

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

2 July 1985

EXAMINER HEARING

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IN THE MATTER OF:

Application of Caulkins Oil Company CASE
for compulsory pooling, downhole 8640
commingling, and dual completion, Rio
Arriba County, New Mexico.

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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For Caulkins Oil Co.:	Karen Aubrey Attorney at Law KELLAHIN & KELLAHIN P. O. Box 2265 Santa Fe, New Mexico 87501

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FOR Meridian Oil: W. Perry Pearce
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MR. QUINTANA: We'll call next Case Number 8640.

MR. TAYLOR: Application of Caulkins Oil Company for compulsory pooling, downhole commingling, and dual completion, Rio Arriba County, New Mexico.

MS. AUBREY: Karen Aubrey, Kellahin and Kellahin, Santa Fe, representing the applicant.

I have two witnesses to be sworn.

MR. QUINTANA: Are there other appearances in the matter?

MR. PEARCE: W. Perry Pearce of the Santa Fe law firm of Montgomery and Andrews, P. A., representing Meridian Oil, Inc.

MR. QUINTANA: No witnesses?

MR. PEARCE: No witnesses.

MR. QUINTANA: Ms. Aubrey, would you please have your witnesses stand up and be sworn in at this time?

(Witnesses sworn.)

MS. AUBREY: Mr. Examiner, be-

1 fore beginning the testimony in this case I'd like to make a
2 brief opening statement.

3 The case as advertised calls
4 for compulsory pooling, downhole commingling, and dual com-
5 pletion of the Kaime No. 1-R in Rio Arriba County, New Mex-
6 ico.

7 We are still seeking all of
8 those things; however, in the time between the filing of the
9 application and the last week, we have learned of an addi-
10 tional problem with which we seek the Division's assistance,
11 which would be a 50 percent working interest owner in the
12 320-acre spacing unit in the Blanco Mesaverde and Basin Da-
13 kota portions of our well; has burdened the -- its 160 acres
14 under some GLA's with, I believe, UnoCal, to the extent of
15 \$3.73 per MCF in one case and \$3.9-- roughly \$3.96 per MCF
16 in the other.

17 The reason this creates a prob-
18 lem for us is that the New Mexico forced pooling statute,
19 70-2-17C, provides that the cost of the well, the recoupment
20 of the cost of the well and the risk penalty factor apply
21 only to the working interest of a nonconsenting working in-
22 terest owner and do not apply to net revenue payments, pro-
23 duction payments, or overriding royalty.

24 The testimony before you here
25 today will show that after subtracting the excess burdens,

1 the case, and I would like to tell you about that briefly
2 right now, some solutions to the problem that we see in hav-
3 ing a working interest owner who in fact has no working in-
4 terest against which to recoup the penalty.

5 One is to permit Meridian to
6 voluntarily reduce its burden until payout so that Caulkins
7 can recoup its share -- its share of the well cost appro-
8 priately against a nonconsenting working interest owner and
9 recoup its share of the risk factor.

10 If Meridian is not willing to
11 voluntarily reduce those burdens so that -- and put us in a
12 situation where the forced pooling statute of the State of
13 New Mexico works, then we will ask the Division to on its
14 own motion create a nonstandard proration consisting only of
15 Caulkins acreage and 40 acres of El Paso's acreage which is
16 not burdened with these excepted burdens 200 acres out of a
17 320-acre spacing unit.

18 The Division has done this on
19 at least one other occasion in Case 7922 and has solved a
20 similar, although not exactly the same problem, by requiring
21 the party which has created the burden to either voluntarily
22 reduce them or to have their acreage cut out of the prora-
23 tion unit.

24 MR. TAYLOR: Excuse me, Ms.
25 Aubrey, what was the name of the proposed well on this unit?

1 MS. AUBREY: The Kaime, K-A-I-
2 M-E.

3 MR. TAYLOR: 1-R?

4 MS. AUBREY: 1-R.

5 MR. QUINTANA: You may proceed.

6 MS. AUBREY: Thank you.

7

8 CHARLES VERQUER,

9 being called as a witness and being duly sworn upon his
10 oath, testified as follows, to-wit:

11

12 DIRECT EXAMINATION

13 BY MS. AUBREY:

14 Q Would you state your name and by whom
15 you're employed?

16 A My name is Charles Verquer. I'm Superin-
17 tendent with Caulkins Oil Company, Farmington, New Mexico.

18 Q And, Mr. Verquer, have you testified pre-
19 viously before the Oil Conservation Division and been quali-
20 fied as an expert oil and gas operator?

21 A I have.

22 Q Are you familiar with Caulkins' applica-
23 tion which is set for hearing today?

24 A I am.

25 MS. AUBREY: Mr. Quintana, I

1 tender Mr. Verquer as an expert oil and gas operator.

2 MR. QUINTANA: Any objections,
3 Mr. Pearce?

4 MR. PEARCE: None.

5 MR. QUINTANA: He's considered
6 as an expert oil and gas operator.

7 Q Mr. Verquer, have you prepared certain
8 exhibits for the consideration of the Examiner today?

9 A I have.

10 Q Let me ask you to turn to what we have
11 marked as your Exhibit Number One, which is a composite ex-
12 hibit consisting of a number of pages.

13 Was this prepared by you, Mr. Verquer?

14 A It was.

15 Q And it relates to the Kaime No. 1-R Well,
16 is that correct?

17 A That's correct.

18 Q Before we get to the exhibit, let me ask
19 you, the 1-R designation means a replacement well?

20 A That is correct.

21 Q Would you describe for the Examiner the
22 situation which requires you to drill a replacement well in
23 this unit?

24 A On that proration unit in the northeast
25 quarter we have a well, Kaime No. 1, that has mechanical

1 problems and we are unable to produce any gas from it any
2 more.

3 There is a possibility we could get a
4 little but in the terms of our lease if we don't produce any
5 gas for a year we lose that lease, and we would like to re-
6 place the well and when do that, the only economical way is
7 to drill a well to the Dakota and try to open every zone
8 there is possible that has any production, so we can have an
9 economical -- a possible economical venture lease.

10 Q Mr. Verquer, in what formation is the
11 Kaime No. 1 completed?

12 A In the Pictured Cliff.

13 Q Is it completed in any other zone?

14 A Negative.

15 Q Let's turn to the second page of your Ex-
16 hibit Number One. That exhibit locates both the Kaime No. 1
17 and the Kaime No. 1-R, is that correct?

18 A That is correct.

19 Q And is the proposed location for the
20 Kaime No. 1-R a standard location?

21 A It is.

22 Q Outlined in red on page two of your exhi-
23 bit is an area. Can you describe for that -- describe for
24 the Examiner what that red -- the area outlined in red re-
25 presents?

1 A That red limits the 160 acres, the 160-
2 acre fee lease from the Kaime. It was the senior Kaime; now
3 it's Edwin Kaime, whic comprises the north half of the
4 northeast quarter, the southwest quarter of the northeast
5 quarter, and the southeast quarter of the northwest quarter.

6 Q And that acreage is under lease to Caul-
7 kins.

8 A And that acreage is under lease to Caul-
9 kins Oil Company.

10 Q And that is the acreage which is being --
11 was being held by production from the Kaime No. 1.

12 A That is correct.

13 Q Can you estimate for us when that lease
14 will expire in the event that you are not able to drill a
15 replacement well on the lease?

16 A I believe the 1st of September, 1985.

17 Q Still referring to page two of your Exhi-
18 bit Number One, will you explain for the Examiner who owns
19 the additional 160 acres in the north half of Section 20?

20 A El Paso, from the BLM records El Paso has
21 the lease in the northwest quarter of the 120 acres, which
22 is the north half of the northwest quarter and the south-
23 west quarter of the northwest quarter under Lease No.
24 079302A, and the -- in the northeast quarter El Paso has the
25 southeast quarter of that quarter under 079304A.

1 Q Caulkins is seeking to form two spacing
2 units here, one in the Chacra-Pictured Cliff and one in the
3 Blanco-Mesaverde of the Basin Dakota, is that correct?

4 A That is correct.

5 Q What is the acreage dedication in the
6 Pictured Cliff and Chacra?

7 A It would be the northeast quarter.

8 Q And in that El Paso would have 40 acres
9 out of the 160, (not understood.

10 And in the Blanco-Mesaverde Basin Dakota
11 what is the acreage dedication?

12 A Would have been the north, north half of
13 the Section 20.

14 Q With regard to the 120 acres in the
15 northwest quarter of Section 20, which your exhibit shows
16 owned by El Paso or under lease to El Paso, can you refer to
17 that and the 40 acre tract and describe for the Examiner
18 which of these tracts is involved in the situation that has
19 created some excess burdens on the lease?

20 A It is our understanding that the only ac-
21 reage that is burdened is the 120 acres in the northwest
22 quarter of the section.

23 Q Has Caulkins Oil Company made any effort
24 to voluntarily form a unit with El Paso for the development
25 of the north half of Section 20 and the drilling of the

1 Kaime 1-R?

2 A We have. I have met with their people in
3 Farmington and then through our attorney we've contacted
4 them by letter.

5 Q And you've notified them of this hearing,
6 is that correct?

7 A We have.

8 Q Were you successful in any of your con-
9 tacts with El Paso to put together a voluntary unit either
10 for the 160-acre unit or the 320-acre unit?

11 A We have not been successful.

12 Q By your application Caulkins is asking to
13 be designated as operator of the Kaime 1-R, is that correct?

14 A That is correct.

15 Q And your -- have you formed an estimate
16 of what Caulkins Oil Company would like to receive as over-
17 head and supervision costs, both while drilling and while
18 producing?

19 A We have and we're asking for -- was it
20 200 percent?

21 Q Well, let me ask you -- make my question
22 clear to you, Mr. Verquer.

23 Have you estimated what your overhead and
24 supervising costs will be while drilling and while complet-
25 ing the well if you are successful in getting a well, in

1 terms of monthly rates or rates while -- while drilling?

2 A We are asking for \$4000 a month while
3 drilling and completing and \$400 a month while producing.

4 Q Have you checked or do you know whether
5 or not these rates are in line with the customary charges in
6 the area?

7 A In Case Number 7486, forced pooling in
8 Section 19, one section west of this well, and the Commis-
9 sion authorized this -- excuse me, I have made a mistake.

10 I asked for \$3000 a month and \$400.

11 Q And so what you're asking for is \$3000 a
12 month while drilling and \$400 --

13 A Yes.

14 Q -- a month while producing.

15 A And then \$400 a month, the same as was
16 awarded in -- under Case Number 7486.

17 MS. AUBREY: It's Case Number
18 7486 -- I'm sorry, Order No. 7486, Case 8098.

19 MR. PEARCE: Thank you.

20 MR. QUINTANA: Order 7486, R-
21 7486?

22 MS. AUBREY: Right.

23 Q How many wells does Caulkins Oil Company
24 operate in the San Juan Basin?

25 A 185.

1 Q Do you believe that the overhead and
2 supervising costs which you've asked for here today are
3 reasonable in light of the other wells that you operate?

4 A I do .

5 Q Mr. Verquer, let me have you now turn to
6 about the middle of your Exhibit Number One. I believe in-
7 cluded therein is a schematic of your proposed completion of
8 the well as a dually completed well with the Chacra and Pic-
9 tured Cliff formations commingled and the Mesaverde and Dak-
10 ota formations commingled.

11 A It's just a schematic, rough outline
12 showing the Pictured Cliffs perforations, the Chacra perfor-
13 ations, and a packer set below them, with tubing run to the
14 surface, to the Dakota, and then Mesaverde perforations,
15 Dakota perforations below the packer, which leaves the com-
16 mingled Mesaverde-Dakota production to come to the surface
17 through the tubing which should be 1-1/2 EUE, and the upper
18 production could either flow through the casing or the tub-
19 ing; normally it would be flowed through the tubing, and it
20 would be 1-1/4 10-round non-upset tubing.

21 Q Is this the standard completion technique
22 for in well in which -- which had four zones open in it?

23 A I have another well completed exactly the
24 same way.

25 Q And have you had any unusual problems or

1 difficulties with that well which would lead you to believe
2 that this is not the appropriate way to complete the well
3 with four zones open?

4 A That -- that well is the most trouble-
5 free well I have. I feel like that it's the way to produce
6 a marginal well.

7 Q Would you explain for the Examiner why
8 it's important to Caulkins to open all four zones in that
9 well?

10 A From a summary history that we have of
11 the wells offsetting it, there's not too much gas flow so
12 we need to have as much as we can get.

13 That's the general idea; open them all
14 up.

15 Q Would the well be economical if it were
16 completed only in the Pictured Cliff?

17 A Negative.

18 Q Would it be economical if it were com-
19 pleted only in the Chacra?

20 A No.

21 Q What about the Mesaverde and Dakota?

22 A No.

23 Q By combining those four zones in the
24 wellbore, it's your opinion that you will create -- increase
25 your chances of an economically successful well?

1 A We do.

2 Q That's assuming you find production in
3 any of these four zones.

4 A That's true.

5 Q Let's turn to the next page in your exhi-
6 bit. Is that set forth as a statement of the proposed com-
7 pletion technique?

8 A That's right. It's just the itinerary of
9 the way we drilled -- that I drill holes in the area, and we
10 have one currently drilling, not to be completed this way,
11 but it will be a Mesaverde-Dakota dual, and this is a stand-
12 ard dual, even though we're in four zones.

13 Q How are you going to allocate production
14 between the two sets of commingled zones?

15 A I plan to follow the standard procedure
16 for commingling and test each zone separately, bottom hole
17 pressures and individual tests, and then confer with the
18 District Office (not understood).

19 Q In order to create a percentage alloca-
20 tion between the zones?

21 A That's correct.

22 Q Has this been Caulkins' standard proce-
23 dure in connection with dually completing and commingling
24 other wells in the area?

25 A They have. May I add?

1 Q Sure.

2 A Unless we have a history for a year or so
3 on a well which -- that we can present.

4 Q In some of the wells you've had the wells
5 which you have recompleted.

6 A Yes, we have that (not understood).

7 Q This one will be initially drilled as a
8 well producing from all four zones.

9 A Yes.

10 Q Let me have you turn now to the next page
11 of your exhibit, which appears to be a cost estimate for the
12 well. Was that submitted to El Paso/Meridian in connection
13 with your proposal for a voluntary formation of a unit?

14 A It was.

15 Q Does that continue to represent a fair
16 and accurate estimate of the cost of drilling and completing
17 the Kaime No. 1-R?

18 A It does.

19 Q Let me have you turn now to the last page
20 of that exhibit and can you explain that for the Examiner?

21 A This exhibit just shows an estimated cost
22 of the well, which is \$514,595.

23 And the approximate gas production at
24 \$2.25, payout equals \$225-million.

25 And then taking the records of the offset

1 wells within half a mile, the worst -- the worst wells that
2 were in that group, and the approximate days to payout when
3 you add all of those zones together was 720 producing days.

4 Then the best wells within a half a mile.

5 And I took the payout, in these 293 days.

6 Then I took the difference between the worst well and the
7 best well and came up with an average of probably 506 pro-
8 ducing days to pay out the well at \$514,595, total cost.

9 Q And this set of economic calculations was
10 made by you prior to you finding out about the burden on the
11 120 acres in the northwest quarter of -- which we believe
12 are in the neighborhood of \$3.73 to \$3.93 an MCF.

13 A That is correct.

14 Q So these figures do not reflect any con-
15 sideration of any overriding royalty or burden in excess of
16 the ones you would expect.

17 A That's right. I may add, in our -- in
18 the exhibits I have a well that is completed -- I have pro-
19 duction history of 1984 that shows that it's a well that's
20 completed exactly the same as I propose to complete this
21 well, and in 1984 it produced 763,000 per day from the four
22 zones, and if we get a well that is -- happened to be that
23 good, it would pay out in some 295 days, producing days.

24 Q What would you -- can you give your
25 opinion as to whether or not 763 MCF per day is in fact a

1 better well than you would normally encounter?

2 A I hope to have one that good, within that
3 area.

4 Q You've used some assumptions here in cal-
5 culating days to payout and you've approximated a number of
6 -- I'm sorry, you've put out approximated production to
7 reach number of days to payout.

8 A That's correct.

9 Q If you put into your calculation a \$3.96
10 per MCF overriding royalty applied to El Paso's 50 percent
11 working interest, do you have an opinion as to whether or
12 not the well will ever pay out?

13 A It would never pay out.

14 Q Do you have an opinion as to whether or
15 not El Paso's working interest would always be a negative
16 number?

17 A It will always be a negative number.

18 Q In these assumptions you were assuming
19 \$2.25 under a gas contract, is that correct?

20 A Correct.

21 Q Is that an existing gas contract to which
22 this well is dedicated?

23 A Yes, that's correct.

24 Q Do you know whether or not it would be
25 possible to obtain a higher price than that in today's mar-

1 ket for the gas from that well?

2 A Not under our -- our contract. We are
3 bound to it for our part of the gas.

4 Q Okay. Let me have you look at the last
5 page of your exhibit. It appears to be a letter from El
6 Paso to me.

7 A That's correct.

8 Q Is that in connection with Caulkins' ef-
9 forts to form the voluntary unit?

10 A That is correct.

11 Q Mr. Verquer, you've included other docu-
12 ments in Exhibit Number One.

13 Can you quickly go through those and
14 identify them for the Examiner, the ones that we have not
15 yet discussed?

16 A On the third page is a vicinity map as
17 furnished by the surveyor of where the new location would
18 be. This does not show the terrain too well. It is quite
19 rough in the area which made the odd footages of 911 and
20 1158 there for the distances.

21 The next page is a tabulation, a monthly
22 tabulation of production from all wells in the Pictured
23 Cliffs zone only, within one-half mile of the proposed well,
24 and their cumulative production for the year and their daily
25 average, as determined by the production and the days they

1 were on during the month.

2 The next page is a tabulation of Pictured
3 Cliff-Chacra wells within one-half mile that have been com-
4 mingled under Order No. 5648, R-5648, with a 70 percent Pic-
5 tured Cliff, 30 percent Chacra split.

6 The next page is all the single Chacra
7 wells within one-half mile with the same information,
8 monthly production, and their average daily by the days
9 they were on.

10 The next is the Mesaverde wells, zone,
11 within a half mile and the same information.

12 And the next is the tabulation of the
13 Dakota wells within a half a mile.

14 And the next page is the Well No. 307-M
15 that I have completed in the same manner as I propose this
16 well and it's the same tabulation, the monthly production,
17 days on and the average daily production.

18 Q The 307-M is completed in the four zones
19 you propose to complete the Kaime No. 1-R in?

20 A Yes, it's exactly the same manner, with a
21 packer between the two zones, upper commingled and the lower
22 zones, lower two zones commingled.

23 Q When was that well completed, the 307-M?

24 A Early in -- it was completed in 1983.

25 The next page is just a tabulation of all

1 the wells within one mile and what formations they were com-
2 pleted in and who the operator is.

3 And we've been over the schematic. I be-
4 lieve we're been over the rest of it.

5 Q Mr. Verquer, in the event that the Divi-
6 sion grants your application to compulsory pool El Paso,
7 what risk penalty factor are you seeking in this case?

8 A We have thought to ask for 200 percent.

9 Q And do you have another witness who is
10 going to testify more fully on the justification for that
11 200 percent penalty, is that correct?

12 A Yes.

13 Q In the event that your application is
14 granted and the 200 percent penalty is imposed against El
15 Paso's 50 percent working interest in the unit, can you am-
16 plify for the Examiner, how Caulkins' correlative rights
17 will be protected, even if you get the 200 percent penalty?

18 A I don't understand that.

19 Q Let me try that one again. I'm not sure
20 I understand it.

21 Let's assume for the moment that your ap-
22 plication is granted and that you receive the full 200 per-
23 cent penalty.

24 Given the net revenue interest or excess
25 burden on the 120 acres in the northwest quarter, will Caul-

1 kins correlative rights be protected by the granting of that
2 200 percent penalty?

3 A Well, if we inherit the burdens, we can-
4 not -- that -- that eliminates us from -- from any recovery
5 of our own.

6 Q Is there any way that Caulkins can drill
7 this well even in the four zones that you have proposed and
8 have an economic well which will pay out in a reasonable
9 period of time, even given the 200 percent penalty?

10 A I see none without reducing the burdens.

11 Q What are the requests which you are mak-
12 ing of the Division to protect Caulkins' correlative rights
13 in this situation in connection with the net revenue inter-
14 est or production payments which are presently burdening El
15 Paso's 120 acres?

16 A First would be to reduce the burdens and
17 secondly, then, if that cannot be done, would be to create a
18 nonstandard unit.

19 Q Now, let's look back at your Exhibit Num-
20 ber One, the second page.

21 What would you propose as the boundaries
22 of a nonstandard proration unit in the Mesaverde and Basin
23 Dakota in the event that El Paso/Meridian cannot voluntarily
24 reduce the excess royalties or whatever they are that are
25 burdening this land?

1 A I would propose, so that all of our ac-
2 reage is -- is protected, that it would be all of the north-
3 east quarter and the southeast quarter of the northwest
4 quarter.

5 Q That would include the entire Kaime
6 Lease?

7 A That would include the entire Kaime
8 Lease.

9 Q For the Blanco-Mesaverde and Basin-Dak-
10 ota.

11 A That is correct.

12 Q And the 160 acres that is represented by
13 the northeast quarter of Section 20 would then be a standard
14 160-acre proration in the Chacra and Pictured Cliffs.

15 A That is correct.

16 Q Do you have anything to add to your tes-
17 timony, Mr. Verquer?

18 A I don't believe I do.

19 Q Were Exhibits One and Two prepared by you
20 or under your direction and control?

21 A They were.

22 MS. AUBREY: Mr. Examiner, I
23 tender Exhibits Numbers One and Two.

24 MR. QUINTANA: Exhibits One and
25 Two will be entered.

1 Q Mr. Verquer, will granting the applica-
2 tion of Caulkins Oil Company prevent waste, protect correla-
3 tive rights, and promote conservation of hydrocarbons?

4 A It will.

5 MR. PEARCE: May I, Mr. Exam-
6 iner? Thank you, sir.

7

8 CROSS EXAMINATION

9 BY MR. PEARCE:

10 Q Mr. Verquer, for clarification of the re-
11 cord, I -- it is your understanding that only the 120 acres
12 held by El Paso in the northwest quarter section is burdened
13 by the override in question, is that correct?

14 A That is correct.

15 Q You mentioned in your testimony, sir,
16 that you believed it was possible for the existing well in
17 the northeast quarter section to produce a little gas.
18 That's the Kaime No. 1, I presumed.

19 A That's correct.

20 Q Is that correct? To your knowledge, sir,
21 the lease on that property is held by Caulkins, is that cor-
22 rect?

23 A That's correct.

24 Q Is there any minimum production figure
25 contained in that lease?

1 A Negative.

2 Q Mr. Verquer, as a practical oil and gas
3 operator, and I gladly consented to that qualification,
4 there's no question in my mind about it, have you had some
5 experience with leases and royalties?

6 A No, I have not.

7 Q Then I have no further questions. Thank
8 you, sir.

9 MR. QUINTANA: I have no ques-
10 tions of the witness at this time.

11 MS. AUBREY: Let me ask one
12 follow-up question, Mr. Verquer.

13

14 REDIRECT EXAMINATION

15 BY MS. AUBREY:

16 Q With regard to the Kaime No. 1, when did
17 it last produce?

18 A It was listed in the exhibits here. The
19 last production was in August of 1984.

20 Q And do you know why it ceased production?

21 A It had logged off and the well has very
22 low shut-in pressures. On some of the exhibits that will be
23 presented later you will see that the shut-in pressure is
24 quite low on that, or they're listed in that, anyway, and
25 the line pressure being 3-to-400 pounds under the Gas Com-

1 pany of New Mexico's system, it is unable to produce into
2 that and as you can see by the exhibit, 238 MCF in 31 days
3 is not sufficient gas to run the (not understood) for the
4 pressure, so that let's that out.

5 Q So Caulkins hasn't simply voluntarily
6 shut the well in. It had stopped producing on its own?

7 MS. AUBREY: That's all I have.

8 MR. QUINTANA: I have no ques-
9 tions of the witness at this time.

10 You may be excused.

11

12 A. R. KENDRICK,

13 being called as a witness and being duly sworn upon his
14 oath, testified as follows, to-wit:

15

16 DIRECT EXAMINATION

17 BY MS. AUBREY:

18 Q Would you state your name and occupation
19 for the record?

20 A A. R. Kendrick, consulting petroleum en-
21 gineer.

22 Q And, Mr. Kendrick, have you testified
23 previously before this Division and had your qualifications
24 as a petroleum engineer made a matter of record?

25 A Yes.

1 MS. AUBREY: Mr. Examiner, are
2 the witness' qualifications acceptable?

3 MR. QUINTANA: They are.

4 Q Are you familiar with the application of
5 Caulkins Oil Company today for compulsory pooling, downhole
6 commingling, and dual completion of the Kaime No. 1-R?

7 A Yes.

8 Q Are you also -- have you also made your-
9 self familiar with certain economic calculations with gas
10 prices and assumed net revenue interest or excess burdens on
11 the property?

12 A Yes.

13 Q Let me have you look at your Exhibit Num-
14 ber Three. Would you identify that for the examiner?

15 A Exhibit Number Three is a series of
16 photocopies of Township 26 North, Range 6 West, showing the
17 annual and cumulative production for each well in that town-
18 ship by the formation.

19 The first page of the maps shows Pictured
20 Cliffs formation. It shows the annual volume of production
21 for 1984 in millions of cubic feet in the upper number.

22 The lower number is the cumulative as of
23 January the 1st, 1985 in millions of cubic feet.

24 The wells --

25 Q Is the proposed --

1 A -- show -- excuse me.

2 Q Is the proposed poration unit shown in
3 yellow on the map?

4 A Yes, the area of interest is identified
5 in yellow on the map.

6 The well spot is not shown to identify
7 which 40-acre tract is represented because of the volume of
8 numbers that have to go on the pages so that the attempt is
9 to show the volumes in each quarter section to represent the
10 wells drilled in the quarter sections.

11 The next page, the map represents the
12 Chacra production.

13 The third page, the Mesaverde production,
14 and the last page, the Dakota production.

15 Q Okay. let's turn back to the Pictured
16 Cliffs production map. In what your opinion, what conclu-
17 sions can you draw from the production numbers that you
18 have -- have studied and put on your exhibit here?

19 A With a hasty reference to this, you'll
20 find that of the good Pictured Cliffs wells are to the north
21 and east of this, except one well about a mile and a half
22 south.

23 The wells have been producing since the
24 early fifties, for the most part, in this area, so that a
25 certain amount of depletion has taken place in the area, and

1 therefore replacement wells would not be anticipated to pro-
2 duce as well as these but the area of interest shown in yel-
3 low there is not in the better part of the pool and there-
4 fore a less than average well in the Pictured Cliffs forma-
5 tion would be anticipated at this location.

6 Q Can you conclude from your exhibit that
7 in the Pictured Cliff you would expect to have a well which
8 was not as good as an original well on a unit?

9 A Yes.

10 Q Let me refer you now to page number two
11 of your exhibit, the Chacra gas production map indicates
12 that all of the good wells are south of the anticipated lo-
13 cation and that even though these are much more recent
14 wells, the wells, even with this formation, as far as east
15 and west is concerned, and further north, are marginal wells
16 and they are the original wells to the Chacra formation, so
17 that any anticipated well in the north half of Section 20
18 would also be expected to be a marginal well.

19 Q Let's look now at the Mesaverde forma-
20 tion.

21 A The Mesaverde production map shows that
22 the proposed location would be a pool extension. It is
23 therefore less than edge in classification.

24 Q So you have no Mesaverde production south
25 of the proposed location and none near on the east side.

1 A On the west side; none on the west side
2 or the south side, which would indicate that we have no con-
3 trol but we really would anticipate low volume reserves at
4 that location.

5 Q And I believe the last page shows the
6 Dakota production, is that correct?

7 A The better Dakota wells are north and
8 east from the proposed location with very little control to
9 the south and west and the control that we do have would in-
10 dicate that a well would not be a high quality well drilled
11 at the proposed location.

12 Q After having studied the data shown on
13 your Exhibit Number Three and in your professional opinion,
14 Mr. Kendrick, do you have an opinion as to the risk penalty
15 which should be imposed against nonconsenting working inter-
16 est owners in connection with the compulsory pooling portion
17 of this application?

18 A Since the rumor has it that sometimes
19 voluntary agreements allow 300 percent risk factors, I think
20 the forced pooling would at least give 200 percent risk in a
21 case where all zones are marginal, that the total well might
22 barely be commercial.

23 Q In your professional opinion is there a
24 substantial risk of obtaining an economic well, given the
25 production information which you have calculated and pre-

1 pared in form of an exhibit, and the testimony that you have
2 heard from Mr. Verquer based on estimates of production?

3 A I think that the chance that the well
4 would make a little money is good but it's still a risk.

5 Q In your opinion are there substantial
6 risks of drilling and completing a well which will in fact
7 pay out?

8 A Yes.

9 Q In your professional opinion are there
10 mechanical risks associated with drilling and completing
11 this well in the four proposed formations?

12 A Yes, the additional problems of downhole
13 commingling and dual completing increase the risk.

14 Q In your professional opinion is the im-
15 position of a 200 percent penalty appropriate in this case?

16 A Yes.

17 Q Let me have you turn now to Exhibit Num-
18 ber Four. Can you identify that for the Examiner?

19 A These are some numbers that were put to-
20 gether based on the production from what I believe was iden-
21 tified as Well No. 307M, a well similarly completed to the
22 proposal here, that produced last year 763 MCF per day.

23 I trimmed that to 762 so we could split
24 it 50/50 handily; assumed a well cost of \$500,000, and the
25 contract price of \$2.25 per MCF.

1 If Caulkins' interest is 50 percent and
2 El Paso's interest is 50 percent, then El Paso's revenue at
3 381 MCF per day at \$2.25, would be \$858.37 and Caulkins'
4 revenue each day would be likewise \$858.37.

5 If El Paso has a \$3.96 override on their
6 half, then their cost per day would be \$1508.76 for the 381
7 MCF, leaving them a net revenue interest of a minus \$650.39
8 per day.

9 Each day that Caulkins pays out \$858.37
10 El Paso would go in the hole \$650.39.

11 Therefore there is no fund from which to
12 pay out El Paso's half of the well which I left out the
13 words "El Paso's" on this exhibit.

14 Q Or Meridian or whoever they are today.

15 A Meridian or Burlington, are however
16 they're known these days.

17 Q Mr. Kendrick, do you have a professional
18 opinion as to whether or not, given the burden which we have
19 described in our exhibits and testimony, that Caulkins' cor-
20 relative rights can be protected and the opportunity for
21 Caulkins to produce its fair share of the hydrocarbons
22 underlying its tract can be provided to Caulkins without a
23 reduction in the excess royalty -- overriding royalty or ex-
24 cess burden which exists on the 120 acres?

25 A Caulkins' interest cannot be protected

1 with the burdens in place unless the size of the drill tract
2 is reduced to eliminate substantially all of the burdened
3 acreage.

4 Q Do you have an opinion as to whether or
5 not given the cost of drilling the well, the contract price,
6 the percentages of interest that we've talked about today,
7 and the dollar figure of the excess burden, the well would
8 ever pay out?

9 A No, the El Paso interest of the well
10 would go further in debt each day; instead of paying out it
11 would go further in the hole instead.

12 Q Do you have anything to add to your
13 testimony, Mr. Kendrick?

14 A No.

15 Q Were Exhibits Three and Four prepared by
16 you?

17 A Yes.

18 Q Mr. Examiner, I tender Exhibits Number
19 Three and Four and I have no other questions of the witness.

20 MR. QUINTANA: The Exhibits
21 Three and Four will be accepted into evidence.

22 Mr. Pearce, is there cross
23 examination?

24 MR. PEARCE: Thank you, Mr.
25 Examiner.

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CROSS EXAMINATION

BY MR. PEARCE:

Q Mr. Kendrick, are you qualified as an expert in matters of lease construction and royalty obligations?

A No, sir.

MR. PEARCE: I think I have nothing further, Mr. Examiner.

MR. QUINTANA: Are there other questions of the witness?

If not, Mr. Kendrick, you may be excused.

MR. TAYLOR: I've got a question for Ms. Aubrey.

If Caulkins claims that because of the burden on the property that the well won't pay out, and essentially their correlative rights won't be protected, what do they actually want out of this thing?

MS. AUBREY: Let me clarify that, Mr. Taylor.

MR. TAYLOR: That's what I want is clarification.

MS. AUBREY: Be happy to do that.

1 What Caulkins wants out of this
2 hearing in addition to the order of the Division pooling El
3 Paso's 50 percent interest in the unit, in the Blanco, Mesa-
4 verde, and Basin Dakota formations, and the authority to
5 dually complete the well and commingle the well in the man-
6 ner in which we've discussed, Caulkins wants a remedy from
7 the Division to protect its correlative rights against a
8 working interest owner who by contract, or otherwise,
9 creates overriding royalties or net revenue interest, or
10 other payments out of production which are so large as to
11 prevent any working interest owner in that unit from drill-
12 ling a well.

13 The situation that we have here
14 is one in which Caulkins cannot under any state of economics
15 drill and produce an economic well, and the reason for that
16 is that they cannot recoup their share of the well cost
17 against El Paso's interest, and the reason for that is that
18 El Paso's interest is always a negative number.

19 This problem is here today be-
20 cause our New Mexico forced pooling statute specifically
21 states that the risk factor and the cost of drilling the
22 well are only recoverable out of the working interest and
23 not out of the overriding royalty interest.

24 If we had a situation as there
25 are in some jurisdictions where we could reach that override

1 until payout with well costs, we would not have the problem
2 we have today, but the problem we have today is that 70-2-17
3 says you can't do that.

4 The remedy the Division has
5 found in the past in Case 7922 was to give the person who
6 has created the problem the opportunity to make an election
7 whether to reduce the burden or to exclude the burdened ac-
8 reage.

9 I believe the Division has the
10 authority to do either of those things.

11 MR. QUINTANA: I take it, Ms.
12 Aubrey, that even if El Paso had voluntarily joined in on
13 the unit there'd still be a negative cash flow on their be-
14 half.

15 MS. AUBREY: If El Paso had
16 voluntarily joined, as I understand the facts, there would
17 still be a negative cash flow because for every MCF of gas
18 produced, actually sold at \$2.25, El Paso has some burden --
19 some obligation, a contractual obligation, as I understand
20 it, to pay out \$3.96.

21 MR. QUINTANA: Out of lease --
22 out of lease production.

23 MS. AUBREY: Right. If there
24 had been a voluntary joinder, that would have come out of El
25 Paso's share. Caulkins would not have the opportunity to

1 ask for a penalty. There wouldn't be a penalty involved if
2 there had been voluntary joinder, and if El Paso had volun-
3 tarily joined, El Paso would have had to find the money to
4 pay for its share of the well costs out of some other poc-
5 ket.

6 So I don't think we would have
7 the problem we have. They have not voluntarily joined.

8 MR. QUINTANA: Does it make
9 sense for them to voluntarily join?

10 MS. AUBREY: I don't know
11 whether it makes sense to El Paso to voluntarily join or
12 not; apparently it does not or they would have done so.

13 MR. QUINTANA: I have no fur-
14 ther questions.

15 Any closing statements?

16 MS. AUBREY: I've just given
17 mine.

18 MR. QUINTANA: Mr. Pearce?

19 MR. PEARCE: Mr. Examiner, if I
20 may, I believe that Caulkins is seeking two remedies in the
21 alternative, one of which cannot be accomplished; the other
22 of which should not be accomplished.

23 First, she seeks to have Meri-
24 dian voluntarily reduce an overriding royalty which she says
25 is held by Union Oil of California. We don't have any tes-

1 timony in this record but I believe that if the Examiner
2 consults with his counsel they will determine that that is
3 not possible for Meridian to accomplish.

4 That interest, so far as this
5 record reflects, is legally created, is a valid, outstanding
6 interest. The economics of the present situation arise be-
7 cause the price of natural gas at this time happens to be
8 below an overriding royalty which is outstanding.

9 Mr. Verquer has indicated dur-
10 ing his testimony that it is possible for this well to pro-
11 duce a little gas and hold this lease. I suggest that one
12 alternative may be to request Caulkins, if they wish to hold
13 that lease with that well, to simply produce a little gas
14 out of that well and hold its lease and hope, as we all do,
15 the price of natural gas rises to such a point that this be-
16 comes an economic venture.

17 The second alternative sugges-
18 tion by the applicant is some sort of coercive nonstandard
19 proration unit.

20 Counsel for Caulkins points to
21 a case in which such an order has been entered in the past.
22 I am not aware that that case was ever taken to the court-
23 house to determine whether or not it is a valid order. In
24 fact, it's my understanding that the parties resolved that
25 matter after entry of the order.

1 But I am also not convinced
2 that the present posture of this case allows for considera-
3 tion of a nonstandard proration unit. I believe the corres-
4 pondence submitted by the Applicant in this matter shows
5 some correspondence about a filing for a nonstandard prora-
6 tion unit; that filing was in a different case and the case
7 that we're considering right now is for compulsory pooling
8 and certain other remedies.

9 Meridian objects to the crea-
10 tion of a nonstandard proration unit because that nonstand-
11 ard proration unit on the basis that we believe is a tempor-
12 ary economic condition, would exclude certain acreage from
13 participation and yet apparently would drain reserves out
14 from under the acreage which is not allowed to participate.

15 We think that is not a reason-
16 able basis for the creation of a nonstandrad proration unit.

17 We recognize that the applicant
18 in this case has a dilemma. We are not the holders of the
19 burden which creates that problem. We cannot voluntarily
20 reduce that burden. We do not know whether or not appli-
21 cant has contacted Union Oil of California to get them to
22 agree to reduce the burden that's on this property.

23 But we do know that we can't do
24 it and we do know that we do not believe this record con-
25 tains sufficient evidence for the creation of a nonstandard

1 proration unit.

2 Thank you, Mr. Examiner.

3 MR. QUINTANA: Ms. Aubrey,
4 would you care to make additional closing statements?

5 MS. AUBREY: Thank you, only
6 briefly.

7 To describe our request for a
8 nonstandard proration unit as coercive is to ignore the fact
9 that by voluntarily entering into contractual relationships
10 for overriding royalties which now exceed the price of
11 natural gas, El Paso/Meridian has coercively created a sit-
12 uation where Caulkins cannot produce one MCF of its gas out
13 of the north half of Section 20.

14 Caulkins is not a party to
15 whatever burden is on this lease. El Paso is.

16 To suggest that Caulkins is at-
17 tempting to coerce El Paso is to simply reverse the true
18 situation. It is Caulkins who is being coerced into sub-
19 jecting its acreage to drainage from other wells and to its
20 inability to produce any gas at all underlying the north
21 half of Section 20.

22 MR. TAYLOR: Ms. Aubrey, if you
23 would like us to try to figure out what we're going to do,
24 it would probably be best if you'd provide us with a copy of
25 whatever document purports to create this unconscionable in-

1 terest.

2 MS. AUBREY: Well --

3 MR. TAYLOR: Otherwise, as far
4 as we see the evidence, there's really nothing in evidence
5 that shows what that's going to be.

6 MS. AUBREY: Well, Mr. Taylor,
7 let me respond to that this way.

8 We had the burden of coming
9 forward with a preponderance of the evidence that a certain
10 fact exists.

11 Opposition appeared, they had
12 the opportunity --

13 MR. TAYLOR: Well, you don't
14 have a copy of the document.

15 MS. AUBREY: I do not have a
16 copy of the document. My client is not a party to it. It
17 has not been provided to you by the people who are sitting
18 across the table here.

19 I don't have it to give you and
20 I don't believe I have to go any farther on my burden of
21 proof to prove the existence of that than to put on uncon-
22 troverted testimony, regardless of what the content of the
23 closing statement was, about the existence of the burden.

24 MR. TAYLOR: Mr. Pearce, would
25 you like to provide us with a copy of that?

1 MR. PEARCE: If counsel for the
2 Division would like to request a copy of those documents, we
3 will be more than happy to provide them.

4 I think I should state to the
5 Examiner and his counsel that it is some of the most convo-
6 luted legal writing you will ever encounter and I will be
7 glad to tender it to you without a summary.

8 Thank you.

9 MR. TAYLOR: Could we request
10 that, then?

11 MR. PEARCE: Certainly. We'll
12 be happy to provide that.

13 MS. AUBREY: Mr. Examiner, may
14 we submit proposed orders in this case?

15 MR. QUINTANA: Yes, I was going
16 to ask for proposed orders in this case. Will you please
17 both submit proposed orders to me?

18 MR. PEARCE: Mine will be ex-
19 tremely short.

20 MS. AUBREY: As was your case,
21 right?

22 MR. QUINTANA: Are there fur-
23 ther matters in this case?

24 If not, the case will be --
25 Case 8640 will be taken under advisement.

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Is there anything further in
Docket Number 21-85?

MS. AUBREY: No, sir.

MR. QUINTANA: If not, Docket
21-85 is officially closed.

(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. 8640 heard by me on July 5 1985.

Silbert P. Quintana Examiner
Oil Conservation Division

Handwritten text, possibly a list or notes, with some illegible characters and symbols. The text is arranged in several lines, with some characters appearing to be numbers or small letters. The overall appearance is that of a rough draft or a set of notes.

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

19 June 1986

COMMISSION HEARING

IN THE MATTER OF:

The disposition of certain cases
called on this docket for which no
testimony was presented.

CASE
8761
8640

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Charles E. Roybal
Attorney at Law
Energy and Minerals Dept.
525 Camino de Los Marquez
Santa Fe, New Mexico 87501

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MR. STAMETS: The hearing will
come to order.

We'll call first this morning
Case 8761.

MR. ROYBAL: Case 8761.
Application of Chevron Operating Company -- Chaveroo --
Chaveroo Operating Company for salt water disposal, Lea
County, New Mexico.

MR. STAMETS: At the request of
the applicant this case will be dismissed.

MR. STAMETS: Call next Case
Number 8640.

MR. ROYBAL: Case 8640.
Application of Caulkins Oil Company for compulsory pooling,
downhole commingling, and dual completion, Rio Arriba
County, New Mexico.

MR. STAMETS: At the request of
the applicant this case will be continued to the August 7th
Commission Hearing .

(Hearings concluded.)

Presented by me to the best of my ability.

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James W. Boyd CSR

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 C.S.R.

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO

6 7 August 1986

7 COMMISSION HEARING

8 IN THE MATTER OF:

9 Application of Caulkins Oil Company CASE
10 for compulsory pooling, downhole com- 8640
11 mingling, and dual completion, Rio
12 Arriba County, New Mexico.

13 BEFORE: Richard L. Stamets, Chairman
14 Ed Kelley, Commissioner

15
16 TRANSCRIPT OF HEARING

17
18 A P P E A R A N C E S

19
20 For the Commission: Jeff Taylor
21 Legal Counsel for the Division
22 Oil Conservation Division
23 State Land Office Bldg.
Santa Fe, New Mexico 87501

24 For the Applicant:
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MR. STAMETS: We'll call first
this morning Case Number 8640.

MR. TAYLOR: Application of
Caulkins Oil Company for compulsory pooling, downhole
commingling, and dual completion, Rio Arriba County, New
Mexico.

(At this time Case 8640 was delayed until the
end of the docket.)

MR. STAMETS: Case 8430, which
was previously called, will be dismissed.

(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 (Commission) 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

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO

6 19 November 1985

7 COMMISSION HEARING

8 IN THE MATTER OF:

9 Disposition of cases with no testi-
10 mony during Commission Hearing held
11 19 November, 1985.

CASE
8614, 8640,
8463

*Transcript in
case 8614*

12 BEFORE: Richard L. Stamets, Chairman
13 Ed Kelley, Commissioner

14 TRANSCRIPT OF HEARING

15 A P P E A R A N C E S

16
17 For the Division: Elliot L. Weinreb
18 Attorney at Law
19 Energy and Minerals Dept.
525 Camino Los Marquez
Santa Fe, New Mexico 87501

20 For the Applicant:
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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

26 February 1986

COMMISSION HEARING

IN THE MATTER OF:

The disposition of cases called on
the Commission Docket for this date
and which are continued or dismissed
without testimony given.

CASE
8463, 8796,
8640, 8712,
8690, 8219,
8220

*Transcript in
Case 8463*

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant: