

Neolithic pluging

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date AUGUST 24, 1995 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
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<i>Dave Rittersbacher</i>	<i>Xell and Xell</i>	<i>Santa Fe</i>
<i>Chris Bezner</i>	<i>Chevron</i>	<i>Midland, TX</i>
<i>Jack Brown</i>	<i>Arch Petr</i>	<i>"</i>
<i>Patrick Tower</i>	<i>ENRON</i>	<i>"</i>
<i>Al Swanson</i>	<i>J. A. & L. G. L. G.</i>	<i>MIDLAND, TX</i>
<i>HAL HAWKINS</i>	<i>ANSON</i>	<i>Roseville, N.M.</i>
<i>Jerry Elger</i>	<i>Newburg Petr</i>	<i>OK, OK</i>
<i>W. C. Kline</i>	<i>Environ Oil & Gas</i>	<i>Midland</i>
<i>RANDY CATE</i>	<i>"</i>	<i>MIDLAND</i>
<i>Barry Zinz</i>	<i>"</i>	<i>" "</i>
<i>Joe Clement</i>	<i>Great Western Petr.</i>	<i>Loring, NM</i>
<i>Cos. Young</i>	<i>Collins + Wain</i>	<i>Muskegon, TX</i>
<i>Charlie Dineen</i>	<i>Grant Petr</i>	<i>Farmington, NM</i>

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

IN THE MATTER OF THE HEARING)	
CALLED BY THE OIL CONSERVATION)	
DIVISION FOR THE PURPOSE OF)	
CONSIDERING:)	CASE NO. 11,354
)	
HEARING CALLED BY THE OIL)	
CONSERVATION DIVISION)	
_____)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: DAVID R. CATANACH, Hearing Examiner **RECEIVED**

SEP 7 1995

August 24th, 1995

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 24th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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August 24th, 1995
 Examiner Hearing
 CASE NO. 11,354

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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Santa Fe, New Mexico 87505

FOR NERDHLIC COMPANY, INC.:

CAMPBELL, CARR & BERGE, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 1:45 p.m.:

3
4 EXAMINER CATANACH: Okay, at this time we'll call
5 Case 11,354, which is in the matter of the hearing called
6 by the Oil Conservation Division on its own motion to
7 permit the operator, Nerdhlic Company, Inc., and all other
8 interested parties to appear and show cause why the
9 following five wells in McKinley County, New Mexico, should
10 not be plugged and abandoned in accordance with a Division-
11 approved plugging program.

12 Are there appearances in this case?

13 MR. CARROLL: Yes, Mr. Examiner, Rand Carroll on
14 behalf of the Division. I have one witness to be sworn in.

15 EXAMINER CATANACH: Additional appearances?

16 MR. CARR: May it please the Examiner, my name is
17 William F. Carr with the Santa Fe law firm Campbell, Carr
18 and Berge.

19 We represent Nerdhlic Company, Inc., in this
20 matter, and I have one witness.

21 EXAMINER CATANACH: Will the witnesses please
22 stand to be sworn in?

23 (Thereupon, the witnesses were sworn.)

24 MR. CARROLL: I call Johnny Robinson to the
25 stand.

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

4 DIRECT EXAMINATION

5 BY MR. CARROLL:

6 Q. Mr. Robinson, will you please state your name,
7 the name of your employer, and your position with that
8 employer for the record, please?

9 A. Johnny Robinson, with the State OCD in the Aztec
10 District.

11 Q. And what is your position with the OCD?

12 A. Field Rep 2.

13 Q. And have you testified before this Division
14 before regarding the plugging of abandoned oil and gas
15 wells and had your qualifications accepted?

16 A. Yes, I have.

17 MR. CARROLL: Mr. Examiner, are Mr. Robinson's
18 qualifications acceptable?

19 EXAMINER CATANACH: Any objection?

20 MR. CARR: We have no objection.

21 EXAMINER CATANACH: Mr. Robinson is so qualified.

22 Q. (By Mr. Carroll) Mr. Robinson, the purpose of
23 today's hearing is to determine whether five wells operated
24 by Nerdhlic Company should be plugged in accordance with
25 OCD rules.

1 What have been marked as Exhibits OCD 1A through
2 1E are the copies of the well files of these five wells.
3 Could you briefly give us a history of each of these five
4 wells as to when they were drilled, last production, maybe
5 the current condition, why they should be plugged, and any
6 other pertinent information?

7 A. Okay. On the Inditos Well Number 1, it was
8 drilled in 1982.

9 Q. And that's marked as 1A here?

10 A. Right. And then that well file where it shows
11 the production casing and surface pipe and the various
12 sundry notes on what they've done to the well. And in that
13 file we have letters requesting that they abandon the well
14 or return it to production.

15 Last known production was 1993. It hasn't been
16 produced since. Right now, the casing is open, and there's
17 no production equipment on the well.

18 Q. And why should this well be plugged at this time?

19 A. Because of the condition of the well and the
20 deterioration possible inside the wellbore, and
21 environmental issues.

22 Q. Is it basically the same history for each of
23 these five wells?

24 A. Right.

25 Q. Drilled at approximately the same time, the date

1 of last production was about the same time?

2 A. Yes, sir.

3 Q. Conditions the same, and the need for plugging
4 the same?

5 A. Right. Several of the wells have junk in the
6 hole that will be a problem.

7 Q. Are these five wells the only wells operated by
8 Nerdhlic in New Mexico that might require plugging?

9 A. On this particular lease, I believe there's 13
10 more wells on that lease. I wouldn't say they need
11 plugging; they need to be addressed.

12 Q. So these -- Of the 18 total wells, these five
13 wells were picked out as the ones that needed plugging at
14 this time?

15 A. Right.

16 Q. Has the OCD been in contact with the operator to
17 try and get these wells plugged or brought back onto
18 production?

19 A. Yes, sir, they have. I started in December of
20 1994 and have been working on it steady since.

21 Q. And is the correspondence to the operator
22 contained in what has been marked OCD Exhibit Number 2, as
23 well as internal correspondence regarding the plugging of
24 these wells?

25 A. Right.

1 Q. What has been the response from the operator to
2 the letters sent to them and the telephone calls regarding
3 bringing these wells back onto production or the plugging
4 of them?

5 A. I have had quite a bit of correspondence with Tim
6 Collier, talking about --

7 Q. And who is Tim Collier?

8 A. Tim Collier is his consultant. We've talked
9 about what we need to do and set up several dates of when
10 we were going to start, but it never developed.

11 Q. And what was the talk regarding? Were the wells
12 going to be brought back onto production, or were the wells
13 going to be plugged?

14 A. Well, on the five -- We were looking at the five
15 wells to plug, and then what it would take to be -- to test
16 the remaining wells.

17 Q. Were any dates given to the operator to do
18 something about these wells, and if not, this case would be
19 brought to hearing?

20 A. In your Exhibit 2 there are several letters,
21 December -- well, we started out in -- May 25th of 1993,
22 and we had no response.

23 And then the next one was May the 16th, and then
24 June of 1994, August.

25 Q. So you've been in continual contact -- Mr.

1 Robinson, I notice there aren't any copies of letters from
2 Nerdhlic to the OCD in the file. Have we received anything
3 in writing from the operator?

4 A. The only thing that I know of that we received
5 was a -- and I didn't see it, I just heard about it, and it
6 was an NIT to -- What they wanted to do was study for a
7 waterflood, and Charles Gholson was the Field Rep 2 then,
8 and they asked for time to look at the feasibility of a
9 waterflood, and it was denied due to the conditions of
10 these five wells.

11 Q. You referred to an NIT?

12 A. Notice of intent.

13 Q. Mr. Robinson, do you have recommended procedures
14 for the plugging of these five wells?

15 A. Yes, I have.

16 Q. And are they set forth in what has been marked as
17 OCD Exhibit Numbers 3A through 3E?

18 A. Yes.

19 Q. Can you go just through 3A to show what you've
20 listed here for Inditos Number 1 well?

21 A. Okay, the Inditos well is fairly simple. The
22 cement on the outside of the pipe is brought up to 683, and
23 then the surface pipe is circulated. So all we would
24 require is to clean out the hole to 1800, spot the first
25 plug with 30 sacks, WOC, and then tag the plug, then come

1 up above the cement and perforate at 600 feet, either
2 circulate it or set a 150-foot plug inside and outside the
3 casing, then pull up to 450, or -- no, pull up to -- yeah,
4 450 foot, and use 30 sacks there, and tag it.

5 Q. Mr. Robinson, if I could refer you to page 2 of
6 Exhibit 3A, this is a form filed by Mr. Tom Knowlton, and
7 is this basically the same type of plugging procedure
8 you've set forth on page 1?

9 A. Basically it's about the same.

10 Q. It's about the same?

11 A. Uh-huh.

12 Q. And then page 3 shows a map of the location of
13 the well and 4 is an actual picture of the wellhead?

14 A. Right.

15 Q. And Exhibits 3B through 3E contain the same type
16 of information for the other four wells?

17 A. Right.

18 Q. Mr. Robinson, are you aware that there's any
19 plugging bond in existence to cover the plugging of these
20 five wells?

21 A. As I understand it, there's a blanket bond of
22 \$50,000.

23 Q. And a copy of which is -- has been marked as OCD
24 Exhibit Number 4?

25 A. Right.

1 MR. CARROLL: And Mr. Examiner, the notice sent
2 to Norwest Bank of New Mexico, the holder of the plugging
3 bond, and to Nerdhlic Company, has been marked as OCD
4 Exhibit Number 5.

5 Q. (By Mr. Carroll) Mr. Robinson, in your opinion
6 will the plugging of these five wells prevent waste,
7 protect correlative rights and/or protect fresh water and
8 the environment?

9 A. Yes, it will.

10 MR. CARROLL: Mr. Examiner, I offer what have
11 been marked OCD Exhibits Numbers 1 through 5 into the
12 record.

13 EXAMINER CATANACH: Exhibits 1 through 5 will be
14 admitted as evidence.

15 MR. CARROLL: That's all I have of Mr. Robinson.

16 EXAMINER CATANACH: Mr. Carr?

17 CROSS-EXAMINATION

18 BY MR. CARR:

19 Q. Mr. Robinson, if I understand your testimony,
20 there are 18 wells in this field that are operated, in
21 fact, by Nerdhlic?

22 A. Yes, sir.

23 Q. And your concern and the subject of this hearing
24 relates to five of these wells; is that right?

25 A. Right.

1 Q. And the five wells have been identified by you;
2 is that right?

3 A. Right.

4 Q. Based on visual inspection of the various well
5 sites?

6 A. Yes, sir.

7 Q. As a representative of the Oil Conservation
8 Division, you are concerned that these properties be
9 operated in accordance with OCD rules; isn't that fair to
10 say?

11 A. Right.

12 Q. At the same time, wouldn't you agree with me that
13 the individual who could best make the decision as to
14 whether or not a well could be returned to production would
15 actually be the operator, not the field representative of
16 the Oil Commission?

17 A. Yes, sir.

18 Q. And would you agree with me that in that regard
19 -- In this situation we don't have orphan wells, we do have
20 someone to whom we can turn to get these plugged; isn't
21 that fair to say?

22 A. Uh-huh.

23 Q. And wouldn't it be in the best interest of
24 producing hydrocarbons that might be available or
25 producible from this field to work with the operator to see

1 if in fact something couldn't be done to return the wells
2 in the field to production?

3 A. Yes, sir.

4 Q. And if that was done in accordance with OCD rules
5 and regulations, that ought to concern the Division; isn't
6 that fair to say?

7 A. That's what I've been after.

8 Q. And you've been having a hard time --

9 A. Right.

10 Q. -- getting a response to this; isn't that fair to
11 also say?

12 You have been able to communicate with Mr.
13 Collier, have you not?

14 A. Yes, sir.

15 Q. It's not as if there was no one who would even
16 talk to on these properties, like in some cases?

17 A. Right.

18 Q. When we look at the particular wells that are
19 involved in this case, you indicated you had concern about
20 potential environmental problems; is that right?

21 A. Yes, sir.

22 Q. Surface casing in each of these wells is cemented
23 to approximately 500 feet; isn't that correct? From
24 surface to 500?

25 A. No, sir, surface is anywhere from 30 to --

1 Q. All right.

2 A. -- 60 feet.

3 Q. And you've got -- From what you have on file, is
4 there any basic concern about the way the casing was
5 originally placed in the well?

6 A. Not as far as the records show.

7 Q. Now, are any of the fluids that are produced in
8 these wells -- have they contained chlorides?

9 A. They're -- Not that I know of.

10 Q. Is there hydrogen sulfide being produced from any
11 of these wells, or was there?

12 A. No, sir.

13 Q. In fact, we don't really have a situation where
14 we've got a real potential for corrosion occurring, do we?

15 A. Well, the oil is pretty corrosive itself.

16 Q. If we were able to come forward with a proposal
17 that would satisfy you that we were going to seriously
18 evaluate the wells in this field in a relatively short
19 period of time and then either go forward with plugging of
20 the wells or getting them back on production, would that
21 meet the concerns of the Division?

22 A. Yes, sir, I believe it would.

23 Q. Would you have any objection to our being able to
24 agree or to propose that we either request 180 days to do
25 that with periodic reporting of progress to you directly,

1 or even leave this case open for 180 days and require that,
2 say, a report be filed every 30 or 45 or 60 days with you,
3 documenting exactly what's being done to either get these
4 wells back on production or move toward plugging? Would
5 that meet your concern?

6 A. I'd like to see some sort of a starting time.

7 Q. Okay.

8 A. And --

9 Q. And what would you think would be appropriate on
10 that? Would thirty days for a starting -- initial report
11 -- would be a satisfactory period of time?

12 A. I think 30 days would be fine.

13 MR. CARR: I think that's all the questions I
14 have of Mr. Robinson.

15 MR. CARROLL: I have a couple follow-up
16 questions.

17 EXAMINER CATANACH: Go ahead.

18 REDIRECT EXAMINATION

19 BY MR. CARROLL:

20 Q. So, Mr. Robinson, if Nerdhlic came up with a
21 proposed program to either plug these wells or bring them
22 back into production, you would like a period of like 30
23 days for them to file such a plan and then perhaps 180 days
24 to actually complete the plan?

25 A. Well, I think 30 days to send in the sundry

1 notices and rig up on the first well, start the first well.

2 Q. And then what would be your recommended time
3 frame for a completion of the activities?

4 A. I think the six months is -- would be all right.

5 Q. And do you have any recommendation as to any fine
6 that might be imposed by the OCD pursuant to New Mexico
7 Statue 70-2-31, if at the end of the six-month period
8 either these wells have not been brought back under
9 production or have not been plugged?

10 A. I would recommend a \$1000-per-well fine.

11 Q. Okay. And in your opinion, how have the
12 negotiations in working with the operator up to this point
13 been going?

14 A. Well, not too good.

15 Q. Nothing has really been filed with the OCD as to
16 what they plan to do?

17 A. No.

18 MR. CARROLL: Okay, that's all I have.

19 MR. CARR: If I might just on recross for -- or
20 just a second --

21 FURTHER EXAMINATION

22 BY MR. CARR:

23 Q. Mr. Robinson, you talk about a six-month deadline
24 to complete the work. That obviously sort of depends on
25 what we consider "the work" to be, right?

1 A. Right.

2 Q. And if there was regular progress being made that
3 satisfied your concerns that good-faith efforts were being
4 made to get the properties going and it was moving along,
5 wouldn't that satisfy your concerns without an absolute,
6 drop-dead date on the total project?

7 A. No, I really don't think -- I think we need to
8 stick with the six months.

9 Q. And what would you think should be done in six
10 months?

11 A. I think they should either -- you know, the five
12 wells should either be plugged or brought back to
13 production or TA'd. The other 13 should be TA'd or --

14 Q. If -- Just suppose with me, or assume that the
15 Inditos Well Number 1 and the Bullseye Well Number 2 had
16 been returned to production and that work had been done on
17 the Bullseye Number 8 and it looked like things were going
18 forward, perhaps, to make a determination on whether the
19 Number 2 and Number 9 had to be plugged or if there was
20 some potential there.

21 Wouldn't it be better to have this a matter that
22 after six months could be re-opened at the call of the
23 Aztec office if you felt it wasn't moving along like it
24 ought to move?

25 A. Well, we do that anyway. I mean, we try to work

1 with the operator during that six months. If something
2 came up that -- say, for instance, if you started plugging
3 a well and it took longer than it should. But I really
4 think the six months is long enough.

5 Q. I guess my question is, wouldn't it be better to
6 look at it and see if good-faith efforts and progress isn't
7 being made in six months, than just saying everything must
8 be done in six months?

9 A. Rather than assess the fine? Is that what you're
10 saying?

11 Q. Rather than just -- My concern is that if we set
12 a six-month deadline and good-faith progress is being made
13 and we run out of time, I don't want to have -- you know,
14 would hate to have an order that says you're in violation.
15 And I was just -- My concern was that if we were making
16 good-faith effort, wouldn't it be better to say we'll re-
17 open it if you don't, than saying if one well still needs
18 to be plugged you are in violation, and force it back to a
19 hearing or that kind of posture?

20 A. The only thing I don't like about that is,
21 there's so much gray area there on what are -- to decide
22 whether they're really trying to do what's needed to be
23 done.

24 Q. And couldn't we entrust that gray area to you --

25 A. Yeah.

1 Q. -- and you could say, I think we'd better come
2 back, I think they're trying?

3 A. (No response)

4 (Off the record)

5 Q. (By Mr. Carr) If we came forward and pressure-
6 tested the wells in accordance with 203 and set a plug,
7 would that, do you think, be something that would satisfy
8 you in the short haul, while we evaluated -- continued the
9 evaluation?

10 A. Right, uh-huh. Yeah, we're not asking for the
11 wells to be returned to production, just brought into
12 compliance with 203.

13 MR. CARR: All right, that's all I have. Thank
14 you.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Robinson, when was correspondence with this
18 company first initiated?

19 A. The first paperwork I have is 1993, I believe it
20 was.

21 Q. And that was initiated by Charlie Gholson?

22 A. I believe it was Diana Fairchild. Fairhurst,
23 Diana Fairhurst.

24 Q. What exhibit are you looking at?

25 A. It's on Exhibit 2, page 19.

1 Q. The OCD District Office has been working, or
2 trying to work with this company for two years; is that
3 correct? Over two years?

4 A. Right.

5 Q. Trying to get something done on these wells?

6 A. Right.

7 Q. And have not been successful in that period of
8 time?

9 A. No, sir.

10 Q. Mr. Robinson, do you know if there's any fresh
11 water in this area?

12 A. There's not many houses out there. The closest
13 house is around three miles. But as far as I know, there's
14 -- The water is fresh enough for the cattle, for stock, but
15 I don't have a test of the water.

16 Q. Do you know what depth that might occur?

17 A. Well, all the way down to the producing zone.

18 Q. These wells are not cemented back into the
19 surface casing, so there's a potential for some harm to
20 freshwater supplies if these wells are left in their
21 current condition?

22 A. Right. There's a few wells that are circulated
23 but the majority of them aren't.

24 Q. Now, the question Mr. Carr asked you, would you
25 be satisfied if the plug was set and the casing was tested?

1 That would satisfy your requirements, at least for the time
2 being; is that correct? Or --

3 A. That would bring them in with Rule 203 as a TA'd
4 well.

5 Q. So you would drop your plugging requirement at
6 that point?

7 A. Right.

8 Q. Do you believe these wells would pass an MIT
9 test?

10 A. I feel like some of them will.

11 Q. Those that didn't, would you recommend those be
12 plugged?

13 A. The Rule 203 says that if it does fail the test,
14 they have to be plugged or repaired.

15 Q. Has the option to temporarily abandon these wells
16 been given to the Applicant for over two years, or to the
17 company?

18 A. I've only -- According to the letter, it has
19 been. Diana's letter -- She's requiring either P-and-A or
20 TA approval.

21 EXAMINER CATANACH: I have nothing further of the
22 witness, Mr. Carroll. He may be excused.

23 Mr. Carr, do you have a witness to put on?

24 MR. CARR: Yes, sir, I do. At this time we would
25 call Mr. Tom Knowlton.

1 TOM C. KNOWLTON,

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

4 DIRECT EXAMINATION

5 BY MR. CARR:

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

7 A. Tom Knowlton.

8 Q. And Mr. Knowlton, where do you reside?

9 A. Long Beach, California.

10 Q. What is your position with Nerdhlic Company,
11 Inc.?

12 A. I'm the president and owner.

13 Q. Could you just briefly describe for Mr. Catanach
14 the size of your company, what you do as Nerdhlic, Inc.?

15 A. Well, we're -- We started out in the oil
16 business, we developed nuclear magnetic resonance tools for
17 finding hydrocarbons, and we currently operate in the
18 Rockies, Montana and North Dakota. We started the
19 Lodgepole play up there, if you're familiar, the play
20 that's going on now, big play. We operate in Australia.
21 And those are our two principal areas.

22 And we have an office in Long Beach, an office in
23 Denver, and an office in Perth, Australia. We're a small
24 company, about -- between employees and contract people,
25 about 40 people.

1 Q. When did Nerdhlic acquire the properties which
2 are the subject of this hearing?

3 A. I believe it was April 19th, 1990.

4 Q. And from whom did you acquire these?

5 A. We bought them from a company called Devcon.

6 Q. At the time you acquired these properties, what
7 were your plans for them?

8 A. I was principally interested in the area for --
9 if we could handle the paraffin problems in the Dakota,
10 bypass production there, as well as a potential waterflood
11 possibly in the Hospah. And then we're looking deeper in
12 the Pennsylvanian section, which has never been drilled to.

13 Q. Have you actually performed certain work on the
14 wells since you acquired them?

15 A. Yes, we spent over a million dollars in this
16 field. The field was in sorry shape when we bought it, and
17 we did some work to get some of the wells in compliance
18 then, did study on the waterflood. And in 1993 there was a
19 lot of work done in this field, pressure testing and -- I
20 think that was before Mr. Robinson was involved in here.

21 Q. What are your current plans for this field?

22 A. Well, the current plans for the deep prospect is
23 kind of proprietary, but the -- I think the initial reasons
24 we went in are still valid. I think there's a potential
25 waterflood in the Hospah.

1 But the primary thing we're investigating is a
2 bug flood in the Dakota, because there's not a salt
3 problem, there's a lot of fresh water. It's a good
4 environment for a native-type microbe.

5 Q. The OCD has been contacting your representatives
6 for the last year or two concerning certain wells in this
7 field. I think it would be helpful if you could really
8 explain to Mr. Catanach what the focus of your business
9 activity really has been during this period.

10 A. In this -- general, or --

11 Q. Generally speaking.

12 A. Yeah. Our basic business approach is that we
13 think we can find economic oil, large oil, and then sell
14 it. Ours is kind of a commodity-based approach. We're not
15 trying to become long-term producers, establish production
16 and sell it.

17 We found in 1990, May of 1990, a large oilfield
18 in northeast Montana and subsequently started this whole
19 Lodgepole play, which is -- you know, there's acreage
20 selling for thousands of dollars an acre up there now.

21 And it ate our lunch, moneywise. I sold a
22 portion of that field, the discovery, for \$20 million to a
23 New Zealand company, and they didn't come up with \$15
24 million of the money, which we had planned to put into some
25 of these operations.

1 So for the last two years I've been carrying this
2 business pretty much by myself. Now we're getting back on
3 our feet.

4 The history of this field, I believe it was Ms.
5 Fairchild who contacted us in 1983 because I came out to
6 this field -- it was May of 1993 -- and met with the land
7 owner there, the son who runs it, Mr. Lee, and I think the
8 gentleman's name is Mr. Foust, Denny Foust, who came down
9 to the field.

10 And we walked around -- And I had an Australian
11 guy who worked for me, John Royal, who's a driller. And we
12 agreed on what we were going to do, and he came out and he
13 spent a month or six weeks out here bringing into
14 compliance quite a few of the wells at that time.

15 And then we concluded that we would go ahead with
16 the -- doing the waterflood. And the engineer who worked
17 for me out of Denver in September of 1993, who had
18 originally brought this field to my attention, he and I
19 didn't see eye to eye on some other things. He did a
20 midnight flip with our records in Denver. A lot of the
21 records of this field we've never recovered. They weren't
22 kept in Long Beach, California. And in fact, I just
23 noticed, I don't think I've ever received a notice of
24 intent that you mentioned. It never came to California.
25 I'd like to see that letter. So, I mean, there's been some

1 miscommunications.

2 But then late in 1994, when I believe Mr.
3 Robinson got on the case, I had made the acquaintance a
4 year or so before that of Mr. Collier, who is from New
5 Mexico, knows the oil community here, and I sent him out
6 here and he talked with Mr. Robinson at that time about
7 what we could do, looked up a lot of records.

8 And I think verbally we -- We tried to get
9 something started by February or March of this year, and we
10 were unable to do that. But we are on a footing where we
11 can do something now.

12 But I think the plan is still pretty much the
13 same, to go in and pressure-test these wells and see where
14 we're at on these particular five wells, if they're viable
15 wells. But further than that, what we're 90-percent sure
16 we'll do is do a bug flood out there in the Dakota.

17 Q. Mr. Knowlton, would 180 days give you the time
18 you need to take a look at this field and work with the
19 District Office in terms of making a determination on each
20 of the wells that are the subject of this hearing, as to
21 whether or not they should be plugged or have some economic
22 viability as part of long-term plans for the field?

23 A. Well, in terms of pressure-testing for either
24 plugging or repair, I think that certainly -- I can live
25 with the time frame.

1 If we find that they're all viable wells and we
2 start a bug flood, some of these things have quite a time
3 curve before they get started. I'd hate to get a
4 successful bug flood started on some of them then have to
5 plug them back, you know, because one of the things that
6 we've discovered -- This field is complex geology. It's a
7 fractured system much like I'm familiar with in Montana.

8 I don't agree with the papers that are written in
9 this area. We've done a lot of work. There's oil on
10 downthrown sides of faults and that sort of thing.

11 And in a bug flood when you squeeze back, you're
12 not quite sure where your communication is going to go, you
13 know. And it could -- Some of these are 90 and 120 days
14 before you see good results.

15 So the answer is yes, I can live with it, but I
16 would hate for us to have to shut down in the middle of
17 something that looks -- appears to be successful.

18 Q. When Mr. Robinson was testifying he talked about
19 his desire to have actually a rig or some physical activity
20 going on the lease within 30 days.

21 Do you know if it's physically possible to get a
22 pulling unit out into this area in that kind of a time
23 frame?

24 A. Well, it's physically possible. We could do the
25 pressure testing, that sort of thing. But, you know, this

1 is a pretty remote location. And I'd like to get some
2 economy of scale, I'd like 30 days to -- for the study of
3 the microbe, and -- So I could live better with 60 as a
4 lead time, because I think once we get started, we'll start
5 -- we'll do the pressure testing and do everything.

6 Q. And would you be agreeable to then reporting at
7 regular intervals to anyone in the Division --

8 A. Whatever -- Excuse me for interrupting. Yes, the
9 answer is yes, we'll do whatever time frame they want.

10 Q. If your request is granted, do you believe this
11 could result in the recovery of hydrocarbons from this
12 field that otherwise could be lost by now plugging the
13 well?

14 A. I think there's several million barrels of
15 bypassed oil in the shallow zones in this field.

16 Q. And if this request of your is granted, would you
17 therefore be afforded an opportunity to produce your fair
18 share of the reserves in this field?

19 A. Yes.

20 Q. And are you willing to tell Mr. Catanach that you
21 will work with the Division to bring this property into
22 compliance with OCD rules as quickly as you can?

23 A. Absolutely.

24 MR. CARR: I have nothing further.

25 EXAMINER CATANACH: Mr. Carroll?

CROSS-EXAMINATION

1
2 BY MR. CARROLL:

3 Q. Mr. Knowlton, what's the extent of your leasehold
4 acreage in this field?

5 A. Originally there was a couple thousand acres.
6 Right now, I couldn't tell you. There's been some stuff
7 lost and regained.

8 Q. And are there more than 18 wells that you own?

9 A. Not that I know of.

10 Q. So there's 18 wells on approximately 2000 acres?

11 A. Yeah.

12 Q. And what did you spend the over one million
13 dollars on in this field to try to develop it?

14 A. Well, it was cleaning up pits, pressure-testing
15 wells, same kind of thing we have here, restoring some to
16 production, getting some new surface equipment.

17 Q. Now, the OCD has expressed willingness to work
18 with Nerdhlic the last couple of years. Why did it take
19 coming to a hearing to have you represent to us that you're
20 going to do this work and you'll do it within a certain
21 period of time? We could have done this informally without
22 coming to a hearing, so I'm just wondering the reason why.

23 A. Well, I -- In my experience, I mean, the
24 operational -- There have been a lot of operational
25 problems on that ranch, and -- I don't know if you know the

1 family that -- They're pretty substantial people. But the
2 rancher has been -- We've had a lot of equipment stolen
3 down there, there's been a problem with that, and I think
4 they've been concerned about that.

5 And quite frankly, it was about that time, 1993,
6 I started having my financial problems with the lack of
7 this funding that I had counted on, so that's delayed
8 things a lot. And --

9 Q. Has all this information been communicated to the
10 Aztec Office?

11 A. I don't believe so.

12 And the other is compounded -- In January of 1990
13 [sic] the gentleman who handled all our exploration and
14 production passed away of cancer, and I've been short-
15 handed for the last six or seven months.

16 Q. Mr. Knowlton, you testified that you would need
17 30, preferably 60, days to get the pressure testing done on
18 these five wells?

19 A. Well, I envision doing more than that. I don't
20 really see any sense in just pressure -- I know the wells
21 have to be brought into compliance under 203.

22 But if we're going to have the same rigs out
23 there, I think we're at a point where we're ready to go
24 ahead with the microbe. We might as well just, you know,
25 start to bring them into production once they're in shape

1 to be brought into production.

2 Q. Okay, so once you determine that there -- that
3 you can do this bug flood on them -- And I'm not too
4 familiar with a bug flood. How much time would it take,
5 then, to get the whole bug-flood operation going?

6 A. It isn't as much the time of actually squeezing
7 the microbe in as the time for the microbe to work
8 chemically.

9 Q. How long does that take?

10 A. It depends, it depends on temperatures, it
11 depends on what kind of contact is going on downhole.
12 You're kind of buying a pig in a poke with it, and you
13 don't really know what kind of communication is going to
14 happen. You'll see it in, you know, what kind of
15 production is coming back at you.

16 Q. So what's the best-case scenario and the worst-
17 case scenario?

18 A. Well, a bug flood usually lasts for about six to
19 eight months, so you'd know whether it was good or not
20 working at all in that period of time.

21 Q. And then how long does it take to initiate the
22 bug-flood operation?

23 A. It could probably be done within 60 days.

24 Q. So if we give you 60 days to pressure-test and
25 initiate the bug flood, do you think the results should

1 show up in six to eight months?

2 A. After that.

3 MR. CARROLL: That's all I have, Mr. Examiner.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Well, Mr. Knowlton, I'm a little bit unclear.
7 Sixty days -- Within the 60-day time period, you intend to
8 pressure-test the five wells in question?

9 A. Yes.

10 Q. And initiate your flood?

11 A. Yes.

12 Q. If you pressure test these five wells -- You
13 don't intend to temporarily abandon them?

14 A. Not at this point in time.

15 Q. You just want to pressure-test the casing and
16 then utilize it in what capacity?

17 A. Well, first of all, we've got two elements here
18 for the six months. We've got weather to deal with, or
19 potentially weather to deal with.

20 Secondly, as I indicated, in our work this area
21 is highly fractured. And you know, we may start a squeeze
22 on one well, and it may go to another. We don't -- And I
23 want to see the results of that. So I want to be able to
24 be in communication in what we see as the zones in the
25 Dakota and -- well, principally the Dakota.

1 So I wouldn't want to plug any of the wells, is
2 what I'm saying.

3 Q. Was this area ever flooded in any form or
4 fashion?

5 A. Waterflooded, no, but the Hospah field, of
6 course, to the north has been waterflooded many times.

7 Q. Are you aware that you would have to obtain
8 Division approval to initiate a waterflood --

9 A. Oh, yes.

10 Q. -- or any kind of flood?

11 A. Yes.

12 Q. Which may take three to four months, I don't
13 know --

14 A. Well, the bug flood could be put on the next
15 hearing.

16 Q. Okay. The scenario is, you -- within the next 60
17 days you pressure-test these five wells, and you find the
18 casing is in good shape. Then you would want an additional
19 six- to eight-month period to evaluate the effectiveness of
20 the flood --

21 A. Uh-huh.

22 Q. -- before we take any further action on these
23 five wells?

24 A. Yes, or plug them.

25 Q. And that's six to eight months from the date that

1 the flood is initiated?

2 A. Yes.

3 I should add, we haven't ruled out, you know,
4 using heated tubing and chemicals. But the research we've
5 done on chemicals, I think it's not that much benefit or
6 cost effective. But that's a possibility too.

7 Q. What would you propose if any of these wells fail
8 a casing pressure test? What would you propose to do with
9 them?

10 A. If they can't be repaired, they should be
11 plugged.

12 Q. Are you willing to initiate plugging operations
13 at the time the casing fails?

14 A. If my consultant and Mr. Robinson can't agree,
15 then I think the most economic thing to do is probably just
16 to plug them.

17 EXAMINER CATANACH: I believe that's all I have
18 of the witness.

19 MR. CARROLL: I have a follow-up question.

20 FURTHER EXAMINATION

21 BY MR. CARROLL:

22 Q. Mr. Knowlton, the Bullseye Number 8 is currently
23 encased. We won't be able to pressure test that well.
24 Could you make a commitment now to have that well plugged
25 at about the same time that you perform these pressure

1 testing and bug-flood-initiation operations?

2 A. Well, first I'd like Mr. Collier to look at it
3 and see if there's a possibility we can put some kind of
4 casing in there or if there may be some other resolution to
5 make it productive. And if we can't do that, then sure,
6 I'd agree to plug it.

7 MR. CARROLL: That's all I have, Mr. Examiner.

8 EXAMINER CATANACH: Anything further, Mr. Carr?

9 MR. CARR: I'd like to make just a real brief
10 statement, if that's appropriate.

11 EXAMINER CATANACH: Okay.

12 MR. CARR: Mr. Catanach, this isn't like many of
13 the plugging cases that come before you. I'd submit that
14 here you have an operator -- It's not an orphan property.
15 You have an operator who has plans to continue to work with
16 the property and attempt to return it to production.

17 Mr. Knowlton has come in and he's told you
18 basically the kinds of things he'd like to attempt to
19 achieve on this lease.

20 I think it's important to keep in mind as you go
21 about writing an order disposing of this particular case
22 that, as Mr. Knowlton has indicated, there are things that
23 need to be determined in terms of this well. It was just
24 discussed it's uncased.

25 And my point is that the order should not be so

1 restrictive as to limit Mr. Knowlton in an effort to in
2 good faith bring the property back. And what I would
3 emphasize is that any kind of order that you come up with
4 -- yes, it has to have requirements in it that meet your
5 concern. But I hope you'll be mindful of the fact that it
6 also ought to have flexibility in it that will permit Mr.
7 Knowlton to operate the properties without some
8 unreasonable or artificial restriction on his ability to
9 make decisions, in an attempt to bring this pool into an
10 effective producing -- make it into an effective producing
11 property.

12 That's all I have.

13 EXAMINER CATANACH: Okay. Mr. Carr, can you give
14 me a rough draft outlining your proposals in this case?

15 MR. CARR: Yes, sir, I can.

16 EXAMINER CATANACH: Anything further, Mr.
17 Carroll?

18 MR. CARROLL: No, Mr. Examiner.

19 EXAMINER CATANACH: There being nothing further,
20 this case, Number 11,354, will be taken under advisement.

21 And this hearing is adjourned.

22 (Thereupon, these proceedings were concluded at
23 2:35 p.m.)

24 * * *

25

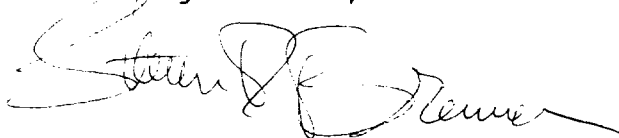
CERTIFICATE OF REPORTER

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

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

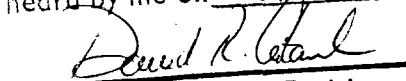
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 31st, 1995.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998. I do hereby certify that the foregoing is a complete and correct record of the proceedings in the examiner hearing of Case No. 11354 heard by me on 8/24/95 1995.

, Examiner
 Oil Conservation Division