

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. 12,874
)
APPLICATION OF CONCHO OIL & GAS CORP.)
AND NEARBURG PRODUCING COMPANY FOR)
APPROVAL OF SURFACE COMMINGLING OF)
PRODUCTION FROM WELLS OPERATED BY TWO)
DIFFERENT OPERATORS, EDDY COUNTY, NEW)
MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 13th, 2002

Santa Fe, New Mexico

02 JUN 21 PM 8:51
OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 13th, 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

June 13th, 2002
 Examiner Hearing
 CASE NO. 12,874

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law
 324 McKenzie
 Santa Fe, New Mexico 87501
 P.O. Box 1056
 Santa Fe, New Mexico 87504

ALSO PRESENT:

WILL JONES
 Engineer
 New Mexico Oil Conservation Division
 1220 South Saint Francis Drive
 Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 8:18 a.m.:

3 EXAMINER CATANACH: Call the hearing to order
4 this morning for Docket Number 17-02. I will call the
5 continuances and dismissals at this time.

6 (Off the record)

7 EXAMINER CATANACH: Case 12,874, which is the
8 Application of Concho Oil and Gas Corporation and Nearburg
9 Producing Company for approval of surface commingling of
10 production from wells operated by two different operators,
11 Eddy County, New Mexico.

12 I will call for appearances in this case.

13 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
14 representing the Applicants. I have three witnesses to be
15 sworn, probably only present two of them.

16 EXAMINER CATANACH: Okay. There are no
17 additional appearances in this case. I will ask the
18 witnesses to please stand up to be sworn in.

19 (Thereupon, the witnesses were sworn.)

20 MICHAEL M. GRAY,
21 the witness herein, after having been first duly sworn upon
22 his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name for the record?

1 A. Michael M. Gray.

2 Q. Where do you reside?

3 A. Midland, Texas.

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

5 A. Concho Oil and Gas Corporation as a senior
6 landman.

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

9 A. Yes.

10 Q. And were your credentials as an expert landman
11 accepted as a matter of record?

12 A. Yes.

13 Q. And are you familiar with the land matters
14 involved in this Application?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, I tender Mr. Gray as an
17 expert petroleum landman.

18 EXAMINER CATANACH: Mr. Gray is so qualified.

19 Q. (By Mr. Bruce) Mr. Gray, what is Exhibit 1?

20 A. Exhibit 1 is a locator map depicting the well
21 locations and units of the three wells that we wish to
22 commingle, do the surface commingling with.

23 Q. Okay. Now, all three of these wells were
24 Nearburg wells, were they not --

25 A. That's correct.

1 Q. -- Nearburg-operated wells?

2 A. That's correct.

3 Q. Which two of these wells will become or have
4 become Concho wells?

5 A. The well in Section 3 of 16 South, 28, and the
6 well in the west half of Section 11 of 16 South, 28, will
7 be Concho-operated wells.

8 Q. And Nearburg is retaining the Section 10 well?

9 A. And Nearburg is retaining the east half of
10 Section 10, yes.

11 Q. Okay. For future reference, and we'll get into
12 this in a minute, what do the two arrows depict?

13 A. The arrows and the circles beneath the arrows
14 represent locations that Concho is currently applying
15 for -- has filed applications to drill or will be filing
16 applications to drill two additional wells on these
17 lands --

18 Q. Okay.

19 A. -- or offsetting these lands.

20 Q. And we'll get back to that in a minute.

21 What is Exhibit 2?

22 A. Exhibit 2 is an order by the OCD granting
23 Nearburg Producing Company the right to surface commingle
24 the gas from the three subject wells.

25 Q. And what is Exhibit 3?

1 A. Exhibit 3 is an application filed with the Bureau
2 of Land Management, which was approved by the Bureau of
3 Land Management for the commingling of the gas from the
4 three subject wells by Nearburg Producing Company.

5 Q. Okay. Next, what is Exhibit 4?

6 A. Exhibit 4 is an approval by the Bureau of Land
7 Management, approving the commingling of the gas from the
8 three subject wells between the two different operators,
9 Nearburg Producing Company and Concho Oil and Gas
10 Corporation.

11 Q. Okay, so this is the approval from the BLM that
12 we're also seeking from the OCD; is that correct?

13 A. That's correct.

14 Q. Okay. Now, the approval is the first page. Is
15 the rest of it just the packet submitted to the BLM seeking
16 approval?

17 A. Yes, the cover page is the approved sundry
18 application to the BLM, and the attachments are the
19 transmittal letter and copies of the application which was
20 submitted to them.

21 Q. Okay. Now, was notice of this Application given
22 to all interest owners in the three wells?

23 A. Yes, it was.

24 Q. So working, royalty and overriding royalty
25 owners?

1 A. That's correct.

2 Q. Okay. And Exhibit 5 is your affidavit of notice
3 concerning the notice given to the interest owners?

4 A. Yes.

5 Q. Okay. Now, let's get into a little bit more of
6 the reason why Concho and Nearburg are seeking this
7 approval. What is Exhibit 6?

8 A. Exhibit 6 is a monthly production summary from
9 Nearburg Producing Company, the current operator of the
10 three wells, setting forth the monthly production rates
11 from those wells.

12 Q. Okay, and I think we'll have another exhibit on
13 that shortly, but what is the approximate producing rates
14 of the two wells that Concho is taking over operations of?

15 A. Between the two wells -- the production between
16 the Crow Flats 3 Federal Number 1 well and the Crow Flats
17 11 Federal Com Number 1 well is a combined 25 MCF, plus or
18 minus.

19 Q. Okay, so the wells are marginal right now?

20 A. They do 10 to 15 MCF apiece, yes --

21 Q. Okay --

22 A. -- per day.

23 Q. -- now, if this approval isn't granted, will
24 those wells have to be then shut in?

25 A. Yes, once -- It's my understanding that barring

1 approval by the OCD to commingle these wells, these wells
2 would have to be shut in, pending the construction of a
3 pipeline by Concho Oil and Gas Corp.

4 Q. Now, what would be the approximate cost of
5 building a pipeline right now, just for these two wells?

6 A. Our engineers estimate that to lay a steel line
7 from the Crow Flats 11 through past the Crow Flats Number 3
8 to the Duke sales point would be about -- that's a surface
9 line -- would be about \$58,000.

10 Q. Okay. And 25 MCF a day just doesn't support that
11 cost?

12 A. Yes, sir, the economics don't justify building
13 that line.

14 Q. Okay. Barring further development, it would be
15 uneconomic to build a pipeline just for these two wells?

16 A. That's correct.

17 Q. Okay. And if they're shut in, of course, then
18 there is no income at all to the interest owners?

19 A. That's correct.

20 Q. So there's really no benefit in shutting in the
21 wells?

22 A. That's correct.

23 Q. Now, regarding the approval that you're seeking,
24 referring back to Exhibit 1, Concho does have future
25 development plans, do they not?

1 A. Yes, sir, Exhibit 1 depicted the two locations
2 that we intend to drill just as soon as we can get permits
3 for them.

4 Q. And assuming you make a good well out there,
5 would Concho at that time build its own pipeline?

6 A. Yes, sir, if we find significant gas rates out of
7 one or both of those wells we would construct our own
8 pipeline.

9 Q. Okay, so assuming that occurs, you don't view the
10 approval you're seeking today as a permanent situation?

11 A. Not unless we drill a couple of dry holes out
12 there.

13 Q. Right, right. You would hope you would make a
14 good well and build your own facilities, at which time the
15 order that we hope is issued in this case will become
16 unnecessary?

17 A. Yes.

18 Q. And at such time, would you notify the Division?

19 A. Yes.

20 Q. Were Exhibits 1 through 6 prepared by you, under
21 your direction or compiled from company business records?

22 A. Yes.

23 Q. And in your opinion, is the granting of this
24 Application in the interests of conservation and the
25 prevention of waste?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I'd move the admission
3 of Exhibits 1 through 6.

4 EXAMINER CATANACH: Exhibits 1 through 6 will be
5 admitted as evidence.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Okay, Mr. Gray, you guys own the well in Section
9 3, which is the Crow Flats 3 Federal Number 1?

10 A. And the well in Section 11, which is the Crow
11 Flats 11 Federal Com Number 1.

12 Q. Okay. And the well in Section 3 -- On your
13 Exhibit 1, you have an outline in each of those sections.
14 Is that the dedicated acreage --

15 A. Yes, sir, those are the units.

16 Q. Okay. And those are federal -- It's all federal
17 leases?

18 A. They're all federal leases.

19 Q. Are all three of them federal leases?

20 A. There's more than one lease, but all three units
21 are 100 percent federal.

22 Q. In Section 10 also?

23 A. Yes.

24 Q. Okay. And how many interest owners are there in
25 these three units? Is there quite a few or...

1 A. There are -- let me go -- I've got a list of
2 them, can you bear with me a second?

3 Q. Sure.

4 A. There's approximately 32 interest owners.

5 Q. And that includes all three sections?

6 A. Yes.

7 Q. Okay. Now, you did notify all the interest
8 owners in Sections -- in the units in Sections 3, 10 and
9 11, right?

10 A. Actually, Mr. Catanach, I just realized as we
11 were speaking, there is a state tract in the southwest
12 quarter of Section 11, and we neglected to notice the
13 State.

14 Q. Southwest quarter of Section 11. Okay, that
15 would be included in that proration unit?

16 A. Yes.

17 EXAMINER CATANACH: Okay. It appears to me that
18 you'll probably have to --

19 MR. BRUCE: -- renotify.

20 EXAMINER CATANACH: -- renotify the Land Office
21 and try and obtain their approval.

22 Q. (By Examiner Catanach) Have you had any
23 discussions with any of these interest owners, Mr. Gray?

24 A. No.

25 Q. As far as you know, none of the interest owners

1 have any objection to the proposed commingling?

2 A. Not to my knowledge. I have -- Excuse me, Mr.
3 Catanach, I have had discussions with Les Babyak at the
4 Bureau of Land Management, and of course we have his
5 approval in hand, so...

6 Q. Okay. They don't have any problem with it,
7 obviously.

8 Now, you guys are planning on drilling an
9 additional well in Section 14, it looks like?

10 A. That's correct.

11 Q. You're not asking at this point that that acreage
12 be included in the commingling?

13 A. No.

14 Q. Okay. How about the proposed well in Section 3?
15 Is that going to be --

16 A. It's our anticipation, obviously, since we're
17 planning on drilling that well, that we'll find volumes
18 sufficient to justify building our own line in this area.

19 It is possible, I suppose, if either one of the
20 wells are severely production-limited, that we could
21 possibly come back to the Division and ask for additional
22 commingling. But if the wells have a significant
23 deliverability, we'll build our own line in this area.

24 Q. Do you guys -- do you know how much you would
25 need, how much production you'd need to justify building a

1 pipeline?

2 A. I don't have an answer for that.

3 Q. And all of these wells produce from the same gas
4 pool; is that your understanding?

5 A. Yes, they all produce from the same Morrow Gas
6 Pool. I believe it's the Diamond Mound.

7 Q. To your knowledge, is the Nearburg well -- is
8 that a marginal well?

9 A. No, sir, that well is doing, I think, about 300
10 to 400 MCF a day.

11 Q. And your two wells average -- What did you say,
12 10 to 15 MCF per day?

13 A. Yes, each.

14 Q. Okay. Now, this order that we issued to
15 Nearburg, that covered the three wells, right?

16 A. Yes.

17 Q. Okay. The BLM -- I assume that the BLM approved
18 the allocation method that you propose to -- that you're
19 going to propose today here; is that --

20 A. You'll have to look at the Application and see
21 what kind of detail I gave them.

22 Q. As far as you know, you're proposing the same
23 method --

24 A. Yes, in fact, you and I spoke earlier. The BLM's
25 initial response was that because they had already approved

1 the commingling, that they didn't think that they really
2 needed to approve it again because of the operator
3 situation. But I think Mr. Babyak did that to help this
4 case along, I think.

5 Q. Okay.

6 A. You'll find on Exhibit 3 the original Nearburg
7 application to the BLM --

8 Q. Uh-huh.

9 A. -- which I think sets forth in more detail the
10 answer to your allocation question.

11 Q. You don't propose to change anything up from the
12 original Nearburg setup; is that --

13 A. No, sir.

14 EXAMINER CATANACH: Okay.

15 EXAMINATION

16 BY MR. JONES:

17 Q. Mr. Gray, just for my own information, these
18 federal leases have a preceding, sometimes, NMNM on them?

19 A. Yes.

20 Q. Why is that?

21 A. That's simply the Bureau of Land Management
22 serial number for the lease, and it's -- There's a
23 historical reason for the alphabetic prefix, but I'm not
24 sure what it is.

25 Q. So it is a valid -- It's not just supposed to be

1 NM?

2 A. Well, actually, I think the historical reason is,
3 the BLM in the past had district offices within the New
4 Mexico -- they had subdistricts within the New Mexico area,
5 and there used to be a Las Cruces District and a Carlsbad
6 District, and those prefixes -- the Las Cruces District,
7 for instance, was LC. You still see those on maps
8 occasionally.

9 Q. Yeah.

10 A. And now that there's no subdistricts, it's just
11 NM, so...

12 MR. BRUCE: Mr. Jones, if it says NMNM it's
13 handled out of the New Mexico BLM Office and it's a New
14 Mexico lease. If it's NMOK it's handled out of this office
15 but it's an Oklahoma lease. And the office here handles
16 Oklahoma, Texas and I think Kansas.

17 So there are different serial numbers based on
18 the state. But the digits -- or the letters 3 and 4
19 designate which state the lease is in.

20 MR. JONES: Is that the Albuquerque office?

21 MR. BRUCE: Santa Fe.

22 MR. JONES: Santa Fe.

23 EXAMINER CATANACH: Okay, we have nothing further
24 of this witness, he may be excused.

25 MR. BRUCE: Thank you.

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TIM GREEN,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence for the record?

A. Tim Green, Midland, Texas.

Q. Who do you work for?

A. Nearburg Producing Company.

Q. What is your job at Nearburg?

A. I'm the gas marketing manager.

Q. Have you previously testified before the Division?

A. No, sir.

Q. Could you summarize for the Examiner your educational and employment background and then maybe tell him a little bit about what your job at Nearburg encompasses?

A. Okay. My educational background is, I have a four-year bachelor degree in business administration management. I worked for Adobe Oil and Gas and Santa Fe Energy Resources for about 19 years, got bought out by Devon, went to work for Nearburg in June a year ago, and I have been in the gas-marketing end of the business for

1 about 12 years now.

2 Q. And when you say gas marketing, can you give a
3 better idea, or just in brief what that entails?

4 A. Basically what we do on the producing side as a
5 gas marketer is, we hook wells up. We get pipelines laid
6 or get purchasers to lay pipelines to hook our wells up and
7 make arrangements to market our gas or gather our gas to a
8 market.

9 Q. And as part of that, is it important for you to
10 know what Nearburg's wells make and how that production is
11 allocated?

12 A. Yes, sir, absolutely. I'm kind of controlled by
13 allocation, however we allocate our wells. I was the one
14 that instigated the commingling agreement and wrote the
15 letters for it and all that stuff, so...

16 Q. And are you familiar with the allocation of
17 production for the wells we're here for today and with the
18 application for the surface commingling?

19 A. Yes, sir.

20 MR. BRUCE: Mr. Examiner, I tender Mr. Green as
21 an expert in gas marketing.

22 EXAMINER CATANACH: Mr. Green is so qualified.

23 Q. (By Mr. Bruce) Mr. Green, could you identify
24 Exhibit 7 for the Examiner?

25 A. Yes, sir, Exhibit 7 is just your pipeline map

1 where we've got the Crow Flats 11 hooked up to the Crow
2 Flats 10 and then on to the Crow Flats 3, up to the Duke
3 sales meter up in the left-hand corner. It's just those
4 three wells hooked up to that gas pipeline, delivered into
5 that sales meter.

6 Q. Next three pages are simply schematics prepared
7 regarding the hookups of each one?

8 A. Yeah, just -- These are just wellhead diagrams
9 that the engineers put together, that's required by the BLM
10 when you file these things.

11 Q. And what's the final page?

12 A. Final page is just a hand drawing by one of the
13 engineers of what you see on the front page.

14 Q. Okay, it just gives an idea of how things are set
15 up for these three wells; is that correct?

16 A. That's correct.

17 Q. Would you identify Exhibit 8 for the Examiner and
18 tell him how the gas is allocated and maybe go into a
19 little bit on the production from these wells?

20 A. Okay, I prepared this, what I call the allocation
21 procedures and timelines for these three wells, you know.

22 And you had a question a while ago, is it going
23 to be done virtually the same way it was before? It's
24 going to be done exactly the same way, I'm just going to
25 have Concho as the operator of two of the other wells, but

1 we're going to do the same allocation all the way to
2 revenue.

3 And these three wells, as he's told you before,
4 two of the wells are producing about 25 MCF a day, one
5 about 10 and one about 15. Our well produces about 300 a
6 day. This contract that we did previously, you know, we
7 used all the wells and all the volumes to get the best
8 contract we could for all three wells, to make all of them
9 economic. And we built the pipeline, the working interest
10 owner, to the sales meter and spent the money to do that so
11 we could have a good contract here.

12 And I kind of spelled out in this little letter
13 how we intend to do things. We've got the three wells, you
14 know, all the wells are going to be metered at the wellhead
15 and we're going to get integration on those wellhead
16 meters, which we're doing now, okay. And then we're going
17 to take the Duke sales meter integration that they sent us,
18 which -- that detail is following along with this letter
19 here.

20 Q. Okay, the pages after page 1 are the detail --

21 A. Right.

22 Q. -- that supports this time line?

23 A. Right, sir --

24 Q. Okay.

25 A. -- based -- we've got the integration from the

1 wellhead on the first page, then you have the Duke sales
2 meter, which I think he's got it marked in yellow on the
3 third page. And that's the total volume at the sales
4 meter. And all we're doing is, we're taking the
5 integration from the wellheads, and we're pro rata
6 allocating that sales meter volume back to each well
7 equally, based on that.

8 And then we supply those volumes to Duke, and
9 then subsequently Duke puts that into their system and
10 creates a statement for each well. And of course, the
11 revenue will be attached to those volumes based on the
12 contract, which is the same for each well.

13 Q. Now, will the data that you get for the two
14 Concho wells then be supplied to Concho so that they can
15 pay their interest owners?

16 A. Yes, sir, it will be, on a timely basis.

17 Q. Okay. Somewhere in here, I didn't -- I forget
18 which exhibit -- Mr. Gray had an estimate from his engineer
19 on the pipeline cost of about \$58,000. Nearburg's original
20 pipeline cost was a little bit higher than that, was it
21 not?

22 A. Yes, sir, it was, because we buried some pipe
23 from one well -- what, the 3 to the 11, we buried like a
24 3-inch steel line originally, and our engineer did the
25 estimate on all the pipe from the well to the gathering

1 system up to the sales meter, you know, and he did an
2 estimate on that. It was \$92,000.

3 Q. \$92,000.

4 A. Yes, sir.

5 Q. So certainly, even with the \$58,000, it would
6 be -- that would be a conservative estimate?

7 A. Based on our engineer's estimate, yes, sir.

8 Q. So if it was higher, it would make it even more
9 uneconomic to build the pipeline just for these two
10 marginal wells?

11 A. Yes, sir. Yes, sir. Plus, I think an important
12 point here is, this contract was done by putting volumes
13 together. You know, I mean, if you'd have went out and
14 tried to get a contract for 25 MCF a day, this contract
15 wouldn't have been this good. It's like a 84 84 contract,
16 that's the bottom of the contract.

17 You know, if these guys had to build a line, they
18 had to set a separate meter, they could probably stay under
19 the contract. But in all of those contracts, especially
20 Duke contracts, they have a volume requirement. And if you
21 get under a certain volume, that contract drops down to
22 like 50 percent. So you're going to lose a lot of value if
23 you had to set another meter there.

24 Q. So in other words, the more gas you have
25 available to sell, the better a price --

1 A. Most of the time it's over 450 or 600 MCF a
2 month. If you're not over that 600 MCF a month, you go
3 under that low-volume payment.

4 Q. Okay. Now, as you said, what we're proposing
5 here today, the gas will be metered and allocated to each
6 well as it's been done for some time now?

7 A. Yes, sir.

8 Q. There will be no change?

9 A. No, sir.

10 Q. And based on what you've seen, will the gas for
11 the two Concho wells and for the one Nearburg well be
12 accurately measured and allocated to each well?

13 A. Yes, sir.

14 Q. In your opinion, will the granting of this
15 Application be in the interest of conservation and the
16 prevention of waste?

17 A. Yes, sir.

18 Q. And were Exhibits 7 and 8 prepared by you, under
19 your supervision, or compiled from company business
20 records?

21 A. They were prepared by me or someone that works
22 under me.

23 Q. Okay. One final thing, when I was going through
24 the exhibit -- or the notification list, Mr. Green, about
25 half the parties were care of Nearburg. Are they internal

1 Nearburg partners?

2 A. Yeah, internal investors, yes, sir.

3 Q. Okay. So if you just group those under Nearburg,
4 then there's about a dozen and a half interest owners?

5 A. I believe that's correct.

6 MR. BRUCE: Mr. Examiner, I would move the
7 admission of Exhibits 7 and 8.

8 EXAMINER CATANACH: Exhibits 7 and 8 will be
9 admitted as evidence.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Mr. Green, just to make sure I understand, the
13 volumes from the allocation meters -- Well, let's see, all
14 three of the wells have allocation meters; is that correct?

15 A. Yes, sir, every one of them have a wellhead meter
16 that's integrated monthly.

17 Q. Okay. Is there any liquids that's associated
18 with these wells?

19 A. We sell this as dry gas -- Excuse me, I'm sorry,
20 yes, there is liquids --

21 Q. So they're separated --

22 A. -- I take that back.

23 Q. -- at the well --

24 A. No, we put it all in that sales meter together,
25 it's delivered to the plant, and the liquids are extracted

1 at the plant. But it's allocated based on that sales meter
2 volume. Does that make sense?

3 Basically all three wells go down this line,
4 they're delivered to the meter, you know, based on their
5 BTU analysis, the liquids at the plant are allocated back
6 to all the meters. This is one of them. So they're
7 allocated equally to the wells, is what I'm telling you,
8 based on their BTU analysis.

9 Q. Yeah. Do you think that's accurate?

10 A. Yes, sir. We do this in multiple cases.

11 Q. Okay. So then each of the allocation meters is
12 integrated every month, or that volume is determined every
13 month; is that correct?

14 A. Yes, sir.

15 Q. And then the sales meter volume is determined at
16 the same time?

17 A. Yes, sir.

18 Q. And that's simply whatever the allocation meter
19 shows. Is there any difference, usually, between the sales
20 meter and the three allocation meters?

21 A. If you add up the three allocation meters, yes,
22 there's always going to be a difference in measurement.
23 You know, two percent is always allowed between two meters,
24 much less three meters added up to one meter.

25 You've got an EFM meter on the Duke sales point.

1 I think if you looked at April volumes, actually Duke sales
2 meter volumes were higher than those three added up, which
3 is good.

4 Q. Okay.

5 A. But I mean as far as the wells getting their *pro*
6 *rata* share, you know, that's, you know, basically just
7 taking one well, dividing it into the total of three and
8 multiplying it times the sales meters.

9 Q. Okay. Is there any problem with the low-volume
10 wells getting the gas into the pipeline, given the fact
11 that you have a higher producing well? Is there any
12 pressure differential?

13 A. No, this is a low-pressure line, so they can all
14 produce into it.

15 Q. So they can all produce, regardless of the
16 volumes?

17 A. (Nods)

18 Q. Okay. And the way I understand it, Duke pays
19 Nearburg for the total sales volume?

20 A. That's correct.

21 Q. And then you disburse yours to Concho, their
22 share?

23 A. Yeah, we'll just disburse -- Duke will disburse
24 100 percent for those two wells to us, we'll in turn just
25 re-disburse it to Concho at 100 percent. And then

1 they'll --

2 Q. And then they -- Concho pays the royalty --

3 A. Royalties, tax and everything that they're
4 responsible for.

5 Q. And they will report -- You'll report your well,
6 and they'll report their two wells --

7 A. Yes, sir.

8 Q. -- to the Division?

9 A. Yes, sir. And we'll furnish any information in a
10 timely manner to them, as I've put down here on these
11 timelines, so that they may be able to do that. And we've
12 looked at all those timelines, and there's not a problem
13 with it.

14 Q. Now, does Duke -- I'm really not as familiar as I
15 should be with the rules regarding transporters. Does Duke
16 have to file a form with us, a transporter report or --

17 A. We were discussing that yesterday. They do file,
18 and I'm not sure if it's based on the PUN number or how
19 they base that, but they file something for their plant --
20 anything that goes to their plant, they have to file
21 volumes back to some meter level. So I'm going to say yes,
22 they do.

23 Q. Well, I'll have to research that and talk to
24 somebody with the Division to see exactly what Duke files
25 and whether or not this presents any problems with regards

1 to that. I can't see why it would, but we will check on
2 that.

3 A. Probably need to ask Neesie that question because
4 they have talked to Duke, their production reporting person
5 has talked to Duke, and they've asked them if there would
6 be a problem, and she can probably answer that question
7 better than I can.

8 Q. Who is this?

9 A. I'm sorry, Angela.

10 Q. Okay.

11 MR. BRUCE: It was the third witness we swore in,
12 who is Concho's gas marketer, Mr. Examiner.

13 EXAMINER CATANACH: Okay. Do you have anything,
14 Mr. Jones?

15 MR. JONES: A couple.

16 EXAMINER CATANACH: Okay, go ahead.

17 EXAMINATION

18 BY MR. JONES:

19 Q. Mr. Green, does Nearburg own any interest in
20 Concho?

21 A. No, sir, not that I know of.

22 Q. Or vice-versa?

23 A. I'm not high up to know -- be privy enough to
24 that, because our owner is a private owner. I mean, he --
25 You know, what his private businesses are, I don't know.

1 But not as far as I know.

2 Q. Okay. And these allocation meters, are they into
3 Concho's office and Nearburg's office, or who reads these
4 meters? Is it Nearburg people that read the meters?

5 A. Well, we have a third-party integrator, you know.
6 These are chart meters, so we send the charts in to a
7 third-party integrator.

8 Q. So they're Barton charts?

9 A. Right, they're just -- and of course the Duke
10 meter is an EFM meter, electronic flow meter.

11 MR. JONES: Okay, that was my question.

12 EXAMINER CATANACH: Okay, I think that's all we
13 have.

14 MR. BRUCE: Mr. Examiner, I did not plan on
15 calling a third witness, but she does have some knowledge
16 about your question about Duke, and we can put her on for
17 that.

18 EXAMINER CATANACH: Okay, let's do it.

19 ANGELA D. TERRELL,
20 the witness herein, after having been first duly sworn upon
21 her oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Would you state your name and city of residence
25 for the record?

1 A. Angela Denise Terrell, Midland, Texas.

2 Q. And who do you work for and in what capacity?

3 A. I'm director of oil and gas marketing for Concho
4 Oil and Gas Corp.

5 Q. Rather than go through the expert witness stuff,
6 since we're just asking a specific question here, has
7 Concho had contact with Duke about any problems regarding
8 what we're seeking here today?

9 A. Yes, Terri Stathem, our regulatory analyst, had
10 spoken with the Duke Energy analyst, and they said as long
11 as we were able to get approval, they would not have a
12 problem doing the reporting the way that we wanted to do
13 it, having two operators go through one sales point.

14 Q. Now, Ms. Terrell, your job at Concho is
15 equivalent to Mr. Green's at Nearburg, is it not?

16 A. Yes.

17 Q. And based on what you've seen, will Concho's
18 volumes be accurately metered and reported?

19 A. Yes.

20 EXAMINER CATANACH: Okay. What I'll probably end
21 up doing is checking with people here, our computer people,
22 to see if there's any kind of problem. I don't know if
23 there might be, but...

24 MR. BRUCE: Is all of that filed electronically,
25 those transporter reports?

1 EXAMINER CATANACH: Probably. But I'll check on
2 that, and if there is some kind of problem we may have to
3 get back together.

4 Anyway -- We're going to have to continue the
5 case anyway, I suspect, to allow you time to contact the
6 Land Office.

7 MR. BRUCE: I'll take care of that.

8 EXAMINER CATANACH: And I guess -- Shall we
9 continue it for four weeks, and that would give me the
10 opportunity to talk with our people? If there's any
11 problem, I would come back to you at that time and advise
12 you of that.

13 MR. GRAY: David, if we can go ahead and get a
14 waiver from the State -- I say a waiver, essentially an
15 approval letter -- would that --

16 EXAMINER CATANACH: From the Land Office?

17 MR. GRAY: Yes, uh-huh.

18 EXAMINER CATANACH: Yeah, that would be fine,
19 except that if we continue the case for four weeks, it's
20 not going to do you any good to get a waiver, because we'll
21 still have to call the case in four weeks. Do you want to
22 try for two weeks and try and get a waiver?

23 MR. BRUCE: Yeah, let's do that, and if necessary
24 I'll -- We'll do both, we'll try to get a waiver and
25 we'll -- but let's continue it for two weeks.

1 EXAMINER CATANACH: Okay. All right, we'll do it
2 that way then. And if you can get something from them just
3 let me know. And you'll probably not have to be present
4 two weeks from now, you guys probably won't have to show
5 up. We'll just call the case. So we'll do it that way.

6 Anything else, Mr. Bruce?

7 MR. BRUCE: Nothing further.

8 EXAMINER CATANACH: Okay, there being nothing
9 further in this case, Case Number 12,874 will be continued
10 to the June 27th hearing.

11 And there being nothing further on this docket,
12 this hearing is adjourned.

13 (Thereupon, these proceedings were concluded at
14 8:57 a.m.)

15 * * *

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17
18
19 I do hereby certify that the foregoing is
20 a complete and correct transcript of the proceedings in
21 the Examination of Case No. _____
22 heard by me on _____ 19____.

23 _____, Examiner
24 Oil Conservation Division
25

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 June 13th, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002