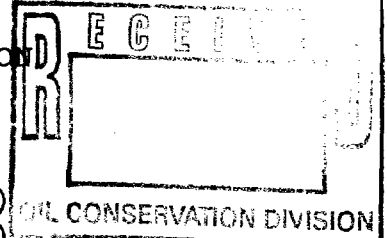


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION



IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION COMMISSION FOR THE
PURPOSE OF CONSIDERING:

) CASE NOS. 11,507

) 11,508

) and 11,509

) (Consolidated)

IN THE MATTER OF THE HEARINGS CALLED BY
THE OIL CONSERVATION DIVISION ON ITS OWN
MOTION

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

September 18th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, WILLIAM J. LEMAY, Chairman, on Wednesday, September 18th, 1996, 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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I N D E X

September 18th, 1996
 Commission Hearing
 CASE NOS. 11,507, 11,508 and 11,509 (Consolidated)

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REPORTER'S CERTIFICATE

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A P P E A R A N C E S

FOR THE COMMISSION:

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FOR THE DIVISION:

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 2040 South Pacheco
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FOR PETROLEUM DEVELOPMENT CORPORATION; FRED SHELTON, JR.;
 and CHUZA OPERATING:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
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 By: WILLIAM F. CARR

FOR KACHINA PRODUCTION COMPANY:

SCHEUER, YOST and PATTERSON, P.C.
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 Santa Fe, New Mexico 87504-9570
 By: ROGER L. PRUCINO

* * *

1 WHEREUPON, the following proceedings were had at
2 8:13 a.m.:

3 CHAIRMAN LEMAY: We have a *de novo* case here,
4 11,507. We will now call that case, which is the case
5 called by the Oil Conservation Division on its own motion
6 to permit operator, Petroleum Development Corporation,
7 United Bank New Mexico Bank, Albuquerque, New Mexico, and
8 all other interested parties to appear and show cause why a
9 well should not be plugged in Rio Arriba County, New
10 Mexico.

11 I'll now call for appearances in Case 11,507.

12 MR. CARR: May it please the Commission, my name
13 is William F. Carr with the Santa Fe law firm Campbell,
14 Carr, Berge and Sheridan. We represent Petroleum
15 Development Corporation in this matter.

16 CHAIRMAN LEMAY: Thank you.

17 MR. PRUCINO: May it please the Commission, my
18 name is Roger Prucino with the Santa Fe law firm of
19 Scheuer, Yost and Patterson. We represent Kachina
20 Production Company in this proceeding.

21 CHAIRMAN LEMAY: Representing what, sir?

22 MR. PRUCINO: Kachina.

23 CHAIRMAN LEMAY: Kachina?

24 MR. PRUCINO: Yes, sir.

25 CHAIRMAN LEMAY: Thank you.

1 MR. CARROLL: May it please the Commission, my
2 name is Rand Carroll. I'm here on behalf of the Oil
3 Conservation Division.

4 CHAIRMAN LEMAY: Thank you, Mr. Carroll.

5 Okay, will those giving testimony in this case --
6 Do you have any witnesses that will be giving testimony?

7 MR. CARROLL: No, sir.

8 MR. CARR: No, sir.

9 CHAIRMAN LEMAY: Just statements? Okay. Well, I
10 guess we'll begin with the statements in the case.

11 Mr. Carr?

12 MR. CARR: May it please the Commission, I would
13 like the Commission to note that I filed the *de novo*
14 Application in this matter. I represented Petroleum
15 Development Corporation at the hearings earlier this year.

16 It is our intention to go forward and plug the
17 well pursuant to Commission Order.

18 But in the meantime, we understand that Kachina
19 may have some plans for the well, and we're concerned about
20 meeting our obligations to you and also meeting the
21 obligations -- or not incurring additional exposure to
22 someone else who has plans and may be actively doing
23 something with the property.

24 So we have nothing to tell you except that we are
25 prepared to go forward and plug, subject to whatever you

1 decide to do with whatever request Kachina may make.

2 CHAIRMAN LEMAY: Thank you.

3 Mr. Carroll?

4 MR. CARROLL: Mr. Chairman, I think maybe at this
5 time we can maybe consolidate all three of these plugging
6 cases, 11,507, 11,508 and 11,509, because they're all
7 related.

8 CHAIRMAN LEMAY: Oh, I'm sorry, I never turned
9 over the page. Yes, let the record reflect that Case
10 11,507, 11,508 and 11,509, all *de novo* cases, will be
11 consolidated for the purpose of this hearing.

12 Thank you, Mr. Carroll.

13 MR. CARR: I'd like to enter my appearance in the
14 other two cases, and my statement is the same.

15 MR. PRUCINO: And I will take the same --

16 CHAIRMAN LEMAY: Ditto? Okay.

17 MR. PRUCINO: -- Mr. Chairman.

18 Mr. Carroll?

19 MR. CARROLL: Ditto.

20 CHAIRMAN LEMAY: Okay, fine.

21 That's all you have to say, Mr. Carr?

22 MR. CARR: Yes, sir, it is.

23 CHAIRMAN LEMAY: Okay.

24 MR. CARR: The statement is the same for each.

25 In the second case, 11,508, my appearance was for

1 Fred Shelton, Jr.

2 I have visited with him. He's also exploring
3 methods to plug the well.

4 Chuza operating is at this time in the process of
5 preparing for filing one-well bonds on each of these wells
6 so that you may access as well.

7 CHAIRMAN LEMAY: Okay, thank you.

8 It might help, since the Division has shown to be
9 the party in this case that's bringing the case, for the
10 benefit of my fellow commissioners, maybe, Mr. Carroll, can
11 you kind of summarize the situation on these three cases?

12 MR. CARROLL: Yes, Mr. Chairman.

13 Although we were applicant at the Division level,
14 we're not the Applicant at the Commission level.

15 This case concerns a number of wells in the El
16 Poso Ranch area, which is on the Tierra Amarilla Land
17 Grant. These wells were drilled back in the mid-Eighties.
18 Oil was shown to be down there, but I guess there's no
19 drive mechanism, so although there's oil there's no way of
20 getting it out.

21 The Division first brought a plugging case in
22 1987, and orders were issued as to all these wells to have
23 them plugged back in 1987. No production from these wells
24 has occurred since that time.

25 There's been some change in ownership, and

1 different operators have tried to -- I don't know if
2 they've to do anything with the actual wellbores, but
3 there's been change in ownership, and various parties have
4 looked into what can be done with these wells, but nobody
5 has done anything.

6 We brought this case this year. I think it was
7 filed in March. It was originally scheduled to be heard
8 April 4th. It was postponed till May 2nd, because Fred
9 Shelton, III, which is Fred Shelton, Jr's., son, has been
10 trying to sell these properties or find a purchaser. We
11 gave them that extra month. Still, nothing was done.

12 An order was issued July 1st, giving a deadline
13 of August 15th to have these wells plugged. The *de novo*
14 case was filed at the end of July, which is being heard
15 today.

16 And actually the Division is going to move that
17 the record in the Division Cases 11,507, 11,508 and 11,509
18 be admitted into evidence in this case, because I don't
19 think there's any problem with the testimony entered in
20 that case.

21 Mr. Frank Chavez of our Aztec District Office
22 testified at the May 2nd hearing, and the Division today is
23 going to move to dismiss these cases and let the Division
24 order stand.

25 If the Commission is convinced that more time

1 should be granted to the parties to try to find an operator
2 to take over these wells, the Division requests that a fine
3 be imposed if the new deadline is not met. And that fine
4 would be at least a thousand dollars per well, because like
5 I said, this case has been -- or these wells have been
6 involved in a plugging action since 1987, no production has
7 been reported, nothing has been done to the wells since
8 that time, and our Aztec District Supervisor feels that
9 it's time for these wells to be plugged.

10 We have been contacted by all three of the
11 operators. Two of the three operators, Petroleum
12 Development Corporation and Chuza Operating, are willing to
13 have their wells plugged. Either they will plug them or
14 have the -- or the Division will plug them, and they're
15 willing to reimburse the Division for the plugging.

16 Mr. Fred Shelton, III, who is involved with Spur
17 Oil, the third case, is the primary party that is trying to
18 find a purchaser for these properties. And all these
19 properties were involved in some litigation down in Texas,
20 where an order was issued stating that Fred Shelton, III
21 was to post bonds and assume operation of all these wells,
22 and it's my understanding he hasn't complied with that
23 order.

24 So -- You know, I guess the Division's position
25 at this point, as I said earlier, is that we move to

1 dismiss these cases, and if a new deadline is granted and
2 another extension of time, that a fine be imposed so that
3 something actually gets done. This case has dragged on for
4 nine years now.

5 CHAIRMAN LEMAY: Thank you.

6 Mr. Prucino, do you want to make a statement
7 and...

8 MR. PRUCINO: Thank you, Mr. Commissioner.

9 Fred Shelton, III, is the driving force behind
10 all of this. He is a principal in Kachina Production
11 Company and does have hopes and plans of seeing these wells
12 brought back into production. I understand that he
13 realizes that there is a long and not too pleasant history
14 with some of these wells, although he has not been a part
15 of that history until the recent past.

16 He is actively seeking financial assistance to
17 continue or to recommence production and operation from
18 these wells and believes that he is close to doing so.

19 Kachina Production Company, by the way, has no
20 objection to the Division's motion that the record from the
21 May 2 hearing be admitted. We have no disputes with the
22 testimony presented by Mr. Chavez. In fact, at the time he
23 acknowledged that although he had some general concerns
24 with the safety of the wells, there was no evidence of
25 immediate harm, no evidence of present or current leakage

1 from any of the drill sites.

2 Kachina Production Company would simply like some
3 additional time in which to complete putting together its
4 financial team and get an operator up to the properties to,
5 as I say, recommence production on those sites.

6 CHAIRMAN LEMAY: Mr. Carr?

7 MR. CARR: Mr. Chairman, we also have no
8 objection, of course, to incorporating the record or to the
9 recommendation of the Division.

10 I would like to note, however, that Mr. Johnson
11 with Petroleum Development Corporation, Mr. Chandler with
12 Chuza, and Fred Shelton, Jr., are prepared to immediately
13 plug those wells, and that if fines are imposed, we think
14 it would be inappropriate to have those fines run to these
15 individuals and that any extension should only be granted
16 to Kachina to go forward, because I can represent to you
17 here today, we for Chuza are trying to have one-well bonds
18 in place this month, and the others are going forward to
19 see if they can't individually arrange for the plugging of
20 the wells.

21 We're ready to perform, we're ready to go
22 forward. The reason that we filed for *de novo* and the
23 reason that we have had -- I have had this long involvement
24 in this matter is because of the district court judgment
25 down in Texas and because there are clouds over our right

1 to go out there and do anything on the property. And we've
2 gotten letters -- recently, even -- from Mr. Prucino,
3 saying if you go ahead, don't touch other equipment on it.

4 And we're concerned about not getting into a
5 bigger mess by performing and then having to say, Well, the
6 Oil Commission told us to do it.

7 I just want you to know that if Kachina can put
8 the properties back on and we don't have to plug the wells,
9 of course, that's what we want to do.

10 But you need to know, we are ready now to plug
11 those wells, and if there are fines or penalties we think
12 they should run to Kachina, not individually to us, because
13 we're ready to do what you want us to do.

14 MR. CARROLL: The Division would acquiesce to
15 that.

16 MR. PRUCINO: I suspect that Kachina's request
17 would be that if fines are to be imposed, the Commission
18 give a date in the very near future by which Kachina could
19 either make the decision to permit the wells to be plugged
20 or to accept the responsibility for any fines that would be
21 imposed.

22 CHAIRMAN LEMAY: I'm not sure we can ask
23 questions with statements, but I'll ask my fellow
24 Commissioners if they have enough understanding of the case
25 to...

1 COMMISSIONER BAILEY: There was one point that
2 I'd like to clarify.

3 Mr. Carroll said that there was no production,
4 that there were only shows of oil in these wells. Mr.
5 Prucino says it's a return to production. Could I have
6 some clarification on that one?

7 CHAIRMAN LEMAY: Would someone clarify the
8 condition of the wells for Commissioner Bailey?

9 MR. PRUCINO: Actually, I am not sure if I
10 misspoke, if there's ever been any true production from the
11 wells.

12 It was my understanding that there was some
13 minimal production from some of the wells involved in the
14 properties and that some oil is actually still stored on
15 site.

16 But I am not -- I can't represent the extent to
17 which production has taken place in the past. I mean, I
18 believe that there has been some.

19 MR. CARROLL: Commissioner Bailey, that's in the
20 record. As I recall, there were some minimal amounts
21 produced right at the beginning. But, you know, it was
22 like a month or two, and that was it, back in late 1984 and
23 1985.

24 COMMISSIONER BAILEY: Thank you.

25 CHAIRMAN LEMAY: Okay.

1 COMMISSIONER WEISS: I have no questions.

2 CHAIRMAN LEMAY: Okay. We will incorporate the
3 record of the Examiner's hearing in the Commission hearing
4 and take this case under advisement.

5 Thank you very much.

6 (Thereupon, these proceedings were concluded at
7 8:25 a.m.)

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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 Commission 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 September 19th, 1996.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998