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I N D E X

WILLIAM J. GRAHAM

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MR. STOGNER: We'll call next Case Number 8496.

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

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

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

Will the witness please stand and be sworn?

(Witness sworn.)

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Graham, for the record would you please state your name and occupation?

A William J. Graham. I'm an engineer and President of Chaveroo Operating Company.

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Q Mr. Graham, have you previously testified before the Oil Conservation Division as an engineer and had your qualifications accepted and made a matter of record?

A Yes, sir.

Q And have you prepared certain testimony on behalf of your company for presentation today?

A Yes, sir.

MR. KELLAHIN: Mr. Examiner, we tender Mr. Graham as an expert petroleum engineer.

MR. STOGNER: Mr. Graham is so qualified.

Q Mr. Graham, let me direct your attention to what we have marked as the Applicant's Exhibit Number One and, first of all, have you give the Examiner some of the background about what your past activities have been in the northeast quarter of Section 25.

A All right, sir.

The northeast quarter of Section 25, we have recently drilled and completed what would be labeled Tucker Hall Well No. 6.

We'd also gotten permission for the non-standard location for Tucker Hall No. 9 and that's the reason for this hearing, to drill that particular well.

Q Would you describe for the Examiner what is the approximate unorthodox location for the Well No. 9?

A It's 1310 feet from the north line, 1310 feet from the east line of that section.

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Q And the Division has previously approved that as an unorthodox well location.

A Yes, sir.

Q In order to get the cooperation and consent of the various working interest owners for the formation of the proration unit for this No. 9 Well, would you describe for us what you've done?

A Well, in the east half of Section 25 there are three different working interest owners, one being Chaveroo Operating Company. The one in question is Mr. Leonard Buckner, who owns interest in Wells 3, 4, and 5.

We've previously sent him a letter requesting his approval for commingling on a well test type basis, which he has approved.

We've also sent him an application, or an AFE and a letter stating that we wish to drill the Well No. 9, and an AFE to that effect and proposing to drill this nonstandard location.

He has previously approved the commingling because of the different interest in Tucker Hall, east half of Section 25.

Q Have you been able to resolve the different issues so that Mr. Buckner now has agreed to participate in the well?

A We have not been able to at all.

Q All right, sir. Let me have you explain to us so it is clear to the Examiner that Mr. Buckner was

1
2 aware of the unorthodox well location and how you attempted
3 to accommodate the fact that the well was at an unorthodox
4 location in order to allocate him a certain share of produc-
5 tion.

6 A Well, we sent him a letter showing very
7 clearly what each quarter quarter section in the northeast
8 quarter of Section 25, how it would participate in the well
9 and how his interest would be allocated to the production
10 from that well, and he has no problem with that allocation
11 of interest.

12 I might also mention there's another in-
13 terest owner in there, which has already approved this and
14 has agreed to participate in the well.

15 Q Has the proposed method of allocation to
16 Mr. Buckner's interest been adjusted because of the proxim-
17 ity the proposed well has to acreage that will be outside of
18 the actual spacing unit for the well?

19 A Yes, sir. Yes.

20 Q Let me direct your attention now, Mr.
21 Graham, to Exhibit Number Two, which is the AFE, and have
22 you describe how those costs relate to the types of well
23 that you're drilling in this formation.

24 A Okay. The cost that we've allocated here
25 is on the basis, of course, of drilling the other three
wells and some other wells in the Chaveroo area.

It's based on an estimated turnkey, which
is within \$3 or \$4000, which has some allowances both plus

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2 or minus for logging and certain additional cementing costs
3 in some cases some location costs.

4 The other costs that are there are the
5 basis, the basis of which have been some of our average
6 costs that we've experienced on other wells, and so that's
7 how we have formulated this particular AFE.

8 Q Sir, let's go now to Exhibit Number Three
9 and have you identify and describe the facts surrounding Ex-
hibit Number Three.

10 A Exhibit Number Three is our initial com-
11 munication with Mr. Buckner and has been the basis and the
12 foundation on numerous telephone conversations back and
13 forth between ourselves and Mr. Buckner.

14 Q If you'll now turn to Exhibit Number
15 Four, Mr. Graham, would you identify that one for me?

16 A All right. Exhibit Number Four was again
17 another attempt to participate and to explain to Mr. Buckner
18 his actual proceeds, how it would be broken down, and how
19 everything would be allocated to him, just another explana-
20 tion or further breaking down the percentages of not only
21 his interest but the other gentleman, Mr. (not clearly un-
22 derstood), who also participates in this area.

23 Q And then finally Exhibit Number Five, Mr.
24 Graham, would you identify that one?

25 A This is a communication back to Mr. Buck-
ner again having to do with the question of the forced pool-
ing, the amount of oil that we consider to be potential from

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2 this thing, giving him some background again, a little more
3 detail on some of our evaluations, evaluations of other ex-
4 pert engineers, and trying to give him every bit of data
5 that we could to help him in his evaluation.

6 Q Let's see if we can't summarize what have
7 been the various points that have been discussed with Mr.
8 Buckner, and first of all, have you discuss for us what per-
9 centage interest, working interest, does Mr. Buckner have?

10 A Well, Mr. Buckner in the well would have
11 a 2.25 percent interest in the well.

12 Q All right, and that's a working interest.

13 A That's a working interest.

14 I might add that on every occasion that
15 we'd talk and we'd send him more data, mainly what he comes
16 back with is "buy me out", and we've just not been able to
17 arrive at any price.

18 He is wanting a price approximately six
19 or seven times what the average price was that we paid for
20 these wells and our interest in here to begin with.

21 He's not really been -- he's not had any
22 -- we have not had any fruitful discussion with him about
23 how to participate or what he wants to do, other than he
24 would like for us to buy his interest out.

25 And we've not been able to arrive at a
price.

Q From your discussions with Mr. Buckner
are you able to characterize what the level of his experience

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is in dealing with oil and gas matters?

A He is an ex-accountant and evidently very familiar. He understands the operating agreement; seems to understand the COPAS agreements, and has asked several questions. We have -- that's not a particular question in regard to Tucker Hall No. 9 but as a question in regard to operating expenses, we have furnished him data as to how we got to ours, also some additional data as to what was being charged by other operators in the area.

He -- he apparently as accepted that, approved that, is now paying his operating expenses on the well on that basis.

So he -- he appears to be from all we can tell familiar with operating agreements and COPAS agreements to that extent.

Q While we're on the issue of operating expenses and overhead rates, Mr. Graham, would you give us your opinion as to what would be a reasonable drilling rate and a producing rate on a monthly basis to charge in this pooling order?

A All right. In this particular area we're proposing a drilling rate of \$4000 per well on a per monthly basis allocated.

Also, a cost of \$300 per month per well producing well.

Q Now you said that Mr. Buckner had agreed to accepted overhead rates on another well which was, I

1 think, the Tucker Hall No. 7?

2 A It would be the Tucker Hall -- actually
3 it would be the operating wells shown on Exhibit Number One,
4 Tucker Hall 3, 4, and 5, which he has an interest in.

5 Q Are the overhead rates being charged for
6 Wells 3, 4, and 5, to which Mr. Buckner has agreed and is
7 paying his share, the same rates that you propose to apply
8 in the Tucker Hall No. 9 Well?

9 A Yes, sir.

10 Q Do you have an opinion, Mr. Graham, with
11 regards to a recommendation to the Examiner on a penalty
12 factor to be --

13 A Well, I --

14 Q -- assessed in this case?

15 A -- would recommend that we -- we be
16 granted the maximum under the statutory limit or recovering
17 our cost plus 200 percent.

18 Q Can you articulate for us some reasons
19 upon which you rely to form that opinion?

20 A Well, geologically these wells, as far as
21 finding San Andres, as you can tell, have very little risk;
22 however, risk associated with these wells, as we found in
23 drilling the others, one is that on occasion because some
24 pressure depletion has occurred in some of the stringers, we
25 have experienced some mechanical risk in being able to get
the casing to bottom in every case. We have had casing
stick in two out of about ten total wells we've drilled in

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the Chaveroo area.

Fortunately, we were basically through the main areas and if we need to, we can drill out, but it is a degree of risk.

Another degree of risk that apparently is coming in that we're determining, does not inherently -- does not conflict with overall potential profitability, but it will delay our payouts, and with the cost of money, makes our cost go up, and that is, we're seeing water saturations in some stringers, apparently changed from what we were able to notice in some of the wells, as best we could from the early data drilled in the sixties. It's not enough to make the zone completely unproductive, but it does cause us to produce more water and with more water delays.

The other thing that we do see is some pressure depletion in some stringers of these sands, and I want to add that we don't see these things necessarily in every well we drill, but we will catch some of these things in several of the wells that we drilled and we assess those as risk to us in this particular case.

The completion procedures in these wells do then become very involved and we have to be extremely careful that we run a fairly complete suite of logs and we actually go in and do some perforating and testing each individual interval before we back up and do the fracturing treatment, which has to be fairly substantial and because of the semi-depleted nature we find in some places, we're using

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2 nitrogen as a flowback fluid in order to get our recoveries
3 and fines things back.

4 So we do have some -- we do have some
5 risk in here. There is oil in the ground but there are some
6 risks associated with it, and which would be the reason I
7 think that penalty would be in order.

8 Q You mentioned the occurrence of a pos-
9 sible pressure depletion, water encroachment, various com-
10 pletion techniques that increase the risk. Are there any
11 other -- are there any mechanical risks involved in --

12 A Well, the mechanical risk primarily is
13 getting the casing to bottom in the proper place, is --
14 would be the mechanical risk that -- that we know can be a
15 potential problem to us. Other than that, by drilling with
16 as light a fluid as we possibly can, we've not experienced
17 any severe drilling problems. Some lost returns but not
18 severe.

19 Q Were Exhibits One through Five prepared
20 by you or compiled under your direction and supervision?

21 A Yes, sir, they were.

22 MR. KELLAHIN: We move the in-
23 troduction of Exhibits One through Five.

24 MR. STOGNER: Exhibits One
25 through Five will be admitted into evidence.

MR. KELLAHIN: At this time,
Mr. Stogner, we would move to delete from our application,
from the advertisement, that portion of the application that

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2 relates to a standard well location. That, obviously, is
3 superfluous. We're dealing with an unorthodox well location
4 that has been previously approved after notice and hearing
5 for this well. The location is one in which the pooled par-
6 ty, Mr. Buckner, has been specifically made aware of and in
7 fact his interest under the pooled acreage has been in-
8 creased to take into consideration the fact that the offset-
9 ting acreage in which he also has an interest might contri-
bute productive acreage to the well.

10 For those reasons, then, we would request
11 that you delete that from the application because it's no
12 longer necessary.

13 MR. STOGNER: Mr. Kellahin,
14 what was the order that approved this nonstandard location
15 for the Tucker Hall No. 9?

16 MR. KELLAHIN: I'm going to
17 have to get that for you, Mr. Stogner. I don't have it in
18 my file and I don't recall the number off the top of my
19 head.

20 MR. STOGNER: When was it
21 heard? Do you remember that?

22 A December.

23 MR. KELLAHIN: I want to say
24 December.

25 MR. STOGNER: Was Chaveroo the

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MR. KELLAHIN: Yes, sir.

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A Yes, sir. I might have that here.

MR. STOGNER: For the record, Order Number R-7774 approved the Tucker Hall No. 9 to be 1310 feet from the north and east lines of Section 25, and we'll take administrative notice of that.

We will delete that referring to the standard location since this application for unorthodox location was approved at a hearing.

CROSS EXAMINATION

BY MR. STOGNER:

Q What -- what relationship does GNP, Incorporated have with Chaveroo Operating Company, other than the same office building?

A G&P Exploration is a company owned by Graham and Pickett.

Chaveroo Operating Company is a company owned also by Graham and Pickett.

G&P Exploration initially purchased all of these properties that were owned by the Monument Company and still holds an interest within these properties. This is being operated under a limited partnership arrangement. Chaveroo Operating Company is the managing general partner and operator.

Q In your communication with Mr. Buckner, you first got in touch with him by letter dated November 29th, 1984, that's Exhibit Number Three, is that correct?

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A Yes, sir, I believe that was the first communication we had with him.

Q Okay. What was his response to that letter?

Was it by another letter from him or a --

A No, sir, primarily --

Q -- telephone call?

A -- by telephone and sometimes he has sent us a handwritten note and most of it had to do with some details which we furnished him on our operating expenses, which I think he's satisfied with at this time, and from the first he has said, "I would like for you to purchase my interest in that, not only in this well but in 3, 4, and 5."

And that has almost been his consistent response, either verbally or by handwritten note, and every time that he -- all these other letters are here trying to answer questions which -- which he may have had.

Q The Well No. 5 that is existing in the northeast northeast quarter of Section 25, is that also producing from the same reservoir?

A Yes, sir.

Q Did Mr. Buckner agree at that time when that well was drilled to participate?

A That well was drilled back in about 1965 and he did participate.

To the best of my knowledge, let me say that. We did not have control of the property and there's

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2 nothing in the records of Monument Resources, or anything
3 else, that would reflect that he did not.

4 Q In your correspondence with him and your
5 telephone questions, was he clear that this was the same
6 proration unit as the No. 5?

7 A Yes, sir. The data you see is the same
8 data we have furnished to Mr. Buckner with how his partici-
9 pation would be involved in the well.

10 Q Okay. Your next letter to him was then
11 dated December 10th, 1984.

12 A Yes, sir.

13 Q Okay. Did you -- have you had supplemen-
14 tal response -- correspondence with -- oh, I'm sorry. You
15 did have a letter out dated January 29th, 1985, Exhibit Num-
16 ber Five.

17 A Yes, sir. This was just -- this was to
18 inform him we -- we began talking with all the working in-
19 terest owners early on, even prior to getting here, that we
20 were, you know, we tried to tell everybody how we were going
21 to do it, how the allocations were, that we were applying
22 for these and -- and that did not have any question or prob-
23 lem to him. It's only come down to the point o now when we
24 have an AFE, we have a location approved, and we're ready to
25 move forward, and he apparently has determined, and he has
determined from the very beginning he'd rather sell his in-
terest, and he's maintained that pose to us without really
being able to arrive at any conclusions with him.

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Q Have you had --

A We have tried to approach him and tell him that -- that, you know, that we have sent him the data on which we based our decision to drill on, a copy of the report.

We've sent him a page from that, and I think the man understands, or appears to understand that. We're not trying to sell him or we're certainly not trying to keep him out. We're just trying to give him all the information we possibly can for him to make a decision on, but we do need to move forward.

Q Have you had subsequent correspondence with --

A Not since January 29th.

Q So you did not notify him of the forced pooling?

MR. KELLAHIN: I did, Mr. Examiner.

MR. STOGNER: Oh, you did?

MR. KELLAHIN: On the date we filed the application, which was February 5th, 1985, I sent a copy of that application by certified mail, return receipt, to Mr. Buckner.

MR. STOGNER: Do you have that with you?

MR. KELLAHIN: I have the card showing it was mailed and I will have to supply the return

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receipt card to you subsequent to the hearing, Mr. Examiner.

MR. STOGNER: This application you sent him, was that the same application that we received on February 5th?

MR. KELLAHIN: Yes, sir.

MR. STOGNER: Okay. Did you send a cover letter with that?

MR. KELLAHIN: He got the same copy of the cover letter that went with the application.

MR. STOGNER: Oh, okay. Dated February 4th, 1985; we received it February 5th, 1985, and I show it CC to Mr. Buckner, certified mail.

MR. KELLAHIN: We'll supply you with the return receipt card.

MR. STOGNER: If you would please. I'll just make that a supplement to the application for this hearing.

Q Mr. Graham, as far as the present status on the No. 3, the No. 4, the No. 5, and the No. 6 Wells, all in the northeast quarter of this section, are they presently producing from the same horizon?

A Yes, sir, the 3, 4, and 5 are presently producing. The No. 6, we are getting final assignments. This was -- we received this from the farmout with Champlin. The well has been drilled and has been tested and is being tested at this point in time. When the assignment is signed, it will be placed on production.

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Q Was the No. 3, 4, and 5 drilled around
1965?

A Yes, sir, '65, '66.

Q When were they put on pump?

A Sixty -- almost immediately or within
'67. I'm not aware of any well in the Chaveroo Field that
flowed more than about a year, a year and a half, so I don't
know exactly when the pump was installed on those wells, but
it's been pumping there, I know, for some ten plus years.

Q Think your chances are pretty good in
getting a well in No. 9?

A Yes, sir, we will make a well. As I men-
tioned to you, the things that occur up and down the well-
bore that we have to evaluate in each one of these wells is
that we may have some partial depletion. We have normally
stopped, taken these and taken some pressures to evaluate
our best method of producing prior to fracturing these
wells.

Geologically and oil in place, there's
not any question that the oil is there, but there are some
risks associated with the thing.

We have, in regard to having these
granted, we have had these wells and their initial fracture
treatments re-examined by Halliburton and it was very evi-
dent to us that our fracture treatments were probably not
effective over about a 15, maximum 20 acre circle, or tight
radius, and therefore we believe that -- that there is sub-

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as low as possible.

One well to the east of here, we stuck about, oh, 150 feet off of bottom. That's the reason we drilled them all to 4500 feet, where if we do have a little problem with that, we've still got basically our -- our zone covered.

One of the orthodox locations immediately to the northwest of this, which would be in Section 24, I believe, we actually got the pipe within 50 feet of bottom but could not reciprocate for the cement job on that one.

So far we've been very fortunate with that situation.

Q What's been your casing program?

A We're running 4-1/2 1050 pound pipe.

Q Out from under --

A Out from under 1800 feet of 8-5/8ths.

Q Do you know by reviewing the old records on the older wells in there if they had the same problem?

A I'm not aware of any major problem in that area. I do know that there was lost returns in some of the drilling. The records are not detailed enough for me to make any judgment on the casing.

There are some wells I don't understand why the casing was set where it was, and I don't know if that could have been a sticking problem or not. The records that I've been able to determine are not -- we've been able to find, are just not complete to that extent, but when the

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2 well was -- when the field was originally drilled, there
3 were some lost return problems in the drilling. We have
4 been able to determine that in the initial wells. We've
5 been able to limit that considerably by just staying as
light as we possibly can.

6 That's one of the reasons we've elected
7 to put the 1800 feet of surface pipe. The initial wells do
8 not have that much surface pipe in.

9 Q Of these problems that you've discussed
10 out there, what do you think is the main concern?

11 A Our main concern is the amount of pres-
12 sure depletion that has occurred and the rate at which we
13 can get oil to come back into the wellbore.

14 Additionally, this water saturation sit-
15 uation is of concern to us and we're trying to -- trying to
16 get a better handle on that as we can -- we do have the cap-
17 ability of handling the excess water but it is of concern to
us.

18 And both of those basically affect how
19 fast we can get oil back out of these wellbores. It's not a
20 question of if the oil is there. It's just a question of
21 how economic and how quickly they come back and that's the
22 reason if somebody doesn't pay their share, we believe that
penalty is in order.

23 Q Since Chaveroo has been operating out
24 there is this first compulsory pooling that you have been
25 in?

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2 A Yes, sir, this is the first one we've
3 been in. I might add that we've had other people, and for
4 instance to the Tucker No. 5 to the northwest, they did not
5 elect to participate; they elected to get out under the pro-
6 visions of the operating agreement which is a 300 percent
7 penalty, which is the same as the statutory ruling if you
8 look at the operating agreement. It says 300 percent but it
9 is 100 percent recovery plus 200, would be the same thing.

10 Now they've elected to do that.

11 We have some other of these unorthodox
12 locations in Section 36 below in which people have agreed to
13 participate and the overhead rates and the penalties have
14 not been a problem to anybody else.

15 Q Have they been the same as you've given
16 me today?

17 A Yes, sir, identical. We do have one
18 other on this agende, one other pooling request, forced
19 pooling, but everybody else, to our knowledge right now, is
20 either going to participate or has agreed to be out under
21 the operating conditions, which is a 300 percent penalty and
22 the same rates that I'm talking to you about as far as over-
23 head and well participation.

24 MR. STOGNER: Thank you, Mr.
25 Graham.

 Is there any other questions of
this witness?

MR. KELLAHIN: No, sir.

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MR. STOGNER: He may be excused.

Mr. Kellahin, as I alluded to earlier, Order No. R-7774, I will also take administrative notice of that Case 8422.

Is there anything further in Case Number 8496?

If not, this case will be taken under advisement.

(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 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 in-camera hearing of Case No. 8496 heard by me on 27 February 1985.

Michael E. Stagner, Examiner
Oil Conservation Division