

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

4 APPLICATION OF NEW MEXICO OIL
5 CONSERVATION DIVISION FOR A COMPLIANCE
6 ORDER AGAINST C & D MANAGEMENT COMPANY
d/b/a FREEDOM VENTURES COMPANY

7 CASE NO. 14055

8

9 JANUARY 24, 2008

10 1220 South St. Francis
11 Santa Fe, New Mexico

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16 ATTORNEY FOR APPLICANT:

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19

20 WITNESSES: DANIEL SANCHEZ and JANE PROUTY

21 EXHIBITS: 1 - 44

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24 REPORTED BY: Jan Gibson, CCR-RPR-CRR
25 Paul Baca Court Reporters
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Albuquerque, New Mexico 87102

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1 EXAMINER BROOKS: At this time we will
2 call Case No. 14055, Application of New Mexico Oil
3 Conservation Division for Compliance Order Against C
4 & D Management d/b/a Freedom Ventures Company. I
5 would ask for appearances.

6 MR. SWAZO: Sonny Swazo on behalf of the
7 applicant, Oil Conservation Division?

8 EXAMINER BROOKS: Any other appearances?
9 Do you have witnesses?

10 MR. SWAZO: I do have two witnesses, Your
11 Honor.

12 EXAMINER BROOKS: Would the witnesses
13 please state their names for the record.

14 THE WITNESS: Daniel Sanchez.

15 THE WITNESS: Jane Prouty.

16 (Note: The witnesses both took an oath.)

17 EXAMINER BROOKS: You may proceed.

18 MR. SWAZO: Thank you, Mr. Brooks. This
19 case is about inactive wells and inactive reporting.
20 This case originally started in May 2006 when OCD
21 notified the operator, C & D Management, that it did
22 not receive its C-115 monthly production reports for
23 past reporting periods and the current reporting
24 period, which at that time was from October 2004
25 through March 2006.

1 And as I'm sure you are aware, under Rule
2 19.15.13.115, which I will refer to as Rule 1115,
3 operators are allowed some leeway in the time that
4 they are required to file their monthly production
5 reports for a particular month. Under that rule,
6 it's 45 days.

7 Operator acquired most of its wells on
8 October 1, 2005. It appears once operator acquired
9 its wells it did not file monthly production reports
10 for its wells.

11 In the OCD's May 2006 letter to the
12 operator, OCD warned operator it would cancel its
13 authority to transport and inject into its wells if
14 current and past reports were not filed. Operator
15 ignored the OCD and did not file the production
16 reports. As a result, OCD cancelled operator's
17 authority to transport and inject into its wells.
18 OCD did inform operator it had the right to request
19 a hearing to challenge the cancellation of its
20 authority. Operator did not do so and OCD also
21 informed operator that it could apply for
22 reinstatement if it filed the March 2006 report.
23 Operator did not do so and, in fact, only filed one
24 report and that was for October 2004.

25 OCD eventually applied for a compliance

1 order and eventually that -- eventually OCD
2 dismissed that case after the parties entered into
3 an agreed compliance order to resolve the issues.
4 Two of the conditions of the agreed compliance order
5 were that the operator file the past due production
6 reports and plug its inactive wells by September 20,
7 2007. Operator did file its production reports from
8 October 2004 through March 2006. However, operator
9 has not filed any production reports since then.
10 Operator did not plug its wells by the September 20,
11 2007 date.

12 One of the conditions of the ACO was
13 operator pay an assessed civil penalty of \$24,000.
14 OCD agreed to waive \$18,000 on the condition that
15 operator do certain things by certain dates.
16 Operator did pay the unwaived portion, the \$6,000.
17 However, one of its payments, which was for \$3,000,
18 bounced. OCD sent a letter to operator asking
19 operator to resubmit its payment. Operator did not
20 do so. So that remains outstanding.

21 Of the \$18,000 that was waived under the
22 agreed compliance order, \$4,000 was waived on the
23 condition that operator plug five wells by September
24 20, 2005. That never happened so the \$4,000 is now
25 due.

1 The operator in this case is a Kentucky
2 corporation, and referring to my exhibit index,
3 Exhibit No. 1 is my affidavit of notice and
4 publication to the corporation. I sent notice to
5 the corporation. I researched the corporation
6 information from the Public Regulation Commission
7 website and as of two days ago the information that
8 showed on the corporation website was C & D
9 Management Company d/b/a Freedom Ventures. It lists
10 Christopher Jeffries and Darla Jeffries as corporate
11 officers and lists the principal mailing address as
12 513 Don Lyle Road, Edmonton, Kentucky.

13 I did send notice to C & D Management at
14 that address. I also sent notice to the E-mail
15 address and I also faxed a copy of the notice. I
16 also sent notice to two bank institutions in which C
17 & D Management has letters of credit for some of its
18 wells.

19 Mr. Jeffries did contact me by E-mail and
20 he indicated that he has not been owner of C & D
21 Management since 2005. I also received a fax from
22 Darla Jeffries indicating that she has not -- that
23 the responsible party for this proceeding is a
24 Mr. Tom Kizer. That individual does not appear on
25 as one of the corporate officers. He does not

1 appear in the corporate records, and since 2005,
2 Christopher and Darla have made representations and
3 in their contacts with the OCD have held them out to
4 be president and vice-president of C & D Management
5 Corporation.

6 This proceeding is against the
7 corporation. I believe that we do have sufficient
8 notice in this case to proceed and I will go to
9 Exhibit No. 2, which is an affidavit from Dorothy
10 Phillips. She is the bond administrator for the Oil
11 Conservation Division. In her affidavit she points
12 out which wells C & D Management Corporation or
13 Management Company has financial assurance on and C
14 & D Management has a \$7038 irrevocable letter of
15 credit on the Michael State No. 001. It is
16 deposited with the South Central Bank of Barren
17 County, Incorporated located in Glasgow, Kentucky,
18 which is where this corporation is also located.

19 There's also a \$10,000 irrevocable letter
20 of credit on the Schneider No. 1 and the Muncy
21 Federal No. 1, \$5,000 for each well, and that is
22 deposited with the First National Bank of Artesia.
23 The other wells are federal wells and there is no
24 requirement for -- no financial assurance
25 requirement for federal wells.

1 Exhibit No. 3 is an affidavit from Jane
2 Prouty. She is the Supervisor of Production and
3 Permitting for the Oil Conservation Division. And
4 in her affidavit she discusses -- she refers to the
5 fact that this corporation has not filed any
6 production reports for its wells.

7 With that, I would like to begin my
8 testimony or my examination of the witness.

9 EXAMINER BROOKS: Before doing that, can
10 you tell me exactly what the division is asking for
11 in this case?

12 MR. SWAZO: Oh, thank you. In this case
13 what we are asking for is with regard to the
14 inactive wells, we are asking the hearing examiner
15 to find a Rule 201 violation, to require such wells
16 to be brought into compliance with Rule 201 by a
17 date certain. If the operator does not bring such
18 wells into compliance with Rule 201 by date certain,
19 then order the operator to plug the wells.

20 If the operator does not plug the wells by
21 the set date, we are asking for authorization to
22 plug the wells and forfeit the applicable financial
23 assurance. We are also asking the hearing examiner
24 to assess civil penalties for the inactive well
25 violations, and we would ask that the civil

1 penalties start from the date the agreed compliance
2 order expired, which was September 20, 2007.

3 We are also asking the hearing examiner to
4 require the operator to pay the \$4,000 that was
5 conditionally waived under the agreed compliance
6 order for operator's failure to plug four wells by
7 the September 20, 2007 date.

8 As far as inactive wells and the
9 reporting, we are asking you to find a Rule 1115
10 violation. We are asking you to order operator to
11 file all past due C-115 monthly production reports
12 by a date certain, and if operator does not file all
13 past C-115 monthly production reports, order
14 operator to plug abandoned wells pursuant to Statute
15 70-2-14 Subsection B, and if operator does not
16 comply, we are asking for authorization to plug and
17 abandon the wells and forfeit the applicable
18 financial assurance.

19 EXAMINER BROOKS: Does this operator have
20 producing wells or are they all inactive.

21 MR. SWAZO: My understanding is that there
22 are either four or five that are dry holes and
23 operator has not plugged the wells. They never
24 produced. The other wells appear capable of
25 producing or are producible and operator just has

1 ignored the OCD.

2 The corporation in this case is a Kentucky
3 corporation and as you will find out in the
4 testimony, when we had the agreed compliance order
5 -- when we had the administrative conference
6 concerning the agreed compliance order, operator was
7 not familiar with New Mexico rules and was familiar
8 with Kentucky rules and tried to apply -- well,
9 applied Kentucky rules to our state's -- to these
10 wells, and under Kentucky rules, Kentucky does not
11 require the filing of production reports.

12 EXAMINER BROOKS: Okay. Did you complete
13 your list of the things that you are asking for?

14 MR. SWAZO: Well, I also wanted to also
15 state that with regard to the reporting violations,
16 we are asking you to assess civil penalties and we
17 would ask that the civil penalties start from March
18 2006, because this is the date that -- the reporting
19 period that was addressed in the agreed compliance
20 order was from October 2004 through March 2006, and
21 post March 2006, that was not covered by the agreed
22 compliance order.

23 So we would ask for the imposition of
24 civil penalties starting from that date. And with
25 that, I would like to begin.

1 EXAMINER BROOKS: You may proceed.

2 DANIEL SANCHEZ

3 (being duly sworn, testified as follows)

4 EXAMINATION

5 BY MR. SWAZO

6 Q. Would you please state your name for the
7 record.

8 A. Daniel Sanchez.

9 Q. Mr. Sanchez, with whom are you employed?

10 A. The Oil Conservation Division.

11 Q. What is your current title?

12 A. Compliance and enforcement manager.

13 Q. And what are your job duties?

14 A. I manage the four district offices for the
15 OCD, the Environmental Bureau here in Santa Fe. I
16 am the program director for the Underground
17 Injection Control Program, and I oversee enforcement
18 and compliance issues.

19 Q. If you can turn to Exhibit No. 4. Would
20 you please identify that exhibit?

21 A. That is the well list for C & D
22 Management.

23 Q. And what does that document show?

24 A. It shows the number of wells that are
25 operated by the company, which is 17.

1 Q. And where is the document found?

2 A. It's found in OCD Online.

3 Q. I'm sorry?

4 A. OCD Online.

5 Q. Is that kept in the normal course of
6 business?

7 A. Yes, it is.

8 Q. Is it accessible to the public?

9 A. Yes.

10 Q. Would you please turn to Exhibit No. 5.
11 Could you identify that, please?

12 A. This is the inactive well list for C & D
13 Management. This shows out of the 17 wells 13 are
14 inactive.

15 Q. Where is this found?

16 A. This is also on OCD Online.

17 Q. Is this kept in the normal course of
18 business?

19 A. Yes.

20 Q. Is this accessible to the public?

21 A. Yes.

22 Q. How does a well get on the list?

23 A. There are several ways. If a well hasn't
24 produced or injected within 15 months to a year plus
25 three months, or if it isn't on approved temporary

1 abandonment status or producing.

2 Q. And does the list show the date of last
3 reported activity for the wells?

4 A. Yes, it does. The last production on the
5 majority of the wells was in March of 2006. Some of
6 them go back to 2000/2001.

7 Q. And I want to direct your attention to
8 Exhibit No. 4. Can you tell me what date that
9 document was printed?

10 A. January 17, 2008.

11 Q. And what about Exhibit No. 5?

12 A. Same date.

13 Q. Now, one of the allegations in this case
14 is that the operator is not filing C-115 production
15 reports for its wells, and there are four wells that
16 appear on the well list which do not appear on the
17 inactive well list and wells those are the Shearn
18 Becky Federal No. 1, Shearn Freedom Federal No. 1,
19 Shearn Freedom Federal No. 2, Shearn Samantha
20 Freedom Federal No. 1 and the Shearn Shilo Federal
21 No. 1.

22 Now, those appear on the operator's well
23 list but they do not appear on the inactive well
24 list for the operator. Can you explain the
25 discrepancy?

1 A. Yes. In order to get on the inactive well
2 list, the well has to have produced at some time.
3 These four wells were reportedly dry holes.

4 Q. Are you familiar with Rule 1115?

5 A. Yes.

6 Q. And what does that rule require?

7 A. It requires any well operating to be
8 reported on a monthly basis on a C-115.

9 Q. What does it require to be reported?

10 A. Production on any active well.

11 Q. And are you familiar with Rule
12 19.15.4.201?

13 A. Yes.

14 Q. What does that rule require?

15 A. It requires operators to maintain
16 compliance of their wells by either having them
17 actively produced and injecting, have them plugged
18 and abandoned or on approved temporary abandonment
19 status.

20 Q. If I could have you turn to Exhibit No. 6,
21 would you please identify that?

22 A. This is a letter sent to C & D Management
23 on October 12th, 2006 canceling the authority to
24 transport from or inject into wells operated by
25 their company.

1 Q. Who sent that letter?

2 A. I did.

3 Q. What address was it sent to?

4 A. This was sent to 513 Don Lyle Road,
5 Edmonton, Kentucky.

6 Q. And whose attention was it to?

7 A. Ms. Darla Jeffries.

8 Q. And could you summarize what is stated in
9 the letter?

10 A. It explains that through an E-mail, the
11 company was previously contacted about the lack of
12 reporting, and since they failed to respond to that,
13 that their authority to transport or inject was
14 cancelled. Also gives them a time frame to respond
15 to this and get back into compliance.

16 Q. Does the letter inform C & D Management
17 Company what they could do to remedy the situation?

18 EXAMINER BROOKS: Excuse me, which exhibit
19 is this?

20 THE WITNESS: Six.

21 EXAMINER BROOKS: Continue.

22 A. It gives them information as to how to
23 remedy the situation by reporting the C-115s that
24 haven't been produced yet or within 120 days
25 requesting a hearing on the case.

1 Q. And was this document sent registered
2 mail?

3 A. Yes, it was.

4 Q. And if you turn to the back page, did you
5 receive the certified mail receipt?

6 A. Yes, we did.

7 Q. And whose signature appears on the
8 receipt?

9 A. Darla Jeffries.

10 Q. Could you please turn to Exhibit No. 7?

11 A. Okay.

12 Q. Could you identify that exhibit, please?

13 A. This was a letter dated March 8, 2007 sent
14 to Darla Jeffries again, C & D Management Company.
15 It's basically letting them know that a hearing that
16 we had set prior to this letter was going to be
17 postponed or actually dismissed, and that we were
18 going to go ahead and have an administrative
19 conference with the company and try to resolve the
20 issues.

21 Q. What kind of hearing are you talking
22 about?

23 A. This would have been a compliance hearing.

24 Q. Are you familiar with the document?

25 A. Yes.

1 Q. How are you familiar?

2 A. I was copied on this by the attorney who
3 sent it out.

4 Q. And what address appears on top of the
5 document? Let me rephrase that. What address was
6 this document sent to?

7 A. 513 Don Lyle Road, Edmonton, Kentucky.

8 Q. To whose attention?

9 A. Darla Jeffries, President of C & D
10 Management Company.

11 Q. Would you please turn to Exhibit No. 8.
12 Would you please identify this exhibit.

13 A. This is a letter dated March 16th, 2007.
14 This is to Chris Jeffries, the vice-president of C &
15 D Management Company, and it's a letter confirming
16 what we had discussed in our March 12th
17 administrative conference with the company.

18 Q. What address was this sent to?

19 A. 513 Don Lyle Road, Edmonton, Kentucky.

20 Q. Are you familiar with the document?

21 A. Yes, I am.

22 Q. How are you familiar with it?

23 A. I was copied on this one as well. This
24 was also written by the attorney at the time.

25 Q. Was this document sent certified mail?

1 A. Yes, it was.

2 Q. Did you receive a certified mail receipt?

3 A. Yes.

4 Q. Was there a signature on the receipt?

5 A. Yes, Darla Jeffries.

6 Q. Please turn to Exhibit No. 9. Could you
7 please identify this document?

8 A. This is a letter dated March 26, 2007 to
9 Christopher Jeffries, C & D Management Company, 513
10 Don Lyle Road, Edmonton, Kentucky, and it's the
11 letter discussing the agreed compliance order that
12 we were going to get into.

13 Q. With regard to the agreed compliance
14 order, what does it specify?

15 A. It lets C & d management know what we had
16 talked about that day, of course. They were
17 penalized \$6,000. They were given a payment
18 schedule, \$3,000 for each month of the upcoming
19 months to get those paid and the fact that we had
20 waived \$18,000 in penalties as long as they met
21 certain conditions of the agreed compliance order.

22 Q. Okay. I am a little confused. Because
23 you said that C & D Management was penalized \$6,000
24 yet there was a remaining \$18,000 balance. What was
25 the total amount that C & D Management Company was

1 penalized?

2 A. The original amount was \$24,000. \$18,000
3 of that was to be waived by meeting certain
4 criteria.

5 Q. That's specified in the letter?

6 A. It's -- yes, it's specified in the letter.

7 Q. Are you familiar with the letter?

8 A. Yes.

9 Q. How are you familiar with the letter?

10 A. I was also copied on the letter.

11 Q. Would you please turn to Exhibit No. 10.
12 Would you please identify that document.

13 A. This is the April 17, 2007 letter sent to
14 C & D Management, and this was to Darla Jeffries'
15 attention, also 513 Don Lyle Road, Edmonton,
16 Kentucky. This is a letter reinstating the
17 authority to transport.

18 Q. I don't know if I heard you. Did you give
19 the date of the document?

20 A. Yes, April 17, 2007.

21 Q. And what does this document concern?

22 A. This was on their original cancellation of
23 authority. It reinstates their authority.

24 Q. And why would it have been reinstated?

25 A. They met the conditions in terms of

1 reporting on the C-115s.

2 Q. Are you familiar with the document?

3 A. Yes.

4 Q. How are you familiar with the document?

5 A. I signed it, sent it out.

6 Q. And please turn to Exhibit No. 11. Could
7 you identify that exhibit, please?

8 A. This is a letter dated April 26, 2007 to
9 Christopher Jeffries, C & D Management Company, 513
10 Don Lyle Road, Edmonton, Kentucky, and this is a
11 letter stating that we had received a second payment
12 of \$3,000 of the penalty.

13 Q. Does the letter specify anything else?

14 A. Yes. Once again, it reiterates the
15 conditions for the waiving of the \$18,000 penalties
16 and gives the deadlines again on what was necessary
17 to complete that agreed compliance order.

18 Q. Are you familiar with the document?

19 A. Yes.

20 Q. And how are you familiar with the
21 document?

22 A. I was copied on it.

23 Q. Would you please turn to Exhibit No. 12.
24 Could you please identify this document?

25 A. This is the agreed compliance order that

1 the OCD entered into with C & D Management.

2 Q. If you look at paragraph -- findings in
3 Paragraph No. 3. What does the paragraph state?

4 A. It states that C & D is the operator of
5 the following wells. All in the county of New
6 Mexico. It gives the list of the 17 wells that are
7 on the list.

8 Q. Are those the wells that are the subject
9 of this current case?

10 A. Yes.

11 Q. What does Findings Paragraph No. 2
12 indicate?

13 A. C & D is a foreign for-profit corporation
14 doing business in New Mexico under SEC No. 2521581
15 with principal and known address at 513 Don Lyle
16 Road, Edmonton, Kentucky. It is assigned over at
17 231382.

18 Q. Now, if you turn to Page 2 of this
19 exhibit, could you summarize what is stated in
20 Subsection A, the background of the document?

21 A. It has that C & D was also advised that if
22 it transported from or injected into its wells after
23 the date of cancellation of its authority to do so,
24 C & D would be in violation of Rules 1104 and 701 --
25 and/or 701. Subject to \$1000 fine per day.

1 Q. What I actually meant was if you could
2 summarize starting from Paragraph 4 to Paragraph 9.

3 A. It gives the history, the background
4 concerning what happened throughout this case. It
5 states that by E-mail dated May 22, 2002, the OCD
6 notified C & D about their lack of reporting. Gives
7 them the dates that we had offered them to go ahead
8 and come into compliance. Shows that we had mailed
9 out the letters that we had and we just discussed in
10 the previous exhibits, basically all the way through
11 the October 12, 2000 letter canceling their
12 authority to transport.

13 Q. If you look at the section for the
14 investigation section, Section B of the document,
15 can you summarize what that portion of the document
16 states?

17 A. It shows that on February 14, 2007 a city
18 inspector out of Artesia, Mike Bratcher, made a
19 visual inspection of each of the above-listed wells,
20 the 17 wells in question here, and it gives the
21 details of what he found during that inspection.

22 Q. Is there any indication with regard to the
23 production or non-production of the wells?

24 A. Yeah. Most of these show that they were
25 either producing or they were capable of production,

1 and it shows that the other -- the Shearn wells, the
2 Becky Federal, Freedom Federal, Samantha Federal and
3 Shilo Federal were unable to produce.

4 Q. Does the ACO say anything with regard
5 to -- let me rephrase that. If you look at
6 Paragraph No. 12 on Page 3, what does that paragraph
7 concern?

8 A. This outlines the 24 violations that we
9 had laid out against the C & D Management and that
10 was the basis for the original \$24,000 penalty.

11 Q. With regard to the violations, is there
12 anything mentioned concerning Rule 201 or Rule 1115?

13 A. Yes, there were three violations of rule
14 201. Those were based on the Shearn, Shilo Federal,
15 the Shearn Samantha Federal and the Muncy Federal
16 and there were 15 violations of Rule 1115.

17 Q. And can you state what it states after --
18 for the -- can you repeat what it states for the
19 Rule 1115 violation?

20 A. On 15 OCD rule violations 1115, on all
21 wells except the Shearn Becky Federal, Freedom
22 Federal No. 2 which were only recently drilled and
23 failed to file the C-115 reports.

24 Q. What does Paragraph 13 state? I'm sorry
25 to interrupt you. Just to rephrase it, could you

1 summarize what Paragraph 13 states?

2 A. It just talks about the administrative
3 conference that we had on March 11, 2007 at C & D.
4 Chris Jeffries was the individual that we talked to
5 that day.

6 Q. And does it summarize what Mr. Jeffries'
7 side of the story was with regard to the violations?

8 A. Yes. It talks about the fact -- what they
9 believe was the change of ownership from Chris and
10 Darla Jeffries to Tom Kizer and about Mr. Kizer
11 taking over the management on September of 2005 and
12 it also goes into why they were working with us even
13 though they were claiming that they were not the
14 operators at the time when some of these violations
15 were previous to the transfer in 2005.

16 Q. Does it give a reason why Mr. Jeffries or
17 why C & D Management Company did not -- does it give
18 a reason for the violations?

19 A. Yeah, it says Jeffries lives in Kentucky
20 and is familiar with Kentucky rules for gas and oil
21 operation. He failed to familiarize himself with
22 New Mexico rules but applied Kentucky rules to his
23 operation of the subject wells.

24 Q. Does it indicate any -- does this indicate
25 anything with regard to C & D's failure to file

1 production reports?

2 A. Yes. Production reports were not required
3 in Kentucky so they didn't file them here.

4 Q. And how are you familiar with the
5 document?

6 A. I reviewed it before it went out.

7 Q. If you turn to Page 8, whose signature is
8 that?

9 A. That's my signature. The acceptance on
10 the bottom is Christopher Jeffries, vice-president
11 and is dated March 24, 2007. This was returned to
12 us and then I signed off on it on the 26th of March.

13 Q. And does it indicate who the operator is
14 as accepting this?

15 A. C & D Management.

16 Q. Would you please turn to Exhibit No. 13.

17 A. Okay.

18 Q. Could you please identify this exhibit?

19 A. This is a letter dated August 16, 2007.
20 This was sent out by you and it explains that a
21 check to the OCD from C & D Management dated March
22 21, 2007 had been returned for insufficient funds.

23 Q. Does the letter request anything else or
24 state anything else?

25 A. Yes, that the check be resubmitted as a

1 certified or cashier's check for that amount.

2 Q. What address was it sent to?

3 A. 513 Don Lyle Road, Edmonton, Kentucky.

4 Q. How are you familiar with the exhibit?

5 A. I was copied on it.

6 Q. And if you go to the other side of the
7 exhibit, could you identify that document?

8 A. That's a copy of the returned check.

9 Q. Could you please identify Exhibit No. 14.

10 A. Exhibit 14 is a letter that I received on
11 September 20, 2007 from Christopher Jeffries asking
12 for an extension on plugging the Shearn Becky,
13 Shearn Freedom, Shearn Samantha and Shearn Shilo
14 Federal wells and Muncy Federal No. 2.

15 Q. What address was the document sent from?

16 A. Also 513 Don Lyle Road, Edmonton,
17 Kentucky.

18 Q. From what operator?

19 A. C & D Management Company.

20 Q. Does it give any contact information?

21 A. Yes, it gives the office phone number and
22 an E-mail address.

23 Q. And who signed it?

24 A. Christopher Jeffries.

25 Q. And did he indicate who he was signing it

1 for?

2 A. C & D Management Company.

3 Q. And I want to try to be real brief about
4 this. Would you please turn to Exhibits 15 through
5 31? Could you please identify those exhibits?

6 A. These are copies of the loan inspection
7 histories for each of the wells in question, the 17
8 wells operated by C & D Management.

9 Q. How is the information acquired?

10 A. It's kept in the RVMS system.

11 Q. How is this information acquired?

12 A. The information is entered into the system
13 from the -- by the inspectors, and this was done
14 whenever an inspection was performed on a site.

15 Q. Now, for the sake of being brief, I'm not
16 going to go through each inspection history for each
17 well, but do these inspection histories indicate
18 anything with regard to production or
19 non-production?

20 A. Yeah, for the majority of them. These
21 were all pretty much performed on September 26th,
22 2007 and the majority of them were either capable of
23 producing or were producing at the time.

24 Q. And what about the remainder of them?

25 A. Those were the other wells in question,

1 the dry holes. Of course, they were still not
2 plugged and still not capable of producing.

3 Q. And is that indicated in the history
4 report? Is there incapability of producing
5 indicated in the well inspection history?

6 A. Yes, it is.

7 Q. Would you please turn to Exhibits 32, 33
8 and 34?

9 A. Okay.

10 Q. Could you please identify these exhibits?

11 A. These are change of operator forms and the
12 first one being a change of operator from JKM Energy
13 to C & D Management, and this one was signed in
14 October -- October 1, 2004 and the signature of the
15 new operator was for Darla Jeffries, C & D
16 Management Company.

17 Q. What exhibit are you referring to?

18 A. That was Exhibit No. 32.

19 Q. And what about Exhibit 33?

20 A. Exhibit 33 is the change of operator from
21 Finney Oil Company to C & D Management signed by
22 Darla Jeffries on October 21, 2005.

23 Q. Does that document indicate when the new
24 operator -- when the effective date for the change
25 of operator was?

1 A. November 1, 2005.

2 Q. What's Exhibit 34?

3 A. This is also a change of operator from JKM
4 Energy to C & D Management signed by Darla Jeffries,
5 with an effective date of October 31, 2004.

6 Q. In those documents is there an address for
7 C & D Management Company?

8 A. Yes.

9 Q. What is the address?

10 A. 513 Don Lyle Road, Edmonton, Kentucky.

11 Q. Who submitted it on behalf of C & D
12 Management Company?

13 A. Darla Jeffries, president.

14 Q. Where would these documents be found?

15 A. In the well file.

16 Q. And I want to go through the documents
17 real quick. Could you please identify Exhibit 35.

18 A. This is a BLM form and it's showing there
19 was a new well drilled but it was a dry hole well
20 for the Shearn Becky No. 1.

21 Q. Who submitted this?

22 A. C & D Management Company.

23 Q. Did they give an address?

24 A. Yes, 513 Don Lyle Road, Edmonton,
25 Kentucky.

1 Q. What date was this submitted?

2 A. This one, May 25, 2007.

3 Q. And was there a person who signed no it on
4 behalf of C & D Management?

5 A. Yes. I believe this one was Christopher
6 Jeffries on April 12, 2007.

7 Q. Does Mr. Jeffries indicate what his
8 position is with C & D Management?

9 A. Vice-president.

10 Q. And actually, if you look above the
11 signature, what does it state?

12 A. "I hereby certify the foregoing and
13 attached information is complete and correct as
14 determined from all available records. See
15 attachments."

16 Q. Turn to Exhibit 36. Would you please
17 identify this exhibit?

18 A. BLM form showing a new well drilled, dry
19 hole. This is for Shearn Becky No. 1. This was
20 submitted by C & D Management Company, same address,
21 513 Don Lyle Road, Edmonton, Kentucky. Dated May
22 25, 2007.

23 Q. Who submitted this on behalf of C & D
24 Management?

25 A. Christopher Jeffries.

1 Q. Does he indicate his relationship to the
2 company?

3 A. Vice-president.

4 Q. And where are the documents found?

5 A. These are also in the well files.

6 Q. Those are accessible to the public?

7 A. Yes.

8 Q. Would you please turn to Exhibit No. 37.

9 A. Okay.

10 Q. Would you please identify this exhibit?

11 A. This is also a BLM form, Notice of Intent
12 to Drill the Well, Shearn Becky Federal No. 1.

13 Q. Who submitted this?

14 A. Darla Jeffries on March 12, 2007.

15 Q. What operator submitted this?

16 A. C & D Management.

17 Q. What's the address?

18 A. 513 Don Lyle Road, Edmonton, Kentucky.

19 Q. I don't know if I got this, but what date
20 did she submit this?

21 A. March 19 -- March 12, 2007.

22 Q. Does she indicate her relationship to C &
23 D Management Company?

24 A. She is the president.

25 Q. What does the document state?

1 A. That they are proposing to plug and
2 abandon this well.

3 Q. Would you please turn to Exhibit No. 38.
4 Would you identify this exhibit?

5 A. This is a BLM form showing a new well
6 drilled, also a dry hole, Shearn Freedom Federal No.
7 2.

8 Q. Who submitted this?

9 A. C & D Management.

10 Q. What address?

11 A. 513 Don Lyle Road, Edmonton, Kentucky.

12 Q. And who signed for this or who -- what
13 person submitted this?

14 A. Chris Jeffries.

15 Q. Does he give his relationship as far as C
16 & D Management Company?

17 A. Vice-president.

18 Q. And what date did he submit this document?

19 A. April 12, 2007.

20 Q. And I don't know if I asked you this for
21 the previous document, but with regard to Exhibit 37
22 and 38, where were the documents found?

23 A. In the well files.

24 Q. Could you please identify Exhibit 39.

25 A. Another BLM form. This is a Notice of

1 Intent to Plug the Shearn Freedom Federal No. 2.

2 Q. What operator submitted this?

3 A. C & D Management.

4 Q. And the address?

5 A. 513 Don Lyle Road, Edmonton, Kentucky.

6 Q. What person submitted this?

7 A. Darla Jeffries, president.

8 Q. What date?

9 A. March 12, 2007.

10 Q. And is this also found in the well files?

11 A. Yes.

12 Q. Exhibit 40, can you identify this?

13 A. Also BLM form, Notice of Intent to Plug
14 and Abandon the Shearn Samantha Federal No. 1.

15 Q. What operator submitted this?

16 A. C & D Management.

17 Q. And the address?

18 A. 513 Don Lyle Road, Edmonton, Kentucky.

19 Q. And what person submitted this?

20 A. Darla Jeffries, president.

21 Q. What date did she submit this?

22 A. March 12, 2007.

23 Q. This was also found in the well files?

24 A. Yes.

25 Q. Exhibit 41, could you identify this

1 exhibit?

2 A. This is a BLM form, Notice and Intent to
3 Plug and Abandon the Shearn Shilo Federal No. 1.

4 Q. Who submitted this?

5 A. C & D Management.

6 Q. And the address?

7 A. 513 Don Lyle Road, Edmonton, Kentucky.

8 Q. What person submitted this?

9 A. Darla Jeffries, president, March 7, 2007.

10 Q. And is this document also found in the
11 well files?

12 A. Yes.

13 Q. Would you please identify Exhibit 42.

14 A. 42 is a copy of a form found on the Public
15 Regulation Commission's website.

16 Q. What date was that -- what date is the
17 copy of that -- what date -- let me go ahead and ask
18 other questions. You said that this is the
19 corporation information for C & D Management
20 Company?

21 A. Yes.

22 Q. And does it indicate what the purpose of
23 the corporation is?

24 A. Yes, it's to operate oil and gas leases in
25 New Mexico.

1 Q. Does the document give the corporation's
2 address?

3 A. Yes, it does. That's 513 Don Lyle Road,
4 Edmonton, Kentucky.

5 Q. Does the document indicate who the
6 officers of the corporation are?

7 A. Yes. President, Darla Jeffries;
8 vice-president, Chris Jeffries.

9 Q. And what is the date on the document?

10 A. January 22, 2008.

11 Q. In this case, Mr. Sanchez, you are asking
12 for the inactive wells to be plugged. Let me ask
13 you this. What exactly are you asking for in this
14 case?

15 A. We are asking that the hearing examiner
16 issue an order stating that the \$3,000 check that
17 was sent back for insufficient funds be reissued at
18 the time that the order is issued. We are asking
19 that all of the wells be brought back into
20 compliance, five of those being plugged and
21 abandoned. We are asking all reporting be updated
22 to the present time. We are asking that if those
23 wells are not brought back into compliance per the
24 reporting actions that we issue a \$1,000 fine per
25 month on each one of the wells going back to March

1 of 2006 for the lack of reporting, and we are asking
2 that this be done within 90 days.

3 If the company does not meet the 90-day
4 deadline, then we are asking that the hearing
5 examiner order the wells plugged and the financial
6 assurance be forfeited.

7 Q. I'm sorry, did you say \$1,000 per well per
8 month?

9 A. Yes.

10 Q. Since March 2006?

11 A. Yes.

12 Q. At this time I don't have any other
13 questions, Mr. Examiner, and I would move for the
14 admission of the exhibits.

15 EXAMINER BROOKS: Okay. The Exhibits 1
16 through 42 will be admitted.

17 (Note: OCD Exhibits 1 through 42
18 admitted into evidence.)

19 EXAMINER BROOKS: I want to get the
20 chronology straight on this. Prior to this agreed
21 compliance order there had been a penalty of
22 \$24,000, did you say?

23 THE WITNESS: Yes.

24 EXAMINER BROOKS: How was this assessed?
25 Was there an order on this or was this --

1 THE WITNESS: It was assessed through a
2 notice of violation.

3 EXAMINER BROOKS: So there was not an
4 order assessing a penalty?

5 THE WITNESS: No, not at that time.

6 EXAMINER BROOKS: Then in the agreed
7 compliance order, they agreed to pay \$6,000?

8 THE WITNESS: Yes.

9 EXAMINER BROOKS: And they paid \$3,000?

10 THE WITNESS: \$3,000. They actually sent
11 the OCD two separate checks for \$3,000 each and one
12 of them was returned for insufficient funds.

13 EXAMINER BROOKS: Were they sent at the
14 same time or separate times?

15 THE WITNESS: Separate times.

16 EXAMINER BROOKS: Okay. That was my
17 understanding. So the penalties that -- the only
18 penalty from the agreed compliance order that you
19 are asking for enforcement of this time is the
20 \$3,000 that was for the insufficient funds check; is
21 that correct?

22 THE WITNESS: That's correct. Also
23 there was an amount for the wells to be plugged that
24 were -- but it was \$3,000 as well to have certain
25 wells plugged, and I don't believe they met that.

1 So we are going to go ahead and waive that if they
2 can get those wells plugged within the 90-day time
3 frame.

4 EXAMINER BROOKS: If they don't, you are
5 asking for an additional \$3,000 under the terms of
6 the agreed compliance order?

7 THE WITNESS: Yes.

8 MR. SWAZO: Mr. Hearing Examiner, if I may
9 speak to this, it's specified -- the agreed
10 compliance order lays out the responsibilities and
11 duties of both parties and it indicated that the
12 parties agreed that C & D Management Company had to
13 plug, I believe, five wells by September 20, 2007 or
14 it would have to pay \$4,000 of the waived \$18,000
15 penalty. So that would be \$4,000 that we would be
16 asking for.

17 THE WITNESS: Not the three.

18 EXAMINER BROOKS: So it's \$4,000, not
19 three that you are asking for under the terms of the
20 agreed compliance order, but you will waive that if
21 they meet the plugging deadline imposed by the order
22 you are asking for in this case.

23 THE WITNESS: That's right.

24 EXAMINER BROOKS: Okay. But if they do
25 not meet that deadline, then you are also asking for

1 additional penalties for failure to plug from the
2 time of the agreed compliance order expired until
3 the date of the hearing; is that correct?

4 THE WITNESS: That's correct as well.

5 EXAMINER BROOKS: What amount are you
6 asking for there?

7 THE WITNESS: \$1,000 per month per well.

8 EXAMINER BROOKS: \$1,000 per month per
9 well from the date -- what was the date of the
10 agreed compliance order?

11 MR. SWAZO: They had until September 20,
12 2007.

13 EXAMINER BROOKS: That would be 9/20
14 of '07 until 1/24 of '08. Okay. That would be at
15 the rate of \$1,000 per month per well?

16 THE WITNESS: That's correct.

17 EXAMINER BROOKS: You are asking for
18 separate penalties for violations of Rule 1115?

19 THE WITNESS: That's correct as well.

20 EXAMINER BROOKS: What penalties are you
21 asking for for violation of Rule 1115?

22 THE WITNESS: A thousand dollars per month
23 per well for any well that hasn't been caught up on
24 the reporting.

25 EXAMINER BROOKS: So once again, you are

1 asking for penalties only if they do not comply with
2 the date given in the order?

3 THE WITNESS: That's correct.

4 EXAMINER BROOKS: And you are asking for
5 \$1,000 per well per month?

6 THE WITNESS: Per month from the March
7 2006 date.

8 EXAMINER BROOKS: From March. And that
9 would be for the reporting period from March '06,
10 right?

11 THE WITNESS: I believe they followed
12 through all the way to March of 2006 so it would
13 actually start in April of 2006.

14 EXAMINER BROOKS: Would that be for the
15 reporting period or the period the report is due or
16 the period the report relates to?

17 THE WITNESS: The reporting period, I
18 believe.

19 EXAMINER BROOKS: So then they are in
20 default with respect to reporting beginning with the
21 report that relates to April of '06?

22 THE WITNESS: That's correct.

23 EXAMINER BROOKS: And that would be
24 through the report that would be due on January 15th
25 of '08?

1 THE WITNESS: Yes.

2 EXAMINER BROOKS: Okay. And is that all
3 the penalties you are asking for?

4 THE WITNESS: Yes.

5 EXAMINER BROOKS: And in addition, you are
6 asking that five wells be plugged?

7 THE WITNESS: That's correct.

8 EXAMINER BROOKS: And the remaining wells
9 be restored to production or plugged?

10 THE WITNESS: Just to comply with Rule 201
11 or get a temporary abandoned status approved or
12 production or plug them.

13 EXAMINER BROOKS: And you are asking that
14 the report be brought up-to-date?

15 THE WITNESS: Yes.

16 EXAMINER BROOKS: Anything else you are
17 asking for?

18 THE WITNESS: No.

19 EXAMINER BROOKS: I assume, Mr. Swazo,
20 that you handled the notice, the sending of the
21 notices, correct?

22 MR. SWAZO: That's correct.

23 EXAMINER BROOKS: So I will ask you -- I
24 will reserve those questions to ask you at the
25 conclusion of the proceedings. Once again, it's my

1 understanding, without going through the production
2 dates and inspection reports, that with the
3 exception of the five wells, the inspection reports
4 indicate that the wells, you know, either are
5 producing or are capable of producing?

6 THE WITNESS: That's correct.

7 EXAMINER BROOKS: Although there is no --
8 there are no reports of production from these wells
9 because there are no reports filed; is that correct?

10 THE WITNESS: That's correct.

11 EXAMINER BROOKS: Very good. I believe
12 that's all.

13 MR. SWAZO: I would like to call Jane
14 Prouty.

15 JANE PROUTY

16 (being duly sworn, testified as follows:)

17 DIRECT EXAMINATION

18 BY MR. SWAZO

19 Q. Would you please state your name for the
20 record.

21 A. Jane Prouty.

22 Q. And Ms. Prouty, with whom are you
23 employed?

24 A. The Oil Conservation Division.

25 Q. What is your title with the Oil

1 Conservation Division?

2 A. I am the bureau chief of the automation
3 and records bureau.

4 Q. And what do your job duties entail?

5 A. I manage the OCD Online system from a user
6 perspective and I am in charge of records for the
7 Oil Conservation Division, and I am in charge of
8 budget and I am in charge of the production data and
9 all data in our systems.

10 Q. Now, in front of you is Exhibit No. 43.
11 Could you please identify that exhibit?

12 A. This is what we call an operator
13 administrator form.

14 Q. Can you explain the purpose of the form?

15 A. Yes. When an operator wants to use OCD
16 Online, they initially submit this form, and what it
17 does is an executive of the company designates any
18 individual to sign onto the system and file permits
19 on behalf of the company. Then that's when it's
20 initially done, and it can also be done later
21 whenever the person at the bottom of the form's name
22 changes, if they wish someone else to be the
23 administrator.

24 Q. Can you just explain some of the
25 background involved with reporting as far as how an

1 operator reports monthly production to the OCD?

2 A. They use our system called OCD Online,
3 which is a web-based system. Using the user ID
4 created as a result of this form, they sign on to
5 the web. They either have created their C-115 using
6 an Excel spreadsheet or for larger companies they
7 create it using their own accounting systems and put
8 it into a predefined format that our system can
9 read.

10 They sign on, they attach the C-115 file,
11 they press a button that says "validation" and it
12 goes out and makes sure that every well completion
13 that is on the C-115 is truly operated by that
14 operator and not plugged, and that every well
15 completion is reported and gives them a list of
16 errors and makes sure that the production matches
17 the disposition.

18 So it just runs through all that and gives
19 them reports of errors. If they have any errors
20 they go back to their C-115 and correct them. If
21 they don't have any errors, they press the submit
22 button.

23 Q. Is this operator administrator the person
24 who is authorized to submit the information on
25 behalf of an operator?

1 A. Yes. We make the initial user ID for the
2 operator administrator and then the operator
3 administrator can authorize others, but we don't do
4 that. So we set up the operator administrator.

5 Q. And if you look at Exhibit No. 43, what
6 operator is this form for?

7 A. C & D Management d/b/a Freedom Ventures
8 Company.

9 Q. And does it indicate the operator's
10 address?

11 A. Yes.

12 Q. And what is that address?

13 A. 513 Don Lyle Road, Edmonton, Kentucky.

14 Q. And does it give the name of the operator
15 administrator?

16 A. Yes, Darla Jeffries.

17 Q. And does it indicate -- now, you had said
18 that the operator can authorize a person to be the
19 operator administrator?

20 A. Yes.

21 Q. Is that indicated on this form?

22 A. Yes. In this case Darla Jeffries
23 indicated herself to be the operator administrator,
24 so she signed as president authorizing herself to be
25 the operator administrator, so we set up a user ID

1 for her.

2 Q. What date did she submit this?

3 A. You know, there's a fax date at the top,
4 and I can't see it. She signed this December 15,
5 2004, but I can't read the fax date to us.

6 Q. Now, did you look at the operator
7 administrator for C & D Management? Let me try to
8 clarify that question. Have any other operator
9 administrator registration forms been submitted on
10 behalf of C & D Management?

11 A. No.

12 Q. Is this the most current?

13 A. Yes.

14 Q. Is this the only one?

15 A. Yes.

16 Q. Would an operator be able to file its
17 C-115s without -- does an operator have to go online
18 in order to file its C-115 production records?

19 A. Yes, although we have a provision -- a
20 hardship provision. And if they send us a letter
21 and let us know why they can't do that, I generally
22 approve that yes, they can. We only have about five
23 people who file that way and the other 600 operators
24 file electronically. Approximately 600.

25 Q. Now, in this case one of the allegations

1 is that C & D Management hasn't filed its reports,
2 and there was evidence that they had filed reports
3 previously. Were those reports submitted online?

4 A. Yes.

5 Q. Have you been contacted by C & D
6 Management regarding its filing monthly production
7 reports?

8 A. Not -- I have spoken to them before, but I
9 believe it was before the first ACOI. I don't have
10 a time frame. But not in the past probably three or
11 four years.

12 Q. Okay. That was my next question.

13 A. Okay.

14 Q. The issue in this case is filing reports
15 from March 2006. Has C & D Management contacted you
16 for filing the reports for March 2006 to the current
17 date?

18 A. No. We have sent letters to them, but I
19 personally haven't had any contact with them.

20 Q. Have they responded to those letters?

21 A. Again, I can't say. Not to me, but I
22 don't sign the letters.

23 MR. SWAZO: I don't have any further
24 questions.

25 EXAMINER BROOKS: Very good. I have no

1 questions for the witness.

2 MR. SWAZO: With that, I rest my case.

3 EXAMINER BROOKS: Okay. You did not
4 submit an affidavit of notice as such in this case?
5 Is there an affidavit of notice in the file?

6 MR. SWAZO: That was Exhibit No. 1. I'm
7 not sure exactly what you are referring to.

8 EXAMINER BROOKS: Okay.

9 MR. SWAZO: I did --

10 EXAMINER BROOKS: I had overlooked that.
11 I'm sorry.

12 MR. SWAZO: I did mail, fax and E-mail
13 notice of this hearing to the corporation. And in
14 addition, notice was published --

15 EXAMINER BROOKS: Notice was sent to the
16 corporate address in Edmonton, Kentucky, correct?

17 MR. SWAZO: That's correct.

18 EXAMINER BROOKS: Was there notice sent to
19 the registered agent that's shown on the PRC form?

20 MR. SWAZO: Actually, no, I did not.

21 EXAMINER BROOKS: My understanding is you
22 have had actual contact with the Jeffries since the
23 notice was sent to them?

24 MR. SWAZO: That's correct. I received an
25 E-mail Saturday from Mr. Jeffries.

1 EXAMINER BROOKS: That's Chris Jeffries?

2 MR. SWAZO: Chris Jeffries, yes. I could
3 submit it as an exhibit. I only have one copy. He
4 says he has had no involvement with the corporation
5 since mid 2005 and that the responsible party is, I
6 believe, Tom Kizer.

7 EXAMINER BROOKS: Does he indicate in the
8 E-mail whether or not he received the notice of the
9 hearing?

10 MR. SWAZO: Mr. Kizer?

11 EXAMINER BROOKS: No, Mr. Jeffries.

12 MR. SWAZO: Yes, he did. Bear with me.

13 EXAMINER BROOKS: Okay. You don't need to
14 file it now, but if you would provide us a copy for
15 the record and supplement the record by providing a
16 copy after the hearing, that would be helpful.

17 MR. SWAZO: And with regard to Darla
18 Jeffries, I received a fax from her yesterday and
19 she says in her fax cover sheet, "Mr. Swazo, per
20 previous E-mail and others September 2005, the owner
21 and contact information for C & D Management is Tom
22 Kizer."

23 EXAMINER BROOKS: Does the facts
24 acknowledge the receipt of the notice of the
25 hearing?

1 MR. SWAZO: No, it doesn't.

2 EXAMINER BROOKS: You said the E-mail from
3 Mr. Chris Jeffries does acknowledge.

4 MR. SWAZO: I believe the notice of
5 hearing was the only thing that I sent to
6 Mr. Jeffries.

7 EXAMINER BROOKS: Okay.

8 MR. SWAZO: And with the exhibit list, I
9 did show where I had sent -- I sent the E-mail to,
10 and I also got a copy of the faxed confirmation so
11 showing that the fax was sent to the number that I
12 put. And in Mr. Jeffries' E-mail, which is the
13 exact E-mail address that I sent the notice of
14 hearing, he indicates, "Mr. Swazo, I am in receipt
15 of your E-mails."

16 EXAMINER BROOKS: Okay. And that E-mail,
17 did that E-mail include a notice of the hearing?

18 MR. SWAZO: Yes. It included the notice
19 of hearing, the application. I think that was it.

20 EXAMINER BROOKS: Okay. Very good. If
21 you will supplement the record with a copy of
22 Mr. Jeffries' E-mail, that should take care of it.
23 That's all I have. Thank you. If there's nothing
24 further, case No. 14055 will be taken under
25 advisement.

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

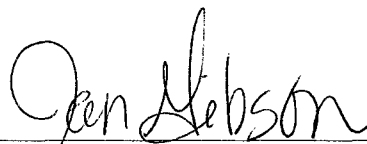
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REPORTER'S CERTIFICATE

I, JAN GIBSON, Certified Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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



JAN GIBSON, CCR-RPR-CRR
New Mexico CCR No. 194
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