

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:)

CASE NO. 13,099

APPLICATION OF THE NEW MEXICO OIL)
CONSERVATION DIVISION FOR AN ORDER)
REQUIRING PLAYA MINERALS AND ENERGY,)
INC., TO PROPERLY PLUG 134 WELLS,)
IMPOSING CIVIL PENALTIES AND AUTHORIZING)
THE DIVISION TO PLUG SAID WELLS AND TAKE)
APPROPRIATE MEASURES TO SEEK)
REIMBURSEMENT FROM ANY SECURITY)
FURNISHED BY OPERATOR IN EVENT OF)
OPERATOR'S FAILURE TO COMPLY)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

RECEIVED

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Oil Conservation Division

June 19th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, June 19th, 2003, 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.

* * *

I N D E X

June 19th, 2003
 Examiner Hearing
 CASE NO. 13,099

PAGE

APPEARANCES

3

APPLICANT'S WITNESSES:

JANE E. PROUTY (Computer Operations
 Specialist, NMOCD, Santa Fe)

Direct Examination by Mr. Brooks

5

DONNIE HILL (BC&D Operating, Inc.)

Direct Examination by Mr. Brooks

9

Examination by Mr. Hall

17

Further Examination by Mr. Brooks

20

Examination by Examiner Jones

21

CHARLIE PERRIN (Deputy Oil and Gas Inspector,
 Aztec District Office, District 3, NMOCD)

Direct Examination by Mr. Brooks

23

Examination by Mr. Hall

32

Examination by Examiner Jones

33

REPORTER'S CERTIFICATE

40

* * *

E X H I B I T S

Applicant's

Identified

Admitted

Exhibit 1

26

31

Exhibit 2

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Exhibit 3

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8, 31

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A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS, JR.
Attorney at Law
Energy, Minerals and Natural Resources Department
Assistant General Counsel
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR BC&D OPERATING, INCORPORATED:

MILLER, STRATVERT and TORGERSON, P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 9:13 a.m.:

3 EXAMINER JONES: Let's call Case 13,099,
4 Application of the New Mexico Oil Conservation Division for
5 an order requiring Playa Minerals and Energy, Incorporated,
6 to properly plug 134 wells, imposing civil penalties and
7 authorizing the Division to plug said wells and take
8 appropriate measures to seek reimbursement from any
9 security furnished by operator in event of operator's
10 failure to comply.

11 Call for appearances in this case.

12 MR. BROOKS: Mr. Examiner, I'm David Brooks,
13 Energy, Minerals and Natural Resources Department of the
14 State of New Mexico, Assistant General Counsel, appearing
15 for the Oil Conservation Division.

16 EXAMINER JONES: And you have witnesses?

17 MR. BROOKS: And I have three witnesses, two of
18 whom are present in the courtroom at this time.

19 EXAMINER JONES: Call for any other appearances?

20 MR. HALL: Mr. Examiner, Scott Hall of Miller
21 Stratvert, PA, Santa Fe, on behalf of BC&D Oil and Gas
22 Corporation. I have no witnesses to present, however we
23 are making an individual from BC&D available to Mr. Brooks
24 for testimony.

25 EXAMINER JONES: Will the witnesses that are

1 present stand to be sworn?

2 (Thereupon, Ms. Prouty and Mr. Perrin were
3 sworn.)

4 EXAMINER JONES: Mr. Brooks, do you want to go
5 ahead?

6 MR. BROOKS: I would like to, your Honor, thank
7 you.

8 At this time we'll call Jane Prouty.

9 JANE PROUTY,

10 the witness herein, after having been first duly sworn upon
11 her oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BROOKS:

14 Q. State your name for the record, please?

15 A. Jane Prouty.

16 Q. Where do you reside?

17 A. In Santa Fe, New Mexico.

18 Q. By whom are you employed?

19 A. The Oil Conservation Division.

20 Q. In what capacity?

21 A. I manage the group that processes the monthly
22 production reports.

23 Q. Ms. Prouty, I call your attention to what's been
24 marked as OCD Exhibit Number 3 and ask you to identify it.

25 A. Yes, this is a report that I prepared that lists

1 the production that we have and injection for all of the
2 wells that were on the list.

3 Q. 134 wells, correct?

4 A. I didn't count them, but I did check that every
5 well on the list was on the report, so...

6 Q. Now, the original list was furnished to you by
7 me, correct?

8 A. Yes.

9 Q. And did you confer with Charlie Perrin to make
10 sure that his list and mine agree, same wells?

11 A. Yes, I -- Actually, I'm not sure. I think it was
12 from a note from you, so I wasn't sure who prepared the
13 spreadsheet.

14 Q. Well yeah, actually Charlie did prepare it, but I
15 sent it to you, correct?

16 A. Yes, yes.

17 Q. The wells on this list, what does Exhibit Number
18 3 show about production reports from these wells?

19 A. It shows that we pretty generally have stopped
20 receiving them. The most -- If you take the very first
21 well on the list, which probably is an injection well,
22 because if you see, all it did since 1997 was show
23 injection, and then you'll see that the last report where
24 injected amounts are shown is on page 2, in the month of
25 June, 2001, is the last injection that we have.

1 Then Playa continued to send us C-115s through
2 February of 2002, but this well did not show any injection
3 volumes. And then since then for these wells we have not
4 received C-115s, the monthly production report.

5 Q. Now, to summarize without having to go through
6 all the 134 wells, is it true of all of these wells -- that
7 that Exhibit Number 3 reflects that no production reports
8 were received subsequent to February of 2002?

9 A. Yes.

10 Q. And many of the -- probably most of these wells,
11 Exhibit 3 reflects that there's been no production reported
12 for a longer period of time than that, correct?

13 A. Yes.

14 Q. But there are some wells in which production was
15 reported in February of '02?

16 A. Yes.

17 Q. But nothing reported since then on these wells,
18 correct?

19 A. Correct.

20 Q. Was Exhibit 3 a printout that was prepared by
21 you?

22 A. Yes.

23 Q. And is Exhibit 3 a faithful and accurate
24 representation of what is shown in terms of production
25 reports on the ONGARD system by Oil Conservation Division?

1 A. Yes.

2 MR. BROOKS: No further questions. Offer Exhibit
3 3.

4 EXAMINER JONES: Any objection?

5 MR. HALL: No objection.

6 EXAMINER JONES: Exhibit 3 will be admitted into
7 evidence.

8 Mr. Hall?

9 MR. HALL: I have no questions.

10 EXAMINER JONES: No questions? I have no
11 questions for this witness. Thank you, Mr. Brooks.

12 MR. BROOKS: Pursuant to our discussion prior to
13 the case being called, Mr. Examiner, at this time we
14 request the indulgence of the Court for a recess until our
15 other witness is available.

16 EXAMINER JONES: We'll be recessed until the
17 witness arrives.

18 MR. BROOKS: Thank you.

19 (Thereupon, a recess was taken at 9:18 a.m.)

20 (The following proceedings had at 9:45 a.m.)

21 EXAMINER JONES: Let's go back on the record and
22 resume Case 13,099, and Mr. Hall, do you have a witness who
23 needs to be sworn?

24 MR. HALL: Yes, I do, Mr. Jones. Again, we're
25 presenting Mr. Hill at Mr. Brooks' request. I have no

1 direct examination. I would have him sworn.

2 EXAMINER JONES: Mr. Hill, would you stand to be
3 sworn?

4 (Thereupon, Mr. Hill was sworn.)

5 MR. HALL: Excuse me, Mr. Examiner, let me
6 correct my entry of appearance. The correct party is BC&D
7 Operating, Incorporated.

8 EXAMINER JONES: Thank you, Mr. Hall.

9 MR. BROOKS: At this time we'll call Donnie Hill.
10 Would you take the witness stand over here, Mr.
11 Hill, be seated?

12 DONNIE HILL,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BROOKS:

17 Q. Mr. Hill, would you state your name for the
18 record, please?

19 A. Donnie Hill.

20 Q. Where do you reside?

21 A. I reside in Hobbs, New Mexico.

22 Q. And by whom are you employed?

23 A. BC&D Operating, Inc.

24 Q. Can you tell us, is BC&D Operating, Inc. -- What
25 business are they in?

1 A. We're in the operations of oil and gas properties
2 in which we also own properties.

3 Q. And do you operate a number of properties in the
4 San Juan Basin?

5 A. Yes, sir, we do.

6 Q. Can you give us an idea of where you all stand in
7 terms of the size or scope of your operations?

8 A. The -- primarily, we operate -- the majority of
9 our wells are in McKinley County, Hoshpah field. We have
10 approximately 200 wells there. We also have a contract
11 operation in the Northeast Hogback Field in San Juan
12 County, which there's 30 wells located there that we
13 operate.

14 Q. When did you first become involved with Playa
15 Minerals and Energy, Inc.?

16 A. Playa Minerals, their mother company, Regent
17 Energy, came to me actually in August of '01, interested in
18 purchasing some properties that I own, and which that never
19 came together.

20 But in August of '02 the mortgage holders of the
21 Northeast Hogback and the Horseshoe Gallup field contacted
22 me to actually attend a meeting to represent them on a
23 consulting basis, to listen to see what may be occurring at
24 those two fields.

25 Q. And those two fields being the Horseshoe Gallup

1 and the Northeast Hogback Unit, correct?

2 A. That's correct, sir.

3 Q. And both of those are in San Juan County, New
4 Mexico?

5 A. That's correct, sir.

6 Q. Did there come a time when the mortgagees filed a
7 proceeding seeking a receivership for Playa in the District
8 Court of San Juan County, New Mexico?

9 A. Yes, that is correct.

10 Q. And was a receiver appointed for the assets of
11 Playa Minerals and Energy, Inc.?

12 A. Yes, there was a receiver appointed.

13 Q. And who was the receiver?

14 A. That receiver is Property Management and
15 Consulting, Incorporated, out of Farmington, New Mexico.

16 Q. And is that Mr. Robert Fielder --

17 A. Yes.

18 Q. -- who runs that outfit?

19 A. Bob Fielder is the manager/owner, to my
20 knowledge.

21 Q. Now, did BC&D undertake at one time to become a
22 contract operator to physically operate these wells for the
23 receiver?

24 A. At the time the receiver was appointed, the
25 courts appointed BC&D Operating, Inc., to be the operator,

1 which we never consented to do so, nor was we aware of at
2 the time. And as a result of that, we become a contract
3 operator to the receiver for the Hogback field, Northeast
4 Hogback.

5 Q. But then you never did operate the Horseshoe
6 Gallup Unit?

7 A. We did have some involvement in the Horseshoe
8 field, yes, as far as cleanup, some environmental issues
9 and actually basic housekeeping-type activity.

10 MR. BROOKS: Okay, we will stipulate for the
11 purpose of the record that we're not contending for the
12 purpose of the Oil and Gas Act or OCD Regulations that BC&D
13 is the operator of any of the wells that are involved in
14 this proceeding. Our position is that Playa Minerals and
15 Energy, Inc., through its receiver, is the operator. We're
16 not contending that BC&D is liable as an operator.

17 Q. (By Mr. Brooks) Can you state from your personal
18 knowledge and personal involvement with this that Playa
19 Minerals and Energy, Inc., has abandoned these two units?

20 A. Yes, they have been abandoned.

21 Q. They have no personnel that are reporting to them
22 that are supervising or doing anything with regard to these
23 wells, correct?

24 A. That is correct, there's no personnel at the
25 field level reporting to any entity, to my knowledge.

1 Q. And that has been true since at least August of
2 2002?

3 A. That is correct. And also, to my knowledge, it
4 goes back to April of '02.

5 Q. Have -- First of all, what land -- mineral
6 ownership is involved here? The bulk of this is on the
7 Navajo Reservation, is it not?

8 A. Yes, that is correct. There's a mixture, but
9 primarily on the Navajo Reservation, that's correct.

10 Q. And there are, I believe, two wells that are on
11 state land?

12 A. There is some state wells; I believe that is two.
13 And I believe there's also possibly some federal land.

14 Q. Some BLM --

15 A. Yes, yes.

16 Q. Not any fee, as far as you --

17 A. I do not believe there's any fee at this time,
18 no.

19 Q. Has the Bureau of Land Management taken action to
20 determine the Horseshoe Gallup Unit?

21 A. They have looked at it and were in the process of
22 doing so at -- I believe it was August the 19th of '02, and
23 at that time is when -- There was a meeting on August the
24 17th by the mortgagees, the mortgage holders, and they had
25 asked for an extension to continue the operation of that

1 field, northeast hogback field.

2 Q. Well, I'm not asking about the Northeast Hogback,
3 I'm asking about the Horseshoe Gallup.

4 A. They actually have filed for an extension on the
5 Horseshoe Gallup at that time as well, both fields.

6 Q. Okay. What happened subsequently on the
7 Horseshoe Gallup?

8 A. The Horseshoe Gallup, Equiva, which is one of the
9 mortgage holders, did not want to have any involvement in
10 their property, due to -- my understanding is, the
11 liabilities -- the second mortgage holder, which is
12 Parowan, initially was trying to resurrect the property,
13 and that was in August of '02, and by September they had
14 walked away from it as well.

15 Q. And do you know what subsequent action the Bureau
16 of Land Management has taken?

17 A. The Bureau of Land Management, I'm not real sure
18 what they have taken on the Horseshoe except, you know,
19 some plugging activity, but I do know that the Navajo Tribe
20 has commenced to terminate the property.

21 Q. To terminate the leases?

22 A. The leases, yes, the unit -- terminate the unit,
23 and as a result, they would terminate the leases.

24 Q. And the largest part of this unit is on Navajo
25 land, correct?

1 A. Yes, sir, that's correct.

2 Q. Now, the only party that is currently active as a
3 party in the receivership, is that Shell Trading?

4 A. No, not on the Horseshoe. The only --

5 Q. Well, I'm sorry, is there any -- are any of the
6 people interested in the Horseshoe Gallup Unit currently
7 active in the receivership proceeding?

8 A. Parowan at one time was, yes, but I do not know
9 what their position is at this time. I know they walked
10 away owing a substantial amount of money to different
11 parties, and it's my opinion that they have walked away, do
12 not have any existing interest in it.

13 Q. Now, Shell Trading is the mortgagee in the
14 Northeast Hogback Unit; is that correct?

15 A. They were mortgagee on both properties, but they
16 rescinded their position on the Horseshoe Gallup.

17 Q. Well, at this time, so far as you know, there is
18 no one who is urging the receiver to assume any
19 responsibility for the Horseshoe Gallup; is that correct?

20 A. That's correct.

21 MR. HALL: Mr. Examiner, if I might interject
22 just for the record, I don't want Mr. Hill to speculate
23 about the positions of other parties in the foreclosure and
24 receivership proceeding, but to the extent he may know the
25 actual answer, I would ask him to respond to the questions.

1 EXAMINER JONES: Thank you, Mr. Hall, I agree
2 with what you're saying.

3 Q. (By Mr. Brooks) Now, there are rumors on the
4 street that the receivership has been terminated and the
5 receiver has been discharged; is that true?

6 A. It's my knowledge that he has resigned as
7 receiver, and they are looking for a new receiver at this
8 time.

9 Q. Okay. I spoke with the receiver yesterday, and
10 he indicated to me that he has not received a signed order
11 releasing him. Would you know anything to the contrary on
12 that?

13 A. I do not know -- I have not seen anything to that
14 effect.

15 Q. And as contract operator of the Hogback Unit at
16 this time you still assume that you're reporting to Mr.
17 Fielder?

18 A. I have been reporting to Bob Fielder since
19 October 29, to current.

20 Q. Now, is the receiver receiving revenues from the
21 Hogback?

22 A. Yes, he is.

23 Q. And is he paying the expenses on the Hogback?

24 A. Yes, he is.

25 Q. Out of the revenues?

1 A. That's correct.

2 Q. And do you know if any other assets, other than
3 these properties of Playa, have ever come into the hands of
4 the receiver?

5 A. I do not know that answer.

6 Q. Thank you. You have some familiarity with the
7 condition of the wells in the Horseshoe Gallup, do you not?

8 A. Yes, sir, I do.

9 Q. You've been on the ground out there and seen
10 what's out there?

11 A. Yes, sir, I have.

12 Q. If Mr. Perrin over here were to testify that in
13 his opinion as a well inspector those wells need to be
14 plugged and abandoned for protection of the environment and
15 prevention of waste, would you disagree with that?

16 A. I believe Mr. Perrin's opinion is correct.

17 MR. BROOKS: I thank you. I have no further
18 questions.

19 EXAMINER JONES: Mr. Hall?

20 MR. HALL: Just briefly, Mr. Examiner, to clarify
21 a number of things.

22 EXAMINATION

23 BY MR. HALL:

24 Q. Mr. Hill, so the record is clear, BC&D Operating,
25 Inc., is not the formal designated operator of record in

1 either the eyes of the Bureau of Land Management, the
2 Bureau of Indian Affairs or the Oil Conservation Division,
3 or the Navajo nation or the Ute Mountain Ute indian tribes
4 with respect to the Horseshoe Gallup Unit; is that correct?

5 A. Yes, that's correct.

6 Q. Again, the lands that are the subject of this
7 proceeding and all the wells located thereon are only
8 within the boundaries of the Navajo nation; is that
9 correct?

10 A. That is my understanding, yes.

11 Q. The Horseshoe Gallup Unit consists of acreage
12 from both the Navajo nation and the Ute Mountain Ute Indian
13 nation; is that correct?

14 A. That is correct, sir.

15 Q. Mr. Hill, on February 5th, 2003, the Bureau of
16 Land Management issued to Vulcan Minerals and Energy,
17 Incorporated, a notice of termination for the Horseshoe
18 Gallup Unit. Now, explain for the record who Vulcan is.

19 A. Vulcan is a wholly owned subsidiary, I
20 understand, of Regent Energy, being the mother company.
21 Vulcan is the operator of record.

22 Q. Was Vulcan formerly known as Playa?

23 A. Yes, that is correct, sir, they were known as
24 Playa.

25 Q. To your knowledge, has Vulcan or any other party

1 sought to respond to the BLM's notice of unit termination?

2 A. To my knowledge they have not. In fact, the BLM
3 has told me that all notices that they have submitted to
4 Regent, Playa or Vulcan has been returned to them via mail.

5 Q. All right. Is it consistent with your
6 understanding, Mr. Hill, that on February 14th, 2003, the
7 Bureau of Land Management issued a second notice to Vulcan
8 terminating the Horseshoe Gallup Unit?

9 A. Yes, I have seen that.

10 Q. And again, to your knowledge has Vulcan or anyone
11 else attempted to appeal the BLM's decision terminating the
12 unit?

13 A. They have not made any appeal to do so.

14 Q. And on -- Is it consistent with your information
15 that on February 25, 2003, that the Bureau of Indian
16 Affairs issued a notice of lease termination for three of
17 the Ute Mountain Ute tribal leases formerly contributed to
18 the Horseshoe Gallup Unit, indicating that those leases
19 were being terminated as well?

20 A. That is correct.

21 Q. And to your knowledge, has any party attempted to
22 appeal the BIA's determination that those leases have
23 terminated?

24 A. The Ute Tribe representatives have told me that
25 they have not had any response whatsoever.

1 Q. All right. And again in response to Mr. Brooks'
2 questions, if I understand you correctly, the oil and gas
3 leases on the Navajo nation lands that are the subject of
4 this Division proceeding are also in the process of
5 termination or have terminated?

6 A. That is correct.

7 MR. HALL: Nothing further, Mr. Examiner.

8 MR. BROOKS: Follow-up, Mr. Examiner.

9 I appreciate, Mr. Hall, your clarification of
10 some matters. However, there's one matter that may require
11 some further clarification.

12 FURTHER EXAMINATION

13 BY MR. BROOKS:

14 Q. What is the source of your knowledge regarding
15 the relationship between Playa and Vulcan?

16 A. The correspondence that I received from the
17 president/CEO, Phil Gennarelli, indicated that -- through
18 correspondence to the BLM, that Vulcan/Playa were a
19 subsidiary of the mother company, Regent.

20 Q. Right. Have you ever seen a change-of-name
21 certificate, indicating that the name of Playa was changed
22 to Vulcan in either New Mexico or Texas?

23 A. I have not.

24 MR. BROOKS: Okay. Mr. Examiner, for purposes of
25 the record -- It's not customary for counsel to testify,

1 but this has raised an issue on the question of notice,
2 since our notice was directed to Playa. I will state for
3 the record that Playa Energy and Minerals, Inc., is shown
4 in the official records of the New Mexico Public Regulation
5 Commission as a forfeited, non-appealable, terminated
6 corporation. There is no evidence that its name was ever
7 changed.

8 So based on that, we served Playa Minerals and
9 Energy, Inc., by a letter, certified mail, return receipt
10 requested, to their last known address, which was returned,
11 and also by service upon the receiver, which was received.

12 I have no further questions.

13 EXAMINER JONES: Okay, thank you.

14 EXAMINATION

15 BY EXAMINER JONES:

16 Q. Mr. Hill, your company is the contract operator
17 right now for Bob Fielder?

18 A. Yes, sir, that's correct.

19 Q. Okay. We had some testimony before you got here
20 today about the last reported production date. As the
21 contract operator, when was the last time any of these
22 wells had any injection or any production?

23 A. On the Northeast Hogback?

24 Q. On each one of them respectively.

25 MR. BROOKS: Point of clarification. Only the

1 Horseshoe Gallup is involved in this proceeding, so the
2 question, I assume, relates, am I correct, Mr. Examiner, to
3 the wells that are listed on the --

4 EXAMINER JONES: Yes --

5 MR. BROOKS: -- on this proceeding?

6 EXAMINER JONES: -- definitely, yes.

7 THE WITNESS: Okay, the Horseshoe Gallup has
8 not -- There's been zero production since, I believe, April
9 of '02 -- '01, excuse me. So it's been approximately two
10 years since production has ceased.

11 Q. (By Examiner Jones) And has there been any
12 injection, injection wells for that lease or other leases?

13 A. The only well that has had any injection into it
14 is an injection well that -- They were trying to get rid of
15 some water that was in the tanks, so they were concerned
16 about environmental issues. And so they allowed some water
17 to be injected into one of the injectors. But other than
18 that, there has been no operations there.

19 Q. And that was how long ago, on that injection?

20 A. That has been approximately 45 days prior to now.

21 Q. Can you identify that well?

22 A. Well Number 4, I believe, is the correct well
23 number. I'll have to look at the map. I believe it's 4.
24 I'm not that sure, but I think it's 4.

25 Q. Okay, this Horseshoe Gallup Unit, was it a

1 waterflood or an exploratory unit?

2 A. It is a waterflood, to my knowledge.

3 Q. What zone was waterflooded?

4 A. The Gallup.

5 Q. And Water Injection Well Number 4?

6 A. Yes, that's correct.

7 EXAMINER JONES: Okay. So I guess I should
8 direct this question -- I think this is all the questions I
9 have for Mr. Hill, and I probably should listen to the
10 other witnesses before I try to ask for more clarification
11 from -- both of the witnesses in this case.

12 MR. BROOKS: Okay.

13 EXAMINER JONES: Thank you very much, Mr. Hill.

14 MR. HALL: Mr. Examiner, we'd be glad to make
15 available to your copies of the termination letters from
16 the BLM that Mr. Hill discussed, supplement the record with
17 those letters, if you --

18 EXAMINER JONES: That would be good.

19 MR. BROOKS: At this time we call Charlie Perrin.

20 CHARLIE PERRIN,

21 the witness herein, after having been first duly sworn upon
22 his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BROOKS:

25 Q. Good morning, Mr. Perrin.

1 A. Good morning.

2 Q. Would you state your name for the record?

3 A. Charlie Perrin.

4 Q. And where do you reside?

5 A. Aztec, New Mexico.

6 Q. By whom are you employed?

7 A. The Oil Conservation Division.

8 Q. In what capacity?

9 A. Deputy Oil and Gas Inspector.

10 Q. Have you testified previously before Examiners of
11 the New Mexico Oil Conservation Division?

12 A. I have.

13 Q. Have your credentials as a well inspector been
14 stated and made a matter of record and accepted by the
15 Division?

16 A. They have.

17 Q. Mr. Perrin, are you familiar with the Horseshoe
18 Gallup Unit?

19 A. Yes, sir, I am.

20 Q. Perhaps somewhat more familiar than you might
21 like?

22 A. Yes, sir.

23 Q. You heard Mr. Hill's testimony about the
24 Horseshoe Gallup Unit and Playa Minerals and Energy. Is
25 there anything he said that you disagree with?

1 A. No, sir, there's not.

2 Q. Since Playa Minerals and Energy, Inc. abandoned
3 operations out there, have you been very much involved with
4 seeing what's going on and monitoring what's going on out
5 there and make sure that there's a proper emergency
6 response?

7 A. Yes, sir, I have.

8 Q. And in fact, has the OCD contracted service
9 contractors to do some fairly extensive emergency response
10 work out there?

11 A. Yes, sir, they have.

12 Q. Could you describe for us what has been done?

13 A. We've plugged six wells that were leaking to the
14 surface that were uncontrollable without emergency
15 plugging. We hired a roustabout company to go out there
16 and bleed down the wells.

17 One of the large tanks at the tank battery was
18 leaking, and it was creating an environmental hazard with
19 oil coming up in a pit. We tried to empty the tank and
20 could not empty the tank due to fluid coming into the tank,
21 so we shut off all the wells. Fluid continued to come into
22 the tank, so we decided to disconnect the wells from the
23 flow lines.

24 We couldn't disconnect all the wells from the
25 flow lines due to valves leaking, bad valves, so we had to

1 hire a contractor to come out and to actually hook a vacuum
2 truck onto the wells, bleed off the pressure, then
3 disconnect the valves and the flow lines, and then put good
4 valves on it to stop the fluid from going to the tank.

5 Q. Okay, and I will present the exhibits at this
6 time.

7 You have copies, I believe, Mr. Perrin, before
8 you?

9 A. Yes, sir.

10 Q. Was this work that the Oil Conservation Division
11 has done, was this necessary on an urgent basis to avoid --
12 or to stop oil and produced water from spilling out at the
13 surface?

14 A. Yes, sir, it is.

15 Q. We'll call your attention now to what has been
16 marked as OCD Exhibit Number 1. Is this a list of the
17 wells on the Horseshoe Gallup Unit that, based on your
18 discussions with the mineral owners and others involved in
19 the situation at this time, everybody pretty much wants to
20 be plugged?

21 A. Yes, sir, it is.

22 Q. And this does not include any wells that are
23 located on the Ute Mountain Ute Reservation?

24 A. No, sir, it does not.

25 Q. Most of the wells are located on the Navajo

1 nation; is that correct?

2 A. Yes, sir, they are.

3 Q. Some are located on federal public domain lands?

4 A. Yes.

5 Q. And a couple of them are located on State land?

6 A. Correct.

7 Q. Are any of them located on fee lands?

8 A. No, there's one allottee.

9 Q. Pardon me?

10 A. There's one Navajo tribal allottee.

11 Q. Okay. Are you familiar with these wells on the
12 ground?

13 A. Yes, sir, I am.

14 Q. And in your opinion as a well inspector, do they
15 need to be plugged and abandoned in accordance with OCD
16 regulations for the prevention of waste and to protect
17 groundwater resources and the environment?

18 A. Yes, sir, they do.

19 Q. I will call your attention to what has been
20 marked as OCD Exhibit Number 2, which is a computer disc,
21 and is that loaded in your computer which is hooked up to
22 the projector in the conference room here?

23 A. Yes, sir, it is.

24 Q. And have you placed on OCD Exhibit Number 2 in
25 electronic form the well files, the plugging procedures and

1 pictures of each of these wells?

2 A. Yes, sir, I have.

3 Q. That's 134 wells?

4 A. Yes, sir, it is.

5 Q. Now, the first of these wells is the Horseshoe
6 Gallup Unit Number 2, and I'm going to take you through
7 that one, so would you open up that file?

8 A. This is the well file in its entirety. This is
9 the sundry notices and reports of wells. This is the
10 notice of intention to drill. This was filed September
11 15th, 1958.

12 Q. And do you have a document that shows when the
13 well was actually drilled?

14 A. Here's where Dowell treated the well. Let me go
15 back to -- The well was spudded 8:30 a.m., 9-18-58, drilled
16 to 110 foot.

17 Q. And do you have a completion report on that well?

18 A. This is the report of perf and frac.

19 Q. And when was it completed?

20 A. This was filed September 28th, 1958.

21 Q. And what was the total depth?

22 A. Plugback TD is 1285.

23 Q. Okay. And there are various other documents in
24 this file, but can you tell us if any of them show anything
25 that's of significance in regards to the depth or

1 completion of this well?

2 A. There is a completion report filed on each of
3 these and recompletions. There is also the C-104, showing
4 operator changes.

5 Q. But they're still approximately the same depth
6 that was shown in the original report?

7 A. Yes, sir.

8 Q. Were these wells -- This well specifically but
9 these wells generally, were they completed in the Gallup
10 formation?

11 A. Yes, sir.

12 Q. Now, did you prepare a plugging procedure for the
13 Horseshoe Gallup Number 2?

14 A. Yes, sir, I did.

15 Q. And is it on the disc that's Exhibit Number 2?

16 A. Yes, sir, it is listed as 002 PA.

17 Q. Okay, would you open it up for us?

18 A. Here's the procedure, the BLM attachment to the
19 procedure.

20 Q. And this is the actual plugging procedure?

21 A. Yes, sir, it is.

22 Q. Now, this plugging procedure was prepared by you?

23 A. Yes, sir, it was.

24 Q. In your opinion as a well inspector, if this
25 plugging procedure were followed, would the Horseshoe

1 Gallup Number 2 be plugged and abandoned in accordance with
2 the Oil and Gas Act and OCD Regulations?

3 A. Yes, sir, it will.

4 Q. Properly plugged and abandoned?

5 A. Yes, sir.

6 Q. Has this plugging procedure been approved by the
7 United States Bureau of Land Management?

8 A. Yes, sir, it has.

9 Q. Now, let me ask you, except for the specifics of
10 dates and depths, if I were to take you through each one of
11 these 134 wells and ask you the same questions I asked you
12 about the Horseshoe Gallup Number 2, would your answers be
13 the same?

14 A. Yes, sir, they would.

15 MR. BROOKS: Mr. Examiner, is there any objection
16 if I do not have Mr. Perrin answer each of these questions
17 for each of the remaining 133 wells?

18 EXAMINER JONES: No objection to that.

19 Q. (By Mr. Brooks) Okay. Mr. Perrin, just give us
20 a little bit of history. Was this originally an ARCO unit?

21 A. Yes, sir, it's my understanding it was originally
22 drilled as an ARCO unit.

23 Q. And it's been through quite a number of
24 operators?

25 A. It has.

1 Q. As typically happens in the oilfield, would it be
2 fair to characterize them as increasingly less and less
3 responsible operators as we move forward?

4 A. Yes, it would.

5 MR. BROOKS: Culminating with Playa.

6 And I believe we've gone over Playa's actual
7 abandonment of these operations, so I believe I have no
8 further questions.

9 At this time I would offer into evidence -- Well,
10 first, one other thing.

11 Q. (By Mr. Brooks) If the Examiner needs any help
12 when he gets Exhibit Number 2 loaded into his computer in
13 following what you've done, will you be available to assist
14 him?

15 A. I will.

16 MR. BROOKS: Offer Exhibits 1 and 2.

17 EXAMINER JONES: Exhibits 1 and 2 are admitted
18 into evidence.

19 MR. BROOKS: And Exhibit 3 also, if I didn't
20 offer it at the time of Ms. Prouty's testimony. I don't
21 recall. I think I did.

22 EXAMINER JONES: I think Exhibit Number 3 should
23 be definitely admitted into evidence.

24 MR. BROOKS: Okay, I will pass the witness.

25 EXAMINER JONES: Mr. Hall?

1 MR. HALL: Briefly, Mr. Examiner.

2 EXAMINATION

3 BY MR. HALL:

4 Q. Mr. Perrin, are you aware that there had been a
5 dispute between the Navajo nation and the Ute Mountain Ute
6 indian tribe about the location of the boundary between the
7 two reservations?

8 A. Yes, sir.

9 Q. And is that disputed boundary located in Sections
10 21, 28 and 33, among other sections, in Township 31 North,
11 Range 16 West?

12 A. I'm not sure.

13 Q. Okay.

14 A. I don't have anything, Scott, to go over that.

15 Q. Okay. The reason I'm asking you, I want to
16 clarify that the scope of the proceedings today do not
17 involve certain wells that are in close proximity to that
18 disputed-boundary area.

19 Now, if you could refer to your Exhibit 1, I'm
20 going to ask you about four wells. In Section 33 are
21 located the Horseshoe Gallup Unit Wells Number 208 and 187.

22 A. 208 nor 187 --

23 Q. Yes.

24 A. -- are on my list.

25 Q. Okay, so the Division does not seek the plugging

1 of either of those two wells?

2 A. No, sir, we do not.

3 Q. Now, in Section 28 there are two wells also close
4 to that disputed boundary, the Horseshoe Gallup Unit Wells
5 166 and 158. Are either of those wells on your exhibit?

6 A. No, sir, they are not.

7 MR. HALL: Nothing further, Mr. Examiner.

8 EXAMINATION

9 BY EXAMINER JONES:

10 Q. Okay. Mr. Perrin, how long have you been
11 inspecting wells in this area?

12 A. In this area, four years.

13 Q. Four years. Have you seen any -- We got
14 testimony that the last production was at least a couple
15 years ago, and have you seen any activity from any operator
16 out there that would lead you to believe there's any more
17 potential out there than has already been taken into
18 account?

19 A. I don't believe there's any other potential in
20 these wells.

21 Q. In the Gallup formation?

22 A. Correct.

23 Q. Okay, what about in any formations up the hole
24 from the Gallup? Is there any existing --

25 A. Not to my knowledge.

1 Q. The Fruitland Coal is not present in this area?

2 A. (Shakes head)

3 Q. The surface rocks are Mesaverde?

4 A. Mesaverde or -- Yes.

5 Q. Okay. These plugging procedures, what was the --

6 Can you go over at least one of them and talk about your
7 reasoning behind the different plugs in different spots?

8 A. Oh this specific well, the Number 2, the surface
9 casing --

10 MR. BROOKS: Can you shift it so it gets a little
11 more on the screen, because -- Yeah, there we go.

12 THE WITNESS: It has -- If you look at the third
13 bolded line where it says "case perf", it shows to be water
14 injection, it's got 8 5/8 set at 105 foot, surface casing
15 with 115 sacks of cement. The 5-1/2 is set at 1285 with
16 100 sacks. It supposedly has 2-3/8 tubing set at 1122. It
17 has perforations from 1102 to 1132 and also from 1100 to
18 1130, and then reperf from 1195 to 1237.

19 If we go down there and set a cast-iron bridge
20 plug at 1000 feet, that will isolate the perforations and
21 zones below it. It won't protect any water, so we're going
22 to cap it with 300 foot of cement. That will isolate that,
23 and we'll pull out of the hole, run in the hole, perforate
24 at 155, which is 50 foot below the surface shoot, and we
25 will try to circulate cement back to surface.

1 What happens with this is, part of it's in the
2 valley and part of it's on top, and the Mesaverde base can
3 come into play as to where those are set. So when you look
4 at the procedure, if it says Mesaverde base, whichever's
5 lower, that's to cover any that is on top of the hill.

6 Q. (By Examiner Jones) Okay, and there is cement on
7 the outside of the casing?

8 A. To a degree, yes. All we have is the reports
9 that were filed in 1958, and it's been our experience when
10 we go out to plug wells that were drilled at that time and
11 indicated by that cement -- Usually, cement efficiency is
12 70 percent, so a lot of times we're using -- any type of
13 perforation we use is a 70-percent efficiency factor if it
14 does not specifically state that it's circulated.

15 Q. And the -- You said previously that you had to
16 basically bleed down some wells to -- with some vacuum-type
17 of trucks. Is the reservoir pressure out here -- What do
18 you think it is? Is it abnormally pressured now because of
19 the waterflood?

20 A. Well, I believe so. We shut in the field, which
21 of course the wells that were leaking started pressuring
22 up, and we did find pressure up to a couple hundred pounds
23 on various wells. But it's real quick to bleed off to
24 nothing.

25 We did put several thousand barrels of water into

1 the ground, disposing of it to get it out of the tanks,
2 into injection wells that would take the water. So we may
3 have charged it ourselves.

4 Q. But are you going to have to bleed off a lot of
5 wells as you plug them, if the Division has to eventually
6 plug some of these wells?

7 A. Yes, sir.

8 Q. And where are you going to put that water?

9 A. We will try to keep a disposal or an injection
10 well available until the point we can't. When it gets to
11 the point we can't then we'll have to pay trucking to town
12 and disposal.

13 Q. Okay. So in your opinion, bleeding them off and
14 setting the cast iron plug above the perforations with the
15 cement top on top of it is going to naturally seal the
16 currently existing pressure in the formation so it's not
17 going to harm anything else in the future?

18 A. For the wells where the casing has mechanical
19 integrity, you're correct. Of the six we've plugged, four
20 of them had casing holes, many of them up shallow in what
21 would be considered a water.

22 So the wells that the casing is good, if you
23 isolated the perfs, yes, it would isolate the formation.
24 But the ones that have casing leaks -- and there's no way
25 to know till we rig up and get on the well.

1 Q. What about freshwater zones in this area?

2 A. They're very -- very limited. It's -- The
3 location of it is very confusing because several people say
4 there's no freshwater. But there is a public water supply
5 well that was put in by the USGS years ago, right at the
6 edge of the Hogback. So there is water out there, so...

7 Q. So in your opinion, if Playa shows up or the
8 established operator of record shows up and plugs the
9 wells, will they plug them in as good a procedure as our
10 District Office would plug the wells?

11 A. They would be required to meet our requirements.

12 EXAMINER JONES: Okay. And we have records of
13 the attempt to contact Playa, but the attempt was returned,
14 the certified letter was returned.

15 MR. BROOKS: Yes, Mr. Examiner, I believe that
16 the file will show that we did mail a notice by certified
17 mail, return receipt requested, to the address of Playa
18 Minerals and Energy, Inc., that appears in the OCD's well
19 operator's database, and that the letter was returned
20 undeliverable. I believe it will also show that we sent a
21 notice by certified mail, return receipt requested, to the
22 receiver, and that we do have a return receipt from the
23 receiver.

24 EXAMINER JONES: Okay, that's all the questions I
25 have. Thank you very much.

1 THE WITNESS: Shut this down?

2 MR. BROOKS: Yes, thank you.

3 EXAMINER JONES: Is there anything further in
4 this case?

5 MR. BROOKS: Well, Mr. Examiner, just by way of
6 statement, the normal plugging case, we show in accordance
7 with Rule 201 that no action has been taken in regard to
8 the well for one year subsequent, plus 90 days. We believe
9 we've essentially shown that here, since we've shown that
10 no production has been reported since the month of February
11 of '02.

12 However, since this is real close in terms of the
13 timing, I believe we have attempted to show further, which
14 in my opinion would be an alternative ground for ordering
15 the wells to be plugged, that there's been an actual
16 abandonment of these wells and that everything about the
17 evidence indicates that the operator has no intention of
18 returning and attempting to reactivate these wells at this
19 time.

20 Thank you.

21 EXAMINER JONES: Thank you for clarifying that.
22 I was negligent in asking that question myself.

23 Mr. Hall, do you have anything further?

24 MR. HALL: No, Mr. Examiner.

25 EXAMINER JONES: With that, we'll take Case

1 13,099 under advisement.

2 And there being anything further from anyone on
3 this docket, I see no other cases, so with that we'll
4 adjourn.

5 (Thereupon, these proceedings were concluded at
6 10:20 a.m.)

7 * * *

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14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. B-99,
18 heard by me on 6/19 1953.

19 Will Jones, Examiner
20 Oil Conservation Division
21
22
23
24
25

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 20th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006