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

22 November 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Meridian Oil, Inc. for compulsory pooling, San Juan County, New Mexico, and	CASE 9543
Application of Meridian Oil, Inc. for compulsory pooling, San Juan County, New Mexico.	CASE 9544

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:	Robert G. Stovall Attorney at Law Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico
For Meridian Oil, Inc.:	W. Thomas Kellahin Attorney at Law KELLAHIN, KELLAHIN & AUBREY P. O. Box 2265 Santa Fe, New Mexico 87504
For Fina Oil and Chemical Company:	James Bruce Attorney at Law HINKLE LAW FIRM 500 Marquette N. W. Albuquerque, New Mexico 87102-2121

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MR. STOGNER: We've called Case Numbers 9543 and 9544 and have continued them to this time.

Let's see, at this point we have an appearance by Mr. Tom Kellahin for the Applicant and Jim Bruce for --

MR. BRUCE: Fina Oil and Chemical Company.

MR. STOGNER: Okay. Have we sworn all the witnesses? We have for the Meridian.

MR. KELLAHIN: Yes, we have.

MR. BRUCE: We have not sworn mine, potential witnesses.

MR. STOGNER: Is it Fina or American Petrofina?

MR. HOPKINS: It is Fina Oil and Chemical Company --

MR. STOGNER: Okay.

MR. HOPKINS: -- and that's all spelled out.

MR. STOGNER: Okay.

(Witnesses sworn.)

MR. STOGNER: Mr. Kellahin?

MR. KELLAHIN: Thank you, Mr. Examiner.

We'll call as our first witness Robert Hopkins.

MR. STOGNER: Let the record show that Mr. Hopkins was previously sworn in and had his credentials accepted.

Are there any objections to Mr. Hopkins' credentials, Mr. Bruce?

MR. BRUCE: No, there are not.

ROBERT HOPKINS,

being called as a witness and being previously sworn and remaining under oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Hopkins, let me direct your attention to the exhibit book that's in the binder for Case 9543. If you'll turn to Exhibit One, what do we find under tab -- for Exhibit Number One?

A Exhibit Number One is an application for compulsory pooling.

Q We're dealing here with the west half of Section 16 of 32 North, 10 West, San Juan County?

A Yes, sir.

Q And the proposal is to drill a Basin Fruitland Coal Gas Well?

A Yes, sir.

Q Are you the landman principally responsible for the consolidation of acreage for this case and for Case 9544?

A I am responsible directly for this case; not directly for the Burroughs Com Well in the west half of the section.

Q The east half of the section involves Case 9544.

A Correct.

Q And whose responsibility is that one?

A John Myrick.

Q John Myrick?

A Yes, sir.

Q And is John here today?

A Yes, he is.

Q All right. To what extent have you and John worked together in your efforts to get voluntary joinder by Fina of their interest in the well?

A We used the same procedures with Fina that we've used with other parties. We make an initial proposal letter with an AFE and a proposed operating agree-

ment. Those agreements were furnished to Fina on EPNG Com "C" No. 100 Well in April of 1988, and on the Burroughs Com Well in June of 1988.

Q Because we're dealing with wells in the same section, let me attempt with you, Mr. Hopkins, to have you discuss both wells in relation to your efforts to get voluntary joinder, and if there is a question I ask you for which you do not know the answer, we'll ask it of John and see if between the two of you we can provide Meridian's perspective on the negotiations.

A Okay.

Q Let's turn, then, to the exhibit book for Case 9544 and if you'll turn beyond the application to the attachment Exhibit A to the application, you have set forth the addresses and the percentages for the various parties, have you not?

A Yes, I have.

Q Describe for me for the well in the west half of 16 what the ownership is.

A In the west half of 16 is Case 9543.

Q That's correct.

A In the west half of Section 16 of 32 North, 10 West, El Paso Production Company owns State leases 40 acres in size, in the northwest of the northwest and in the northeast of the northwest Chevron USA, Inc.,

owns an 80-acre State lease in the south half of the northwest quarter.

El Paso Production Company then has two more State leases of 40 acres in size in the northwest of the southwest and in the northeast of the southwest and again in the southwest of the southwest also 40 acres in size.

Fina Oil and Chemical owns a 40-acre State lease in the southeast quarter of the southwest quarter.

Q All right, now let's go to the east half of 16, which will be case 9544, and have you identify for us what the interest ownership is for that half section.

A Fina Oil and Chemical owns a 40-acre lease in the northwest quarter of the southeast quarter. The remaining acreage is owned by El Paso Production Company. There are three separate State leases involved there for a combined total of 280 acres.

Q Let's turn now to Exhibit Number Two. Again you've shown the plats of the area, the proposed well location, and then a more formalized tabulation of the interest and the acreage?

A Yes.

Q Let's go now to Exhibit Three in each of the exhibit books and let's start with the El Paso Com "C"

No. 100 Well in the west half?

A Yes, sir.

Q All right. Describe for us what efforts have been made on behalf of your company to get the voluntary agreements, then, of Chevron and Fina for the drilling of the well.

A On April 28th, 1988, a proposal letter was sent to Fina Oil and Chemical in Midland. That proposal letter included an AFE and an operating agreement.

An identical letter was sent to Chevron, USA, Inc. the following day, April 29th, 1988.

On May 27th, approximately one month after I had sent the initial letters, I sent a follow-up letter, just very general follow-up letter, indicating that I hadn't heard anything and asked that they review the proposal.

On July 15th, 1988, I furnished a revised AFE to the partners. We had a request August 5th, 1988, for additional information from Jerry Nevans of Fina Oil and Gas.

On August 17th, 1988, Chevron executed our proposal letter and the AFE and we began negotiations on the operating agreement.

On September 26th, 1988, Chevron furnished a proposed amendment to the operating agreement,

which we've been reviewing since that time.

On September 28th, 1988, we furnished additional information to Fine concerning drilling costs and make-up of the location and the facilities.

And on November 11th, 1988 we met in Farmington, New Mexico, with them and discussed both proposals.

Q Were you present at the November 11th meeting in Farmington with the Fina representatives?

A Yes, I was.

Q And who from Fina appeared?

A Jerry Nevans and --

Q There are others that you do not remember their specific names?

A The three gentlemen with Fina here today are the --

Q The same three that you've discussed this deal with in November.

A Yes.

Q At this point as of today's hearing, Mr. Hopkins, what is the status of your negotiations with Chevron, USA, on their interest?

A We're currently working with them. We had three changes to their actual letter and we are negotiating with Chevron. They're considering our proposals

and we hope to hear from them soon.

Q Has Chevron executed your AFE for you?

A Yes, they have.

Q And we're now to discussing the specific terms and details of the operating agreement.

A Yes.

Q Where do we stand on Fina and what issues are of continuing concern to Fina as conveyed to you?

A The best of my recollection is that their main concern, possibly, was the timing of the well, that they'd rather see the well drilled possibly next year, the middle of next year.

Q In discussions with Fina was there any concern about the operations, who operated the well?

A No, sir.

Q Have they raised with you any concerns about the AFE costs that you proposed for the well?

A No, sir, not to me.

Q Has there been any objection to the orientation of the spacing unit?

A No, sir.

Q To the well locations?

A No, sir.

Q As best you remember, the only objection conveyed to you by Fina was the issue as to when the well

would be drilled and therefore when the financial commitment would have to be made by their company?

A Yes, sir.

Q Let's go now to the Burroughs Com "A" No. 100 Well, which is the west half of the section -- I'm sorry, the east half of the section in Case 9544. When we look at the chronology under Tab Three, Exhibit Three?

A Yes, sir.

Q Summarize for us what has been the activity in your efforts to get a voluntary agreement.

A On June 2nd, 1988, a proposal letter was sent to Fina by a landman in our office. A follow-up letter was sent September 20th, 1988, and again we had our meeting November 11th, 1988.

There was numerous phone conversations with them in between, trying to exchange information.

Q To the best of your knowledge at this point, Mr. Hopkins, have you and Mr. Myrick furnished to Fina all the information that they've requested of you?

A Yes, I think we have.

Q When we look at the working interest owners to commit their interest to this well for Case 9544, we turn to Tab Four?

A Yes, sir.

Q Exhibit Four? And apart from Meridian,

the outstanding interest is Fina Oil and Chemical Company, is it not?

A Yes, sir, it is.

Q Exhibit Five in each exhibit book is what, Mr. Hopkins?

A That's our Authority for Expenditure form with the estimated well cost breakdown attached and a facilities well cost estimate attached to that.

Q And Exhibit Six in each of the exhibit books is what, sir?

A Exhibit Six would be a model form operating agreement that we've proposed to the partners.

Q Within that model form operating agreement have you included in the COPAS attachments proposed overhead charges?

A Yes, sir, we have.

Q And what are those rates, sir?

A The drilling well rate is $3500 to be prorated for less than a full month and a producing well rate of $300.

Q Have you received any objection from any of the parties that you've utilized this rate for for this type of well?

A No, sir, we have not.

Q And have you received any objection from

Fina for use of these rates?

A No, sir, we have not.

Q Are these your recommendations to the Examiner for the overhead rates in the event Fina should elect to go nonconsent and to be subject to the pooling order?

A Yes, they would be.

Q And then finally Exhibit Seven in each instance, then, is the notification of hearing?

A Yes, sir, it is.

MR. KELLAHIN: That concludes my examination of Mr. Hopkins, Mr. Examiner. We would move the introduction of Exhibits One through Seven in each of the two cases.

MR. STOGNER: Are there any objections?

MR. BRUCE: None.

MR. STOGNER: Exhibits One through Seven in both Cases 9543 and 9544 will be taken under advisement -- will be admitted into evidence at this time.

Mr. Bruce, your witness.

CROSS EXAMINATION

BY MR. BRUCE:

Q Mr. Hopkins, is there a tax credit for wells drilled and completed in this formation?

A Yes, there is.

Q What is the basis for that tax credit or the amount, if you know?

A I don't know.

Q Would that -- if Fina is force pooled, would that tax credit be used or computed in determining when the well pays out?

A I don't know the answer to that.

Q And maybe this isn't your field, Mr. Hopkins, but I believe Fina was also told of some other charges that Meridian would make; for instance, a charge or processing fee to remove carbon dioxide, is that correct?

A Yes, we tell our partners of that but I don't have the expertise to talk about it.

Q And would the same go for salt water disposal charges?

A Yes.

Q And that's somebody else's area?

A Yes, sir.

Q And that's somebody here today?

A I believe so.

Q Is he going to be a witness?

A Yes, I think so.

Q You said you were present at a meeting November 11th, I believe, and at that meeting was Mr. Nevans, Mr. Martin, and Robert Dempsey?

A Yes.

Q Was there a Dana Craney present that day?

A Yes, there was.

Q And is he employed by Meridian?

A Yes, he is.

Q And what is his position with Meridian?

A He's a geologist.

Q Did Mr. Craney at that meeting tell the representatives of Fina that both of the wells we are talking about were "a sure shot"?

A I don't remember that.

Q Is there a market for all gas? Assuming these wells are completed as producers, is there a market for this gas?

A I don't think that's within my expertise. I don't know.

MR. BRUCE: I have nothing further, Mr. Examiner.

MR. STOGNER: Mr. Kellahin, any redirect.

MR. KELLAHIN: No, sir.

MR. STOGNER: I have no further questions of this witness. You may be excused.

Mr. Kellahin?

MR. KELLAHIN: Mr. Bent hasn't been sworn, I believe, Mr. Examiner. I'd like to have him sworn in.

(Mr. Patrick Bent sworn.)

PATRICK BENT,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q For the record would you please state your name and occupation?

A Patrick Bent, petroleum engineer. I'm the Regional Drilling Engineer for Meridian Oil.

Q Mr. Bent, I'd like to show you what is marked as Exhibit Number Five in each of the exhibit books for Case 9543 and 9544.

MR. STOGNER: I'm sorry, exhibit number what?

MR. KELLAHIN: It should be

Exhibit Number Five in the exhibit book.

Q Are you familiar with these AFE's, Mr. Bent?

A Yes, I am.

Q What is it that you do for your company?

A I supervise a staff of three drilling engineers who put together AFEs, well cost estimates, projects, drilling projects, and rate supervision.

MR. KELLAHIN: Mr. Stogner, we tender Mr. Bent as an expert drilling engineer.

MR. STOGNER: Are there any objections?

MR. BRUCE: I have no objection.

Q Mr. Bent, why don't you give us some background of what has been your personal experience and successes in the drilling of Fruitland Coal Gas wells and their relation to the cost as experienced by Meridian?

A I've been involved with the Fruitland Coal project from its inception in the late part of 1985, early part of 1986, and then all of the wells drilled in 1987, an additional 16, 4 in the first phase, 16 in the second, and so far this year in excess of 130 wells.

Q You originally testified before the Examiner of the Division with regards to some horizontal

wells to be drilled by Meridian, did you not?

A That's correct. I was the project engineer on the San Juan 30-6 Unit No. 404, high angle, which was an operational success.

I also testified as to the 32-5 Unit No. 100 application and the Sunray H-201 horizontal application which both have been approved.

Q When the original project was implemented, what was the range of expectation for the cost of drilling this type of well?

A We hadn't estimated that, exactly what it was going to cost us. We didn't know. It was a research and development project and so the costs were -- were not unknown but varied widely.

Q What was your actual experience initially, then, with actual cost for drilling wells like this?

A The actual cost for the four initial wells was approximately $1,000,000 per well.

Q As a result of that project and subsequent drilling, what do you now estimate to be the cost of drilling the wells that are the subject of these two cases?

A Approximately 245,000.

Q And what is a completed well AFE for those two wells?

A With facilities included, I believe it would be in the neighborhood of $400,000.

Q Mr. Bent, are each of these AFE's prepared in the same fashion?

A No, the Burroughs Well is prepared by using an earlier format, this format being during the higher cost phase of our wells.

Q Okay, let's go to the AFE now behind Tab Five of each of the exhibit books and for the Burroughs Com "A" 100 Well --

A Uh-huh.

Q -- if you'll find that one. What are the total completed well costs?

A Total completed well costs, including facilities, $515,486.

Q When we look to compare that estimate with the El Paso Com "C" 100 Well, what are the estimated total costs for that well?

A The total estimated costs are $402,324.

Q What is the explanation, Mr. Bent, for the $110,000 difference in price between the two wells?

A The high learning curve that we experienced in the initial phase of the project, as we drilled more wells we gained experience in the technique that we employ and as a result the AFE amounts were reduced sub-

stantially.

Q All right, so what we're looking at when we look at the Com "A" 100 Well, we're looking at an AFE from February of '88 and now by June 30th of'88 for the Com "C" 100 Well, we're seeing continued and further price reductions in the cost of these wells.

A That's correct.

Q Do you have a recommendation today as to what Fina can expect in terms of the total cost for each of these wells?

A I could use the total dollar amount on the EPNG well, approximately $400,000.

Q Is that your recommendation to the Examiner, is notwithstanding the AFE for the Com "A" 100 Well, prepared in February of this year, that --

A That is correct, depending on the distance, again, from the water tie-ins, there will be some variance in the (unclear).

Q So we're looking at a range of a well cost in the range of $400,000.

A That's correct.

Q And is that prepared in such a way as to be competitive with other operators that are drilling Fruitland Coal Gas wells?

A We feel so.

Q And in terms of a contract rate, is this done on a footgage basis or on a day work basis or some combination?

A It is a combination of footage and day work.

Q Are you using the same drilling contractor for all these wells or does it vary?

A It varies.

Q And do you get competitive prices on a bidding basis from all your contractors?

A Yes, we do.

Q That concludes -- oh, let me ask you this, in terms of drilling these wells now, is there any risk involved that the Examiner ought to consider in assessing a penalty factor against nonconsenting owners for the mechanical risk evolving in drilling this type of well?

A Yes, sir. As the mechanical risk is such that using the completion method that Meridian employs, in cases can be substantial.

Q Mr. Caldwell in an earlier case attempted to apportion different items of risk into the 200 percent risk factor penalty. Were you here for that discussion?

A Yes, I was.

Q Let me ask you, sir, in separating out

the risk factor penalty in a pooling case from the risk of a dry hole, the risk of encountering production but having that be uneconomic, and then the third portion being the mechanical risk of having difficulty in drilling this well to the point in some instances you have to abandon the wellbore, those are the three parts of the puzzle, and you as a drilling engineer would assess what percentage of that maximum risk and allocate it to the drilling portion of the risk?

A I think I would agree with John on that.

Q About a third of that?

A Yes, sir.

MR. KELLAHIN: That concludes my examination of Mr. Bent.

MR. STOGNER: Thank you, Mr. Kellahin.

Mr. Bruce, your witness.

CROSS EXAMINATION

BY MR. BRUCE;

Q Mr. Bent, I believe you said the mechanical risk was due to your completion procedure.

A That's correct.

Q Could you describe that procedure for us?

A In drilling the Fruitland formation under balance, the formation is allowed to influx and in doing so, the risk of stuck pipe is -- is a constant worry.

Q In the region, the general area of these two wells, Mr. Bent, are there any dry holes or uneconomic wells which in your opinion are due to poor completions?

A I really wouldn't feel comfortable on that one. I'm not familiar with the production results as we haven't tied all the wells in.

Q And it is your position to work out the well economics, is that correct?

A To work out the well cost estimates, that's correct.

Q You don't do the well economics?

A No, I do not.

Q Has Meridian ever lost a well because of mechanical difficulties?

A No, not that I'm aware of as far as a Fruitland Coal Well is concerned. We've spent extreme amounts of time, in excess of 80 days, on specific wells when mechanical problems were excessive.

Q But the mechanical problems were solved?

A Eventually. When you look at 80 days as compared to a 4-day drilling operation, you can obviously see the impact.

Q And you said you were involved in estimates for approximately 130 wells, is that right?

A The well cost estimates, no; involved in the drilling --

Q Drilling of --

A -- of 130 wells; well cost estimates in excess of 700.

Q Okay. Of those 130 wells you were involved in drilling, how many of them were dry holes?

A One that I can specifically think of, due to an interest problem. The others, I'm not really qualified to speak on. We have not tied in a substantial majority of these wells and so I really can't say whether or not they were dry holes.

Q Many of them are shut in.

A That's correct, not tied in, as yet.

MR. BRUCE: Nothing further.

MR. STOGNER; Thank you, Mr. Bruce.

Mr. Kellahin, do you have any redirect?

MR. KELLAHIN: No, sir.

MR. STOGNER: Mr. Kellahin.

LYNN MEIBOS,

being called as a witness, being previously sworn and remaining under oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN;

Q Please state your name and occupation.

A Lynn Meibos, geologist for Meridian Oil.

MR. KELLAHIN: Mr. Examiner, may the record reflect that Mr. Meibos is qualified as a petroleum geologist and has been acceptable previously?

MR. STOGNER: Are there any objections?

MR. BRUCE: No, Mr. Examiner.

MR. STOGNER: His qualifications are acceptable.

Q Mr. Meibos, would you take a moment and go to the Exhibit Number Eight that's displayed on the wall. Let's find Section 16 of 32 North, 10 West.

All right, you've pointed that out to us on Exhibit Nine. Let's find it also on Exhibit Eight, which is the montage. Let's use Exhibit Number Nine, if you will, sir, and let's look specifically at the two wells in Section 16 and the relationship of those wells to existing wells in any of the adjoining sections.

We are north of the Cedar Hills Fruitland Coal Gas Pool with this section?

A Yes, sir. North of the Cedar Hills GAS Pool, south of some wells that are drilled in what we call our Carter Ute area. The wells in the Cedar Hill area are known to be productive from the Fruitland Coal and have established production for several years in the -- out of the Fruitland Coal.

The production rates within the Cedar Hill Pool vary markedly from well to well, as have the production rates for some of the wells that we've drilled, or production flow tests that -- for some of the wells we've drilled in the Carter Ute area.

Q Do you have flow tests on all the wells adjacent to Section 16? I'm looking at the three wells in Colorado. Are there flow tests in all three of those wells?

A No. I've only got access to information on one and that is the -- I think this would be Section -- the northeast part of Section 24, 32, 10, in Colorado.

Q Do you have a geologic opinion as to what is a reasonable risk factor penalty to assess for non-consenting interest owners in either of the two wells in Section 16 should there be parties electing not to participate?

A Yes, sir, I do. I think that a risk penalty factor should be 200 percent above the well cost.

Q Describe for us the reasons that you have that opinion with regards, first of all, to the Burroughs Com "A" 100 Well.

A Based on the variance of production within the Cedar Hill Pool, though there is established production there, it's apparent that production is coming from the fractured coals within the Fruitland formation.

The fractures are not everywhere the same within the Cedar Hill Pool. They are present to one degree or another but not everywhere the same. Based on the discontinuity and randomness of this fracture system, it's likely that we might encounter fractures, we might not encounter fractures, with the wells in Section 16.

Q Has a decision been made by your company to drill both the Burroughs Com "A" Well and the Com "C" 100 Well in that section regardless of the outcome of the other?

A That's correct.

Q You're going to drill both?

A Yes, sir.

Q Does it diminish the risk for you as a geologist to have one well drilled, evaluated, and then the second well drilled in reliance on the information from the

first well?

A Not in the case of the Fruitland Coal.

Q Explain to us why that doesn't work.

A Closeology which often works in a sandstone reservoir apparently hasn't worked in the case of the -- with the Fruitland Coal, as is evidenced by the production, differing production rates of the Cedar Hill area, as well as the -- the production tests and after flow test information that we've been able to gather on the wells that we've drilled so far this year.

Q In relating the geology to the coal thickness map, Exhibit Number Eight --

A Uh-huh.

Q -- can you determine for us whether or not the location of the well in terms of the coal net thickness on the isopach would diminish your risk?

A The net thickness isopach shows approximately 80 feet of net clean coal in the Cedar Hill area. Based on the section of logs that I've put here there's a little less than the 80 feet as mapped by Kelso and others, but based on the thickness of the coal, I could not risk it one way or another.

Q Have you seen the other geology maps of the coal in an effort to quantify the quality of those wells in relation to either isopaching or structure, coal

thickness, what are the kinds of tools being used by you as a geologist to evaluated these kinds of wells?

A There's three things that we use: An isopach map, the production or the drilling information gained from previous wells drilled through the Fruitland Coal for all out information, kick information, and then we're using Landsat lineament information to help us try and find the better areas where we ought to have some -- some fracture, at least, of the coal.

Q Despite having those sophisticated tools at your disposal and the fact of Meridian's expertise in drilling the Fruitland Coal Gas wells, is there still an element of that exceeds the maximum penalty in order for you to carry the noncensenting working interest owners share of the cost of a well?

A Yes, sir, I think so.

MR. KELLAHIN; That concludes my examination of Mr. Meibos.

We would move the introduction of Exhibits Eight and Nine in these two cases.

MR. STOGNER: Are there any objections?

MR. BRUCE: None.

MR. STOGNER: Exhibits Eight and Nine will be admitted into evidence.

Let the record show also that Exhibits Eight and Nine will probably be in the record of the other cases.

MR. KELLAHIN: We'll provide additional copies, Mr. Examiner.

MR. STOGNER: Okay, but they are the same Exhibits Eight and Nine in the other cases that there are in these two, is that correct?

MR. KELLAHIN: Yes, sir.

MR. STOGNER: Thank you. Mr. Bruce, your witness.

CROSS EXAMINATION

BY MR. BRUCE:

Q Mr. Meibos, would you briefly go over for me the criteria you use in choosing locations in the Fruitland Coal in this area?

A We check, first of all, the net coal thickness to see and make sure that we do have coal present and that the thickness of the coal, coupled with the desorption value of the coal meets a reserve figure generated by the reservoir department, a reserve figure being used to generally predict how a well might produce if we were able to encounter natural fractures.

Q And what effect do these natural

fractures have?

A Natural fractures provide the permeability of the coal. Coal as a rock has no permeability and and of itself. The coal must be fractured or cleated in order for it to have permeability and allow the gas which is present within the matrix of the coal to flow out of the coal.

Coal may be present but there may be low or no permeability within the coal.

Q In your opinion are these two locations in Section 16 the best locations?

A Yes, they are.

Q In that section.

A In that section.

Q And another way of looking at it, are these the least risky locations?

A I would say yes. Another factor, I didn't finish answering the question that you asked before with regard to what else we use, we use as much topographic and Landsat information as we can to best predict where we might encounter natural fractures, but to help improve our possibility of making a good well.

That still, in my opinion, doesn't diminish the risk.

Q Tell me more about the Landsat data and

the lineaments information.

A In what respect?

Q Is there any relationship between the lineaments and fracturing?

A There might be but based on some information that I obtained at a fractured reservoir school that I attended put on by the AAPG this summer in Great Falls, Montana, Ron Nelson of -- who was teaching the course for the AAPG, noted that a study done in southern Utah showed that only 50 percent of the lineaments that they mapped from Landsat photos were really on the surface. In other words, some of the lineaments that we may map from a Landsat photo may be real lineaments, some may not be. So there's a risk involved with that based on the information that Mr. Nelson provided at that school.

Q Is there some general relationship between the two?

A Generally, yes, there's a general relationship.

Q For these two wells in Section 16 what values do you have for net coal thickness?

A I don't have that information with me.

Q Do you have it in memory?

A No. I can provide that for you, if you'd like, at a later time. It's not a big deal.

Q And what about the absorption value of the coal, do you recall that number?

A Not exactly offhand, but it's greater than 350 in that area of the San Juan Basin, if I recall correctly, 300 cubic feet per ton.

Q Regarding these two proposed locations, are there any dry holes, Fruitland dry holes, within the immediate area?

A Not that I'm aware of. There are some wells that produce at rates less than 100 MCF a day.

Q Now you've just talked about fracturing being a big factor in production from the Fruitland wells --

A Uh-huh.

Q -- is that correct? Is there a relationship to local Pictured Cliff structural highs underneath the Fruitland formation and a good potential for fracturing within the Fruitland Coal?

A There might be in some places of the Basin but I would say that that's not always the case.

Q Is that the case here?

A I would venture -- I -- I don't know. We don't map -- we don't use the structural high on the Pictured Cliffs to determine what the fracturing capabilities might be of the coal.

Q Is there any relationship between coal thickness and fracturing?

A No. The -- none that I'm aware of.

Q Mr. Meibos, I was listening earlier today to one of the cases and I believe you said that coal thickness does not seem to affect the productive capability of wells.

A That's correct.

Q But is there some minimum value you need?

A A minimum value would be better talked about by our reservoir engineer, who's -- who is more familiar with the economic parameters we're using than I am.

Q And are you familiar with the El Paso No. 2 Burroughs State and the El Paso No. 4 El Paso State, which directly offset these two locations?

A Not in all their details; maybe their location.

Q Do you know if coal is present in each of those wells?

A Yes, there is coal present in both of those wells.

Q And do the logs of those wells indicate fracturing?

A You can't determine fractures from logs

in the coal.

Q Do you have other information which would reveal whether there is fracturing in those wells?

A Not with me at this time.

Q Was there fracturing of the coal in those wells?

A I don't know. I haven't studied them, those two particular wells well enough to give an answer at this time.

What section are those in?

Q 16.

A 16? Those are Mesaverde wells, okay, I thought you were talking about PC wells. You can't tell from the Mesaverde logs whether or not the wells would be fractured.

Q I asked you previously regarding the coal thickness and desorption values you used for these particular wells and you told me you weren't sure of those numbers.

Do you know if they are higher relative to other wells Meridian has drilled in this immediate area?

A No.

Q They are not higher or you don't know?

A I don't know.

Q Does Meridian feel that these two

locations are better than the other wells it has drilled in the immediate vicinity to the Fruitland?

A I couldn't say. I think that Meridian would consider these locations with equal risk, that would have equal risk as the other wells were drilled in this area based on the fracture and the fractures in the coal and that are present or not present.

MR. BRUCE: That's all I have, Mr. Examiner.

MR. STOGNER: Are there any redirect, Mr. Kellahin?

MR. KELLAHIN: No, sir.

MR. STOGNER: No further questions of this witness, he may be excused.

Mr. Kellahin?

MR. KELLAHIN: I have nothing further, Mr. Stogner.

MR. STOGNER: Mr. Bruce, you have three witnesses, is that correct?

MR. BRUCE: Yeah, they should be brief.

MR. STOGNER: Okay, I'll be back in a minute.

(Thereupon a recess was taken.)

MR. STOGNER: On the home stretch. Mr. Bruce.

MR. BRUCE: Okay.

ROBERT E. DEMPSEY,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q Would you please state your full name and city of residence?

A My full name is Robert E. Dempsey. City of residence is Midland, Texas.

Q And what is your occupation and who are you employed by?

A I'm a Land Manager in west Texas for Fina Oil and Chemical Company.

Q In your capacity as Land Manager did you attend the November 11, 1988, meeting with representatives of Meridian?

A Yes, I did.

Q Could you tell me a little bit more

about that meeting and particularly what Mr. Dana Craney said?

A It was a meeting in general to discuss both the wells which are the subject of this hearing. As to Mr. Craney's comments, he said, and it was a quote, "these wells were a sure shot."

Q So he sounded rather confident about these being completed as good wells.

A Yes.

Q One last question just to verify, what does Fina -- what is Fina's working interest ownership in each half section?

A Fina has one 40-acre tract out of the 320-acre spacing unit (unclear).

Q Thank you, Mr. Dempsey.

MR. KELLAHIN: No. questions.

MR. STOGNER: Did we accept his credentials?

MR. BRUCE: I -- I can go further.

MR. KELLAHIN: I don't know if he was tendered as an expert.

MR. BRUCE; I -- I --

MR. STOGNER: All right, would you?

MR. BRUCE: I will if you want me to, Mr. Examiner. I consider he testified as to the --

MR. STOGNER: Just so that's it, the record will so show. Okay.

No questions.

MR. BRUCE: I'll next call Mr. Nevans.

JERRY WAYNE NEVANS,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q Mr. Nevans, would you please give your full name and city of residence?

A Jerry Wayne Nevans and I live in Midland. Midland.

Q And who are you employed by and in what capacity?

A Fina Oil and Chemical and I'm a petroleum engineer.

Q And have you previously testified before the New Mexico OCD?

A No, I haven't.

Q Would you please briefly describe your educational and work background?

A I have a Bachelor of Science in petroleum engineering from Texas Tech University and graduated in December '81.

Went to work for Getty Oil Company then, worked for them until 1984 when they were bought by Texaco.

I worked until early '85 when I went to work with Fina. I've been employed as an area engineer for Fina since then.

Q And does your are of responsibility include New Mexico?

A Yes, it does.

Q And are you familiar with engineering matters related to these two cases?

A Yes.

MR. BRUCE: Mr. Examiner, I tender Mr. Nevans.

MR. STOGNER: Mr. Nevans, what district office or area office of Getty's did you work in?

A I worked in Odessa, Texas.

MR. STOGNER: With Mr. Baker?

A Yes, sir, W. A. Baker.

MR. STOGNER: Okay. Are there any objections?

MR. KELLAHIN: Mr. Nevans' qualifications are so accepted.

Q Mr. Nevans, in you capacity as a petroleum engineer for Fina did you request certain completion data from Meridian?

A Yes. I have several times.

Q What type of information did you request from him?

A Well, what we were mainly interested in was any -- any different type of completion methods that they were using that permitted them to have, that they seemed to have, and by their own admission have by far the best wells in the Cedar Hills area in all their Fruitland Coal wells.

We were for the most part told this was proprietary information.

Q And so you didn't get that completion data from them.

A No.

Q And did you request any other type of data?

A Yes, we did. I had requested more than once on the phone and then wrote a letter requesting Meridian to give us an idea of what they felt like the wells in initial potential, initial production would be, projected

to clients in the area, or estimated reserves, any information that would help us run the economics on a well, and was again told that was proprietary information.

Q Has this lack of information limited Fina's ability to respond to these well proposals?

A Yes, it has.

Q Did Meridian -- at this in -- were you at this November 11, 1988, meeting which was previously referenced?

A Yes.

Q And what did Meridian's representatives tell you about these two particular locations?

A Well, we were told that they had drilled several wells that were not near as good locations as these, that these proposed locations were superior, that they had drilled the other wells just because they were, you know, couldn't get a commitment from us.

Q Did they say that these were good locations?

A They said they were excellent locations. and very much superior to the wells, some of the wells that they had drilled.

Q Mr. Nevans, I hand you what's been marked Fina Exhibit Number Four. Would you please describe that for the Examiner?

A Well, it's basically just a production map. We were looking at the Fruitland Coal wells in the Cedar Hill area and it's got the proposed locations on it, and then I've also got the -- the wells with the blue arrows are the Meridian operated wells in the field. The numbers written beneath the wells are the current production rates as best we could ascertain them, based on Dwight's information, Dwight's pools.

Q Do you consider the Meridian wells good, good wells?

A Yes, they're -- the four wells that we've got the production on here, the three in the Cedar Hill and then the Carter Ute 103, are all three good wells that are considerably better than the average well in the field.

Q There are two offset wells to the south. I believe that's in Sections 20 and 21.

A Uh-huh.

Q Those wells do not appear to be very good wells, are they?

A No, they're not. They're Union Texas wells and that was one of our primary concerns when we were looking at these locations but one of the points that came out in our November meeting with Meridian was that they felt these two wells were inferior wells based on inferior

completion techniques that are currently being used by Union Texas.

Q And Meridian thought they could do a better job of completing.

A They felt like, for one thing, that Union Texas was cementing the -- cementing their liners and/or pay zones in the well and plugging up the cleat system or the natural fracture system down there beyond, you know, the formation down beyond what (not clearly understood) frac job (unclear) stimulation.

Q Did Meridian also discuss any other operating charges or processing charges?

A Yes. We've been 39-1/2 cents an MCF for stripping out the CO_2, is what we've been giving for that operating expense, and then we were told at the meeting there even though they were putting in a water gathering system, that we should use about $1.00 a barrel to dispose of produced water from the wells.

Q Did Meridian give you its actual costs for these processing and service charges?

A No.

Q Do you know if they are reasonable charges?

A Well, the -- no, to tell you the truth, the -- it seems excessive on the water, water disposal

charge. We do not, you know, we don't operate any plants, so as far as 39-1/2 cents an MCF, I don't have a feel for that.

Q In your opinion, Mr. Nevans, based on the information you have in hand now, do you think a 200 percent penalty is reasonable?

A No, I don't.

Q Was Exhibit Number Four prepared by you or under your direction?

A Yes.

MR. BRUCE: Mr. Examiner, I move the admission of Exhibit Number Four.

MR. STOGNER: Are there any objections?

MR. KELLAHIN: No objection.

MR. STOGNER: Exhibit Number Four will be admitted into evidence.

Does that complete your examination, Mr. Bruce?

MR. BRUCE: Yes, Mr. Examiner.

MR. STOGNER: Mr. Kellahin, your witness.

MR. KELLAHIN: Thank you.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Nevans, I take it that you have no personal experience with drilling Fruitland coal gas wells in the San Juan Basin.

A No, sir, I do not.

Q And does Fina as a company have any experience in drilling Fruitland coal gas wells in the basin?

A No, sir.

Q What was the date of your first efforts to educate yourself about Fruitland Coal production in the basin?

A I would estimate that it would be June or July of this year, when I took over the Hobbs area.

Q And what have you done to educate yourself about the intricacies of drilling and producing coal gas from the coal bed Fruitland formations in the San Juan Basin?

A Well, we have accumulated as much literature as we could, especially Robert Martin and I, and then we also have talked with -- like we looked at the Tenneco package and we went up there, and we had a massive effort to educate ourselves on Fruitland coal, since that was a major portion of that package when we were looking at purchasing that package.

Q Is it a practice for Fina to share pro-

prietary reserve calculations with working interest owners you're trying to attract into properties that you propose to to drill?

A Yes. When we propose a well to a work-interest owner, we supply what we think the initial production will be; what the decline rate will be and what the estimated reserves are.

Q Have you -- do you understand as a engineer how difficult it is to project recoverable reserves using conventional decline curve analysis for Fruitland gas production?

A Yes, I do.

Q Meridian's told you that, have they not?

A I'm sure they have.

Q And you've learned it from others.

A Right.

Q Have you sought to utilize the data that's available here at the Oil Commission in the Amoco Cedar Hills cases that were presented to this Division?

A No.

Q Do you know that they have reserve calculations in those files and interference information and all kinds of reservoir studies.

A Yes, I've -- we've got some of that information that we got from Tenneco and then we researched

the Tenneco wells and estimated reserves on those wells; however, the -- we, you know, by Meridian's own confusion or profession, their wells are very much superior to any other operator in the area, and I'm really not concerned with what Amoco's estimated reserves are.

Q From your investigations of Meridian, they appear to be a good operator of Fruitland coal gas wells.

A Yes.

Q Very successful.

A Yes, very good operator.

Q If I calculate correctly, based upon Mr. Bent's well estimates of about 400,000, your 12-1/2 percent is going to be about $50,000 per well, is that not true?

A Yes.

Q That is your financial exposure if you cut them a check and participate, is that not true?

A Per well.

Q Yeah. It escapes me, why don't -- why don't you participate if these are so well operated and these are such good wells with such low risk, why don't you send them a check for $100,000 and let's participate in the success of these wells?

A Well, that's really not my decision; it never has been.

Q Has it ever been your recommendation to the people that make those decisions, that you participate?

A Well, my recommendation initially was greatly hampered by the fact that we had no experience in this area and that's when I was initially asking for Meridian's estimate of production and reserves.

At this point we are trying to, you know, we are trying to ascertain what it is that Meridian is doing that allows them to be such a better operator in this area, and I've been fairly unsuccessful at it, at finding that out, and it makes it very difficult to make a decision, and, no, I have not recommended that we go along with these wells, based, you know, you can't argue with their track record, they have an outstanding track record, but we feel like as a working interest owner that we should be privy to at least some -- enough of the information where we can make a decision on our own.

Q But you're not a working interest owner yet, are you?

A No, but we would be.

Q Yeah, if you sign the operating agreement you would be a working interest owner and then you get all these goodies. Right?

A Well, no, I don't know that we would. I don't know that we'd find out any more information after we

signed. You know, if they're so concerned with giving this information out, we do not feel that we would have any more information down the line than we have right now.

Q Well, Mr. Nevans, I'm at a loss to understand, you've told us earlier that they weren't giving you the data on their wonderful success for completion techniques. Didn't you tell Mr. Bruce that?

A I have -- the only completion technique that I've got is a basically generic, very no detail technique that they sent when I asked for production information.

Q Well, Exhibit Three to Case 9543, there's a letter dated September 28th, Mr. Hopkins wrote it to you, in which he says, "Enclosed pursuant to your request please find an informational packet containing well diagrams, drilling and completion procedures, and a layout of facility installations. I hope this will make you more comfortable with our procedures."

He then ends with, "If I can be of further assistance, please advise."

You got that letter, right?

A That's the one, exactly what I'm saying. I called, asking for production information, reserve information, (unclear) scenarios. None of that; I got this letter with a very generic, no detail, I mean there's no

stimulation techniques mentioned in there. It doesn't talk about where we're going to frac. We, you know, as far as what they're doing to position themselves, to make better wells than other operators in the area, I don't have any idea, you know. You've got an entire drilling and completion procedure written on one page there. That's a very non-detailed, generic --

Q Well, I'm surprised, quite frankly, that you've not found it, because Meridian has testified before this very Division on numerous occasions about their open hole completion techniques and, you know, I'm surprised you don't have it, but the point of my question is, if you think 200 percent is unreasonable, Mr. Nevans, what is your recommendation for a penalty?

A My recommendation would be 50 to 100 percent.

Q That's -- that's recovery out of production, your share of the cost, plus an additional 50 to 100 percent, is that what you're saying?

A Yes.

Q Okay. Do you have any objection to Meridian being the operator?

A No, I don't.

Q Don't have any objection to the spacing unit configuration or the size?

A No.

Q No objection to the well location?

A No.

Q No objection to the proposed costs?

A No. I -- at one time I called with some objections on the initial AFE and was told at that time, well, I could knock, you know, 100 or maybe more thousand off of that, and I don't know, within a couple of weeks I got the revised AFE.

Q Okay, and you're comfortable with those wells costs, then?

A Yes, I am.

Q Do you have any difficulty in the time frame for the commencement of the wells? I believe they've anticipated trying to commence the wells before bad weather here in January and December?

A Well, that's -- that was not my consideration.

MR. KELLAHIN: Nothing further, Mr. Examiner.

MR. STOGNER: Mr. Bruce, any redirect?

MR. BRUCE: No, Mr. Examiner.

MR. STOGNER: I have no questions of this witness.

ROBERT L. W. MARTIN, II,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q Would you please state your full name and city of residence?

A Robert L. W. Martin, II. I live in Midland, Texas.

Q And who are you employed by and in what position?

A I'm employed by Fina Oil and Chemical Company as a petroleum geologist.

Q And have you previously testified before the New Mexico OCD?

A No, I have not.

Q Will you please outline your educational and work background?

A Okay. I graduated from Texas Tech in May of '82 with a Bachelor of Science degree in geology and a minor in biology.

Started work in Midland as an exploration geologist with Bill C. Burns in Midland for fifteen months and then joined Fina in October of 1983 as an ex-

ploration and production geologist, working in Texas and New Mexico areas.

Q And have you studied the geology in this area and become familiar with it?

A Yes, I have.

Q And are you familiar with the geology involved in Section 16 in these two cases?

A Yes, I am.

MR. BRUCE: Mr. Examiner, are the witness' credentials acceptable?

MR. STOGNER: Are there any objections?

MR. KELLAHIN: No, sir.

MR. STOGNER: They are.

Q Mr. Martin, looking at Exhibit Number One, please describe it for the Examiner briefly.

A Okay, basically, the Exhibit Number One is a basal isopach map -- I'm sorry, it's a composite map showing the total coal thickness isopachs for the Fruitland formation coal and it also shows by the green line the top of the largest stratigraphic horizon, the Pictured Cliffs.

And this is from the RMAG's Geology and Coalbed Methane Resources of the Northern San Juan Basin, Colorado and New Mexico, Page 32.

And basically what it shows is that

within the area that I've outlined in yellow, we are in the thicker part of the coal; the green line representing the stratigraphic horizon, the Pictured Cliffs, which shows why the coal is thick in that area, due to the fact that you had stabilization of the shoreline.

Landward of that shoreline the coal also had a chance to start building up and that's the reason for the coal thick. I just wanted to show that we are within an area that does have the coal.

Q And from your study of the literature, are the areas to the southwest of that green line the better locations?

A Yes.

Q Better well locations for Fruitland coal gas wells?

A Yes.

Q And in your -- after making your study, do you agree with the material represented on this exhibit?

A Yes, I did.

Q Would you please move on to Exhibit Two and discuss its contents?

A Exhibit Two is an isopach map showing the net coal thickness of the Basal Fruitland Coal Seam within the Cedar Hills area, and within the Cedar Hills area the biggest part of the production comes from the

basal part of the -- or what they might call the lower Fruitland Coal Seam, which is just above the Pictured Cliffs, and what I wanted to show by this map, which I've put the two locations for their wells, the Meridian wells, is that the basal part of the coal is present within Section 16.

Q And who prepared this map, Mr. Martin?

A I did.

Q And would you please now move on to Exhibit Number Three and discuss its contents?

A Okay. Number Three is a map that hasn't been brought out yet about the coal rank map of the Fruitland Coal formation.

This is from the Gas Research Institute's book titled, A Geologic Assessment of Natural Gas from the Coal Seams in the Fruitland Formation, San Juan Basin, and I copied this from Page 36.

Basically this just shows that we are in an area outlined in yellow that has a higher -- the high volatile 8 (sic) bituminous coal, which for the most part tells us that within this area you can produce better gas from this type of coal than you would if you went to the southwest.

Q And based upon your study of this area, Mr. Martin, what would you recommend as a penalty to be

assessed against nonconsenting interest owners?

A I would recommend between 50 and 100 percent.

Q And what do you base this on?

A Well, in looking at the evidence that the coal is present, that within the Pictured Cliffs that was mentioned earlier, on a map that I've done that was not brought, it shows that there are some local structural highs within the Pictured Cliffs which can possibly enhance the fractures out of the Fruitland Coal. I do believe that these are superior locations and that they will yield some economic gas from these locations.

Q In your opinion would the reduction of the penalty to the magnitude you've discussed be in the interest of conservation and the prevention of waste?

A Yes, sir.

MR. BRUCE: Mr, Examiner, I have nothing further of this witness.

I move the admission of Fina Exhibits One, Two, Three.

MR. STOGNER: Are there any objections?

MR. KELLAHIN: No objections.

MR. STOGNER: Exhibits One through Three will be admitted into evidence at this time.

Mr. Kellahin, your witness.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Martin, describe for us what personal experience you've had as a geologist with regards to the drilling of any of the Fruitland Coal Gas wells in the Basin.

A That wouldn't be in my expertise. I don't -- all I have is just geological background.

Q With a risk as low as you've assessed it based upon a study of the literature, have you recommended to your management that they participate in these wells with Meridian?

A No, I have not. Our management has per se --

Q Are you in a position to make that recommendation?

A My recommendation usually goes to the engineer. The hierarchy of the way that Fina runs is to make recommendations to the engineer who would then take it to management.

Q And have you made that recommendation to your engineer?

A The only recommendation I have made is

that we would either participate or just farm this out, and that's -- yeah, that's it.

Q This meets whatever geologic criteria you've placed upon it to cause you to participate. That's one of the options to you, is it not, It's not of such a great risk that you would choose not to participate.

A Right.

Q Are there capital restraints on your drilling monies that you don't have funds available to participate in this well?

A I don't have access to that information.

Q You don't know? You've estimated a range of nonconsent penalty between 50 and 100 percent?

A Yes.

Q And that is based upon your study of this particular literature that you've told us about today?

A Right, plus some of the only -- my own studies upon using geophysical logs and sample logs as data within this area to show that the Fruitland Coal is present.

Q Well, we can find the Fruitland Coal all right. The issue, as Mr. Meibos has shared with you is the productivity of those wells in the coal.

A Right.

Q Have you studied it as Mr. Meibos does?

A I don't know if I've used the same technique as he has. Like I said, the only thing that I've done to look for potential fractures is looking at the Pictured Cliffs, which underneath -- which is underneath the Fruitland Coal, which would possibly enhance the fracture system of the Fruitland Coal.

Q You were present today to hear Mr. Meibos' testimony both at the hearings this morning and in the subject cases this afternoon, were you not?

A Yes.

Q Do you you have any reason to doubt his concerns about the proximity of wells that have production rates significantly lower than their flow tests in close proximity to each other?

A I don't know if it has anything to do with completion technique or not. That's not my -- my experience, you know, as far as how the well is completed.

Q Do you have any experience in fractured coal gas production in any other portion of southwestern New -- United States?

A No, I sure don't.

Q None whatsoever?

A No.

MR. KELLAHIN; No further questions.

MR. STOGNER: Any redirect, Mr. Bruce?

MR. BRUCE: No, Mr. Examiner.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Martin, who actually in your organization sent you all down here today?

A Our managers.

Q And who are they?

A Tom Wadsworth.

Q And these -- Mr. Wadsworth would be the one to say we'll either participate or we won't, is that correct?

A Yes.

Q Why isn't he here today?

A I really couldn't tell you. My only thought would be that with Tenneco's -- with what we bought he's just been going back and forth to San Antonio. I'm sure he's involved in that.

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

Are there any other questions of Mr. Martin?

MR. KELLAHIN; No, sir.

MR. STOGNER: He may be excused.

Mr. Bruce, do you have anything further?

MR. BRUCE: No further witnesses.

MR. STOGNER: Mr. Kellahin, do you wish to call any of your witnesses?

MR. KELLAHIN: No, sir, we're finished, Mr. Examiner. Thank you.

MR. STOGNER: Are we prepared to do some closing statements or --

MR. BRUCE: Sure, I'll be brief about it.

MR. STOGNER: Okay, Mr. Bruce, you may.

MR. BRUCE: Mr. Examiner, Mr. Kellahin attempted to make the issue of whether or not there should be a higher penalty based upon whether a company will farm out or no farm out. I think the penalty should be assessed based upon the risk involved in drilling this well.

Now Fina desired certain information on which to make in informed decision but this information was not given by Fina -- not given to Fina by

Meridian.

However, I think the testimony you've heard today, Mr. Examiner, shows the following: It shows that Meridian told Fina that each of these wells was "a sure shot"; that they had drilled 130 wells in this area and only one of those wells was a dry hole; and Mr.Meibos stated that these two wells are equal in risk to the other wells Meridian has drilled in this area.

And it seems like they have a pretty good drilling and completion program out there and they really know how to drill good wells, and based on this I don't think you can assess a 200 percent penalty and I think you can look at a penalty as in the order of magnitude of what my witnesses have recommended and that is 50 to 100 percent.

And I think there's another issue in here which we really didn't get into, but Mr. Meibos testified that there's a tax credit which is applicable to these wells, and I think we have to be careful in looking at the -- if Fina does not join in the wells and goes nonconsent, I think you have to factor that tax credit into the complication (not clearly heard.)

And one final issue, is these operating costs regarding processing of carbon dioxide and salt water disposal charges. I think Meridian, although they did not

choose to put on any evidence about those charges, should be required to show that those are reasonable pursuant to statute.

Thank you, Mr. Examiner.

MR. STOGNER: Thank you, Mr. Bruce.

Mr. Kellahin?

MR. KELLAHIN: I'll be very brief, Mr. Examiner.

Fina obviously comes before you today with very little information about coal gas production in the basin.

These are nice guys but they have not come equipped to discuss with you the issue of what is an appropriate risk factor penalty in this area. We invite you to rely upon the expertise of the operator that's drilled the most wells of this character and, hopefully, success. It's no surprise to me that Dana Craney would, as an exploration geologist, want to encourage people to participate. He truly believes that every location he picks is going to be a sure shot, and in fact, they've had considerable success in finding, although we have testified to this, you're the one that brought it up, it's right here in the record, Mr. Craney's the one that they testified to told them they had a sure shot. If it's

a sure shot, so be it. You're going to find the reservoir. We certainly haven't denied that you wouldn't find the reservoir. The question is the production capabilities of those wells and we have told you repeatedly today of the inherent risk involved with these wells and being in close proximity to each other and having one well that produces well and the next one not.

I guess it's hard to understand when you come from a matrix sand producing portion of the country and would expect to play "closeology" and a high degree of reliability in assessing risk, because when you go into the coal production areas of the basin, closeology doesn't work.

We believe that it's appropriate to assess a 200 percent risk factor penalty in this case and we would ask you to do so.

Thank you.

MR. STOGNER: Thank you, Mr. Kellahin.

Does anybody else have anything further in Case Number 9543 or 9544?

These cases will be taken under advisement.

(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 (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

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9543 and 9544 heard by me on 22 November 1988.

Michael E. Stogner, Examiner
Oil Conservation Division