

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:)	
)	
APPLICATION OF BP AMERICA PRODUCTION)	CASE NOS. 12,967
COMPANY FOR SURFACE COMMINGLING,)	
EDDY COUNTY, NEW MEXICO)	
)	
APPLICATION OF BP AMERICA PRODUCTION)	and 12,968
COMPANY FOR SURFACE COMMINGLING,)	
EDDY COUNTY, NEW MEXICO)	
)	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 9th, 2003

Santa Fe, New Mexico

60 JAN 23 AM 9:25
STEVEN T. BRENNER

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 9th, 2003, 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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January 9th, 2003,
 Examiner Hearing
 CASE NOS. 12,967 and 12,968 (Consolidated)

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FOR TRILOGY OPERATING, INC.; JERRY A. WEANT; BOB STEVENS;
C.C. TULL, JR.; DOUG TULL; GEORGE KNOX; S. FAMILY PARTNERS,
LTD., WESLEY K. NOE; CALMETTO II, LTD.; SCOTT MUEHLBRAD;
SUTHERLAND FAMILY, L.L.C.; AVALON OIL COMPANY; MICHAEL G.
MOONEY; POGAR PETROLEUM; and STEVENS AND TULL DEVELOPMENT,
L.P. (Case 12,967) and WESLEY NOE; BOB STEVENS; DOUG TULL;
GEORGE KNOX; POGAR PETROLEUM; SUTHERLAND FAMILY, L.L.C.;
JERRY WEANT; C.C. TULL, JR.; S. FAMILY PARTNERS, LTD.,
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* * *

1 WHEREUPON, the following proceedings were had at
2 9:31 a.m.:

3 EXAMINER CATANACH: Okay, at this time I will
4 call Case 12,967, the Application of BP America Production
5 Company for surface commingling, Eddy County, New Mexico.
6 Call for appearances.

7 MR. FELDEWERT: May it please the Examiner, my
8 name is Michael Feldewert with the Santa Fe office of
9 Holland and Hart. I'm appearing on behalf of BP America
10 Production Company. I have one witness here today, and we
11 would like to consolidate Case 12,967 with Case 12,968 for
12 purposes of presenting testimony.

13 EXAMINER CATANACH: Call for additional
14 appearances in this case.

15 MR. OWEN: May it please the Examiner, Paul R.
16 Owen of the Santa Fe law firm of Montgomery and Andrews,
17 appearing in Case Number 12,967 on behalf of Trilogy
18 Operating, Inc.; Jerry A. Weant; Bob Stevens; C.C. Tull,
19 Jr.; Doug Tull; George Knox; S. Family Partners, Ltd.,
20 Wesley K. Noe; Calmetto II, Ltd.; Scott Muehlbrad;
21 Sutherland Family, L.L.C.; Avalon Oil Company; Michael G.
22 Mooney; Pogar Petroleum; and Stevens and Tull Development,
23 L.P.

24 I have another list of parties on whose behalf
25 I'm appearing in Case 12,968, and I concur in Mr.

1 Feldewert's request that it be consolidated.

2 EXAMINER CATANACH: You answered my question.

3 At this time I'll call Case 12,968, which is the
4 Application of BP America Production Company for surface
5 commingling, Eddy County, New Mexico.

6 And Mr. Owen, you're appearing in that case?

7 MR. OWEN: I am, on behalf of a slightly
8 different list of parties. I'm appearing on behalf of
9 Wesley Noe; Bob Stevens; Doug Tull; George Knox; Pogar
10 Petroleum; Sutherland Family, L.L.C.; Jerry Weant; C.C.
11 Tull, Jr.; S. Family Partners, Ltd., Scott E. Muehlbrad;
12 JPAK, L.P.; and Westwood Lake Village, Inc.

13 EXAMINER CATANACH: Okay, any additional
14 appearances?

15 Okay, these cases will be consolidated for the
16 purpose of the hearing today.

17 MR. OWEN: Mr. Examiner, I have two witnesses in
18 this matter.

19 EXAMINER CATANACH: Okay. And Mr. Feldewert, you
20 have one witness?

21 MR. FELDEWERT: Yes, sir.

22 EXAMINER CATANACH: May I please get all three
23 witnesses to stand and be sworn in?

24 (Thereupon, the witnesses were sworn.)

25 MR. FELDEWERT: Mr. Examiner, we'll call Bob

1 Manthei.

2 ROBERT MANTHEI,

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

5 DIRECT EXAMINATION

6 BY MR. FELDEWERT:

7 Q. Mr. Manthei, could you please state your full
8 name and address for the record?

9 A. My name is Robert Manthei, and I reside at 8
10 Heritage Court, Andrews, Texas.

11 Q. By whom are you employed and in what capacity?

12 A. I'm employed by BP America Production Company as
13 an operations supervisor.

14 Q. And have you previously testified before this
15 Division?

16 A. No, I have not.

17 Q. Would you summarize your educational background
18 for the Examiner after high school?

19 A. After high school I attended the Denver Institute
20 of Technology in 1975 for motorcycle mechanics, and then I
21 have approximately 24 hours of college credit towards an
22 associate's degree in computer science.

23 Q. Mr. Manthei, how long have you been working in
24 the oilfield?

25 A. I've been working in the oilfield since 1980.

1 Q. Okay, and why don't you summarize for the
2 Examiner your experience in the oilfield since 1980?

3 A. In 1980 I was hired by Atlantic Richfield
4 Corporation as a roustabout relief pumper. In 1981 I was
5 promoted to lease pumper, and then in 1985 I was promoted
6 to operations supervisor for southeast New Mexico.

7 Q. Who did you work for prior to ARCO in 1980?

8 A. Prior to ARCO I spent one year working for Alamo
9 Pipe and Supply. Then I spent about three years working
10 for Enron Southwest, which is a chemical plant. And then I
11 spent one year for Bethlehem Steel as an oilfield mechanic.

12 Q. What did you do for the chemical plant? What
13 were your job responsibilities?

14 A. My job responsibilities there were water
15 treatment, compression and process operations. We took
16 natural gas and converted it into ammonium nitrate and
17 ammonia.

18 Q. Did you have experience at that time with chart-
19 reading and other methods of measuring natural gas?

20 A. Yes, I did. We had chart meters, natural gas,
21 and then we had various recorders throughout the plant that
22 measured other flows.

23 Q. When you were a lease pumper for -- shortly
24 between 1980 and 1985, what were your job responsibilities
25 with respect to oilfield operations?

1 A. As a roustabout relief pumper and lease pumper,
2 we were responsible for well testing, reading charts and
3 switching orifice plates.

4 Q. Did you deal with allocation meters?

5 A. We dealt with the allocation meters that we used
6 on the test systems.

7 Q. Okay. In 1985 you said you were a production
8 supervisor for ARCO. What area of the country?

9 A. That was in Eddy County.

10 Q. And what were your job responsibilities as a
11 production supervisor for ARCO in 1985?

12 A. In 1985 I assumed responsibility for numerous gas
13 wells that we had throughout Eddy County and some of the
14 small oil leases that we had and one small waterflood unit.
15 I supervised well workovers, production reporting, the
16 tests and information that the pumpers turned in.

17 Q. And did your job responsibilities change at some
18 point after 1985?

19 A. Yes, they did. In 1987 we went from manual
20 allocations to an automated system, and I became the field
21 contact for our production allocating reporting system to
22 develop the schematics and identify the allocation points
23 and the drawings for the automation system.

24 Q. And what about after 1987?

25 A. In about 1989 we installed an automation system

1 where we started doing electronic gas measurement there in
2 Eddy Count. We installed and programmed the RTUs that we
3 use to calculate the gas.

4 Q. Did you supervise those operations?

5 A. Yes, I did.

6 Q. Okay. What did you do after -- That brings us up
7 to 1989. What about after 1989?

8 A. After 1989 I continued to supervise there in the
9 Artesia area, up until 1993. And then in 1993, because of
10 divestitures, I was moved to the Hobbs office and assumed
11 responsibilities as the production allocating reporting
12 coordinator for all of southeast New Mexico.

13 Q. What was your title?

14 A. The title then was operations specialist.

15 Q. In that did you deal with -- I think you said
16 allocation issues?

17 A. That's correct, we managed all the data that we
18 collected electronically from the field, brought that into
19 the system to be allocated, and we were also responsible
20 for setting up the allocations in the system. And in 1994
21 we assumed all responsibilities for filing the C-115 and
22 the 3160 monthly report of operations.

23 Q. Now, how long did that job -- How long were you
24 an operations specialist in Hobbs?

25 A. I was the operations specialist in Hobbs up until

1 the latter part of 1996 when I was assigned field duties
2 again for the Lea County area.

3 Q. Did those field duties include gas allocation and
4 measurement?

5 A. Yes, they did, it was similar to what I had had
6 prior to -- in Eddy County, and it entailed supervising
7 some of the leases where we had surface commingles.

8 Q. So you supervised commingling operations?

9 A. Yes, I did.

10 Q. Okay. And then how long did you hold your
11 position as a production field supervisor?

12 A. That's -- I had the field responsibility duties
13 up until about 1999.

14 Q. Then what happened?

15 A. And then in 1999 I assumed more of the regulatory
16 compliance issues that we have.

17 Q. Do you supervise personnel dealing with the
18 installation and calibration of the gas measurement and
19 allocation devices?

20 A. Yes, I do. I received that responsibility in
21 mid-2000, I became the measurement supervisor for our
22 technician that does all of our calibration, our witnessing
23 and meter installations for allocation meters and test
24 meters.

25 Q. Over your career, have you received training in

1 the techniques associated with gas measurement and
2 allocation of production?

3 A. Yes, I have. We used to have an annual oil and
4 gas measurement training that we put all of our field
5 personnel through, supervisors included. We continued that
6 process up until about 1990. We did that for about ten
7 years, and then we started doing what we called annual
8 compliance training. And periodically, about every other
9 year at that point, we would go back through and we would
10 conduct gas measurement training on basic fundamentals and
11 operations of gas meters and the installation and
12 calibration of them.

13 And I've also attended some of the total flow
14 seminars that give you the basic readouts and fundamentals
15 of that. I've had a two-week training course in our Dallas
16 office where we had operations supervisor training. It was
17 a two-week course that covered everything from well work to
18 allocations to gas measurement.

19 Q. You've also been trained in manual allocation
20 methods?

21 A. That's correct. In the period of time I was a
22 roustabout relief person I was trained to do the manual
23 hand calculations that we used prior to the automation
24 system, where we would take the information off the
25 allocation meters and balance back to the sales points.

1 Q. The age before computers?

2 A. That's correct.

3 Q. Have you been trained in compressor operations?

4 A. Yes, I have. We had several company courses that
5 included reciprocal compressors, and also in prior job
6 experience for Enron Southwest I was a compressor operator.

7 Q. Have you spent your entire career in southeast
8 New Mexico?

9 A. Yes, I have.

10 Q. How long have you been responsible for or
11 supervised natural gas measurement devices, field
12 operations and production allocation techniques?

13 A. Actually, that's been part of my job duties
14 throughout my career since 1985.

15 Q. And did that responsibility include the
16 supervision and management of surface commingling
17 operations?

18 A. Yes, it did.

19 Q. And are you familiar with the administrative
20 applications that comprise the consolidated cases here
21 today?

22 A. Yes, I am.

23 Q. And are you familiar with the facilities and the
24 wells at issue in these consolidated cases?

25 A. Yes, I am.

1 MR. FELDEWERT: Mr. Examiner, at this time I
2 would offer Mr. Manthei as an expert witness on oil and
3 natural gas measurement, field operations and production
4 allocation.

5 EXAMINER CATANACH: Any objection, Mr. Owen?

6 MR. OWEN: Well, I'd like to indicate that there
7 has been no testimony at all indicating that Mr. Manthei is
8 an expert in petroleum accounting and that he is not --
9 that the tender of him as an expert witness does not
10 include expertise in that area.

11 EXAMINER CATANACH: I don't think they attempted
12 to qualify him in that area. We'll go ahead and qualify
13 him as proposed by Mr. Feldewert at this point.

14 Q. (By Mr. Feldewert) Mr. Manthei, would you please
15 briefly state what BP America seeks in these consolidated
16 Applications? And I would -- Well, go ahead.

17 A. What we seek here is to cancel two existing
18 surface commingle permits, Number PLC-184 and CBT-527
19 [sic], that were previously issued by the Division. We
20 wish to reconfigure those surface commingles to include the
21 14 previously approved wells and the addition of two wells
22 to the previously approved commingling.

23 Q. So your Application today seeks approval of
24 surface and commingled production from 16 -- are they gas
25 wells?

1 A. That's correct.

2 Q. Okay. Why don't you turn to what's been marked
3 as BP's Exhibits 1 and 2, and would you please inform the
4 Examiner how BP's Applications to reconfigure the surface
5 commingling of 14 previously approved wells and to add two
6 new additional wells -- how that effort is broken down
7 between the two case numbers that have been assigned by the
8 Division to your Applications?

9 A. Okay. In our Exhibit 1 we seek to combine the
10 B&C 25 Federal Number 3 gas stream with seven of the
11 previously approved wells by the Division, the commingle
12 listed in that letter. That's Case Number 12,967.

13 And Exhibit 2, we seek to combine the Little Box
14 State Number 6 with seven wells that were previously
15 approved by the Division for commingling listed on that
16 letter, and that letter is Case Number 12,968.

17 Q. Okay, and do each of these -- Does Exhibit 1 and
18 Exhibit 2 identify the wells for which you are seeking
19 approval to commingle?

20 A. Yes, they do.

21 Q. Why is BP asking the Division to reconfigure
22 wells that were previously approved for surface
23 commingling?

24 A. What we're trying to do is simplify our
25 operations. We also want to reduce our greenhouse gas

1 emissions. It will also reduce our lease operating cost,
2 and it will help prevent waste and protect correlative
3 rights.

4 Q. How are you cutting down in your greenhouse gas
5 emissions?

6 A. Greenhouse gas emissions will be reduced by the
7 elimination of one compressor and consolidating into
8 existing compressors that we have.

9 Q. Okay. Now, do each of these -- I'll call
10 Exhibits 1 and 2 your Application letters. Do they have
11 attached to them a C-103?

12 A. Yes, they do.

13 Q. And do these Application letters and their
14 attachments, do they identify the affected wells, the
15 affected leases and the pools?

16 A. Yes, they do.

17 Q. Okay. Is there a schematic of your commingling
18 plan attached to each of these letter Applications?

19 A. Yes, there is.

20 Q. And where is that located?

21 A. It's located in the attachment. It's on page 5,
22 and it's in Exhibits 1 and 2.

23 Q. Why don't you kind of briefly walk the Examiner
24 through what else is attached to each of these letter
25 Applications? You have your C-103, correct?

1 A. That is correct.

2 Q. Okay, and then what else -- What's the next
3 attachment?

4 A. After the C-103, we have a breakdown that lists
5 each well by lease name, well number, field name and pool
6 code, and it gives the API numbers with the lease numbers.

7 Next we have an attachment that is a flow
8 schematic of how the surface commingle is to be
9 established, what the allocation points are and what the
10 custody transfer point is for the sales.

11 We also have attached to that a division of
12 interest breakdown of all the interest owners that are
13 associated with these properties, both working interest,
14 royalty interest and overriding royalty interest.

15 We also have attached to that a list of addresses
16 for each one of those interest owners.

17 We have a notarized affidavit signed by our
18 regulatory analyst, indicating that they were all notified
19 of the commingling Application.

20 And we also have the C-102 plat for the acreage
21 dedication for each well and lease. It's the same for both
22 exhibits.

23 Q. Are the wells in each of these Applications, are
24 they flowing gas wells?

25 A. Yes, they are.

1 Q. Okay, and what do you intend to do with any
2 fluids produced by these wells?

3 A. There will be no commingling of any of the
4 produced fluids from these wells. They will remain on
5 lease, and they will remain separated in their respective
6 facilities.

7 Q. Now, is the ownership in the affected leases and
8 pools -- is it identical, or do you have different
9 ownerships?

10 A. No, there is different ownership.

11 Q. Okay, and I think you indicated there is an
12 affidavit in here giving notice to all the affected
13 parties. Did that include the royalty owners?

14 A. Yes, it did, it included all the royalty
15 interests, overrides and working interest.

16 Q. Okay. Now, using the schematic which is on page
17 5 of each of these exhibits, would you explain to the
18 Examiner how BP intends to measure and allocate the
19 production under each of these Applications?

20 A. Under this Application, according to the
21 schematic --

22 Q. Are you looking at the schematic which is page 5
23 of Exhibit 1?

24 A. That is correct. On this schematic we have
25 total-flow electronic flow meters set on each individual

1 well stream, and we will be metering that stream
2 individually from those wells. That gas then will be
3 combined into a common stream, and it will be sold through
4 the sales point to El Paso. Each of this -- All of this
5 gas will be metered prior to leaving the lease.

6 We will be conducting our calibration and testing
7 of these meters according to the Rule 303 guidelines and
8 BLM Onshore Order 5. We'll allocate the production based
9 on those allocation meters by metered production.

10 Q. So you're using what is referred to as the
11 metering method, I guess, in Rule 303?

12 A. That's correct.

13 Q. Now, you indicated you were going to be doing
14 calibration. How often is that calibration required by BLM
15 Offshore Order Number 5?

16 A. BLM Offshore Order Number -- or Onshore Order
17 Number 5 stipulates that allocation meters will be
18 calibrated at least quarterly.

19 Q. Okay. Now, how often are the sales meters
20 calibrated?

21 A. Our sales meters are calibrated monthly.

22 Q. Do you have a check meter on those as well?

23 A. We have check meters on some of them. We don't
24 have them on all of them, but we're in the process of
25 getting check meters on all of those to verify that the

1 sales meter is correct.

2 Q. Okay, so you're going to have one sales meter for
3 the configuration comprised in Case 12,967 and one sales
4 meter for the case comprising 12,968?

5 A. That's correct.

6 Q. Okay. In your opinion, will BP's surface
7 commingling plan reliably and accurately measure and
8 allocate production from each of the affected pools and
9 leases?

10 A. Yes, it will.

11 Q. And why is that?

12 A. We'll be using the most accurate method available
13 for the meters that we have, which are the new electronic
14 total flow meters. And we also plan to be metering the
15 fuel usage for each compressor individually. And the
16 allocation method, what was previously approved.

17 Q. So you're metering each well?

18 A. That is correct.

19 Q. You're using electronic flow meters rather than
20 chart meters?

21 A. That's correct, we'll be using the new electronic
22 flow meters. We'll actually be using a product designed by
23 Total Flow.

24 Q. And you are measuring the gas that is used by the
25 compressors for fuel?

1 A. That's correct, we have meter runs set on the
2 fuel that's being consumed by the compressors.

3 Q. Okay.

4 A. And it's metered by the same type of meter.

5 Q. When did the Division most recently approve the
6 surface commingling of 14 of the 16 wells that are the
7 subject of the Applications today? Exhibit 3 and 4 are
8 approvals of surface commingling. The most recent one was
9 CBT-527 [sic], which was issued in July 26th of 2002, and
10 then PLC-184, issued July 26th of 2001.

11 Q. So PLC-184 comprises Exhibit Number 3?

12 A. That's correct.

13 Q. And CDB-527 [sic] comprises Exhibit Number 4?

14 A. That's correct.

15 Q. Are these the orders that should be canceled if
16 the Division approves your Applications today?

17 A. Yes, they are.

18 Q. All right. Were these prior orders from the
19 Division, were they based on the same metering and
20 allocation plan that BP proposes to use with the addition
21 of the two wells under the Applications today?

22 A. It will be used under the same Application, the
23 allocation method will be the same. However, we have
24 improved on the system and eliminated any chart records
25 that we have, and everything is now electronic.

1 Q. Were you metering the gas used by the compressors
2 at the time that these orders were -- or these requests
3 were approved by the Division?

4 A. No, we were not. They were based on theoretical
5 estimates, based on the manufacturer's recommended design
6 usage for the brake horsepower.

7 Q. So that's an additional improvement to your
8 system that did not exist at the time the Division
9 previously approved your surface commingling?

10 A. That's correct.

11 Q. Okay. Now, are you aware that at least what's
12 been referred to me as the Avalon group and the Trilogy
13 group, that they have objected to the Applications
14 comprising the consolidated cases today?

15 A. Yes, I am.

16 Q. Are the principals in each of these groups
17 basically the same?

18 A. From what I understand, yes, they are.

19 Q. Okay. And was the Avalon group and the Trilogy
20 group -- were they notified of the applications that gave
21 rise to the prior Division orders approving the surface
22 commingling of 14 of the 16 wells we referred to as
23 Exhibits 3 and 4?

24 A. Yes, they were.

25 Q. Did either of these groups object to your request

1 to surface commingle those wells?

2 A. No, they did not.

3 Q. Okay. Has the BLM conducted any recent audits in
4 which it examined the measurement and allocation procedures
5 that you have used for your commingling operations?

6 A. Yes, they did. They've conducted two audits, one
7 in 2000 and one in 2001.

8 Q. Okay, why don't you turn to Exhibit 5A, identify
9 that for the Examiner and review it, please?

10 A. Exhibit 5A is a letter request from BLM to
11 conduct a production accountability inspection of the
12 Leggett Federal. They requested gas-chart integrations,
13 calibrations, purchaser statements.

14 Q. Now, is the Leggett Federal, is that one of the
15 wells that is the subject of BP's Application under Case
16 12,967?

17 A. Yes, it is.

18 Q. Okay. And what is -- Would you identify for the
19 Examiner Exhibit 5B?

20 A. Exhibit 5B is another letter requesting a
21 production accountability -- Oh, I'm sorry, 5B? 5B is my
22 response to that audit where we provided the breakdown of
23 all the wells affected by the surface commingling. For BLM
24 to conduct their audit properly, they had to have all the
25 allocation meters that were part of the surface commingle,

1 in order to verify that the correct allocation was used in
2 reporting the volume for the Leggett Federal, and it had to
3 balance throughout with the rest of the other meters.

4 Q. Okay, now you said 5B was your response. Were
5 you involved in responding to this audit initiated by the
6 BLM in 2000?

7 A. Yes, I was.

8 Q. In fact, you're referenced on the second page of
9 that Exhibit 5B; is that correct?

10 A. That is correct.

11 Q. Okay. Were the wells that are listed on Exhibit
12 5B, were they subject to surface commingling at the time of
13 this BLM audit?

14 A. Yes.

15 Q. Now, and the first page, the second sentence
16 indicates that you had a gas gathering system consisting of
17 one El Paso Field Services master meter and then 12 ARCO
18 allocation meters; is that correct?

19 A. That is correct.

20 Q. Okay. So at that time were you commingling
21 production by use of allocation meters and then selling it
22 through a single sales meter?

23 A. Yes, we were.

24 Q. Are the 12 wells that are included in this
25 letter, are they part of BP's Applications here today?

1 A. Yes, they are.

2 Q. Okay. Now, I notice that there are flash gas
3 meters listed on this letter, the last three listings. Are
4 those flash gas meters part of the commingling operations
5 under your consolidated Applications today?

6 A. No, they are not.

7 Q. Have they been eliminated from the system?

8 A. Yes, they have.

9 Q. Why is that?

10 A. The reason they've been eliminated from the
11 system is, we can no longer utilize the flash gas due to
12 the wellhead pressures and the compressor pressures. You
13 can only subtract the flash gas when you have a pressure
14 drop, and since all the wells now are on compression we no
15 longer have that pressure drop, and we're no longer able to
16 extract the flash gas from the liquids.

17 Q. Were these flash gas meters, were they on the
18 wells or were they on the tank batteries?

19 A. No, they were on the tank batteries. The flash
20 gas meters were used when the wells were originally
21 drilled. They were high-pressure wells and they were
22 producing into high-pressure lines. What we did is, we
23 installed a line to a low-pressure suction side of a
24 compressor that allowed us to capture the fugitive
25 emissions that were escaping from the tank and being lost.

1 Q. So this is gas that was previously lost?

2 A. That's correct.

3 Q. Okay. Now, this audit that comprises Exhibits 5A
4 and 5B, what exactly did the BLM do under this audit?

5 A. What they did under this audit was, they
6 inspected our calibration records, they looked at our meter
7 provings, they looked at our allocation methods or
8 formulas, and from that they calculated what they assumed
9 would be the correct reporting volume for the Leggett
10 Federal and compared that to with what we had reported.

11 Q. Okay. Now, in order to make that determination
12 on the Leggett Federal, did the BLM have to examine the
13 measurement devices and the allocation techniques for all
14 of the wells and meters listed on Exhibit 5B?

15 A. Yes, they did.

16 Q. After this audit, did the BLM identify any
17 concerns to BP about the measurement and allocation devices
18 or methodology used for these wells or issue any kind of
19 noncompliance notices?

20 A. No, they did not, and subsequently they approved
21 the addition of the additional wells that we added, in
22 April of 2001.

23 Q. And does that comprise Exhibit 5C, that approval?

24 A. That is correct.

25 Q. And subsequently you added some additional wells

1 to the surface commingling operations?

2 A. That is correct.

3 Q. And the BLM approved those additions by virtue of
4 -- as shown on Exhibit 5C?

5 A. That is correct.

6 Q. Okay. Now, you mentioned that the BLM did an
7 audit in 2000. Did you also mention that they did an audit
8 in 2002?

9 A. That is correct, in 2002 we had another audit --
10 that's Exhibit 6A -- where they requested the same
11 information for the Sweet Thing Federal Unit Number 1.

12 Q. Okay. Now, is this one of the wells that's
13 involved in BP's Application under Case 12,968?

14 A. That is correct.

15 Q. Okay. What is Exhibit 6B?

16 A. Exhibit 6B is our response to BLM where we
17 supplied the supporting documentation that they had
18 requested.

19 Q. Okay, were you involved in this BLM audit in
20 2002?

21 A. Yes, I was.

22 Q. In fact, you're again referenced on the last
23 paragraph of 6B; is that correct?

24 A. That is correct.

25 Q. Okay. In connection with this audit, did BP

1 provide BLM allocation breakdowns and meter volumes for all
2 of the wells that were commingled at the time with this
3 audited well?

4 A. Yes, we did. We basically had to supply the same
5 information that we supplied in the first audit that they
6 performed on the Leggett. We had to supply all the
7 calibration records, the meter documentation, the volume
8 calculations for all the wells that were associated with
9 the allocation and the surface commingle so that they could
10 determine if the volume reported for the Sweet Thing
11 Federal Unit Number 1 well was the correct volume.

12 Q. Now, the second paragraph references "Nasser CPD
13 Allocation breakdowns." Do you see that?

14 A. Yes, I do.

15 Q. What is the Nasser CPD?

16 A. That is the sales point, it's the El Paso sales
17 point that was referenced in the first audit.

18 Q. Okay, all right. After this audit did the BLM
19 identify any concerns with the measurement and allocation
20 devices utilized for these wells by BP?

21 A. No, they did not.

22 Q. Has the BLM ever indicated a concern about the
23 method by which BP measures and allocates gas in your
24 commingling operations that are the subject of the
25 Applications today?

1 A. No, they have not.

2 Q. Now, has BP been informed of the basis for the --
3 what I'll call the Trilogy Group's objection to BP's
4 Applications to add two wells to the 14 wells previously
5 approved for surface commingling?

6 A. Yes.

7 Q. And was that done by way of a prehearing
8 statement?

9 A. Yes, it was.

10 Q. And what did they reference?

11 A. They referenced the Trilogy audit report.

12 Q. Have you reviewed that Trilogy audit report?

13 A. I've had that document since November the 14th,
14 and I've had about three weeks to look at it.

15 Q. You've been on vacation?

16 A. I've been on vacation, yes, sir.

17 Q. What is the period of time that's covered by the
18 Trilogy audit report?

19 A. The Trilogy audit report covers the period from
20 February of 1999 through September of 2001.

21 Q. February, 1999, through September, 2001. Did it
22 overlap with the BLM audit periods?

23 A. Yes, it did. It overlapped with the first BLM
24 audit that was conducted on the Leggett Federal that was
25 for the month of February, March and April of 2000, and the

1 last audit ended just shortly after the close of the
2 Trilogy audit for the months of November and December of
3 2001 for the Sweet Thing Federal Unit Number 1.

4 Q. All right, so the trilogy audit ended in
5 September of 2001, and then the BLM audit covered the
6 periods November and December of 2001?

7 A. That's correct.

8 Q. So after the Trilogy audit?

9 A. Yes, sir.

10 Q. Okay. Did the Trilogy audit and BLM audit, did
11 it involve the same wells?

12 A. Yes, they did.

13 Q. Involve the same production measurement and
14 allocation techniques?

15 A. Yes, it did.

16 Q. So is it true that the most recent audit of your
17 measurement system was the 2002 BLM audit, which covered
18 the period November through December, 2001?

19 A. That's correct.

20 Q. Okay, and BLM found no problems with your
21 measurement and allocation system?

22 A. No, they did not.

23 Q. Now, the Trilogy audit report sets forth a number
24 of objections. What do you understand to be the primary
25 basis for Trilogy's objection to your Applications here

1 today?

2 A. From what I understand, it's based on Exception
3 21.

4 Q. Okay, have you examined Exception 21?

5 A. Yes, I have.

6 Q. Okay, what do you understand to be the basis for
7 this Exception 21?

8 A. The basis I understand to be the differences
9 between the total volume of the allocation meters versus
10 the volume of the El Paso sales point, the Nasser CPD
11 meter.

12 Q. So they looked at the total volumes of the 12 or
13 whatever it was allocation meters?

14 A. That's correct.

15 Q. And then they looked at the total volume of the
16 sales meter?

17 A. That is correct.

18 Q. And found some differences?

19 A. That's correct.

20 Q. Did the BLM raise any concerns with BP about
21 differences between the total volumes in the allocation
22 meters and the total volume of the sales meter?

23 A. No, they did not.

24 Q. Is it common to have differences between the
25 total volume of the allocation meter and the total volume

1 of the sales meter?

2 A. It is from what I've seen. All the allocation
3 systems I've been involved with, there's always been some
4 difference between the allocation meters and the sales
5 point. It can either be greater than or less than.

6 Q. Now, why wouldn't the volumes match?

7 A. Part of the reason on that is, the calibration
8 frequencies and the contract guidelines for the sales point
9 exceeds the minimum standards set forth by the regulations.
10 Sales point meters in this case are calibrated monthly,
11 inspected monthly. They use the latest formulas and
12 calculations and equipment that's been approved by the AGA
13 3.

14 Also what we have is, some of the lease fuel for
15 beneficial uses estimated, there's not measurements on it.
16 We also have 12 separate stream flows that are metered
17 separately, and the sales meter then at that point is
18 metering a homogenous flow that is combined.

19 Q. Do you tend to have shrinkage or expansion of the
20 gas as it moves through the system between the allocation
21 meters and the sales meter?

22 A. Yes, we do, depending on the flow rates. There's
23 seasonal differences that you can detect on some of them
24 due to temperature.

25 Q. Does it really matter, Mr. Manthei, does it

1 really matter whether the total volume in the allocation
2 meter matches up to the total volume in the sales meter?

3 A. No, it doesn't, because everything is paid based
4 on the sales volume meter alone.

5 Q. Okay, and what do the allocation meters do? Does
6 that provide a basis -- Well, I guess by the name it
7 provides a basis to allocate back?

8 A. They provide the basis to allocate back, based on
9 contribution.

10 Q. So your percentage of contribution to the stream
11 that is sold?

12 A. That's correct.

13 Q. Okay. What else have you determined about
14 exception -- In your period of time that you've had to look
15 at it, what else have you determined about exception 21 in
16 the Trilogy audit report?

17 A. Based on the difference between allocation meter
18 volumes and the CPD meter and also -- this is -- The CPD
19 meter will be eliminated with the approval of the new
20 commingles.

21 Q. Now, what CPD are you talking about? Are you
22 talking about that Nasser --

23 A. The Nasser.

24 Q. -- CPD, which is referenced on Exhibit 6B?

25 A. That is correct.

1 Q. Okay, that is being eliminated?

2 A. That will be eliminated.

3 Q. Okay, and what are you -- adding to -- different
4 sales meters?

5 A. What we'll be doing is, that system will be
6 reconfigured, we will go to two sales points then at that
7 time, and we'll be incorporating the other surface
8 commingle, the CBT 527, in with that.

9 Q. Now, exception 21 of the Trilogy audit report
10 does reference the fact that in some months there was a 21-
11 percent difference between the sales meter and the
12 allocation meter; did you see that?

13 A. Yes, I did.

14 Q. Is that type of difference -- Is that normal?

15 A. No, it's not.

16 Q. Did you investigate the possible reasons for this
17 abnormal variation between the sales meter and the total
18 volume of the allocation meters?

19 A. Yes, I did, I actually looked at July and August,
20 and the Sweet Thing Federal Unit Number 2 Cisco meter, the
21 error event log reports that it had a DP measurement pulse
22 there that was intermittent throughout those two months for
23 approximately 50 percent of the time. What this does is,
24 it results in a volume calculation that's in excess of the
25 actual volume, because the differential of the meter is

1 over-ranged and calculation is inaccurate.

2 Q. Has that been remedied?

3 A. Yes, it has.

4 Q. Was that an intermittent problem during the time
5 that Trilogy was looking at your allocation system?

6 A. Yes, it was.

7 Q. How often did it occur, in your -- In the amount
8 of time that you've had to investigate, how often did you
9 see that occur?

10 A. In that particular meter it occurred
11 approximately 50 percent of the time.

12 Q. Okay. And when you fixed that problem, did that
13 account for the difference of -- the 21-percent difference
14 the sales meter and the total volume of the allocation
15 meters?

16 A. Yes, it did, when you look at the previous
17 history and the past history, after the problem was
18 corrected the volumes stayed approximately the same as they
19 had before the error occurred.

20 Q. Okay. Now, the Trilogy audit that you looked at,
21 you said that stopped in September of 2001, that was the
22 end of the audit period?

23 A. That's correct.

24 Q. Okay. Have there been any changes to the
25 allocation meters on these wells since September of 2001

1 when that Trilogy audit report stopped its examination?

2 A. Yes, there has.

3 Q. Would you describe those for us, please?

4 A. Over time, we have changed out all of the chart
5 meters to the new total flow electronic meters, and we have
6 added temperature recording devices to those.

7 Q. Is that a good thing?

8 A. Yes, it is.

9 Q. Is that a more modern measuring technique?

10 A. Yes, it is, it's more modern, more accurate.

11 Q. Now, when did that changeover of chart meters to
12 electronic meters -- when was that completed?

13 A. That project was completed in March of 2002.

14 Q. So that was well after the close of the Trilogy
15 audit?

16 A. That is correct.

17 Q. Okay. Now, did you complete that changeover?

18 A. Yes, we have.

19 Q. Okay. So the system that's before the Division
20 today, is that a system in which you are using all
21 electronic meters, rather than a mixture of electronic
22 meters and chart meters?

23 A. That is correct.

24 Q. Okay. So is it correct to say that the Trilogy
25 audit report addressed a different metering system for a

1 selected time period that preceded the metering and
2 allocation system that BP intends to use under the
3 Application before the Division today?

4 A. That is correct. We have, with the new system,
5 exceeded the minimum standards that are set forth in the
6 regulations.

7 Q. All right. Why don't you kind of quickly outline
8 the differences between the system that was examined by the
9 -- in the Trilogy audit report, and the allocation system
10 that BP is going to be using under its consolidated
11 Applications today?

12 A. Okay. What we had previously was five or six of
13 the original meters that we assumed were chart meters, and
14 they did not have temperature recorders on them. What we
15 did was, we have since then replaced those with electronic
16 flow meters that now have chart recorders. So what we have
17 on this new system is, everything will be electronically
18 metered. It will be measured with temperature recorders.

19 Q. Okay, and that's above what the BLM requires?

20 A. Yes, it is. BLM has a requirement based on
21 volume. If a meter has a low flow -- I believe it's less
22 than 100 MCF a day -- then it approved that you do not have
23 to have continuous temperature recording, but you do have
24 to have a monitoring point where you can periodically check
25 the temperature.

1 Q. Okay, so you have more accurate meters, which I
2 guess allows you to use a more accurate formula today,
3 right?

4 A. That's correct. The accepted standard is AGA
5 385, and with the new meters we're able to incorporate the
6 new AGA 392 calculations.

7 Q. Okay. Now, and you mentioned that you eliminated
8 the Nasser CDP?

9 A. Yes, it will be eliminated.

10 Q. And you're going to have two meters now?

11 A. We'll have two sales points, that's correct. And
12 also we have added the fuel gas meters on the compressor
13 fuel as well.

14 Q. Okay, that's been a change since the time of the
15 Trilogy audit?

16 A. That's correct.

17 Q. Okay. Flash gas meters, you've eliminated those?

18 A. Yes, the flash gas meters have been eliminated
19 because now all the production out there is on compression,
20 and we don't have the pressure drop needed to operate those
21 separators.

22 Q. And were those flash gas meters being used at the
23 time of the Trilogy audit?

24 A. Yes, they were.

25 Q. Okay. Has there been a change in the takeout

1 point for the compressor fuel?

2 A. Yes, there has.

3 Q. Okay. And what was that change?

4 A. The change is that the compressor fuel comes out
5 between the allocation meters and the final sales point.

6 Q. And that is going to be metered?

7 A. And it is -- will be metered.

8 Q. Okay. Now, you mentioned the fact that you took
9 over operations and inherited some chart meters. When did
10 BP's -- well, when did -- Was ARCO BP's predecessor?

11 A. That is correct.

12 Q. Okay. When did ARCO take over operations of the
13 wells that are the subject of your present Application?

14 A. We assumed operatorship of those leases March 1st
15 of 1999.

16 Q. And who did you assume those from?

17 A. We assumed those leases from Stevens and Tull.

18 Q. Is there a relationship between Stevens and Tull
19 and the Trilogy-Avalon group?

20 A. From my understanding, yes, there is. From what
21 I understand, the people that comprise the Avalon-Trilogy
22 group are partners, co-owners or employees of the Stevens
23 and Tull group.

24 Q. So at the time that ARCO or BP's predecessor took
25 over the operations in March of 1999, was Stevens and Tull

1 surface commingling production from these wells?

2 A. Yes, they were.

3 Q. Okay. Was Stevens and Tull using the same
4 allocation meters in place at the time of the Trilogy
5 audit? We're talking about the dry flow chart meters with
6 no temperature recorders.

7 A. That is correct.

8 Q. Did BP continue to use for a period of time the
9 same metering and allocation system that Stevens and Tull
10 had used prior to 1999?

11 A. Yes, we did.

12 Q. I'm sorry, pardon me, March of 1999?

13 A. Yes.

14 Q. And this period of time that -- where you had
15 this changeover and you were using the same metering and
16 allocation system, that is part of the period that's
17 covered by the Trilogy audit report; isn't that right?

18 A. That is correct.

19 Q. In fact, did the Trilogy audit report begin in
20 February of 1999?

21 A. That is correct.

22 Q. So you didn't even operate the wells at that
23 time?

24 A. No.

25 Q. All right. Would you turn to Exhibit Number 9

1 and -- Well, hold on here a second. Yeah, we're going to
2 go slightly out of order, and I apologize, Mr. Examiner.
3 Exhibit Number 9 should be the last exhibit. We still need
4 to go through 7 and 8.

5 Would you turn to Exhibit Number 9 and identify
6 that for the Examiner, please?

7 A. Exhibit Number 9 is the allocation method used
8 for measurement that was supplied to the BLM by Stevens and
9 Tull, which was part of their application to surface
10 commingle.

11 Q. Okay. And does this identify, in essence, the
12 system that you inherited in March of 1999?

13 A. Yes, it does.

14 Q. And is this the -- This description on here, is
15 that the same system that you continued to use during the
16 period of the Trilogy audit?

17 A. Parts of it are, yes, it is.

18 Q. Okay, so you're using the same allocation
19 measurement techniques and the same basic equipment, right?

20 A. That's correct.

21 Q. Okay. And then did you undertake -- Once you
22 took over operations in March of 199, did you undertake
23 efforts thereafter to try to improve on the metering and
24 allocation system that was put in place by Stevens and
25 Tull?

1 A. Yes, we did.

2 Q. What did you discover, and what did you do?

3 A. What we discovered was, one well, the Nasser
4 Federal, was a multiple completion well, and the wellstream
5 was being commingled and metered only through one meter
6 point. What we did was, we separated those two strings so
7 we could meter each zone separately.

8 Q. How many zones was Stevens and Tull commingling
9 at the time you took over in March of 1999?

10 A. At the time we took over, there were six zones
11 being commingled with five meters.

12 Q. You only had five meters?

13 A. That's correct.

14 Q. And you added another meter?

15 A. Yes, we did.

16 Q. Okay. And I think you mentioned after that, at
17 some point in time, you added flash gas meters from three
18 well batteries; is that correct?

19 A. That's correct. In June of 1999 we added the
20 flash gas meters for three leases off the tank batteries.
21 They were the Little Box State for the Morrow wells, the 2
22 and 3, and for the Sweet Thing State 36 Morrow Number 1
23 well, and then for the Sweet Thing Federal Unit Number 2
24 Morrow well.

25 Q. How is that flash gas -- How was that measured

1 and allocated under the existing system during the Trilogy
2 audit?

3 A. What we did with this gas off the liquids was, we
4 metered it separately at each facility, and then we took
5 those volumes and we subtracted it from the total volume,
6 and we used those volumes to allocate back to each
7 respective well, based on its percent of contribution of
8 the liquids.

9 Q. Okay. So basically the contribution to the flash
10 gas?

11 A. That's correct.

12 Q. All right. And is that in light of the change --
13 or the decline in liquids, is that -- those three meters
14 are being eliminated under BP's Application before the
15 Division today?

16 A. That is correct.

17 Q. All right. So is it accurate to say that
18 basically the metering and allocation that BP inherited in
19 1999 from Stevens and Tull -- was that the metering and
20 allocation system that the Trilogy audit report examined?

21 A. Yes.

22 Q. Are there any -- Are there federal, indian or
23 state lands involved in these Applications?

24 A. Yes, there are, there are federal lands.

25 Q. And have you obtained BLM approval for the

1 Application letters that are the subject of your
2 consolidated cases here today?

3 A. Yes, we have.

4 Q. Does that comprise Exhibit Number 7?

5 A. Yes, it does.

6 Q. Okay, and that's -- Exhibit Number 7 contains the
7 BLM approval for the Application under which you're adding
8 the B&C Federal 25 Number 3. That's the first page, right?

9 A. That is correct.

10 Q. And it also contains the approval for the
11 Application under which you're adding the Little Box State
12 Number 6, and that's the second page of Exhibit 7; is that
13 correct?

14 A. That's correct.

15 Q. All right. And has the State Land Office
16 approved the Application letters that are the subject of
17 these consolidated cases?

18 A. Yes, they have.

19 Q. Is Exhibit 8A the State Land Office approval for
20 what comprises Case Number 12,967?

21 A. That is correct.

22 Q. And is Exhibit 8B the State Land Office approval
23 for what comprises Case Number 12,968?

24 A. That is correct.

25 Q. And do these letters from the State Land Office,

1 do they identify your metering and allocation system that
2 you propose to use under your consolidated Applications
3 today?

4 A. Yes, they do.

5 Q. Okay. In your opinion, will the granting of
6 these Applications result in the efficient production of
7 natural gas reserves and accurately measure and allocate
8 production amongst the interest owners?

9 A. Yes.

10 MR. FELDEWERT: Okay. Mr. Examiner, at this time
11 I would move the admission into evidence of Exhibits 1
12 through 9.

13 EXAMINER CATANACH: Any objection?

14 MR. OWEN: No objection.

15 EXAMINER CATANACH: Exhibits 1 through 9 will be
16 admitted.

17 Mr. Owen?

18 MR. OWEN: Thank you.

19 CROSS-EXAMINATION

20 BY MR. OWEN:

21 Q. Mr. Manthei, is that how you pronounce your name?

22 A. That's correct, Manthei.

23 Q. I want you to turn to BP Exhibit Number 3,
24 Commingling Order PLC-184. Can you tell me or show me
25 where a well called the Jaguar 26 Federal Number 1 is

1 approved for commingling on that exhibit?

2 A. No, sir.

3 Q. Do you know if the Jaguar 26 has ever been
4 approved for commingling?

5 A. Yes.

6 Q. Do you have anything to show that?

7 A. Not with me today, I do not.

8 Q. Do you know if there's anything in the Division
9 files to evidence that the Jaguar 26 has ever been approved
10 for commingling?

11 A. Yes, I do.

12 Q. It's in the Division files?

13 A. It was amended.

14 Q. Did BP apply for inclusion of the Jaguar 26 in
15 Order Number PLC-184?

16 A. Yes, we did.

17 Q. And you provided notice to all the interest
18 owners?

19 A. We provided notice to the interest owners of the
20 Jaguar.

21 Q. And is that included in the Division files?

22 A. It should be, yes, as far as I know.

23 Q. Okay.

24 A. The Jaguar Federal was not drilled at the time
25 the initial PLC-184 was authorized.

1 Q. Okay, I want you turn to Exhibit Number 1 and
2 turn to the sixth page. That's the interest report
3 indicating the interest owners that BP felt that it needed
4 to notify; is that right? The sixth page of Exhibit 1.

5 A. That is correct.

6 Q. Now, that's just the B&C Federal Number 3 well;
7 is that right?

8 A. Yes, the 2A and the 3.

9 Q. That doesn't cover the other eight wells that are
10 covered by this Application; is that right?

11 A. No, it does not. They received previous notice.

12 Q. When PLC-184 was --

13 A. That's correct.

14 Q. And now you're asking that PLC-184 be rescinded;
15 is that right?

16 A. Yes, that's correct.

17 Q. And you're asking that these parties' interests
18 be included in a new order; is that right?

19 A. That's correct.

20 Q. And you did not provide those parties notice that
21 you're asking that that previous order be rescinded and a
22 new one be issued, have you?

23 A. I didn't follow that, so I'm not absolutely sure.

24 Q. You don't know if those parties were provided
25 notice that the order, PLC-184, is going to be rescinded?

1 A. Excuse me?

2 Q. The interest owners in the Crooked Canyon Federal
3 Number 1 well --

4 A. Yes.

5 Q. -- they were provided notice when PLC-184 was
6 issued, right?

7 A. That's correct.

8 Q. Were they provided notice that PLC-184 was going
9 to be rescinded?

10 A. The documentation supplied here does not support
11 that, no.

12 Q. Did you send a copy of this Application to the
13 interest owners in Crooked Canyon 35 Federal Number 1?

14 A. I did not, no.

15 Q. Did BP America?

16 A. I don't know if they did or not.

17 Q. Is there any indication that BP America has
18 provided notice to those interest owners?

19 A. I do not have that information with me if it was.

20 Q. What about any of these other wells, with the
21 exception of the B&C 25 Federal Number 2A?

22 A. That's all that's --

23 Q. That's the only well that showed that the
24 interest owners were notified for; is that right?

25 A. That's what it appears, yes.

1 Q. Okay, let's turn to Exhibit Number 2, and let's
2 turn to the sixth page of that document, or that exhibit.
3 This division of interest report is only for the Little Box
4 State Number 6 well; is that right?

5 A. It's for the Number 5 and the Number 6.

6 Q. It's for the Number 5 and the Number 6? And
7 there are a number of other wells that are included in this
8 commingling Application; is that right?

9 A. That is correct.

10 Q. Did you provide notice to any of the interest
11 owners in those other wells of this Application?

12 A. That I do not know. I did not follow the
13 paperwork.

14 Q. Has BP America filed any proof of notice to the
15 interest owners of any of these other wells?

16 A. I do not know if they have or not.

17 Q. Is it in front of you?

18 A. The only thing in front of me that shows that was
19 supplied notification for is for the Little Box 6.

20 Q. Okay. The BLM 's first audit covered one well;
21 is that right?

22 A. That is correct.

23 Q. The Leggett Federal Well?

24 A. That is correct.

25 Q. How does that well's production compare to the

1 rest of the wells in this field?

2 A. It's one of the lower-volume wells.

3 Q. It's one of the lowest-volume wells, isn't it?

4 A. It may be.

5 Q. Okay. Do you reconcile volume rate readings from
6 sales meters and the allocation meters on each well on a
7 monthly basis?

8 A. I'm not sure I understand what you're -- Do we do
9 it separate from the production reporting?

10 Q. At the end of every month, do you have a report
11 which shows the total volumes recorded by the allocation
12 meters and the total volumes recorded by the sales meters?

13 A. Yes, we do.

14 Q. Do you reconcile those to see whether they are
15 consistent with one another, whether they're reporting the
16 same amount of production?

17 A. We have a variance report that we look at that
18 compares one month to the next. But as far as comparing it
19 with everything in the system together, no.

20 Q. So you have a variance report that does reconcile
21 those from month to month?

22 A. Just individual well to individual well.

23 Q. Individual well to individual well. What
24 variance is that variance report showing?

25 A. For the individual wells?

1 Q. Right.

2 A. It just shows -- What that variance report shows
3 is the variance from the previous month to the current
4 month.

5 Q. But it doesn't compare it to the sales meter?

6 A. No.

7 Q. Okay. Now, I think you said that it doesn't
8 really matter whether the total volumes reported by the
9 sales meters are equal to the total volumes reported by the
10 allocation meters; is that right?

11 A. That's correct.

12 Q. Now, you said that you went back -- you also said
13 that you went back, and you found one month where there was
14 a 21-percent difference between the volume reported on one
15 well and the sales meter; is that right?

16 A. Repeat that again, please?

17 Q. You went back and you found a 21-percent
18 difference on the Sweet Thing Federal Number 2; is that
19 right?

20 A. Sweet Thing Federal Number 2 Cisco.

21 Q. Cisco?

22 A. But it was only -- It was a 21-percent variance
23 based on the allocated volume back to the sales meter.

24 Q. So there was a variance between the allocated
25 portion and the sales meter, right?

1 A. That's correct.

2 Q. So that was comparing the sales meter volume and
3 the allocation meter; is that right?

4 A. Yes.

5 Q. And you found a 21-percent variance?

6 A. That is correct.

7 Q. And you investigated that?

8 A. Yes, I did.

9 Q. And you made changes to that meter, based on that
10 investigation?

11 A. I don't understand what you mean, we made changes
12 to the meter.

13 Q. You went back and recalibrated it?

14 A. Oh, no.

15 Q. What did you do to it?

16 A. The problem that the meter had exhibited was
17 corrected in September of 1999.

18 Q. So --

19 A. We did not go back for my investigation and this
20 current report to make any adjustments to it.

21 Q. I think you said --

22 A. The problem was corrected in September of 1999.

23 Q. I think you said that that 21-percent measurement
24 error resulted in more production being reported for that
25 particular well for that particular month; is that right?

1 A. That is correct.

2 Q. So more production was being attributed to that
3 well or allocated to that well for that particular month;
4 is that right?

5 A. That is correct.

6 Q. So those royalty owners were receiving more
7 proceeds from production for that particular month than
8 they should have?

9 A. They have, yes, they have.

10 Q. And consequently, some of the other wells on this
11 system probably had less allocation?

12 A. That is correct.

13 Q. And those royalty owners received less proceeds
14 from production for that month; is that right?

15 A. That is correct.

16 Q. Have you gone back and adjusted those royalty
17 payments?

18 A. This error and the cause of it was only
19 identified by me approximately two weeks ago.

20 Q. Okay.

21 A. According to BLM Onshore Order 5, we will need to
22 adjust according -- in that regulation, and what the state
23 regs have, based on average production prior to and -- post
24 and previous, and I will be getting with BLM to set down
25 and look at those figures to see if they agree with the

1 numbers that I have come up with.

2 At that point, once we agree on a volume, then an
3 adjusted report will be amended and sent in, and the
4 royalty will be recalculated and readjusted amongst the
5 interest overrides and royalty owners.

6 Q. So you are going to at some point have to
7 readjust and reallocate the royalty payments for that
8 particular month because of this 21-percent variance; is
9 that right?

10 A. Yes, that is correct.

11 Q. But you also said that those variances between
12 the sales meters and the allocation meters aren't
13 important; is that right?

14 A. Repeat that again, please?

15 Q. You also said earlier that it doesn't really
16 matter whether there's a difference between the sales meter
17 volume and the allocation meter volume; is that right?

18 A. If the allocation volumes are correct, yes.

19 Q. If they are correct?

20 A. If they are correct, if there is not an error
21 that has not been detected, then yes, it's --

22 Q. And that 21-percent difference that you found on
23 the Sweet Thing Federal Number 2 was an error that you
24 detected?

25 A. That is correct.

1 Q. And that is based on the audit report issued by
2 Trilogy?

3 A. Yes.

4 Q. Okay, so sometimes a variance between a sales
5 report or a sales meter volume and an allocation meter
6 volume can be significant?

7 A. Yes, it can.

8 Q. Okay. But BP doesn't have a system in place to
9 reconcile the sales meter volumes and the allocation meter
10 volumes on a monthly basis, does it?

11 A. No.

12 Q. The only reason you caught this 21-percent
13 variance is because of Trilogy's audit; is that right?

14 A. That is correct.

15 Q. Do gas prices fluctuate from month to month?

16 A. As far as I know, yes, they do.

17 Q. Some months they can be as high as ten dollars?

18 A. I suppose.

19 Q. Some months they can be as low as three dollars?

20 A. I suppose.

21 Q. And if a particular well meter is not metering
22 correctly for a particular month, the interest owners in
23 that particular well aren't being paid correctly for that
24 particular month; is that right?

25 A. That could be true.

1 Q. But you don't have a system in place to check
2 whether the sales meters are accurately measuring compared
3 to the allocation meters on a month-to-month basis; is that
4 right?

5 A. Not on that system, we did not, no.

6 Q. Do you have it on this system?

7 A. The two new proposed systems, yes, we do.

8 Q. You have a system whereby you are going to
9 reconcile on a monthly basis the sales meter volumes and
10 the allocation meter volumes?

11 A. Yes, we have.

12 Q. Is that included in your proposal?

13 A. It's not specifically identified, no.

14 Q. Where is that report going to be generated?

15 A. It will be generated in our office.

16 Q. Where is "our office"?

17 A. Eunice, New Mexico.

18 Q. Are you going to be responsible for reviewing
19 that?

20 A. Yes, I am.

21 Q. If there is a variance between a sales meter
22 volume and an allocation meter volume, will you investigate
23 that on a monthly basis?

24 A. Yes, I will.

25 Q. And I think you said that shrinkage and expansion

1 is expected in some -- in most instances; is that right?

2 A. That's correct.

3 Q. Isn't a generally accepted figure for that
4 variance 2 percent?

5 A. Excuse me?

6 Q. Isn't a generally accepted variance for that
7 factor, shrinkage or expansion, 2 percent?

8 A. That I do not know.

9 Q. You don't know how much shrinkage or expansion
10 usually takes?

11 A. I've seen variances up to 8 percent when you're
12 looking at chart meters versus electronic flow meters.

13 Q. Okay. To the best of your knowledge has BP
14 generated a response to Trilogy's audit report?

15 A. To the -- The entire report?

16 Q. To the audit, to Section 21 specifically.

17 A. To the audit report? I do know that the audit
18 response from BP was supposed to be due by the end of the
19 year. Whether or not that's been submitted, I'm not
20 positive.

21 Q. Did you take part in the generation of any part
22 of such a report?

23 A. I took part of Exception 21.

24 Q. Did you write a response to Exception 21?

25 A. Yes, I did.

1 Q. May I have a minute, Mr. Examiner?

2 Mr. Manthei, I asked you about this reconciling
3 on a monthly basis, and you said you're going to be doing
4 that on a point forward basis; is that right?

5 A. That is correct.

6 Q. Is that because of the installation of these new
7 total flow meters?

8 A. Yes, it is. We've also installed a new satellite
9 telemetry system out there that we get daily volumes in our
10 office.

11 Q. Are you doing those reconciliations on a monthly
12 basis right now?

13 A. Yes, I am.

14 Q. Are you reporting those reconciliations to the
15 accounting departments within BP?

16 A. No, I'm not.

17 Q. Is the accounting department -- Who does the
18 accounting and the royalty payments for BP?

19 A. I believe that is handled by a contract company,
20 IBM, which used to be Price Waterhouse Cooper.

21 Q. And they don't have access to these monthly
22 reconciliations that you're doing; is that right?

23 A. No, I have not supplied that information to them.

24 Q. But they're the ones that are paying the
25 royalties; is that right?

1 A. That is correct.

2 Q. And if there are variances on a month-by-month
3 basis with some royalty owners being underpaid and others
4 being overpaid, they don't know that; is that right?

5 A. We -- If we detect an error where there has been
6 an inaccurate volume calculated, then yes, they are
7 notified.

8 Q. Did the Trilogy audit indicate that any other
9 variances existed on a month-to-month basis during the
10 audit period?

11 A. Any other variances? I'm not sure I understand
12 your question.

13 Q. Any variances between the sales meter volumes and
14 the allocation meter volumes?

15 A. Yes.

16 Q. Did you investigate any of those other variances?

17 A. Yes, I did.

18 Q. Which ones?

19 A. I examined the monthly variances by month,
20 compared to the sales volume and also compared to our check
21 meter. I examined the total flow reports from the
22 electronic meters, I looked at the chart integrations from
23 the chart meters on a month-by-month basis, and --

24 Q. When were those --

25 A. -- tried to identify if there had been any error

1 in measurement during those periods.

2 Q. When were those total-flow meters installed?

3 A. When we set the flash gas meters, they were
4 originally chart meters. As the newer wells were drilled
5 and were added to it, those wells were installed with total
6 flows. In December of 2000 we changed out two of those
7 chart meters with total flows, we --

8 Q. Was that the first time you installed total flow
9 electronic meters on this system?

10 A. No, sir, that's the first time we changed out a
11 chart meter with a total flow.

12 Q. The previous total flow meters that you installed
13 were simply for the flash gas; is that right?

14 A. Excuse me?

15 Q. You mentioned that you installed some other total
16 flow. When did you install total flow meters before that?

17 A. When the new wells were brought on, like the
18 Crooked Canyon and some of the other wells as they were
19 added to the surface commingle.

20 Q. When was the first total flow meter installed out
21 there?

22 A. There were several total flow meters in that
23 area. On that system would have been when we added the
24 Crooked Canyon, and I'd have to look at the documentation
25 to see just exactly when that was, but I want to say it was

1 approximately 1999, August, September maybe.

2 Q. So the Crooked Canyon was part of the original
3 PLC-184 commingling authority; is that right?

4 A. That is correct.

5 Q. And that Crooked Canyon has always had this total
6 flow electronic meter on it?

7 A. Yes, it has, as far as I know.

8 Q. Why don't we take a look at that PLC-184 again?
9 Any of those other wells have those total flow meters on at
10 the time this order was issued?

11 A. If you look at Exhibit 3, it's dated July 26th,
12 2001. The Crooked Canyon 35 had a total flow meter, and
13 the B&C Federal 25 Number 1 had a total flow.

14 Q. Any others?

15 A. The Little Box State Number 4, and --

16 Q. Well --

17 A. Excuse me?

18 Q. Go ahead.

19 A. And it's quite possible -- what we have listed
20 here when you look at the Little Box State Number 3 -- The
21 Little Box State Number 3, part of that gas was from the
22 flash gas. And that flash gas meter during this time frame
23 was a chart meter.

24 However, when the Little Box 3 wellstream gas was
25 added, it was a total flow.

1 Q. Okay. The second BLM audit only covered one
2 well; is that right?

3 A. That's correct.

4 Q. The Trilogy audit covered all of the wells that
5 are being commingled; is that right?

6 A. That is correct.

7 MR. OWEN: Okay, that's all I have, Mr. Examiner.

8 EXAMINER CATANACH: Okay. Anything else, Mr.
9 Feldewert?

10 MR. FELDEWERT: No, Mr. Examiner.

11 EXAMINER CATANACH: Okay, I just have a few.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Manthei, what we have here is two groups of
15 eight wells that are being commingled separately through
16 two different size meters, right?

17 A. That's correct.

18 Q. And all of the wells currently will have
19 electronic overflow meters on them?

20 A. They do currently have --

21 Q. Okay. And is there one compressor per group of
22 wells?

23 A. No, sir, there's not.

24 Q. So there's no compressor?

25 A. There's -- Exhibit 1, which is Case 12,967 --

1 Q. Uh-huh.

2 A. -- that surface commingle will actually have
3 three different compressors in that commingle system.

4 Q. Okay.

5 A. We have a -- Compression is set at one well,
6 which is the addition of the B&C Federal 25 Number 3.

7 We have another compressor set at the Little Box
8 State Number 5, and it is compressing gas from the Little
9 Box State Number 3.

10 And then we have a third compressor set at the
11 B&C 2A which is compressing gas from the B&C 2A, the
12 Crooked Canyon, the Leggett, the B&C Federal Number 1 and
13 the Jaguar Federal Number 26.

14 Q. Okay. How about on the other system? Is there
15 any compression on that system?

16 A. Yes, on the other system there's only one
17 compressor.

18 Q. One compressor. Now, I believe you stated that
19 you changed the way that -- you changed the takeout point
20 for the compression gas?

21 A. Yes, we did.

22 Q. So it's now in between the allocation meters and
23 the sales meter?

24 A. That is correct.

25 Q. And how is the compression gas tied back to the

1 wells or allocated back to the wells?

2 A. The meters -- We'll take the metered volume for
3 the compressor fuel. That fuel will be allocated back to
4 each well that is part of that compression based on the
5 allocation meter at the well, the same percent of proceeds.

6 If one well has 10 percent contribution to that
7 system, then it will be attributed with 10 percent of the
8 fuel. The same percent factor for the contribution will be
9 the same for the fuel.

10 Q. Okay, on the system where you have the three
11 compressors, that -- the compressor gas will be allocated
12 back to the wells in which it compresses?

13 A. That's true.

14 Q. Okay.

15 A. If the gas from that well is not being compressed
16 by that compressor, then it will not be allocated to...

17 Q. Okay. And that's being measured with a total
18 flow meter also?

19 A. That is correct.

20 Q. In your opinion, are these total flow meters --
21 is it much more accurate than the old chart-type meters?

22 A. Yes, they are. The main reason is because the
23 new electronic total flow, it takes measurements every
24 second, and it records that, and then it computes an hourly
25 average for that flow period. And that hourly average is

1 documented and logged in the total flow unit itself.

2 You do not have the lag and the response time
3 difference between the mechanics of a chart meter. The
4 mechanics will cause some lag in the measurement, and also
5 the calibration techniques for the total flow meter
6 incorporate new electronic calibration, and you're
7 subjected to the error that you would have on a meter with
8 a large range like a 1000-meter using a manual gauge.

9 So there's also an improvement in the calibration
10 techniques that are applied to the total flow, that you
11 don't have available with the chart.

12 Q. Okay. In the absence of commingling, would
13 additional compressors be necessary out here? If you
14 weren't able to commingle these wells, what would be the
15 difference?

16 A. If we weren't able to commingle these wells, then
17 we would have to set additional compression at each well
18 site in order for it to be produced into the high-pressure
19 line.

20 Q. Which is going to be more cost to the working
21 interest owners, and that's going to actually reduce the
22 production for the royalty interest owners as well; is that
23 right?

24 A. That is correct.

25 Q. Can you tell me briefly, is it my understanding

1 that you use -- the total flow meters for each well is
2 summed up, and then you take a percentage for each well,
3 based on the total flow meters?

4 A. That is correct.

5 Q. And then you use that percentage in regards to
6 the total sales meter; is that correct?

7 A. That is correct.

8 Q. Okay.

9 A. We allocate back to the sales point, the sales
10 meter which we consider the custody transfer point. And
11 when we report, the reported volumes are audited against
12 the revenue accounting side, and royalties are examined to
13 see if we paid -- if the volume we paid royalties on is
14 actually the volume that we reported on the reports.

15 Especially on the BLM side. There's two actual
16 audits that do occur with NMMS. You have a production
17 audit where BLM verifies that the volume reported was
18 actual. And then they have an MMS revenue audit where MMS
19 reviews what you paid royalties on to see if it was the
20 same volume that you reported.

21 Q. Okay. And it's my understanding that you are now
22 looking at, on a monthly basis, the allocation meter
23 volumes, compared to the sales meter volumes?

24 A. That is correct.

25 Q. And if that's off -- Is there a certain

1 percentage that you allow for variations? Or when does it
2 trigger you to look at something more closely?

3 A. When I look at that, if I see -- If there's a
4 trend, I will trend and see what the variances have been
5 running. And if there's a 5-percent trend and then there's
6 a month where there's a greater variance that's over that
7 or less than that, then I'll look at that. Or if the trend
8 is 2 percent and I see one come in at 5 percent, then I
9 look at that and I try to determine if there was a
10 malfunction in the metering itself.

11 Q. Okay, now this is something that you just started
12 doing, or have you been doing this for a while?

13 A. I've only just recently started it.

14 Q. Okay, and you plan on continuing this kind of
15 self-audit --

16 A. Yes, I do.

17 Q. -- on a monthly basis?

18 A. Yes, I do.

19 Q. And when you notice a big discrepancy, you're
20 going to investigate?

21 A. That is correct. We do have our own calibration
22 and inspection technician, but I have also contracted two
23 separate third-party companies to inspect to make sure that
24 what we are doing is also correct. I've got two outside
25 third parties looking at this as well.

1 Q. Now, the interest ownership between these wells
2 is different on all these wells, right?

3 A. From what I've been able to determine, interest
4 can be different from well to well even on the same lease.

5 Q. Do you anticipate adding more wells to these
6 systems?

7 A. We anticipate at some point in the future to have
8 one central compression station that will commingle all of
9 the wells in that area.

10 Q. All the wells, you mean both of these groups of
11 eight?

12 A. Yes, sir.

13 Q. At some point --

14 A. At some point in time.

15 Q. -- it's all going to be combined --

16 A. Yes, sir.

17 Q. -- at some point?

18 A. Yes, sir, reservoir completion and the decline in
19 the reservoir pressure is going to be necessary to compress
20 everything to get it into the sales point. Sales point
21 line pressure can run up there from 500 to 1000 pounds, and
22 without compression the wells will not be able to flow into
23 the line.

24 Q. What kind of flowing pressures are these wells
25 flowing at?

1 A. Right now, on the inlets to the compressor,
2 they're down around 100 pounds to 200 pounds, depending on
3 the compressor. Shut-in pressures, only on the better
4 wells will they reach the line pressure without
5 compression.

6 Q. So some wells aren't compressed at all at this
7 point --

8 A. No, sir, they --

9 Q. -- because they have sufficient pressure?

10 A. At this point now, everything is compressed --

11 Q. Okay.

12 A. -- in some form or fashion.

13 Q. Now, the error that caused the 21-percent
14 discrepancy that Mr. Owen has referred to, is that still
15 possible with these new types of meters?

16 A. Yes, it is.

17 Q. So that can still occur?

18 A. That can still occur if the monthly volumes
19 aren't monitored.

20 We've also initiated more training for the
21 operator that reads these meters. We've had several
22 different lease operators out there on that lease, and
23 errors are detectible with the proper training.

24 EXAMINER CATANACH: Okay, I have nothing further.

25 Is there anything further?

FURTHER EXAMINATION

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BY MR. FELDEWERT:

Q. Mr. Manthei, I think under the new Division Rule, and also you mentioned a BLM rule, you're going to be required to check these allocation meters quarterly, are you not?

A. That is correct.

Q. Okay. And secondly, greenhouse gases, is that a big issue in your area now?

A. Yes, it is out there, with the amount of compression that we have, there are greenhouse-gas emission concerns.

Q. And these commingling surface efforts, particularly the one you have by application today, is that an effort to cut down on compressors and thereby cut down on greenhouse gas emissions?

A. Yes, it is.

MR. FELDEWERT: Okay, that's all I have.

EXAMINATION

BY MR. BROOKS:

Q. Just a question about this notice issue that was raised. Is this Application in effect an addition of an additional well or wells to an existing commingling system? Is that what you're doing in this Application?

A. In which one? The --

1 Q. Well, either one of them. I thought the question
2 was about both.

3 A. We have two current surface commingle approvals,
4 and what we've determined is, since we're going to be
5 changing one of them from just a lease commingle to a lease
6 pool commingle --

7 Q. Okay.

8 A. -- that in an effort to make it more easy to
9 understand the commingle it would be better to not amend
10 the existing one because it's a CBT, which usually is a
11 lease to lease, and it will become a pool to lease, and so
12 therefore we need to cancel that one and create a new one.

13 Now, both new commingles will be comprised of
14 production that is currently approved now for surface
15 commingling. It's just restructuring.

16 Q. Is there an additional production stream being
17 added to the commingling?

18 A. Yes, there will be two new wells.

19 Q. Okay. Now, as I understood your testimony, the
20 only notice that you're prepared to testify was given was
21 to the owners of the production string that's being added?

22 A. From what I understand, it looks like that that's
23 the only notice that was given, yes.

24 Q. Okay. So the owners of the production stream
25 that was -- of the existing commingles were not notified of

1 this Application in either case; is that correct?

2 A. I don't have any knowledge that they had been.

3 Q. To your knowledge?

4 A. From what I know, and from what we have on the
5 exhibit here, no, they were not.

6 Q. And if this Application were granted, their
7 production would be commingled with the additional
8 production -- the additional streams that are being added?

9 A. That's correct.

10 EXAMINER CATANACH: Mr. Feldewert, I think that
11 under the current Rules and even under the new Rules that
12 are coming into effect for surface commingling, I think it
13 says that all interest owners need to be notified, even
14 when you're amending an application like this.

15 MR. FELDEWERT: You know, while we were going
16 through some of what I considered joint operating agreement
17 issues, I did was -- trying to flip through the Rules, and
18 I was trying to examine that myself. And I quite frankly
19 didn't see anything that indicated one way or the other.

20 But I think, Mr. Brooks, you are correct. What
21 we have here is, we have apparently wells that were
22 previously approved for commingling, and they are adding
23 two new wells. And I've looked at the notice letters that
24 have been admitted into evidence here, and it's pretty
25 apparent to me that what they indicate is that notice was

1 provided to the interest owners in the two new wells that
2 are being added to the previously approved production for
3 surface commingling. Quite frankly, I'm not sure one way
4 or the other whether the Rules require notice to those
5 individuals or not, but -- I would have to consult with my
6 client, but it would seem to me that we might want to
7 consider leaving this matter open so that notice could be
8 provided to the other interest owners in the other streams.

9 MR. BROOKS: Well, I did not bring my Rule book
10 down here. I'm always sorry when I didn't do that.

11 MR. FELDEWERT: And it's my -- I'm not sure which
12 -- At the time these letters were filed, which was
13 September, obviously, we did not have the new Rules. So
14 I've been trying to flip through the old Rule --

15 MR. BROOKS: Well, we still don't have the new
16 Rule because --

17 MR. FELDEWERT: That's my understanding.

18 MR. BROOKS: -- the new Rule has been adopted,
19 but it has not yet gone into effect.

20 MR. FELDEWERT: So what I would like -- So I'm
21 not sure one way or the other. What I'd like to do is have
22 the opportunity, if I may -- and I can get back with you
23 tomorrow -- to consult with my client and see how they want
24 to proceed.

25 EXAMINER CATANACH: Well, I think -- You can

1 consult with your client, but I think we're going to
2 probably make it a requirement that you notify these
3 additional interest owners.

4 MR. FELDEWERT: And that would make it easier for
5 me.

6 EXAMINER CATANACH: Yeah. Probably that would
7 constitute continuing the case for four weeks to give them
8 adequate time --

9 MR. FELDEWERT: I understand.

10 EXAMINER CATANACH: -- to review the Application.
11 In effect, what we're going to be doing when we issue a
12 hearing order on these cases anyway is superseding the
13 administrative orders, I suspect. So these hearing orders
14 will be the new commingling orders, in effect. So let's
15 proceed on that note. And anything further, Mr. Feldewert?

16 MR. FELDEWERT: No, Mr. Examiner.

17 EXAMINER CATANACH: Okay. Let's take a break
18 here before we continue.

19 MR. OWEN: Mr. Examiner, if we're going to
20 continue this case for four weeks, I'd just as soon put on
21 my testimony at the new hearing date in four weeks.

22 EXAMINER CATANACH: Why is that, Mr. Owen?

23 MR. OWEN: So that -- There's been some new
24 information which has been brought to light involving new
25 meters and new metering method. I'd like our accounting to

1 evaluate that in light of the audit that was issued before.

2 I've given Mr. Feldewert a copy of the exhibits
3 which I intended to introduce at today's hearing, and I
4 think that's -- and I don't know whether additional
5 exhibits would be introduced or not.

6 MR. FELDEWERT: If I may comment, we have yet to
7 understand the real basis for their objection to this
8 surface commingling Application. I received today some
9 exhibits for the first time. All we have is their
10 prehearing statement. I quite frankly do not understand
11 how exception 21 to the audit report, which deals with
12 certain issues associated with the way the system was
13 previously configured, what that has to do with anything,
14 how that impacts a case where we are dealing with, in
15 essence, a new type of system.

16 You know, my concern here is that we still don't
17 know what the problem is, what they intend to testify to,
18 and under Mr. Owen's scenario we're not going to know until
19 four weeks from now. And we haven't known now since
20 September 24th when they objected to their letter proposal.

21 MR. OWEN: If I might respond, Mr. Examiner,
22 Exception 21 has been provided to Mr. Feldewert. It
23 clearly indicates that the basis for the objection is that
24 are variances between the sales meter volumes and the
25 allocation meter volumes. The problem with that was

1 illustrated by Mr. Manthei, indicating that the interest
2 owners are not being paid correctly.

3 Mr. Manthei for the first time today indicated
4 that there is a new method of monthly reconciling these.
5 We'd like to evaluate that in light of the audit and
6 determine how we want to proceed.

7 EXAMINER CATANACH: It appears to me, Mr. Owen,
8 that the new evidence may, in fact, help to alleviate any
9 conflict that there might be, although I can't say that for
10 certain.

11 MR. OWEN: There is some testimony on the record,
12 Mr. Examiner, however we've seen no evidence of this new
13 allocation method, we've got no reports that have been
14 presented to the Examiner indicating that that -- not the
15 allocation method but the reconciliation is actually
16 occurring. We have no evidence that, in fact, the interest
17 owners are being paid correctly now with the audit report
18 and the exception, which has been provided to Mr.
19 Feldewert, I believe, four weeks ago, clearly indicated
20 that those interest owners were not being paid correctly.

21 EXAMINER CATANACH: Mr. Owen, are your clients
22 seeking to have this Application not approved? Is that
23 your position?

24 MR. OWEN: That is our position right now, Mr.
25 Examiner, because of some basic accounting problems. Not

1 the allocation method itself, as a theory, but the way
2 that, in fact, BP is applying that allocation method and
3 failing to account for discrepancies which are indicated in
4 that Exception Number 21.

5 We're not going to conduct another audit between
6 now and then, we don't have time, and it's just not going
7 to be done. But we'd like to see what evidence there is
8 that this new reconciliation method is, in fact, being
9 carried out. Perhaps there can be meetings between the
10 parties to determine whether the concerns have been
11 addressed.

12 MR. FELDEWERT: If I may, Mr. Manthei has
13 testified to what BP is doing. There is evidence in the
14 record.

15 To the extent that there are accounting issues
16 between the parties, that is a matter that is subject to
17 the contractual agreements between them under the joint
18 operating agreement. I don't view the Commission's role
19 here as being there to deal with accounting issues between
20 the parties. They could audit now, they could audit six
21 months from now under the joint operating agreement.

22 The issue is whether this system as set forth by
23 BP is going to measure and allocate production from the
24 affected pools and leases in a reasonable and effective
25 manner. That's the issue.

1 Whether there are accounting issues between the
2 parties, that's separate and apart from what's before the
3 Division, and that's a matter under the joint operating
4 agreement, and there are provisions under the joint
5 operating agreement to deal with that.

6 EXAMINER CATANACH: Let me take five minutes and
7 discuss that with counsel.

8 (Thereupon, a recess was taken at 11:07 a.m.)

9 (The following proceedings had at 11:20 a.m.)

10 EXAMINER CATANACH: Call the hearing back to
11 order. Any new, startling revelations that you've got to
12 report?

13 MR. OWEN: No new revelations, but we would be
14 more than happy to meet with BP representatives between now
15 and four weeks, assuming that they will send a field
16 personnel like Mr. Manthei and somebody from the accounting
17 department to try to resolve this before the next hearing.
18 We're making ourselves available in Midland or -- That
19 would probably be the easiest place to do it.

20 EXAMINER CATANACH: Mr. Owen, are you optimistic
21 that that may happen?

22 MR. OWEN: I'm optimistic from my clients'
23 perspective. We're more than willing to meet whenever BP
24 is willing to meet.

25 The problem that we have had, and the problem

1 that our auditor had, is that because BP has outsourced all
2 of its accounting they're somewhat less than responsive,
3 and I -- They're hard to deal with because you've got to
4 talk to five or six different people to get the answer you
5 need. So I don't know whether Mr. Feldewert can arrange
6 that or not. I assume that he can.

7 EXAMINER CATANACH: I think there's a couple of
8 separate issues in here. One of them is the accounting
9 that has taken place previously. And I think the other
10 issue is the Application at hand today, which describes how
11 they're going to do the new -- the commingling from here on
12 forward.

13 I think, you know, if we can focus on working on
14 addressing the present Application, I don't know that -- I
15 don't know how the other accounting discrepancies are going
16 to play into that, but I think it would be helpful for the
17 parties to meet and discuss some of these issues. And to
18 that end, I think if Amoco is willing to do that -- or BP
19 is willing to do that in the next four weeks, I don't see
20 how it can hurt.

21 MR. FELDEWERT: Neither do I. I think --

22 MR. MANTHEI: I've offered to do that.

23 MR. FELDEWERT: That's my understanding, we've
24 offered to do that.

25 EXAMINER CATANACH: Is it conceivable that we

1 may -- I mean, they may have worked this whole thing out in
2 four weeks, and then you guys may drop your objection. Is
3 that conceivable?

4 MR. OWEN: That is conceivable. It's also
5 conceivable that we won't, and I don't want to represent
6 that we definitely will reach agreement because I don't --

7 EXAMINER CATANACH: I understand.

8 MR. OWEN: -- that is not a definite possibility,
9 but it is conceivable that we will reach agreement on it,
10 if we can get the parties who -- including Mr. Manthei, who
11 know what is going on in the field and in the accounting
12 department together and try to reach some sort of middle
13 ground on this thing.

14 EXAMINER CATANACH: Okay, I think on that note, I
15 think we'll go ahead and grant your request, Mr. Owen, and
16 let you guys talk to BP about this and hopefully get some
17 of it resolved within the next four weeks, and maybe we
18 won't have to deal with it four weeks from now.

19 MR. OWEN: Mr. Examiner, would you like a copy of
20 the exhibits that were to be introduced during the hearing
21 at this time? I'm making those available if you want them,
22 if -- Clearly, we're not introducing them into the record
23 without testimony.

24 EXAMINER CATANACH: It might be helpful. I think
25 it would be more helpful if Mr. Feldewert had a copy of

1 that.

2 MR. FELDEWERT: Yeah, I have a copy.

3 EXAMINER CATANACH: Okay, so he's got a copy. I
4 don't know that I will spend a whole lot of time looking at
5 them, but I might --

6 MR. OWEN: Okay.

7 EXAMINER CATANACH: -- and we'll go ahead and do
8 that.

9 And Mr. Feldewert, I guess in that interim time
10 you will notify the rest of the parties?

11 MR. FELDEWERT: I think it would make a lot of
12 sense to do that, yes.

13 EXAMINER CATANACH: Okay. Well, let's do that,
14 then. We'll continue the case for four weeks and see what
15 happens. If you guys come back, we'll be here to listen to
16 you.

17 MR. OWEN: Okay. Thank you, Mr. Examiner.

18 MR. FELDEWERT: Thank you, Mr. Examiner.

19 MR. MANTHEI: Thank you.

20 (Thereupon, these proceedings were concluded at
21 11:23 a.m.)

22 * * * hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 12967-12968
25 heard by me on Jan 9, 2003.
David J. Utland, Examiner
Oil Conservation Division

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 11th, 2003.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006