

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
18 January 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of AMMEX Petroleum Inc. CASE
for compulsory pooling, Eddy County, 8048
New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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A P P E A R A N C E S

For Glenn Cope: William F. Carr, Esq.
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1
2 MR. STOGNER: We'll call next
3 Case Number 8048.

4 MR. PEARCE: That case is on
5 the application of AMMEX Petroleum, Inc., for compulsory
6 pooling, Eddy County, New Mexico.

7 MR. KELLAHIN: If the Examiner
8 please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing
9 on behalf of the applicant and I have two witnesses.

10 MR. CARR: May it please the
11 Examiner, my name is William F. Carr, with the law firm
12 Campbell, Byrd, and Black, P. A., of Santa Fe, appearing on
13 behalf of Mr. Glenn Cope.

14 I have one witness.

15 MR. PEARCE: Are there other
16 appearances in this matter?

17 (Witnesses sworn.)

18 MR. KELLAHIN: If the Examiner
19 please, there is an error both in the application that I
20 filed and in the advertisement of the gas that will require
21 the case to be readvertised.

22 The description shows the
23 southeast quarter of the southeast quarter of 28, and that
24 will be the appropriate 40-acre proration unit in the event
25 this well is a Delaware well; however, this well is also
projected as being an attempt in the Bone Springs and that

1
2 is the South Culebra, C-U-L-E-B-R-A, Bluff Bone Springs
3 Pool, which will require an 80-acre dedication to it.

4 The dedication to that prora-
5 tion unit in the event of a successful well will be the
6 south half of the southeast quarter.

7 The interest owners for the 40-
8 acre tract and for the 80-acre tract are the same and the
9 interest percentages are the same.

10 AMMEX has farmout agreements
11 from all parties except for Mr. Cope, and he has an inter-
12 est, which I think is approximately 17 percent either under
13 the 40-acre tract or the 80-acre tract.

14 And we've like to move to amend
15 our application, have you readvertise the case, but we would
16 propose, with the Examiner's consent, to make our presenta-
17 tion today.

18 MR. PEARCE: Just for clarifi-
19 cation, Mr. Kellahin, the farmouts which you have cover 80
20 acres in that South Culebra Bluff, I assume.

21 MR. KELLAHIN: That's correct.

22 MR. PEARCE: We're not pooling
23 any of those.

24 MR. KELLAHIN: That's right.

25 MR. STOGNER: Okay, Case Number
8048 will be readvertised for the Examiner Hearing to be
held on February 15th, 1984. At this time we will go ahead
and hear the testimony and on the 15th we will again recall

1
2 this hearing. If there is any more additional testimony at
3 that time it may be presented.
4

5 MARK HARALSON,
6 being called as a witness and being duly sworn upon his
7 oath, testified as follows, to-wit:
8

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q All right, Mr. Haralson, let me ask you
12 your name and occupation for the record, please?

13 A Mark Haralson. I'm a landman for AMMEX
14 Petroleum.

15 Q And your last name is spelled H-A-R-A-L-
16 S-O-N?

17 A Correct.

18 Q All right, sir, you're a landman for
19 AMMEX Petroleum, Inc., and where do you live, Mr. Haralson?

20 A In Midland, Texas.

21 Q And how long have you been employed as a
22 landman for this company?

23 A I've been employed with the company for
24 two and a half years; as a landman for the past year and a
25 half.

Q All right. Are you the landman respon-
sible for attempting to put together the voluntary proration
unit for this Delaware-Bone Springs test?

1
2 A Yes, I am.

3 Q And have you been in contact either
4 directly or through your direction with the various working
5 interest owners involved in this well?

6 A Yes, I have.

7 Q Have you been involved in the preparation
8 of the operating agreements and the various documents with
9 regards to farmouts from various individuals?

10 A Yes, I have.

11 MR. KELLAHIN: We tender Mr.
12 Haralson as an expert petroleum landman.

13 MR. STOGNER: He is so quali-
14 fied.

15 Q Mr. Haralson, let me see if I can't
16 orient us as to what your company, AMMEX, desires to do.

17 Tell me first of all what the section,
18 township, and range is for the proposed well, and within
19 that section what you propose to do.

20 A It's in Section 28, Township 23 South,
21 Range 28 East.

22 We're proposing to drill a Bone Springs
23 test in the south half of the southeast quarter.

24 Q All right, this is in Eddy County, New
25 Mexico.

A Right.

Q In preparing to drill that well, Mr.
Haralson, what is the status of ownership with regards to

1 that 80-acre tract?

2 A Well, I believe there's four -- well,
3 there's five interest owners. Belco Development Corporation
4 holds the majority of the interest with Merlin, Incorporated,
5 A. G. Hamilton, Cities Service, and Glenn Cope.

6 Q All right, sir, of those companies and
7 individuals what has been the arrangement between them and
8 you with regards to either participating, leasing, or
9 farming out in order to drill this well?

10 A Everyone with the exception of Mr. Cope
11 has farmed out their interest to AMMEX.

12 Q What, based upon your knowledge and in-
13 formation, is the difference, if any, between the
14 individuals or companies and percentages between the 40-acre
15 dedication to a Delaware well and the 80-acre dedication to
16 the Bone Springs well?

17 A Well, it's -- the acreage is held by a
18 Morrow well in the east half of Section 28, so all of the
19 interest will be the same. It's undivided interest in the
20 whole half section.

21 Q All right. Will Mr. Cope's interest vary
22 between the 80-acre or 40-acre proration unit?

23 A No, it will not.

24 Q And what is your understanding of Mr.
25 Cope's percentage interest in the well?

A I believe he has a 17.0911 percent inter-
est.

1
2 Q Let me ask you to focus in on Mr. Cope
3 and your efforts, if any, to get him to voluntarily partici-
4 pate in the drilling of the well.

5 A Well, I sent Mr. Cope an operating agree-
6 ment, an AFE, and on September 22nd.

7 Q All right, let's look at that, then.
8 That's marked as AMMEX Exhibit Number One?

9 A Well, yes, it's --

10 Q And that is a letter dated September 22nd
11 of '83?

12 A Yes, sir.

13 Q And it appears over the signature of
14 Vincent Johnson?

15 A He is the Vice President of AMMEX Petro-
16 leum.

17 Q All right, this is work you prepared and
18 he signs off on and sends it to Mr. Cope.

19 A That's right.

20 Q All right. Uriah Exploration, Inc., Mr.
21 Haralson, is what to your knowledge?

22 A Well, to my knowledge it's Mr. Cope's
23 concern.

24 Q All right, and what were you attempting
25 to accomplish with this letter?

A Just to see if he was interested in
joining us or farming out his interest. Well, with this
letter I just more or less wanted to find out if he was in-

1
2 terested in joining us on the -- on the well.

3 Q All right, sir, and what, if any,
4 response did you get either from Uriah or Mr. Cope
5 concerning this letter?

6 A All right, I got no response.

7 Q All right, did you follow this up with
8 any subsequent conversations or correspondence?

9 A Well, I tried on several occasions to
10 contact him by telephone and couldn't get through, so I
11 wrote another letter and sent it certified mail on October
12 19th.

13 Q You do business in Midland?

14 A Yes.

15 Q And Mr. Cope also does business in Mid-
16 land?

17 A Yes.

18 Q You called him locally and you didn't get
19 him.

20 A He was out or indisposed at the time.

21 Q All right, and what's the next thing you
22 did then?

23 A I sent an additional certified letter on
24 December 2nd.

25 Q Well, I'm not with you yet. October 19th
is Exhibit Number Two, and that's the first letter?

A That's the second letter that I sent.

Q All right, sir, and subsequent to that,

1
2 then, you sent another letter on --

3 A On December 2nd.

4 Q And that's Exhibit Number Three. All
5 right, sir.

6 What was the purpose of the December 2nd
7 letter, Mr. Haralson?

8 A More or less just to find out Mr. Cope's
9 position and, again, if he was wanting to join us on this
10 well.

11 Q Okay. As of this date, then, had you
12 heard anything from him concerning whether he was willing to
13 join or participate?

14 A No.

15 Q You had not. Turn to Exhibit Four and
16 tell me what this is.

17 A This is an advance billing that we usual-
18 ly send out in the case that someone is going to join us,
19 we'll bill them for the proportionate share in order to
20 timely pay our operating costs.

21 Q All right. Let me ask you how you made
22 this calculation, Mr. Haralson. It shows a percentage
23 interest of approximately 15 percent.

24 A Okay, well, I --

25 Q What's the source of that?

A Well, I got this from Belco Petroleum's
landman.

Q Subsequent to Exhibit Four I have attach-

1
2 ed Exhibit Number Five. Would you identify this for us,
3 please?

4 A This is an operating agreement and which
5 I sent to Mr. Cope.

6 Q All right. Is this an operating agree-
7 ment in a form that is customarily used by AMMEX Petroleum,
8 Inc.?

9 A Yes, it is.

10 Q Would you turn to the COPAS instructions
11 with regards to that operating agreement?

12 A Okay.

13 Q That's on Exhibit C, is it?

14 A Yes.

15 Q Yes, sir, page three of Exhibit C?

16 A That's right.

17 Q There's a blank in here that says rate
18 consistent with that of the industry, and you had not filled
19 it in at that point?

20 A No, I had not.

21 Q All right. Do you have a recommendation
22 to the Examiner as to the overhead charges you propose that
23 he include in a pooling order?

24 A Belco in their farmout to us suggested
25 that we charge \$300 for a producing well rate and \$3000 for
a drilling rate.

Q All right, and is that a rate that your
company is willing to use --

1
2 A Yes.

3 Q -- for this well?

4 Okay. Have you been involved in any
5 other operations in similar wells that involved the deter-
6 mination of overhead rates?

7 A Yes.

8 Q All right, is that number consistent with
9 those --

10 A Yes.

11 Q -- other agreements?

12 Let's go to Exhibit Number Six, Mr.
13 Haralson, which is a letter dated October 17th.

14 A Okay.

15 Q All right, sir, what is this?

16 A I've called Kaiser-Francis, who -- well,
17 okay, I guess I need to familiarize with the background.

18 The well in which -- is holding this 320
19 acres is -- is operated by Belco Development, but Coquina
20 was involved in it. They sold their interest to Kaiser-
21 Francis, who in turn sold his interest to Mr. Cope.

22 Q All right, at the time you wrote this
23 letter was there any question in your mind as to whether Mr.
24 Cope or Kaiser-Francis owned the 17 percent interest that's
25 in dispute?

A Yes, there was. I wasn't exactly sure
who -- who had the interest.

Q And the correspondence attached here,

1 then, as Exhibit Six through Eleven, I believe it is, repre-
2 sents the documentation of how that was finally resolved?

3 A Yes.

4 Q All right, what has been the resolution?

5 A By assignment from Kaiser-Francis to
6 Christy Lee Cope, the interest has been conveyed to her.

7 Q And as you understand it, Mr. Haralson,
8 what is that percentage now? Is it the 15 percent or the 17
9 percent?

10 A It is the 17.0911 percent.

11 Q All right, sir. Let me turn to Exhibit
12 Number Twelve, then, and have you identify this.

13 A These are the interests that I obtained
14 from Belco's landman in the Belco Cavalier Well, which holds
15 the 320 acres.

16 Q All right, and the best of your knowledge
17 are those figures correct and accurate?

18 A Yes.

19 Q All right, sir. What's the purpose of
20 Exhibit Number Thirteen, which is an operating agreement
21 dated September 14th of 1983?

22 A Okay, this is the operating agreement and
23 farmout from Belco Petroleum and Merlin, Inc., A. G. Hamil-
24 ton, and Cities Service to AMMEX Petroleum.

25 Q All right, this simply documents your in-
26 terest in the proration unit.

27 A Yes.

1
2 Q All right, sir. As of the current date,
3 Mr. Haralson, have you and Mr. Cope or AMMEX, to the best of
4 your knowledge, and Mr. Cope, reached any agreement about
5 his participation, farming out, or joining in some fashion
6 in the drilling of this well?

7 A No, sir.

8 Q Okay. Were Exhibits One through Thir-
9 teen, I believe it is --

10 A Yes, sir.

11 Q -- prepared by you or compiled under your
12 direction and supervision?

13 A Yes.

14 MR. KELLAHIN: That concludes
15 my examination of Mr. Haralson.

16 CROSS EXAMINATION

17 BY MR. STOGNER:

18 Q Mr. Haralson, you said earlier that the
19 acreage of Mr. Cope's, the 17.0911 percent interest, would
20 not change between the 40 acres and the 80 acres.

21 Will any of the other parties that have
22 farmed out, will their acreage -- I mean would their inter-
23 est also change or --

24 A No, their interest won't change.

25 Q On your letter, or I'm sorry, Exhibit
Number Three, which is your letter dated December 2nd, 1983,
I take it Exhibit Four was an attachment to that letter, am

1
2 I correct?

3 A Exhibit Four being --

4 Q That being the bill, I guess.

5 A No, I believe I sent that -- well, yes, I
6 sent a copy of this with all three letters.

7 Q Those letters being September 22nd, Octo-
8 ber 19th, and December 2nd.

9 A Yes.

10 Q Did the same type of deal go out to all
11 the other interest owners on your September 22nd letter?

12 A Well, there aren't any other working in-
13 terest owners. Everyone has elected to farm out their
14 interest to us.

15 Q I see, so this bill only got -- a bill
16 such as this was only sent out to Uriah.

17 A Exactly.

18 CROSS EXAMINATION

19 BY MR. PEARCE:

20 Q Just, excuse me, just for clarification,
21 Mr. Haralson, now I notice on the back of the model form
22 operating agreement there is a more normal form of AFE.
23 Uriah, or Mr. Cope, did in fact receive a copy of that --

24 A Yes, sir.

25 Q -- more detailed AFE?

A Yes, sir, they did.

Q Thank you, sir.

MR. STOGNER: I have no further questions of this witness at this time.

I'm sorry, Mr. Carr.

CROSS EXAMINATION

BY MR. CARR:

Q Mr. Haralson, are you aware that Mr. Cope approached AMMEX during August of 1983 with a prospect of development of this acreage?

A Yes, sir.

Q Did you participate in any of those meetings with Mr. Cope?

A No, sir.

Q And you attempted to contact Mr. Cope by telephone but were unable to reach him?

A Yes.

MR. CARR: I have nothing further.

MR. STOGNER: Okay, I have no questions of this witness at this time.

Are there any other questions of Mr. Haralson? If not, he may be excused.

MR. KELLAHIN: Mr. Examiner, we'd call Mr. Art Merrick.

MR. STOGNER: I'm sorry?

MR. KELLAHIN: We'd call Mr. Art Merrick.

ART MERRICK,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Merrick, would you please state your name and occupation?

A I'm Art Merrick. I'm the Operations Manager for AMMEX Petroleum. I'm a petroleum engineer by education.

Q Mr. Merrick, would you tell the Examiner when and where you got your degree in petroleum engineering?

A I graduated in 1976 from the University of Wyoming.

Q And subsequent to your graduation where have you been employed as a petroleum engineer?

A I've been employed with Northwest Pipeline Company in Farmington, New Mexico, for one year.

I was employed by Amerada Hess in various capacities in West Texas and New Mexico, Oklahoma, for approximately four years.

I have been with AMMEX Petroleum for the last two years.

Q Pursuant to your employment with AMMEX

1
2 Petroleum Corporation have you made a study of their pros-
3 pect in the Culebra Bluff South Bone Springs Pool?

4 A Yes, I have.

5 Q And pursuant to that study have you pre-
6 pared certain exhibits?

7 A Yes, I have.

8 MR. KELLAHIN: We tender Mr.
9 Merrick as an expert petroleum engineer.

10 MR. STOGNER: He is so quali-
11 fied.

12 Q Mr. Merrick, let me direct your atten-
13 tion, first of all, to the itemized estimate of Authority
14 for Expenditure, which is marked as Exhibit Fourteen.

15 Can you identify that for me?

16 A Yes. This is an AFE I prepared for
17 drilling Melva No. 1 in Eddy County, New Mexico.

18 Q What type of well do you propose to
19 drill, Mr. Merrick?

20 A This is a Bone Spring -- Bone Springs
21 test. It's drilled to 8000 feet in which we will test the
22 Bone Springs and also the Delaware section below 5500 foot.

23 Q All right. The Delaware section is en-
24 countered approximately where?

25 A The Delaware is encountered at approxi-
mately 2400 foot in this area. The first shows in the area
of any magnitude have been in the order of 5500 to 8000 foot
or 6200 foot.

1
2 Q Has AMMEX Petroleum Corporation been
3 involved in the drilling of any other Delaware or Bone
4 Springs wells in the area?

5 A Yes. We drilled a Bone Springs-Delaware
6 test in Section 21 of the same township as this well, and
7 completed it just recently.

8 Q How do the costs on that well compare to
9 your estimated well costs depicted on Exhibit Number
10 Fourteen?

11 A They are virtually the same.

12 Q In your opinion, Mr. Merrick, are the
13 costs reflected on the estimate, Exhibit Number Fourteen
14 fair and reasonable for the drilling of this well?

15 A Yes, I think so.

16 Q Let me direct your attention to Exhibit
17 Number Fifteen, which is the tabulation of production plat
18 showing various wells in the area, and have you identify
19 that one for me.

20 A This is a tabulation of the production in
21 the Culebra Bluff South Bone Springs Pool.

22 What I'm showing are all of the wells in
23 the pool. I've got the monthly production in August on top
24 of the line adjacent to each well.

25 On the other side of the slash is the gas
production that month in MMCF, and I've also posted the
cumulative oil production as of August of '83 on the bottom
of the line.

1
2 Q Let me direct your attention to Section
3 27, which is the section immediately to the east of your
4 location, and have you identify each of those wells spotted
5 in 27 in chronological order. Give me the well that was
6 drilled first.

7 A The first well completed in the Bone
8 Springs is the Maddox No. 1. This is the one that has pro-
9 duced 545 barrels in August. It was the -- it's in the east
half of the northeast quarter.

10 Q All right, sir, approximately when was
11 that well drilled?

12 A This well was completed in 1981. I'm not
13 exactly sure which date.

14 Q Within that section that's the first Bone
15 Springs well?

16 A Yes, sir.

17 Q What's the second Bone Springs well?

18 A The well just directly to the northwest
19 of it, with 571 barrels production, and this was also com-
pleted in 1981.

20 Q And who is the operator for that?

21 A Maddox Energy.

22 Q Okay, again Maddox.

23 What's the third?

24 A The third well is southwest -- southwest
25 of the No. 1. It's got production of 674 barrels and this
was also completed in 1981.

1

2

Q And who's the operator of that well?

3

A Again it's Maddox Energy.

4

Q What's the fourth well drilled?

5

A The fourth well is the one with 96 barrels. It's in the very southeast quarter quarter of the section, again drilled by Maddox Energy.

7

Q All right, sir, and then the fifth well?

8

A The fifth well completed was the Maddox Energy No. 6. This well has 306 barrels produced in August and it's in the southwest quarter of Section 27.

10

11

Q Which one is that one, now? Is that the one with 306?

12

13

A That's right.

14

Q All right, that's the fifth one?

15

A Uh-huh.

15

Q And which is the sixth well drilled?

16

A The sixth well was the No. 5 Maddox Energy well. It's got 811 barrels in August and it was completed in January of '82.

18

19

Q All right, that leaves the seventh and last well. Which one's that one?

20

21

A This is the well, Flyer No. 1, drilled by Glenn Cope, and which exhibits zero production in August and a significantly lower cum. This well was completed in late December of '82.

23

24

Q Okay. So within Section 27 the last well of those six or seven wells drilled, Cope drilled it.

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A That's right.

Q All right. Tell me about your location, Mr. Merrick. You have spotted a location in the southeast corner of 28.

A The southeast corner has the Melva No. 1 and this well is offsetting some of the production to the southeast and has no production on the adjacent side. In fact, two wells were tested in the Bone Springs, one in Section 33 and one in Section 32, both of them dry.

Q All right, the dry hole symbols in 33 and 32 were Bone Springs attempts by -- do you remember the operator?

A The one in Section 33 was, I believe, Coquina; Section 32 it was Amoco.

Q Mr. Merrick do you have an opinion as to the risk involved by your company in the drilling of the well as proposed?

A In my opinion there is a great deal of risk in virtually any Bone Springs test. The production in the field bears this out in that we have highlighted wells with low cums and low rates that would exhibit a very poor chance of paying out.

Q How have you highlighted those wells, Mr. Merrick?

A With orange dots.

Q And again what is your representation of the wells with the yellow dots, the orange dots?

1
2 A These are the ones that appear that have
3 very little chance of paying out in a reasonable amount of
4 time. They've both got low production and a low cum.

5 Q Can you relate your opinion as to what
6 you characterize as a significant risk to a percentage number
7 in terms of the New Mexico statutory penalty factor?

8 A I'm not sure I understand exactly what
9 your question is.

10 Q Let me ask it again.

11 The statute in New Mexico provides that
12 in a pooling case the maximum penalty that can be assessed
13 is to allow the operator to recover the cost of his well two
14 more times. It's a 200 percent maximum number.

15 In relation to that percentage do you
16 have an opinion as to what percentage you would recommend be
17 assessed against Mr. Cope?

18 A I would recommend the maximum.

19 Q All right, what are your reasons for that
20 recommendation?

21 A Primarily the relatively, spotty produc-
22 tion within the established field to the right and the un-
23 predictability of Bone Springs in the -- throughout the --
24 this area.

25 Q Is it a fair characterization, Mr. Mer-
rick, that an operator can drill an economic well and in an
area of very close proximity to that economic well the same
operator or another operator can drill a well that's

1 uneconomic?

2 A Yes. I think we have equal chance of
3 drilling an economic or noneconomic wells.

4 There is very little in completion to one
5 -- one company having better success than another.

6 Q All right, sir, let's turn to Exhibit
7 Number Sixteen, then, and have you identify that for me.

8 A This is a very simple calculation using
9 our AFE costs to determine the number of barrels required
10 for payout.

11 This is using a \$30.00 per barrel price
12 for the oil, a net revenue of .75. This amount divided into
13 our AFE costs of \$121,000 gives us 23,500 -- 23,156 barrels.

14 This would be in my opinion the lowest
15 amount of oil that we could recover and pay out this well.
16 I need to stress also that we'd have to do this in a certain
17 time, certainly.

18 Q What's the estimate of the approximate
19 length of time that your company feels comfortable with re-
20 covery of investments?

21 A We feel reasonably comfortable with a two
22 year payout.

23 Q All right, sir, let's go to Exhibit Num-
24 ber Seventeen, Mr. Merrick, and have you identify that.

25 A This is a map of the area. On it we have
highlighted the Melva No. 1 with a pink triangle. We also
have a line through the Coquina No. 1 Well in Section 8, or

1
2 I'm sorry, Section 28, with an "A" we are showing a line for
3 a cross section from this Coquina Well to the Maddox Energy
4 Pardue Farms No. 5, then to the Pardue Farms No. 3.

5 Q All right, let's look at the cross sec-
6 tion, then.

7 All right, sir, would you identify the
8 cross section for us?

9 A This cross section is hung on a datum of
10 -2100. We are showing the top of the Bone Springs going
11 down dip to the east and then I am attempting to correlate
12 several zones within the Bone Springs. These zones at ap-
13 proximately 6500 foot, another one at 6650, and another zone
14 at approximately 6830.

15 I'm trying to show how the thicknesses
16 change, the relatively short span covered. Also I am --
17 have indicated the perforations, which are marked in red on
18 the Maddox No. 5 and the Maddox No. 3 Wells, and highlighted
19 porosity stringers.

20 In my opinion these stringers are rela-
21 tively inconsistent. The large number of perforations indi-
22 cate to me that it's -- very little is actually known of
23 just what type of porosity we are looking at.

24 These wells also require fracing and I'm
25 attempting to show that there's very little really meaning-
ful correlation from one well to the next.

Q Does an analysis of the geologic informa-
tion, particularly the cross section, help you understand or

1
2 explain how you can have an economic well and in very close
3 proximity to that well have a well that's not economic?

4 A Yes. The change, the radical changes in
5 formation across the short span would certainly account for
6 this.

7 Also, there's some indication from
8 production and from these logs both, that this may be a
9 fractured reservoir to begin. This would contribute incon-
sistency across the field in production.

10 Q All right, sir, let me direct your atten-
11 tion to Exhibit Number Nineteen and have you identify that
12 for us.

13 A This is a mud log that was run on the Co-
14 quina Well in Section 28. This mud log shows several zones
15 of particular interest. We have a zone from approximately
16 5800 to 6180 with numerous shows. These, in my opinion, are
17 all above the Bone Springs, and I would call them Brushy
Canyon.

18 Without these shows we probably would not
19 have considered the prospect.

20 There are also some smaller shows --

21 Q I didn't understand that, Mr. Merrick.
22 You say you wouldn't consider the prospect without the indi-
23 cations on the mud log of possible shows in something other
than the Bone Springs, is that what you're saying?

24 A Yes, sir. We feel that to justify our
25 drilling the well we need a back up in case the Bone Springs

1 does not produce as the offsets would have it.

2 Q Do any of the wells in the area produce
3 from the Delaware?

4 A No, sir. The closest Delaware production
5 is the AMMEX Kim No. 1 in Section 21, this township.

6 Q All right, sir. Were Exhibits Fourteen
7 through Nineteen prepared by you, except for the mud log,
8 obviously, that wasn't prepared under your direction and
9 supervision. You obtained that from some logging service, I
10 assume?

11 A Yes, I obtained this from Belco Petro-
12 leum.

13 Q All right, sir. In your opinion, Mr.
14 Merrick, will approval of AMMEX's application be in the best
15 interests of conservation, the prevention of waste, and the
16 protection of correlative rights?

17 A Yes, it would.

18 MR. KELLAHIN: That concludes
19 my examination of Mr. Merrick.

20 We move the introduction of
21 AMMEX Petroleum Corporation's Exhibits.

22 MR. STOGNER: The last one
23 being Exhibit Number Nineteen?

24 MR. KELLAHIN: Yes, sir, I be-
25 lieve we've got One through Thirteen already, Sally? This
would be Fourteen through Nineteen.

MR. STOGNER: Okay, Exhibits

Fourteen through Nineteen will be admitted into evidence.

Your witness, Mr. Carr.

CROSS EXAMINATION

BY MR. CARR:

Q Mr. Merrick, how important is structure in getting a successful well in the Bone Springs in this area?

A I feel it's got very little to do with it. The structure is running contrary to the production in the field.

Q Would you explain that?

A The structure is going down dip as we move east; also the trend in the field is moving down dip.

If it was structurally controlled, I would expect the production to be running north/south, approximately.

Q Do the contours run generally in a north/south direction?

A Generally.

Q You're not concerned about any water problems or anything of that nature in terms of making a successful well in the Bone Springs?

A No, not really. There -- I imagine it will produce some water, but I don't think it will be significant.

Q The last exhibit you offered was a mud

1 log on the Belco Cavalier Well, I believe.

2 A Uh-huh.

3 Q From that log how thick a pay section ap-
4 peared in the Bone Springs? Could you estimate that for me?

5 A There is a gas increase in the Bone
6 Springs, which would be approximately 200 feet.

7 Q So you see a potentially productive
8 interval of 200 feet on the mud log?

9 A Yes, it's potential.

10 Q Now you have --

11 A Oh, I should also mention, there is an-
12 other show at 7160, which is probably more a significant
13 show.

14 Q And is that also in the Bone Springs?

15 A Yes, it is; however I don't know if it
16 has been perforated in the Culebra Bluff.

17 Q And from that log can you make an esti-
18 mate as to how many feet are included in that?

19 A It's approximately 20 foot.

20 Q Twenty feet?

21 A Uh-huh.

22 Q Now, you are also, I believe your testi-
23 mony was that the Delaware also is a potentially productive
24 zone.

25 A Yes, sir.

Q And if you're unsuccessful in the Bone
Springs that that might save the well? Is that the way it

1 was characterized?

2 I'm not -- that is a zone that also could
3 contribute production?
4

5 A Yes, we have been very active in pursuing
6 Delaware in this area.

7 Q Did you say whether or not there were
8 Delaware wells in the area?

9 A The only one is in Section 21 of this
10 township, which is, what, about a mile -- we're about a mile
11 and a half or a mile and three-quarters from the one.

12 Q If I look at your Exhibit Number Four-
13 teen, which is the AFE, it appears to me you've got a
14 drilling rate in there of \$15.00 a foot. Is that your cur-
15 rent drilling rate?

16 A Yes. The Kim No. 1 we drilled for, I be-
17 lieve it was \$15.07 a foot.

18 Q Do you have a contract for the drilling
19 of the Melva at \$15.00 a foot?

20 A No, we have not gone for a contract.

21 Q You've also got an \$18,000 figure in there
22 for surface damage. Have you reached any kind of an agree-
23 ment on surface damages at this time?

24 A No. Again, the area is predominantly
25 farmland and this seems to be the going rate.

Q Now, you're basing your request for a
risk factor on production data from wells offsetting this to
the east, if I understand your testimony.

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A Yes.

Q That's one of the factors.

A Yes.

Q I'd like to direct your attention to Mr. Cope's well in Section 27 that you show -- for which you're reported no production.

Upon what did you base that?

A This was from what was reported in the New Mexico Engineering Committee publication for August.

Q Do you have any figures at all that show any production from the well whatsoever?

A Yes. He produced for several months in 1983. I believe the highest production rate for a single month was in the order of 570 barrels.

Q Now when you talk about the dry holes in Sections 32 and 33, what data have you examined on each of these wells?

A All I have seen is the scout tickets from the PI.

Q You haven't seen any logs on the wells?

A No, sir.

Q Have you done -- made any effort to calculate reserves well by well or on any well in the area?

A No, I started to and the production, especially in the early months, was quite erratic on most wells, and from that I didn't feel like I could really come up with an adequate number.

1
2 Q What pool are we talking -- what, South
3 Culebra Bluff Pool, is that the pool we're talking about
4 here?

5 A Yes, sir.

6 Q Have there been any dry holes drilled in
7 that pool to date?

8 A Not to my knowledge.

9 MR. CARR: I have no further
10 questions.

11 CROSS EXAMINATION

12 BY MR. STOGNER:

13 Q Mr. Merrick, does AMMEX have any Bone
14 Springs wells presently within your map on Exhibit Fifteen?

15 A No, we don't. We tested the Kim No. 1 in
16 the Bone Springs in Section 21. It was a gas well. Because
17 of the pipeline problems right now we plugged with a cast
18 iron bridge plug and completed in the Delaware.

19 Q Two wells, one in Section 32 and Section
20 33 of Exhibit Fifteen, the Amoco and the Coquina wells that
21 were Bone Springs dry, when were those drilled and when were
22 they plugged back or dry and abandoned?

23 A I'm not sure on those dates.

24 Q Do you know why that seventh well in Sec-
25 tion 27 was zero production in August?

A No, I don't.

Q Your orange dots in your Exhibit Number

1
2 Sixteen, you referred to a pay out time of two years. Does
3 that hold true with your wells that you marked with the gold
4 dots on Exhibit Fifteen?

5 A I believe it will. All of these are 10
6 barrels or less. Some of them have certainly reached their
7 economic limit. This was done on strictly a visual glance
8 throughout the field.

9 I would imagine approximately 150 barrels
10 per month would be economic.

11 Most of these are below 150 barrels.

12 Q I'd like to elaborate on your answer to
13 Mr. Carr's question about Exhibit Number Nineteen. You said
14 there was approximately 200 foot of gas pay in the Bone
15 Springs?

16 Could you elaborate a little further on
17 that?

18 A All that this mud log indicates is a gas
19 show on the gas chromatograph. That is -- really does not
20 indicate anything other than the presence of hydrocarbons.
21 Certainly the lack of oil shows in that section is -- cuts
22 down on the attractiveness of this; however, it does not
23 condemn it.

24 Q The Coquina Oil Cavalier No. 1 marked on
25 Exhibit Number Eighteen, what zone is that well presently
producing?

A In the Morrow.

Q In the Morrow? And that is the same well

1 that you have mud log information on on Exhibit Number Nine-
2 teen, is that correct?
3

4 A That's right.

5 MR. STOGNER: I have no further
6 questions of Mr. Merrick at this time.

7 Are there any further questions
8 of this witness?

9 MR. KELLAHIN: No, sir.

10 MR. STOGNER: If not, he may be
11 excused.

12 We're going to take about --
13 our lunch recess and we will meet back here about 1:30.

14 (Thereupon the noon recess was taken.)

15 MR. STOGNER: This hearing will
16 come to order and we'll continue with Case Number 8048.

17 MR. CARR: At this time I'd
18 call Glenn Cope.

19
20 GLENN COPE,
21 being called as a witness and being duly sworn upon his
22 oath, testified as follows, to-wit:

23 DIRECT EXAMINATION

24 BY MR. CARR:

25 Q Would you state your full name and place

1 of residence?

2 A My name is Glenn Cope and I live in Mid-
3 land.

4 Q Mr. Cope, by whom are you employed?

5 A I'm self-employed.

6 Q Are you familiar with the application
7 that was filed in your behalf in the case by AMMEX?

8 A Yes, I am.

9 Q Have you previously testified before this
10 Commission or one of its examiners and had -- and been qual-
11 ified and had your credentials accepted and made a matter of
12 record?

13 A Yes, I have.

14 Q And how were you qualified at that time?

15 A As a petroleum engineer.

16 Q You're familiar with the subject area?

17 A Yes, I am.

18 MR. CARR: Are the witness'
19 qualifications acceptable?

20 MR. STOGNER: They are.

21 Q Mr. Cope, when did you first become in-
22 terested in the southeast quarter of Section 28?

23 A Back in the spring of 1983, March or
24 April, I worked up a drilling prospect to drill a well in
25 the southeast of the southeast of Section 28, and I nego-
tiated a farmout from Belco and ultimately I negotiated to
purchase Kaiser-Francis interest in the lease to 17 percent.

1
2 Q When did you first contact AMMEX about
3 this prospect?

4 A On about August the 1st, 1983, I con-
5 tacted AMMEX to show them this prospect.

6 Q And what happened then?

7 A I got an appointment with Art Merrick and
8 went out to AMMEX's office and showed him my drilling pros-
9 pect.

10 Q Were you ever able to reach any kind of
11 agreement with AMMEX based on your prospect?

12 A No, I was not.

13 Q When were you advised that they were not
14 interested in going with you on that?

15 A I called Mr. Merrick back and asked him
16 if they had reached a decision on the prospect. He had
17 seemed interested in it and had told me that they were in-
18 terested in that area.

19 And he told me that they were not
20 interested in pursuing the prospect with us.

21 Q What happened to the farmout from Belco?

22 A I, as you saw the date on that letter
23 agreement from Kaiser-Francis, it was dated July the 28th,
24 1983, and my farmout from Belco was only to the 8th and 15th
25 of '83, and when I contacted Belco and told them that I had
the acreage that Kaiser-Francis had previously controlled,
they told me that probably there would be no difficulty in
getting an extension to my farmout from them.

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Q And were you able to get that extension?

A No. When I went in to get the extension, they told me that they had been approached by AMMEX and that they were going to farm this out to AMMEX.

Q When did you first contact Kaiser-Francis?

A It was in April of 1983.

Q And you eventually acquired a farmout from them or an assignment from them?

A No, I never could negotiate a farmout from them. I did finally reach an agreement which a letter agreement has already been submitted as evidence, where I purchased that interest, you know, in the 188 acre tracts.

Q When was -- did they assign the interest to you?

A No, we -- I got a letter agreement from them and it's dated July the 28th, but I did not receive my assignment from Kaiser-Francis until approximately a week ago.

Q And is that assignment what has been marked as Cope Exhibit Number One in this case?

A Yes, it is.

Q To whom was this interest assigned?

A This interest was assigned to my daughter, Christy Lee Cope.

Q And why was that?

A Well, this was a very low risk prospect,

1 something that there would be very little risk in.

2 Q Did that affect your decision as to whom
3 the assignment should be made?

4 A Yes, it did.

5 Q Now, Mr. Cope, I'd like you to refer to
6 what has been marked as Cope Exhibit Number Two, identify
7 this, and explain what it shows. That's a contour map.

8 A This is a contour map or a structure map
9 on top of the Bone Springs pay zone in the South Culebra
10 Bluff Field, just showing the structure. The main thing
11 that it shows is that you're coming up structure to the west
12 and --

13 Q This shows the offsetting wells?

14 A Yes, it does.

15 Q Does it also show the location of the
16 producing wells in Section 27?

17 A It shows the producing wells in Section
18 27 and AMMEX's proposed location in the southeast of the
19 southeast of 28.

20 Q Does it also show Belco's location in 28?

21 A Yes, it does.

22 Q I'd like to direct your attention to the
23 well that you operate in Section 27, the well for which Mr.
24 Merrick reported no production, showed no production on his
25 plat, and ask you to identify that well and explain the
producing status of that well.

A That well is the Uriah Flyer No. 1, and

1
2 we drilled that well in January of 1983 and completed it,
3 and I don't know why it showed no production for August. It
4 produced during that month.

5 Q And at what rates is that well -- at what
6 rate is that well producing?

7 A It's about 10 to 12 barrels a day.

8 Q And is it producing at this time?

9 A Yes, it is.

10 Q Would you now refer to Exhibit Number
11 Three, which is the electric log, and review this for Mr.
12 Stogner?

13 A The electric is a dualatero log and a
14 microlatero log run on the Belco Cavalier No. 1. That well
15 was drilled by Coquina Oil Company and completed by Belco.

16 And --

17 Q Where is that well located?

18 A That well is located in the northwest of
19 the southeast quarter.

20 Q The northwest of the southeast?

21 A Right.

22 Q Of Section 27?

23 A Of Section 28. You are referring to the
24 Belco Cavalier, aren't you?

25 Q All right. I'm asking you to identify
the well, the location of the well that you're -- the log
that you're now testifying to. Would you refer to that log
and identify the well?

1
2 A Okay. The gas well shown on the struc-
3 ture map in Section 28 was drilled by Coquina Oil Company as
4 the Cavalier No. 1, and Belco took over the well at total
5 depth and completed it.

6 So it's shown on this structure map as
7 the Belco Cavalier Well.

8 Q What does this log show?

9 A Well, the microlatero log on this well
10 shows a very good zone at 7840, a 20-foot zone in what is
11 called the Lower Bone Springs.

12 Q Will you now refer to your Exhibit Number
13 Four and explain that?

14 A Our Exhibit Number Four is the same mud
15 log that Mr. Merrick presented in this testimony, and the
16 consequence of this sample log is the sample description and
17 the gas kick shown at 7845. They showed an excellent
18 drilling break from 7848 to 7866 and an excellent gas kick,
19 you know, as a gas show.

20 The sample description describes the zone
21 as being a productive zone.

22 Q And how many -- how thick is that zone?

23 A 20 feet thick.

24 Q Are there any other zones that are de-
25 picted on that log which look like they're capable of com-
mercial production?

A Well, I only have a section of that mud
log. Mr. Merrick's mud log, the Delaware appears to be pro-

1 ductive in that well, and the Bone Springs itself is a big,
2 massive zone, about 1700 feet thick, and it's been perfor-
3 ated from top to bottom, and it's more of a blanket type
4 formation, you know, throughout that South Culebra Bluff
5 area.

6 Q How thick a zone is it?

7 A Well, the gross interval from top to bot-
8 tom is approximately 1700 feet thick.

9 Q Do you believe it's possible to obtain
10 production throughout that interval?

11 A Yes, on Mr. Merrick's cross section he
12 showed perforations in those wells and some of them are per-
13 forated in the middle of the Bone Springs; some of them are
14 perforated in the upper part of it; and apparently the best
15 well in the field is that 27-5, which is 27 in the northwest
16 of the southwest, and --

17 Q That immediately offsets to the northeast
18 the proposed location?

19 A Right, it does.

20 Q Would you -- how would you evaluate the
21 potential for a successful Bone Springs completion in the
22 Belco Cavalier No. 1 Well?

23 A Well, we have the logs on the Belco Cava-
24 lier No. 1 Well, and based upon log analysis, it shows that
25 the Bone Springs would be productive.

Q Now, were you present for the testimony
this morning?

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A Yes.

Q Did you hear Mr. Merrick testify from his cross section about the correlation of the sands throughout this -- or the limestone throughout this area?

A Yes, I did.

Q Have you studied various logs on wells in the subject area?

A Yes, I have.

Q Do you concur with his conclusion that the sands do not correlate well?

A I think Mr. Merrick's cross section leads you to the conclusion that you can correlate those zones across that field.

Q Based on the material that you've reviewed and the evidence presented in this case, do you believe that the Bone Springs would be present at the proposed location?

A Yes, I do.

Q And what quality would you anticipate the zone to be at that location?

A I think it will be a good -- good well.

Q Have you prepared any calculation of reserves on any of the wells in the Culebra -- South Culebra Pool?

A Right. I employed Scott Hickman and Associates, petroleum engineering firm in Midland, to calculate the reserves for that Flyer No. 1.

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Q When was this calculation prepared?

A On 3 and the 30th, 1983.

Q And why did you do that?

A To see what the economics were for drilling those wells out there.

Q And what does that calculation show?

A They show that you have a future net revenue of \$1,201,336, and discounted reserves for what we're calling the Upper Bone Springs would be \$858,000.

Q Mr. Cope, how would you evaluate the risk which would be incurred by anyone who proposed to drill a well at the location AMMEX is proposing?

A As I stated before, I think the risk is minimal. I think you would probably make a good well.

This lower zone in the Belco Cavalier Well with a 20-foot drilling break, is the same correlative section that produces in some of the better Bone Springs fields.

Q Could you make a recommendation to Mr. Stogner as to the risk penalty that should be imposed on you as a nonconsenting interest owner in the southeast quarter of Section 28?

A I think it should be the minimum risk factor.

Q Do you have a percentage figure to recommend?

A Probably 75 percent.

1
2 Q If this is such a good prospect why are
3 you not voluntarily participating?

4 A Well, I took that assignment in my
5 daughter Christy's name and due to the bank failures in Mid-
6 land, we are just not able to borrow the money to support
7 our drilling costs in this well.

8 Q So you're forced to go nonconsent?

9 A Right.

10 Q Were Exhibits One through Five prepared
11 by you under your direction and supervision?

12 A Yes, sir, they were.

13 MR. CARR: At this time, Mr.
14 Stogner, we would offer Exhibits One through Five.

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

17 MR. CARR: That concludes our
18 direct examination of Mr. Cope.

19 MR. STOGNER: Mr. Kellahin,
20 your witness.

21 MR. KELLAHIN: Thank you, Mr.
22 Examiner.

23 CROSS EXAMINATION

24 BY MR. KELLAHIN:

25 Q Mr. Cope, I've not yet mastered this con-
sulting engineer's report for you of June 30th, 1983.

Let me see if I can have you explain this

1
2 to me. This is a projection made for you by this consulting
3 firm.

4 A Right.

5 Q To tell you what they anticipate the re-
6 serves and the economic consequences of based upon your
7 Cope Flyer No. 1 Well?

8 A Right.

9 Q And from this you conclude that you ought
10 to have a pretty good well? What conclusion do you make
11 from this?

12 A When we perforated our Flyer No. 1 we
13 only perforated about 20 feet right at the top of the Bone
14 Springs pay, and we thought that if we made a well there
15 that was satisfactory, we would not perforate the lower
16 zones.

17 Q Is that what Mr. Hickman took into con-
18 sideration when he ran this economic analysis for you?

19 A Right, this --

20 Q This 20 feet of perforation in the Upper
21 Bone Springs that you have?

22 A Right.

23 Q And you used this to tell us that you
24 have a well that has a reasonable recovery in terms of its
25 economic projections and therefore say that the location
that AMMEX has picked here should be one of minimal risk.

A Well, that location that they picked is
right along the axis of the field and the trend of the

1
2 better wells.

3 Q As best I can see, and help me if I'm
4 wrong, it looks like the reserve and economic projections on
5 Mr. Hickman's report would indicate that in the year 1983
6 your well should have been making in the area of 47 barrels
7 of oil per day.

8 A Tom, I don't think your arithmetic is
9 right on that. 8000 divided by 365.

10 Q We've simply taken the six months in the
11 first year on the bottom line of the computer printout,
12 showing that's what he's done, months in the first line, and
13 I divided that into the number of days in six months and I
14 get 47 barrels of oil per day.

15 A I -- you're talking about the first six
16 months of 1983?

17 Q Yes, sir.

18 A Okay. That looks like it would be close
19 to 40 barrels a day.

20 Q All right, sir, and your well, you told
21 me, I believe you told Mr. Carr, is making about 10 to 12
22 barrels a day?

23 A Correct.

24 Q That's significantly less than the econo-
25 mic projection that Mr. Hicks is using, is it not?

A Yes, it is.

Q Explain to me what, if any, structural
significance there is on Exhibit Number Two, Mr. Cope, to

1
2 the proposed location of AMMEX. I'm not sure I understand
3 that.

4 A Well, the structure map shows that you're
5 coming up dip to the west and with the significance of the
6 good production down in that Well 27-5, that you're moving
7 in a good direction.

8 You're along the axis of the better wells
9 and this just shows that you're not moving down dip where
10 you could drill into water or something like that.

11 Q Okay. Based upon your knowledge of this
12 pool, Mr. Cope, do these wells farther to the east produce
13 any significant quantities of water?

14 A Farther to the east?

15 Q Yes, sir. You said that as you moved
16 down structure there is a possibility of encountering in-
17 creased water production?

18 A No, I didn't say that. I said that you
19 were not moving down structure where you would, you know,
20 encounter the risk of drilling into water.

21 Q All right, and the AMMEX location is up
22 structure.

23 A That's correct.

24 Q All right, and as I move to the east I
25 move down structure.

26 A That's correct.

27 Q At what point do I reach any water prob-
28 lems, as you know them?

1
2 A Well, that's not what my statement was.
3 I said that as you move to the west you're moving up dip
4 away from any possible water.

5 Q My question, where is the water problem?

6 A That's the whole point of my map here, is
7 that there is no water problem with that location.

8 Q And there's no water problem down struc-
9 ture, either.

10 A Well, this -- this field covers several
11 sections, as you can see from the map, and as Mr. Merrick
12 pointed out, there's no dry holes in this field, so as yet
13 we haven't moved far enough down dip to know where the water
14 would be encountered.

15 Q Am I correct in understanding that the
16 Cope Flyer No. 1 Well is in a better structural position
17 than the AMMEX location in 28?

18 A I can tell you that you're far enough up
19 on the structure where that would not make a critical dif-
20 ference.

21 Q Do you have an explanation for the fact
22 that the well in Section 33 and I've forgot, I think that's
23 a Coquina well somewhere in 33 down there in the southwest
24 of the southeast quarter, Unit letter O or N? This one,
25 that's a Coquina well, is it not?

A I think it's an HNG well.

Q Okay. What do you know about this HNG
well?

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2 A I, when I was compiling the information
3 for this map, I couldn't find anything out about that Pardue
4 No. 1, and I don't know anything about it one way or the
5 other.

6 Q Do you know whether or not it was tested
7 in the Bone Springs?

8 A I've got that it pumped salt water on my
9 contour map.

10 Q Okay, that -- that appears to be in the
11 same structural relationship, generally, as the AMMEX loca-
12 tion, is it not?

13 A Yes, it is.

14 Q In fact, the risk involved in this pool
15 is not a question of simply drilling a dry hole. The ques-
16 tion is you recover oil but not in quantities sufficient
17 enough to make some of these wells economic. Is that not
18 the case?

19 A Well, in our case, drilling a direct off-
20 set to one of the best wells in the field, that 27-5, and
21 most of the wells that are noncommercial are off of that
22 trend.

23 Q Do you have any disagreement with Mr.
24 Merrick about his identification of some thirteen wells out
25 of 22 that he believes will be uneconomic in this pool?

A Well, if you look at my structure map,
you'll see there's a figure underneath the signal -- the
well location for each well; like under the 27-5 for 39

1
2 barrels a day.

3 Q Yes, sir.

4 A Is what that well was producing a little
5 over a year after it was completed.

6 Q And?

7 A Well, if you go to Well 27-6, some year
8 after it was completed it's producing 34 barrels per day,
9 and --

10 Q Well, you've identified the 27-5 and
11 that's one of the wells Mr. Merrick has indicated is going
12 to produce enough oil to be an economic well.

13 A A commercial well, yes, sir.

14 Q Where did the number 39 come from? Is
15 that the average of the 1983 production?

16 A No, that was a monthly average for that
17 well after it was a year old.

18 Q All right, what is that well making now,
19 do you know, on a monthly average?

20 A I don't know.

21 Q What's the last monthly average you exa-
22 mined for any of the wells in this pool?

23 A Well, on the Uriah Flyer I monitor that
24 production every -- every month.

25 Q All right, sir, other than that well,
what other wells have you monitored the production on
recently?

A Well, I monitored the production on all

1
2 these wells up until August of last year.

3 Q Well, if you used Mr. Merrick's plat and
4 you look at the August '83 production from the Well 27-5,
5 the monthly production is only 306 barrels. That's only 10
6 or so barrels a day, and that doesn't approximate the 39
7 barrels a day that you put on your exhibit, and I'm trying
8 to explain the difference.

9 A Well, there's just a time difference.

10 Q Mr. Cope, you've indicated that for what-
11 ever reason you do not have funds now available to you in
12 which to pay your share of the cost of the well and elect to
13 participate.

14 A That's correct.

15 Q You think this is a good prospect and if
16 you had those funds available you, in fact, would partici-
17 pate and avoid that penalty. I think I understand you to
18 say that.

19 A That's correct.

20 Q In fact, there are other ways that by not
21 having funds you could avoid the pooling order and not en-
22 counter a penalty factor in this case, aren't there?

23 A There must be.

24 Q All right, sir. You could do as the
25 other working interest owners have done and farm out your
26 interest to AMMEX, could you not?

27 A Well, since I presented this prospect to
28 AMMEX, and since they went around me to obtain a farmout

1
2 from Belco, I'm not inclined to do anything other than be
3 force pooled.

4 Q Okay. I can appreciate the fact that
5 that bothers you about how that happened, but from a dollars
6 and cents point of view, you could farm out and save your-
7 self a significant amount of money that would otherwise ac-
8 crue to you by avoiding a penalty.

9 A I've received no request for a farmout.

10 Q You have received the correspondence,
11 though, that AMMEX has sent you about their drilling the
12 well.

13 A Right, but I didn't get my assignment of
14 that lease until within the last ten days.

15 Q Thank you, Mr. Cope.

16 MR. KELLAHIN: I have nothing
17 further.

18 MR. STOGNER: I have no ques-
19 tions of Mr. Cope.

20 Are there any other questions
21 for this witness at this time?

22 Mr. Kellahin, do you plan to
23 recall any of your witnesses?

24 MR. KELLAHIN: No, sir.

25 MR. STOGNER: Okay, it is time
for some closing statements.

Mr. Carr, you may go first.
Mr. Kellahin, you may proceed after him.

1
2 MR. CARR: I have a very brief
3 statement.

4 The question that's presented
5 to you, Mr. Examiner, is one of appropriate risk penalty.
6 What should the appropriate risk penalty be in this case|

7 AMMEX has appeared before you
8 and they've admitted that they anticipate getting a Bone
9 Springs well at the proposed location and they also testi-
10 fied that there are Delaware prospects in this area that
11 they think may contribute to the economics of the well.

12 They've relied primarily on
13 production data in coming before you and stating that this
14 is a high risk venture but the production data they've re-
15 lied upon contained offsetting one well operated by Mr.
16 Cope, and that data is clearly wrong.

17 We submit that without having
18 an opportunity to check it, it still is -- the question
19 hangs over the accuracy of the data that they're bringing
20 before you at this point.

21 A dispute exists between AMMEX
22 and Mr. Cope as to how the wells correlate across this area.
23 AMMEX contends they do not; we contend they do.

24 We submit that to you. You
25 have the logs before you and you can evaluate that as well
as anyone and we leave that part of this case to your dis-
cretion.

We simply believe that what we

1
2 have here is a proposed well and the zone correlates with
3 zones in offsetting wells. It correlates with zones in the
4 best wells in the pool. It correlates with a zone on a log
5 of a Belco well that has not yet been produced but a well
6 which shows potential for excellent Bone Springs completion.

7 We believe that this is simply
8 not a high risk venture and that if a penalty is to be im-
9 posed, that the penalty should reflect the actual risk in-
10 volved and that a penalty not to exceed 75 percent is appro-
11 priate.

12 MR. STOGNER: Thank you, Mr.
13 Carr.

14 Mr. Kellahin.

15 MR. KELLAHIN: Mr. Examiner,
16 Mr. Cope is obviously in the oil and gas business and he's a
17 petroleum engineer by education. He's sophisticated in the
18 area; certainly knows what he's doing. He thinks that this
19 prospect is of minimal risk. We think that if that is the
20 case, there are a number of avenues open to him whereby he
21 can participate or farm out or some other way voluntarily
22 join in drilling of the well and share the risk with AMMEX
23 in an appropriate way.

24 For whatever reason he decides
25 not to do that and he comes before you today and says the
risk is minimal and therefore let AMMEX carry that risk.

We have a difference of opinion
with Mr. Cope about the quality of his well. I am not con-

1
2 vinced that Mr. Hickman's report to Mr. Cope will bear close
3 scrutiny.

4 Mr. Cope's analysis from Mr.
5 Hickman is based upon a well that Mr. Cope owns that should
6 be producing in the range of 47 barrels of oil a day, for
7 that '83 period.

8 Mr. Cope tells us his well
9 doesn't produce that; it only produces 10 to 12 barrels a
10 day. That gives me concern.

11 It also gives me concern that
12 the AMMEX location is in a reasonable structural relation-
13 ship to the dry hole in 33. Mr. Merrick has alluded to that
14 well and Mr. Cope shows it on his structure map. I think
15 that's a serious problem. AMMEX is the one putting up the
16 money and drilling the well; they are the ones undertaking
17 the risk.

18 As you can see, the wells in
19 the pool, there is a significant portion of these wells
20 which Mr. Merrick believes, although produce oil, will not
21 produce sufficient oil in order to pay their costs.

22 We believe that a 200 percent
23 risk factor penalty is appropriate in this case. It's ob-
24 vious that you can have a good well next to a bad well. We
25 think both exhibits demonstrate that. There is a very real
risk in the AMMEX location and if Mr. Cope would like to a-
void that risk and share it with us, he's welcome to do so.
At this point he wants to go nonconsent and let us carry

1
2 that risk, and we say it ought to cost him the 200 percent
3 penalty.

4 MR. STOGNER: Thank you, Mr.
5 Kellahin.

6 As discussed at the beginning
7 of this hearing, because of error in the advertisement this
8 case will be readvertised for the February 15th Examiner
9 Hearing, so we're going to keep the -- this file open.

10 Case Number 8048 will remain
11 open pending the Examiner Hearing on February 15th.

12 (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. 8048, heard by me on January 18, 1984.

Michael E. Stogner, Examiner
Oil Conservation Division