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

17 October 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of Ray Westall for  
amendment of Division Order No.  
7567, Eddy County, New Mexico.

CASE  
8377

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Jeff Taylor  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

1  
2 MR. QUINTANA: We'll call next  
3 Case 8377.

4 MR. TAYLOR: The application of  
5 Ray Westall for amendment of Division Order No. R-7567, Eddy  
6 County, New Mexico.

7 I believe the applicant has  
8 requested that this case be continued.

9 MR. QUINTANA: Case 8377 will  
10 be so continued.

11 MR. JENNINGS: Mr. Examiner, I  
12 am appearing on behalf of the applicant. We do request it  
13 be continued. We had hoped to be continued to October 27.  
14 However there was a foul-up and it didn't get published un-  
15 til the 27th so I would suggest that we continue it until,  
16 the hearing on November 14.

17 MR. QUINTANA: Fine.

18 Case 8377 will so be continued  
19 until November 14, 1984.

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(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 Litter Case No. 8377, heard by me on OCT. 17, 1984.  
Gilbert P. Quintana, Examiner  
Oil Conservation Division



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I N D E X

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RAY WESTALL	
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MR. QUINTANA: We'll call next Case 8377.

MR. TAYLOR: The application of Ray Westall for amendment of Division Order R-7567, Eddy County, New Mexico.

MR. JENNINGS: I'm James T. Jennings, Jennings and Christy, appearing on behalf of the applicant, Ray Westall.

I have one witness.

MR. QUINTANA: Are there other witnesses in Case 8377?

MR. TAYLOR: Are there other appearances?

(Witness sworn.)

MR. JENNINGS: Mr. Examiner, this is an application to amend an order, Order Number 7567 entered in Case 8048, and even though it has been assigned a new case number it is -- basically it is a continuation of -- it's part of the original case, and accordingly, I would move that the transcript of the testimony in the original case and Exhibits Number One to Nineteen, inclusive, which were introduced on behalf of the then applicant Amex be adopted as part of the record in this case.

Basically, we seek to change

1  
2 the -- amend the original order which was entered to change  
3 the operator who was named therein from Amex to Ray Westall,  
4 who is the applicant here, to increase the risk factor, and  
5 to extend the time to commence the original well.

6 RAY WESTALL,

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

9  
10 DIRECT EXAMINATION

11 BY MR. JENNINGS:

12 Q Would you state your name, place of resi-  
13 dence, and occupation, please, sir?

14 A My name is Ray Westall. I live in Loco  
15 Hills, New Mexico. I'm an independent oil producer.

16 Q How long have you been engaged in your  
17 current occupation, Mr. Westall?

18 A Eight years.

19 Q During that time -- during that time ap-  
20 proximately how many wells have you drilled or supervised  
21 the drilling of?

22 A Approximately, oh, from 25 to 30.

23 Q Are you also engaged in operating wells?

24 A I operate about 60, between 60 and 70  
25 wells.

Q Are they basically, again, all in Eddy  
County:

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A Eddy and Lea County.

Q You are familiar with the application which has been filed in -- to amend the operating -- to amend the order that's been filed herein, Mr. Westall?

A Yes, I am.

Q And, basically, is it as I have stated in my statement, the purposes of it?

A Yes.

Q I'll hand you here what has been marked Exhibit One and ask you to refer to it and just tell us what that is.

A This is an operating agreement from Amex to the -- the property owners or the mineral owners of -- under this block of acreage.

MR. JENNINGS: Mr. Examiner, in light of the nature of this case I don't know whether I need to further qualify Mr. Westall or not, since he's basically an operator, but you may question Mr. Westall if you wish.

MR. QUINTANA: Mr. Westall, do you have any technical degrees?

A No, I haven't.

MR. QUINTANA: As -- did you say you're owner -- you're the operator and owner of your company?

A Yes.

MR. QUINTANA: As owner and operator of your company I think you are qualified to testi-

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fy in matters pertaining to your company, but I must ask you to restrict any testimony to non-technical matters.

A All right.

MR. QUINTANA: You are so qualified to testify, then.

Q Again referring to what has been marked Exhibit One, Mr. Westall, do you know if this is the same operating agreement that was before the Commission in a prior hearing in Case Number 8048, which an order was entered, Order Number 7567 was entered?

A Yes, sir.

Q Has there been an amendment to this operating agreement?

A We -- we filed an amendment to change it from Amex to Ray Westall as operator.

Q Please refer to page 15 of the Exhibit One and -- which is attached to the -- I ask you if that is in effect the amendment which has been executed by Belco and other -- other working interest owners?

A Yes, it is.

Q And under provisions of that you are named as operator under the operating agreement and provision is made that a well will be spudded at the location named in the operating agreement on or before January 1, 1985?

A That's -- that is so.

Q Mr. Westall, again referring to this

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operating agreement, does it have a nonconsent clause, operation by less than all of them?

A Yes, yes, it does.

Q Does this clause have a 300 -- does it contain a 300 percent nonconsent clause?

A Yes, sir.

Q Mr. Westall, have you made an effort to have all of these parties, I mean working interests under this property join in drilling the well?

A Yes, sir.

Q What success have you had?

A We've got consent, either verbal or, of course, signed consent from everyone except Glenn Cope, and I have had numerous telephone conversations with him and also received a letter from him stating the conditions he would participate under.

Q You have had an opportunity, Mr. Westall, to review the transcript in the original hearing?

A Is that Mr. Cope you referred to the same Mr. Cope as was -- as appeared and testified at that case, or was represented and opposed the drilling which was held some months ago?

A Yes, sir.

Q Have you made an effort to determine who actually owns the outstanding interest and what is that interest?

A Yes, sir. The interest is approximately

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17.0911 percent and it is -- has been changed from Glenn Cope of Christy Lee Cope, his daughter.

Q Please refer now to what has been marked as Exhibit Two, I believe.

Please refer to what has been marked as Exhibit Two and identify that. Do you have it there?

A Yes. That's this letter I mailed to Mr. Cope after we had had a telephone conversation.

A Right, 1984.

Q And to whom was that addressed?

A Well, I mailed one to Mr. Cope and also one to Christy Lee Cope that this was on this -- when we thought that we were going to be able to take and transfer the order from, directly from Amex to us without a hearing, and telling them that we were going to plan on drilling this well and sent them an AFE, approximately what we felt it would cost us to drill the well.

Q Now, Mr. Westall, attached to that exhibit, are there two other documents?

A Yes.

Q Are they the two return cards?

A Yes, sir.

Q Are they attached to that exhibit?

A Yes, uh-huh.

Q What are those?

A There are that we sent certified letter to them and these are the returns from the certified letter.

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Q Show -- who is the addressee showing on there?

A One is to Uriah Exploration, Incorporated, which is run by Mr. Cope in Midland. The other is to Christy Lee Cope in Dallas, which is his daughter.

Q Do the records of Eddy County reflect that this interest is -- has been transferred or was transferred, oh, in the last year to Christy Lee Cope?

A Yes, sir.

Q And who is this Uriah? Is that Mr. Cope's alter ego?

A Yes, it is.

Q And then refer to what has been marked as Exhibit Three and tell me what that is.

A This is a letter from August the 10th, around August the 10th, from Mr. Cope, stating that he would let us have the lease if we would carry it for 50 percent of his 17 percent interest through -- through the tanks, you know, with that (not clearly understandable.)

Q Have you tried on various occasions to talk to Mr. Cope?

A Yes, I've talked to Mr. Cope and asked him if he would farm out on the same conditions that the other people in this acreage would farm out, and he said that he would not.

I got a letter on approximately -- I mean got a phone call around October the 20th. At this time he

1  
2 said that he change up and he would take a farmout to us for  
3 half on the -- on the payout, have of his interest on the  
4 payout if we would spud this by November the 1st.

5 Q What kind of an arrangement do you have  
6 with other working interest operators?

7 A We have a -- ninety days to spud the  
8 first well from the hearing, the decision of the hearing,  
9 and then six months to spud the second well.

10 Q What kind of a working interest are you  
11 receiving in those?

12 A A 75 percent working interest.

13 Q Are there any back-in provisions in any  
14 of those agreements?

15 A No, there's not.

16 Q Now referring to what has been marked as  
17 Exhibit Four, Mr. Westall, is that a partial plat showing  
18 the -- roughly the south three-quarters of the east half of  
19 Section 28?

20 A Yes, it is.

21 Q Does that exhibit depict there's a rail-  
22 road right-of-way across the southeast corner of this tract?

23 A Yes, sir, there is.

24 Q Approximately how much of the area?

25 A Approximately 1.3 acres, I believe.

Q Have you -- have you or your attorney  
been able to determine yet if the -- the nature and extent  
of the right-of-way or the owners of the minerals under the

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right-of-way?

A No, we have not yet.

Q Are you attempting to do so?

A Yes, we are.

Q Is it quite possible that they are not adverse owners but that the lands under there are owned by the parties from whom you have leases?

A Yes. In what we can interpret the title opinion that the way that the -- it was written in the title, that it was just additional part of this ownership.

Q And that plat as shown is truly an ancient document, is it not?

A Yes, it is.

Q Now finally I would refer you to what has been marked Exhibit Number Five and ask you if that's a copy of the AFE?

A Yes, it is.

Q Was a copy of that forwarded to Mr. -- along with your letter which is identified as Exhibit Two?

A Yes, sir.

Q Briefly what does that reflect there?

A This is an AFE on the approximate cost to drill a 7900-foot Bone Springs test on this acreage.

Q What -- what does that cost reflect?

A Approximately \$411,000 total cost; \$261,000 for a dry hole.

Q How does that compare with the AFE which

1  
2 was originally presented in the prior hearing?

3 A I think it's approximately 80 -- \$70-to-  
4 80,000 less.

5 Q Mr. Westall, from your experience in  
6 drilling wells in this area and other areas in the -- of Ed-  
7 dy County, do you have reasonable feeling as to the risk in-  
8 volved in connection with these wells?

8 A Yes, sir.

9 Q What do you feel would be a reasonable,  
10 in light of all the factors as presented in this hearing and  
11 the prior hearing, what do you feel would be the -- and the  
12 facts in the testimony, what do you feel would be a reason-  
13 able risk factor allowed by the Commission in this matter?

13 A 200 percent.

14 Q At the original hearing, I believe, the  
15 original order, No. 75 -- 7567 provided for a 150 percent  
16 risk factor. Do you think in light of the circumstances  
17 that this is a reasonable figure?

18 A I feel like we'd have to research it a  
19 little bit in order to decide whether we could drill it for  
20 that -- that kind of risk factor.

21 Q One other thing, Mr. Westall. In connec-  
22 tion with this railroad right-of-way, there is already pro-  
23 duction at greater depths and possibly shallower depths on  
24 this same acreage, is there not?

24 A There is.

25 Q Do you feel that this -- granting this

1  
2 amendment will be in the interest of conservation, protect  
3 the correlative rights of all of the interest owners under  
4 this tract?

5 A Yes, sir, I do.

6 MR. JENNINGS: We would offer  
7 Exhibits --

8 Q Was Exhibit Number One prepared by Bell  
9 North and executed by you in the ordinary course of  
10 business?

11 A Yes, it was.

12 Q And were Exhibits Numbers Two, Three, and  
13 Four either consist of correspondence between you and other  
14 parties in the ordinary course of business or where they  
15 documents prepared by you or under your supervision?

16 A They were prepared by me and also Mr.  
17 Cope.

18 MR. JENNINGS: We would offer  
19 Exhibits One through Five, inclusive.

20 MR. QUINTANA: Was Exhibit  
21 Number Five also prepared by you?

22 A That --

23 MR. JENNINGS: The AFE.

24 A The AFE, yes, sir.

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

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2 MR. QUINTANA: Mr. Westall, I  
3 have a question for you.

4 CROSS EXAMINATION

5 BY MR. QUINTANA:

6 Q On -- what do you base your -- your de-  
7 termination of the 200 percent risk penalty factor?

8 A Well, the wells to the west over there,  
9 the west of this acreage, are limited production wells.  
10 They've been producing approximately a year. Most of them  
11 have produced between 10 and 20,000 barrels, which at the  
12 cost of this, it would take some time to get our money back  
13 on this thing.

14 Q Mr. Cope is familiar or has been informed  
15 as to the cost of the -- his cost to drill the well, his  
16 percent of the cost --

17 A Yes, sir.

18 Q -- to drill the well? He has a copy --

19 A He has a copy of the AFE, yes, sir.

20 Q -- of the AFE?

21 MR. QUINTANA: Are there any  
22 further questions Mr. Westall? If not, Mr. Westall, you may  
23 be excused.

24 MR. JENNINGS: Mr. Examiner, I  
25 might state for the Examiner's information that Cope's for-  
mer attorney in the room earlier and he said he had not  
heard from Mr. Cope and now he's ex-attorney.

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MR. QUINTANA: Is there any-  
thing further in Case 8377?

Case 8377 will be taken under  
advisement.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY  
that the foregoing Transcript of Hearing before the Oil Con-  
servation Division was reported by me; that the said tran-  
script is a full, true, and correct record of the hearing,  
prepared by me to the best of my ability.

Sally W. Boyd CSR

Nov. 14 8377  
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Gilbert P. Quintana