

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 7 December 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Amoco Production Com- CASE
10 pany for an exception to General 9552
11 Rule 309-A, lease commingling, Rio-
12 Arriba County, New Mexico.

13 BEFORE: David R. Catanach, Examiner

14 TRANSCRIPT OF HEARING

15 A P P E A R A N C E S

16 For the Division: Robert G. Stovall
17 Attorney at Law
18 Legal Counsel to the Division
19 State Land Office Bldg.
20 Santa Fe, New Mexico

21 For Amoco: William F. Carr
22 Attorney at Law
23 CAMPBELL and BLACK, P. A.
24 P. O. Box 2208
25 Santa Fe, New Mexico 87501

1
2 For Mr. and Mrs. Thomas
3 Schalk, T. H. McIlvain,
4 Vivian Stevenson,
5 Individually, and as
6 Personal Representative
7 for the Estate of T. W.
8 Stevenson:

W. Thomas Kellahin
Attorney at Law
KELLAHIN, KELLAHIN & AUBREY
P. O. Box 2265
Santa Fe, New Mexico 87504

6 For Mobil Producing Texas
and New Mexico:

W. Perry Pearce
Attorney at Law
MONTGOMERY & ANDREWS
P. O. Box 2307
Santa Fe, New Mexico 87504

W. M. Gallaway, Pro Se
Gallaway Oil and Gas

William J. Holcomb

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1 MR. CATANACH: At this time
2 we'll call Case 9552, the application of Amoco Production
3 Company for an exception to General Rule 309-A, lease com-
4 mingling, Rio Arriba County, New Mexico.

5 Are there appearances in this
6 case?

7 MR. CARR: May it please the
8 Examiner, my name is William F. Carr, with the law firm
9 Campbell & Black, P.A., of Santa Fe. We represent Amoco
10 Production Company and have two witnesses.

11 MR. CATANACH: Other appear-
12 ances?

13 MR. KELLAHIN: Mr. Examiner,
14 my name is Tom Kellahin. I'm from the Santa Fe law firm of
15 Kellahin, Kellahin & Aubrey. I'm appearing today on behalf
16 of Mr. and Mrs. Thomas S Schalk. Last name is S-C-H-A-L-K.

17 I'm also appearing on behalf
18 of T. H. McIlvain Company.

19 And then finally appearing on
20 behalf of the McIlvain lessor, mineral owner, Vivian M.
21 Stevenson, Individually, and as Personal Representative of
22 the Estate of T. W. Stevenson.

23 I have one witness, Mr. Exa-
24 miner.

25 MR. CATANACH: Other appear-

1 ances?

2 MR. HOLCOMB: Mr. Examiner, my
3 name is William J. Holcomb and I'm here on behalf and with
4 George Coleman and Bill Gallaway.

5 I'm Bill Holcomb Oil & Gas
6 Consultant.

7 MR. GALLAWAY: That's W. A.
8 Gallaway, G-A-L-L-A-W-A-Y.

9 MR. CATANACH: Other appear-
10 ances?

11 MR. PEARCE: Mr. Examiner, I'm
12 Perry Pearce, with the law firm Montgomery & Andrews, ap-
13 pearing in this matter on behalf of Mobil Producing Texas
14 and New Mexico, Inc.

15 I do not have any witnesses.

16 MR. CATANACH: Any other ap-
17 pearances?

18 Okay, can I get all of the
19 witnesses to please stand and be sworn in at this time?

20

21 (Witnesses sworn.)

22

23 MR. CATANACH: You may pro-
24 ceed, Mr. Carr.

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MICHAEL E. CUBA,
being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and place
of residence?

A My name is Michael Edward Cuba. I live
in Nederland, Colorado.

Q Mr. Cuba, by whom are you employed and
in what capacity?

A I'm employed by Amoco Production Company
as a landman.

Q Have you previously testified before
this Division and had your credentials as a landman accep-
ted and made a matter of record?

A Yes, I have.

Q Are you familiar with the application
filed in this case by Amoco Production Company?

A Yes, I am.

Q Are you familiar with the Bear Canyon
Unit and the ownership in that unit?

A Yes, I am.

1 MR CARR: Are the witness'
2 qualifications acceptable?

3 MR. CATANACH: They are.

4 Q Mr. Cuba, would you briefly state what
5 Amoco seeks with this application?

6 A Amoco seeks exception to General Rule
7 309-A to allow the surface commingling of production from
8 leases within a 9-section area, comprising Sections 1, 2,
9 3, 10, 11, 12, 13, 14 and 15 of Township 26 North, Range 2
10 West, in Rio Arriba County.

11 This includes lands within the Bear
12 Canyon Unit Area and includes additional lands contiguous
13 and north of the Bear Canyon Unit Area.

14 Q Have you prepared certain exhibits for
15 introduction in this case?

16 A I have.

17 Q Would you identify what has been marked
18 Amoco Exhibit A-1, identify this and explain what this
19 exhibit is designed to show?

20 A Exhibit A-1 is a schedule showing the
21 percentage and kind of ownership in the oil and gas
22 interest within the Bear Canyon Unit Area. It indicates
23 tract numbers, descriptions, and number of acres per tract,
24 lease data, basic royalty owner and percentage, lessee of
25 record and percentage, overriding royalty and percentage,

1 and working interest and percentage ownership.

2 Q And this exhibit identifies the owner-
3 ship within the unit boundary.

4 A This is correct, within the nine -- or
5 the Bear Canyon Unit Area.

6 Q What is Amoco's working interest owner-
7 ship in the Bear Canyon Unit?

8 A As to lands committed to the Bear Canyon
9 Unit, Amoco's working interest is 94.78 percent.

10 Q And what acreage is not committed to the
11 unit?

12 A The acreage not committed includes, as
13 to working interest includes lands in Section 14, also de-
14 scribed as Tract 22 on Exhibit A-1. The parties not com-
15 mitted, as indicated thereon, include T. H. McIlvain, Jr.,
16 and Walker Energy Company.

17 Q And what is the percentage ownership of
18 Mr. McIlvain and Mr. Walker?

19 A In the particular tract Mr. McIlvain
20 owns 50 percent. In the spacing unit for the well to be
21 drilled upon that section Mr. McIlvain has 21.875 percent.

22 Walker Energy Company in the particular
23 tract has 15.625 percent; however, in the spacing unit for
24 the well to be drilled upon that section, their interest is
25 approximately 6.8 percent.

1 Q What would be the spacing unit that
2 you're referencing? Is that all of Section 14?

3 A That's correct, pursuant to Gavilan
4 Mancos spacing rules.

5 Q Within the exterior boundary of this
6 unit are there any other noncommitted working interests
7 other than those in Section 14?

8 A No.

9 Q Let's go to -- before we move on, from
10 Exhibit A-1 can you identify what interest is owned by Mr.
11 Schalk?

12 A Mr. Schalk, as indicated in various
13 tracts of Exhibit One, has an overriding royalty interest
14 -- or pardon me, a basic royalty interest only.

15 Q What about Mr. Gallaway?

16 A Mr. Gallaway, as also indicated on Exhi-
17 bit A-1, has an overriding royalty interest only.

18 Q What interest does Mobil have in this
19 unit?

20 A Mobil has no interest in the Bear Canyon
21 Unit.

22 Q Would you now go to what has been marked
23 Exhibit A-2 and identify this, please?

24 A Exhibit A-2 is a schedule showing the
25 percentage and kind of ownership of oil and gas interest

1 drafted similarly to Exhibit A-1, covering the lands north
2 of the Bear Canyon Unit, being the north half of Sections
3 1, 2 and 3, giving the same information as indicated on
4 Exhibit A-1 for the unit.

5 Q In Section 1 what is Amoco's interest,
6 in the north half of Section 1?

7 A Amoco's interest as to the north half of
8 Section 1 is limited to the interval as indicated being
9 Tract E from the -- 6100 feet subsurface down to 8368 sub-
10 surface, in which Amoco has operating rights, a working
11 interest of 43.2 percent.

12 Q Okay, and then all of Section 1, do you
13 have a figure for that or do you have it just for the north
14 half?

15 A I don't have the figure for all of Sec-
16 tion 1.

17 Q All right. What about the north half of
18 Section 2, what is Amoco's interest?

19 A The north half of Section 2, Amoco has
20 198.65 acres out of 318.28, being 62.4 percent. in the
21 north half.

22 Q And what about Section 3?

23 A Section 3, Amoco has 198.52 acres out of
24 316.8, or 62.66 percent.

25 Q Mr. Cuba, would you now go to Exhibit

1 A-3 and identify that, please?

2 A Exhibit A-3 is a plat representing the
3 Bear Canyon Unit and the lands north thereof, being the
4 north half of 1, 2 and 3.

5 You can see the Bear Canyon Unit is
6 identified and the tracts are indicated as on Exhibit A-1
7 with numbers. The north portion is the non-unit tract and
8 the tracts are identified there as identified on A-2 by
9 letters.

10 And the total area of the nine sections
11 outlined is the proposed commingling area that Amoco is
12 petitioning for today.

13 Q Do you know why the north half of 1, 2
14 and 3 was not included in the Bear Canyon Unit?

15 A I was not involved at the time the Unit
16 was formed. My understanding from discussions was that the
17 BLM specifically requested the deletion of those lands to
18 allow a buffer between the Unit and the Indian reservation
19 lying immediately to the north.

20 Q Have you been involved in the establish-
21 ment of participating areas within the Bear Canyon Unit?

22 A I have.

23 Q And what is the status of the creation
24 of participating areas at this time?

25 A We met yesterday, in fact, with the

1 Bureau of Land Management in Albuquerque. They've given us
2 an indicated approval of an initial participating are en-
3 compassing all of Section 15, the 640-acre spacing unit
4 dedicated to the Bear Canyon Unit Well No. 1.

5 They further indicated that it is anti-
6 cipated the participating area will be expanded on a sec-
7 tion by section spacing unit basis, being 640 acres for
8 each subsequent well drilled. We would therefore antici-
9 pate Section 10 to be the first revision for the Bear Can-
10 yon Unit No. 2; Section 11 to then be included in 30, or
11 second revision for the 3, et cetera.

12 Q Was notice given to each of the interest
13 owners as depicted in Exhibit A-1?

14 A Amoco made a diligent attempt to provide
15 notice to all parties indicated on Exhibit One and Exhibit
16 -- or Exhibit One-A and One-B.

17 Q Or as they're marked, I've marked them
18 A-1 and A-2.

19 A Oh, pardon me, yes, that's correct, A-1
20 and A-2.

21 Q Were Exhibits A-1, A-2 and A-3 prepared
22 by you or compiled under your direction?

23 A Yes.

24 Q Can you testify to the accuracy of this
25 -- these exhibits?

1 A They are accurate to the best of Amoco's
2 knowledge.

3 MR. CARR: At this time, Mr.
4 Catanach, I would move the admission of Amoco Exhibits A-1,
5 A-2 and A-3.

6 MR. CATANACH: Exhibits A-1,
7 A-2 and A-3 will be admitted as evidence.

8 MR. CARR: That concludes my
9 direct examination of Mr. Cuba.

10 MR. CATANACH: Mr. Kellahin.

11 MR. KELLAHIN: Thank you, Mr.
12 Catanach.

13

14 CROSS EXAMINATION

15 BY MR. KELLAHIN:

16 Q Mr. Cuba, I have a schematic of what I
17 think represents the Bear Canyon Area on which has been
18 located either producing Bear Canyon wells or other produc-
19 ing wells out of the Mancos Oil Pool, as well as Amoco's
20 drilling wells and proposed wells, and let me show that to
21 you, sir.

22 A I believe I have a copy.

23 Q Let's compare your copy to my copy and
24 make sure we're looking at the same thing.

25 A My copy appears similar to yours; how-

1 ever mine does have a colored legend, indicating the dif-
2 ference between the various wells and yours does not, ap-
3 parently, have it.

4 A All right, sir, if you'll return yours,
5 I believe mine's a photocopy of one like yours. Do you
6 know the origin of this schematic, Mr. Cuba?

7 A It's my understanding that was put to-
8 gether by an Amoco representative who will be testifying
9 subsequently to me.

10 Q Have you examined this and determined
11 that it's, as a schematic it's reasonably accurate insofar
12 as it's located the wells in the right sections?

13 A Yes, to my knowledge --

14 Q And we can use this --

15 A -- it is.

16 Q -- to identify the three producing
17 wells?

18 A Yes.

19 Q You testified, Mr. Cuba, that you were,
20 or Amoco, your company, and you as a representative, were
21 seeking an exception from the Division Rule 309, and I
22 think you made specific reference to Subsection A.

23 What specifically is wrong with the ex-
24 isting rule that you need an exception in order to imple-
25 ment the project that you're proposing?

1 A I'm not qualified to speak to that.
2 That's not an issue that the landman would typically be
3 familiar with.

4 I believe a later party may be able to
5 speak to that.

6 Q You're not familiar with the terms and
7 conditions of Rule 309?

8 A Not in detail, no.

9 Q You are, however, familiar with the Bear
10 Canyon Unit and the unit agreements, are you not, Mr. Cuba?

11 A Yes, sir.

12 Q Am I correct in understanding that that
13 unit agreement is an exploration unit consisting of volun-
14 tary cooperation by the parties that have signed that
15 agreement?

16 A Yes, that would be a correct assumption.

17 Q When we look at Exhibit A-3 we see a
18 hatched line that's darker in area that the schematic shows
19 to be the outline of the Bear Canyon Unit, and that encom-
20 passes Sections 10, 11, 12, 13, 14 and 15, and then the
21 southern halves of Sections 1, 2 and 3, is that correct?

22 A That is correct.

23 Q Now within that area I believe you've
24 told us there in fact is not 100 percent voluntary commit-
25 ment of all interest to the unit.

1 A This is correct.

2 Q When we look at Section 14, that section
3 represents tracts that have not signed. Those owners have
4 not signed the unit agreement, have they?

5 A That section includes tracts wherein the
6 owners have not voluntarily committed.

7 Q All right, and that specific tract that
8 has not committed an interest to the unit is Tract No. 22,
9 isn't it?

10 A That is correct.

11 Q When we look at the schematic I handed
12 you, there is a well in the southwest quarter of 14 and
13 it's shown as the Bear Canyon Unit No. 8 Well?

14 A That is correct.

15 Q That is a drilling well at this point,
16 is it not?

17 A Yes.

18 Q Do you know the arrangement by which
19 that well was agreed to be drilled by the owners or owner-
20 ship in Section 14?

21 A Yes.

22 Q It was a voluntary commitment of inter-
23 est for that single spacing unit of 640 acres, was it not?

24 A As to the non-unit parties, that is the
25 case.

1 The Unit parties will be operating as to
2 the committed interest subject to the terms of the Bear
3 Canyon Unit Agreements.

4 Q Were you advised by Mr. Broome of Mr.
5 McIlvain's company as to why their leasehold arrangements
6 precluded them from participating and signing on a volun-
7 tary basis the Bear Canyon Unit Agreement?

8 A I do not recall the specific advisement
9 by McIlvain. I did see the lease and I am aware of the
10 lessor's reluctance to be included in a unit under my own
11 examination and past history.

12 Q It is correct to say that if the No. 8
13 Well is successful as a commercial well, that the produc-
14 tion from that well and the ownership of that production
15 will be by different individuals and different percentages
16 from the Unit production for the balance of the Unit?

17 A That is correct.

18 Q The application to have a surface com-
19 mingling at this central tank battery, Mr. Cuba, would in-
20 clude a proposal to have production from the No. 8 Well
21 commingled on the surface? That's part of this applica-
22 tion, --

23 A Yes.

24 Q -- isn't it?

25 A That is correct.

1 Q As a landman, then, that creates the
2 issue as to whether or not we have production from wells
3 going into a central tank battery, the ownership by indivi-
4 dual and percentage is different from other commingled pro-
5 duction.

6 A Would you please repeat that?

7 Q Yes, sir.

8 A For the unit production, let's go back
9 and start in a different way,

10 For the unit production can you identify
11 for us, using my schematic, which of these wells currently
12 produces and represent 100 percent Unit ownership?

13 A The wells currently productive and/or
14 completing that represent 100 percent Unit ownership would
15 be the Bear Canyon Unit Wells Nos. 1, 2 and 3.

16 Q No. 1 is in 15. No. 2 is in the
17 northwest of 10 and No. 3 is in the southwest of 11.

18 A That is correct.

19 Q And those are the three producing wells?

20 A Currently 100 percent allocated to Unit
21 ownership.

22 Q Are you familiar, Mr. Cuba, with the
23 current status of approvals by the Division to authorize
24 Amoco as the operator to commingle production from any of
25 those wells on the surface?

1 A No.

2 Q You're not?

3 A Not in great detail. I understand
4 there's been a previous attempt that was approved on a --
5 on a basis I'm not technically capable to speak on that.

6 Q Are you familiar with unit -- provisions
7 in the unit agreement for this unit that allow that to take
8 place if the engineers decide they want to do that?

9 A To my knowledge there's no provision in
10 the unit agreement prohibiting the commingling of produc-
11 tion. We have proceeded to meet with the Bureau of Land
12 Management on this issue. They've indicated no objection
13 thereto, and they are the regulatory body governing the
14 Federal unit in question.

15 Q Back to 14 now, am I correct in under-
16 standing that production from the No. 8 Well, if it's a
17 successful well, will be production the ownership of which
18 belongs to interest owners that have a different identity
19 as to the interest owners in the unit?

20 A There are parties that would share in
21 production from that well that would not share in other
22 production from other unit wells.

23 Q When we compare the parties entitled to
24 share in production from the No. 1 Well and compare that to
25 the parties entitled to potential future production from th

1 the No. 8 Well, we're going to have different parties and
2 different percentages, aren't we?

3 A That is correct.

4 Q When we look to the north of the unit,
5 can you tell me, Mr. Cuba, what is the current status of
6 the proposed wells in Sections 1 in the north half, I think
7 that's called the English 1, as well as in Section 3, the
8 Simmons Federal 1?

9 A The English Well, the Robert English
10 No.1, has been drilled. It has not been completed as a
11 productive well. There is intent on Amoco's part as oper-
12 ator to enter into the wellbore with the concurrence of
13 other working interest owners and attempt a completion.

14 The Simmons Federal Well in Number -- or
15 Section 3 has been drilled to total depth and a completion
16 attempt is pending.

17 Q Am I correct in understanding, Mr. Cuba,
18 that the ownership of potential future production from the
19 English No. 1 Well, those interest owners will be different
20 and their percentages different from the ownership within
21 the unit area itself.

22 A That is correct.

23 Q And that also applies to the owners
24 entitled to production from the Simmons Federal One Well;
25 those individuals and percentages are in fact different

1 from the Unit.

2 A It should be noted that the parties in
3 the Simmons Federal No. 1 are the same parties to the Unit
4 and we have entered into an agreement whereby the Section
5 3 will be pooled on a 640-acre basis with the production
6 attributable to the south half paid to the Unit parties;
7 the production attributable to the north half payable to
8 the working interest owners in that section.

9 The parties are the same, the percent-
10 ages will differ.

11 Q The proposed application for surface
12 commingling at the central tank battery, Mr. Cuba, does
13 that involve all the wells shown on this exhibit or this
14 proposed exhibit, the schematic?

15 A Another party would be better versed to
16 speak to that.

17 Q All right. You said the BLM had ap-
18 proved a participating area for the No. 1 Well in 15 encom-
19 passing 640 acres as an initial participating area?

20 A We were given a tentative approval yes-
21 terday. It has not been formalized. We anticipate re-
22 ceiving formal approval on or about the middle of January.

23 Q Are you familiar with how Amoco has
24 handled the current production from those three wells in
25 terms of allocating it back to the various owners?

1 A Production at this time is being dis-
2 bursed only as to the Section 15 Well, the Bear Canyon Unit
3 Well No. 1, except for two parties which Amoco recently
4 purchased that in closing that purchase we went ahead and
5 allocated their production as to the 2 and the 3, but for
6 the vast majority of the parties in the Unit the proceeds
7 are only being disbursed as to the No. 1 and on a 650-acre
8 all of Section 15 basis.

9 Q Am I correct in understanding then that
10 the owners in the balance of the unit are not
11 participating, then, in the production from the well in
12 Section 15?

13 A That's actually incorrect. It should be
14 noted that the nature of the Bear Canyon Unit agreement is
15 that the working interests are of an undivided nature;
16 therefore, all committed working interest owners share in
17 all production attributable to Unit lands on an equivalent
18 basis regardless of the location of the well. It is only
19 the royalty and overriding royalty interest owners subject
20 to participating area allocation.

21 Q And as we move from section to section
22 within the Unit, we have different royalty and overriding
23 royalty interest owners?

24 A This is correct, as indicated on Exhibit
25 A-1.

1 Q And for those wells you propose to have
2 their production commingled at the surface and measured at
3 the central tank battery?

4 A This is correct.

5 MR. KELLAHIN: No further
6 questions.

7 MR. CATANACH: Any other
8 questions of this witness?

9 If not, he may be excused.

10

11 JAMES W. HAWKINS,
12 being called as a witness and being duly sworn upon her
13 oath, testified as follows, to-wit:

14

15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q Will you state your full name for the
18 record, please?

19 A James W. Hawkins.

20 Q Mr. Hawkins, where do you reside?

21 A In Golden, Colorado.

22 Q By whom are you employed and in what
23 capacity?

24 A Amoco Production Company as a Senior
25 Petroleum Engineering Associate.

1 Q Have you previously testified before
2 this Division and had your credentials as a petroleum
3 engineer accepted and made a matter of record?

4 A Yes, I have.

5 Q Are you familiar with the application
6 filed in this case and the Bear Canyon Unit?

7 A Yes, I am.

8 MR. CARR: Are the witness'
9 qualifications acceptable?

10 MR. CATANACH: They are.

11 Q From what pool or pools does the Bear
12 Canyon Unit actually produce?

13 A It produces from the Mancos Oil Pool.

14 Q And what are the spacing requirements
15 for wells in this area?

16 A The Gavilan Mancos Oil Pool has a
17 640-acre spacing requirement that allows two wells per 640-
18 acre unit.

19 Q And how many wells at this time are pro-
20 ducing from the unit?

21 A At this time we have three wells that
22 are producing.

23 Q Is the production from these wells cur-
24 rently being commingled on the surface?

25 A Yes, it is.

1 Q And by what authority is this comming-
2 ling taking place?

3 A Order No. CPB 334, issued in March of
4 1988.

5 Q If you have already received approval
6 for surface commingling for these wells, what is the
7 purpose for bringing this application to hearing today?

8 A There exist several wells in this area
9 either lands inside the Bear Canyon Unit or on lands just
10 outside the Bear Canyon Unit that will have different
11 ownership from the Unit ownership. In order to produce
12 those wells into the existing central tank battery we would
13 need the Oil Commission's authority.

14 Q And what benefit is derived by being
15 able to use these central facilities, generally?

16 A It should be a significant optimization
17 and an increase in efficiency in operating these wells that
18 will result in additional ultimate recovery from the
19 field, or from the wells.

20 Q Would you now refer to what has been
21 marked as Amoco Exhibit Number Two?

22 A Yes.

23 Q This is a plat. I believe it's the same
24 plat that Mr. Kellahin referred to a few minutes ago.

25 Would you turn to this exhibit and would

1 you review the status of -- current status of each of the
2 wells depicted on the exhibit?

3 A Yes. I'm going to start in the southern
4 portion of the exhibit.

5 Bear Canyon Unit No. 1 Well is currently
6 producing. It's in Section 15.

7 The Bear Canyon Unit No. 7 that's shown
8 there in a blue dot is a proposed well. It has not been
9 drilled.

10 The Bear Canyon Unit No. 8 Well, which
11 is in Section 14, is currently drilling. It's shown as a
12 proposed well. At the time the exhibit was prepared it had
13 not started drilling. At this point we are actually
14 drilling and have set pipe down to the top of the Mancos
15 formation.

16 The Bear Canyon Unit No. 6 Well in Sec-
17 tion 13 is a proposed well to be drilled in the future.

18 Moving north, in Section 12, the Bear
19 Canyon Unit No. 5 Well is a proposed well to be drilled in
20 the future.

21 The Bear Canyon Unit No. 11 Well, or
22 excuse me, Bear Canyon No. 3 Well, located in Section 11,
23 is currently completing. We are producing to the central
24 tank battery. It has not been formally finalized with the
25 completion report submitted to the OCD but that should be

1 coming shortly.

2 In Section 10 we show the Bear Canyon
3 Unit No. 2 Well that is currently producing. The Bear
4 Canyon Unit No. 2-E is a proposed future well.

5 Moving to the north in Section 3, the
6 Simmons Federal Well is -- has currently been drilled. It
7 is awaiting completion; it's not producing.

8 The Bear Canyon Unit No. 4 Well located
9 in Section 2 is currently completing and I believe it is
10 testing right now, and the Robert English No. 1 Well
11 located in Section 1 has been drilled and is awaiting
12 future completion.

13 Q How soon would you anticipate that the
14 Bear Canyon Unit would be fully developed?

15 A We would anticipate that we will have a
16 well, or at least one well, in each section by about mid-
17 1989. That would assume that we don't drill any dry holes
18 that would change our first plans.

19 Q And at that time all of the acreage
20 within the Bear Canyon Unit would, in fact, be partici-
21 pating.

22 A That's correct.

23 Q Would you now refer to what has been
24 marked as Amoco Exhibit Number Three and identify that,
25 please?

1 A Exhibit Number Three is a schematic
2 diagram of the Bear Canyon central tank battery facilities.
3 We show on here in schematic form the facilities that will
4 be used to test each individual well and meter the gas and
5 actually measure the oil off of the test separator.

6 In addition we show the separators,
7 treaters and tanks that will handle the full field produc-
8 tion.

9 Down in the southern portion of the
10 exhibit we show some compression facilities and dehydration
11 facilities in order to produce the field gas production to
12 sales.

13 Q Can any well in this unit be actually
14 directed to and tested through the test unit indicated on
15 this plat?

16 A Yes. Up in the northeast corner of the
17 exhibit we show a header system. Currently we have some
18 dashed lines indicating flow lines coming from the Bear
19 Canyon Wells Nos. 1, 2 and 3 into that header system and
20 each well that comes into the header system can be individ-
21 ually broken out to run through the test separator by a
22 system of valves. The production going to that test unit
23 would then separate liquids from gas, the gas would actual-
24 ly run through a meter run and then come back down to the
25 compression facilities and into the sales line. The oil

1 from the test unit would go into test tanks located in the
2 tank battery shown over on the northwest portion of the
3 exhibit.

4 Q Mr. Hawkins, if the application is
5 granted Amoco would propose to test each of the wells that
6 are being produced and the production therefrom surface
7 commingled, is that correct?

8 A That is correct.

9 Q And how would -- would you explain to
10 Mr. Catanach exactly how Amoco proposes to conduct the
11 test on each of these wells?

12 A Sure. Right now the facility handles
13 three wells. We presently run each well through the test
14 unit and measure the oil and gas daily from those wells for
15 a period of about ten days in a row. In effect it is a ten
16 day continuous test but monitored daily.

17 At that point in time whichever well is
18 in test will be routed back via the header to the total
19 field facilities and another well will be isolated and run
20 through the test facilities for a period of ten days, et
21 cetera.

22 As we bring more wells on in this field,
23 the number of days available to test will be reduced. We
24 expect to be able to accommodate up to nine wells in this
25 facility and we expect that we will test each well a mini-

1 mum of three continuous days and the production will be
2 measured. The oil production will be gauged on a tank and
3 the gas production actually metered daily during that three
4 day continuous period.

5 Q And that would be the maximum number of
6 wells you would run through the unit.

7 A That's correct.

8 Q And if you had additional wells, then
9 you would have to make arrangements for additional testing
10 facilities.

11 A That is correct. We would either have
12 to add facilities or add additional test facilities to this
13 central battery or construct another battery to accommodate
14 the additional wells.

15 Q And it would be Amoco's intention to run
16 a continuous three day test as opposed to three separate
17 individual day tests, is that correct?

18 A That is correct.

19 Q Now would you go to what has been marked
20 as Amoco Exhibit Number Four and using this exhibit show
21 Mr. Catanach how you would take the test data and use this
22 to calculate the production volumes that would be allo-
23 cated to each well?

24 A On the top portion of the exhibit you
25 can see a table labeled Well and Monthly Production Test

1 Averages.

2 Q Let me ask you before you go on, are
3 these actual figures that are depicted on this exhibit?

4 A No, they are not. They are hypothetical
5 figures that are reasonably representative of the wells
6 that are currently producing and what we would expect pro-
7 duction to be from subsequent wells.

8 Q And the purpose of this exhibit is
9 therefore just to show how you would use the data to com-
10 pute the actual allocation.

11 A That is correct.

12 Q All right, would you review exactly how
13 you would work through this calculation?

14 A As I previously stated, we would have a
15 continuous test period of at least three days. Each day
16 the production would be measured. In effect, we will have
17 three tests minimum back to back. Those tests would then
18 be averaged to determine what the monthly test averages is
19 for each well. We've shown that for Bear Canyon Unit Wells
20 Nos. 1, 2, 3 and 4 and the Simmons Federal, and the numbers
21 that are -- that would calculate or would result from that
22 calculation are shown in barrels of oil per day, barrels of
23 water per day, and MCF per day.

24 We also would record the number of days
25 that each well actually produced.

1 Using that data, then drop down to the
2 table just below that, and we would calculate what the
3 monthly production estimate is for each well. The numbers
4 that you see in the columns labeled oil in barrels and gas
5 in MCF are the result of multiplying the oil daily rate
6 times the number of days produced during the month and the
7 gas daily rate times the number of days production in the
8 month.

9 This calculation will be performed for
10 each well and then the sum for the total number of wells
11 that are producing. This would result in an estimate of
12 what you would expect the monthly production to be based
13 solely on test averages.

14 You also see some columns marked % Con-
15 tribution. What we would calculate there is the percentage
16 that each well contributed to that monthly production es-
17 timate, total volume.

18 As you can see in our exhibit, Well
19 No. -- Bear Canyon Unit No. 1 contributed hypothetically
20 29.1667 percent of the oil and 18.034 percent of gas.

21 We would also at the end of the month
22 record what the actual sales was for all of the wells that
23 are produced. You'll note the numbers just above the
24 monthly production estimate that in this hypothetical case,
25 monthly sales volume was 58,250 barrels of oil; 15,500 MCF

1 of gas, for a total period of 31 days.

2 In order to allocate production that was
3 actually sold, we would take the percent contribution that
4 was calculated for each well of oil, multiply that times
5 the oil sales volume for the month, and we show in a table
6 on the bottom of the exhibit that the Bear Canyon Unit No.
7 1 Well allocated oil volume would be 16,989 barrels of oil
8 and the allocated gas volume would be 2,914 MCF of gas.

9 And this is the procedure that would be
10 used to allocate the production based on well test infor-
11 mation and the number of days produced.

12 Q Is this a standard approach used by the
13 industry for calculating an allocation when production is
14 commingled on the surface?

15 A Yes, it is.

16 Q And have you reviewed this method of
17 allocating production with the BLM?

18 A Yes, we have.

19 Q And what is their reaction?

20 A They were in concurrence with our propo-
21 sal. I would say that the number of days that we indicate
22 that we will test exceeds what they see in a lot of cases
23 and they feel very comfortable with this allocation proce-
24 dure.

25 Q And have you advised Mr. Catanach as to

1 how often Amoco will monitor the test unit and each of the
2 wells?

3 A We would monitor the facilities and each
4 of the wells daily. Actually, we would have a pumper that
5 would attend to each well, inspect it, inspect the casing
6 pressure, inspect the fluid level of each well, and also at
7 the facility check each of the flow line pressures into the
8 header, would gauge the tanks, each of the tanks, daily,
9 and at this point we are currently off-loading to sales on
10 a daily basis, so we have a record of the lack of sales
11 daily.

12 So there are numerous checks and points
13 of identification of data that would tell us that we are
14 producing our operation efficiently and identifying any
15 problem areas in a short period of time.

16 Q Mr. Hawkins, what would be the benefits
17 that would be derived by surface commingling of the pro-
18 duction as you propose in this application?

19 A In this instance it's going to greatly
20 optimize the production operations for these wells; im-
21 proves the efficiency of handling this area; and signifi-
22 cantly reduces the operating cost per well to maintain
23 operations here.

24 The result of all of this is that it
25 will result in additional ultimate recovery from the field.

1 Q In your opinion is the method that Amoco
2 proposes to test and allocate production, will this method
3 result in a fair allocation of production to each of the
4 interest owners in the pool?

5 A Yes, it will.

6 Q Has Amoco attempted to locate and pro-
7 vide notice of this application to all affected owners in
8 the Bear Canyon Unit Area?

9 A Yes, we have.

10 MR. CARR: And, Mr. Catanach,
11 at this time we have copies of receipts from over 90 indi-
12 viduals that are proof of our mailing and also three re-
13 turned letters.

14 We'd be happy to offer those
15 as Exhibit Five, if you desire, to keep in the Commission
16 records.

17 MR. CATANACH: Well, let's do
18 that, Mr. Carr.

19 MR. CARR: All right.

20 Q Mr. Hawkins, in your opinion will
21 granting this application be in the best interest of con-
22 servation, the prevention of waste and the protection of
23 correlative rights?

24 A Yes, it will.

25 Q Were Exhibits Two through Five either

1 compiled by you or prepared under your direction and super-
2 vision?

3 A Yes, they were.

4 MR. CARR: At this time, Mr.
5 Catanach, we would move the admission of Exhibits Two
6 through Five, Five being the return receipts and returned
7 letters.

8 MR. CATANACH: Exhibits Two
9 through Five will be admitted as evidence.

10 MR. CARR: That concludes my
11 direct examination of Mr. Hawkins.

12 MR. CATANACH: Mr. Kellahin.

13

14 CROSS EXAMINATION

15 BY MR. KELLAHIN:

16 Q Mr. Hawkins, let me ask you about the
17 notices. To what extent were you involved in preparation
18 of the notices for the hearing?

19 A I was given the address list by our
20 landman that corresponds to the ownership of all of the
21 parties within the Bear Canyon Unit and those parties in
22 the north half of Sections 1, 2 and 3, and we have --

23 Q And that list is for all the interest
24 owners in the unit and then the offsetting spacing units
25 that are subject to the application?

1 A The lower half of Sections 1, 2 and 3.

2 Q Yes, sir, and how many individuals or
3 companies total up on that initial notice, please?

4 A We had 95 individuals on the list.

5 Q And you got return receipt cards from 90
6 and then two have not come back and three of the letters
7 came back.

8 A We actually did have -- we did some sub-
9 sequent mailing to that to try to make sure that the par-
10 ties who either returned or we did not see any evidence of
11 their return receipt certified card back, subsequent to
12 that we have received one additional green card that is in
13 there, and other than that we have records that we have
14 mailed them out but we have not received those certified
15 cards back yet.

16 Q What was the date and the type of notice
17 sent out for the hearing that we're talking about, Mr.
18 Hawkins?

19 A Oh, a copy of the application that was
20 submitted to the Commission, as well as the address list,
21 and the date, and that's (not clearly understood) but it
22 was significantly before 20 days before this hearing.

23 Q You're not referring to your November
24 21st letter that you sent out to certain of the interest
25 owners in the unit, are you? That's not the notice you're

1 talking about, is it?

2 A I think the -- the notice that we sent
3 was a copy of the application that went to each of the
4 parties on this letter dated October 26th.

5 Q October 26 is the notice, okay.

6 A Well, that's the date of the letter.
7 The mailing date was probably several days after that, but
8 it was --

9 Q I just wanted to understand that this
10 notice is in fact not the letter that you sent out on the
11 21st to Mr. Schalk and to others --

12 A No.

13 Q -- in which you sent them copies of your
14 proposed exhibits.

15 A That letter is a result of a telephone
16 conversation from Mr. Schalk and at his request that we
17 provide him some of the exhibits that we intended to use in
18 our hearing and as a result of some of the questions he
19 asked during our conversation.

20 Q You set forth in that letter what you
21 anticipated to be the exhibits and the proposal by which
22 you would test the wells in order to address the allocation
23 issue.

24 A That's correct.

25 Q Apart from Mr. Schalk, have you received

1 objections from any of the other parties that you've sent
2 notices to?

3 A We have had some discussions with other
4 parties, in particular, Mr. Gallaway, represented here by
5 Mr. Holcomb, we've had several discussions with him con-
6 cerning the allocation and commingling of wells here.

7 I have had a discussion with a repre-
8 sentative from Mr. -- from McIlvain, and that's George
9 Broome. I've had a couple of conversations with him, as I
10 recall.

11 Q Were you involved with or have you at-
12 tempted to administer the surface commingling pursuant to
13 the administrative order issued by the Division in early
14 1988 for the Bear Canyon Unit?

15 A I'm not sure if I understand, but I
16 think if you are asking are we doing what it says we can
17 do, then, yes, I think we are.

18 Q Well, no, my question was whether or not
19 you were familiar with it. It's Administrative Order
20 CTB-334, issued on the 23rd of March of '88.

21 A Yes, I am.

22 Q Are you familiar with that one?

23 A Yes.

24 Q Let me show you a copy of the January
25 7th, '88 request to Mr. Catanach, and then the subsequent

1 approval by Mr. Lemay.

2 A Okay.

3 Q I'll give you a chance to look at that.

4 A Okay.

5 Q Describe for me, Mr. Hawkins, when you
6 first became personally involved in this particular issue
7 on behalf of the unit for Bear Canyon, Bear Canyon Unit.

8 A It was subsequent to this initial re-
9 quest. My involvement came when a subsequent request by
10 our Farmington office to bring in some of these wells that
11 are outside of the unit of different ownership was denied
12 and we were told that we would have to come to hearing for
13 that, and at that point I became involved.

14 Q Are you familiar with Division Rule 309
15 on the surface commingling requirements?

16 A Yes, I am.

17 Q And what's your specific -- without
18 reading it, what's your specific (not clearly understood)
19 allowing you to commingle on surface, production that
20 doesn't have identical ownership?

21 A That's correct.

22 Q Let's look at the approval that Mr.
23 Lemay issued on the 23rd of March, Mr. Hawkins.

24 He says in the center of that production
25 shall be allocated to each lease by well test. All com-

1 mingled production must be of identical ownership, includ-
2 ing working interest, royalty interest, and overriding roy-
3 alty interest.

4 A Yes.

5 Q No confusion about what that requires,
6 is there?

7 A No.

8 Q You have told me that it point you've
9 got three producing wells.

10 A That's correct.

11 Q Let's go back and review the producing
12 wells.

13 The No. 1 Well in Section 15, am I cor-
14 rect in understanding that first sales from that well were
15 in August of 1987?

16 A That's probably about right. I'm not
17 sure of the exact date.

18 Q We've got about a year's worth of pro-
19 duction, then, on the No. 1 Well in 15?

20 A Correct.

21 Q Give me a generalized idea of what that
22 well is currently producing, Mr. Hawkins.

23 A I think the number on our allocation
24 exhibit is fairly representative of what the well is cap-
25 able of producing, roughly 500 to 600 barrels of oil per

1 day and about 100 MCFD.

2 Q All right, on Exhibit Number Four, then,
3 which ones are the hypotheticals?

4 A At this point, Bear Canyon No. -- at the
5 time the exhibit was prepared, Bear Canyon No. 3, Bear Can-
6 yon No. 5, and Simmons Federal No. 1, are completely hypo-
7 thetical.

8 Bear Canyon No. 1 and 2 are reasonable
9 representative of what the wells had produced in the past.

10 Q When we look at the No. 2 Well, that
11 well had first sales in February of this year, did it not?
12 Approximately.

13 A We show that it probably started pro-
14 ducing in around June of this year.

15 Q Have you filed all the production infor-
16 mation on that well with the OCD?

17 A I'm not sure.

18 Q Okay.

19 A I know there is not disbursement being
20 made on the well. We're waiting for the PA to be approved
21 and established, and it will be effective as the date of
22 first production from that well.

23 Q So right now all we have producing is
24 the No. 1 Well by which you're making disbursements.

25 A Sale, all we are selling, the dispersal

1 is No. 1. Actually, sales are made from No. 2 but -- and
2 the production is being commingled and allocated. There's
3 no disbursement being made yet because we know we have to
4 wait for the PA to be approved by the BLM and then to bring
5 in the No. 2 effective the date of its first production.

6 Q All right, now, you're currently, then,
7 commingling production from 1 and 2.

8 A That's correct.

9 Q And we have differences in royalty and
10 overriding ownership for those two wells.

11 A When the PA for No. 2 Well is approved,
12 the ownership will be the same.

13 Q But right now you're currently comming-
14 ling production from those two wells and you have different
15 participations for each of those wells.

16 A That's correct.

17 Q And that's not consistent with Mr.
18 Lemay's order to you not to produce those wells unless you
19 had common royalty and overriding royalty interests.

20 A Which we expect to have very shortly.

21 Q But you don't have that yet.

22 A That's correct.

23 Q Now the No. 3 Well, did you have first
24 sales on April 21st, 1988, from that well?

25 A I don't know the exact date on the first

1 sales for that well.

2 My information is that it was approxi-
3 mately about the same as No. 2 in June. The well was sub-
4 sequently re-entered, so it was off production for several
5 months while it was sidetracked and then we're currently in
6 the completing and testing phase of that. We are actually,
7 you know, commingling that -- those tests with the produc-
8 tion from 1 and 2, and measuring it daily.

9 Q Have you filed any production reports on
10 that well?

11 A Not that I'm aware of.

12 Q How come?

13 A The well hasn't been officially, fina-
14 lized at this point and I'm not aware that any production
15 report has been submitted.

16 Q You said on two different instances when
17 Mr. Carr asked you both at the beginning and towards the
18 end of your testimony, that the benefit as you saw as an
19 engineer for the approval of the application, was that it
20 was going to increase efficiency and add additional ulti-
21 mate recovery to the field, or words to that effect. That
22 was your testimony.

23 A Yes.

24 Q Can you provide us any of your written
25 analyses by which you have made that economic assessment,

1 that you're going to improve ultimate recovery from the
2 field if this application is approved?

3 A I have nothing here that I can provide
4 you; however, I know I can give you some rough idea of
5 where we -- what we think the volumes or numbers that would
6 be involved. Right now if production of individual wells
7 immediately to the west of this area, the Jicarilla 118
8 Lease, I believe it's Northeast Ojito, we are experiencing
9 a \$4-to-5000 per month per well operating cost.

10 Q Let me interrupt you for a minute.
11 Those represent the conventional way to operate an oil
12 well?

13 A With an individual facility for each
14 well.

15 Q You've got a separator at the well, --

16 A A tank.

17 Q -- a tank battery and that -- it's not
18 unfair to characterize that as a conventional way to moni-
19 tor production from an oil well.

20 A That's correct.

21 Q Now when we look at the Bear Canyon
22 Unit, you're producing wells are on pump, are they not?

23 A That's correct.

24 Q And you have a pumper that drives on
25 existing roads to each of those producing wells on a daily

1 basis and checks your pump for you.

2 A That's correct, and measures pressures
3 and fluid levels.

4 Q And these Mancos wells produce a little
5 water volume with the gas and the oil production, do they
6 not?

7 A A very small amount.

8 Q Is there enough water produced from
9 these wells to require you to install the separator at the
10 wellhead?

11 A I don't believe that there's a signifi-
12 cant volume of water here at all. There would have to be
13 some kind of -- if you were going to produce this in the
14 same manner as we do the Northeast Ojito wells you would
15 have to have a separator to separate the gas and oil. You
16 would have to have a tank for the oil. You would have to
17 have a compressor, most likely, to get it -- the gas to
18 sales if there was significant volume.

19 And then, I guess the point I was trying
20 to explain earlier is that the conventional method was
21 costing us \$4-to-5000 per month to operate each of those
22 wells and we would anticipate that a similar cost would re-
23 sult if we had to operate each of these wells in that
24 fashion.

25 Presently we're operating the facility

1 at a total cost of about \$5-to-6000 per month. With three
2 wells that runs us roughly \$1500 to \$2000 per month per
3 well and as we bring additional wells in, we would expect
4 that operating cost to be reduced to about \$1000 a month.

5 Q The difference in the operating costs,
6 are you including the recovery of the capital expenditure
7 for the separator and individual tanks at the wellhead?

8 A No, just the cost to operate the faci-
9 lity.

10 The -- in addition we have some effici-
11 encies in terms of the amount of gas that needs to be used
12 to run the compressors to get gas to sales since there is a
13 central compressor that's used for all wells, and this
14 results in some additional gas sales which all owners would
15 benefit from, less gas used on lease for lease purposes.

16 Ultimately --

17 Q The -- all right, let's talk about the
18 operating costs. Am I correct in understanding that we
19 still have a pumper that goes to the wells on an individual
20 basis daily?

21 A Yes.

22 Q And one of the functions he performs is
23 to make sure all the flow lines are running properly and
24 the pumps work and all that kind of good stuff he does out
25 there in the field.

1 A Right.

2 Q Isn't one of the things the pumper does
3 on a conventional oil well oil well is also to gauge the
4 tanks and make a report as to the production on a daily
5 basis for that well?

6 The fact that he has to make a trip out
7 there on a daily basis is not diminished by the lack of
8 having tanks and a separator on a well by well basis, is
9 it?

10 A It's more timely, I think, he spends
11 more time at each well if you have the individual
12 facilities there and may require more manpower to operate
13 the same number of wells.

14 Q Other than having the pumper stay at the
15 well a little longer to make the calculation or the
16 measurement of the production, what else goes into the op-
17 erating costs that make up this difference between the cen-
18 tral battery system and the individual well measurement
19 system?

20 A Maintenance of the individual facilities
21 at each facility, at each well location, versus at a
22 central point, as well as road maintenance, upkeep for
23 having loading trucks that travel to each of the locations
24 rather than one central point.

25 Q Now, you can, though, move your product

1 to a paved road or to someone -- somewhere else in the unit
2 and still measure it at the individual wellheads, can't
3 you?

4 A I don't think I understand what you're
5 saying.

6 Q You don't have to have the truck go to
7 the wellhead and get the product out of a tank and thereby
8 increase your use of roads. There are other ways you could
9 do that.

10 A You could lay a flow line to produce it
11 to some other point.

12 Q Sure.

13 A Okay.

14 Q Yeah. And you've got all weather roads
15 out there now, don't you?

16 A I'm not sure what we've got in this --
17 how many of these are suitable for --

18 Q Let me talk with you about your method
19 by which you're going to test the wells. Am I correct in
20 understanding that currently you'll produce the well for
21 approximately 10 continuous days for that well and then
22 you'll rotate it to the next well?

23 A With three wells we can accommodate each
24 well for ten days.

25 Q So as you add wells into the rotation,

1 you're going to shorten the continuous test period per
2 well.

3 A That's correct.

4 Q And when we get to nine wells we're
5 going to be testing each individual well about three days.

6 A That's correct.

7 Q So about once a month the well's going to
8 get tested as to its producing rates.

9 A That's correct.

10 Q Let me show you a copy of your November
11 21st letter to Mr. Schalk, Mr. Hawkins.

12 In the last paragraph of your letter by
13 which you sent him your proposed hearing exhibits, you
14 said that in addition we plan to testify that Amoco will
15 obtain at least three 24-hour tests each month on each well
16 to get a representative monthly production test average.

17 A That's correct.

18 Q You said it then, that's your letter.
19 What has changed between the 21st of November to today to
20 cause you to tell us you're going to do something
21 different?

22 A I haven't said anything different. We
23 are going to get three 24-hour tests each month, continuous
24 minimum.

25 When I discussed it with Mr. Schalk on

1 the phone my impression was that we may take these three
2 tests at different points of time during the month. When I
3 discussed it with our representatives who actually operate
4 the field they indicated that we would prefer to run con-
5 tinuous tests because we think we will get a better, more
6 accurate representation of the well's production.

7 Q Let's look at the letter. You're saying
8 three 24-hour tests each month --

9 A That's correct.

10 Q -- is the same as one 72-hour test?

11 A No, it's measured each 24 hours, three
12 days in a row, so you would in effect have three 24-hour
13 tests in one continuous time period.

14 Q Did you tell Mr. Schalk that he was
15 going to get three separate tests over a 30-day period?

16 A I think I told him that we would take
17 three 24-hour tests. My understanding was that they would
18 be taken at different points in time during the month. At
19 that time that was my understanding, the difference being
20 that when I discussed it with our field people to try to
21 answer any questions anyone has, I was told that a contin-
22 uous 3-day test would be more representative, would mini-
23 mize the inaccuracies of a single 24-hour test spread out
24 at different points in time during the month, and they be-
25 lieve it to be a more prudent method of operation.

1 Q What is the degree of accuracy of the
2 three 24-hour tests run in three consecutive days?

3 A I have no way to tell you how accurate
4 or inaccurate it may be. I suspect that it would be fairly
5 representative of the production and the reason I say that
6 is because it's a common, industry-accepted practice, and
7 it's accepted by various state and federal agencies,
8 including the BLM in this instance, and the accuracy --

9 Q Show me --

10 A -- is accepted as reasonable.

11 Q Can you give me an example, Mr. Hawkins,
12 of where you have different ownership interests having it
13 commingled on the surface in something other than this ap-
14 plication you've requested now?

15 A I don't have an example to give you spe-
16 cifically today. We can provide that for you if you would
17 like. There are various units where we have to allocate
18 production from the unit and from wells that have other
19 ownership and that allocation and commingle procedure is
20 very similar to this into a central battery and is accepted
21 by the BLM and the MMS. I just don't have a specific ex-
22 ample to give you right now. I can provide that.

23 Q And it can be done by the Oil Commission
24 when there's unanimous agreement among the owners of that
25 production.

1 A Or when, maybe, in the best interest of
2 all parties in the conservation measure they may elect to
3 approve it.

4 Q If my well is tested on three continu-
5 ous days in a one-month period and that test unfortunately
6 is bad, it's going to take sixty days before I get tested
7 again, is it not, come up in the rotation, I have thirty
8 additional days before I get tested again.

9 A Well, it should be tested on about the
10 same frequency each month, thirty days apart. If there
11 were evidence of a bad test our engineers would use some
12 engineering judgment to eliminate that and re-test the
13 well. If there were any anomalies that were apparent that
14 we needed to test on a greater frequency, we would make
15 provision to do that. If it required to put an additional
16 test separator into the facility, we would certainly consi-
17 der doing that reduce any inaccuracies.

18 We can monitor production from the field
19 daily to determine is any well, in fact, producing signifi-
20 cantly different than it did the day before. We can test
21 the pressures at the wellhead and at the facility daily to
22 see if there's any kind of problem in a flow line. We
23 measure the fluid level daily in these wells to determine
24 if there's any change in producing characteristic. So I
25 think we would be aware of any anomaly very quickly and

1 would be willing to make additional tests during the month
2 to improve the accuracy or minimize any inaccuracy in the
3 production allocation.

4 Q When we look at Exhibit Number Three, am
5 I correct in understanding of the tanks located in the
6 northeast quarter of the display there are three of those
7 -- I'm sorry, two of those set aside for tests?

8 A Currently there are two set aside for
9 tests. We have actually added two test tanks for the
10 Federal Simmons 1 Well and two test tanks for the Bear Can-
11 yon Unit No. 4 Well on the battery in anticipation that we
12 will get an order that will allow us to commingle. At that
13 point those tanks can be used as additional test tanks for
14 -- to accommodate a larger number of wells.

15 Q You've got a total of nine anticipated
16 wells for the capacity of the central battery system?

17 A That's correct.

18 Q Okay. When I look at this am I correct
19 in understanding that we could take production now from the
20 No. 1 Bear Canyon Unit, it will go through the flow lines
21 and you can dedicate that into a test tank?

22 A That's correct.

23 Q What's the problem with having in that
24 northeast quarter of the facility a separate test tank for
25 each of the producing wells and then move it over to adja-

1 cent location and put in a sales tank after you've gauged
2 the tanks?

3 A Could you say that one more time for me?

4 Q Surely.

5 A To make sure I'm following.

6 Q You're doing it for two wells. You have
7 the capacity to separately take product from the wellhead,
8 move it through the flow lines and put it in the test tank.

9 Why don't you just add a new test tank
10 every time you start producing a completed well?

11 A Physical limitation size.

12 Q And that's all?

13 A As well as maybe some reduced efficiency
14 in trying to operate.

15 MR. KELLAHIN: No further
16 questions.

17 MR. CATANACH: Any other ques-
18 tions?

19 MR. HOLCOMB: Bill, I have a
20 few questions.

21 MR. CARR: Go ahead.

22 MR. HOLCOMB: My name is
23 (unclear) Holcomb.

24

25 QUESTIONS BY MR. HOLCOMB:

1 Q Mr. Hawkins, as you initiated this
2 discussion you pointed out that you and I had had numerous
3 conversations over the last month or so. Can you tell me
4 if you concur with the way that, as I understand these
5 conversations went, is early in the month of November, once
6 we received the notification, we called and talked with
7 both you and Mike Cuba and voiced some objection to the
8 surface commingling application, specifically as it addres-
9 ses the inclusion of those acreage tracts outside the unit
10 boundary, is that right?

11 A That's right.

12 Q Through continuing discussions did you
13 not also imply that -- that you would be willing, you
14 thought that you might be able to be willing to exclude
15 those tracts from this application in the north half of
16 Sections 1, 2 and 3?

17 A I indicated that that was an alternative
18 that we had, to exclude the north half of those sections.
19 We don't think that that's in the best interest of the
20 parties involved because it will result in, in our opinion,
21 significantly higher operating costs, reduced efficiency in
22 terms of operating those wells, and probably reduce the
23 ultimate recovery at the end of the life of the well.

24 Q To go ahead and finish that out, you let
25 me know that on the 29th of this month, this last month, is

1 that right, and up -- up till that point in time we were
2 led to believe that there was a reasonable probability that
3 those tracts would be excluded from this application.

4 A Well, I -- I don't think that I tried
5 to lead you to believe that we would exclude those. I
6 think I said we -- there's an alternative that we could
7 possibly pull those out. I know Amoco doesn't prefer to do
8 that and I stated the reason why.

9 Q Changing the subject for a minute, you
10 were asked a few questions here just a moment ago concern-
11 ing the ownership in Section 15 versus the ownership in
12 Section 10, and I believe you indicated that they were the
13 same.

14 I think if you refer to the exhibits
15 that Mr. Cuba presented, that you'll find that there are
16 some overriding royalty interest differences between Sec-
17 tion 10 and Section 15, so in effect we're not in com-
18 pliance then with the BLM letter or the, I believe, the OCD
19 letter that was presented, is that right?

20 MR. CARR: I don't think -- if
21 Mr. Holcomb wants to express his opinion, he can do that,
22 but that's not a question, certainly Mr. Hawkins isn't
23 going to give a legal opinion for Mr. Holcomb at this
24 hearing.

25 Q We talked, or you explained one of the

1 reasons for wanting to do this surface commingling that the
2 benefit, primary benefit would be that there would be an
3 increase in ultimate recovery and the premise for that is
4 that the cost will be reduced and I would assume thereby
5 extending the life of the wells.

6 Do we have any idea of what oil in place
7 is in the Bear Canyon Unit to give us any feel whatsoever
8 of what the reserve levels are?

9 A I don't know that I've got any informa-
10 tion that I can tell you on that. I would base my conclu-
11 sions solely on the difference in operating costs and what
12 an economic limit might be based on those costs, as well as
13 the fact that if we had to individually operate these wells
14 and had to individually put some separate compressors,
15 there would be more field gas used, there would be some re-
16 duction in ultimate recovery in gas, maybe early abandon-
17 ment, in terms of trying to determine how long can you eco-
18 nomically afford to produce that well to sales.

19 So I would -- I think there are several
20 reasons that would lead you to believe that you're going to
21 get increased ultimate recovery and we can speculate and
22 make estimates of that based on today's costs and environ-
23 ment, but that's all it would be, is an estimate.

24 Q The cost component portion of that cal-
25 culation, you referred to the Jicarilla 118.

1 A As a comparison.

2 Q Right, and that was a cost of between
3 \$4-and-5000 a month for each well.

4 A That's right.

5 Q Who operates that field?

6 A Amoco.

7 Q Do we have -- do you have any informa-
8 tion of other operators in the area and what it cost them
9 to operate in that kind of fashion as far as single well
10 facilities as opposed to a central facility?

11 A I don't.

12 Q You also indicated that part of the
13 operating cost component again that would be saved would be
14 in the efficiency of being able to maintain the equipment
15 if you have it centralized, I think is what you (unclear),
16 and there was some concern over road maintenance.

17 How much roads are you maintaining out
18 there right now to be able to sell the product?

19 A I don't know. I couldn't answer that
20 specifically. I'd have to check on that for you.

21 Q Have -- have the problems associated
22 with the road maintenance been associated solely with the
23 transportation of crude oil off the lease?

24 A Again I don't know that I can it's
25 solely that, but I've indicated, or it's been indicated to

1 me that that's one of the primary reasons for upkeep on the
2 roads, yes.

3 Q How many -- do you have an idea of how
4 many days since I believe you said that in August of 1987
5 the Bear Canyon Unit 1 came on production. How many days
6 in let's say the last twelve months has it actually been on
7 production as opposed to being down where you've had to
8 have some remedial work; i.e., put pulling units in there,
9 this sort of thing?

10 A I don't know.

11 Q When you measure oil at the central
12 facility, assuming that it's in a situation as you stated
13 where there's very little water production at this point,
14 how do you measure that through the test separator?

15 A The oil liquid phase goes directly to
16 the test tank and is there gauged and any water that's pre-
17 sent is taken into account at that point.

18 Q And so it's all mechanically gauged.
19 It's not -- you're not employing any net oil computers or
20 anything of this nature?

21 A No, it's a physical measurement gauged
22 by a month.

23 MR. CATANACH: Anything fur-
24 ther?

25 MR. GALLAWAY: Mr. Catanach,

1 would I be permitted to ask -- I was sworn in -- Mr.
2 Hawkins a question or two?

3 MR. CATANACH: Mr. --

4 MR. GALLAWAY: W. A. Gallaway.
5 Mr. Holcomb was --

6 MR. STOVALL: Mr. Gallaway,
7 are you appearing on your own behalf?

8 MR. GALLAWAY: Yes, sir, and I
9 was sworn in.

10

11 QUESTIONS BY MR. GALLAWAY:

12 Q As I understand it now you're producing
13 the Bear Canyon Unit 1, 2 and 3.

14 A That's correct.

15 Q Okay, you're commingling the production
16 from those wells and estimating what they produce.

17 A That's correct.

18 Q Okay, I own a royalty interest under the
19 Bear Canyon Unit No. 2 and don't under 1 and 3, so you're
20 violating the order of March the 21st, 1988, with my oil.

21 MR. CARR: That's an --
22 objection, that's not a question, that 's a statement. Mr.
23 Gallaway is now testifying which is inappropriate during
24 cross examination.

25 Don't respond.

1 MR. CATANACH: Mr. Gallaway,
2 you'll have a chance to make a statement later on when you
3 testify.

4 MR. GALLAWAY: Well, I wanted
5 to bring out that this was being commingled. Maybe I went
6 too far with it.

7 MR. CATANACH: Any further
8 questions of this witness?

9 If not, he may be excused.

10

11 (Thereupon a recess was taken.)

12

13 MR. CATANACH: Call the
14 hearing back to order.

15 Mr. Kellahin, do you want to
16 put on a witness?

17 MR. KELLAHIN: Mr. Examiner,
18 we originally swore Mr. Al Kendrick as our engineering
19 witness for this case but at this time I made the decision
20 that we'll not present his testimony today.

21 What I would like to do for
22 our presentation, separate and apart from a closing state-
23 ment, is to submit to the Examiner correspondence that Mr.
24 Schalk has received from the various other interest owners
25 in the unit that he contacted after receiving notification

1 of the hearing. Some of these responses are addressed to
2 the Commission; some are addressed to Mr. Schalk. I would
3 simply submit them to you along with Mr. Schalk's written
4 objection to this application and we would not present
5 formal testimony at this point.

6 I've asked Mr. Carr if he had
7 any objection to me submitted these letters to you, not to
8 be included in the official record and not to be exhibits,
9 but simply to be utilized as you always do with correspon-
10 dence directed to the Commission about a particular case.

11 He's indicated he has no ob-
12 jection to having you read these and placing them in the
13 case file.

14 We will not mark these as
15 exhibits at this time. I will submit to you, Mr. Catanach,
16 Mr. Schalk's written summary of his objection, to share
17 with Mr. Carr.

18 MR. STOVALL: Mr. Kellahin,
19 and the basis on which these are being submitted, is it
20 your understanding that if an appeal were taken, of course
21 this is a Division case, it would be a de novo, but that
22 they would not be part of a record, any sort of record of
23 this case.

24 MR. KELLAHIN: That's right,
25 they would not be a part of the record and should there be

1 a Commission hearing on this, then we would have the oppor-
2 tunity to meet the evidentiary and procedural requirements
3 for such documents and let Mr. Carr object at that time.

4 MR. CATANACH: Mr. Holcomb,
5 did you wish to make a -- did you wish to testify or make a
6 statement or what did you wish to do?

7 MR. HOLCOMB: I don't think
8 that's necessary. I believe Mr. Gallaway wants to make a
9 statement on his own, testify on his own behalf.

10 MR. CATANACH: Okay.

11 MR. STOVALL: Mr. Gallaway,
12 will you actually be testifying as to facts or are you just
13 going to be expressing your position as an interest owner?

14 MR. GALLAWAY: I'll be testi-
15 fying as to facts of ownership.

16 MR. STOVALL: Okay.

17 MR. GALLAWAY: I'm W. M. Gal-
18 laway of Farmington, New Mexico, and I've testified before
19 the Commission as to qualifications before.

20 MR. CATANACH: Okay, you may
21 proceed, Mr. Gallaway.

22 MR. GALLAWAY: Under Exhibit
23 Two of the wells outlined, they show a well in Section 1 as
24 English No. 1. That is the Robert English No. 1.

25 I own 20 percent working in-

1 terest in that well and 6-1/2 percent override.

2 I had approximately 1500 acres
3 in this general area and when the Bear Canyon Unit was
4 formed I understood the buffer zone between the Jicarilla
5 Reservation and the Bear Canyon Unit, I specifically out-
6 lined with Amoco that in no way did I want to participate
7 in the Bear Canyon Unit in any way.

8 Now it comes to me that they
9 want to meter the oil on a 72-hour basis, and the gas, and
10 put it into a central system with the Bear Canyon Unit. I
11 object to this.

12 The Robert English Well is
13 very accessible off Highway 95 north of Lindrith and has a
14 good road into it of approximately 4000 feet. I feel this
15 oil can be handled in a very economical way and the same
16 road could be used as a workover rig (not clearly
17 understood.)

18 I operate one Mesaverde well
19 inside of the Unit in the west half of Section 10.

20 I operate another Mesaverde
21 well in Section 9 of 26, 2, and another Mesaverde well in
22 Section 5.

23 My operating costs on each
24 individual well runs approximately \$250 a month, so you can
25 see that my costs are not near what Amoco is.

1 My interest in this section
2 was originally farmed out to Hixon. They have sold out to
3 Amoco. Under my agreement with Hixon I have a carried in-
4 terest to the tank batteries. I don't feel that I should
5 be participating in a lot of other expense other than what
6 we originally agreed to do.

7 I also own other overrides in
8 the Bear Canyon Unit and Mesaverde rights in the Bear
9 Canyon Unit.

10 If Mr. Carr and Mr. Kellahin
11 would like to ask me some questions, I'll be happy to
12 answer them to the best of my ability.

13 MR. CATANACH: Mr. Carr, do
14 you have any questions?

15
16 QUESTIONS BY MR. CARR:

17 Q Mr. Gallaway, the wells that you operate
18 in the Unit, those are Mesaverde wells?

19 A Mesaverde. One of them has a pumpjack
20 on it.

21 Q Only one of them has a pumpjack on it?

22 A Yes.

23 Q The others are flowing?

24 A They are flowing oil and gas.

25 Q Now you have not only that interest in

1 this acreage but you've got a royalty interest in the
2 Mancos formation in the Gavilan Mancos Pool, isn't that
3 right?

4 A In the Bear Canyon Unit as well as out-
5 side of the Bear Canyon Unit.

6 Q Is that -- within the Bear Canyon Unit,
7 is that royalty interest ownership that you possess com-
8 mitted to the Unit? Do you know that? Or not?

9 A No. They're overriding royalties. They
10 are not committed to the Unit.

11 Q Are they only overrides?

12 A Only overrides. My leases were Federal
13 leases in the area.

14 Q Now, let me ask you, your concern, as I
15 understand your testimony, is about the north half of Sec-
16 tion 1 and you didn't want that acreage in the Unit, is
17 that correct?

18 A I don't want the production from that
19 well measured and handled by the Unit.

20 Q Isn't your concern that you want to be
21 sure you get your fair share?

22 A That would be my concern.

23 Q And you want to be certain that what is
24 done is accurate.

25 A Since I operate wells and gauge them,

1 take care of them, I understand the procedures in handling
2 oil and gas wells.

3 Q And what you want to do is be certain
4 that you get your share of production from that particular
5 well based on your ownership in it.

6 A Yes.

7 Q And you are concerned that under your
8 lease with Hixon, that you don't want to be burdened over
9 and above what you agreed to be burdened with in that par-
10 ticular lease to Hixon, isn't that right?

11 A Right. Right.

12 MR. CARR: That's all I have.

13

14 QUESTIONS BY MR. KELLAHIN:

15 Q Mr. Gallaway, you heard Mr. Hawkins ex-
16 planation of the procedure he would go through to handle
17 production in the Unit and have it measured then on a
18 testing system at the central battery? You heard all that
19 testimony?

20 A Yes, I did.

21 Q Based upon your knowledge and experience
22 in producing wells in the basin, do you find that procedure
23 acceptable to you?

24 A I wouldn't attempt that procedure where
25 there's different ownership.

1 Q Why not, sir?

2 A Well, because I think you're headed for
3 trouble.

4 Q In what particular way?

5 A Well, I think any owner in any partici-
6 pating area, you would be subject to question about the
7 production from a particular well and there's been many
8 lawsuits over this type of thing.

9 Q You currently are entitled to an over-
10 riding royalty on production attributable to the No. 2
11 Bear Canyon Well?

12 A Yes, sir.

13 Q And that results from your interest in
14 Section 10?

15 A Yes.

16 Q Mr. Hawkins told us that that production
17 currently is being commingled with production from the Bear
18 Canyon No. 1 Well in 15. Did you also hear that testimony?

19 A Yes, I did.

20 Q Is that acceptable and agreeable to you?

21 A No.

22 Q Why not, sir?

23 A I'd just rather have my interest out of
24 what I produce rather than leave it up to somebody else to
25 estimate what I produce.

1 Q Other than your interest in Section 1
2 and the interest in Section 10, do you have any other in-
3 terest in the acreage shown on the Exhibit A-3 that
4 involved the Mancos formation?

5 A Yes, I have some interest in -- also, in
6 Section 2 and 3, I believe.

7 Q And is that acreage that's been dedi-
8 cated to the unit?

9 A No.

10 Q All right, in Section 2, what interest
11 do you have?

12 A I would have to estimate what was as-
13 signed in 2 and 3, the acreage assigned in them, and I had
14 the entire 320 I held out in 1.

15 Q You said you had experience as an indi-
16 vidual that was accustomed to handling and measuring pro-
17 duction from oil and gas wells?

18 A Yes.

19 Q Would you describe for us what has been
20 your experience?

21 A Well, the way we produce most of the oil
22 wells that I handle, are on individual tank batteries. We
23 have to maintain a road to get the pumper in there, anyway.
24 And occasionally you have to do maintenance on a road to
25 get your oil trucks in there, but normally if you can get a

1 rig in there you can get an oil truck in there and on an
2 oil well you're certainly going to be working on it.
3 You're going to have to maintain a fairly decent road to
4 get a rig in there, so you can get an oil truck in there.

5 Q You do this for yourself as well as for
6 others, operate wells?

7 A Yes, I do.

8 Q And they're in the basin, are they?

9 A Yes.

10 Q And they involve oil production that
11 also produces gas from those wells?

12 A Yes, some of them do produce casinghead
13 gas.

14 Q And the conventional way by which that
15 production is measured and monitored is to do it at the
16 wellhead?

17 A At the wellhead.

18 Q Put the product in the tank and the pum-
19 per goes and engages the production and reports it?

20 A That's true. As I understand the Unit
21 and was familiar with it from its original existence,
22 there's quite a lot of Federal land in there and then there
23 is numerous individuals that own small percentages of
24 minerals, which would not be here today and wouldn't know
25 what they were, but the Federals probably do not have any

1 objection but the objections would be the overriders and
2 the small mineral interest owners.

3 Q The Federal royalty for Federal acreage
4 is going to be the same for all Federal leases in the unit.

5 A Everywhere; everywhere, but being fami-
6 liar with these people that live in the Lindrith area and
7 the ownership of the mineral interest in the Bear Canyon
8 Unit, there's a lot of small individuals that own small
9 tracts and I think they would object when it became common
10 knowledge.

11 Q You're talking about the Federal Unit.
12 I'll show you Exhibit A-Three, Mr. Gallaway, and Mr. Cuba
13 shows that in the area there are Federal lands comprising
14 38 percent and patented or fee lands of 61 percent?

15 A Yes.

16 MR. KELLAHIN: Thank you, Mr.
17 Gallaway. No further questions.

18 MR. CARR: I have one.

19

20 QUESTIONS BY MR. CARR:

21 Q Mr. Gallaway, do you recall having exe-
22 cuted a ratification and joinder to the Bear Canyon Unit?

23 A Yeah, I did --

24 Q And it is your --

25 A -- after much deliberation.

1 Q And it's your opinion that that didn't
2 include your overriding royalty interest, is that how I
3 understand your testimony?

4 A As far as I am concerned, I don't know.
5 I don't know if I can answer that, Mr. Carr. I don't know
6 how to answer that. I thought it included the working in-
7 terest. I did, since you bring this up, I excluded 320
8 acres of the Mesaverde rights in the Bear Canyon Unit, and
9 they have the rest of the Mesaverde rights in the Bear Can-
10 yon Unit.

11 MR. CARR: That's all I have.

12 MR. CATANACH: Any other
13 questions of this witness?

14 If not, he may be excused.

15 Are there any other parties
16 that wish to present testimony at this time?

17 Okay, then we'll go with
18 closing statements at this time.

19 Mr. Kellahin, I'll let you go
20 first.

21 MR. KELLAHIN: Mr. Examiner,
22 very briefly, Amoco has sought an exception from a long
23 established, well-founded rule of the Division which al-
24 lows surface commingling only in those instances where all
25 the working interest owners, royalty owners, and overrid-

1 ing royalty owners have agreed to allow that to occur.

2 The rule is founded in a good,
3 basic, fundamental fact and that is when you introduce the
4 element even as sophisticated as engineers as we have,
5 there's a human element entered into the proposition where
6 you're gauging things by a central metering system and
7 testing the wells periodically as to their share of pro-
8 duction. It's a great comfort to people like Mr. Gallaway
9 and Mr. Schalk to have a mechanical measurement of produc-
10 tion at the wellhead. That is not anything unusual, uni-
11 que or unknown in our industry. That, in fact, is the nor-
12 mal, conventional, traditional way of handling this produc-
13 tion.

14 Mr. Hawkins tells us that the
15 reason behind the application is that it's going to save in
16 his estimate the operator and the working interest owners
17 some money.

18 I invite you to examine your
19 statutory obligations in this case and I have looked
20 through the rule book and I don't find anything in here
21 that says the Commission needs to exercise any kind of jur-
22 isdiction to save Amoco or any other unit operator some
23 money. That is not the definition of waste in this book
24 nor in any other rule or regulation of this Commission.

25 You sometimes can back your

1 way into a successful argument on that point if you can
2 demonstrate that in your unit you have only marginal sal-
3 vage production and you need to save some money in metering
4 your wells and in compression facilities, thereby extract-
5 ing additional reserves that you wouldn't otherwise re-
6 cover. This is certainly anything but a salvage operation
7 when we look at Mr. Hawkins' tabulation and we find the
8 Bear Canyon No. 1 Well is producing in the range of
9 5-to-600 barrels of oil a day. This is a fine unit with
10 fine wells and if Amoco can't bear the expense of producing
11 these fine wells, then maybe we need another operator, but
12 we certainly don't need central point metering, particular-
13 ly when they choose to do so in direct violation of the
14 rule where we have areas that are not common between wells.

15 When you look Section 14, the
16 McIlvain interest in 14, Mr. Cuba has told us that that
17 spacing unit for the No. 8 Well is going to involve differ-
18 ent people and different percentages than the other wells
19 hooked into the common metering system

20 You just can't do it. The
21 risk is too great for a mistake. The risk of liability to
22 the mineral owners is too great. We just can't go forward
23 with this kind of thing, Mr. Examiner, and the only way you
24 make it work is where you have common ownership within the
25 Unit, and we find out from Mr. Cuba we don't, even within

1 the Unit have that commonality of ownership.

2 We invite you to look at he
3 administrative order. Amoco was specifically told not to
4 commingle production in the unit unless they had identical
5 percentage participation in unit wells for not only working
6 interest owners, not only royalty interest owners, but
7 overriding royalty interest owners.

8 And Mr. Gallaway is an example
9 of an interest owner that owns an override in the No. 2
10 Well, doesn't share in the No. 1 and No. 3, and I invite
11 you to examine that administrative order because I conclude
12 they're in violation of the terms of that administrative
13 order.

14 We examined with Mr. Hawkins
15 what the alternative solutions were and I suggested to him
16 it might be so simple as putting additional test tanks at
17 the common battery. He's got two already. He can add a
18 few more, And his response to me, he wasn't sure he had
19 enough acreage in the battery.

20 Amoco controls the Unit. They
21 have the right to utilize as much surface in that Unit as
22 they need. I invite Mr. Hawkins to move the fence over and
23 put a couple more tanks in there and separately meter this
24 production.

25 The justification he has, that

1 it's going to save ultimate recovery, increase it, he said
2 it was speculative in response to Mr. Holcomb's question.
3 He said he couldn't put a number on it; doesn't have a
4 clue.

5 Amoco presents you with a
6 case, Mr. Examiner, that I see no alternative for you but
7 to deny, and you do so with the knowledge that you're pro-
8 tecting the correlative rights of the Schalks, the McIl-
9 vains, and the Gallaways of that unit.

10 Thank you.

11 MR. CATANACH: Mr. Pearce?

12 MR. PEARCE: If I may very
13 briefly, Mr. Examiner. Mobil is here as the owner of
14 various interests in the Gavilan Mancos Pool and Mobil is
15 one of those parties that spent a great deal of time be-
16 fore the Division talking about the Gavilan Mancos Pool.

17 We are concerned that if sur-
18 face commingling is allowed, that the order provide for as
19 accurate testing of production as possible. All of the
20 parties in the Gavilan are still out there trying to gather
21 as much information as they can about that reservoir. We
22 think the more lengthy the test and the more numerous the
23 tests, the more reliable the information will be and we
24 think that will be of benefit to all the parties in the
25 Gavilan in the future. We certainly are interested in the

1 specifics of how long the tests are and gas, oil and water
2 production, and having the total Unit production reported,
3 and as I indicated, the more and longer the test periods,
4 we think the more benefit everyone will receive if surface
5 commingling is allowed.

6 Thank you.

7 MR. CATANACH: Mr. Holcomb,
8 do you have any statements that you'd like to make?

9 MR. HOLCOMB: I don't think I
10 have anything.

11 MR. CATANACH: Mr. Gallaway?

12 MR. GALLAWAY: Nothing, thank
13 you.

14 MR. CATANACH: Mr. Carr.

15 MR. CARR: May it please the
16 Examiner, Amoco is before you today as the operator of the
17 Bear Canyon Unit. They're seeking your approval of surface
18 commingling because it will increase the efficiency of the
19 Unit; it will therefore reduce costs; it will increase ul-
20 timate recovery, preventing waste; and it will protect
21 correlative rights.

22 As the operator of the Unit we
23 stand before you with people inside the Unit complaining
24 about it, Mr. McIlvain; people outside the Unit complaining
25 about it, Mr. Gallaway; and people with no interest in the

1 Unit at all giving us their opinion, Mobil.

2 But I think it's important
3 when a case comes before you to remember that they come
4 before you in some sort of structuring, within some frame-
5 work, and you're to look at it based on the issues that are
6 before you and the evidence in the record.

7 One of Mr. Kellahin's oldest
8 tricks is when he has no case to come in and talk about
9 things that are not in issue, and I will tell you right now
10 that whether or not Amoco was in compliance with the prior
11 administrative approval to surface commingle is not the
12 question that 's presented to you here today, and I will
13 also tell you that even though Mr. Gallaway can't remember
14 what his ratification of the Unit entailed, that Amoco
15 stands before you convinced we are in full compliance with
16 that order but that it is not the issue that you're asked
17 to decide.

18 When you don't have a case you
19 start squabbling over things like whether you're going to
20 have a 72-hour test and break it into three parts and call
21 it three 24-hour tests, and whether running it consecutive-
22 ly or breaking it up and running it at different intervals
23 is the issue. But that's not the issue.

24 The issue here is whether or
25 not what we propose is warranted on this record; will it

1 prevent waste; will it protect correlative rights. So
2 let's look at the record.

3 Nobody's testified here today
4 but Amoco and Mr. Gallaway and the real underlying ques-
5 tion in this whole thing is whether or not what we propose,
6 whether or not that will increase recovery from this unit
7 or not, and the only evidence in the record is that it's
8 going to reduce costs and it is going to ultimately in-
9 crease recovery thereby preventing waste on that alone.

10 You have to grant the appli-
11 cation if you stay within the framework of the statutes
12 under which you're authorized to act.

13 Furthermore, we have talked
14 about the cost savings and Mr. Kellahin says, "Oh, ho, if
15 Amoco can't pay for this maybe we need another operator,"
16 bull shit. Pardon me, but the issue isn't what Amoco can
17 pay. That's begging the question and trying to derail this
18 like nothing I've even heard Mr. Kellahin before say.

19 The question is whether these
20 savings will accrue to the Unit and production will ulti-
21 mately be increased and there's nothing in the record that
22 says that this will not be efficient. In fact, to the con-
23 trary. The testimony is that it will increase efficiency
24 of the Unit.

25 Mr. Gallaway doesn't like it.

1 Mr. Gallaway says you'll be subject to question or a lot of
2 lawsuits on it. He never said what we propose is not ac-
3 curate.

4 We're before you today with a
5 proposal that will increase the efficiency of this Unit,
6 will prevent waste, will benefit all interest owners by
7 reducing cost and when you look at the issues before you
8 and weigh those in the context of your statutory charge,
9 you have no alternative but to approve this Unit and ap-
10 prove this proposal for surface commingling.

11 MR. CATANACH: Is there any-
12 thing further in Case 9552?

13 If not, it will be taken un-
14 der advisement.

15
16 (Hearing concluded.)
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C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9552,
heard by me on December 7 1988.
David R. Catamb, Examiner
Oil Conservation Division