

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

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION,
THROUGH THE ENVIRONMENTAL BUREAU CHIEF, FOR AN ORDER
DETERMINING THE RESPONSIBLE PARTY OR PARTIES AND ORDERING
THE RESPONSIBLE PARTY OR PARTIES TO COMPLETE AND PERFORM
AN ABATEMENT PLAN PURSUANT TO OCD RULE 19; LEA COUNTY, NEW
MEXICO**

CASE NO. 13061 (De Novo)

PRE-HEARING STATEMENT

1. Parties and Attorneys

Applicant	Oil Conservation Division	David K. Brooks Oil Conservation Division 1220 S. St. Francis DR Santa Fe, NM 87505 Phone (505)-476-3450 FAX (505)-476-3462 dkbrooks@state.nm.us
Respondent	Chaparral Oil, LLC	Gary W. Larson Hinkle, Hensley, Shanor & Martin, LLP P.O.Box 2068 Santa Fe, NM 87504 Phone (505)-982-4554 FAX (505)-982-8623
Respondent	Smith and Marrs, Inc.	Ernest L. Padilla P.O.Box 2523 Santa Fe, NM 87504 Phone (505)-988-7577 FAX (505)-988-7592
Interested Party	Clay Osborne	Kelly M. Cassels Sanders, Bruin, Coll & Worley, PA

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2. Statement of the Case

Chaparral was the former operator of leases on which the Division identified probable water pollution. The Division demanded that Chaparral provide an abatement plan. Chaparral filed a stage one abatement plan, but did not follow up by conducting the necessary tests and filing a report with the Division as the plan required. Chaparral transferred the leases to Smith and Marrs. Smith and Marrs assumed responsibility for the abatement plan, but has not performed its requirements.

The Division filed this case seeking enforcement. All parties signed a settlement agreement whereby Smith and Marrs again undertook primary responsibility for performance of required abatement. However, Smith and Marrs has not complied with the settlement agreement. The Division seeks enforcement against Smith and Marrs. The Division does not, at this time, seek any relief against Chaparral.

3. Witnesses and Time for Testimony

William Olson
Edwin E. Martin

1 hour
5 minutes

4. Procedural Matters

None

RESPECTFULLY SUBMITTED,



David K. Brooks
Assistant General Counsel
Energy, Minerals and Natural
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New Mexico
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(505)-476-3450

Attorney for The New Mexico Oil
Conservation Division

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OIL CONSERVATION DIVISION

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MEXICO**

CASE NO. 13061 (RE-OPENED)

CHAPARRAL ENERGY, L.L.C.'S PREHEARING STATEMENT

Pursuant to § 19.15.14.208.B NMAC, Chaparral Energy, L.L.C. ("Chaparral") submits its Prehearing Statement.

I. Identity of the Parties

1. The New Mexico Oil Conservation Division ("OCD"), through the Environmental Bureau Chief.

The OCD is represented by David K. Brooks, Esq., Assistant General Counsel of the Energy, Minerals and Natural Resources Department.

2. Smith & Marrs, Inc.

Smith & Marrs, Inc. ("Smith & Marrs") is represented by Ernest L. Padilla, Esq., of the Padilla Law Firm, P.A.

3. Chaparral Energy, L.L.C.

Chaparral is represented by the undersigned counsel, Gary W. Larson, Esq., of Hinkle, Hensley, Shanor & Martin, L.L.P.

II. Concise Statement of the Case

This case concerns the responsibility for and performance of abatement work at the South Langlie Jal Unit ("SLJU") in Lea County. It commenced on March 30, 2003 with the filing of an Application for Compliance Order ("the Initial Application") by the OCD's Environmental Bureau Chief. The Initial Application requested the Division Director to enter an order: (1) determining that Chaparral and Smith & Marrs are responsible persons with respect to subsurface chloride contamination within the SLJU; (2) requiring Chaparral and Smith & Marrs, "each, or jointly," to submit a Stage 1 Investigation Report by a date certain; and (3) imposing civil penalties for Chaparral's and Smith & Marrs' alleged failures to comply with Rule 19.C(2) and the Notice of Violation issued to them by the OCD on January 13, 2003.

A Special Examiner Hearing was set for July 15, 2003. On the day of the hearing, the parties negotiated a resolution of the issues raised in the Initial Application, and they subsequently executed a Settlement Agreement. In pertinent part, the Settlement Agreement provides that: (1) "Smith & Marrs agrees to fully perform the approved Stage 1 Abatement Plan as submitted by Chaparral"; (2) the "OCD will not look to Chaparral for further filings or performance in connection with either the Stage 1 Abatement Plan or any future Stage 2 Abatement Plan . . . unless, and except to the extent that, Smith & Marrs fails to perform its obligations" under the Settlement Agreement; and (3) "[p]rior to demanding performance [under the Settlement Agreement] from Chaparral, OCD will . . . secure a compliance order issued to Smith & Marrs, after notice and hearing." In light of the Settlement Agreement, this case was dismissed, effective December 16, 2003, pursuant to Order No. R-12067.

On July 30, 2004, the Environmental Bureau Chief filed a new application ("the Second Application") re-opening the case and seeking an order requiring Smith & Marrs to submit a Stage 1 Investigation Report by a date certain and imposing civil penalties against Smith & Marrs. A hearing on the Second Application was conducted on September 2, 2004 before Examiner William V. Jones. On January 28, 2005, the Director entered an order in which he fined Smith & Marrs \$197,000 and required Smith & Marrs to submit an approved Stage 1 Investigation Report to the Environmental Bureau no later than May 1, 2005. Smith & Marrs then requested a de novo hearing before this Commission.

Prior to the initial hearing in this matter, Chaparral filed a Prehearing Statement in which it detailed: (1) the history of oil and gas operations at the SLJU, including the period of Chaparral's ownership and operation of the unit, Chaparral's sale of the SLJU assets to a Smith & Marrs affiliate, and Smith & Marrs' assumption of responsibility for completing the Stage 1 Abatement Plan investigation and any subsequent abatement required by the Environmental Bureau; and (2) Chaparral's position regarding the relief requested in the Initial Application. *See* Chaparral's Prehearing Statement filed July 10, 2003. For purposes of brevity, Chaparral incorporates by reference the Statement of the Case contained in its previous Prehearing Statement.

III. Chaparral's Witness

Chaparral anticipates calling one witness, Robert C. Lang, IV. Mr. Lang is Chaparral's Environmental, Health & Safety Manager. He had responsibility for preparing and submitting Chaparral's Stage 1 Abatement Plan, for interfacing with the surface owner, Clay Osborn, and with representatives of the OCD's Environmental Bureau, and for overseeing Chaparral's environmental compliance during the period of its ownership and operation of the SLJU.

IV. Chaparral's Case Presentation

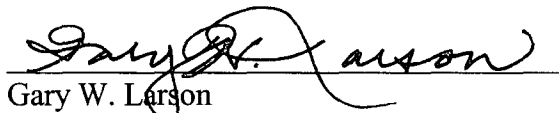
Chaparral anticipates that it will take approximately 30 minutes to present its case.

V. Unresolved Procedural Matters

Chaparral is not aware of any procedural matters that need to be resolved prior to the hearing.

Respectfully submitted,

HINKLE, HENSLEY, SHANOR & MARTIN, L.L.P.

A handwritten signature in cursive script, reading "Gary W. Larson", is written over a horizontal line.

Gary W. Larson
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Attorneys for Chaparral Energy, L.L.C.

CERTIFICATE OF SERVICE


I hereby certify that a true and correct copy of the foregoing ***Chaparral Energy, L.L.C.'s Pre-Hearing Statement*** was served via facsimile transmission and first-class mail on the following counsel of record, on this 6th day of May, 2005:

David K. Brooks, Esq.
Assistant General Counsel
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Attorney for the New Mexico Oil Conservation Division

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Attorney for Smith & Marrs, Inc.



Gary W. Larson