

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF THE NEW MEXICO OIL)
CONSERVATION DIVISION THROUGH THE)
SUPERVISOR OF DISTRICT 1 FOR AN ORDER)
REQUIRING VERDE GRANDE, INC., TO BRING)
ONE WELL INTO COMPLIANCE WITH RULE 201,)
ASSESSING AN APPROPRIATE CIVIL PENALTY)
IN THE EVENT OF NONCOMPLIANCE,)
AUTHORIZING THE DIVISION TO PLUG SAID)
WELL AND ORDERING A FORFEITURE OF THE)
APPLICABLE PLUGGING BOND, LEA COUNTY,)
NEW MEXICO)

CASE NO. 13,257

WVS 1/24/04

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

June 10th, 2004

Santa Fe, New Mexico

2004 JUN 24 AM 10 17

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, June 10th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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June 10th, 2004
 Examiner Hearing
 CASE NO. 13,257

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<u>CHRIS J. WILLIAMS</u> (District Supervisor, Hobbs District Office, District 1, NMOCD) (Present by telephone)	
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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

* * *

ALSO PRESENT:

MARK FESMIRE
Director, Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 10:00 a.m.:

3 EXAMINER JONES: At this time let's call Case
4 13,257, Application of the New Mexico Oil Conservation
5 Division through the Supervisor of District 1 for an order
6 requiring Verde Grande, Incorporated, to bring one well
7 into compliance with Rule 201, assessing an appropriate
8 civil penalty in the event of noncompliance, authorizing
9 the Division to plug said well and ordering a forfeiture of
10 the applicable plugging bond, Lea County, New Mexico.

11 Call for appearances in this case.

12 MS. MacQUESTEN: Gail MacQuesten, Energy,
13 Minerals and Natural Resources Department, appearing for
14 the Oil Conservation Division. I have one witness, Chris
15 Williams, who will be testifying by telephone.

16 EXAMINER JONES: Any other appearances? There
17 being none, Chris, can you raise your right hand?

18 MR. WILLIAMS: Yes.

19 (Thereupon, the witness was sworn.)

20 MS. MacQUESTEN: Mr. Examiner, before we have Mr.
21 Williams testify I'd like to briefly explain what we're
22 asking for in this case.

23 The most recent operator of this well intended to
24 use it for saltwater disposal. The well is in violation of
25 Rule 201 because it has been inactive for at least a year

1 and 90 days, as stated in the Rule. In fact, according to
2 OCD records it appears that we have no record of any
3 production or any use as a saltwater injection well. The
4 well has not been plugged and abandoned, it has not been
5 placed on temporary abandonment status pursuant to Rule
6 203. In addition, it appears that the site needs cleanup.
7 There's rusted equipment at the site.

8 We anticipate that the State will have to plug
9 this well because the operator is no longer in business.

10 We're asking for an order pursuant to the Oil and
11 Gas Act, Section 70-2-14.B, and OCD Rule 101.M, requiring
12 the operator to bring the well into compliance with 201
13 within 30 days by plugging, placing the well on temporary
14 abandonment status, or returning it to beneficial use.

15 We also request that the order authorize the
16 Division to plug the well and clear the site if the
17 operator fails to comply, and we further ask that the order
18 authorize the Division to forfeit the financial assurances
19 in place.

20 We are not asking for a penalty at this time,
21 either for past misconduct or for violating any order the
22 Division may issue in this case. Because we are not
23 seeking a penalty for past misconduct, we are not
24 presenting evidence of correspondence with the company
25 about the violation, which is usually presented to show a

1 knowing and willful disregard of OCD Rules.

2 There is a packet of evidence in front of you.
3 I'd like to go through the initial exhibits because I'm
4 presenting some testimony by affidavit.

5 The first exhibit is an affidavit of notice,
6 showing notice to Verde Grande, Inc., and its surety and
7 the returns from that notice. I'd like to point out that
8 the notice gives the original hearing date. According to
9 Rule 1209, this case could be continued without new
10 servicing, so we did not notify anyone of the new hearing
11 date. No one had entered an appearance in the case at the
12 first hearing date.

13 Exhibit 2 is a document provided by an attorney
14 for Mr. Caudill. Mr. Caudill was the president of Verde
15 Grande. This document shows that Verde Grande and Mr.
16 Caudill received a discharge in bankruptcy in 1998.

17 Exhibit 3, Mr. Caudill told me that Western
18 Commerce Bank may have acquired Verde Grande's interest in
19 the well, so we continued this case from its original
20 hearing date so that we could notify Western Commerce and
21 let them know about the hearing if they wish to attend.
22 Exhibit 3 is my letter to Western Commerce notifying them
23 of the hearing today.

24 Exhibit Number 4 is the response I received from
25 Western Commerce, indicating that they do not have an

1 interest in the well.

2 Exhibit 5 is an affidavit from Dorothy Phillips
3 with a copy of the bond and the rider to the bond,
4 providing evidence of the financial assurance that has been
5 posted in this matter. There is a \$10,000 single-well bond
6 in the case.

7 And Exhibit 6 is an affidavit of Jane Prouty
8 showing that the OCD has no reports of production or use
9 for injection on this well.

10 At this time I would like to call Mr. Chris
11 Williams. Mr. Williams, are you on the line?

12 MR. WILLIAMS: Yeah.

13 CHRIS WILLIAMS (Present by telephone),
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MS. MacQUESTEN:

18 Q. Would you state your name for the record, please?

19 A. Yeah, Chris Williams.

20 Q. And where are you employed?

21 A. Energy, Minerals and Natural Resources
22 Department, Oil Conservation Division.

23 Q. In which office?

24 A. The Hobbs District Office.

25 Q. And what is your title?

1 A. District Supervisor.

2 Q. What are your duties as District Supervisor?

3 A. To regulate the oil and gas industry in Lea,
4 Roosevelt, part of Chaves and Curry County.

5 Q. Are you familiar with the well, the Aztec State
6 Number 1, API 30-025-22342, located at Unit Letter J,
7 Section 18, Township 16 South, Range 37 East, in Lea
8 County, New Mexico?

9 A. Yes.

10 Q. Is that well located in your district?

11 A. Yes.

12 Q. Have you examined the well file for that well?

13 A. Yes.

14 Q. And do you have the packet of exhibits that I
15 faxed to you?

16 A. Yes, I do.

17 Q. Can you tell us who the current operator of
18 record is for this well?

19 A. Current operator of record is Verde Grande.

20 Q. Would you please look at what has been marked as
21 OCD Exhibit Number 7?

22 A. Okay.

23 Q. Is this the most recent filing in the well file
24 for this well?

25 A. Yes, it is.

1 Q. And when was it submitted?

2 A. August 4th, 1986.

3 Q. And who submitted it as the operator?

4 A. Verde Grande, Incorporated.

5 Q. Okay. And were there any subsequent filings --

6 A. No.

7 Q. -- in the well file?

8 A. No, there wasn't.

9 Q. Was there another operator of the well prior to

10 Verde Grande, Inc.?

11 A. Right, Double "C" Enterprises.

12 Q. All right. Would you please look at what has

13 been marked as OCD Exhibit Number 8?

14 A. Okay.

15 Q. Is that the document that transferred operations

16 from Double "C" Enterprises to Verde Grande, Inc.?

17 A. It was.

18 Q. I'm sorry, Mr. Williams, I couldn't hear you.

19 A. Yes, it is.

20 Q. Thank you. And when that was submitted?

21 A. That was February 27th, 1985.

22 Q. All right, that was when it was approved?

23 A. Right, that's when it was approved.

24 Q. Okay. In your examination of the well file for

25 this well, did you find any indication that the well had

1 been plugged?

2 A. No, the well has not been plugged.

3 Q. Has it been placed on temporary abandonment
4 status?

5 A. No.

6 Q. Have you reviewed the inspection reports that
7 have been filed on this well?

8 A. Yes, I have.

9 Q. Could you take a look at what has been marked as
10 Exhibit Number 9?

11 A. Right, okay.

12 Q. What is this exhibit?

13 A. It's a compliance notice from RBDMS, our risk-
14 based data management system, which indicates several
15 inspections have been made on this well, and it shows that
16 the well has just been sitting idle and the equipment on
17 location is rusting out and in poor condition. Also it
18 shows that there was a tubing and a casing leak back in
19 1985, which the well file also references that.

20 Q. What is the most recent inspection that was
21 performed in this case?

22 A. 4-10-2004.

23 Q. And what was shown then?

24 A. That was showing the rusted equipment and the --
25 basically the abandonment at the site. Even though there

1 is equipment still there, it's not operational.

2 Q. Okay, I heard you say 4-10-2004?

3 A. Right.

4 Q. Where are you getting the year on that?

5 A. I'm looking at the compliance record. It's not
6 real clear. It could be a "2001".

7 Q. Are yo looking at Exhibit Number 9?

8 A. Yes, I am.

9 Q. Okay.

10 A. It says under "Date Performed" -- it appears to
11 say "4/10/2004", but it may be 2001.

12 Q. Okay.

13 A. It's not very clear through the fax.

14 Q. All right, that may be a fax problem then.

15 A. Right.

16 Q. Okay. Do you have a proposed plugging procedure
17 for this well?

18 A. Yes, we do.

19 Q. And if you could take a look at Exhibit Number
20 10, is that the plugging procedure that your office is
21 proposing?

22 A. Yes, it is.

23 MS. MacQUESTEN: Thank you. I have no more
24 questions of this witness, and I would move to admit
25 Exhibits 1 through 10.

1 EXAMINER JONES: Exhibits 1 through 10 are
2 admitted to evidence.

3 EXAMINATION

4 BY EXAMINER JONES:

5 Q. Chris, do you think there's any other potential
6 in this well for any kind of other perforating any zones or
7 using it for an injection well?

8 A. The problem is, I don't really see in the well
9 file -- I see several -- or an instance in there where they
10 talk about a casing leak, but I don't see any data to
11 support where they repaired it. And this has been sitting
12 so long that it does concern us in terms of groundwater
13 contamination.

14 Q. Okay. And how much would it cost to clean up
15 that site and plug this well?

16 A. If we end up having to repair casing and other
17 things, it could probably run us close to \$30,000 just to
18 plug it.

19 And the cleanup of the site, that's very
20 difficult to say because you need to do the borehole
21 sampling to know how deep the contamination has gone and --
22 before you can even make a determination on how to start.
23 But it's going to cost at least -- probably double whatever
24 it would cost, roughly \$60,000.

25 Q. And the bond is for only \$10,000?

1 A. Correct.

2 EXAMINER JONES: Okay, that's all my questions
3 that I have of this witness.

4 MS. MacQUESTEN: We have no further questions,
5 and this concludes our presentation.

6 EXAMINER JONES: Okay, thanks very much, Chris.

7 THE WITNESS: Okay, thanks.

8 EXAMINER JONES: With that, we'll take Case
9 13,257 under advisement.

10 And that being the last case, this hearing is
11 adjourned.

12 (Thereupon, these proceedings were concluded at
13 10:12 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the hearing hearing of Case No. _____
heard by me on _____.

_____, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 12th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006