

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:

160825-
APPLICATION OF BC OPERATING, INC. FOR
AUTHORIZATION TO INJECT, LEA COUNTY,
NEW MEXICO

CASE NO. 14525

ORIGINAL

TRANSCRIPT OF PROCEEDINGS
Examiner Hearing
August 5, 2010
9:24 a.m.
1220 South St. Francis Drive
Santa Fe, New Mexico 87504

BEFORE: RICHARD EZEANYIM, HEARING EXAMINER
MARK FESMIRE, LEGAL EXAMINER

REPORTED BY: CONNIE JURADO, RPR, NM CCR #254
Paul Baca Professional Court Reporters
500 Fourth Street NW, Suite 105
Albuquerque, New Mexico 87102

1 A P P E A R A N C E S

2 For the Applicant:

3 MONTGOMERY & ANDREWS LAW FIRM
 4 Attorneys at Law
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 6 Santa Fe, New Mexico 87501
 7 BY: J. SCOTT HALL

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8 I N D E X

9	EXAMINATION OF HERBERT JASON WACKER	PAGE
10	By Mr. Hall	8

11

12

13	EXHIBITS	ADMITTED
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14

15	1. Locator Map	27
16	2. Form C-102	27
17	3. Form C-108	27
18	4. Lovington San Andres Plat	27
19	5. South Denton 6 ST #2 SWD Plat	27
20	6. South Denton SWD Application	27
21	7. Affidavit, Undeliverable and Delivered	
22	Mail	27

23

24

25

1 MR. EZEANYIM: At this time, we call
2 Case Number 14525, Application of BC Operating, Inc.
3 for Authorization to Inject, Lea County, New Mexico.
4 Call for appearances.

5 MR. HALL: Mr. Examiner, Scott Hall,
6 Montgomery & Andrews Law Firm of Santa Fe appearing
7 on behalf of the Applicant BC Operating. We have one
8 witness this morning.

9 MR. EZEANYIM: Any other appearances?
10 Okay. May the witness stand up, state your name, and
11 be sworn.

12 THE WITNESS: My name is Herbert
13 Jason Wacker.

14 MR. FESMIRE: Could you spell that
15 for the --

16 THE WITNESS: Herbert is
17 H-E-R-B-E-R-T.

18 MR. FESMIRE: That wasn't the one I
19 was concerned about.

20 THE WITNESS: Jason is J-A-S-O-N,
21 Wacker, W-A-C-K-E-R.

22 (Note: The witness was duly sworn.)

23 MR. EZEANYIM: Before we go ahead and
24 hear this case, I have a little comment to make.

25 This case came into the docket because I think some

1 people objected after this application was submitted,
2 right?

3 MR. HALL: Correct, Mr. Examiner.

4 This came before the division on administrative
5 application for approval. There were -- the
6 application, the administrative application was
7 notified, and the division received protests from
8 Ronald G. Sears, Tara Burton Rismani, Cleta Sander,
9 and Dwayne L. Sears. Those individuals did not
10 contact the operator at all.

11 MR. EZEANYIM: Okay. Mr. Hall, don't
12 go there because I am coming to that point, so -- but
13 now because of that, we want to hear -- we referred
14 it to hearing, and we come up with the procedures.
15 Before we can go to hearing, you have to be in
16 compliance with Part 5.9. At that point, it wasn't.
17 And then the administrator says that we can't put it
18 in the docket because you have no compliance. Then
19 you got your plan complied, brought your, you know,
20 operation, you know, within compliance, and then we
21 put it into the docket.

22 Now, I don't know. When I looked at
23 the docket this morning or yesterday, you are now out
24 of compliance again, the Part 5.9; however, policy
25 says we are going to hear the case. We're going to

1 hear the case today. But we're not going to write
2 any order until you come into compliance. And in
3 this case because of that yo-yo effect, I think it is
4 appropriate to say we're going to hear the case today
5 and then give you about 30 days, to September the
6 5th, to comply. At which point, if you comply, then
7 we consider the order.

8 But after September the 5th, if you
9 didn't comply, the case will be dismissed without
10 prejudice. And the compliance should be in writing
11 to the OCD before September 5. So it is not a
12 question of if you go in there and see that you are
13 in compliance, we know. We want you to write us and
14 say, "Well, we're in compliance now," before that
15 September 5, so that we can continue considering the
16 case we heard today.

17 So I think it is -- is it -- are
18 there any comments regarding that issue? Are there
19 any problems? Could you comply by, you know, in 30
20 days?

21 MR. HALL: I think we can do that. I
22 think we can briefly address the complaint issues to
23 you today.

24 MR. EZEANYIM: Okay. When we go --
25 but I just mentioned that we're going to hear the

1 case, and this is going to happen. I want it to be
2 inserted in the record that you will be given at
3 least 30 days to bring the wells into compliance with
4 5.9 and then keep it there until we write this order.

5 So I know you're going to address it
6 after we go on, but you have that 30 days, and the
7 notification to OCD will be in writing. You don't
8 want me to be chasing the well, but nothing to do
9 with that or not, but you're in compliance with 5.9,
10 and then we consider, you know, trying to draft this
11 order.

12 MR. HALL: As I understand it, the
13 noncompliance is simply number of wells on the
14 inactive well list --

15 MR. EZEANYIM: Yes.

16 MR. HALL: -- rather than failure to
17 comply with the agreed compliance order or something
18 like that.

19 MR. EZEANYIM: No, 5.9. Today is 7,
20 so they will be 5. So you need to do something.

21 MR. HALL: Okay. We can address that
22 briefly.

23 MR. EZEANYIM: Okay. And then for
24 the record, I am going to give the -- these are the
25 people for -- I am going to read their name for the

1 record. Then you were trying to read it. That's how
2 I had planned it. They are objections received to
3 the application, and I am going to read their name
4 for the record. These objections were received from
5 Ronald G. Sears, Dwayne L. Sears, Tara B. Rismani,
6 and Cleta Sander. That's why we are here today.

7 MR. HALL: That's right. We received
8 no further communications from those individuals.
9 They were renotified of the adjudicatory hearing as
10 well.

11 MR. EZEANYIM: Okay.

12 MR. HALL: And we have had no entries
13 of appearance, no other form of objection that I'm
14 aware.

15 MR. EZEANYIM: Okay. Having gotten
16 this on the well, you can proceed.

17 MR. HALL: Sure. And so absent any
18 evidence from any protests, we thought we would take
19 the opportunity to describe to you the vertical
20 extent of the injection interval since we're here.

21 MR. EZEANYIM: Very good.

22 MR. HALL: So at this point, we will
23 start with the witness.

24 HERBERT JASON WACKER

25 After having been first duly sworn under oath,

1 was questioned and testified as follows:

2 EXAMINATION

3 BY MR. HALL:

4 Q For the record, please state your name.

5 A My name is Herbert Jason Wacker.

6 Q And Mr. Wacker, where do you live and by
7 whom are you employed?

8 A I live in Midland, Texas. I am employed
9 by BC Operating as its operations manager.

10 Q All right. Have you previously testified
11 before the division and had your credentials accepted
12 as a matter of record?

13 A I have not.

14 Q Why don't you give the hearing examiner a
15 brief summary of your educational background and work
16 experience.

17 A I have a Bachelor of Science in Petroleum
18 Engineering from Texas Tech University granted in
19 1997. I have 13 years of industry experience: Five
20 years at Texaco, six years at Maynard Energy Company,
21 and two years at BC Operating as a production
22 engineer, reservoir engineer, and operations manager.
23 I am also a registered professional engineer in the
24 State of Texas, Registration Number 91209.

25 MR. FESMIRE: And that is after '97,

1 so that is by examination, right?

2 THE WITNESS: Yes, sir.

3 MR. EZEANYIM: Good question.

4 THE WITNESS: I did it the tough way.

5 MR. FESMIRE: The only way.

6 Q (By Mr. Hall) Most of your work
7 experience has been in the Permian Basin?

8 A Yes, the Permian Basin and the Rockies.

9 Q And you're familiar with the lands that
10 are the subject of this application and then the
11 application --

12 A I am.

13 MR. HALL: At this point, Mr.
14 Examiner, we would offer Mr. Wacker as a qualified
15 petroleum engineer.

16 MR. EZEANYIM: Mr. Wacker is so
17 qualified.

18 Q (By Mr. Hall) Explain to the hearing
19 examiners what BC is proposing to do here.

20 A We seek an order authorizing the injection
21 of salt water into the non-productive San Andres
22 formation, San Andres Pool 96121 in the South Denton
23 "6" State No. 2 SWD, API No. 30-025-39734, 330' from
24 the north line, 330' from the west line, Section 6,
25 Township 16 South, Range 38 East. The well will be

1 drilled to a proposed total depth of approximately
2 6,500 feet and will be utilized for injection of
3 water through a closed system into the San Andres
4 formation. Top of the injection interval is
5 5,200 feet, and the base of the injection interval is
6 6,500 feet. Injection operations through the well
7 will be conducted at an anticipated average daily
8 injection pressure of 960 pounds at surface with a
9 maximum surface injection pressure of 1,280 PSI at
10 surface or as permitted by the division. We propose
11 to inject water at average rates of approximately
12 2,000 barrels per day and at maximum daily rates of
13 2,500 barrels per day.

14 Q Let's address briefly the injection
15 interval that you're proposing. Are you asking the
16 division to today approve the entire San Andres
17 section?

18 A Yes.

19 Q Could you explain?

20 A The well is currently undrilled. We do
21 not have a good determination of where our porosity
22 and permeability is in the well within that San
23 Andres section, so we don't know exactly where we'll
24 find good rock to inject into. And so what we had
25 asked the division to allow us to do is to drill the

1 well with the injection interval of 5,200 foot to
2 6,500 foot.

3 At the time when we get the well drilled,
4 we will ~~stick~~ perforations and perforate the well and
5 then inject at the rates described at a pressure of
6 .2 PSI per foot to the top perforation.

7 Q And after that is done, would you propose
8 filing an amended completion report identifying --

9 A We will file a completion report
10 identifying the perforations and describing the
11 activity that we did.

12 Q All right. And BC Operating had
13 previously submitted a C-108 application form to the
14 division; is that correct?

15 A Yes.

16 Q Let's look at your exhibits. Would you
17 tell us what Exhibit 1 shows us?

18 A Exhibit 1 is a locator map showing the
19 proximity of the water disposal well. It's the Town
20 of Lovington. It's about nine miles east of the Town
21 of Lovington. And, also, indicated on the locator
22 map is our Warren State #1, which is a shut-in well
23 on our inactive well list. And our planned activity
24 here is to drill this SWD well and then reenter the
25 Warren State #1 and return it to production.

1 MR. FESMIRE: From the same interval
2 that you're injecting into?

3 A The Warren State #1 will be a Devonian
4 producer. It is going to produce probably, you know,
5 30 to 50 barrels of oil per day and then also 2,000
6 barrels of water per day. It is a deeper horizon, so
7 we're going to take the water and inject it into the
8 water disposal well at a shallower interval.

9 MR. FESMIRE: I must have just
10 skipped the COG. I thought you said that the Warren
11 State had been your water disposal well.

12 A It is actually a shut-in Devonian well.

13 MR. FESMIRE: Okay.

14 A And we're going to reenter the Warren
15 State #1 and return it to production.

16 MR. FESMIRE: Okay.

17 Q (By Mr. Hall) And Exhibit 2?

18 A Exhibit 2 is the Form C-102 that we filed
19 with the division.

20 Q Exhibit 3, is that the C-108 application
21 originally filed?

22 A Yes.

23 Q Let's turn to the wellbore schematic for
24 the well on the C-108. If you could address the
25 casing and cementing for them for the well on the

1 last page?

2 A Okay. On the very last page of our C-108,
3 you will find the wellbore diagram. We're proposing
4 to set 8-5/8" surface casing at 2,025 feet and
5 circulate cement to surface. We're planning to set
6 5-1/2" production casing at 6,500 feet and also
7 circulate cement to surface in this wellbore.

8 Q And are you -- will this be an open hole
9 completion?

10 A No.

11 Q Are you injecting under pressure?

12 A Yes.

13 Q What materials will be used for the
14 tubing?

15 A We're going to use plastic line, 2-7/8",
16 6.5 pound J-55 injection tubing.

17 MR. EZEANYIM: Before you leave that,
18 where is your intermediate --

19 A The --

20 MR. EZEANYIM: 500?

21 A That is 6,500, yes.

22 MR. EZEANYIM: No, the intermediate.
23 You're talking about production is 6,500. I see that
24 your intermediate is 3,500.

25 A The well is proposed as a two string.

1 MR. EZEANYIM: Yeah. It is a first
2 string?

3 A It is --

4 MR. EZEANYIM: The surface, the
5 intermediate, and the production.

6 A Actually, I think our -- we're setting our
7 surface casing deep at 2,025 feet.

8 MR. EZEANYIM: Okay.

9 A That's kind of what we had planned to do,
10 and that makes it a two string well. I was going to
11 go back and look at our drilling --

12 MR. EZEANYIM: Yeah. I need you to
13 draw that injection well because the injection well
14 has to be -- you know, has to have an -- right now,
15 this diagram doesn't show me anything. I don't know.
16 Do you have an intermediate string or not?

17 A No.

18 MR. EZEANYIM: You don't? But you
19 wrote it down that you have set it at 3,500 feet. Is
20 that what this diagram is showing?

21 A Oh, yes, I see your point. I will redraw
22 that diagram.

23 MR. EZEANYIM: Yes, it needs to be
24 redrawn. The well is not drilled, right?

25 A The well is not drilled, that's correct.

1 MR. EZEANYIM: So you're going to
2 have the surface casing. You're going to have the
3 production casing. And the ~~production~~ is going to be
4 set at 2,500. Cemented and circulated to the
5 surface?

6 A Right.

7 MR. EZEANYIM: That's what I need to
8 know.

9 A Right.

10 MR. EZEANYIM: If you can't agree
11 with that intermediate, then take that out because,
12 yeah, I am looking at the intermediate.

13 MR. FESMIRE: Now I am confused. You
14 intend to run a surface casing set deep at 2,025?

15 A Yeah.

16 MR. FESMIRE: You do not intend to
17 run the intermediate casing that is indicated here at
18 6,500?

19 A That is correct.

20 MR. FESMIRE: But your production
21 casing will be down at 6,500?

22 A That's correct.

23 MR. FESMIRE: So this intermediate
24 casing is a void?

25 A Yes. And then the surface casing instead

1 of being 13-3/8", it's 8-5/8".

2 MR. EZEANYIM: Oh, okay. That's
3 what I thought.

4 A And cross out that intermediate.

5 MR. EZEANYIM: Yeah, for the record,
6 I don't know how my legal examiner would say to
7 supplement the record because I am interested in this
8 injection well.

9 A Right.

10 MR. EZEANYIM: The construction of
11 the injection well is very, very important to us. We
12 want to make sure we protect groundwater, fresh
13 water, and everything and make sure it is cemented,
14 you know.

15 A Great.

16 MR. EZEANYIM: We may not ask you to
17 put that intermediate casing if you can drill with
18 your 2,500 surface. But if you do circulate to the
19 surface, you will be fine. But I want you to tell me
20 what you're doing.

21 A Right. I agree. There is a mistake on
22 the diagram. We will get that corrected.

23 MR. EZEANYIM: Thank you. Go ahead,
24 sir.

25 Q (By Mr. Hall) What are the average and

1 maximum daily injection rates you're requesting?

2 A The average injection rate we're
3 requesting is 2,000 barrels of water per day and the
4 maximum rate is 2,500 barrels of water per day.

5 Q How did you determine those rates?

6 A They are based on the production from the
7 Warren State #1 Devonian well.

8 Q And will this be a closed system?

9 A Yes.

10 Q What are the anticipated average maximum
11 injection pressures?

12 A We estimate the average injection
13 pressures to be 960 PSIG at surface. Maximum
14 injection pressure to be 1,280 PSIG at surface, not
15 to exceed a 0.2 PSIG per foot of depth to the top
16 perforation.

17 MR. FESMIRE: Mr. Wacker, where did
18 you get those numbers from? What is that estimate
19 based on?

20 A That is based on if we perforate the well
21 at 6,400 feet. That is the .2 PSIG per foot to the
22 top perforation. It would be our maximum.

23 MR. FESMIRE: So I guess I am a
24 little bit concerned, and I'm not sure the lawyer
25 should be asking these questions, but I am a little

1 bit concerned that the injection pressure is based on
2 the regulatory requirement, and the injection rate is
3 based on the production from the produced -- offset
4 producing well. What confidence do we have that
5 these two constraints be met at the same time?

6 A The San Andres formation in the area
7 generally has intervals of porous and permeable rock,
8 and because our -- the San Andres is so thick, we
9 believe that we can complete enough height in the
10 reservoir so that we can inject under the division's
11 limit, but that's a risk that we have to take. I
12 mean, we know that we can't exceed that pressure, and
13 that's a risk that we have to take.

14 MR. FESMIRE: And you understand the
15 pressure and the rate constraints to be independent?

16 A Yes.

17 MR. FESMIRE: If they don't happen to
18 fall on your curve, that's a problem for the
19 producer.

20 A Right.

21 MR. FESMIRE: Okay.

22 A Yes, I do understand that.

23 MR. EZEANYIM: Is it fair to say
24 that with the pressure you're talking about here, you
25 can put that amount of water into the formation? Is

1 that what you're saying?

2 A Yes.

3 MR. EZEANYIM: Okay.

4 Q (By Mr. Hall) Are you satisfied from your
5 chemical analysis that the injection fluids will be
6 compatible with the reservoir, the injection
7 interval?

8 A Yes.

9 Q Let's talk about the San Andres formation
10 in the area. First of all, is it prospective for
11 production?

12 A No, it is not. The lithology consists of
13 tin gray, fine-grained crystalline dolomite and
14 porosity ranges from pinpoint to small buds.

15 Q Again, we've discussed briefly the
16 vertical extent of the injection interval we're
17 looking for here. What is the gross section?

18 A The gross section is from 5,200 feet down
19 to 6,500 feet. It's 1,300 foot gross.

20 Q And what geologic criteria were you
21 looking at to determine the injection interval?

22 A We looked for an interval with suitable
23 injectivity to allow us to dispose of 2,000 barrels a
24 day from the Warren State #1.

25 Q Let's look at your structure map, Exhibit

1 4.

2 A Okay. In the structure map, Exhibit 4,
3 the red circle indicates the half mile area of review
4 for the salt water injection well. The structure map
5 is on the San Andres. You will note that the west
6 Lovington San Andres field is approximately ten or 15
7 miles to the southwest of the red circle. Production
8 in the San Andres is somewhat controlled by the
9 structure.

10 We don't have -- all of the wells on the
11 map are completed in the San Andres formation. We
12 don't have sitting production in the immediate area
13 of this SWD well. The blue triangles on the map are
14 other salt water disposal wells that are completed in
15 the San Andres formation.

16 MR. FESMIRE: The green dot about two
17 and a half miles due east of your proposed location,
18 is that a San Andres producer?

19 A It is actually not producing, but they may
20 have made a completion there, and that's why it is
21 showing up on my map.

22 MR. FESMIRE: Do you know how much
23 oil they produced out of there?

24 A I do not.

25 MR. FESMIRE: Okay.

1 MR. EZEANYIM: Your well is straight
2 -- in that last four sections. Do you give notice to
3 all of the people in the four sections?

4 A Yes, sir. We notified all persons within
5 a two mile radius of the wellbore.

6 MR. EZEANYIM: Who owns all those
7 wells that are producing in the San Andres there? Is
8 that BC?

9 A No, sir. There are other operators. I am
10 not sure who owns that San Andres field to the south.

11 MR. EZEANYIM: So are you going to be
12 accepting water from them or just water from the
13 Warren State?

14 A Just water from the Warren State.

15 MR. EZEANYIM: That's why you are
16 drilling this well?

17 A Yes, sir.

18 MR. EZEANYIM: Okay.

19 Q (By Mr. Hall) Can you tell us about that
20 permeability and porosity of the reservoir you expect
21 to encounter?

22 A Based on the porosity and permeability of
23 the San Andres field, which is not far from here, we
24 expect permeability to be six millidarcies and
25 porosity to be seven percent.

1 Q And did you make that determination from
2 review of the literature in the area?

3 A Yes. It was from the Roswell Geologic
4 Society right up on the San Andres field.

5 Q Are you satisfied that the injection
6 fluids will remain contained within the zone?

7 A Yes.

8 Q How did you reach that conclusion?

9 A The San Andres formation in this area
10 is -- it contains a tight Dolomite cap that is 200 to
11 300 foot thick, and that should be more than
12 sufficient to contain the injected fluid.

13 Q Let's turn to your Exhibit 5. Let me ask
14 you for purposes of your hydrogeologic and geologic
15 analyses, does this exhibit show your area of review?

16 A Yes.

17 Q And does it show one mile -- one-half mile
18 area as the --

19 A Yes. It shows a one-half mile area
20 review, and then it also shows the two mile radius
21 around the reservoir.

22 Q And is there currently any San Andres
23 production within the area of review?

24 A No.

25 Q Either above or below the production?

1 A No.

2 Q Either above or below the injection
3 interval I should say?

4 A No.

5 MR. EZEANYIM: So those wells
6 producing there are within the two miles. Where are
7 they producing from?

8 A They produce from the Devonian formation
9 at about 10,000 feet.

10 MR. EZEANYIM: Devonian, okay.

11 Q (By Mr. Hall) Now, do we have a wellbore
12 schematic for the Southern Union?

13 A We don't. The Southern Union was plugged
14 and abandoned, was drilled and abandoned.

15 MR. EZEANYIM: It's a dry hole?

16 A It's a dry hole. There were nine
17 ~~non~~-plugs set in that well when it was P and A'd in
18 1971.

19 MR. EZEANYIM: Do you have the
20 diagram?

21 A I don't. It falls outside of the half
22 mile area of review, but I can show you the report.

23 MR. EZEANYIM: Where is it located?
24 Do you know where the -- where is it located?

25 A It is located in Section 6.

1 MR. EZEANYIM: Okay.

2 A Just south of the wellbore.

3 MR. EZEANYIM: Okay. And then it
4 penetrated the -- your injection interval?

5 A Yes, it did.

6 MR. EZEANYIM: So we need to get, you
7 know, a diagram schematic to see how it was plugged
8 and abandoned.

9 A Okay.

10 MR. EZEANYIM: Because we don't know
11 what is happening there.

12 A Right.

13 MR. EZEANYIM: We need to know. We
14 need to have that schematic.

15 Q Okay. It fell outside of the area of
16 review, so I did not do a diagram, but I will do one
17 for you.

18 MR. EZEANYIM: Okay.

19 A Great. No problem.

20 Q (By Mr. Hall) In any event, are you
21 satisfied that the condition of the Southern Union
22 well just outside of the area of review is such that
23 it won't act as a conduit for injection fluids into
24 fresh waters?

25 A I am satisfied.

1 Q Could you identify all the fresh hot water
2 aquifers within the area of review?

3 A The Ogallala is a fresh water aquifer that
4 occurs from surface to a depth of about 200 feet, and
5 there are no other fresh water aquifers in the area.

6 Q Have you examined the available geologic
7 and engineering data for evidence of open faults or
8 any other hydrologic connection between the disposal
9 zone and any source of underground drinking water?

10 A I have examined the geologic and
11 engineering data for evidence of open faults
12 connecting the injection interval to underground
13 sources of drinking water and found none.

14 Q Are there any known water wells within the
15 area of review?

16 A There are no water wells within the area
17 of review.

18 Q Okay. Do we have a chemical analysis of
19 water within the C-108?

20 A Yes. It was taken from a Devonian field
21 just across the border to the east in Texas, but it
22 should be representative of what we should see when
23 we reenter the Warren State #1.

24 Q If we turn to the C-108, is that the page
25 labeled Martin Water Laboratories, Inc.?

1 A That's correct.

2 Q All right. Let's talk about the ownership
3 at the actual well location. What is that ownership?

4 A The surface and mineral ownership is owned
5 by the State of New Mexico. It is unleased minerals.
6 I have been working with the State Land Office to get
7 a business lease there to install the salt water
8 disposal well, and so their instructions to us or
9 their plan of action for us to establish a salt water
10 disposal well would be to first obtain an APD from
11 the division, obtain the salt water disposal permit
12 from the division, and then they will lease us
13 approximately 2.5 acres of surface, and we will be
14 able to install the salt water disposal well.

15 Q Let's look at Exhibit 6 briefly. Is
16 Exhibit 6 a list of all of the interest owners who
17 received notice of the C-108 application?

18 A Yes, it is.

19 Q That was from the administrative filing,
20 correct?

21 A Correct.

22 Q And we have learned that everyone within a
23 two mile radius --

24 A Correct.

25 Q -- was notified? Okay.

1 MR. HALL: And in abundance of
2 precaution, Mr. Examiner, we have renotified everyone
3 for this hearing. It's this one set of -- our
4 Exhibit 7 is our notice affidavit, and attached to it
5 are copies of all of the notice letters and return
6 receipt cards. They are in three batches because we
7 had so many. The first batch of return letters are
8 those who had undeliverable addresses. The second
9 batch is those that were not picked up, but notice
10 was left for those individuals. And then the third
11 batch were all of those who actually had deliveries
12 of them. So we will provide these to the court
13 reporter as Exhibit 7.

14 MR. EZEANYIM: Okay. Very good.

15 MR. HALL: That concludes our direct
16 of the witness. We would move --

17 Q (By Mr. Hall) Let me ask you briefly,
18 were Exhibits 1 through 6 prepared by you or at your
19 direction?

20 A Yes.

21 MR. HALL: With that, Mr. Examiner,
22 we move the admission of Exhibits 1 through 6 as well
23 as Exhibit 7, which is our notice affidavit.

24 MR. EZEANYIM: Exhibits 1 through 6
25 will be admitted as well as Exhibit 7.

1 (Exhibits 1 through 7 admitted.)

2 MR. FESMIRE: I have no questions.

3 MR. EZEANYIM: I know you use the
4 well nonproductive in San Andres. There is no
5 production in this area at all?

6 A That's correct.

7 MR. EZEANYIM: So we can talk now
8 about production above and below the injection
9 interval is at no production?

10 A That's correct.

11 MR. EZEANYIM: Within the two miles?

12 A Within the two miles. And we will verify,
13 when we complete the San Andres in this well, we're
14 going to swap test it just to verify that there isn't
15 any hydrocarbons present.

16 MR. EZEANYIM: From a study of that
17 area, we know that already, so. Okay. And the only
18 area of the new well is, you know, a dry hole?

19 A Yes.

20 MR. EZEANYIM: Dry and abandoned.
21 Would you please give me a schematic of that?

22 A Yes.

23 MR. EZEANYIM: The depth of fresh
24 water here is about 200 feet, right?

25 A That's correct.

1 MR. FESMIRE: Did I misunderstand
2 your testimony? The bottom of the aquifer is
3 200 feet?

4 A That's correct. And it is from surface to
5 about 200 feet.

6 MR. EZEANYIM: And you said here
7 surface at 2,000.

8 A That's correct.

9 MR. EZEANYIM: Okay. I think this
10 could have been done administratively, but because
11 somebody objected, it's something we looked at that
12 could have been -- you know, we could have looked at
13 it administratively. However, I would like you to
14 supplement the record. I want you to give me the
15 construction of that injection well and a schematic
16 of that plugged and abandoned dry hole.

17 A Okay.

18 MR. EZEANYIM: And I think you have
19 your water analysis here, so I can look at it to see
20 how compatible it is with the San Andres.

21 A Okay.

22 MR. EZEANYIM: That's something I
23 have to do with that. With all of that said, I
24 think, you know, unless you have any other thing?

25 MR. HALL: Would you like us to

1 address the status of the wells on the inactive well
2 list?

3 MR. EZEANYIM: Let me ask my legal
4 examiner and see what he thinks.

5 MR. FESMIRE: That would be good. I
6 understand that you intend to be off the 5.9 before
7 they issue the order, the 5.9 restrictions before
8 they issue the order. I would like to know how you
9 plan to do that.

10 A Do you want me to address that now, or do
11 you want to --

12 MR. FESMIRE: This is going to be
13 your only chance, I think, so --

14 A Okay. Currently, when I pulled our list,
15 we had eight wells on the inactive well list. Five
16 of those wells, we have already completed rig work to
17 reactivate those wells, and they're injection wells.
18 And we are just waiting to schedule mechanical
19 integrity tests with the MOCD district office, and
20 those wells will be returned to production.

21 MR. FESMIRE: Again, that's the Hobbs
22 District Office?

23 A Hobbs District Office.

24 MR. FESMIRE: Of all of the offices,
25 they ought to be the easiest to schedule a test for

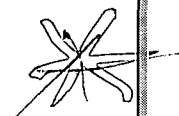
1 it.

2 A Yes, that's correct. So I don't think it
3 will be an issue. And what will happen is those
4 wells will be returned to production during the month
5 of August. And then to get them off this list, we
6 actually have to file a C-115. So the way we're
7 probably going to have to work it to meet the
8 deadline is when they close the production month on
9 August 31, we will file an C-115. And then we will
10 have to come back and amend it because we won't have
11 certain data, like our gas purchaser statements and
12 those type of things don't come in until later.

13 So we will probably file an initial C-115
14 to get the list corrected, but those wells -- those
15 five wells will be returned to injection in the next
16 30 days. There are also two other wells that I plan
17 to P and A in the next 30 days. The remaining well
18 in the list is our Warren State #1, which is the
19 reason that we have the hearing today. And it may be
20 several months before we get that well cleaned up,
21 but we can definitely get down to --

22 MR. FESMIRE: And that will be the
23 only well your company has on the list by the time
24 this order is issued, right?

25 A We will see. We also have an agreed



1 compliance order that we had 17 wells on our agreed
2 compliance order. We committed to return five wells
3 to production over the last five -- or last six
4 months. The agreed compliance order expires on
5 August 17, and we have returned to production 11
6 wells. So we have more than doubled the effort on
7 our agreed compliance order.

8 So we will have -- and we have plans to
9 correct -- return to production the remaining wells
10 in the agreed compliance order. So we have -- kind
11 of our business motto at BC Operating is that we buy
12 underperforming assets and we tune them up and return
13 them to production. I can tell you that one of our
14 fields, the Rhodes Waterflood was a field that was
15 abandoned. We have gone back in and returned the
16 waterflood to injection and reactivated all of the
17 wells in the field.

18 And a lot of those wells had been on our
19 inactive well list, and we improved production from
20 about 30 barrels a day about six months ago to 150
21 barrels a day in the last month, so we're making
22 great progress. We're going above and beyond on our
23 agreed compliance order, and we're trying to get all
24 of these wells cleaned up.

25 We really wanted to have the hearing

1 today. We pushed and finagled our way into a hearing
2 today to meet with you guys so that we can get this
3 Warren State #1 off of our noncompliant list. And we
4 do take a very proactive role in keeping that list
5 clean, so.

6 MR. FESMIRE: And you understand that
7 all of the paperwork and everything has to be done
8 before he issues his order, right?

9 A That's correct. So the September 5
10 deadline is very tight for us because we don't have
11 data for our C-115, so we're going to try to make
12 that.

13 (Note: Mr. Ezeanyim and Mr. Fesmire confer.)

14 MR. EZEANYIM: Now, you said it is
15 tight, because when I said September 5, I
16 dismissed -- don't do it first thing eight o'clock in
17 the morning without any written -- you don't want me
18 to go there to check, because here, I checked.

19 A Right.

20 MR. EZEANYIM: If I don't -- I
21 wouldn't even check.

22 A Right.

23 MR. EZEANYIM: I want you to put it
24 in writing.

25 A Okay.

1 MR. EZEANYIM: What do you think is
2 a fair amount of time apart from September 5 to give
3 you?

4 A At least September 15, until the end of
5 September would be better, so we don't have to file
6 multiple C-115s.

7 MR. EZEANYIM: You know, when you
8 were talking to my boss here, you are making good
9 progress, we're going to give till September 30.

10 A Okay.

11 MR. EZEANYIM: So that, you know,
12 because now if you come in early that September 30
13 and you are compliant -- let's say you come in in two
14 weeks or a week, the order will be considered.

15 A Okay.

16 MR. EZEANYIM: You know. But if you
17 come in on September 30, I would hate for this order
18 to be sitting down there, but I will have no other
19 choice, to give me permission to give you that extra
20 time, because I don't want you to be in a bind.

21 A Right.

22 MR. EZEANYIM: Once I submit the
23 case, you have to go back to square one.

24 A Sure.

25 MR. EZEANYIM: And it might take one

1 year before you can get it to the docket again. So
2 that's why you need to really take a look because
3 looking at -- talking to him, I think you can do it
4 in these two months. So we're going to change it
5 from September 5 to September 30.

6 A Okay.

7 MR. EZEANYIM: You know, and it has
8 to be in writing.

9 MR. FESMIRE: Heaven knows, we need
10 the taxes on that Devonian oil.

11 A And also the disposal money from the State
12 Land Office.

13 MR. FESMIRE: That goes into a
14 different pile.

15 MR. EZEANYIM: So Mr. Wacker, if you
16 work harder and maybe get it even earlier, because
17 once you get it in compliance, then I check, "Oh,
18 yeah, you're in compliance," then I can make all of
19 the recommendations.

20 A That will be our intent is to get it done
21 early.

22 MR. EZEANYIM: Okay. Good. Anything
23 further?

24 MR. HALL: That's all we have.

25 MR. EZEANYIM: Thanks. At this

1 point, Case Number 14525 will be taken under
2 advisement, and this concludes the hearing today.

3 (Hearing concluded at 10:02 a.m.)

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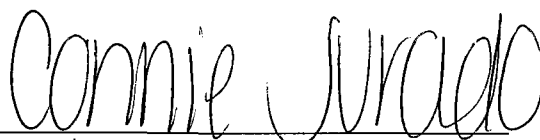
I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14525
heard by me on , Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

I, CONNIE JURADO, do hereby certify that I reported the foregoing case in stenographic shorthand and transcribed, or had the same transcribed under my supervision and direction, the foregoing matter and that the same is a true and correct record of the proceedings had at the time and place.

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

WITNESS MY HAND this 5th day of August,
2010.



Connie Jurado, CCR, RPR
New Mexico CCR No. 254
Expires: December 31, 2010