

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

27 February 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Chaveroo Operating	CASE
Co., Inc. for compulsory pooling,	8497
Roosevelt County, New Mexico.	

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation	Jeff Taylor
Division:	Attorney at Law
	Legal Counsel to the Division
	State Land Office Bldg.
	Santa Fe, New Mexico 87501

For the Applicant:	W. Thomas Kellahin
	Attorney at Law
	KELLAHIN & KELLAHIN
	P. O. Box 2265
	Santa Fe, New Mexico 87501

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A P P E A R A N C E S

For VERNA Corp:                      Scott Hall  
   Attorney at Law  
   CAMPBELL & BLACK P.A.  
   P. O. Box 2208  
   Santa Fe, New Mexico 87501

I N D E X

WILLIAM J. GRAHAM  
   Direct Examination by Mr. Kellahin                      5

E X H I B I T S

Applicant Exhibit One, Plat                      5  
Applicant Exhibit Two, AFE                      6  
Applicant Exhibit Three, Letter                      7  
Applicant Exhibit Four, Letter                      8

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MR. STOGNER: Call next Case  
Number 8497.

MR. TAYLOR: The application of  
Chaveroo Operating Company for compulsory pooling, Roosevelt  
County, New Mexico.

MR. STOGNER: Call for appear-  
ances in this matter.

MR. KELLAHIN: If the Examiner  
please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing  
on behalf of the applicant. I have one witness.

MR. STOGNER: Is that witness  
Mr. Graham, sir?

MR. KELLAHIN: Yes.

MR. STOGNER: Are there any  
other appearances in this matter?

MR. HALL: Scott Hall, on be-  
half of VERNA Corporation, V-E-R-N-A.

MR. KELLAHIN: As I understand  
it, Mr. Examiner, I think Mr. Hall is entering his appear-  
ance for purposes of the record. I do not understand that  
he will present any witnesses or that this will be con-  
tested.

MR. STOGNER: Mr. Scott, do you  
have any witnesses?

MR. SCOTT: I don't want Mr.  
Kellahin to represent my case for me but we have no wit-

1 nesses.  
2

3 MR. KELLAHIN: Well, if Mr.  
4 Hall had been here when the Commission called this case, we  
5 might have resolved it otherwise.

6 When it was called at 8:00  
7 o'clock, I represented that this was not an opposed case. I  
8 assume that still is a fair representation.

9 MR. HALL: We stand by our  
10 comment.

11 MR. STOGNER: Mr. Scott --  
12 Hall, do you plan to cross examine this witness?

13 MR. HALL: Not at this time.  
14 We reserve the right.

15 MR. STOGNER: I'm going to ask  
16 these people that are in the auditorium at this time, as I  
17 had mentioned earlier today at 8:00 o'clock before I started  
18 this hearing, that any contested cases or any cases that had  
19 appearances other than the applicant would be automatically  
20 set at the end of the hearing.

21 And, Mr. Hall, you were not  
22 here at that time. I'm going to throw this out to the  
23 people here and is there any objections to this, to go ahead  
24 and hear this case?

25 If not, we're going to go ahead  
26 with it. I didn't see anybody so I'm going to go with it.

27 MR. CARR: I think I represent  
28 every other case pending and we have no objection to going

1 ahead with the case at this time.

2 MR. STOGNER: Thank you, Mr.  
3 Carr.

4 Mr. Kellahin, please continue.

5 MR. KELLAHIN: Mr. Examiner,  
6 I'd request that the record reflect that Mr. Bill Graham is  
7 still under oath, that he has been qualified and accepted as  
8 an expert petroleum engineer.

9 MR. STOGNER: The record will  
10 so show.

11 WILLIAM J. GRAHAM,  
12 being called as a witness and being previously sworn upon  
13 his oath, testified as follows, to-wit:

14  
15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q Mr. Graham, for the record would you  
18 please use Exhibit Number One in this case and in reference  
19 to the last case, will you orient the Examiner as to the  
20 area we are now seeking to pool under the current applica-  
21 tion?

22 A It would be the northwest quarter of the  
23 same Section 25, the well, Humble Federal No. 9 would be an  
24 orthodox location 1310 from the north line, 1310 from the  
25 west line of that section.

Q Is this also a well location for Case

1  
2 8497 for which the well location was approved as an unorthodox well location by the Division pursuant to Division Order  
3 R-7774?

4 A Yes, sir, it was.

5 Q Would you describe for the Examiner Exhibit  
6 Number Two, which is the proposed Authority for Expenditure  
7 on this well?

8 A This is an AFE. It is identical to the  
9 other one we looked at. It has the same basis, prices and  
10 average cost of what we would anticipate to drill a well for  
11 in here.

12 This is an estimate and it would be based  
13 on actual cost.

14 Q How do these costs compare to costs for  
15 similar wells that Chaveroo Operating Company has drilled in  
16 the immediate area?

17 A We believe we can drill the wells in this  
18 immediate area for that cost. We have drilled some wells to  
19 the east of here which actually, due to some of the completion  
20 procedures, wound up costing us slightly more than  
21 this, but we've also drilled some that were slightly less  
22 than this, if everything goes extremely well.

23 So we think it's a good average.

24 Q With regards to this application, Mr.  
25 Graham, would you identify for the Examiner those individuals or companies with whom you have not reached an agreement?

1  
2           A           It would be the VERNA Drilling Company  
3 that we're not been able to reach an agreement with in re-  
4 gards to this particular well.

5           Q           Have you had an opportunity to discuss  
6 this project and this well with any representative of VERNA  
7 Company?

8           A           Yes, sir, we have.

9           Q           Would you identify for us the individuals  
10 that you have dealt with, either in VERNA Corporation or  
11 VERNA Drilling Company, or whatever name that they're using?

12          A           We have called the President, which I  
13 don't recall his name, unless it's Mr. Hall, Mr. Hooper, Mr.  
14 William C. Hooper, I have discussed this situation with him  
15 on at least one occasion personally. Mr. Medairy's had  
16 several occasions to discuss it with him, Mr. Medairy being  
17 our landman representative.

18          Q           Mr. Graham, would in chronological order  
19 summarize for us the effort, the various efforts that you  
20 have made on behalf of Chaveroo Operating Company in order  
21 to obtain VERNA Corporation's voluntary participation in  
22 this well?

23          A           Well, we have the Exhibit Number Three,  
24 which was dated November the 16th, and which we initially  
25 sent out and proposed the well. We outlined the participa-  
tion it would have in it. Attached to that was an AFE. Al-  
so attached to that was an excerpt from the engineering  
study which we were basing our participation and our origi-

nal purchase on the thing.

Exhibit Number Four is a letter of December the 27th where there had been a question of would be purchase their interest and we had made an offer. It was completely unacceptable to VERNA. Mr. Hooper had made a counter offer which we could not afford to pay, and at that point in time I called and asked him if there was anything at all that we could do to work this out.

The operating agreement proposed only a 300 percent penalty, which was the same as the statutory limit for New Mexico, and that that would save us at least going through this entertainment, that we were so far apart on price that we could not, apparently, reach an agreement.

And so that was the way it was left and that was the reason for our request for it, and I have had no more conversation with Mr. Hooper on that since that time. I told him that we would plan to proceed in that -- in that regard, and at that point in time we contacted Mr. Kellahin to represent us.

Q At any point did VERNA Corporation through Mr. Hooper express to you any objection to the method in which the risk factor penalty would be assessed against their interest?

A                    I'm not aware of anything that he objected to in that area. Some conversations have taken place between he and Mr. Medairy and I proposed to him the \$300 and \$4000; even said, you know, let's talk about that. This



1  
2 is what we're charging almost universally for this depth of  
3 well down to about 6000 feet, not only here but in Louisiana  
4 and other places, and we've had no objection to it.

5 Q Did Mr. Hooper raise any objection to the  
6 overhead charges of \$4000 and \$300?

7 A To my recollection, I do not recall any,  
8 in my conversation with him, any objection to those numbers  
9 as being reasonable.

10 Q Do you have a recommendation to this Exa-  
11 miner with regards to overhead rates to be assessed in this  
12 pooling order?

13 A I recommend the \$4000 for a drilling well  
14 prorated on a monthly basis and \$300 per well per month on a  
15 producing well, as covered in the standard form operating  
16 agreement.

17 Q Let me direct your attention to whether  
18 or not you can express an opinion on the basis upon which  
19 you would recommend a risk factor penalty of the statutory  
20 maximum, 200 percent.

21 A Well, the risk factor would be very simi-  
22 lar to that testimony which I've given in the Case 8496.  
23 There is a potential for some pressure depletion. There is  
24 a potential for some changes in water saturations which  
25 we're seeing in certain intervals, predominantly in the P-4  
zone but also sometimes in the P-3.

There are some slight mechanical risks,  
which I have discussed with the Examiner, also.

1  
2 The completion procedures have to be  
3 done, in our opinion, very, very carefully and very methodi-  
4 cally, and there is some risk and additional expenditures  
5 that can incur there.

6 Q So the record is clear, Mr. Graham, would  
7 you again identify the well that we're dealing with VERNA  
8 Corporation on?

9 A It would be Tucker Hall No. 9, located in  
10 the northwest northwest of Section 25, 1310 from the north  
11 line, 1310 from the west line.

12 Q And the well involved with Mr. Buckner  
13 was the Humble?

14 A Was the Tucker Hall No. 9. This is the  
15 Humble Federal No. 9 --

16 Q All right.

17 A -- with VERNA. The one involved with Mr.  
18 Buckner is the Tucker hall No. 9.

19 Q What is the status of the Humble Federal  
20 No. 9 Well, involved with VERNA Corporation?

21 A We waiting primarily on the hearing and  
22 the resolution of this problem, and as soon as possible  
23 thereafter, it would be our plan to plan to drill this well.  
24 We have approval. We've gone through the Federal; it is a  
25 Federal lease; we've gotten approval from there. We got ap-  
approval from the State; everything except the participation  
here.

I might add, there may be other quarter

1  
2 quarter section wells. We're not -- we're not interested in  
3 fighting or arguing with anybody because we want to cooper-  
4 ate with everybody out here. We're not trying to ask them  
5 to get out. We're not trying to oversell them to get in.  
6 We're just -- we would just like to proceed.

7 Q In your opinion, Mr. Graham, will appro-  
8 val of this application be in the best interest of conserva-  
9 tion, the prevention of waste, and the protection of corre-  
10 lative rights?

11 A I believe very strongly that it will be.

12 Q All right.

13 MR. KELLAHIN: We move the in-  
14 troduction, Mr. Examiner, of Exhibits One through Four.

15 MR. STOGNER: Exhibits One  
16 through Four will be admitted into evidence.

17 Mr. Hall, your witness.

18 MR. HALL: No questions, Mr.  
19 Examiner.

20 MR. STOGNER: Thank you, Mr.  
21 Hall.

22 MR. HALL: You're welcome.

23 MR. KELLAHIN: Mr. Examiner,  
24 for purposes of the record, we would like to introduce a  
25 copy of the signed return receipt cards showing that VERNA  
Corporation received a copy of the application in this case  
with the cover letter. The date of receipt by VERNA Corpor-  
ation is February 7th, 1985.

1  
2 MR. STOGNER: Thank you, Mr.  
3 Kellahin.

4 MR. KELLAHIN: In addition we'd  
5 seek to delete from our application and the notice of the  
6 hearing the fact of a standard location. It's obvious that  
7 the Commission has previously approved, after notice and  
8 hearing, the unorthodox location. It's a necessary com-  
9 ponent of this pooling case and we'd seek to delete that  
10 from this hearing.

11 MR. STOGNER: To keep from me  
12 repeating the same questions I asked on the previous case,  
13 Mr. Kellahin, I would like to take administrative notice of  
14 Case Number 8422 and its subsequent Order R-7774, and the  
15 testimony given in the previous case, 8496.

16 MR. KELLAHIN: I have no objec-  
17 tion, Mr. Examiner.

18 MR. STOGNER: Thank you, Mr.  
19 Kellahin.

20 I have no further questions of  
21 this witness.

22 Are there any other questions  
23 of Mr. Graham?

24 If not, he may be excused.

25 Anything further in 8497?

If not, this case will be taken  
under advisement.

(Hearing concluded.)

## 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 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. 8492  
heard by me on February 27, 19 85.

Michael E. Rogers  
Oil Conservation Division

Examiner