA: The testimony given, surface use,
21 the minimal impact on it is incorrect. It has already been
22 impacted. More surface is getting taken than needed.
23 Benefit? Benefit who? He doesn't state.

24 Also, the well that we just drilled, the
25 Fruitland Coal, has no history. How can you compare

1 anything? It's all estimate, he's guessing.

2 I did have a commingled well previously, the
3 Romero A 1A, 1320 feet to the south. After the well was
4 commingled, my interest payments started to decline. I
5 have retired, I'm a retired person. I do depend on these
6 interest -- on this income.

7 On the last paycheck I got, on the last check I
8 got of interest fell from \$1000 a month to \$118 for this
9 past month of February. Commingling doesn't work, it
10 doesn't do no good. On my part, I'm losing money. I don't
11 want it.

12 EXAMINER CATANACH: Now, you're talking about
13 experiences you've had on another well, not this well in
14 particular?

15 MR. ARMENTA: On the same lease.

16 EXAMINER CATANACH: On the same lease?

17 MR. ARMENTA: Uh-huh.

18 EXAMINER CATANACH: Would you care to ask some
19 questions of this witness about how they plan to do things
20 or --

21 MR. ARMENTA: Well, I've tried asking already and
22 I get no information.

23 EXAMINER CATANACH: I'm sorry, you've attempted
24 to talk to XTO about this situation?

25 MR. ARMENTA: Yes, sir, that's correct.

1 EXAMINER CATANACH: And --

2 MR. ARMENTA: When they commingled the Romero A
3 1A, which is also a Cross Timbers well, I was provided all
4 the information I needed beforehand, and I got a copy of
5 that commingling and I was given ample time -- In fact,
6 they sent a representative of Amoco, which is now XTO, and
7 I was kind of led through as to what we were going to be
8 doing, what was going to take place. XTO wouldn't do that
9 for me.

10 Amoco provided all the names and addresses of
11 people who were involved in the interest, and XTO refuses
12 to give me that information. It's kind of like, in my
13 opinion, that they won't work with me or explain to me the
14 benefit of commingling.

15 EXAMINER CATANACH: Do you understand that there
16 may be some benefit to commingling?

17 MR. ARMENTA: If they explained it to me like
18 Amoco did on this commingling of the Romero A 1A, maybe.
19 But since they won't explain, I have no idea what they're
20 talking about.

21 EXAMINER CATANACH: So you'd be willing to sit
22 down with XTO and talk about this whole thing and maybe try
23 and resolve it?

24 MR. ARMENTA: I've tried, we have tried several
25 times. That's the reason I'm here to protest, because they

1 tell me this is my last hope, this is my last chance to
2 bring up my point. If I speak not, I'm doomed. So I'm
3 here to speak.

4 I don't agree with the commingling, because what
5 my previous experience of commingling the Romero A 1A,
6 there's no benefit financially for me. And I do own the
7 surface, and I do own the minerals. I own both.

8 EXAMINER CATANACH: Who have you attempted to
9 contact, sir, with this company? Do you know?

10 MR. ARMENTA: A gentleman by the name of Jeff
11 Patton.

12 EXAMINER CATANACH: And is it just a situation
13 where he just has not called you back, or --

14 MR. ARMENTA: Well, he kind of leads me to
15 believe like I'm not intelligent enough to understand what
16 they're telling me.

17 I've also contacted a gentleman by the name of
18 Tim Welch, who promised to be at my house the first week of
19 January to discuss this and still hasn't showed up, and
20 here we are, almost coming in the first week of February --
21 I mean of April.

22 EXAMINER CATANACH: So again, would you be
23 willing to talk to this company about the situation?

24 MR. ARMENTA: If there's benefit for me, yes,
25 definitely.

1 EXAMINER CATANACH: But you certainly would be
2 willing to discuss it with them?

3 MR. ARMENTA: Yes, definitely.

4 EXAMINER CATANACH: Okay. Now, you've not tried
5 to contact this particular witness here, Mr. Martin; is
6 that correct?

7 MR. ARMENTA: No, but I did write him a letter of
8 objection, which he acknowledged that he received.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Let me ask you, Mr. Martin, do you have any
12 knowledge about this situation, about what's been going on
13 with Mr. Armenta?

14 A. Not from Amoco. I just know -- I was just
15 looking -- the Romero is a downhole-commingled well, and
16 I'd have to go back to see how Amoco set that up as far as
17 allocation and, you know, if the allocation -- you know,
18 they missed the allocation, I could see how maybe a royalty
19 could change. Also, gas has dropped a lot, the price of
20 gas has dropped a lot recently, and that could cause a
21 change in royalty.

22 But I'm not familiar with the details of the
23 Romero well, other than it's a well that I have and it is
24 downhole commingled, and it was downhole commingled when we
25 obtained it.

1 This is surface commingling and to me, you know,
2 a little more straightforward than downhole commingling as
3 far as measurement and projected chance of success, much
4 clearer. I mean, we have a well nearing -- it's a lower
5 rate than what the new well will eventually get to, and
6 we'll be faced with shutting it in eventually or
7 prematurely; whereas if a compressor is sitting essentially
8 on the same location, not to take advantage of it would be
9 mismanagement, in my opinion.

10 Q. The Armenta Gas Com G Number 1, that's been
11 completed?

12 A. Yes, it has been completed, it's never been on
13 line.

14 Q. And you're simply waiting on approval of this
15 Application to put that well on line?

16 A. Yeah, once we get approval then we'll bring the
17 compressor in. We haven't spent the money to set up the
18 compressor, but we have built the rest of the battery.

19 Q. So there's not a compressor on the site yet?

20 A. No.

21 Q. Will the compression of the Gas Com C Number 1,
22 will that benefit the Mesaverde interval?

23 A. I believe so. We've had pretty good luck with
24 the Mesaverde on compression. I don't remember that we've
25 ever tried that well on a test compressor. It would -- I

1 give it a high chance of benefitting --

2 Q. So that well might increase production?

3 A. Oh, I think so. It's bucking about a hundred and
4 -- I think it's about 120 pounds of line pressure out
5 there, and you'd be looking at 15 or 20 with the
6 compressor. And we've had, like I say, reasonably good
7 success with the Mesaverde on compression.

8 EXAMINER CATANACH: Uh-huh, okay. It seems to me
9 that somebody from XTO probably needs to sit down and go
10 over this with Mr. Armenta and maybe kind of run him
11 through it, explain the benefits to him, explain how the
12 whole process works. I'm kind of surprised that it hasn't
13 been done so far; I would have expected that it should have
14 been.

15 What I would recommend doing is continuing this
16 case for four weeks and allowing XTO the time to sit down
17 and discuss this with Mr. Armenta. If at the end of four
18 weeks he still has an objection to this case, you can come
19 back and report that you were unable to resolve any
20 differences, and then we'll proceed from there. But I
21 think that XTO needs to communicate with this royalty
22 interest owner, Mr. Bruce.

23 MR. BRUCE: That's fine, Mr. Examiner.

24 EXAMINER CATANACH: And I think that's what we'll
25 do. I would hope that XTO makes an attempt to contact Mr.

1 Armenta and do whatever it takes to make sure he knows
2 what's going on, anyway.

3 THE WITNESS: In my letter, like I said, if you
4 want to contact me -- Jeff was only over drilling, and so
5 he probably didn't, you know, respond to a production
6 question, I would guess.

7 MR. ARMENTA: Well, I did contact you by notice
8 of letter. That was a contact.

9 THE WITNESS: Uh-huh.

10 MR. ARMENTA: My other objection in the letter I
11 sent you was on the existing wells, there's a Pictured
12 Cliff, a Farmington Sand, a Chacra, a Mesaverde, now a
13 Fruitland Coal. All these wells are hooked up to a
14 Williams gathering system, which is a two-inch line, and I
15 have taken pictures and I've got pictures of those lines.

16 They've got all those wells hooked up to a very
17 small line, which I address as being unsafe, because the
18 line was buried in 1959, undoped, and just buried the line
19 through our hayfield. And the additions of more wells and
20 more compressors becomes unsafe when we're baling hay and
21 gathering our crops.

22 EXAMINER CATANACH: Well, I think you need to
23 meet with XTO, Mr. Armenta, if you'd be willing to do that,
24 and have them explain some of this stuff to you.

25 If after the meeting you still have an objection,

1 you can write me a letter saying that you still object to
2 the Application.

3 MR. ARMENTA: Okay.

4 EXAMINER CATANACH: What we'll do is continue
5 this case for four weeks, and we'll call it again on -- I
6 believe it's April 4th. And I don't know that you need to
7 be here on that date. If you still have an objection you
8 can just write me a letter saying that you still object to
9 the Application, and then we'll just -- we'll either
10 approve it or deny it, based upon what we've discussed here
11 today.

12 If you're satisfied with the Application after
13 meeting with XTO, you might write me a letter saying that
14 you withdraw your objection.

15 MR. ARMENTA: And your name, sir?

16 EXAMINER CATANACH: My name is David Catanach.

17 MR. BROOKS: May I ask a question here?

18 EXAMINER CATANACH: Certainly.

19 EXAMINATION

20 BY MR. BROOKS:

21 Q. I don't know if Mr. Martin knows the answer to
22 this, because I don't know who knows the title, but is Mr.
23 Armenta's interest the same or different in these two
24 wells?

25 A. I don't know. You know, I just have a list of

1 owners, I didn't have them print out the interest also.

2 MR. BRUCE: If you'd like me to get a breakdown,
3 I could from the --

4 MR. BROOKS: Well, it might be relevant whether
5 or not he knows -- whether or not it's the same or
6 different, because it's hard to see how commingling could
7 adversely affect his interest if his interest were the same
8 in the two wells.

9 Q. (By Mr. Brooks) The other question that I had
10 was, is Mr. Armenta as a royalty owner, is he being charged
11 any compression charge on this? Will he be charged any
12 compression charge?

13 A. My understanding, the royalty is just straight
14 off the top, royalty.

15 MR. BROOKS: That's a very controversial subject.
16 That's why I asked the question.

17 Thank you.

18 EXAMINER CATANACH: Okay.

19 MR. BRUCE: Yeah, that's fine, Mr. Examiner.

20 I did have one just follow-up question of Mr. --
21 just so we get it on the record.

22 FURTHER EXAMINATION

23 BY MR. BRUCE:

24 Q. Mr. Martin, you did write a letter to Mr.
25 Armenta, did you not?

1 A. Two. One, the first notification; and then I
2 received the objection letter and wrote another letter
3 saying that, you know, we're going to have a hearing and,
4 you know, if there's any other -- basically, what can we
5 do?

6 Q. Okay, that letter was written to him about a
7 month ago?

8 A. Yeah, I have a copy -- I think that's right.

9 Q. February 6th?

10 A. Okay, that sounds right.

11 MR. BRUCE: That's all I have, Mr. Examiner.

12 FURTHER EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. So Mr. Martin, would you be willing to be the
15 point of contact for XTO and to direct Mr. Armenta to the
16 right personnel or --

17 A. Sure.

18 Q. -- talk to him yourself or --

19 A. Sure, I'll --

20 Q. -- whatever it takes?

21 A. -- I'll meet with him and find out who he wants
22 to talk to. I can talk to our landman that he said was
23 supposed to be down, I'll find out why, and maybe we can
24 all meet in Farmington, or Bloomfield or your house,
25 wherever, and go over it.

1 EXAMINER CATANACH: Okay. Okay, then. With
2 that, we will continue Case 12,827 to the April 4th
3 hearing.

4 MR. ARMENTA: Thank you very much.

5 EXAMINER CATANACH: You bet.

6 Let's take a 15-minute break here.

7 (Thereupon, these proceedings were concluded at
8 9:40 a.m.)

9 * * *

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14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. 2807
18 heard by me on April 7, 192002
19 David R. Catanch, Examiner
20 Oil Conservation Division
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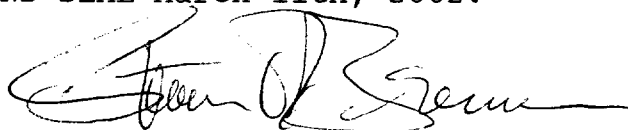
CERTIFICATE OF REPORTER

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 March 11th, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002