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STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)

CASE NO. 12,258

APPLICATION OF SCHALK DEVELOPMENT)
COMPANY FOR AN EXCEPTION TO THE WELL)
DENSITY REQUIREMENTS OF DIVISION ORDER)
NUMBER R-10,987-A TO PERMIT TWO BLANCO-)
MESAVERDE GAS POOL WELLS IN THE SAME)
QUARTER-QUARTER SECTION, RIO ARRIBA)
COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 7th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 7th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

October 7th, 1999
Examiner Hearing
CASE NO. 12,258

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law
3304 Camino Lisa
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:51 a.m.:

3 EXAMINER STOGNER: At this time I'll Call Case
4 Number 12,258.

5 MR. CARROLL: Application of Schalk Development
6 Company for an exception to the well density requirements
7 of Division Order Number R-10,987-A to permit two Blanco-
8 Mesaverde Gas Pool wells in the same quarter-quarter
9 section, Rio Arriba County, New Mexico.

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

12 EXAMINER STOGNER: Any other appearances in this
13 matter?

14 (Thereupon, the witness was sworn.)

15 A.R. KENDRICK,

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name and city of
21 residence?

22 A. A.R. Kendrick, Aztec, New Mexico.

23 Q. What is your occupation, Mr. Kendrick?

24 A. I'm a petroleum consultant.

25 Q. Have you previously testified before the Division

1 in that capacity?

2 A. Yes, sir.

3 Q. What is your relationship to the Applicant in
4 this case?

5 A. They've just been a client of mine for a lot of
6 years. I do a little work for them now and then.

7 Q. You're a consultant for the regulatory matters?

8 A. Yes.

9 Q. And are you familiar with the matters involved in
10 this Application?

11 A. Yes, sir.

12 MR. BRUCE: Mr. Examiner, I tender Mr. Kendrick
13 as an expert petroleum consultant.

14 EXAMINER STOGNER: Mr. Kendrick is so qualified.

15 Q. (By Mr. Bruce) Mr. Kendrick, what does the
16 Applicant request in this case and what is the basis of its
17 request?

18 A. The Schalk Development Company owns a Dakota well
19 in the southeast quarter of Section 2, Township 30 North,
20 Range 5 West. It's no longer a commercial Dakota producer.
21 They would like to plug that well back to the Mesaverde
22 formation and complete it in the Mesaverde -- Blanco-
23 Mesaverde Pool.

24 There is an existing Blanco-Mesaverde well in
25 that same quarter quarter section. It was drilled a lot of

1 years ago, back in 1974, and still produces almost a
2 million feet per month. They would like to retain that
3 well, as well as complete the second well on that same 40-
4 acre tract.

5 Q. Skipping ahead for a minute to Exhibit 2, Mr.
6 Kendrick, just looking at the land plat, the well that the
7 Applicant seeks to complete in the Mesaverde is marked as
8 the Number 1E well; is that correct?

9 A. Yes, the Number 1E well is a Dakota well that was
10 completed in 1981.

11 Q. What is its footage? What is the footage of the
12 Number 1E well?

13 A. I don't have that. Do you have a copy?

14 The Number 1E well is located 1760 feet from the
15 south line, 965 feet from the east line of Section 2 in
16 Township 30 North, Range 5 West.

17 Q. And what is the footage of the Number 2 well?

18 A. The Number 2 well is located 1650 feet from the
19 south line and 790 feet from the east line. That puts them
20 just a little over 200 feet apart.

21 Q. Okay. And also looking at that plat on Exhibit
22 2, the Number 2A well is a Mesaverde producer in this well
23 unit, is it not?

24 A. Yes, the Number 2A is still producing in the
25 Mesaverde formation.

1 Q. As of this point, is the Number 1E well -- has it
2 been completed in the Mesaverde at this point?

3 A. No, the Application to plug back and complete in
4 there has been approved by the BLM and by the District
5 Office of the OCD.

6 Q. But the work has not been performed?

7 A. That's correct, the work has not been performed.

8 Q. Okay. I don't know if you want to do these in
9 any particular order, Mr. Kendrick, but maybe move on to
10 Exhibit 1 and describe the Mesaverde production in the area
11 surrounding this well unit.

12 A. Exhibit 1 is a plat of Townships 30 North and 31
13 North, Ranges 4 and 5 West, showing by symbols the
14 Mesaverde wells that have -- for which completion attempts
15 have been made in those four townships.

16 Section 2 of Township 30 North, Range 5 West, the
17 east half is our area of interest, and it's been
18 highlighted on this exhibit.

19 To the northeast in Townshp 31 North, Range 4
20 West, only one well has produced from the Mesaverde
21 formation, that being in the northeast quarter of Section
22 32. The total production from that well was 5842 MCF. The
23 other two wells shown in that township were not produced
24 from the Mesaverde formation.

25 In Township 31 North, Range 5 West, in Section

1 36, that well was the Rosa Unit Number 54. It was drilled
2 to the Dakota formation, produced from the Dakota formation
3 and was temporarily abandoned in the Dakota and plugged
4 back to the Pictured Cliffs, did not produce from the
5 Pictured Cliffs.

6 The Pictured Cliffs formation and the Dakota
7 formation were abandoned in 1980, and a completion attempt
8 was made in the Mesaverde. It did not produce from the
9 Mesaverde formation and -- or that is, it did not produce
10 into the pipeline from the Mesaverde formation and was
11 consequently plugged and abandoned in 1995.

12 This exhibit is presented to show that our area
13 of interest is in the very edge of the producing area of
14 the Blanco-Mesaverde Pool, and the usual situation is where
15 the productivity is so poor that a higher density of wells
16 would be necessary to effectively and efficiently drain the
17 reservoir.

18 Q. It is in the poorer part of the reservoir --

19 A. Yes.

20 Q. -- is it not?

21 Let's move on to your Exhibit 2, and describe
22 that for the Examiner.

23 A. Exhibit 2 is a plat of nine sections with Section
24 2 being the center section of the plat, the east half of
25 Section 2 being our area of interest. This shows the

1 operators of the Mesaverde wells in that area, and the
2 other owners are the owners of areas that have not been
3 drilled, that offset this drill tract.

4 Of the ten possible offsets, only four have been
5 drilled since this original Number 2 well was drilled in
6 1974. Of those ten -- Excuse me, of the ten offsets, four
7 were drilled, one of the four belongs to Schalk Development
8 Company.

9 This also shows that in the absence of offset
10 drilling, the reservoir was not considered a commercial
11 quality reservoir in that area.

12 Q. Mr. Kendrick, what is the basic reasoning of
13 Schalk Development Company in seeking this approval? The
14 wells that are close together -- I should say, the Number
15 1E well is very close to the Number 2 well. What does
16 Schalk hope to accomplish with this well?

17 A. They hope to cause better drainage to the
18 reservoir and utilizing a second well. We're not drilling
19 a second well; the wellbore is already there and in place.
20 Since that well is several years younger than the Number 2
21 well, it's possible that the Number 2 well would have
22 casing failure or experience some kind of problem before
23 the Number 1E well, if the 2 were there.

24 We do not elect to abandon the Number 2 well at
25 this time because of any unforeseen happenstance to either

1 well. We think it would be more efficient just to go ahead
2 and produce both wells at the same time.

3 Q. Would you liken this to a salvage operation?

4 A. Well, yes, it is a salvage operation, and it's --
5 The abandonment of a wellbore that penetrates a reservoir,
6 that's a usable wellbore, would be akin to premature
7 abandonment.

8 Q. Do the logs show that there is Mesaverde
9 Reservoir at the Number 1E wellbore?

10 A. Yes, the log from the Number 1E well shows that
11 the reservoir is about the same quality, however it is a
12 little bit thicker in the Number 1E. But the variation was
13 minor, as would be expected only 200 feet apart.

14 Q. Mr. Kendrick, under the -- Assume the Number 1E
15 well was not there. Could Schalk Development Company enter
16 the Number 2 well and seek to directionally drill through
17 the Mesaverde Reservoir?

18 A. Rule 111 has provisions for administrative
19 approval to directionally drill a well upon application, so
20 it's believed that a well drilled at a high-angle deviation
21 would increase the reservoir presence in the wellbore,
22 which would be similar to this operation.

23 Q. In essence, the Number 1E well would allow you to
24 produce more of the Mesaverde interval in this well unit;
25 is that correct?

1 A. Yes, sir.

2 Q. Was notice of this Application given to all of
3 the offset operators or lessees where there was no operated
4 well?

5 A. Yes, an attempt was made to supply that
6 information to all of the offset owners or operators.

7 Q. And is my affidavit of notice submitted as
8 Exhibit 3, Mr. Kendrick?

9 A. Yes, your exhibit is presented as Number 3. And
10 a notation is there that one of the participants was -- to
11 an address -- to the latest address at the BLM office was
12 sufficient to get your copy returned.

13 MR. BRUCE: Mr. Examiner, Exhibit B attached to
14 Exhibit 3 is my letter which was returned. I personally
15 examined the BLM lease records. This is virtually all
16 federal acreage out here, and this is the last address
17 available for this working interest owner.

18 Q. (By Mr. Bruce) Mr. Kendrick, in your opinion, is
19 the granting of this Application in the interests of
20 conservation and the prevention of waste?

21 A. Yes.

22 Q. And were Exhibits 1 and 2 prepared by you or
23 compiled from company records?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I tender the admission

1 of Exhibits 1 through 3.

2 EXAMINER STOGNER: Exhibits 1 through 3 will be
3 admitted into evidence at this time.

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. Mr. Kendrick, Well Number 2, is it currently a
7 Blanco-Mesaverde?

8 A. Yes, sir.

9 Q. And that's a single completion of the Blanco-
10 Mesaverde?

11 A. Yes.

12 Q. Or is it a dual?

13 A. It's a single completion in the Mesaverde.

14 Q. Okay. Now, about the Well Number 1E, how will
15 that be recompleted? Will that be a dual, or is it?

16 A. No, the Dakota will be plugged and the well will
17 be completed as a Mesaverde single.

18 Q. And what's the current Dakota production, or is
19 it abandoned in the Dakota at this time?

20 A. I think the production in it from the Dakota has
21 been nil for about a year, maybe longer. And they elected
22 to make some type of salvage operation

23 Q. Now, these rules that allow for infill drilling
24 -- call it infill infill -- of the Blanco-Mesaverde, that's
25 a relatively new item; is that correct?

1 A. Yes, that's the new Mesaverde operating pool
2 rules.

3 Q. And at that time it was put in there that other
4 wells in the same quarter section could not be in the same
5 quarter quarter section as an existing well, more to spread
6 out the wells in the key pattern, or keep development
7 within some sort of a pattern.

8 But in your case where there's an existing well,
9 it's more of a salvage; is that correct?

10 A. Yes, sir. This is a salvage operation. If you
11 refer to my Exhibit 2, in Section 3 in the north half,
12 there is a proration unit there developed by Schalk
13 Development Company.

14 In that same proration unit, there's a similar
15 Dakota proration unit. That Dakota well ceased to produce
16 in the Dakota and they plugged it back to the Pictured
17 Cliffs, and that C-104 on that zone has not been approved,
18 and it's been two or three years, so I don't think that
19 it's going to produce into the pipeline.

20 In Section 36, in the northeast quarter -- or the
21 northeast section of this exhibit, that well was attempted
22 to produce in the Pictured Cliffs, and it did not. So
23 there's no other place to go to use this well.

24 Q. Okay, what I was getting at, or trying to get to,
25 having two wells this close together, is there going to be

1 any adverse effect to the drainage within that pool, either
2 outside the proration unit or even within the proration
3 unit?

4 A. I don't see any way that it could be affected.

5 Q. What is the current rate of production in the
6 Blanco-Mesaverde on that Number 2 well?

7 A. It produced about 11 or 12 million feet during
8 1998.

9 Q. So it's a pretty marginal well at this time?

10 A. Yeah, about a million feet a month.

11 Q. You said something about completion techniques in
12 1974, as opposed to the newer well, 1981.

13 A. No, the age of the casing in the well is what I
14 was referring to.

15 Q. Just the age of the casing?

16 A. Yes, sir.

17 Q. Generally speaking, not this particular
18 instance, but generally speaking, that allowance or that
19 restriction of having two wells in the same quarter quarter
20 section, what's your opinion of that, in that Blanco-
21 Mesaverde Pool order? Is that good, bad, indifferent?

22 A. I think it has to be looked at on an individual
23 proration unit basis, because as I read the findings in
24 that order, Burlington Resources had presented testimony
25 that the drainage varied from 40 acres to 160 acres,

1 depending on the location of the well in the reservoir.

2 And if the well is only going to drain 40 acres with one
3 well in a particular area, drilling a second well there may
4 help to drain more than 40 acres.

5 And since we're out here at the economic limit of
6 the field, any additional gas that we recover out of the
7 field would prevent wasting that gas being left in the
8 ground.

9 Q. How about in one of those sweet-spot areas?
10 Would having two wells -- The reason I'm asking these
11 general questions like this is because -- Is that
12 restriction necessary?

13 Is it -- In this particular instance, I can see a
14 variance would be needed. But what about generally
15 speaking in those sweet areas?

16 A. In the sweet area, I think greed is going to
17 cause more people to want to drill more where they get
18 greater production from the well.

19 That seems to be the American system, apply your
20 money where the money is going to come back.

21 EXAMINER STOGNER: Any other questions of Mr.
22 Kendrick?

23 Thank you, Mr. Kendrick, you may be excused.

24 Mr. Bruce, anything further in this case?

25 MR. BRUCE: No, sir.

1 EXAMINER STOGNER: Well, does anybody else have
2 anything further in Case 12,258? Or the American system?
3 This matter will be taken under advisement.

4 THE WITNESS: Thank you, sir.

5 EXAMINER STOGNER: Thank you.

6 (Thereupon, these proceedings were concluded at
7 11:10 a.m.)

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16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
the Examiner hearing of Case No. 12258,
18 heard by me on 7 October 1999.
Michael Stogner, Examiner
19 Of Conservation Division
20
21
22
23
24
25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
)
) SS.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL October 27th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002