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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 appearances 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 behalf of VERNA Corporation, V-E-R-N-A.

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

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-

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nesses.

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

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

MR. HALL: We stand by our comment.

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

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

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

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

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

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

1  
2 ahead with the case at this time.

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

5 Mr. Kellahin, please continue.

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

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

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

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 unortho-  
3 dox well location by the Division pursuant to Division Order  
4 R-7774?

5 A Yes, sir, it was.

6 Q Would you describe for the Examiner Exhi-  
7 bit Number Two, which is the proposed Authority for Expendi-  
8 ture on this well?

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

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

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

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

24 So we think it's a good average.

25 Q With regards to this application, Mr.  
Graham, would you identify for the Examiner those indivi-  
duals or companies with whom you have not reached an agree-  
ment?

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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-

1  
2     nal purchase on the thing.

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

9             The operating agreement proposed only a  
10 300 percent penalty, which was the same as the statutory  
11 limit for New Mexico, and that that would save us at least  
12 going through this entertainment, that we were so far apart  
on price that we could not, apparently, reach an agreement.

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

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

22             A             I'm not aware of anything that he ob-  
23 jected to in that area. Some conversations have taken place  
24 between he and Mr. Medairy and I proposed to him the \$300  
25 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.

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MR. STOGNER: Thank you, Mr. Kellahin.

MR. KELLAHIN: In addition we'd seek to delete from our application and the notice of the hearing the fact of a standard location. It's obvious that the Commission has previously approved, after notice and hearing, the unorthodox location. It's a necessary component of this pooling case and we'd seek to delete that from this hearing.

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

MR. KELLAHIN: I have no objection, Mr. Examiner.

MR. STOGNER: Thank you, Mr. Kellahin.

I have no further questions of this witness.

Are there any other questions of Mr. Graham?

If not, he may be excused.

Anything further in 8497?

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 Examiner hearing of Case No. 8497 heard by me on February 27, 1985.

Michael E. Stogner Examiner  
Oil Conservation Division