

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

ORIGINAL

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 A COMPLIANCE ORDER AGAINST NACOGDOCHES OIL AND GAS, INC.,
NEW MEXICO CASE NO. 14326

REPORTER'S TRANSCRIPT OF PROCEEDING
EXAMINER HEARING

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BEFORE: DAVID K. BROOKS, Presiding Examiner
TERRY G. WARNELL, Technical Examiner
WILLIAM V. JONES, Technical Examiner

August 20, 2009

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Presiding Examiner, WILLIAM V. JONES, Technical Examiner, and TERRY G. WARNELL, Technical Examiner, on Thursday, August 20, 2009, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
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A P P E A R A N C E S

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1 MR. BROOKS: At this time we'll call Case
2 Number 14326, application of the New Mexico Oil
3 Conservation Division for a compliance order against
4 Nacogdoches Oil and Gas, Inc. Call for appearances.

5 MS. ALTOMARE: Mikal Altomare on behalf of
6 the Oil Conservation Division. I have one witness.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing Nacogdoches. I think I will
9 present two witnesses very briefly.

10 MR. BROOKS: Mr. Sanchez, I believe, was
11 sworn in the previous case, but we need to get your
12 witnesses.

13 MR. BRUCE: My witnesses are Mike Dehnisch
14 and Mike Allen, and they were sworn at the original
15 hearing. They were sworn in. Mr. Allen was qualified as
16 an engineer.

17 MR. BROOKS: Very good. Then in this
18 case, because it's a continuation of the previous case,
19 and the purpose of continuing it was to allow Nacogdoches
20 to demonstrate what actions they have taken to restore
21 compliance, I will call on Mr. Bruce to make his
22 presentation.

23 MR. BRUCE: I call Mr. Dehnisch to the
24 stand first.

25 MR. BROOKS: Mr. Dehnisch, you're advised

1 you're still under oath.

2 MR. DEHNISCH: Yes, sir.

3 MIKE DEHNISCH

4 Having been first duly sworn, testified as follows:

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

7 Q. Just for the record, again, Mr. Dehnisch,
8 please state your name and city of residence.

9 A. My name is Mike Dehnisch, D-e-h-n-i-s-c-h, and
10 I am from Nacogdoches, Texas.

11 Q. Who do you work for and in what capacity?

12 A. I work for Nacogdoches Oil and Gas, BP of
13 operations and compliance.

14 Q. Have you assumed responsibility for the
15 necessary filings on behalf of Nacogdoches?

16 A. Yes, sir.

17 Q. I just want you to testify about a couple of
18 things, because Mr. Allen will testify for the most part.
19 Mr. Dehnisch, I met a few days ago -- a couple of days
20 ago with Ms. Altomare, and she reminded me about a couple
21 of wells that needed bonding requirements, one of which
22 was the Hospah Sand Unit Number 95. This is getting
23 ahead of us, but had that well been swabbed in July of
24 2009?

25 A. Yes, sir, it had, and the C-103 was turned in.

1 Q. But had there been a delay on that one in
2 filing the C-115 with the Division?

3 A. Yes. Once the -- I went and looked at the
4 list and I compared and I saw -- I was comparing my list
5 to my C-103s and saw that it was still on there. And
6 when I checked with the individual that actually filled
7 out our C-115s, it was just overlooked. It was corrected
8 on Monday, and then this letter is what she received once
9 she sent in that amended C-115.

10 MR. BROOKS: Which one was this?

11 MR. BRUCE: This is -- go ahead.

12 THE WITNESS: For Hospah Unit 95.

13 MR. BRUCE: Hospah Sand Unit Number 95.

14 THE WITNESS: It was shown as still on the
15 list. It just got overlooked.

16 Q. (By Mr. Bruce) This is an email that -- to be
17 more clear, Angela Velasquez is the person in Farmington
18 who has been doing the C-115 filings?

19 A. Yes.

20 Q. She received this receipt from the Division;
21 is that correct?

22 A. Um-hum. Yes, sir.

23 Q. And she forwarded this receipt to you?

24 A. Yes.

25 Q. And this receipt is maintained in the normal

1 course of business of Nacogdoches?

2 A. Yes, it is.

3 Q. Also, in the interim since the last hearing,
4 have you overseen the filing of all the other necessary
5 production reports with the Division?

6 A. Yes.

7 Q. Okay. Now, the production was filed up
8 through July 31; correct?

9 A. Currently, right now, we have filed through
10 July 31.

11 Q. And was -- first of all -- take a step back.
12 What is the general filing date required for production
13 reports?

14 A. Production reports are due 45 days after the
15 end of the month. So like July 31st, realistically, is
16 due by September 15th.

17 Q. Okay. Right around the 45-day mark?

18 A. Yeah.

19 Q. And were the June production reports, the
20 updates filed -- timely filed earlier this month?

21 A. Yes. August 12th, I believe.

22 Q. Now, had they been filed a couple of days
23 earlier, but they showed up on the Division's records on
24 that date?

25 A. That is correct. That's the day that the

1 email confirmations said.

2 Q. Were the July production reports also filed?

3 A. Yes.

4 Q. So that's what we're talking about. The July
5 production reports officially weren't required to be
6 filed until September 15th?

7 A. Yes.

8 Q. But you wanted to get them filed before the
9 hearing?

10 A. Yes, sir.

11 Q. Did you have to -- I don't know the right
12 term -- but twist somebody's arm to make sure everything
13 was filed?

14 A. We did, because in order to do those filings,
15 Ms. Velasquez has to get some reports from our buyer,
16 from Western.

17 Q. Western Natural Gas?

18 A. Just Western. Western Refinery. And,
19 typically, she doesn't get that report until about the
20 20th of the month, but we begged and pleaded, because we
21 wanted to get this done before today. So, typically, we
22 probably wouldn't get it until today, which would have
23 been too late.

24 Q. Were those C-115s then electronically filed at
25 some point late last week?

1 A. I think it was on Wednesday or Thursday of
2 last week.

3 Q. Did you confirm -- did you check the
4 Division's records to confirm that those production
5 reports were showing up in the Division's system?

6 A. Yes. On Monday of this past week I went on
7 and saw that both June and July C-115s are present.

8 Q. Okay,

9 A. That's when I noticed the HS 95 and corrected
10 it.

11 Q. Then just one other thing. To the best of
12 your knowledge, all the C-115 reporting is up to date
13 with Nacogdoches?

14 A. Yes. I've been onto the website and seen.

15 Q. Also, for some swabbing and other work done on
16 the wells, C-103s were required to be filed.

17 A. Yes, sir.

18 Q. And did you make sure that those were properly
19 filed with the Division's Aztec office?

20 A. Yes.

21 Q. And are all those C-103s with respect to all
22 the wells at issue showing up on the Division's website?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I move the
25 admission of NOG's Exhibit J.

1 MS. ALTOMARE: I'm not sure of the
2 relevance, but I don't object.

3 MR. BROOKS: Exhibit J is admitted.

4 (Exhibit J was admitted.)

5 MR. BRUCE: I have no further questions
6 for the witness.

7 MR. BROOKS: Cross-examination, Ms.
8 Altomare?

9 MS. ALTOMARE: Yes.

10 CROSS-EXAMINATION

11 BY MS. ALTOMARE:

12 Q. Were you also responsible for the posting of
13 the bonding or just for the C-115s?

14 A. Just the C-115s and C-103s.

15 Q. Do you have any knowledge of any C-115 or
16 production reporting that was associated with the South
17 Hospah Unit Number 39 that was or should have been
18 reported?

19 A. I noticed that on Tuesday, and I was using the
20 exhibit from our trial on the 9th, and I noticed -- I saw
21 that 39 had now shown up. I don't know what day, but I
22 know it was there on Tuesday. And I told our engineer
23 about it and our president, even talked to the Aztec
24 office about it yesterday; had a nice, long conversation
25 with Mr. Perrin and Mr. Kelly on the phone. And,

1 apparently, that's one well that's considered a private
2 well and not a federal well.

3 If you go back and look in the well file, it
4 has some federal documentation in it and it has some, you
5 know, state documentation in it. It was something that
6 just came up to our attention Tuesday, and we're working
7 on it.

8 Q. To your knowledge, there's no swabbing or
9 production that is pending or should be reported on it
10 that wasn't?

11 A. For July or June, no. Because, like I said, I
12 didn't find it until just --

13 Q. Okay.

14 A. And by looking at the date on there, if you
15 look at last production, I think it's 2007.

16 Q. 2005, actually. The last injection is
17 October --

18 A. No. It was the same date that was on Exhibit
19 D from the last case, but it didn't show the bonding
20 amount on it then. I don't know why it just showed up.
21 That's why -- I couldn't get a straight answer. No one
22 knew why it wasn't there before and why it is. But if
23 it's something we have to take care of, then we missed --
24 that's what I'm here to do, is to try to find a way to
25 take care of these things.

1 Q. Okay. Then if you didn't deal with the
2 bonding -- so the only thing you deal with is this
3 reporting. You wouldn't have been involved in any
4 negotiations for agreed compliance order or anything like
5 that?

6 A. Probably not. Probably our engineer --

7 MS. ALTOMARE: Okay. Then I'll pass the
8 witness.

9 MR. BROOKS: Mr. Warnell?

10 MR. WARNELL: No questions.

11 MR. JONES: A quick question.

12 EXAMINATION

13 BY MR. JONES:

14 Q. The reporting is okay for production without
15 injection or disposal? Is that all taken care of?

16 A. Yes, sir.

17 MR. JONES: Okay.

18 MR. BROOKS: I didn't understand your
19 conversation with Ms. Altomare about the South Hospah
20 Unit Number 39. What's the situation about that one?

21 MS. ALTOMARE: The South Hospah Unit 39
22 does not -- well, I guess we should probably explain to
23 the Hearing Examiners. The operator has, as of this
24 morning, four outstanding bonds that have not been posted
25 with the Division. I believe that -- my understanding is

1 that they are going to present testimony and exhibits for
2 three bonds that they are in the process of posting
3 today.

4 MR. BROOKS: The 39 was one of those?

5 MS. ALTOMARE: Number 39 is one of them.

6 MR. BROOKS: It's one of the ones for
7 which the system shows a bond being due?

8 MS. ALTOMARE: Exactly. So it is the last
9 remaining bond that is outstanding. And I wanted to
10 clarify and make sure that there wasn't a pending
11 production report from the gentleman who's responsible
12 for that aspect.

13 MR. BROOKS: Your testimony was, then,
14 that there has not been any production from that well,
15 Mr. Dehnisch?

16 THE WITNESS: No, sir.

17 Q. (By Mr. Jones) That, no, there has not been?

18 A. No, there has not been --

19 Q. Thank you.

20 A. -- production reported, no.

21 Q. Has there been production from that well?

22 A. Not to my knowledge, no.

23 MR. BROOKS: Mr. Bruce, anything further
24 of this witness?

25

REDIRECT EXAMINATION

1

2 BY MR. BRUCE:

3 Q. I just want to clarify that that was not on
4 the list of the 29 wells at the hearing six weeks ago.

5 A. No, sir.

6 Q. When you started rechecking everything prior
7 to this hearing, that one cropped up at the last minute?

8 A. Yeah. This week when I was checking and found
9 the error -- or the reporting error in HS 95, that's when
10 the -- it showed up on Tuesday.

11 Q. And will Nacogdoches do what's necessary to
12 bring it into compliance?

13 A. Of course we will.

14 MR. BRUCE: That's all I have.

15 MS. ALTOMARE: If I could recross briefly.

16 MR. BROOKS: You want to ask further
17 questions of this witness? Go ahead.

18 MS. ALTOMARE: I apologize for the notes
19 on here. I'm showing him a printout from August 12th.

20 MR. BRUCE: Okay.

21 RECROSS EXAMINATION

22 BY MS. ALTOMARE:

23 Q. I'm showing you an inactive well additional
24 financial report from our system. Can you read the date
25 into the record on the top of that?

1 A. August 12th of 2009.

2 Q. Can you turn to the third page of that? Is
3 the well, the Number 39 -- South Hospah Unit Number 39
4 indicated as being out of compliance and requiring a bond
5 as of August 12th, reflected on that report?

6 A. Yes.

7 MS. ALTOMARE: Thank you. That's all I
8 have.

9 MR. BROOKS: Mr. Bruce, anything further
10 for this witness?

11 MR. BRUCE: No, sir.

12 MR. BROOKS: The witness may stand down.
13 You may call your next witness.

14 MR. BRUCE: I call Mr. Allen to the stand.

15 BARRY MICHAEL ALLEN

16 Having been first duly sworn, testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Again, for the record, please state your name
20 and city of residence.

21 A. Mike Allen, Broken Arrow, Oklahoma.

22 Q. And what is your job? Who do you work for?

23 A. Nacogdoches Oil and Gas.

24 Q. And what is your job with Nacogdoches?

25 A. I'm a production engineer.

1 Q. And you handle all the field operations out in
2 the Hospah area?

3 A. Yes, sir.

4 Q. Mr. Allen, first of all, could you identify
5 Exhibit A for the Examiner?

6 A. It's a spreadsheet that I prepared. I believe
7 I sent it to everyone the following Thursday after the
8 hearing.

9 Q. And this was requested by the Hearing
10 Examiner?

11 A. Yes, sir.

12 Q. We agreed to present it to them; correct?

13 A. Yes, we did.

14 Q. Just briefly, what does it show?

15 A. Basically it's just a rundown of all the wells
16 and their current status.

17 Q. And at the last hearing there were 29 wells
18 that -- I believe that were considered out of compliance?

19 A. That is correct.

20 Q. And what have you done in the interim with
21 respect to those wells?

22 A. We swabbed them and we sent in the C-103s and
23 we sent the C-115s.

24 Q. There were still three wells outstanding, were
25 there not?

1 A. Yes. That's correct.

2 Q. Which wells are those?

3 A. It was the Santa Fe Railroad Number 23, Santa
4 Fe Railroad Number 51, and the Santa Fe Railroad A 74.

5 Q. Are those all injection wells?

6 A. They are.

7 MR. BROOKS: That was the 23, the 51, and
8 which were the other two?

9 THE WITNESS: The Santa Fe Railroad A 74.

10 MR. BRUCE: They're all, Mr. Examiner, on
11 the fourth page of Exhibit A. You'll notice the Santa Fe
12 Railroad 23 is listed twice, and then below that is the
13 Santa Fe Railroad 51, and then the Santa Fe Railroad A
14 74.

15 MR. BROOKS: Okay. So it's four wells
16 because the 23 is listed twice?

17 MR. BRUCE: That's correct. There's three
18 wells, actually.

19 MR. BROOKS: Okay.

20 Q. (By Mr. Bruce) And have bonds on all of those
21 three wells been submitted to Dorothy Phillips of the
22 Division?

23 A. Yes, sir.

24 Q. Are those marked as Exhibits G, H and I?

25 A. Yes, sir.

1 MR. BRUCE: Mr. Examiner, these were hand
2 delivered this morning about 8:30 to Ms. Phillips.

3 Q. (By Mr. Bruce) Let's discuss the status of
4 those three wells that do not have production, Mr. Allen.
5 What about the Number 23?

6 A. Number 23 actually passed the MIT in 2006, and
7 it has, we believe, sand over the perforations, and we
8 were going to wash it out and put it back on line.

9 Q. What about the 51?

10 A. Number 51 has a leak in the casing, and I have
11 filed a C-103 with Aztec's office to plug and abandon
12 that well.

13 Q. Have supplies been ordered to plug and abandon
14 that well?

15 A. We have plugging equipment on location, yes,
16 or on the lease, I should say.

17 Q. And then what about the A 74 well?

18 A. It -- we plan to run a tube in the packer in
19 it and do an MIT on it.

20 Q. Now, I don't want to go through every well on
21 this list, but -- and this was discussed at the last
22 hearing. A number of these wells have listed in one of
23 the right-hand columns that they're ready to produce or
24 producible. What does that mean?

25 A. We cannot produce them because we do not have

1 the adequate water disposal capabilities right now.

2 Q. They are capable of producing --

3 A. -- in paying quantifies, yes.

4 Q. But you need to -- at this point, once
5 everything is settled with the Division, you need to get
6 a hearing on your disposal well application so that these
7 wells can be brought on line?

8 A. That's correct.

9 Q. Let's go through a few more exhibits,
10 Exhibits B through F. First of all, what is Exhibit B?

11 A. Exhibit B is the C-103 that I filed on Santa
12 Fe Railroad 51 to plug and abandon by November 1st.

13 Q. You intend to do that as quickly as you can?

14 A. Yes, sir.

15 Q. That's one of the wells that a bond was filed
16 on today?

17 A. That is correct.

18 Q. What is Exhibit C?

19 A. Exhibit C is the C-103 filed -- Ms. Altomare
20 asked us to file on the HSU Number 93, that there was
21 water being put into the well accidentally, and we filed
22 a C-103.

23 Q. Water was put into that well -- it is an
24 injection well?

25 A. It is.

1 Q. But water was improperly put into it?

2 A. It failed the MIT.

3 Q. So at the last hearing Ms. Altomare asked for
4 information on that well, and this is an attempt to
5 comply with that?

6 A. Yes, sir.

7 Q. What is Exhibit D?

8 A. That is a picture of the Number 93 well that
9 shows it has been disconnected and the line has been bull
10 plugged so it cannot happen again.

11 Q. At this point, since it's been disconnected,
12 there cannot be any injection into this well?

13 A. That's correct.

14 Q. At the last hearing there was a couple of
15 other issues regarding, I think, the South Hospah Unit
16 Number 54 well?

17 A. That's correct.

18 Q. What are Exhibits E and F?

19 A. E is a picture of the pressure gauge showing
20 that it's at 300 psi and the limit is 325, and we're in
21 compliance.

22 Q. So it was not injecting above pressure?

23 A. No, sir.

24 Q. And there was also an issue raised last time
25 about an incorrect sign on the well. What is Exhibit F?

1 A. It just shows that we have updated the sign
2 and -- with the correct information.

3 Q. This is from a few days ago, also; correct?

4 A. It is from the 17th. Correct.

5 Q. Then Exhibits G, H and I are the bonds that
6 were filed. And Ms. Altomare raised the other issue of
7 this -- I think the South Hospah Number 39. What do you
8 know about that well, Mr. Allen?

9 A. It is an injection well that has been set up
10 and ready to be MIT'd. It should be a producing well if
11 it passes the MIT. When I say, "producing," it should be
12 an active well.

13 Q. Should be an active injection well?

14 A. Correct. It should be an active injection
15 well if it passes the MIT. It's set up for MIT.

16 Q. Is there a federal bond on that well right
17 now?

18 A. That's what I wanted to check, but I didn't
19 get a chance to call the BLM and verify if it has a bond
20 on it or not. Because the South Hospah Unit was bonded
21 federally.

22 Q. The unit, itself, was bonded federally?

23 A. I'm not sure exactly if that's the right well,
24 if the well was on there. But the unit, itself, was
25 bonded under federal.

1 Q. Will you follow up on that?

2 A. Yes, sir, I will.

3 Q. In general terms, has Nacogdoches been working
4 diligently on these Hospah leases or units over the last
5 six weeks?

6 A. Yes, sir, we have.

7 Q. What size of crew do you have?

8 A. We have 15 employees plus truck drivers.

9 Q. How many rigs do you have working out there?

10 A. We have two that work every day.

11 Q. During the last six weeks, not necessarily
12 these wells, but have you been P and A-ing wells up in
13 the Hospah area?

14 A. We have a federal mandate with the -- what
15 they call the Hanson Federal Unit, that we're under
16 mandate to plug, and we had been setting up to plug, and
17 we plugged one of them yesterday, in fact.

18 Q. That was actually an agreement affecting a
19 prior operator that --

20 A. That is correct.

21 Q. -- a former --

22 A. That's correct.

23 Q. Have you also been maintaining all the
24 producing wells out there?

25 A. Yes, we have.

1 Q. Of course you went out there to swab these
2 wells to show production so once -- to put them in
3 compliance so that once you get the water disposal
4 capability, they will, of course, again be producing?

5 A. That's correct.

6 Q. Have you been maintaining and cleaning out the
7 injection wells?

8 A. We have.

9 Q. And I think you testified last time,
10 apparently sand gets into these wells so you have to
11 clean them out on a fairly regular basis?

12 A. Yes, sir, we have.

13 Q. And, finally, has NOG and you personally
14 maintained contact with the OCD, personnel in the OCD's
15 Aztec office?

16 A. Yes, sir.

17 Q. Who have you been dealing with there?

18 A. Charley Perrin and Kelly Roberts.

19 Q. Primarily?

20 A. Both of them.

21 Q. Were Exhibits A through F prepared by you or
22 under your supervision?

23 A. A, I prepared, and I took the photographs.

24 Q. And the C-103s?

25 A. And prepared the C-103s.

1 Q. And are Exhibits G, H and I part of
2 Nacogdoches' business records, the bonds?

3 A. Yes, sir.

4 MR. BRUCE: Mr. Examiner, I would move the
5 admission of Exhibits A through I.

6 MS. ALTOMARE: No objection.

7 MR. BROOKS: A through I are admitted.
8 Pass the witness?

9 (Exhibits A through I were admitted.)

10 MR. BRUCE: I pass the witness.

11 MR. BROOKS: Ms. Altomare?

12 CROSS-EXAMINATION

13 BY MS. ALTOMARE:

14 Q. You mentioned that there were still three
15 wells outstanding with bonding, but, actually -- as we
16 talked about earlier, there's actually four, at least as
17 recently as last Wednesday, from what we can tell from
18 documentation; is that right?

19 A. The last South Hospah well was a surprise
20 yesterday, so --

21 Q. But at least from what we can see from the
22 documents that we have available right now, our system
23 was showing at least last Wednesday that that was
24 requiring bonding; is that right?

25 A. I got my information from Mr. Dehnisch, so --

1 Q. You were here, of course, at the last hearing
2 on July 9th.

3 A. Yes, ma'am.

4 Q. Do you recall hearing the Examiners go through
5 what Nacogdoches was required to do prior to today's
6 hearing?

7 A. Yes.

8 Q. Do you recall hearing the Examiners
9 specifically say that Nacogdoches was to have all bonding
10 that was required under OCD rules filed prior to today?

11 A. Yes, and -- I do.

12 Q. And do you recall hearing me ask the Examiners
13 to clarify that that was pursuant to what comes up on the
14 OCD online system under the financial assurance list on
15 the OCD online screen? Do you recall that conversation
16 during the hearing?

17 A. Not specifically, but --

18 Q. But, in any event, you don't dispute that
19 Nacogdoches was supposed to have the bonds posted prior
20 to coming in the door today?

21 A. If we had known -- and I still would like to
22 double check with the BLM to make sure that we have not
23 bonded that on federal mandate.

24 Q. Nonetheless, there's still the other three
25 bonds that you didn't have posted prior to today; isn't

1 that right?

2 A. They were posted.

3 Q. They've been submitted but they haven't been
4 approved and processed and posted; isn't that right?

5 A. We brought them in today, yes. This morning.

6 Q. With regard to the A 74, you indicated that
7 that was an injection well?

8 A. Yes.

9 Q. Why is it coming up on our system as an oil
10 well; do you know?

11 A. I don't know.

12 Q. Santa Fe Railroad Number -- Santa Fe Railroad
13 A; right?

14 A. Well, that's right.

15 Q. It is an injection well; is that right?

16 A. No. I've got conflicting information here.

17 Q. Can I ask that you work with the district to
18 make sure that our records are accurate --

19 A. Sure.

20 Q. -- and make sure that the documents are clear
21 on that one?

22 A. Okay.

23 Q. You testified that Nacogdoches needs a
24 disposal well in order to bring the rest of the wells on
25 line. Does Nacogdoches understand that they're not going

1 to be able to do that as long as they're not in
2 compliance with OCD rules?

3 A. Yes, ma'am.

4 Q. That getting a permit for a disposal well is
5 not something they're going to be able to get approval
6 for unless they're in compliance with OCD rules?

7 A. Yes.

8 Q. With reference to Exhibits B and C, just for
9 clarification, since none of the boxes are actually
10 checked on here, these are meant to notice of intentions,
11 not subsequent reports; is that right?

12 A. Correct.

13 Q. When you actually submit these, can you make
14 sure the boxes are checked in the appropriate spots,
15 please?

16 A. Yes.

17 Q. With regard to Exhibit C, you're indicating
18 the information regarding the injection that occurred at
19 that well. Was corresponding C-115 production
20 information also submitted for that?

21 A. That's the well -- I asked our girl that does
22 the compliance, and she said file a C-103 first. And I
23 have instructed her to do the 115s if we have to do that,
24 yes.

25 Q. Okay.

1 A. I have spoke with her about it.

2 Q. I think -- I thought we made that clear at the
3 last hearing. But the C-115 -- whether or not the
4 injection was authorized, if it was injection that
5 occurred, it needs to be reported.

6 A. What about the C-103? Is this right? I mean,
7 was it supposed to be on the 103 or just the C-115 only?

8 Q. That, you'd have to check with the district.
9 I think it never hurts to have additional information.
10 But the C-115 is how the Division tracks the production
11 and injection data, so that stuff is critical --

12 A. Okay.

13 Q. -- as far as keeping track of what goes in the
14 ground and what comes out.

15 A. Okay.

16 Q. Do you recall at the last hearing that one of
17 the things that Nacogdoches was required to do prior to
18 today's hearing was to at least begin negotiations with
19 the Oil Conservation Division regarding an agreed
20 compliance order?

21 A. Yes.

22 Q. Has Nacogdoches done that?

23 A. I've tried.

24 Q. Okay. Do you recall being informed on several
25 occasions that Nacogdoches would not be able to begin

1 negotiations of that sort until they posted all financial
2 assurances that were due?

3 A. Yes.

4 Q. Nacogdoches has not done that yet; is that
5 right?

6 A. I still say that there's one well in dispute,
7 but --

8 Q. But nonetheless, you walked in the door today
9 with the last of the bonds. So prior to today, either
10 way you look at it, the bonds hadn't been posted?

11 A. That's correct.

12 Q. So Nacogdoches has not begun negotiations
13 regarding an ACO with the Oil Conservation Division as
14 required by the directive given at the last hearing; is
15 that right?

16 A. We had the bonds. I contacted Mr. Sanchez as
17 of Friday. He told me that we still had some wells that
18 were outstanding. He told me to contact Mr. Bruce, which
19 I did. Monday I sent an email. I said I would have the
20 bonds in hand. I need to set up a meeting so we could
21 start negotiating our ACO. I did not hear back from
22 anybody. Mr. Dehnisch made a phone call. He did not
23 hear back from anybody on that, as well. I have made
24 attempts.

25 Q. When you spoke with Mr. Sanchez on Friday,

1 that was the first time that you had attempted to set up
2 a meeting?

3 A. Yes, ma'am. Because we were trying to get all
4 the paperwork up to date and make sure that we had
5 everything in compliance.

6 Q. At that time Mr. Sanchez informed you that he
7 would be out of the office working in the field on Monday
8 and Tuesday of this week; isn't that right?

9 A. No, he did not.

10 Q. In your opinion, has Nacogdoches completed all
11 of the things that it was asked to do by today by the
12 Hearing Examiners?

13 A. With the exceptions of the attempt to do the
14 ACO, it has.

15 Q. It hasn't completed the attempt to -- the
16 negotiations with the ACO; isn't that right?

17 A. We have not started the negotiations. I need
18 somebody to talk to me.

19 MS. ALTOMARE: I think that's all I have.

20 MR. BRUCE: I have a couple.

21 MR. BROOKS: Let's go ahead with the
22 Examiners' questions, because you may have some
23 additional follow-up on that.

24

25

EXAMINATION

1

2 BY MR. WARNELL:

3 Q. You had mentioned something, Mr. Allen, about
4 you had P and A'd some wells since last time we were
5 here, and that you're going to be abandoning some more
6 wells?

7 A. We're going to plug and abandon the Santa Fe
8 Railroad Number 51.

9 Q. Any others?

10 A. Well, if we have wells that we cannot repair
11 or pass the MIT, we plan to plug those, as well.

12 Q. Okay.

13 A. But we're still looking at those to make sure
14 we can't.

15 Q. The other day I was going down through this
16 spreadsheet which I believe is marked your Exhibit A. A
17 couple of things I was hoping you could help clarify
18 under the current status. There's some on there that
19 say, "no equipment, swabbed," or just, "no equipment."
20 What does that mean, "no equipment"?

21 A. That the wells -- they've had all the
22 equipment removed by the prior operator or someone before
23 we got it.

24 Q. Then there's a couple on here, three or four,
25 I believe, that says, "Cannot find."

1 A. We cannot locate them, and we've asked the
2 Aztec office. And from my understanding, they have not
3 been able to locate them, either.

4 Q. So we think the wells are out there, we just
5 can't locate them?

6 A. That's correct.

7 MR. WARNELL: No more questions.

8 EXAMINATION

9 BY MR. JONES:

10 Q. Mr. Allen, you live in Oklahoma?

11 A. Yes, sir.

12 Q. But you're a production engineer over this
13 project?

14 A. Yes, sir. Over five states, yes.

15 Q. So Nacogdoches has operations in a bunch of
16 different states?

17 A. Texas and Kansas, Utah, Arizona, New Mexico.

18 Q. Arizona? Like over in the --

19 A. Lukachukai Mountains.

20 Q. I wasn't part of the other hearing, so quickly
21 I'll just try to ask you -- how often do you have to come
22 out to look over this project?

23 A. Once a month.

24 Q. Do you have humpers or --

25 A. Yes, sir. We have people on-site.

1 Q. And do you have an automation system set up
2 for the project?

3 A. As far as?

4 Q. Like sensors on the wells to take -- you know,
5 keep track of the tubing and casing pressures, the
6 production, injection, that kind of stuff?

7 A. On injection we do. The rest of the stuff
8 we -- we tried to set it up, and we had it automated
9 where we could read our oil production and water
10 production, and someone kept cutting the wires. So after
11 about four or five times, it just got too expensive. We
12 gave up.

13 Q. So it was a scanner system?

14 A. It was a satellite system.

15 Q. Satellite system?

16 A. Yes, sir.

17 Q. And did it read into your office in Oklahoma?

18 A. It was actually prior to Nacogdoches having --
19 it was the prior operator that I set up for them, but it
20 would have come up on Internet. We could read it off the
21 Internet. It did come up on the Internet, I should say.

22 Q. So most of this production is the same -- it's
23 just a big waterflood; is that correct?

24 A. Yes, sir.

25 Q. Is it -- I guess, are you -- do you have the

1 background permit in mind that permitted this waterflood?

2 I mean the hearing order that permitted it, or --

3 A. I have read some of that information, yes, but
4 I did not have anything to do with any of that. That was
5 prior.

6 Q. That stuff -- once you take over a waterflood,
7 you have to kind of know those old orders, because
8 they're still in effect.

9 A. Are you talking about injection orders?

10 Q. Yeah. The order that permitted the waterflood
11 to start with or the latest orders that allowed injection
12 in the well.

13 A. I have read those, yes, and we know now what
14 the pressure limits are and, you know, the layout of the
15 field. I have gone through all that, yes.

16 Q. Do you have a reservoir engineer you work
17 with?

18 A. No.

19 Q. You're pretty much it, then?

20 A. Pretty much it.

21 Q. So are you guys trying to actively increase
22 the amount of water going in here so you can sweep more
23 oil, or are you just trying to put more wells back on
24 line?

25 A. We're trying to put the wells back on. Our

1 injection wells are not adequate. We've had so many
2 failures because of the casing integrity failing, and we
3 have filed a permit for a disposal well. We need some
4 help in that situation, and then we can start putting on
5 more wells and increasing production.

6 Q. You're trying to get a deeper disposal well?

7 A. Yes, sir. In the Entrada.

8 Q. So you've got more water than you can handle?

9 A. That's correct.

10 Q. So where's all the holes in these casings?

11 A. They're up around -- it just depends -- 3 to
12 500 feet, sometimes as low as 600 feet, the top of the
13 cement. It just varies from well to well. But it's
14 pretty much in that same area every time.

15 Q. How deep are the wells?

16 A. Average, about 1,600.

17 Q. 1,600 feet. It's the Hospah -- so you've got
18 the Fruitland above that?

19 A. No. It's -- well, I'm not sure. That's
20 outside my area. But I believe it would be below it,
21 wouldn't it?

22 Q. I'm not familiar --

23 A. We're actually on the very, very edge of the
24 San Juan Basin.

25 Q. Are you over by the Ute Mountain Ute

1 Reservation?

2 A. Chaco Canyon is what they call the field.

3 Q. So you're south and west?

4 A. Yeah.

5 Q. Okay.

6 A. They consider it part of the San Juan Basin,
7 but it's on the very, very edge. As far as I know, it
8 has been tested.

9 Q. Has it got good fresh water in that area?

10 A. Everything we produce is fresh water.

11 Q. Really?

12 A. Yes, sir.

13 Q. What TDS is it?

14 A. 35, I believe.

15 Q. 3,500?

16 A. Yeah.

17 MR. JONES: Okay. I'm not sure I'm
18 contributing to the discussion. I better pass it on.

19 EXAMINATION

20 BY MR. BROOKS:

21 Q. Okay. I find this case somewhat confusing, so
22 let's begin with what's probably the simplest aspect of
23 it, the bonds. The South Hospah Unit Number 39 is the
24 one that we have the question about bonding on?

25 A. Yes, sir. I believe on the list -- the reason

1 why we were confused was because we originally were under
2 federal mandate to bond the Federal South Hospah Unit.
3 And then we go down and we put up a \$525,000 bond that we
4 thought took care of everything on South Hospah. Then,
5 all of a sudden, something jumps up and says, "private."
6 It says, "P." I'm assuming it says private. And we did
7 not know that we had any outstanding wells on the South
8 Hospah Unit.

9 Q. Are you familiar with the fact that you can
10 find out what wells the Division requires bonding on by
11 reference to the materials that are maintained on the
12 Division's website?

13 A. I believe so. Mike Dehnisch mainly takes care
14 of that.

15 Q. Okay. This well, Number 39, you said it's
16 coded private. Is it on private land and private
17 minerals?

18 A. I don't know. I did not know we had anything
19 in South Haspah that was non-federal.

20 Q. Okay. If it is, in fact, private, then our
21 bonding requirement would apply, even though you may have
22 also filed a bond with the feds by mistake. You
23 understand that; right?

24 A. If it's on private land?

25 Q. Yes.

1 A. I mean if it's under state regulation.

2 Q. Unless it's actually on federal land. If it's
3 actually on federal minerals, then there may be a
4 mistake, but it would depend on that. You understand
5 that it might not depend on what you filed with the feds?
6 Because they have their requirements and we have ours.

7 A. Even if it's federally bonded and it is on
8 private land, it still has to be bonded?

9 Q. Yes, sir. It doesn't make any difference what
10 you filed with the feds. It's whether you've complied
11 with our requirements where our requirements are
12 applicable.

13 A. Okay.

14 Q. Now, my reaction initially to Exhibit E, which
15 is the picture of the pressure guage -- maybe it's
16 unjustified and maybe you can explain why it -- but it
17 sounded a little to me like the defendant in a murder
18 case who offered to present three witnesses to testify
19 that they didn't see him murder the deceased.

20 The mere fact that you may have injected
21 within the pressure limitations at some point in time
22 doesn't seem to me to be any kind of proof with regard
23 to the fact that you may have injected above the pressure
24 limits at other points in time. There was some
25 discussion at the previous hearing about pressure

1 limitation gauges.

2 A. Yes, sir.

3 Q. All of our orders that have been -- all of our
4 injection orders that have been issued anytime recently,
5 I believe -- and Mr. Jones can correct me if I'm wrong --
6 but it's our standard policy that we do require pressure
7 limitation devices. Do you know if those are required?
8 You said you looked at those orders. Do you know if
9 those are required on those orders?

10 A. I did not see that on there. However, we are
11 planning on putting that on there anyway.

12 Q. You're planning on it, but you haven't done it
13 yet?

14 A. I have not done it yet.

15 Q. Do you know how many injection wells you have?
16 How many existing injection wells you have?

17 A. Not off the top of my head. I should know
18 that, but I -- I'm showing 11.

19 MS. ALTOMARE: I believe 26 of the 48
20 currently inactive wells are injection wells, if I
21 counted correctly earlier.

22 A. I count 21, but I may be missing some. But
23 they're not all active.

24 Q. Do you have some that are active and some that
25 are inactive?

1 A. These wells that we bonded are inactive.

2 Q. But there's a different definition of inactive
3 for the purpose of bonding than there is for the purpose
4 of determining what's an inactive well, so we can't
5 cross-apply those definitions.

6 A. I know we have some that have not passed MITs
7 that we were going to have to repair, so those obviously
8 would not be used.

9 Q. Yeah. One of the things I wanted to know --
10 and we go to the transcript of the previous hearing, page
11 227 -- I said, "I still am not sure whether there's a
12 third group of wells that is not in compliance and will
13 still not be in compliance after the paperwork violation
14 is cured and can be brought into compliance without the
15 injection application. If there is, then I want to
16 know -- have those wells identified, and by August the
17 20th, I want you to either have those wells in compliance
18 or be able to put on testimony to explain, specifically,
19 why those wells cannot be brought into compliance by
20 August 20th or could not be brought into compliance by
21 August 20th."

22 So far I haven't heard any explanation of
23 those matters. And I was getting into the injection
24 wells because I would assume that if you have water to
25 inject and you have permitted injection wells, and if

1 they have passed the MITs and their permits are current,
2 then you could get those wells back into compliance, and
3 that would, perhaps, allow you to get other wells back
4 into compliance.

5 A. Yes, sir.

6 Q. So I'm very confused about exactly what's
7 going on here.

8 A. I actually did miss one of the wells that we
9 said had failed the MIT, and I found out it was current,
10 HSU Number 100. That was another well that we thought
11 had failed, but it didn't.

12 Q. You don't know how many inactive injection
13 wells you have?

14 A. I couldn't tell you exactly, no, sir.

15 Q. You don't know how many failed the MITs and
16 how many are, in fact, okay, have passed their MITs?

17 A. No. But I can find out.

18 MR. BROOKS: Okay.

19 MR. JONES: One quick --

20 MR. BROOKS: Mr. Jones, go ahead.

21 EXAMINATION

22 BY MR. JONES:

23 Q. Excuse me. Mr. Allen, do you decide how to
24 allocate the money for Nacogdoches from this project to
25 other projects in other states?

1 A. No, sir.

2 Q. But you make recommendations about how much
3 you need; is that correct?

4 A. I turn in an AFE --

5 Q. And you make a strategic plan every year about
6 what you're going to --

7 A. Pretty much on a monthly basis.

8 Q. So you just turn in AFEs and -- do you always
9 get your applications approved, or do you get them
10 sometimes turned down by your management?

11 A. It just depends.

12 Q. Okay.

13 A. It depends how much the price tag is.

14 Q. Okay. Are all your production wells pumped
15 off? Do you keep them pumped off?

16 A. No, sir, we can't. There's very few that we
17 can even pump down.

18 Q. How high is the fluid level?

19 A. In some cases, the lower Hospah is 80 feet
20 from the surface.

21 Q. Okay. Do you know how deep the fresh water is
22 out here or if there is a fresh water zone?

23 A. There is one that's actually across the
24 highway from us. It's about 550 feet, roughly.

25 Q. But you've got some corrosive -- even though

1 you've produced water, you say it's 3,500, it's obviously
2 some corrosion going on or casing is real old or
3 something. So you have a danger there of your waters
4 going into the fresh water if you don't keep your wells
5 pumped off; is that correct?

6 A. Well, I mean, you know, we just checked -- we
7 haven't gone around and checked every single fluid level
8 on every single well. And that's static, too, by the
9 way. It's not actually producing. Because that was the
10 only access I had. That was when I had the fluid tech
11 come out and check it.

12 Q. You're talking about a well that was shut in?

13 A. Or shut down. It was static.

14 Q. It was 80 feet from the surface?

15 A. Yes, sir.

16 Q. Okay. So producing fluid levels would be
17 lower than that?

18 A. Yes, they would be lower than that. But we're
19 not pounding fluid within the wellbore.

20 Q. Do you keep pumping units on these wells?

21 A. Yes.

22 Q. And they're pumping 100 percent of the time?

23 A. Yeah. They pump 24/7.

24 Q. You have to change the pumps every so often?

25 A. Yes, sir. We have two rigs running.

1 Q. Changing pumps?

2 A. Yes, sir.

3 Q. What about your injection wells that are on
4 this -- do they all have packers and tubing in them?

5 A. Yes, they do.

6 Q. Is the packer set low, pretty close to the top
7 of the injection interval?

8 A. It's set within the required hundred feet. I
9 believe they're actually set -- we found some that were
10 set high, and we pulled them out and went down and set
11 them where they're supposed to be set. But they're set
12 within the guidelines of the U.S.C.

13 MR. JONES: Thank you.

14 EXAMINATION

15 BY MR. BROOKS:

16 Q. Looking over the list of wells and the status,
17 there's a very large number of wells where that the
18 status shown is no equipment, swabbed; right?

19 A. We swabbed the wells that didn't have any
20 equipment, yes, sir.

21 Q. Assuming this is a current list, that would
22 seem to indicate that 48 inactive wells is really not an
23 index of how much work needs to be done on this unit,
24 because all these wells that are listed as, "no
25 equipment, swabbed," they're going to have to be

1 re-completed in order to be producing again; right?

2 A. They have to have equipment put on.

3 Q. Yeah. They have to be re-equipped.

4 A. Yes, sir.

5 Q. Because we can't know what the condition
6 downhole is. But they would have to be re-equipped. So
7 there's quite a lot of wells that are going to require
8 work before they will be commercial producers; is that
9 correct? A lot more than 48?

10 A. There's a lot of wells that the equipment was
11 stripped off of them before we got it, and we have to put
12 them -- we don't have any reason to believe that they
13 will not be commercially productive.

14 Q. Once they're re-equipped?

15 A. Yes, sir.

16 Q. Do you have any -- have you come to any
17 conclusions of how many of these wells will eventually
18 have to be plugged and abandoned? Well, they'll all
19 eventually -- how many are not capable of being restored
20 to production and will have to be plugged and abandoned?

21 A. From what I've seen so far, I think most of
22 them will be commercially viable. Like some of the
23 injection wells that do not pass the MIT that we cannot
24 repair, we're going to have to plug.

25 Q. You've only identified one in that category as

1 of now. You've only identified one that you know you're
2 going to plug and abandon as of now; correct?

3 A. Correct.

4 MR. BROOKS: Okay. I will pass the
5 witness.

6 MR. BRUCE: Just a few follow-up
7 questions. Mr. Examiner, I just want to reiterate -- Mr.
8 Dehnisch testified about this -- the Number 39 well that
9 Ms. Altomare asked Mr. Dehnisch about, she handed him a
10 sheet that showed that it -- first of all, that was not
11 on the list at the hearing six weeks ago.

12 MR. BROOKS: The 39?

13 MR. BRUCE: Number 39 was not on the list
14 six weeks ago. And Ms. Altomare showed Mr. Dehnisch a
15 listing that it popped up on the -- I think August 12th
16 is what she said. And Mr. Dehnisch testified that he's
17 been reviewing the OCD's records, and he saw it on
18 Tuesday the 18th.

19 MR. BROOKS: Okay.

20 MR. BRUCE: But that -- and of course we
21 have to find out if it's federally bonded. If not, a
22 bond needs to be done.

23 MR. BROOKS: What you have to find out is
24 if it's actually a federal well.

25 MR. BRUCE: That's correct.

1 MR. BROOKS: If it's not a federal well,
2 then it needs to be bonded.

3 MR. BRUCE: But it may be a federal well
4 and it is bonded, and we're not certain about that. Two
5 other issues before I --

6 REDIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Mr. Allen, on the Well 54, the Examiner asked
9 you about that, Nacogdoches has no problem, as Mr.
10 Sanchez suggested at the last hearing, putting pressure
11 limitation devices on the injection wells.

12 A. No. We have no problem with that.

13 MR. BRUCE: And before I ask the final
14 question, Mr. Jones, you didn't sit through the last one.
15 When you were asking about money, I believe Mr. Finley,
16 the president of the company, testified last time that
17 they have spent seven or eight million bucks rehabing the
18 properties out there. I just wanted to make you aware of
19 that.

20 Then the final issue I would like to ask Mr.
21 Allen about -- if you could go back to Exhibit A, the
22 spreadsheet, and look at the Santa Fe Railroad A 74.

23 MR. WARNELL: It's on page 4, I think.

24 MR. BRUCE: Yeah. A 74.

25 Q. (By Mr. Bruce) Mr. Allen, I believe you

1 talked to me about this before, but this shows that it
2 was actually swabbed in July of '08; correct?

3 A. That's correct.

4 Q. Is this the well that Mr. Perrin told you was
5 an injection well and they couldn't accept swabbing?

6 A. There's some confusion, because -- I don't
7 know if it was or not. I don't know if this is the
8 particular well or not. He said we can't swab injection
9 wells. I have to verify that that's --

10 Q. If it was swabbed in July of 2008, and I
11 think -- without getting Mr. Dehnisch up on the stand, I
12 don't think a C-103 was filed, but if that was done, then
13 that well would go off the noncompliance list because it
14 was swabbed within the past 12 months.

15 A. If that is a producer, yes.

16 Q. Which still leaves -- so there's two
17 questionable wells, whether A 74 is a producer, and by
18 filing paperwork, it will be in compliance. Then the 39
19 well, which we have to find out whether it's federally
20 bonded.

21 A. That is --

22 MR. BRUCE: Mr. Examiner, rather than
23 asking any further questions -- Mr. Examiner, I would
24 like this back just for Nacogdoches records, but this a
25 copy of Exhibit D presented in the original hearing by

1 the Division.

2 MR. BROOKS: We would have that here.

3 MR. BRUCE: I'm just showing this as to
4 what may have resulted in some confusion. If you look at
5 the highlighted South Hospah Unit 34, it does show as an
6 F or a federal well.

7 MS. ALTOMARE: The Division doesn't deny
8 that that is reflected. We simply feel that it's moot
9 given that the other bonds have still not officially been
10 posted prior to today as is required.

11 MR. BROOKS: Okay.

12 MS. ALTOMARE: We'll certainly look
13 into -- find out on our end, as well, if there was some
14 kind of an issue.

15 MR. BROOKS: Okay.

16 MR. BRUCE: No further questions, Mr.
17 Examiner.

18 MR. BROOKS: Very good. Do you have
19 anything further for this witness, Ms. Altomare?

20 MS. ALTOMARE: No.

21 MR. BROOKS: Very good. The witness may
22 stand down.

23 Does that conclude your presentation, Mr.
24 Bruce?

25 MR. BRUCE: Yes.

1 MR. BROOKS: Okay. Ms. Altomare?

2 MS. ALTOMARE: I would like to call Mr.
3 Sanchez to the stand.

4 MR. BROOKS: Very good. Mr. Sanchez,
5 you're reminded you're still under oath.

6 MR. SANCHEZ: Yes, sir.

7 DANIEL SANCHEZ

8 Having been first duly sworn, testified as follows:

9 DIRECT EXAMINATION

10 BY MS. ALTOMARE:

11 Q. Can you state your name for the record,
12 please.

13 A. Daniel Sanchez.

14 Q. You were previously sworn at the previous
15 hearing; is that right?

16 A. Yes.

17 Q. Mr. Sanchez, following the last hearing, you
18 met with Nacogdoches representatives to facilitate the
19 efforts of moving the company towards compliance; is that
20 right?

21 A. Yes.

22 Q. Do you recall the date that you met with them?

23 A. I believe it was on July 20th.

24 Q. Where did that meeting take place?

25 A. In the Aztec office.

1 Q. Who all attended that meeting?

2 A. Mr. Mike Allen for NOG showed up. I was
3 there. Charlie Perrin, Monica Kuehling, Kelly Roberts
4 and Karen Sharp out of the Aztec office were there.

5 Q. What was discussed at that time, if you could
6 just briefly summarize?

7 A. Pretty much what the district office would
8 require from an operator in terms of what filings were
9 required, when C-103s would be appropriate, the C-115s,
10 that kind of thing, the continued compliance with
11 injection wells or injecting into injection wells at the
12 proper pressures. Monica brought up a few things about
13 that. And I also reiterated that in order for us to
14 enter into an agreed compliance order on their inactive
15 wells, they needed to have the rest of their financial
16 assurance in place before we could actually set up a
17 meeting.

18 After the hearing last month, Mr. Finley
19 approached me and said he was going to be in Santa Fe the
20 week of August 10th, so I did tell him that I would make
21 myself available during that week, which I did. And at
22 that meeting on July 20th in Aztec, I also told Mr. Allen
23 that I would be available that week. He said, yes, the
24 week of the 10th would be good for him. So I made myself
25 available that entire week. I didn't hear from Allen

1 until Friday morning, at which point --

2 Q. August 14th?

3 A. Yes -- at which point I informed him that they
4 were still out of compliance with the financial assurance
5 rule, and we couldn't enter into any discussions on an
6 ACOI because of that.

7 Q. To back you up to the meeting in Aztec, just
8 for clarification, that meeting was not to begin
9 negotiations about ACOI?

10 A. No, it was not, and I made clear that that was
11 the case.

12 Q. And they seemed to understand this?

13 A. Yes.

14 Q. And did you have any contact at all between
15 that meeting and the August 14th telephone call from
16 Nacogdoches?

17 A. No. The first time I heard from them again
18 was on the 14th, when Mr. Allen called.

19 Q. What was the response when you informed Mr.
20 Allen of the fact that the bonds were outstanding and
21 negotiations for an ACOI could not move forward until the
22 financial assurance issue had been resolved?

23 A. He asked what we could do, and I said it was
24 best to get ahold of his attorney and to call Dorothy
25 Phillips and find out exactly what was left for them to

1 file, and that we couldn't do anything until that was
2 done. He did say he was going to try to get that done on
3 Monday, at which time I told him I was going to be out of
4 the office on Monday and Tuesday. The earliest I would
5 be available would be Wednesday morning, if they had
6 everything in place by that time.

7 Q. So you did advise him that you were going to
8 be out of the office on Monday the 17th and Tuesday the
9 18th?

10 A. Yes, I did.

11 Q. What was the next contact that you received
12 from anybody at Nacogdoches?

13 A. I got an email from Mike Allen on August 17th,
14 that Monday, at 11:52, and it said that they had
15 confirmed that all but three of the wells that were in
16 question had C-103s filed and C-115s filed through July
17 of '09, and they were acquiring bonds for three wells
18 that they still hadn't had posted yet.

19 Q. So the time stamp on the email was at
20 11-something in the morning?

21 A. Yes. At 11:52, August 17th.

22 Q. When did you actually have an opportunity to
23 read that email, given that you were out in the field
24 that day?

25 A. I read it that night when I got back to my

1 hotel room.

2 Q. What was the next contact that you received
3 from anybody at Nacogdoches?

4 A. I got a voice mail from Mr. Dehnisch on
5 Tuesday, and it was about the same time, 11:00 -- between
6 11:00 and 12:00 that morning, Tuesday morning. I was out
7 of town still out in the districts. I checked my
8 messages when I got home, but that wasn't until after
9 6:00 p.m. Tuesday night, so it was too late to call, so I
10 figured they'd be calling the next morning. I, once
11 again, made myself available Wednesday, thinking that
12 they might be coming in to talk about it, and we never
13 heard from them on Wednesday.

14 Q. When you arrived to the office on Wednesday,
15 did you log onto OCD online to see what the status of the
16 financial assurance compliance was for Nacogdoches?

17 A. Yes, I did.

18 Q. What did you find?

19 A. That there were still four wells out of
20 compliance. So I went and talked to Dorothy Phillips and
21 asked if they had possibly come in prior to that and had
22 turned them in but they hadn't shown up on the system
23 yet, and that's when she told me that nothing had been
24 turned in yet.

25 Q. On Wednesday morning, at that time, they were

1 not in a position to begin ACOI negotiations with you?

2 A. No.

3 Q. I have handed out what's marked as OCD Exhibit
4 H, which I think is the next letter in our series of
5 exhibits from the previous hearing. Can you identify
6 what these two documents stapled together are, for the
7 record, please?

8 A. The first one is inactive well additional
9 financial assurance report, and it shows the four wells
10 that still required the financial assurance. And other
11 part is the inactive well list for Nacogdoches, and it
12 still shows 48 that are on that list.

13 Q. And both documents are for Nacogdoches Oil and
14 Gas and are printed today, August 20th, 2009?

15 A. Yes, they are.

16 Q. Based on the data in Exhibit H -- I think you
17 just said this, but for clarification -- there are four
18 wells as of this morning that were showing outstanding
19 bonding; isn't that right?

20 A. Yes.

21 Q. Okay. And how many total wells are inactive
22 according to the inactive well list?

23 A. 48.

24 Q. And that would mean that they are in violation
25 of Rule 19.15.25.8, meaning they have not reported

1 production for a period of more than one year plus 90
2 days?

3 A. That's correct.

4 Q. You heard testimony today that NOG has posted
5 bonds, in that they've submitted three bonds today for
6 review by the Division for the Santa Fe Railroad Number
7 23, Santa Fe Railroad 51, the Santa Fe Railroad A 74. Is
8 it your understanding that these bonds that have been
9 submitted are actually posted?

10 A. I haven't seen that they've been posted yet.
11 I know they've been submitted, but they haven't been
12 posted.

13 Q. Has any bond, to your knowledge, been
14 submitted for the South Hospah Unit Number 39?

15 A. No.

16 Q. What is the amount due, according to Exhibit
17 H, for that well?

18 A. For that well, I believe it's 6,620.

19 Q. I think it's on page 3.

20 A. 6,687.

21 Q. You were here of course for the July 9th
22 hearing; correct?

23 A. Yes.

24 Q. And did you have an opportunity to review the
25 portion of the transcript where Nacogdoches was given

1 specific instructions by the Examiners regarding what
2 they were expected to have accomplished prior to today's
3 hearing?

4 A. Yes, I have.

5 Q. What is your understanding of what Nacogdoches
6 was required to have completed prior to today's hearing?

7 A. They were to have all their C-115s up to date,
8 which they've done. They were to have all additional
9 financial assurance submitted prior to the 20th, prior to
10 coming in today. And by completing that task, they would
11 have been, at a minimum, in discussions with us for an
12 agreed compliance order for their inactive wells.

13 Q. Do you recall providing testimony specifically
14 at the last hearing that the financial assurance
15 compliance was a prerequisite to beginning negotiations
16 for an ACOI?

17 A. Yes.

18 Q. Have you since -- I think you testified to
19 this. But have you since reiterated this on more than
20 one occasion to Nacogdoches?

21 A. At least three occasions.

22 Q. Do you feel that Nacogdoches has met the
23 conditions set at the close of the last hearing?

24 A. No.

25 Q. Given where we are today, do you feel that

1 Nacogdoches is a candidate for an ACOI?

2 A. No, I do not.

3 Q. Can you explain why it is you feel that they
4 are not or no longer a candidate for an ACOI?

5 A. One of the things that we've done is to try to
6 make it very clear, not only to the Hearing Examiners and
7 the operator but to anyone we've dealt with with agreed
8 compliance orders for their inactive wells, that certain
9 requirements need to be met.

10 In this case we were very specific. There was
11 additional financial assurance. And they didn't have
12 that ready, even though they knew they were coming to
13 hearing, and that was one of the issues that we were
14 coming to hearing on last month.

15 When the Commission -- or when the Hearing
16 Examiners gave them that additional time, which was
17 probably a little bit over a month, we, again, made it
18 clear, I thought very clear, that additional financial
19 assurance was required in order for us to even begin
20 talking about the agreed compliance order. If that would
21 have been taken care of even by Wednesday, the process
22 isn't that long. We could have done something with them
23 all the way up to the last minute. We've bent over
24 backwards doing this.

25 Mr. Finley expressed to me he'd be here the

1 week of the 10th. I never heard from him again. Mr.
2 Allen, during the meeting in Aztec, told me that he'd be
3 here the week of the 10th. I didn't hear from him until
4 the very last day of that week. At that point he still
5 didn't have the financial assurance in place.

6 I -- over the last few years we have worked
7 with a number of operators who continue to promise coming
8 into compliance. We've extended dates again and again
9 with the same end result, which is we end up back here in
10 front of the Hearing Examiners again asking for the same
11 thing we did when we started.

12 Q. Is an agreed compliance order for inactive
13 wells usually seen as form of punishment or sanction?

14 A. No, it's not a punishment or a sanction. What
15 it is, it allows an operator to come into compliance when
16 they are out and gives them an opportunity to actually
17 take care of business the way it should be. And most of
18 the time that's going to be the case when a new operator
19 comes on and takes over wells that are, obviously, going
20 to bring them out of compliance.

21 Q. So it's something that's usually extended to
22 operators that are in good standing or we have reason to
23 believe are going to rise to the occasion and are
24 deserving of this additional facilitation?

25 A. Yes.

1 Q. At this time what do you feel the appropriate
2 course of action in this matter is?

3 A. At this point we would ask that the Hearing
4 Examiners find that NOG did not meet the requirements
5 that they set down in the previous hearing and that any
6 of the wells on the inactive well list at this point be
7 plugged by a date certain or brought back into
8 compliance.

9 Q. So rather than asking for all of the wells to
10 be plugged, the Division, Oil Conservation Division, is
11 asking that NOG be required to plug and abandon or
12 transfer those wells that are currently listed as
13 inactive as of today by a date certain?

14 A. That's correct.

15 MS. ALTOMARE: I think that's all I have.
16 Pass the witness.

17 MR. BROOKS: Mr. Bruce?

18 CROSS-EXAMINATION

19 BY MR. BRUCE:

20 Q. Mr. Sanchez, you don't disagree that the
21 Hospah South Number 39 didn't come up until recently? It
22 wasn't on the Division's original filings?

23 A. No. And I really don't think that that's an
24 issue in this case right now. The fact that it may be a
25 federal well, it will go away anyway if it does turn out

1 that that's the case. The point was that there was still
2 three other wells that required the financial assurance
3 prior to the date, and I could read directly off the
4 transcript of that hearing. It says, "prior to today all
5 these things would have to be done." That's what my
6 point is. The 39 I don't believe is really a point of
7 issue at this time.

8 Q. Let me ask you this, though, Mr. Sanchez, is
9 there really any material difference if the bonds had
10 been filed at 4:59 p.m. yesterday or 8:30 this morning,
11 like they were filed?

12 A. I believe there is a big difference in that in
13 order for us to begin the negotiations required by the
14 Hearing Examiners at the last hearing, they had to have
15 been submitted at a time where we would have had time to
16 actually sit down and work through an agreement.

17 Q. Well, I believe if you look at the transcript
18 it says, "at least the parties have contacted each other
19 about an ACOI," not that an ACOI would be completed by
20 today.

21 A. That's correct. But the agreement was that
22 they would be working on an agreement, an agreed
23 compliance order, which we told them at the time couldn't
24 happen until financial assurance was in place. So just
25 calling and saying, "We want to do this," without having

1 all the other pieces in place, wouldn't have done them
2 any good.

3 Q. You were here and listened to Mr. Dehnisch
4 testifying about getting all the reports filed; right?

5 A. Yes, sir.

6 Q. They couldn't really determine what they
7 needed to bond until they had all that stuff filed, could
8 they?

9 A. If they were concerned about that, they should
10 have looked at the wells that are showing additional
11 financial assurance. They could have filed those
12 financial assurances, and then those would have been
13 returned to them after they have gotten into compliance.
14 To me, that wasn't an excuse to not file them.

15 Q. They have filed them, though.

16 A. Yes. As of today, yes, they are current, with
17 the exception of maybe one well, which, like I said, is
18 really a moot point.

19 Q. They're current with all the C-103s?

20 A. As far as I know, yes.

21 Q. Current with all the C-115s?

22 A. Yes.

23 Q. So the issue is whether the bond was filed a
24 half hour late?

25 A. Or a day late, which would have allowed them

1 to enter into the agreement, which the Hearing Examiners
2 required in the last hearing.

3 Q. And you did say that both Mr. Allen and Mr.
4 Finley said they would meet with you during the week of
5 the 10th and that you were contacted about meeting on the
6 14th. The 14th was the week of the 10th, was it not?

7 A. The 14th was the week of the 10th, but they
8 had not -- they didn't do what was supposed to have been
9 done. That was the whole point of it. We did not have
10 leeway to enter into agreed compliance orders as long as
11 an operator is out of compliance with the financial
12 assurance.

13 Q. If all the bonds are proper, they have now
14 submitted all the financial assurance, submitted all the
15 paperwork, and what you are saying is that you will not
16 enter into negotiations with them today?

17 A. No, I will not.

18 Q. Two years ago what were the status of these
19 leases, Mr. Sanchez?

20 A. Off the top of my head, I couldn't tell you
21 that. I'd have to look at it again.

22 Q. Were they in good shape?

23 MS. ALTOMARE: I'm going to object. It's
24 beyond the scope of direct and it's not relevant as to
25 why we're here today.

1 MR. BRUCE: I think Mr. Sanchez testified
2 that they have just gone out of their way to give
3 Nacogdoches a break and that Nacogdoches has just done
4 nothing out there.

5 MR. BROOKS: I'm going to overrule the
6 objection. The witness can testify if he knows or has an
7 opinion.

8 A. Like I said, unless I look back that far, I
9 couldn't tell you. I deal with so many different
10 operators. I'd have to look at each case individually.
11 Even if I testified a month ago, I have testified in
12 other cases since then, so I'd rather not state something
13 that I'm not sure about.

14 MR. BRUCE: I think that's all I have at
15 this point, Mr. Examiner.

16 EXAMINATION

17 BY MR. WARNELL:

18 Q. Mr. Sanchez, would it be fair for me to assume
19 that these wells, since Nacogdoches has taken ownership,
20 are in better shape today than they were before
21 Nacogdoches started operating these wells?

22 A. Like I told Mr. Bruce, I really couldn't say
23 that. I'd have to go out there and look at the system,
24 probably, again, and probably talk to the Aztec office.
25 Just from, you know, the fact that there are so many of

1 these wells that do not have any equipment, we're not
2 really sure of the condition downhole. It would be hard
3 for me to say one way or the other.

4 MR. WARNELL: I have no more questions.

5 MR. BROOKS: Mr. Jones?

6 MR. JONES: No questions.

7 EXAMINATION

8 BY MR. BROOKS:

9 Q. I guess, like Mr. Bruce, I have some
10 difficulty understanding why you would have been willing
11 to enter into an agreement if they had filed all bonds by
12 yesterday afternoon, and you testified that the one that
13 they have not filed is not really an issue, but you're
14 not willing to do so in view of them having filed them
15 today. I guess the distinction is -- I'm not entirely
16 sure why that distinction should be made. Do you want to
17 say anything further on that?

18 A. Yes. If I go by what the Hearing Examiners
19 put down as conditions from the last hearing, the fact
20 that they were given probably, what, 40 additional days
21 to do this work, do the research to find out exactly what
22 needed to be posted, what needed to be filed, whatever,
23 and do that, and if they would have come in in the time
24 frame -- I don't care if it would have been an hour ahead
25 of time. That would've given me an hour to work with

1 them -- they didn't do that.

2 Going by what you said, Mr. Brooks, "By August
3 20th, we want you to be able to show us that all the
4 paperwork is filed, discrepancies have been cured, that
5 any financial assurance that remains required has been
6 filed and accepted, and that you have entered into -- at
7 least entered into negotiations with the Division for an
8 ACOI.

9 "Mr. Ezeanyim: But on August 20 if you are
10 still out of compliance, then we have to, you know,
11 make -- you know, give them all they're asking for and
12 give an order that -- we make that recommendation to the
13 director.

14 "Mr. Brooks: But we would be prepared to
15 issue a sanctions order of the nature requested by the
16 Division, or we would be prepared to recommend that
17 course of action to the director if this has not been
18 complied with.

19 "Mr. Brooks: And all bonding that is required
20 under our rules will be filed prior to August 20th."

21 I'm going by what the Hearing Examiners
22 determined at the last hearing, by also giving the
23 additional time and specific instruction as to what
24 needed to be done and by what time.

25 One thing I've come to see over the last few

1 years is the more deadlines are extended, like I said
2 before, the less we see in the compliance issues. We end
3 up at the same point eventually no matter how many times
4 we've done this.

5 MR. BROOKS: Well, I have -- in the seven
6 years or eight years I've been here, I've seen a lot of
7 these situations of attempts to rehabilitate more or less
8 abandoned secondary recovery units. Maybe I wouldn't
9 have heard of the ones that had a happy ending, but I
10 haven't heard of any that had a happy ending yet for
11 anybody.

12 I guess I don't have any further questions of
13 this witness. You may stand down, unless the attorneys
14 have other questions. Any redirect, Ms. Altomare?

15 MS. ALTOMARE: No. I do want to make a
16 closing.

17 MR. BROOKS: Anything further of this
18 witness?

19 MR. BRUCE: No, sir.

20 MR. BROOKS: The witness may stand down.

21 MR. JONES: Did you guys admit the --

22 MS. ALTOMARE: I'd like to move Exhibit H
23 into the record, OCD's Exhibit H.

24 MR. BROOKS: Any objection, Mr. Bruce?

25 MR. BRUCE: No, sir.

1 MR. BROOKS: Exhibit H admitted.

2 We have strange policies about closing
3 statements at the OCD that I've never fully understood,
4 but as long as everybody's happy with them. Which one of
5 you wants to go first? If you both want to go first, I
6 have to make a decision. Okay. Ms. Altomare, you may go
7 ahead with your closing statement.

8 (Exhibit H was admitted.)

9 MS. ALTOMARE: Frankly, I had sincerely
10 hoped to be able to walk in here today and not have it be
11 an adversarial situation, to be able to look at the
12 presentation and know that they have come into
13 compliance, OCD compliance, and was very disappointed at
14 the close of yesterday business to discover that
15 Nacogdoches had not risen to the occasion and had not
16 posted the necessary bonds and had not entered into any
17 kind of substantive negotiations whatsoever with the
18 Division regarding an ACOI in this case.

19 Regardless of a comparison of this unit versus
20 previous operators, that's not the point. We've bent
21 over backwards giving this operator, time and time again,
22 opportunities to meet deadlines, come into compliance.
23 We've given them all kinds of contacts within our agency.
24 We've given them a full toolbox of people and resources
25 with which to work to get this done, and they had

1 repeatedly demonstrated that they're either unwilling or
2 unable to meet our deadlines, even when it is put on a
3 formal record by Hearing Examiners in terms that,
4 basically, hold their feet to the fire.

5 I don't see how that indicates that they're
6 going to be anymore inclined to comply with an agreed
7 compliance order should we enter into one with them. I
8 certainly don't think that they're candidates for an
9 agreed compliance order, which is something that we
10 extend to operators who are in good standing and whom we
11 feel are deserving of some sort of an amnesty-type
12 situation.

13 At this point in time -- certainly they have
14 done some work -- we're not asking to plug all of their
15 wells. They've gotten some things back on line. Great.
16 Allow them to keep producing them. The wells that are
17 currently on their inactive well list, they have failed
18 to meet the deadlines. The deadlines were very clearly
19 stated. They were very clearly clarified by counsel, by
20 both Hearing Examiners. There was nothing left to
21 dispute. And they failed to meet the deadlines. They
22 did not post the bonds. They did not enter into
23 negotiations for the ACOI. They didn't comply. They've
24 appeared here today and they're not in compliance.

25 And I think it's now on the Examiners to

1 uphold what they said they were going to do at the last
2 hearing, which is make a recommendation to the director
3 for an order for sanctions. And we feel that an
4 appropriate sanction would be an order requiring them to
5 plug or transfer the wells that are currently listed as
6 inactive on their inactive well list. And at this point
7 in time, that's what the OCD is requesting.

8 MR. BROOKS: Mr. Bruce?

9 MR. BRUCE: Mr. Examiner, harkening
10 back -- I mentioned this to Mr. Jones -- harkening back
11 to the last hearing, Mr. Finley and Mr. Allen testified
12 what this property was like two years ago. It was a mess
13 on the federal, state and fee leases and Indian leases.
14 Testimony was that 7 to \$8 million has been spent on
15 these leases. They are not attempting to avoid anything.
16 And I recognize their question about rehabilitating
17 waterfloods, but I don't think they would be out there if
18 they were losing money right now after two years.

19 Yes, the transcript says get this done by
20 August 20th. Today is August 20th. You know, I'm
21 sorry -- and I've admitted this in prior meetings with
22 the Division. I'm not always cognizant about how quickly
23 things get posted on the Division's website, et cetera.
24 But today is August 20th.

25 Everything that the Examiners asked for at the

1 July hearing has been taken care of. The one thing that
2 might be sitting out there is a bond on that Number 39
3 well, but that might be bonded because there is an issue
4 of whether that's federal and bonded already. If it's
5 federal, it's already been bonded. That's the point. If
6 it is fee, then a bond needs to be in place. That's the
7 only thing.

8 I mean, I'm sorry. I think filing the bond
9 last night at 5:00 p.m. or 8:00 a.m. this morning is de
10 minimis. I really do. I think that's actually the only
11 time I've ever used that Latin term in argument.

12 With respect to the negotiations, you know,
13 once again Mr. Finley said he contacted them during the
14 week of the 10th. Mike Allen contacted Mr. Sanchez. And
15 I know Mr. Sanchez has other work to do, as we all do.
16 It's a tough world out there. But, you know, it requires
17 two parties to negotiate.

18 And my witness has testified that Mr. Sanchez
19 never -- he told Mr. Allen to call me, which Mr. Allen
20 did, and they started getting things lined out, but Mr.
21 Allen believed that every -- although the bonds weren't
22 in place, they were being prepared. And he thought all
23 the paperwork was done and, therefore, he could enter
24 into negotiations. But it takes two to talk. Both of my
25 witnesses testified that they contacted Mr. Sanchez. I

1 recognize he was out of town. I didn't realize that
2 until Tuesday morning when Ms. Altomare and Ms.
3 MacQuesten informed me of that. If Mr. Sanchez won't
4 return their phone calls or their emails, it's pretty
5 hard to negotiate an ACO.

6 I would request two things: That Nacogdoches,
7 within a week's time, either submit proof that that 39
8 well is bonded by the federal government or submit a bond
9 to the Division if it is private land. And the second
10 thing I'd request is that the Division enter an order
11 requiring the Division to enter into an ACOI. I don't
12 see any profit for anyone on these 48 wells out of --
13 Nacogdoches will enter into an ACO regarding bringing
14 each and every one of these 48 wells into compliance.

15 And, again, what we need is that water
16 disposal well. That's why they're sitting out there.
17 That's why -- there's a lot of them. We agree there's a
18 lot of wells out of compliance. The reason is, for the
19 most part -- except for a couple of wells that need a gas
20 hookup -- all of those wells need sufficient water
21 disposal capability, which is why, at this point in time,
22 we're kind of in a catch-22 situation. Anyway, that's
23 it, Mr. Examiner. That's what we request.

24 MR. BROOKS: Okay. Well, when we said we
25 would dismiss this on certain conditions, we -- each side

1 is partly right in terms of the conditions having been
2 met. Because, Mr. Bruce, you're right that I said, "by
3 August 20th." I did not say, "before August 20th," so --

4 MS. ALTOMARE: Actually, I think you said
5 both. If you look on page 228, you said, "And all
6 bonding that is required under our rules will be filed
7 prior to August 20th."

8 MR. BROOKS: Okay. Yeah. I said, "by
9 August 20th," on page 225, however. That would appear to
10 have been complied with. However, I also said that,
11 "must have at least entered into negotiation with the
12 Division for an ACOI," and I don't think there was ever
13 any ambiguity about the fact that the Division said they
14 would not enter into negotiations until bonding was
15 filed. By filing the bonding today, it would have been
16 impossible for you to comply with the remaining
17 provision.

18 So I think the conditions for dismissal of the
19 case have not been complied with. That means that the
20 case now having been fully submitted, the Division will
21 take the case under advisement. I anticipate that we
22 would probably make a recommendation to the director in
23 about 30 days. In the meantime, if Nacogdoches can
24 persuade the Division staff to enter into an ACOI, they
25 can notify us and we could reopen -- we will reconsider

1 this matter.

2 But I don't see any point in scheduling
3 another hearing in view of Mr. Sanchez's testimony that
4 he does not currently consider that to be a possibility,
5 and Nacogdoches' testimony that they can't come into
6 compliance without the additional salt water disposal
7 capability. Although, I see that as somewhat
8 questionable, actually, given the fact that they have a
9 number of existing injection permits that the Division
10 has not moved to cancel, and it's not at all clear what
11 the status of those injection wells is, to me, at this
12 time.

13 Anyway, Mr. Sanchez and I work for the same
14 boss, so presumably confronted with a recommendation,
15 somebody will make a policy decision, and I assume that's
16 what needs to be done. So with that statement, Case
17 Number 14326 will be taken under advisement.

18 * * *

19
20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. _____
24 _____, Examiner
25 Oil Conservation Division

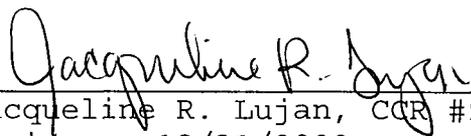
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on August 20, 2009, proceedings in
the above captioned case were taken before me and that I
did report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

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

WITNESS MY HAND this 4th day of September,
2009.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2009