

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

24 October 1986

COMMISSION HEARING

IN THE MATTER OF:

Application of Benson-Montin-Greer CASE
Drilling Corporation for statutory 8952
unitization, Rio Arriba County, New
Mexico.

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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I N D E X

ALBERT R. GREER

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MR. STAMETS: And we will call last Case 8952.

MR. TAYLOR: The application of Benson-Montin-Greer Drilling Corporation for statutory unitization, Rio Arriba County, New Mexico.

MR. CARR: May it please the Commission, my name is William F. Carr, with the law firm Campbell & Black P. A. of Santa Fe. We represent Benson-Montin-Greer Drilling Corporation in this matter.

I have one witness, Albert R. Greer, who has previously been sworn and qualified in each of the two preceding cases.

I would request that the record reflect that Mr. Greer remains under oath and has qualified as an expert petroleum engineer with experience in the subject area.

MR. STAMETS: The record will so show.

ALBERT R. GREER,
being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

1 DIRECT EXAMINATION

2 BY MR. CARR:

3 Q Will you state your full name and place
4 of residence for the Commission, please?5 MR. STAMETS: Oh, I'm sorry,
6 are there other appearances?7 MR. BLANDFORD: Mr. Chairman,
8 I'm David Blandford, Mesa Grande Resources.

9 MR. STAMETS: Sorry, David.

10 Q Will you state your full name and place
11 of residence for the record, please?

12 A Albert R. Greer, Farmington, New Mexico.

13 Q Mr. Greer, you're the -- represent the
14 applicant, Benson-Montin-Greer Drilling Corporation in this
15 matter?

16 A Yes, sir.

17 Q Will you please state for the Commission
18 what Benson-Montin-Greer Drilling corporation seeks with
19 this application?20 A Yes, sir. We are asking the Commission
21 to statutorily unitize the outstanding interests in the Can-
22 ada Ojitos Unit insofar as they cover the zone or formation
23 of the West Puerto Chiquito-Mancos Pool, Oil Pool.24 Q Will you summarize for the Commission the
25 events which have resulted in today's hearing, lead up to

1 today's hearing?

2 A Yes, sir. One of the owners within the
3 unit, Mountain States Natural Gas Corp., has some scattered
4 tracts on the west side of the unit that have caused us a
5 considerable amount of additional time and effort in conduc-
6 ting our operations. An example is the case we just heard,
7 in which we had to force pool them because we cannot estab-
8 lish communication with them and each time that we're ready
9 to drill well on a proration unit in which Mountain States
10 has a tract it's necessary to force pool, and it's a little
11 different than an ordinary forced pooling situation.

12 Under the current regulations of the
13 Bureau of Land Management a well that is force pooled within
14 the Canada Ojitos Unit, if the results of that well show
15 production and the well is deemed to be in communication
16 with the producing reservoir in the Canada Ojitos Unit, then
17 if this is a Federal land tract, which they always are, the
18 lessee is required to commit his interest to the -- to the
19 unit agreement, and this is a long, involved process. The
20 last well we completed in February, the participating area
21 expansion should be effective February 1st, we made timely
22 application to the Bureau of Land Management to do this but
23 it's just one of those things that takes more paperwork and
24 time than ordinarily is involved in matters of this kind and
25 as of now, eight months later, we still don't have their ap-

1 proval.

2 In the meantime we have the problem of
3 distributing production income from that well, as well as
4 the rest of the unit. The Minerals Management Service, who
5 is part of the Department of Interior, who oversees the pay-
6 ment of royalties, wants us not to distribute royalty based
7 on an expansion of the participating area until the Bureau
8 of Land Management has approved it, and the Bureau of Land
9 Management, if they're slow in approving it, then we're sev-
10 eral months late in having a correct distribution, and so we
11 make an arbitrary distribution and then we have to go back
12 and correct it.

13 What I've done in the past is assume that
14 the Bureau of Land Management will in time approve the ex-
15 pansion as we've asked for it and made the distribution that
16 way and if they do go ahead and approve it, then we don't
17 have any correction to make.

18 If they don't approve it, then we're in a
19 problem and we have to go back and correct it.

20 There are hundreds of owners within the
21 unit. It's not quite as bad now as it was when the windfall
22 profits tax was in effect, but it's still an accounting
23 nightmare, and the Bureau of Land Management has suggested,
24 it's as much a problem for them as it is for us, that we try
25 to -- to cover all of these interests insofar as they apply

1 to the Niobrara member of the Mancos formation, that zone
2 that forms the West Puerto Chiquito Oil Pool, be handled by
3 statutory unitization so that we will no longer have to --
4 to worry with these each time we want to drill a well in one
5 of these sections, and they won't have to worry with it,
6 either.

7 So that's the reason why we're asking.

8 Q Mr. Greer, are you familiar with the Sta-
9 tutory Unitization Act?

10 A Yes, sir.

11 Q Have you prepared certain exhibits for
12 presentation to the Commission today?

13 A Yes, sir.

14 Q Would you refer to the brown book, Exhi-
15 bit Number One, and direct your attention first to the index
16 map behind Tab A, and I would ask that you review that for
17 the Commission?

18 A Yes, sir. This is a structural contour
19 map contoured on 200 foot intervals through the center of
20 the map with the exception of the dashed line which is a
21 100-foot contour interval. We needed that to show the
22 Gavilan nose on the west side of the map.

23 Colored in little red squares is the
24 acreage of Mountain States Natural Gas Corp., in which that
25 company owns a 1/2 interest in those scattered tracts.

1 We show a north/south shaded area through
2 those tracts, which we have from time to time hoped, and I
3 think it may be as much wishful thinking as anything, that
4 there is a permeability restriction through there, tending
5 to restrict the flow of oil and gas from east to west. The
6 tracts are on both sides of that possible restriction.

7 We show the Third Expansion Area identi-
8 fied within the Canada Ojitos Unit on this plat, and we keep
9 that identified separately for a number of reasons. We have
10 to report separately to the Department of Energy on -- or
11 have agreed under an order from them to keep that production
12 separate since it -- since production from these lands are
13 Tier III oil compared to Tier I oil in the rest of the unit. ✓

14 Q Does this map also show the existing
15 wells on the unit?

16 A Yes, sir, the injection wells are identi-
17 fied with triangles. Producing wells have the circles
18 filled in that produce from the Niobrara member of the Man-
19 cos. Some of the producing wells on the east side, shown to
20 be producing, are observation wells or temporarily suspended
21 until we accelerate our gas cycling program, at which time
22 we'll probably put them back on production.

23 Q Mr. Greer, would you now go to the second
24 map behind Tab A and identify this and review it, please?

25 A This is an ownership plat, Exhibit A,

1 covering the entire unit, and we have indicated here land
2 status. Federal land is blank. State land has the diagonal
3 cross hatching, and patented land has the stippled design.

4 On here we show again the Mountain States
5 tracts in which they own a 50 percent interest, and perhaps
6 at this time we might call attention to -- to one other
7 tract, Tract 8 in the southwest part of the map, Tract 8 in
8 the Third Expansion Area, in the east half of Section 6,
9 Township 24 North, Range 1 West.

10 The ownership of that tract has been di-
11 vided up 3/4 to Northwest Pipeline, 1/4 to Dugan. Dugan has
12 committed his 1/4th interest to the unit. Northwest Pipe-
13 line has just this month, under an agreement with Dugan, ✓
14 committed its interest to the unit agreement. The joinders
15 have been forwarded to the Bureau of Land Management and if
16 all goes through as normally does, then Tract 8 will be com-
17 mitted under normal unit procedures effective November 1.

18 If for some reason it is joined that way,
19 then we would expect Tract 8 to be affected by this order
20 and to be committed to the unit agreement, the same as any
21 other outstanding tract.

22 Q Mr. Greer, are there any other interest
23 owners in the Canada Ojitos Unit that would be subject to
24 the statutory unitization application?

25 A Yes, sir, we have them identified later.

1 Perhaps while we're looking at this map --

2 Q Okay.

3 A -- I might point out the interest of
4 Mountain States. It's a 50 percent interest in the 320-
5 acres colored here, which, after Tract 8 is brought into the
6 unit, the Mountain States acreage is brought into the unit,
7 will constitute about a 0.311 percent; that's 0.311 percent ✓
8 of the total unit.

9 Q And the other small interest owners that
10 will be affected will be set out later on?

11 A Yes, sir.

12 Q What formation is being unitized?

13 A It's the formation of the West Puerto
14 Chiquito Oil Pool, the Niobrara member of the Mancos. ✓

15 Q Would you refer to the log sections
16 behind Tab B and just review those at this time?

17 A Yes, sir, these are type logs of the
18 wells we've used in the past to identify this particular
19 zone. The Niobrara member is set out in the center of the
20 type logs.

21 That's the zone that we ask be
22 statutorily unitized.

23 Q In your opinion has the portion of the
24 reservoir which you propose to unitize been reasonably
25 defined by development?

1 A Yes, sir. Perhaps we should take a look
2 at Tab A --

3 Q Okay.

4 A -- and talk about --

5 Q Okay. The first plat behind Tab A?

6 A The first plat, yes, sir.

7 Q Okay.

8 A It's a rather large unit. Production has
9 been found over the unit from north to south and east to
10 west; production offsetting it to the north; production
11 offsetting it to the west; and in the last expansion of the
12 -- of the unit, the Third Expansion, all of those lands were
13 brought in at one time and although there's not a well on
14 every section, we believe that generally the -- as outlined,
15 the lands belong in the unit, either for production, for
16 injection, or necessary for unit operations.

17 Q And you're proposing that the area to be
18 statutorily unitized will be the same as the current unit
19 participating area.

20 A Yes, sir.

21 Q Okay. Would you now go to Tab C and
22 identify for the Commission the documents contained behind
23 that tab?

24 A Yes, sir, in Tab C the white sheets show
25 the basic unit agreement, which was effective the first

1 of April, 1963.

2 The yellow sheets at the last three pages
3 under this section are an amendment which was effective the
4 first day of January, 1969, and that particular amendment is
5 one that -- that allowed us to bring into participation
6 lands which were not proven to be productive in paying quan-
7 tities. The standard unit agreement for Federal lands, of
8 which this is a standard exploratory agreement, carries the
9 language that participating areas will be formed of lands
10 reasonably proven to be productive in paying quantities.

11 In this instance we needed to bring into
12 participation some part of the gas cap and -- where gas in-
13 jection wells would be located, which would not be consid-
14 ered commercial wells. On of our best injection wells made
15 about five barrels a day after -- after frac treatment and
16 would not have been considered commercial. We needed that
17 well for an injection well and so the unit agreement was --
18 was amended then to include in a participating area lands
19 necessary for unit operations, whether they be commercial,
20 proved to be commercial in paying quantities or not.

21 And that's what this amendment does.

22 Q Are you currently conducting pressure
23 maintenance operations on the unit?

24 A Yes, sir, we commenced pressure mainten-
25 ance in 1968 and have continued without interruption since

1 then.

2 Q Does the unit agreement set out the basis
3 for participation of the various interest owners in the
4 unit?

5 A Yes, sir. The unit agreement, along with
6 the approval of the Department of Interior, and as -- as
7 agreed to by the Oil Conservation Division and the State
8 Land Office, and fundamentally its equities are based on --
9 on straight acreage with the exception of the gas cap area, ✓
10 which carries approximately a 1/6th weighting factor, so ✓
11 lands within the unit, the production costs and income are
12 allocated to the various owners based on the weighted --
13 their interest in the weighted acres of each tract.

14 Q In your opinion does this formula allo-
15 cate production to the separately owned tracts in the unit
16 area on a fair, reasonable, and equitable basis?

17 A Yes, sir.

18 Q Would you now refer to the document be-
19 hind Tab D in Exhibit One, identify this and review it,
20 please?

21 A Under Tab D is the unit operating agree-
22 ment, which was entered into -- the original end agreement
23 was amended by this agreement, which was entered into in
24 1981.

25 Q Does the operating agreement outline the

1 provisions for supervision and management of the unit area?

2 A Yes, sir.

3 Q Does it define the rights and duties of
4 the parties?

5 A Yes, sir.

6 Q Does it show how the investment costs are
7 to be shared among the interest owners in the unit?

8 A Yes, sir.

9 Q Does it also establish a voting proce-
10 dure?

11 A Yes, sir.

12 Q And what basically is that procedure?
13 What is required?

14 A For most unit operations a vote of 65
15 percent of the committed working interest is required to ap-
16 prove any particular expenditure or operation, with the ex-
17 ception of pressure maintenance, and then I believe that re-
18 quires a 75 percent vote.

19 Q Does the operating agreement also set
20 forth Accounting procedures showing how the various costs
21 will be allocated and paid?

22 A Yes, sir.

23 Q And otherwise is the operating agreement
24 a standard agreement in the industry?

25 A It's pretty much standard. We have a few

1 special provisions to take care of some of the inequities
2 that exist in some of the standard exploratory agreements,
3 but basically it's -- it has standard provisions.

4 Q If statutory unitization is approved pur-
5 suant to this application, will the unit continue to be
6 operated under the same unit agreement and unit operationg
7 agreement?

8 A That would be our recommendation, yes.

9 Q Would you now refer to the documents be-
10 hind Tab E of Exhibit Number One and identify these for the ✓
11 Commission, please?

12 A These show the current expense interests
13 of the various parties within the unit agreement, which is
14 determined by weighting of the weighted acres between the
15 twelfth expanded participating area and the lands added by
16 the fifteenth -- or through the fifteenth expansion in the
17 Third Expansion Area.

18 The totals are shown on the two righthand
19 columns, the net acres, net weighted acres accruing to each
20 participant and the corresponding percent.

21 All of the owners except M. J. Harvey
22 have entered into a pooling agreement which also describes ✓
23 and shows how their interests were pooled.

24 Harvey's interest comes in strictly under
25 the terms of the unit agreement procedures.

1 Q And Harvey is not an interest that would
2 be forced into the unit if the statutory unitization appli-
3 cation is granted?

4 A No, sir, he's already voluntarily joined
5 the unit, paid his cost, and is an owner in good standing. ✓

6 Q Would you now go to the documents behind
7 Tab F in this exhibit and review those?

8 A This is just included for statistical in-
9 formation as to how the -- the acreage between the second
10 expanded unit area and the Third Expansion lands are
11 weighted together to determine the total unit acreage.

12 Q The pink sheets in this section?

13 A The pink sheets show the -- they're taken
14 from Exhibit B to the unit agreement. They simply show a
15 breakdown of ownership within -- within the Third Expansion.

16 Q And then the last sheet in that section?

17 A The last sheet is just an identification
18 of some of the different ownership groups. The ownership is
19 different as to these groups and rather than show on the
20 previous exhibits each of these parties names each time, we
21 just identify them by group.

22 Q Okay. Mr. Greer, would you now go to the
23 information contained behind Tab G?

24 A This shows the same kind of information
25 for the second -- the lands included in the unit through the ✓

1 Second Expansion.

2 Q Now I would direct your attention to the
3 material behind Tab F in Exhibit Number One and I'd ask you
4 first to identify this and then review it.

5 A I thought we went through F and G.

6 Q I'm sorry, I meant H. I'm sorry.

7 A H. Okay, under Tab H we have two sheets.
8 One is a summary sheet for Federal land; the other, the
9 green sheet, is a summary sheet for fee lands.

10 In the Federal land within the Second Ex-
11 pansion area, there is one 80-acre tract which is still out-
12 standing. That is Tract -- Tract 134, and I thought I had
13 the page number for that -- Page 13 of the blue sheets. ✓

14 This shows under the serial number of the
15 lease the serial number and then in parentheses says "under
16 appeal", lessee of record Duncan Miller.

17 Somewhere over the years the -- Duncan
18 Miller failed to secure his appeal with the Department of
19 Interior, and so they declared that lease open again, and we
20 have asked that it be put up for sale; supposed to come up
21 for sale in February of 1987.

22 It's an 80-acre tract in the gas cap
23 area; has a weighting which reduces its net weighted acres
24 to 13.04. It represents approximtely .025 percent of the
25 areas that will be after this hearing if as a consequence

1 all of the lands are brought into participation.

2 There is a typographical error on the
3 blue sheet. The bottom --

4 Q That's the first sheet after Tab H?

5 A The first sheet after Tab H, the aster-
6 isk, where it says at the bottom line .02297 percent of unit
7 area, that should be .0256 percent, and --

8 MR. STAMETS: Excuse me, .02 --

9 A 56 percent.

10 MR. LYON: Where is that?

11 A That's --

12 MR. CARR: The very last figure

13 --

14 MR. LYON: On the blue sheet?

15 MR. CARR: On the first blue
16 sheet behind Tab H.

17 MR. LYON: Oh, after "outstan-
18 ding federal unleased interest"?

19 MR. CARR: And it says after
20 that "of unit area."

21 A Of unit area. Now that was --

22 MR. LYON: What was the change,
23 please?

24 A The new number, the correct number -- the
25 wrong number is .022970.

1 MR. LYON: Right.

2 A The correct number is .0256, and that
3 figure is for lands calculated after the Fifteenth Revision.
4 If the lands are brought into participation by virtue of
5 this hearing, there will then be a slightly larger area;
6 that interest, then, will decrease to .0253 percent.

7 Q And, Mr. Greer, if the application is
8 granted and the unit area participating area is statutorily
9 unitized, what affect does that have the tract that we tal-
10 ked about where Duncaⁿ, Miller is lessee of record? Will it
11 be subject to this statutory unitization?

12 A I guess that's something we would need to
13 talk about just a little bit. We would be statutorily uni-
14 tizing the Federal government.

15 Q Have they indicated how this will be
16 noted when they put the matter up for bid?

17 A No, sir, the first time we talked about
18 this, they had planned to have it come up for sale earlier,
19 and it didn't come up. Some how or other they lost it in
20 their system, and we thought that it would have been sold
21 prior to this hearing, so we probably need to think about
22 that just a little bit.

23 When they put it up for sale they put it
24 up subject to the unit agreements. There's question that
25 when it comes up for sale it will be subject to the unit

1 agreement.

2 Now whether the State wants to staturally
3 unitize the Federal government prior to the time it comes up
4 for sale, I guess, is the issue. Perhaps we ought to --

5 Q If it is not subject to this application,
6 once it is leased it will be committed to the unit because
7 the Federal government will require that.

8 A Yes, sir.

9 Q And therefore it isn't necessary that it
10 be part of this application.

11 A Right, it's not necessary so probably the
12 best thing to do is to leave it out of this particular --

13 Q Okay.

14 A Well, let's see, maybe we need to pursue
15 it just a little bit further.

16 We will have a statutory unit that then
17 when this comes up for sale it would be voluntary -- well,
18 it's not voluntarily, it's required by the BLM to be commit-
19 ted.

20 MR. STAMETS: If we leave that
21 out of this order and the Feds require it to be brought in,
22 there are provisions for it to be brought in, right?

23 A Under their -- under their provisions in
24 the standard unit agreement. Whether we would have to have
25 another statutory unitization to bring it in, I believe, may

1 be an issue of the of the -- that the OCD might have to de-
2 cide.

3 MR. STAMETS: Is there -- are
4 there provisions in the unit agreement which would allow for
5 that to come in without hearing?

6 A Oh, yeah, there would be unless the State
7 -- let me make a suggestion, that if the Division issues
8 this order as we've applied for it, have something special
9 in there describing this one tract and that it's intended
10 that it will be added when it's sold, or something like
11 that.

12 MR. LYON: I wonder if we might
13 put a provision in there that Federal tracts currently not
14 committed may be considered committed and added to this by
15 the filing of a revised schedule here and approved by the
16 Secretary, or whoever's the appropriate official.

17 A That would be fine.

18 MR. STAMETS: The unleased Fed-
19 eral tracts.

20 MR. LYON: Is that leased now?

21 A No, it isn't. The person that drew it at
22 one time thought that he had it, you know, that he would be
23 issued a lease, and that's how we carried it for many years
24 and just forgot about it, and then when we got to checking
25 into it, why they found that the government had, after I

1 don't know how many years, decided that they turned the case
2 down and decided that the land was open.

3 Maybe the simplest thing is just to go
4 ahead and bring it in and we'll just keep an accounting of
5 it and whoever buys the lease, we'll just give them credit
6 for the production from the time of that -- of the effective
7 order.

8 MR. STAMETS: Okay, if we uni-
9 tize this and no one complains, we don't have a problem.

10 A Let's do it that way.

11 MR. CARR: All right.

12 Q Mr. Greer, do you have anything -- any
13 other comments concerning the two documents behind Tab H?
14 We haven't talked, I don't believe, about the green page,
15 the last page in Exhibit One?

16 A Yes, sir, the green sheet shows -- we've
17 broken the interest down here of uncommitted mineral inter-
18 ests. We divided up into, for some reason, I don't know why
19 now, into unleased 1/8 royalty and unleased working inter-
20 est.

21 When we add those two together and con-
22 sider the entire unit area, it amounts to a total of about
23 lands that's not committed, and those interests are identi-
24 fied on Page 13 of the blue sheets, Tract 155.

25 MR. STAMETS: 155? ✓

1 A No, it looks like I've got the wrong
2 sheet number. Hopefully, the tract number is right.

3 Q Page 21?

4 A Page 21. The first three owners, Wright,
5 Del-Lea, and Twila Goodding, those mineral interests have
6 been leased to Benson-Montin-Greer and go through the pro-
7 cess of pooling and what not to the other owners, that's
8 The remaining one, two, three, four, five
9 people have not joined the unit and not leased their land.
10 We, from time to time we've negotiated with them to -- to
11 buy leases, and our last correspondence is that they're wil-
12 ling to lease now and we've agreed on a price. We just
13 haven't agreed on the exact royalty rate.

14 I would hope that in time we can get a
15 lease from these people but if we can't, then their inter-
16 est, we feel, needs to be brought into the unit the same as
17 any other outstanding interest.

18 Q Now, Mr. Greer, would you refer to what
19 has been marked as Benson-Montin-Greer Exhibit Number Two,
20 in the blue book, and identify this for the Commission?

21 A Yes, sir, this is just for completeness
22 of the record. We've included the current list of owners
23 within the unit, and for whatever it's worth, there's a com-
24 plete of ownership as it now stands.

25 Q Would you summarize your efforts to get

1 the unsigned interest owners to commit to the unit?

2 A Yes, sir, we've -- the main outstanding
3 interest is that of Mountain States Natural Gas Corp. and
4 over many years we just have continuously tried to get them
5 to join and just -- well, in fact, we got one response that
6 they were going to join and -- and that papers would follow,
7 and they actually sent us a check. I think it was \$60,000
8 but we've never been able to clear the check, and we never
9 got the papers.

10 Q Do you believe you've done all you
11 reasonably can do to obtain voluntary commitment from Moun-
12 tain States Natural Gas Corporation?

13 A Yes, sir.

14 Q Have you made a good faith effort to se-
15 cure the voluntary unitization of all working interest own-
16 ers and royalty interest owners in the area that's affected
17 by this application?

18 A Yes, sir.

19 Q In your opinion will there be additional
20 production from the unit and reduced costs of operation if
21 in fact the application for statutory unitization is ap-
22 proved?

23 A Yes, sir.

24 Q In this situation, Mr. Greer, isn't real-
25 ly the integrity of the pressure maintenance project at is-

1 sue as well as other costs that have been incurred recently?

2 A Yes, sir, we just have to have it if
3 we're going to maintain the project.

4 Q Is unitized management, operation, and
5 further development of the Canado Ojitos Unit reasonable ne-
6 cessary to increase the ultimate recovery of hydrocarbons
7 from this unit?

8 A Yes, sir.

9 Q If this application is granted, will ad-
10 ditional costs be incurred in developing the unit?

11 A No costs other than what we're currently
12 undergoing.

13 Q Will the estimated value of the addition-
14 al hydrocarbons that will be recovered from unitized manage-
15 ment with all of these tracts in, plus a reasonable profit,
16 exceed any additional costs which are being incurred?

17 A Yes, sir, we believe that through this
18 process, why, we can realized a substantial amount of re-
19 covery through the gravity drainage process that we other-
20 wise would not, would not receive.

21 Q Granting this application will result in
22 more efficient unit operations, will they not?

23 A Yes, sir.

24 Q Are untized methods of operation as ap-
25 plied to the area feasible? You have established that cur-

1 rently, have you not?

2 A Yes, sir. With respect to that, I might
3 just point out one thing.

4 The -- most of our wells, we produce them
5 -- we lift the oil with a gas lift system. By having avail-
6 able high pressure gas for injection for the pressure main-
7 tenance project, we also then have high pressure gas avail-
8 able which we pipe around to the different wells and use for
9 gas lifting.

10 By being unitized this is something we
11 can do that we just probably could not do otherwise. We
12 gather the oil by a gravity flow system where the oil -- we
13 don't have to have a man on location every time a tank of
14 oil is run. The oil just automatically goes from the surge
15 tank into the oil system, flows by gravity down to the LACT
16 Unit, and as a consequence, between that and that gas lift
17 system, we have all of our maintenance work and costs on top
18 of the ground. We don't have the very expensive workover
19 costs and pulling costs of -- that result from pumping the
20 wells, particularly in this area. One of the big expenses
21 is wearing out the tubing and having to replace tubing, hav-
22 ing to pull pumps, and we eliminate all that. By conse-
23 quence, we've managed to keep our operating expenses down to
24 something like 60 cents to \$1.00 a barrel, which includes
25 all -- all costs of producing the wells, the overhead costs,

1 the pumpers, maintenance of the roads, and there's a hundred
2 square miles of area involved, and -- and the fuel and main-
3 tenance and repair costs for injecting the gas.

4 It does not include cost of buying make-
5 up gas; but the costs are very low, and in these times it's
6 a very important part of a producer's operation to have low
7 operating expenses with a low price of oil.

8 Q Mr. Greer, will the increased efficiency
9 which would result from granting this application result in
10 the production of increased recovery ultimately of hydrocar-
11 bons from the unitized --

12 A Yes.

13 Q -- area?

14 A Yes, sir.

15 Q Will granting this application benefit
16 working interest and royalty interest owners in the area,
17 and I'm talking now about economic benefit?

18 A Yes, sir.

19 Q Have you reviewed this application with
20 representatives of the federal government?

21 A Yes, sir.

22 Q And what response have you received?

23 A The representatives of the Department of
24 Interior who have the authority over federal lands in this
25 area, approved this statutory unitization. In fact, they

1 recommended it in order to save them as much trouble as us.

2 Q Have you had this proposal reviewed with
3 representatives of the State Land Office?

4 A Yes, sir.

5 Q And have you received a response from
6 them?

7 A My understanding from them is that if
8 there is not something substantially developed at this hear-
9 ing to the contrary, then that they would approve it.

10 Q Is unitized management, operation, and
11 further development of that portion of the Puerto Chiquito-
12 Mancos Oil Pool which is the subject of this application,
13 reasonably necessary to effectively carry out secondary re-
14 covery operations and pressure maintenance project?

15 A Yes, sir.

16 Q Will unitized methods of operation pre-
17 vent waste of oil and result with reasonable probability in
18 the increased recovery of substantially more oil from the
19 unitized portion of the pool than otherwise would be re-
20 covered?

21 A Yes, sir.

22 Q Will granting this application be in the
23 best interest of conservation, the prevention of waste, and
24 the protection of correlative rights?

25 A Yes, sir.

1 Q Has notice of this hearing been provided
2 to all affected interest owners as required by Oil Conserva-
3 tion Division Rules and Regulations?

4 A Yes, sir.

5 Q Is a copy of the letters giving notice of
6 the hearing what has been marked for identification as Ben-
7 son-Montin-Greer Exhibit Number Three?

8 A Yes, sir.

9 Q Were Exhibits One through Three either
10 prepared by you or compiled under your direction and super-
11 vision?

12 A Yes, sir.

13 MR. CARR: At this time, Mr.
14 Stamets, we would offer into evidence Benson-Montin-Greer
15 Exhibits One through Three.

16 MR. STAMETS: These exhibits
17 will be admitted.

18 MR. CARR: That concludes my
19 direct examination of Mr. Greer.

20

21 CROSS EXAMINATION

22 BY MR. STAMETS:

23 Q Mr. Greer, where in all of these exhibits
24 is the information that shows how the charges will be allo-
25 cated against various owners and how the income will be al-

1 located to the various owners?

2 A Okay, the charges are shown in the unit
3 operating agreement, and that's under Section -- Section D
4 of Exhibit One. The detailed accounting of the costs is an
5 exhibit called Exhibit Two, our accounting procedure for
6 that.

7 And the current breakdown of the --

8 Q Does that have a page number or --

9 A Oh, --

10 MR. CARR: It's at the back,
11 it's Page Two -- I mean it's Page One, Exhibit Two, and
12 they're not numbered, Mr. Stamets.

13 Q Exhibit Number Two, okay.

14 A Then under -- under Tab C of the unit
15 agreement on Page Eleven identifies the allocation of pro-
16 duction under Article XII and then that has been amended, as
17 you can see, on Page Twelve, the upper -- or the top of the
18 page, the written language that you can't read there, is --
19 that's the fine print -- it's set out on the yellow sheets
20 at the end of that section, and that's what the writing is
21 there.

22 Then as to how that applies to each tract
23 is shown under Sections F and G. Section F is for the Third
24 Expansion Area. If you want to look at the third pink sheet
25 under -- under Section 5, Tract 1, the third column shows
number of acres and percent of participating area, and so
this particular tract has 160.29 acres and its percent of
the Third Expansion Area is .991864 percent.

1 Q Does that figure, then, represent their
2 share both of the costs of unit operation and their share of
3 their profits from unit operation?

4 A The -- this -- this figure, first we have
5 to modify, for instance, the Third Expansion Area, the
6 share that it bears for the total, so we would take the
7 percent shown for this tract here on the first green sheet
8 under this section, the current revision is the 15th
9 revision, and on the righthand side the Third Expansion Area
10 represents 31 percent of the unit area, so we'd multiply
11 that by 31 percent.

12 Then to determine a working interest
13 owner's share of expenses, the weighted acres, then, are set
14 out on -- or summarized under Tab E, the gold sheet.

15 And so -- and these are the -- the
16 weighted acres in both the Second Expansion Area, or second
17 expanded area of the unit, which also is the same as the
18 Twelfth Expanded Participating Area shown in the first two
19 columns.

20 The third and fourth columns cover the
21 Third Expansion Area and the sum, then, is columns five and
22 six.

23 And these columns five and six, then, or
24 column five, results from a compilation as to each owner of
25 each of these weighted acres and his share within that

1 tract, and the way we do that is to -- to just go down tract
2 by tract and put all of this information in the computer and
3 let it do the rest of the work, and it comes out with these
4 -- these final schedules.

5 Q And I believe somewhere in here in the
6 operating agreement are the provisions for carrying working
7 interest and those who choose not to pay their share.

8 A Yes, sir, the -- in the unit operating
9 agreement the nonconsent provision is for -- is described as
10 300 percent, which corresponds to the Division's 200 percent
11 penalty. So -- so that provision is exactly the same as,
12 for instance, in the pooling, forced pooling agreement for
13 the previous case where we talked about cost plus a 200 per-
14 cent penalty, if these lands are unitized then the unit
15 operating agreement would be the governing agreement and it
16 would provide exactly the same thing as the pooling agree-
17 ment, if you used a 200 percent penalty. ✓

18 MR. STAMETS: Any other ques-
19 tions of the witness?

20 MR. LYON: I'd like to ask a
21 couple questions.

22

23 QUESTIONS BY MR. LYON:

24 Q Mr. Greer, did I understand you to say
25 that you're accounting for these different expansions on a

1 separate basis, or did I understand you to say that you have
2 the information on successive expansions which, when you
3 feed into the computer will spit out the total participation
4 in the entire expanded --

5 A Right, and then then we have to compare
6 the ownership of the new expansion with the ownership of the
7 last expansion and make an investment adjustment between the
8 parties for those differences.

9 Q So that makes it possible for you to make
10 those adjustments in your investment --

11 A Yes, sir.

12 Q -- accounts.

13 A Say we expand -- expand the unit to bring
14 in a new owner who would have one percent of the unit, then
15 he will be required to pay his one percent of the total cost
16 to date, depreciated, and such as that.

17 Q So you don't -- you don't have a schedule
18 or exhibit that shows all of the tracts and their participa-
19 tion in the fulling expanded unit?

20 A Only to the extent that we have the par-
21 ticipations through the fifteenth expansion, which is the
22 one that's effective now, set out for the Third Expansion
23 Area, and through the Second Expansion Area.

24 Q Right.

25 A And the reason we keep those separate is

1 for two reasons, particularly the windfall profit tax and
2 the fact that in getting the order from the Department of
3 Energy that said wells drilled in the Third Expansion Area
4 would be Tier III wells, and qualify for so-called new price
5 for oil. We've had -- we've agreed to keep that oil
6 measurement separately and it just makes sense to keep the
7 whole thing separate.

8 In fact at the Bureau of Land Management,
9 the fact that it took them so long to finally get the Second
10 Expansion Area into their system, that they really shuddered
11 when we talked expanding it and giving them new numbers, so
12 -- so we just set up a separate set of accounting for the
13 Third Expansion Area and then we just keep the weighting be-
14 tween the two areas as expansion takes place.

15 Q All right. You probably covered this in
16 your presentation, it just didn't register on my -- in my
17 brain, but do I correctly understand that you have expanded
18 the unit area three times?

19 A Yes, sir.

20 Q And you have had a total of fifteen revi-
21 sions of the participating area.

22 A Right.

23 Q Now, and the last revision was the fif-
24 teenth. Did that include, now, all of the acreage included
25 within the expanded unit?

1 A Yes, sir, all fo the land within the unit
2 is now within the participating area.

3 Q So you're not looking at any future revi-
4 sions which would change these --

5 A Right.

6 Q -- factors.

7 A In fact, all of the land came in with the
8 thirteenth expansion and the Bureau of Land Management is in
9 a little bit of quandary now as to how to number these last
10 two expansions. They didn't really expand the area,[?] they
11 just increased the participation of people, of uncommitted
12 lands within the unit, or within a participating area, and
13 so they've been talking about maybe it should be, instead of
14 the fourteenth and fifteenth, maybe it ought to be Revision
15 13-A and 13-B, so -- but they've been working on that for
16 several months and haven't given us an answer on that yet.

17 Q Now under the -- under the statutorily
18 unitized order, will that affect participation in these
19 tracts?

20 A No, sir. We're suggesting that partici-
21 pation be exactly the same as -- as it would if they just
22 voluntarily committed their tracts under the -- under the
23 unit agreement and unit operating agreement.

24 Q And is that the way it's shown now on
25 your records?

1 A Yes, sir.

2 Q And with the entry of this order, do you
3 feel that that will give you the authority, with the appro-
4 val of the BLM, to make the disbursements on the basis of
5 our statutory unitization order?

6 A Yes, sir, uh-huh. The main thing that
7 would happen there is that we could -- we would bring into
8 participation some of the Mountain States acreage that has
9 not yet had a well drilled on it, and -- and by all that's,
10 you know, right and equitable, I think it ought to be in
11 there, but there's no other way we can get it in now.

12 Q But this will permit you to start making
13 those disbursements without getting a final approval of a
14 fifteenth revision?

15 A Oh, yes, sir.

16 MR. LYON: That's all.

17 MR. STAMETS: Are there other
18 questions of the witness?

19 He may be excused.

20 Do you have anything further,
21 Mr. Carr?

22 MR. CARR: Nothing further, Mr.
23 Stamets.

24 MR. STAMETS: Mr. Lunsford, do
25 you have anything to say?

1 Mr. Carr, could you have some-
2 one draft us up an order after the hearing in favor of this?

3 MR. CARR: I will do that.

4 MR. STAMETS: As soon as we get
5 that order and have a chance to review it, we'll be approv-
6 ing this application.

7 MR. CARR: Thank you, Mr. Sta-
8 mets.

9 MR. STAMETS: If there is no-
10 thing further, then, this hearing is adjourned.

11

12 (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 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 this portion of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

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

6 18 September 1986

7 COMMISSION HEARING

8 IN THE MATTER OF:

9 Application of Benson-Montin-Greer CASE
10 Drilling Corporation for statutory 8952
11 unitization, Rio Arriba County,
12 New Mexico.

13
14 BEFORE: Richard L. Stamets, Chairman
15 Ed Kelley

16 TRANSCRIPT OF HEARING

17
18 A P P E A R A N C E S

19
20
21 For the Commission: Jeff Taylor
22 Legal Counsel for the Division
23 Oil Conservation Division
24 State Land Office Bldg.
25 Santa Fe, New Mexico 87501

For the Applicant:

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MR. STAMETS: This hearing will come to order. I'd like to announce that every case on today's docket, except for Case 8781, has been continued to the October 23 date.

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C E R T I F I C A T E

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Sally W. Boyd CSR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

23 July 1986

EXAMINER HEARING

IN THE MATTER OF:

The disposition of Cases 8912, 8936, 8820,
8939, 8940, 8946, 8948, 8950, 8951, 8952,
8932, and 8933, which were called and for
which no testimony was offered.

*Transcript in
Case 8912*

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Attorney at Law
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