

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 OF BC OPERATING, INC. CASE NO. 15527
AND CROWN OIL PARTNERS V, LP TO
REMOVE KEY ENERGY SERVICES, INC. AS
OPERATOR OF RECORD FOR THE GRACE
CARLSBAD WELL NUMBER 1 LOCATED ON
STATE LANDS, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 4, 2016

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, August 4, 2016, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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FOR APPLICANTS BC OPERATING, INC. AND CROWN OIL PARTNERS
V, LP:

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1 (3:01 p.m.)

2 EXAMINER JONES: Call Case Number 15527,
3 which is application of BC Operating, Incorporated and
4 Crown Oil Partners V, LP to remove Key Energy Services,
5 Inc. as operator of record for the Grace Carlsbad Well
6 Number 1H located on state lands, Eddy County, New
7 Mexico.

8 Call for appearances.

9 MR. FELDEWERT: May it please the Examiner,
10 Michael Feldewert, of the Santa Fe office Holland &
11 Hart, appearing on behalf of the Applicants. I have one
12 witness here today.

13 EXAMINER JONES: I see there are no other
14 appearances, so will the court reporter please swear the
15 witness?

16 CALEB HOPSON,
17 after having been first duly sworn under oath, was
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. FELDEWERT:

21 Q. Would you please state your name, identify by
22 whom you're employed and in what capacity?

23 A. Yes, sir. My name is Caleb Hopson. I'm
24 employed by BC Operating, Inc. in Midland. I'm employed
25 as a landman for that group.

1 Q. And how long have you been employed by BC
2 Operating?

3 A. I've been employed by BC Operating for a little
4 over two years, two years three months.

5 Q. Now, there are two applicants in this matter,
6 correct?

7 A. Yes, sir.

8 Q. What is the relationship between BC Operating,
9 Inc. and Crown Oil Partners V, LP?

10 A. So BC Operating, Inc. is the operating entity
11 on behalf of Crown Oil Partners V, LP.

12 Q. Is BC Operating registered as an operator with
13 the Division?

14 A. Yes, sir.

15 Q. Bonded?

16 A. Yes, sir.

17 Q. In good standing?

18 A. Yes, sir.

19 Q. And does Crown Oil Partners, who is the other
20 Applicant here, do they hold the state oil and gas lease
21 for the acreage for the Grace Carlsbad Number 1?

22 A. Yes, sir.

23 Q. When did Crown acquire that state lease?

24 A. It was March of 2014.

25 Q. And does it cover all depths?

1 A. It does.

2 Q. Have you examined the history of this
3 particular well, the mineral leasing history for this
4 acreage?

5 A. I certainly have.

6 Q. When was this Grace Carlsbad Well Number 1
7 initially drilled?

8 A. It was 1972.

9 Q. Do you recall by whom?

10 A. It was a lady named Corinne Grace.

11 Q. Did she hold the mineral lease at that time?

12 A. She did.

13 Q. Do you recall the target of that well,
14 initially?

15 A. Initially, it targeted the Morrow Formation,
16 which was 11,875 feet.

17 Q. Did it actually produce from the Morrow?

18 A. It did.

19 Q. Did they do any completions uphole at any point
20 in time?

21 A. They did. They also tested the Strawn
22 Formation and produced them simultaneously.

23 Q. When was the last recorded production on this
24 wellbore on this state acreage?

25 A. November of 2007.

1 Q. Now, did you examine the state leasing records
2 for this acreage?

3 A. Yes, sir.

4 Q. If I turn to what's been marked as BC Operating
5 Exhibit Number 1, does this reflect the lease assignment
6 history starting with Corinne Grace?

7 A. Yes, sir.

8 Q. How many assignments of this lease were there?

9 A. So this lease has been assigned five times from
10 1972.

11 Q. So it starts at the bottom of the first page
12 with Ms. Corinne Grace and ends at the top with Bold
13 Energy?

14 A. That's correct.

15 Q. If I go to the second page of this exhibit,
16 does this confirm when the lease held by Bold Energy --
17 the state lease held by Bold Energy was terminated by
18 the State Land Office?

19 A. The State Land Office makes that determination
20 on November 30th of 2007. Yes, sir.

21 Q. And you said Crown Oil Partners acquired the
22 lease in 2014?

23 A. March of 2014.

24 Q. Was there any intervening state lessee between
25 the termination of the Bold lease in 2007 and the

1 acquisition of the lease by Crown Oil Partners in 2014?

2 A. No, there was not.

3 Q. Okay. All right. I want to talk a little bit
4 about the history of the well.

5 A. Okay.

6 Q. Okay?

7 If I turn to what's been marked as BC
8 Exhibit Number 2, this shows an assignment, does it not,
9 a signed change-of-operator form, between Bold Energy
10 and OXY USA, Inc.?

11 A. That's correct.

12 Q. This was in June of 2008?

13 A. That's correct.

14 Q. At the time that this was filed with the
15 Division had the state lease for this acreage expired?

16 A. It had.

17 Q. And I think you testified to this but just to
18 confirm it for the record, at the time of this
19 assignment, did OXY hold a state lease for the acreage
20 where the well is located?

21 A. At the time of this assignment, no, they did
22 not.

23 Q. Did they ever acquire the state lease for the
24 acreage where this well is located?

25 A. No, sir.

1 Q. And if I turn to Exhibit Number 3, I then see a
2 change-of-operator form from OXY to Key Energy Services,
3 correct?

4 A. That's correct.

5 Q. And this is in October of 2010?

6 A. That is correct.

7 Q. Did Key Energy hold a state mineral lease for
8 this acreage?

9 A. No, sir. They did not.

10 Q. Then, I guess, it was in March of 2014 that
11 Crown Oil Partners applied for and obtained the state
12 lease; is that correct?

13 A. That's correct.

14 Q. Is Key Energy currently listed as the operator
15 of record for this well?

16 A. They are.

17 Q. Did Key Energy eventually file an application
18 with the Division for authority to utilize this wellbore
19 for disposal purposes?

20 A. Yes, sir, they did.

21 Q. And did you participate in the hearing and
22 testify in opposition to that effort?

23 A. I did.

24 Q. What was the -- what was the opposition
25 primarily based upon?

1 A. The opposition was based upon the Brushy Canyon
2 Formation being a productive interval, which is the same
3 interval they wanted to inject salt water into.

4 Q. And the Division ultimately issued an order
5 that denied Key Energy's application?

6 A. That's correct.

7 MR. FELDEWERT: Mr. Examiner, I didn't cite
8 that in my record, but it's part of the application and
9 it's Division Order R-14052.

10 EXAMINER JONES: Okay.

11 Q. (BY MR. FELDEWERT) And do you recall,
12 Mr. Hopson, was that issued roughly in September of
13 2015?

14 A. It was.

15 Q. And it found out -- and I'm quoting -- "the
16 probability exists for oil and gas reserves to be
17 present." Correct?

18 A. That's correct.

19 Q. Now, the company believes there is oil and gas
20 reserves underlying this acreage to be developed?

21 A. We do.

22 Q. Do you seek to utilize this wellbore to develop
23 these state minerals?

24 A. Absolutely.

25 Q. Since the issuance of the Division's order, has

1 BC Operating had discussions with Key Energy about
2 utilizing the wellbore to develop the underlying state
3 minerals?

4 A. We have been in discussions with Key in this
5 regard.

6 Q. And did you undertake efforts to obtain from
7 Key Energy the execution of a change-of-operating form
8 so that you could access and utilize the wellbore as the
9 operator under the Division's rules?

10 A. Yes, sir, we did.

11 Q. And what has been Key's most recent response to
12 your efforts to have them execute and a
13 change-of-operator --

14 A. There has been no response. We have sent two
15 letters to them making such statement and formally
16 there's been no response.

17 Q. Now, you mentioned you had discussions with
18 them?

19 A. We have, yeah.

20 Q. Okay. What was the nature of the last
21 discussion that the company had between with Key Energy
22 about utilizing this wellbore to develop the state
23 minerals?

24 A. The last discussion the company had with Key
25 Energy was with a gentleman named Seth Morgan, employed

1 by Key Energy Services. The conversation -- it appears,
2 out of frustration, he said that rather than assigning
3 this wellbore over to us, they'd rather junk the
4 wellbore by pouring cement down the hole.

5 Q. When did that conversation take place?

6 A. That was in early May of this year, 2016.

7 Q. And has there been any other verbal discussion
8 since that time?

9 A. No, sir.

10 Q. Did the company -- after this threat to junk
11 the wellbore, did the company send a representative to
12 the acreage to take a look at the well site to determine
13 its status and condition?

14 A. Yes, sir, we did.

15 Q. If I turn to what's been marked as BC Operating
16 Exhibit Number 4, are these the photographs that were
17 taken by representatives of the company?

18 A. Yes, sir.

19 Q. Do you know who that was?

20 A. Yes, sir. It was our drilling engineer named
21 Jason Goss [phonetic].

22 Q. Do you recall about when he took these
23 photographs?

24 A. In May of 2016.

25 Q. And, Mr. Hopson, have you had occasion to visit

1 this well site?

2 A. I have.

3 Q. Okay. And did you -- have you had discussions
4 with the drilling engineer about these pictures and the
5 condition of the well site?

6 A. Yes, sir, I have.

7 Q. Would you just walk us through these pictures
8 and tell us what this shows?

9 A. Yeah. I certainly will.

10 So this is the drill pad of the Grace
11 Carlsbad well. This first image that we're looking at
12 is the wellhead, kind of an overview with a heater
13 treater in the background.

14 If we flip the page and go to image number
15 two, it's an up-close picture of the wellhead, obviously
16 shown where it's overgrown with brush. You can't hardly
17 read the well sign.

18 Going to image number three, just another
19 angle of the wellhead significantly overgrown with
20 brush.

21 Q. Whose truck is that?

22 A. That's BC Operating's company truck.

23 Q. Okay.

24 A. The next image is a tank battery and the sales
25 meter on location for this particular well. The next

1 image is just an up-close image of the rusted tank
2 battery on location, and then the next image would be an
3 up-close, personal picture of the sales meter for this
4 particular well.

5 I believe this would be the final image,
6 the heater treater that's on location to prevent liquids
7 from being soaked into the gas line.

8 Q. So it appears that nobody has been to this well
9 site for quite some time to monitor or maintain it?

10 A. It's been quite some time. Yes, sir.

11 Q. If this application for the change of operator
12 is granted, is BC Operating prepared to conduct cleanup
13 and repair operations at this abandoned well site?

14 A. Yes, sir.

15 Q. Is the company prepared to examine this
16 abandoned wellbore to determine whether it can be
17 utilized to develop the underlying state minerals?

18 A. We are.

19 Q. If I turn to what's been marked as BC Operating
20 Number 5, is this the letter that was sent to Key Energy
21 Services, prior to filing this case, seeking their
22 signature on a change-of-operator form?

23 A. Yes, sir.

24 Q. And was this letter actually delivered to Key
25 Energy?

1 A. It was.

2 Q. And with this letter was a C-145,
3 change-of-operator form, correct?

4 A. That's correct.

5 Q. And was it signed by BC Operating?

6 A. It was.

7 Q. And has there been any response from Key Energy
8 after you sent that letter?

9 A. No, sir.

10 Q. Is BC Operating prepared to take on the
11 responsibilities as operator that are listed on the
12 change-of-operator form that it executed for this well?

13 A. Yes, sir.

14 Q. And finally, Mr. Hopson, is Exhibit Number 6 an
15 affidavit prepared by my office demonstrating that
16 notice of this hearing was provided to Key Energy
17 Services?

18 A. Yes, sir.

19 Q. And a return of the green card, correct?

20 A. Yes, sir.

21 Q. And you're also going to provide notice to the
22 State Land Office since this is a state mineral lease?

23 A. Yes.

24 MR. FELDEWERT: Mr. Examiner, at this time
25 I'd move admission into evidence BC Exhibits 1 through

1 6.

2 EXAMINER JONES: 1 through 6 are admitted.
3 (BC Operating, Inc. Exhibit Numbers 1
4 through 6 are offered and admitted into
5 evidence.)

6 MR. FELDEWERT: That concludes my
7 examination of this witness.

8 EXAMINER JONES: David?

9 CROSS-EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. I believe that Key Energy owns the surface
12 there; is that correct?

13 A. No, sir.

14 Q. Someone -- I had heard some hearsay to that
15 effect.

16 A. Let me rephrase. I have no knowledge of Key
17 Energy owning the surface.

18 Q. You do not know who owns --

19 A. Mr. Danny Stafford [phonetic] owned the surface
20 the last time that I checked, which was six, eight
21 months ago.

22 Q. Very good. That's the only question I had.

23 CROSS-EXAMINATION

24 BY EXAMINER JONES:

25 Q. But they maintain they own the wellbore; is

1 that correct?

2 A. They maintain they own the wellbore. Yes, sir.

3 Q. And they haven't approached -- approached BC
4 Operating for any kind of proposal to recomplete uphole
5 as a producer?

6 A. No, sir. Key Energy does not have the rights
7 to the minerals on this particular tract of land. We
8 acquired the rights to the lease in 2014. This wellbore
9 was listed as an active wellbore on this property,
10 although it hasn't produced since 2007. So the
11 discussions surrounding this wellbore with Key have been
12 that they want to convert to an SWD well. Their
13 application was denied, against our protest, and now
14 we're seeking to take over the wellbore to produce it,
15 produce our state minerals.

16 Q. They haven't approached you for -- to farm in
17 any minerals you had so they could use the wellbore --

18 A. No, sir.

19 Q. -- to -- or --

20 EXAMINER JONES: Well, I don't have any
21 questions if you don't, David.

22 EXAMINER BROOKS: No, I don't think I do.

23 I have the impression -- but I don't know
24 if it's something I ought to know and I don't know. My
25 impression is that the State had some kind of particular

1 rule about removal of equipment, and I don't remember
2 what it is.

3 MR. FELDEWERT: I do want to say a couple
4 of things. Number one, I think he's correct. At one
5 point in time -- and I don't know if it's still the
6 case -- Key Energy took the position that they do own
7 the wellbore. That's their legal position. I'm not --
8 we don't believe that's correct. We don't believe
9 that's correct.

10 EXAMINER BROOKS: I don't believe it's
11 correct either, actually.

12 MR. FELDEWERT: But it doesn't matter what
13 we think because we can't do anything at this time, even
14 though we're the state mineral lessee, until there is a
15 change-of-operator form filed with the Division. We
16 can't, you know, access the wellbore. We can go around
17 on the surface. We have the right to use the surface,
18 but we can't -- the company's not in a position to be
19 able to examine the wellbore to determine whether it can
20 be advised to use state minerals until we are designated
21 the operator of record. And so we're kind of in this
22 limbo land. We've gotten no response from Key. Looking
23 at the Division's rules and not being able to do
24 anything administratively, we filed this application and
25 provided them notice.

1 EXAMINER BROOKS: Okay. Well, I don't know
2 if I have some kind of a conflict here because I
3 actually drafted that letter that Mr. Catanach sent to
4 you regarding this situation. But if I had a conflict
5 of interest, Key would be probably be the one who would
6 raise it, not you-all. So I guess I can assume that you
7 don't or if somebody raises it, but --

8 EXAMINER JONES: I'm glad you don't have a
9 conflict.

10 EXAMINER BROOKS: Okay. You want me to
11 write it?

12 Well, I think David probably will, too, but
13 probably because of circumstances, it might be alleged
14 to constitute a conflict. Okay.

15 MR. FELDEWERT: Thank you.

16 THE WITNESS: Thank you.

17 EXAMINER JONES: With that, we'll take
18 15527 under advisement.

19 And it's the last case on the docket. This
20 docket is closed.

21 (Case Number 15527 concludes, 3:18 p.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2016
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25