

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date JANUARY 5, 1995 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
AR Kendrick	W.M. GALLAWAY	AZTEC
Maurice Timmer	R.W. Byram	SF
Ernest L. Daulton	Pradick Law Firm	SF
PATRICK J. TOWER	Enron OIL & GAS	MIDLAND
Randy Cate	"	"
William F. Carr	Campbell, Carr, Taylor & Shelden	Santa Fe
W.D. Kellshin	Kellshin + Kellshin	Santa Fe
Bill Owen	David Peterson	Roswell
Edel Jeff	David Peterson	Roswell
Jerry Elger	Nearburg Prod	Midland
Bob Stolton	"	"

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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. 11173
APPLICATION OF W.M. GALLAWAY

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

ORIGINAL

BEFORE: David Catanach, Hearing Examiner

January 5, 1995
Santa Fe, New Mexico

JAN 3 1995

This matter came on for hearing before the Oil Conservation Division on January 5, 1995, at 2040 South Pacheco, Santa Fe, New Mexico, before Diana S. Abeyta, RPR, Certified Court Reporter No. 168, for the State of New Mexico.

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FOR THE DIVISION: RAND CARROLL, ESQ.
 Legal Counsel
 Oil Conservation Division
 2040 S. Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT: PADILLA LAW FIRM
 Post Office Box 2523
 Santa Fe, New Mexico 87504-2523
BY: ERNEST L. PADILLA, ESQ.

1 EXAMINER CATANACH: At this time, we'll call Case
2 11173.

3 MR. CARROLL: The application of W.M. Gallaway
4 for downhole commingling, Rio Arriba County, New Mexico.

5 EXAMINER CATANACH: Are there appearances in this
6 case?

7 MR. PADILLA: Mr. Examiner, my name is Ernest L.
8 Padilla for the applicant. I have one witness to be sworn.

9 EXAMINER CATANACH: Any additional appearances?
10 Will the witness please stand to be sworn in.

11 (Witness sworn.)

12 MR. CARROLL: Be seated.

13 A.R. KENDRICK,
14 the witness herein, after having been first duly sworn
15 upon his oath, was examined and testified as follows:

16 EXAMINATION

17 BY MR. PADILLA:

18 Q. Mr. Kendrick, for the record, please state your
19 full name.

20 A. A.R. Kendrick.

21 Q. Mr. Kendrick, where do you reside?

22 A. Aztec, New Mexico.

23 Q. What is your connection to the applicant in this
24 case?

25 A. I'm a consultant for Mr. Gallaway in this case.

1 Q. And is Mr. Gallaway -- what's his full name?

2 A. W.M. Gallaway. "W.M. Gallaway" is his operator's
3 name.

4 Q. And he's the operator of the properties and the
5 well under consideration here today?

6 A. Yes, he is the operator.

7 Q. Mr. Kendrick, have you testified before the Oil
8 Conservation Division and had your credentials accepted as a
9 matter of record?

10 A. Yes, sir.

11 Q. How have you testified before, in what capacity?
12 As a petroleum engineer or production engineer?

13 A. As a petroleum engineer or as an employee of the
14 Oil Conservation Commission.

15 Q. Mr. Kendrick, are you familiar with the
16 application for downhole commingling and the various
17 pressures and data that is necessary for introduction at
18 this hearing today?

19 A. Yes. We have no pressure data, but I am familiar
20 with the situation as it exists.

21 MR. PADILLA: Mr. Examiner, we tender Mr.
22 Kendrick as an expert petroleum engineer.

23 EXAMINER CATANACH: Mr. Kendrick is so qualified.

24 Q. (BY MR. PADILLA) Mr. Kendrick, let's turn now to
25 your list of exhibits and have you explain what Exhibit

1 No. 1 is.

2 A. Exhibit 1 is the statement, as required by the
3 rules and regulations, plus an index following the exhibits.
4 The operator is W.M. Gallaway. The well name and number is
5 the Trix, T-R-I-X, No. 2. It's currently completed in the
6 Gavilan-Mancos Pool, and we would like to downhole commingle
7 that with the Blanco-Mesaverde Pool.

8 Q. And the Blanco-Mesaverde pool sits above the
9 Mancos Pool?

10 A. Yes. The Blanco-Mesaverde is behind the casing,
11 and we'd just like to perforate and commingle downhole.

12 Q. Let's go now to your Exhibits 2, 3, 4 and 5 and
13 have you identify those for the Examiner, please.

14 A. Exhibit 2 is a graphic plat showing Section 5,
15 Township 26 North, Range 2 West, showing the mineral's
16 ownership. The W 1/2 of the NW 1/4 is owned by the U.S.
17 government. The remaining acreages are fee acreages.

18 Q. Now, what is Exhibit 3-A?

19 A. 3-A is a plat showing the known offset operators
20 and the areas they operate. And Section 5 is shown
21 crosshatched in two different directions, being the proposed
22 dedicated acreage to the two Mesaverde wells that would be
23 completed in that section if this application is approved.

24 Q. Now, where is the Trix No. 2 located?

25 A. The Trix No. 2 is located in the SW 1/4 of

1 Section 5. Trix No. 1 is in the NE 1/4 of Section 5.

2 Q. Is that shown better in Exhibit 4-A?

3 A. Yes, they are shown better in 4-A.

4 Q. Tell the Examiner what acreage is dedicated to
5 the Trix No. 2?

6 A. The Trix No. 2 has a current dedication of the
7 entire Section 5 in the Gavilan-Mancos Pool.

8 Q. And the Trix No. 1?

9 A. Trix No. 1 is a Mesaverde well, and the E 1/2 of
10 Section 5 is dedicated for the Mesaverde interval. The
11 W 1/2 of Section 5 will be dedicated to the Trix No. 2 if
12 it's completed in the Mesaverde.

13 Q. Let's go back to the Exhibit 3-B and tell the
14 Examiner what that is.

15 A. 3-B is a list of names and addresses of the
16 offset operators.

17 Q. Now, Mr. Kendrick, did your lawyers send notice
18 to these offset operators?

19 A. I learned last night that he may not have.

20 MR. PADILLA: And this lawyer is asking for a
21 continuance and readvertisement of this case to allow notice
22 to be made.

23 EXAMINER CATANACH: When was that notice sent
24 out, Mr. Padilla?

25 MR. PADILLA: It hasn't been sent.

1 EXAMINER CATANACH: So it would be sent today?

2 MR. PADILLA: It will be sent.

3 EXAMINER CATANACH: So we'll go ahead and
4 continue the case for a month, to February 2nd. That should
5 take care of the notice.

6 THE WITNESS: That would cause modification in
7 the last paragraph on Exhibit 1, which says that the offset
8 operators have been notified.

9 Q. (BY MR. PADILLA) Mr. Kendrick, what's Exhibit
10 4-B?

11 A. Let's talk about 4-A and 4-B. 4-A is a plat
12 showing the area, similar to plat 3-A, except this time it
13 shows the wells platted on there and the dryhole spotted.
14 And 4-B is a list of the wells as shown in all the sections
15 offsetting Section 5.

16 You will notice that to the north in Section 30,
17 the Mesaverde well in the SW 1/4 has been plugged and
18 abandoned. In Section 5 there is a Mesaverde well in the SW
19 1/4 that has been plugged and abandoned. In Section 4, a
20 Dakota well in the SE 1/4 was plugged and abandoned and was
21 not recompleted in the Mesaverde. In Sections 7 and 8 there
22 are three more Mesaverde wells that have been completed and
23 abandoned.

24 So that shows that the Trix No. 2 well will be a
25 salvage operation, to salvage whatever Mesaverde production

1 might be available in this well, because it's surrounded by
2 wells that have already been abandoned in the Mesaverde.

3 Q. Are you through with 4-A?

4 A. And 4-B.

5 Q. And 4-B. Let's move on to Exhibit No. 5.

6 A. Exhibit No. 5 is a copy of the Form C-102 that
7 will be submitted if this application is approved.

8 Q. That merely is a repetition, essentially, of what
9 the other exhibits contain; is that right?

10 A. Yeah, that just shows that the W 1/2 of Section 5
11 will be dedicated to the Mesaverde formation in the well.

12 Q. What does Exhibit No. 6 contain?

13 A. Exhibit No. 6 contains the production information
14 from the Gavilan-Mancos Pool in the Trix No. 1, both tabular
15 and graphically. The well did not produce until January 19,
16 '94, and this production is through October 1994.

17 Q. Mr. Kendrick, how is production in the Mancos
18 formation obtained? Does the well flow on its own or --

19 A. No, this well is a pumping well, and the pumping
20 integrals stay on the wellbore to make sure that the well
21 produces at all times. The Gavilan-Mancos pool is an oil
22 pool, and so the well has to be pumped to get it to produce.

23 Q. Mr. Kendrick, is the gas in the Mancos formation
24 compatible with the Mesaverde gas?

25 A. Yes.

1 Q. In this area?

2 A. Yes. All the cretaceous gases in the San Juan
3 Basin are compatible.

4 Q. Do you have anything further in Exhibit 6?

5 A. No, sir.

6 Q. Let's move on to No. 7 and have you tell the
7 Examiner what that is and what it shows.

8 A. Exhibit No. 7 is the schematic diagram of the
9 wellbore showing that the current perforations are from
10 7,000 feet to 7,244 for the Mancos formation and proposed
11 perforations in the Mesaverde will be from 5,830 to 5,853
12 feet.

13 Q. Mr. Kendrick, how do you propose to show or test
14 this well in order to arrive at an allocation formula?

15 A. We propose to test the Mesaverde well immediately
16 before recompletion, obtain the Mancos production rate, I
17 think complete the well in the Mesaverde, clean out and then
18 test both zones together and use the difference for the
19 Mesaverde portion of the production. This is a procedure
20 that has been used in earlier completions, and it would
21 avoid leaving a rig on the well about another 10 days.

22 Q. Mr. Kendrick, you earlier said that you did not
23 have pressure data, but do you have any information to give
24 the Examiner about whether or not pressure would be a
25 problem as far as incompatibility of production as you

1 contemplate?

2 A. We do not have pressures on the Mancos formation
3 at this time, and if it's requested, we'll get pressures at
4 the time the Mancos is tested immediately to recompletion.
5 The Mesaverde, being a salvage operation, would not have
6 sufficient pressure to put a lot of gas into the Gallup
7 formation should the pump unit fail.

8 Q. Mr. Kendrick, are you planning to have the Oil
9 Conservation Division in Aztec monitor the testing
10 procedure?

11 A. We would intend to invite them to the tests and
12 to test based on their recommendations.

13 Q. Mr. Kendrick, do you know or are you aware of any
14 precedent with respect to commingling production in the
15 Gallup and the Mesaverde formations in this area?

16 A. Not a specific well, but I do know that they have
17 occurred.

18 Q. Do you have anything further with respect to
19 Exhibit No. 7?

20 A. No, sir.

21 Q. What are Exhibits 8-A and the 8-B?

22 A. Exhibits 8-A and 8-B are copies of well logs.
23 They were taken within this well and the perforated
24 intervals are shown indicated in red, just to show how the
25 wells have been completed and would be completed. The

1 intervals that they'll be completed.

2 Q. Let's go on now to Exhibit No. 9 and have you
3 tell the Examiner what that is and what it contains.

4 A. Exhibit No. 9 is a description of the proposed
5 test procedure to test the Mancos formation, recomplete in
6 the Mesaverde, clean out and test both zones together and
7 take the difference between the two tests and allocate that
8 percentage to the Mesaverde.

9 Q. Essentially, it's the same thing as what you've
10 already testified to?

11 A. The same thing that I explained a little earlier.

12 Q. When do you propose to conduct this commingling
13 procedure if the application is --

14 A. As early in the summer as the weather is
15 compatible to do it.

16 Q. Mr. Kendrick, do you have anything further
17 concerning this application?

18 A. No, sir.

19 Q. Mr. Kendrick, in your opinion, would approval of
20 this application be in the best interest of conservation of
21 oil and gas?

22 A. Yes, I think it would be in the best interest of
23 conservation and in the salvage production of the Mesaverde
24 gas that is not sufficient for a well to be redrilled to
25 salvage that gas.

1 MR. PADILLA: Mr. Examiner, we offer Exhibits 1
2 through 9, and we pass the witness.

3 EXAMINER CATANACH: Exhibits 1 through 9 will be
4 admitted as evidence.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Kendrick, the ownership between the two zones
8 in this well, is it common?

9 A. Yes, the vertical -- all leases are vertically
10 common owned but as each lease is owned from surface to the
11 bottom.

12 Q. The interest owners own the same percentage in
13 each of the completions in the Mancos and the Mesaverde?

14 A. Under each lease, yes. It's just that we have
15 the Federal lease in the W 1/2 of the NW 1/4, and the fee
16 lease for the other part of the W 1/2. We'll have two
17 leases dedicated in the Mesaverde. And the two leases are
18 dedicated -- or actually, three leases are dedicated in a
19 640-acre dedication.

20 Q. So the interest -- I mean the interest is common,
21 it's just in both zones? You've got the same interest
22 owners that own an interest in the Mesaverde as do in the
23 Mancos?

24 A. Well, no. There is a fee lease in the East 1/2
25 of the section that will not participate in this Mesaverde

1 well, but they do participate in the Mancos.

2 Q. Okay. That's what I'm trying to get at. The
3 interest is not common in the two formations?

4 A. No.

5 Q. The ownership?

6 A. That's correct.

7 EXAMINER CATANACH: I would recommend that the
8 interest owners also be notified of this application, Mr.
9 Padilla, in case they have any objections.

10 MR. PADILLA: I will do that. Actually, I think
11 Mr. Kendrick is confused about common ownership. The
12 interest is common on the W 1/2 of the NW 1/4 all the way
13 down. The interest is common on the remaining acreage on
14 the W 1/2 of Section 5 from the surface to bottommost
15 producing formation. In other words, it's going to be
16 common as far as the W 1/2 is concerned with the
17 understanding that they are two different leases.

18 EXAMINER CATANACH: But, again, the net effect is
19 it's not common in both formations?

20 MR. PADILLA: Correct.

21 EXAMINER CATANACH: Okay.

22 MR. PADILLA: We do not have common ownership on
23 the entire W 1/2 of Section 5.

24 THE WITNESS: The lease participation in the well
25 in the two different formations will be different.

1 EXAMINER CATANACH: Okay. So if you would notify
2 the interest owners as well as the offset operators, okay.

3 Q. Mr. Kendrick, this well has been producing for
4 about a year; is that correct?

5 A. That's correct.

6 Q. And it's down to about 40 barrels a day in the
7 Mancos; is that about right? That was the latest --

8 A. Yes.

9 Q. -- figure that I have for October. Do you have
10 any idea what the Trix -- I'm sorry, what was the P & A'd
11 well, the old Mesaverde well in that W 1/2 in that SW 1/4?
12 Do you know the name of that well?

13 A. I have it here. It was Meridian Oil -- excuse
14 me. Excuse me. No, that well did not produce. The one
15 that was plugged in Unit letter N did not produce.

16 Q. Do you know why it did not produce?

17 A. It was drilled by Palmer Oil and Gas about 15
18 years ago, and they determined that it was not economical to
19 produce the well. They abandoned several wells. They
20 drilled in that area at about the same time. I think that
21 one was probably drilled by Palmer Oil and Gas. Let me see.
22 It should be listed on Exhibit 4-B.

23 Q. It's the Stevenson #3?

24 MR. PADILLA: Seems like it is.

25 THE WITNESS: Yes.

1 Q. (BY EXAMINER CATANACH) You are sure that was
2 never produced?

3 A. Just -- I don't want to present this as an
4 exhibit. There is a copy of the 1993 annual production
5 report that does not show this well listed, so I don't think
6 it ever produced. You may keep that copy in your file if
7 you would like.

8 Q. Okay. At this point in time you really don't
9 know what the Mesaverde is capable of producing in that
10 W 1/2?

11 A. That's correct.

12 Q. Do you have any offset Mesaverde production data
13 that might indicate what that might produce?

14 A. That would be the latest data that's shown on
15 that, and over toward the right-hand side of that, you'd
16 find the pool name and find the Mesaverde well down in
17 Section 8 from the Blanco-Mesaverde. And the list shows
18 annual rates of oil and gas and water and cumulative rates
19 of oil gas and water. For instance, the well No. 1 in Unit
20 M of Section 8 produced 38,700,000 in 1993 and has a
21 cumulative of 5.7 billion feet.

22 Q. Well, do you think it's possible you might get
23 some substantial producing rates from Mesaverde?

24 A. I really don't think so, because if the rates
25 would have been high, the Palmer people would have linked

1 pipeline and tried to produce a well that they plugged in
2 the letter Unit N of Section 5, that Stevenson #3 well.

3 Q. Do you have any pressure information from the
4 Mesaverde?

5 A. Not in this wellbore, no, sir.

6 Q. Do you have any idea if these pressures are
7 compatible in the wellbore?

8 A. I don't think that either zone would exceed the
9 other one by 50 percent.

10 Q. It's my understanding that Gallaway would be
11 willing to obtain some pressure information if we requested
12 it?

13 A. We'll test it, run whatever test is requested by
14 the Aztec office of the Oil Conservation Division.

15 Q. Does the Mesaverde produce any liquids, as far as
16 you know?

17 A. Yes, sir, there are some liquids production in
18 the report that I gave you there that shows the Mesaverde
19 over there does makes a little bit of liquid.

20 Q. Condensate?

21 A. Yes, sir.

22 Q. Or water?

23 A. Well, it would be classed as condensate, since
24 the Mesaverde is a gas interval.

25 Q. Water, making water?

1 A. Very little.

2 EXAMINER CATANACH: I think that's all I have of
3 the witness, Mr. Padilla.

4 MR. PADILLA: I have nothing further, and I will
5 get you the notice and wait for the readvertisement.

6 EXAMINER CATANACH: Okay. There being nothing
7 further in this case, Case 11173 will be continued to the
8 February 2nd, 1995 hearing.

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