

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY )  
 THE OIL CONSERVATION DIVISION FOR THE )  
 PURPOSE OF CONSIDERING: )  
 )  
 APPLICATION OF THE NEW MEXICO OIL )  
 CONSERVATION DIVISION FOR AN ORDER )  
 REQUIRING KC RESOURCES, INC., TO )  
 PROPERLY PLUG FOUR WELLS, IMPOSING CIVIL )  
 PENALTIES IN EVENT OF FAILURE TO COMPLY, )  
 AUTHORIZING THE DIVISION TO PLUG SAID )  
 WELLS IN DEFAULT OF COMPLIANCE BY THE )  
 OPERATOR, AND ORDERING A FORFEITURE OF )  
 APPLICABLE SECURITY, LEA COUNTY, )  
 NEW MEXICO )

CASE NO. 12,948

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 24th, 2002

Santa Fe, New Mexico

02 NOV - 8 PM 2:22

OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 24th, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	17	19
Exhibit 2	11	16
Exhibit 3	11	16
Exhibit 4	12	16
Exhibit 5	7	8
Exhibit 6	14	16
Exhibit 7	14	16
Exhibit 8	13	16
Exhibit 9	15	16
Exhibit 10	15	16
Exhibit 11	15	16

\* \* \*

KC Resources	Identified	Admitted
Exhibit A	26	26

\* \* \*

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Exhibit 1	17	
Exhibit 2	11	16
Exhibit 3	11	16
Exhibit 4	12	16
Exhibit 5	7	8
Exhibit 6	14	16
Exhibit 7	14	16
Exhibit 8	13	16
Exhibit 9	15	16
Exhibit 10	15	16
Exhibit 11	15	16

\* \* \*

KC Resources	Identified	Admitted
Exhibit A	26	26

\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

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

## FOR KC RESOURCES, INCORPORATED:

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

\* \* \*

## ALSO PRESENT:

WILLIAM V. JONES, JR.  
Petroleum Engineer  
New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

\* \* \*

1                   WHEREUPON, the following proceedings were had at  
2 11:43 a.m.:

3  
4  
5                   EXAMINER STOGNER: This hearing will come to  
6 order.

7                   I'll call Case Number 12,948 which is the  
8 Application of the OCD for an order requiring KC resources,  
9 Inc., to properly plug four wells in Lea County, New  
10 Mexico.

11                   I'll call for appearances.

12                   MR. HALL: Mr. Examiner, Scott Hall, Miller  
13 Stratvert Torgerson law firm, Santa Fe, appearing on behalf  
14 of KC Resources, Incorporated.

15                   EXAMINER STOGNER: Any others?

16                   MR. BROOKS: David Brooks, Energy, Minerals and  
17 Natural Resources Department of the State of New Mexico for  
18 the Oil Conservation Division.

19                   EXAMINER STOGNER: Okay. Mr. Brooks, do you have  
20 any witnesses today?

21                   MR. BROOKS: I have two witnesses.

22                   MR. HALL: And the record should reflect that  
23 James Spillane, KC Resources in California, is appearing  
24 telephonically.

25                   EXAMINER STOGNER: Will you be calling him as a

1 witness?

2 MR. HALL: I reserve the right to do so.

3 EXAMINER STOGNER: Okay. What I'm going to do,  
4 I'm going to swear in the witnesses as they testify, so  
5 we'll do this one at a time.

6 Mr. Brooks, who's your first witness?

7 MR. BROOKS: Dorothy Phillips will be our first  
8 witness.

9 EXAMINER STOGNER: Okay, Dorothy, would you stand  
10 -- since you're here, would you stand to be sworn?

11 (Thereupon, Dorothy Phillips was sworn.)

12 MR. BROOKS: Now, I don't know if you can hear  
13 her, but I don't think it really matters since her  
14 testimony relates to a formal matter. It's only necessary  
15 that the Examiner hear her.

16 The purpose of her testimony is to examine the  
17 bond.

18 DOROTHY L. PHILLIPS,

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

21 DIRECT EXAMINATION

22 BY MR. BROOKS:

23 Q. I will ask you to look at the KC Resources file,  
24 Ms. Phillips --

25 Well, I guess I need to go through the formal

1 portion.

2 State your name for the record, please.

3 A. My name is Dorothy Phillips.

4 Q. And by whom are you employed?

5 A. By the New Mexico Oil Conservation Division.

6 Q. And in what capacity?

7 A. I'm the plugging bond administrator.

8 Q. I will show you what has been marked as OCD  
9 Exhibit Number 5 and ask you to identify it.

10 A. It is a \$50,000 blanket plugging bond for KC  
11 Resources, Inc.

12 Q. And who is the surety?

13 A. The surety is Frontier Insurance Company.

14 Q. Okay, you have in front of you the plugging bond  
15 file that you maintain for KC Resources for the Oil  
16 Conservation Division?

17 A. That's correct.

18 Q. Would you look at the plugging bond original that  
19 appears in your file and compare it, to tell us if it's the  
20 same as Exhibit Number 5?

21 A. Yes, sir, it is.

22 MR. BROOKS: Thank you very much. And that  
23 concludes my examination of this witness.

24 Well, I tender Exhibit Number 5 into evidence.

25 MR. HALL: No objection.

1 EXAMINER STOGNER: Exhibit Number 5 will be  
2 admitted into evidence.

3 MR. BROOKS: Pass the witness.

4 MR. HALL: I have no questions.

5 EXAMINER STOGNER: I have no questions of Ms.  
6 Phillips.

7 MR. BROOKS: Very good. The rest -- This will  
8 take us on till 12:00, and I know you need to be upstairs  
9 to cover the phones, so we'll excuse you if that's  
10 acceptable to the Examiner.

11 EXAMINER STOGNER: That will be acceptable.  
12 Thank you, Ms. Phillips.

13 THE WITNESS: Leave this here?

14 MR. BROOKS: Yeah, leave the files here. Thank  
15 you.

16 THE WITNESS: You're welcome.

17 EXAMINER STOGNER: Okay, Mr. Brooks?

18 MR. BROOKS: Call Billy Prichard.

19 MR. PRICHARD: Yes.

20 EXAMINER STOGNER: Okay. Let the record reflect  
21 that Billy Prichard will be appearing over the telephone.

22 MR. BROOKS: He has not been sworn, has he?

23 EXAMINER STOGNER: No, he has not been sworn.  
24 I'll let you do that at this time, Steve.

25 (Thereupon, Billy Prichard was sworn.)

1 EXAMINER STOGNER: You may proceed, Mr. Brooks.

2 BILLY PRICHARD (Present by Telephone),

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

5 DIRECT EXAMINATION

6 BY MR. BROOKS:

7 Q. Okay, Mr. Prichard, we'll call your attention to  
8 the exhibit stack that was sent to you by fax, Exhibits 1  
9 through 11, inclusive.

10 A. Yes, sir.

11 MR. BROOKS: There you go, copies of the  
12 exhibits.

13 EXAMINER STOGNER: For the record, do you want to  
14 identify Mr. Prichard?

15 MR. BROOKS: Oh, yes.

16 EXAMINER STOGNER: Or am I jumping on your --

17 Q. (By Mr. Brooks) State your name, please.

18 A. My name is Billy Prichard. I'm a compliance  
19 officer in District 1.

20 Q. For whom?

21 A. NMOCD.

22 Q. Okay. And what are your duties in that position?

23 A. To monitor well statuses, to monitor P-and-A's of  
24 nonactive wells, to test wells for the UIC program.

25 Q. Have you previously testified before the Division

1 as an expert on wells?

2 A. No, I have not.

3 Q. Okay, could you briefly state your training and  
4 experience in well inspection?

5 A. Yes, I worked ten years for Texas Drilling  
6 Company as a driller and a tool pusher. I worked for 20  
7 years for Amoco Production Company as a drilling foreman  
8 and production foreman, and I have worked for four years  
9 for the NMOCD.

10 Q. And are you acquainted with the wells that are  
11 the subject of this hearing that are operated by KC  
12 Resources?

13 A. Yes, I am.

14 MR. BROOKS: We tender Mr. Prichard as an expert  
15 well inspector.

16 EXAMINER STOGNER: Any objection, Mr. Hall?

17 MR. HALL: Well, I don't necessarily recognize  
18 that area of expertise anywhere, but we have no objection  
19 to his testimony.

20 EXAMINER STOGNER: We will recognize -- the  
21 Division will recognize Mr. Billy Prichard as a practical  
22 oil and gas man.

23 Q. (By Mr. Brooks) Very good. Back to where I was.  
24 We'll call your attention to the Exhibits 1 through 11 that  
25 were faxed to you, and Exhibit Number 1 is an affidavit

1 which I will offer separately, so we'll go on to Exhibit  
2 Number 2 --

3 A. Yes, sir.

4 Q. -- and Exhibits 2, 3 and 4 appear to be very  
5 similar. Could you tell us what those exhibits are?

6 A. Yes, these are just NMOCD forms that are filed by  
7 KC Resources for gas transportation, you know, oil  
8 operators -- oil transporters, and as such.

9 Q. And at the period of time that these forms are  
10 dated, which is 1994, was this same form used to change the  
11 designated operator for a well?

12 A. Yes, it was.

13 Q. And do each of these forms, Exhibits 2, 3 and 4,  
14 reflect a change of operator?

15 A. Yes, they do.

16 Q. And who is the operator who assumed operations of  
17 these wells?

18 A. KC Resources.

19 Q. And what wells, for the record, what wells do  
20 these -- Each of these exhibits, identify the exhibit by  
21 number and tell us what well it relates to.

22 A. Yes, I can. Exhibit 3 is for the New Mexico "BH"  
23 State NCT-1 Well Number 2.

24 Exhibit 2 is for the New Mexico "BH" State NCT-1  
25 Well Number 1.

1 Q. Let's see, Exhibit 2 is for Well Number 1,  
2 correct? Or did I staple them in the wrong order when I  
3 sent them to you?

4 A. Well, David, they could be in the wrong order.

5 Q. Okay, that's right, because the cover pages were  
6 not attached on the fax --

7 A. Yes.

8 Q. -- obviously. Okay, go ahead.

9 A. Okay, and let me see if I can find -- We're  
10 looking for Exhibit 3?

11 Q. Well, I thought we had identified 2 and 3, we  
12 were looking for 4.

13 A. Okay, just a minute.

14 Okay, and Exhibit 4 is for the New Mexico "BH"  
15 State NCT Well Number 4.

16 Q. Okay. Now, also as the subject of this hearing  
17 as filed was the New Mexico "BB" State NCT-1 Well Number 2.  
18 However, when I prepared for this hearing yesterday I was  
19 unable to find the file in Santa Fe for that well. And so  
20 since I wasn't able to get the documentation prepared for  
21 that in time for this hearing, I guess we'll just drop that  
22 well from this hearing, and -- KC has got some other wells.  
23 We may be back with them, with another group sometime, and  
24 we'll try to cover that well.

25 Okay, there was one other well in this NCT group

1 which was on production. I believe that was the --

2 A. "BH" NCT Number 3.

3 Q. Yeah, the NCT-1 Well Number 3 was not included in  
4 this proceeding, although you'll see references to it in  
5 some of the documentations. That well is on production.  
6 But that well was not included in the Application?

7 A. In that same section, township and range, yes.

8 Q. Right. Okay, Exhibit Number 5 has already been  
9 identified by another witness, so I will now call your  
10 attention to Exhibits 6, 7 and 8. Well, Exhibit 6 and 7 --  
11 I'll have to speak Exhibits 6 and 7 and Exhibit 8  
12 separately, because Exhibit 8 has your signature on it, so  
13 first I'll ask you about Exhibit 8. Do you recognize  
14 Exhibit 8?

15 A. Yes, I do. It's a letter I wrote to KC  
16 Resources.

17 Q. And does that letter include coverage of these  
18 same three wells we've been talking about?

19 A. Yes, it does.

20 Q. And what is the date of that letter?

21 A. May 5th of 2000.

22 Q. And does that letter call the attention of KC  
23 Resources to the inactive status of these wells?

24 A. Yes, it does.

25 Q. And does it request that they address that issue?

1 A. Yes, it does.

2 Q. Okay. Exhibits 6 and 7 do not have your  
3 signature on them, so I will ask you about Exhibits Number  
4 6 and 7. Are those exhibits from a file that's maintained  
5 by you in the District Office in Hobbs?

6 A. Yes, it is. These letters were both in the well  
7 file.

8 Q. And are you familiar with Jerry Sexton's  
9 signature?

10 A. Yes, I am.

11 Q. And is that his signature on Exhibit 6 and 7?

12 A. Yes, it is.

13 Q. And for the record, who was Jerry Sexton?

14 A. He was the District Supervisor for District 1  
15 when these two letters were written in 1995.

16 Q. Okay. And do each of these letters refer to  
17 these -- at least some of these wells, I'm not sure they're  
18 all and every one of them, but do each of these letters  
19 refer to some of these wells and call attention to their  
20 being in inactive status?

21 A. Yes, they do, it addresses all of the wells.

22 Q. Okay. Was anything done by KC Resources to  
23 address the inactive status of these wells in response to  
24 Exhibits 6, 7 and 8?

25 A. Not that you can tell at the moment.

1 Q. And are all of these wells -- Are the three wells  
2 we're concerned with here, the NCT -- the "BH" State NCT-1  
3 Numbers 1, 2 and 4, are those wells still inactive at this  
4 time?

5 A. Yes, they are.

6 Q. And in your opinion as a well inspector, do these  
7 wells need to be plugged for protection of the environment,  
8 prevention of waste and the protection of correlative  
9 rights?

10 A. Yes, they do.

11 Q. Have you prepared plugging procedures for those  
12 wells?

13 A. Yes, I have.

14 Q. Would you look at Exhibits 9, 10 and 11?

15 A. Yes, these are plugging procedures prepared by me  
16 for those wells.

17 Q. And for the record, state which well each refers  
18 to.

19 A. Okay, Exhibit 9 refers to the "BH" State NCT  
20 Number 1, Exhibit 10 is to the "BH" State NCT Number 2, and  
21 Exhibit 11 is for the "BH" State NCT-1 Number 4.

22 Q. Okay. If each of these wells was plugged in  
23 accordance with Exhibits 9, 10 and 11, in your opinion as a  
24 well inspector, would they be properly plugged and  
25 abandoned in accordance with OCD Rule 202?



1 abandoned, what could be in jeopardy?

2 A. Well the groundwater could be in jeopardy out  
3 there in that area.

4 Q. Is there equipment on the surface at this time?

5 A. Yes, there are tanks, two different tank  
6 batteries. Of course, the disposal well is not in this  
7 hearing, but the battery for the producing wells that are  
8 in the hearing right now would need to be cleaned up.

9 Q. Are there any pits or anything out there on the  
10 surface?

11 A. No, there isn't.

12 EXAMINER STOGNER: Okay. I have no other  
13 questions of Mr. Prichard at this time.

14 MR. BROOKS: Very good. I would like, then, to  
15 offer into evidence OCD Exhibit Number 1, which is the  
16 affidavit of Ms. Jane Prouty, to which are attached  
17 printouts that she prepared of production reports with  
18 regard to these wells.

19 It actually appears that production has been  
20 reported from the NCT Number 4, so I may ask -- I really  
21 was not aware of that until I looked at this exhibit, Mr.  
22 Examiner. May I recall Billy Prichard --

23 EXAMINER STOGNER: Please do.

24 MR. BROOKS: -- to ask questions?

25 EXAMINER STOGNER: Mr. Prichard are you still

1 there?

2 THE WITNESS: Yes, I am.

3 FURTHER EXAMINATION

4 BY MR. BROOKS:

5 Q. Mr. Prichard, the reports prepared by Ms. Prouty  
6 indicate that there was production of small amounts of oil  
7 during 2001 and on up through 6 of 2002 from the "BH" State  
8 NCT-1 Number 4, API Number 00110. Were you aware of that?

9 A. Yes, I was. And I have examined the well, and it  
10 must be an error in reporting. The well is incapable of  
11 producing anything.

12 Q. And for what period of time has it been incapable  
13 of producing?

14 A. I've only been with the OCD four years, so I know  
15 that it's only been incapable for four years.

16 Q. But its status has not changed -- Has its status  
17 changed at any time in that four years?

18 A. No, it has not.

19 MR. BROOKS: Very good, thank you. Pass the  
20 witness again.

21 EXAMINATION

22 BY MR. HALL:

23 Q. Mr. Prichard, could you briefly tell us the basis  
24 of your determination that the Number 4 well is in capable  
25 of producing further?

1           A.    Well, there's no flow lines, nothing connected to  
2 it, so it has no place to produce to.

3           Q.    Is there any pump on location?

4           A.    No, there is not.

5           EXAMINER STOGNER:  Has there been evidence of a  
6 pump?

7           THE WITNESS:  No, there sure hasn't been, not in  
8 the last four years.

9           EXAMINER STOGNER:  Okay.  If there's nothing  
10 further, Mr. Prichard may be excused.

11          MR. BROOKS:  Okay, we'll tender Exhibit Number 1,  
12 the affidavit of Ms. Prouty into evidence.

13          EXAMINER STOGNER:  But please stay on the phone,  
14 Mr. Prichard.

15          Exhibit Number 1, if there's no objection --

16          MR. HALL:  No objection.

17          EXAMINER STOGNER:  -- will be admitted into  
18 evidence at this time.

19          MR. BROOKS:  Very good, the Division rests.

20          EXAMINER STOGNER:  Mr. Hall?

21          MR. HALL:  Mr. Spillane, if I could ask you a few  
22 questions --

23          MR. SPILLANE:  Sure.

24          MR. HALL:  -- first of all, for the record --

25          EXAMINER STOGNER:  Do we need to swear him in?

1 MR. HALL: Yes, let's do that.

2 EXAMINER STOGNER: Okay, I'm going to have you  
3 sworn in, Mr. Spillane.

4 MR. SPILLANE: All right.

5 (Thereupon, James Spillane was sworn.)

6 JAMES SPILLANE (Present by Telephone),  
7 the witness herein, after having been first duly sworn upon  
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. HALL:

11 Q. For the record, state your name.

12 A. James Spillane.

13 Q. And where do you live, Mr. Spillane?

14 A. I live in Cardiff, California, C-a-r-d-i-f-f.

15 Q. By whom are you employed and in what capacity?

16 A. I'm an employee of Crystal River Oil and Gas, and  
17 I do work for KC Resources as well.

18 Q. Do you have any technical background, education?

19 A. My degree is in finance. I'm our land and  
20 marketing manager.

21 Q. Can you tell us the relationship between KC  
22 Resources and Crystal River?

23 A. KC Resources acts as our agent/operator for  
24 Crystal River Oil and Gas.

25 Q. All right. Would you briefly discuss with us,

1 Mr. Spillane, the plans of KC or Crystal River to place the  
2 three wells that are the subject of this hearing back onto  
3 production or to bring them back into compliance with the  
4 Division's Rules?

5 A. Well, currently our plans are to enter into -- I  
6 guess actually the well is not part of this, the "BB" NCT  
7 Well Number 2 -- to examine whether we can put it back on  
8 production as an Atoka gas well. If we cannot, then that  
9 well will be used as a saltwater disposal well.

10 And the reason that we said that one first is  
11 that based on the offset production of companies like  
12 Paladin, in order to really effectively produce the  
13 Devonian that is there, you're lifting high quantities of  
14 water, and it would require a service well, a saltwater  
15 disposal well, to be utilized in order to make this an  
16 effective program.

17 So either the "BB" State will be put into  
18 disposal service, or either the 1, 2 or 4 will be put in  
19 disposal, probably not the Number 2 since that appears to  
20 be the highest on the structure, based on the geology  
21 information that I received, and offsets the Paladin EE --  
22 ECC Number 1 well. So more than likely that well will be  
23 put on as a producing well.

24 As soon as we're able to identify the service  
25 usability of the "BB" State Number 2 well, we intend to

1 test the "BH" Number 2 in order to see if that does have  
2 the same capabilities as the offsetting ECC Number 1 well  
3 from Paladin. If so, then that well will be placed on  
4 production and we will utilize either the "BB" Number 2 or  
5 the "BH" 1 or 4 well as a service well.

6           Following that, we will then utilize -- we'll go  
7 back into the "BH" 1 and 4 well and recomplete those to the  
8 Devonian and/or surface, depending on what works. That is  
9 why we've asked for the continuance in this case, is in  
10 order to evaluate the wellbore usability, how exactly we're  
11 doing this. We do see that the opportunity is there, and  
12 the need and the requirements are there as well.

13           So in short, that's why you've only got the C-103  
14 supplied for the "BB" Number 2 and the "BH" Number 2, is  
15 because the usability of those two wellbores will determine  
16 our actions, whether we use those wellbores or ultimately  
17 come in here and do plug these four, depending -- you know,  
18 if none of this works, well then certainly we would do so.

19           Q. Does KC have any plans to run any casing  
20 integrity tests on these wellbores?

21           A. Well, certainly, we'd have to pressure up on all  
22 these things. Regardless of the use of them, we would have  
23 to ensure that we have casing integrity throughout the  
24 total depth.

25           I believe that there have been fluid tests, fluid

1 level tests on the -- well, I know they were on the Number  
2 3. Certainly we can do, you know, mechanical integrity  
3 tests, if need be, in order to ensure that there's no water  
4 problems. There haven't been any casing leaks, to my  
5 knowledge, but we can certainly do that testing if that  
6 gives the Natural Resources Department the comfort it needs  
7 to allow us the time to go through here. I think that can  
8 be done.

9 Q. Based on what we know about the condition of the  
10 wells and based on the Division's witness's testimony, is  
11 there any reason to believe that there is a current threat  
12 to freshwater resources in the area of these wells?

13 A. No, there's been no indication that we've seen  
14 that there's any current threat or problem with wellbore  
15 integrity.

16 Q. Does KC have a schedule for implementing the  
17 work, the evaluation of these wells, in the near future?

18 A. We believe we'll be on the "BB" Number 2 well  
19 within the next 30 days. My engineer -- You know, I've got  
20 a pumper that's in the area, I've got some engineering  
21 background, also does the Paladin. I've got an engineer  
22 coming into that area. The one I was going to bring in had  
23 some medical problems, but he'll be back available within  
24 the next couple of weeks.

25 So we really believe that we can move on to the

1 "BB" Number 2 well within the next -- days and begin  
2 operations to see the usability of that well. And then  
3 after that we move to the "BH", and then following that,  
4 the other wells. That was why we asked for a six-month  
5 continuance, because we're -- we were looking at these four  
6 wells, trying to -- you know, it will take that long to  
7 determine everything we're doing.

8 Q. All right. If KC Resources is prevented from  
9 evaluating these wells and placing them back on production  
10 to the extent they can be placed back into production, do  
11 you believe there's a likelihood that the waste of  
12 hydrocarbon resources would result?

13 A. Yes, we do. I mean, looking at the offset  
14 production that's available, we're basically looking at 40  
15 or 50 barrels a day from each of these -- well, I guess  
16 actually somewhere between 30 and 50, depending on what  
17 well you're at, plus a little bit of gas, plus the  
18 possibility of the Atoka zone on the "BB" Number 2.

19 We're looking at a significant amount of  
20 resources that will be lost to us, whether they get drained  
21 by offset operators -- that's possible to some degree, some  
22 of those would be developed, but certainly not by us -- and  
23 the very direct likelihood that based on this new program  
24 that others at Paladin and others have started, that if we  
25 don't do this we would lose a significant amount.

1 Q. All right. Does KC Resources request that the  
2 Division hold in abeyance the entry of any order in this  
3 case until it's had a chance to work with the Division to  
4 restore these wells to production and further evaluate  
5 them?

6 A. That is what we're requesting here, yes.

7 MR. HALL: I have nothing further. Pass the  
8 witness.

9 EXAMINATION

10 BY MR. BROOKS:

11 Q. Mr. Spillane, do you know the production status  
12 -- are you personally familiar with the production status  
13 of the "BH" NCT-1 Well Number 4?

14 A. I see the reports that are filed, much as you see  
15 them. I'm not sure in that particular case. My production  
16 analyst had left us, we've got a new one that's working,  
17 and I believe that he filed that Number 4 earlier this  
18 year. It may have been a tank -- I had a number of tank  
19 bottoms pulled and some things that were done, so it may  
20 have been a tank that was pulled on that or allocated to  
21 that.

22 Q. But you're not familiar with the wells in the  
23 field?

24 A. No, my pumper Shane Ferguson would be the most  
25 intimately familiar with those.

1 Q. Very good. You sent to me a letter dated October  
2 23rd, 2002, which was yesterday, which you faxed to me,  
3 correct?

4 A. That's correct.

5 Q. And you had attached to that two C-103s, one for  
6 the "BB" State NCT-1 Number 2 and the other for the "BH"  
7 State NCT-1 Well Number 2?

8 A. That's correct.

9 Q. Okay. I have a copy of that which I've marked as  
10 an exhibit to tender into evidence -- not to tender into  
11 evidence unless you want to tender it into evidence, but  
12 because I promised to you yesterday that I would make it  
13 available for the Examiner. I assume that your counsel can  
14 agree to the authenticity of it for the purposes of putting  
15 it in the record; is that correct?

16 A. That's correct.

17 MR. HALL: We'd move the admission of Exhibit A,  
18 Mr. Examiner.

19 EXAMINER STOGNER: Exhibit A will be admitted  
20 into evidence at this time.

21 MR. BROOKS: No objection.

22 Okay, pass the witness.

23 THE WITNESS: I'm sorry, you broke up there for a  
24 second.

25 EXAMINER STOGNER: Well, he passed the witness.

1 It's my turn to ask you some questions, Mr. Spillane.

2 THE WITNESS: Okay.

3 EXAMINER STOGNER: Again, my name is Michael  
4 Stogner.

5 EXAMINATION

6 BY EXAMINER STOGNER:

7 Q. What has kept KC from doing anything with these  
8 wells until this time?

9 A. Well, I've, you know, not been here since Jan- --  
10 Anyway, I started here in January, 2001. So as far as any  
11 -- you know, any real directions or where I can go prior to  
12 that, it would have to be someone else.

13 From what I can see based on what's gone on is  
14 that we were unsure as to how to properly develop these  
15 leases. Of course, the Well Number 3 is there in that same  
16 section, and we were producing it. The question was,  
17 really, how to develop this.

18 Once Paladin had come in -- and they, of course,  
19 had acquired the "BB" NCT Well Number 1 wellbore as a  
20 disposal well and then came in and developed their EE --  
21 their ECC Number 1, where they're doing this, this newer  
22 completion where they're cutting off the casing at 3500  
23 feet, installing a sub pump and bringing all this oil and  
24 water up, you know, when you look at the idea that you're  
25 going to be moving 3000 or 4000 barrels of water to get 30

1 or 40 barrels of oil from a wellbore that was cased and had  
2 all those other things going with it, that was a very  
3 challenging economic scenario.

4 The scenario that Paladin has come up with here  
5 in the area of the open hole, of the high-efficiency sub  
6 pumps, of a local disposal has provided a window of  
7 opportunity and probably expertise and knowledge that  
8 really wasn't identified until recently. And now that we  
9 see that they've been able to make this work and the  
10 possibility now that we can take these under-utilized  
11 wellbores and be in a situation where we can be producing  
12 anywhere from 100 to 200 barrels of oil a day and some gas,  
13 that these become extremely economically viable to us. But  
14 that's really what's changed.

15 Q. Now, you heard some testimony about some  
16 production being reported on a well that's not possible to  
17 produce. Can you --

18 A. Well, the testimony I gave on that is, I was not  
19 sure when Mr. Prichard was testifying -- I know he  
20 testified that there was no pumps, but Mr. Prichard, what I  
21 wasn't sure of is if there was some tankage that was there.  
22 We did have some tank bottoms and we did have some oil that  
23 was sold, that was out there, if I remember right, six  
24 months or a year ago or so, I did have several tanks pulled  
25 off, our bottoms pulled and some oil sold from that area.

1           So it may have been from that when that occurred,  
2 and of course because that sale occurred then, that would  
3 be reported as an oil sale.

4           But you know, it's possible it was a mistake in  
5 the reporting. But I -- You know, that person isn't here.  
6 Generally they were pretty good, so normally he would have  
7 filed a sales ticket, would have generated the report.

8           EXAMINER STOGNER: I have no other questions of  
9 Mr. Spillane at this time.

10           Any redirect?

11           MR. HALL: No, Mr. Examiner. What we can do is  
12 try to follow up and supplement the record with any  
13 evidence we have that might correspond with the C-115  
14 production data that was in Exhibit Number 2, see if that's  
15 valid data.

16           EXAMINER STOGNER: Anything further, gentlemen?

17           MR. BROOKS: Yes, Mr. Examiner, I would ask you  
18 to take administrative notice that Frontier Insurance  
19 Company received the correspondence in this case and that  
20 there is a return receipt from Frontier Insurance Company  
21 in the Court's jacket.

22           EXAMINER STOGNER: The record will so show.

23           MR. BROOKS: And I would like to make a statement  
24 with regard to matters raised by Mr. Spillane.

25           EXAMINER STOGNER: Please.

1 MR. BROOKS: The reason the OCD did not agree to  
2 a continuance to allow KC Resources to put these wells back  
3 on production was because of the length of time that had  
4 passed and the fact that they had been noticed first in  
5 1995 and again in 2000 and had not addressed these wells.

6 If the Examiner is disposed to allow them an  
7 opportunity to put these wells back on production, what we  
8 would request is that an order go ahead and be entered and  
9 give them a specified period of time in which either to  
10 restore these wells to production or to plug them, and in  
11 the event they fail to do so, that after that period of  
12 time has expired, the Division can proceed to plug these  
13 wells if necessary.

14 EXAMINER STOGNER: Do you have a particular  
15 amount of time?

16 MR. BROOKS: We'd leave that to your discretion.  
17 I believe they had requested six months. I have not talked  
18 to my client about this, so I would not make any  
19 recommendation.

20 EXAMINER STOGNER: Normally what is usually  
21 given? Thirty days?

22 MR. BROOKS: Thirty days to plug is when a  
23 routine plugging case...

24 EXAMINER STOGNER: Okay. Anything further?

25 MR. HALL: Mr. Examiner, if such an order is

1 entered by the Division, we request that it also include a  
2 provision that would allow us to come back, petition for  
3 extensions of time on the six-month deadline, if the  
4 evidence supporting the request warrants.

5 EXAMINER STOGNER: So noted.

6 If there's nothing further, then I'm prepared to  
7 take this case under advisement. And with that, I shall do  
8 that. Now, if you all want to talk, I'll leave the room.  
9 But as far as I'm concerned, this case has been taken under  
10 advisement and we stand adjourned until -- what, 1:30?

11 MR. BROOKS: My problem here is, I don't believe  
12 Dorothy will be back till 2:00, and we've got six more  
13 cases to present. They're all uncontested, so they ought  
14 to go pretty fast, but I'll leave it to the Examiner. It  
15 certainly is in your discretion what to do. But Dorothy's  
16 lunch is scheduled at one o'clock, because she covers the  
17 phone while Florene's at lunch.

18 EXAMINER STOGNER: I'll tell you what, let's --  
19 Okay, let's recess until two o'clock.

20 MR. BROOKS: Okay, thank you.

21 EXAMINER STOGNER: And I'll leave the room, and  
22 if you all need to talk, why, you all can do that.

23 (Thereupon, these proceedings were concluded at  
24 12:20 p.m.)

25

\* \* \*

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 12248.  
heard by me on 24 October 2002

STEVEN T. BRENNER, Examiner  
(505) 989-9317 Conservation Division

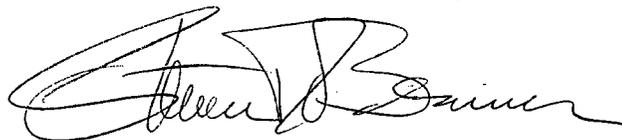
## CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL November 6th, 2002.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006