

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
 CALLED BY THE OIL CONSERVATION)
 DIVISION FOR THE PURPOSE OF)
 CONSIDERING:)
 APPLICATION OF UNITED STATES) CASE NO. 10335
 DEPARTMENT OF THE INTERIOR,)
 BUREAU OF LAND MANAGEMENT)

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 25, 1991

Santa Fe, New Mexico

This matter came on for hearing before the Oil
 Conservation Division on July 25, 1991, at 8:45 a.m. at the
 Oil Conservation Division Conference Room, State Land Office
 Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico,
 before Freda Donica, RPR, Certified Court Reporter No. 417,
 for the State of New Mexico.

FOR: OIL CONSERVATION BY: FREDA DONICA, RPR
 DIVISION Certified Court Reporter
 CCR No. 417

I N D E X

July 25, 1991
Examiner Hearing
CASE NO. 10335

PAGE

APPEARANCES

3

U.S. DEPARTMENT OF THE INTERIOR WITNESSES:

STEVEN M. MASON

Direct Examination by Ms. Miller

5

Examination by Mr. Stovall

11

REPORTER'S CERTIFICATE

22

* * *

E X H I B I T S

ID ADMTD

A

6 10

B, C

9 10

A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR THE APPLICANT:

MARGARET C. MILLER, ESQUIRE
Attorney-Adviser
Office of the Field Solicitor
U.S. Department of the Interior
P.O. Box 1042
Santa Fe, New Mexico 87504-1042

1 HEARING EXAMINER: Call case number 10335.

2 MR. STOVALL: Application of United States Department
3 of the Interior, Bureau of Land Management, to plug and
4 abandon a certain well in San Juan County, New Mexico.

5 HEARING EXAMINER: At this time I'll call for
6 appearances.

7 MS. MILLER: Margaret C. Miller, attorney-advisor,
8 appearing for the U.S. Department of the Interior.

9 HEARING EXAMINER: Any other appearances? Do you have
10 any witnesses in this case, Ms. Miller?

11 MS. MILLER: I have one witness, Steven Mason.

12 HEARING EXAMINER: Will the witness please stand and be
13 sworn?

14 (Witness sworn.)

15 HEARING EXAMINER: Ms. Miller, do you have any exhibits
16 in this case?

17 MS. MILLER: Yes, two exhibits.

18 HEARING EXAMINER: Are they marked at this time?

19 MS. MILLER: No. I will mark them now.

20 HEARING EXAMINER: Why don't we take a five-minute
21 recess and you can mark them at that time?

22 (Recess, 8:47 a.m. to 9:27 a.m.)

23 HEARING EXAMINER: At this time we'll go back to case
24 10335. Ms. Miller, I believe you have one witness who's
25 already been sworn, and the record will so reflect.

1 MS. MILLER: I'm going to stamp one more exhibit before
2 we go on.

3 HEARING EXAMINER: I take it you're stamping Exhibit C
4 at this point?

5 MS. MILLER: Yes, Exhibit C.

6 HEARING EXAMINER: Ms. Miller, you may continue
7 whenever you're ready.

8 MS. MILLER: All right.

9 STEVEN M. MASON
10 the witness herein, having been first duly sworn, was
11 examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MS. MILLER:

14 Q. Please state your full name for the record.

15 A. Steven M. Mason.

16 Q. Where do you work?

17 A. BLM in Farmington, New Mexico.

18 Q. And what is your job title there?

19 A. Petroleum engineer.

20 Q. And why have you come here today?

21 A. To seek funds to plug an abandoned well in
22 Farmington.

23 Q. And what is the name of that well?

24 A. It's the Number 1 CTU, which is Central Totah
25 Unit.

1 Q. I'm going to refer you to an exhibit which I have
2 marked as Exhibit A. Is this the case file for that well?

3 A. Yes.

4 MS. MILLER: I'd like to move for the admission of
5 Exhibit Number A.

6 MR. STOVALL: For convenience, what we do is we move
7 them all at the end. We're more relaxed than some agencies.

8 MS. MILLER: Okay.

9 Q. (By Ms. Miller) Can you describe for me in
10 general terms what the contents of the case file is?

11 A. The case file includes what is in the well file;
12 and also at the end of the file it has some assignments,
13 especially the one from Southland Royalty to Paramount
14 Petroleum.

15 Q. Before we get much farther, could you tell us
16 where this well is located?

17 A. Okay. The well is located in Section 21, 29
18 North, 13 West. It's in San Juan County, New Mexico.
19 Footage is 820 from the south line and 675 from the west
20 line.

21 Q. You mentioned that the well was abandoned. Do
22 you know when it was abandoned?

23 A. Oh, it was abandoned in the early eighties, about
24 1981, 1980, somewhere in that range.

25 Q. And was it drilled on a federal lease?

1 A. Yes.

2 Q. And what is the identification number for that?

3 A. It's Santa Fe 079065.

4 Q. And what formation is this well producing from?

5 A. It's from the Gallup.

6 Q. Can you tell us something about ownership of
7 operating rights in the different formations on this lease?

8 A. The lease is currently listed as Paramount
9 Petroleum as lessee, holder of operating rights. The Gallup
10 is Paramount again. The other formations above the Gallup
11 and below the Gallup are held by Southland Royalty.

12 Q. How did Southland Royalty come to own operating
13 rights in the other formations?

14 A. Southland Royalty was the holder of -- was the
15 lessee and holder of operating rights. They in turn
16 designated -- or not designated -- assigned the lease to
17 Paramount Petroleum.

18 Q. You're talking about record title?

19 A. Right, record title to Paramount Petroleum.
20 Paramount Petroleum assigned their interest in the other
21 zones, other than the Gallup, to Southland Royalty.

22 Q. Are you referring now to record title or to
23 operating rights?

24 A. Operating rights.

25 Q. And, excuse me, perhaps you've already said, but

1 what formation is this well producing, or did it used to
2 produce from?

3 A. It produced out of the Gallup.

4 Q. And just for clarity's sake, who again has the
5 operating rights to the Gallup?

6 A. Paramount Petroleum.

7 Q. Have you attempted to notify Paramount Petroleum
8 of the need to plug and abandon this well?

9 A. Yes.

10 Q. And what were the results of your attempts?

11 A. The earlier results, we were able to get
12 correspondence with them, and they indicated that they
13 planned to take care of the well.

14 Q. When was this?

15 A. This was in the early eighties, about 1982-83,
16 because this well was shut in, among numerous other wells
17 that they were operating. Subsequent to that, the company
18 apparently has gone bankrupt and has since disappeared.

19 Q. When you say "disappeared," what do you mean?

20 A. It no longer exists.

21 Q. What types of efforts have you made to contact
22 them?

23 A. There have been phone calls, certified letters.

24 Q. And what has happened to the phone calls and
25 certified letters?

1 A. The certified letters, the latest ones, probably
2 the last five or six years, have been returned unclaimed.

3 Q. And has anybody responded to the phone calls?

4 A. Nobody's responded.

5 Q. Did Paramount Petroleum have a bond?

6 A. They had one filed, but we found that it was a
7 fraudulent bond.

8 Q. How did you find that out?

9 A. We wrote our Santa Fe office, wrote to the
10 bonding company to collect on the bond to get the wells
11 plugged. And they -- received a response from Fireman's
12 Fund Insurance Company which said the bond is not valid.

13 Q. Are you aware of any other party that might be
14 held responsible for plugging the well?

15 A. No, I don't know of any.

16 Q. Have you notified all persons that might be
17 affected by the plugging of this well and obtained
18 assurances from them that they will indemnify the United
19 States for anything?

20 A. We've notified Southland Royalty, and as of this
21 time, they have not responded to us.

22 MS. MILLER: Your Honor, at this time I'd belatedly
23 like to introduce Exhibit B, which was the correspondence
24 having to do with the surety bond which was found to be
25 fraudulent, and Exhibit C, which is the BLM's letter to

1 Southland Royalty asking them for indemnification, to which
2 there has been no response at this time. So that would be
3 Exhibits B and C.

4 HEARING EXAMINER: Exhibits --

5 MS. MILLER: B and C, B being the correspondence
6 concerning the bond, and C being the letter to Southland
7 concerning indemnification for plugging and abandoning.

8 HEARING EXAMINER: Exhibits A, B and C will be admitted
9 at this time.

10 Q. (By Ms. Miller) Perhaps one clarification on the
11 lease number?

12 A. The lease number should be NM 0468128.

13 MS. MILLER: No further questions.

14 HEARING EXAMINER: Now I'm confused. You gave me a new
15 lease number, and prior to that, on my well records, I had
16 the SF Number 079065. Is that a new number?

17 THE WITNESS: That's the number of the current lease
18 that's there.

19 MR. STOVALL: Which number is the current lease?

20 THE WITNESS: The NN 0468128.

21 HEARING EXAMINER: When was it changed?

22 THE WITNESS: Apparently there are two units that were
23 formed, which is the Central Totah Unit and the Aztec Totah
24 Unit. When the two units were formed, as a rule, if a lease
25 is outside a unit, they try to segregate the lands out and

1 create a new lease.

2 MR. STOVALL: What you're saying is this well was
3 originally drilled on the SF lease number that's been noted
4 and then subsequently, when the Central Totah --

5 THE WITNESS: -- was formed.

6 MR. STOVALL: They created a new lease number, but it
7 was, in effect, the same lease as far as issuance date, and
8 it was just segregated for administrative purposes in
9 accordance with standard BLM's rules of procedure.

10 THE WITNESS: Right.

11 HEARING EXAMINER: But regardless of the lease number,
12 we are talking about the Central Totah Unit Number 1, 820
13 from the south, 675 from the west, of Section 21; is that
14 correct?

15 THE WITNESS: That's correct.

16 HEARING EXAMINER: Do you have any other questions, Ms.
17 Miller?

18 MS. MILLER: No further questions.

19 HEARING EXAMINER: Mr. Stovall?

20 EXAMINATION

21 BY MR. STOVALL:

22 Q. This lease is still in effect; is that correct?

23 A. That's correct.

24 Q. Who now owns the Gallup operating rights in this
25 particular portion of the lease?

1 A. As the records still indicate, Paramount
2 Petroleum is the operator and owner of the Gallup.

3 Q. Does the BLM have a procedure for dealing with
4 operating rights of a nonexistent operator?

5 A. As far as I know, normally, in a lease where
6 there's no production, the lease is terminated and we go --

7 Q. But that's not the case here.

8 A. This is not the case here. We have contacted our
9 solicitor to get an opinion on that, who is responsible for
10 it, whether the lease should be terminated and the producing
11 wells plugged, or is the BLM the lessee and holder of the
12 operating rights from the Gallup for a defunct company. But
13 at this time we have not received an opinion back.

14 Q. So for all practical purposes, there's nobody
15 that has any rights to operate the Gallup formation at this
16 time.

17 A. That's correct.

18 Q. What would happen if, say, Southland or Meridian,
19 as the operator of the other formations on this lease, were
20 to come to the BLM and request the right to drill or produce
21 from the Gallup formation? Would you have any idea how that
22 might be handled?

23 A. I suppose the way -- this would only be my -- I
24 guess a guesstimate -- would be that they would relinquish
25 the rights of Paramount and assign like a quit claim type of

1 thing to Southland or Meridian.

2 MR. STOVALL: Ms. Miller, part of this is -- again, the
3 BLM leasing procedures are, one, fairly complex and, number
4 two, have changed over the period since this lease was
5 issued, as I understand it, both the bonding and some of the
6 management of the lease. Is that essentially a correct
7 statement?

8 MS. MILLER: I believe that's right.

9 MR. STOVALL: Now, I understand you have notified
10 Southland, who's the record title holder of the lease or
11 operating rights.

12 MS. MILLER: No, no. They only own operating rights in
13 other formations other than the Gallup.

14 MR. STOVALL: Who's the record title holder of the
15 lease?

16 MS. MILLER: Paramount.

17 MR. STOVALL: So you've actually got a nonexistent
18 lessee.

19 THE WITNESS: That's correct.

20 MS. MILLER: That's right.

21 MR. STOVALL: I always thought that separating
22 operating rights from the lease -- record title ownership of
23 a lease was a very convoluted way to deal with these things,
24 and I am now beginning to realize that this is probably
25 correct.

1 I think what I'm going to need -- recommend that
2 we have is some sort of indication from the BLM -- probably
3 is going to come from the solicitor's office, I would assume
4 -- as to the status of rights under a lease where you've
5 got a nonexistent operator -- I mean, a nonexistent lessee
6 who owns certain operating rights, and a relationship
7 between that and a lessee -- or an operator who owns
8 operating rights under a lease which doesn't have a lessee.
9 And in real property concepts, you can't have real property
10 interests that doesn't have an owner. But in this case, it
11 appears that you do. I recognize that we're not dealing
12 with common-law concepts. I'd sure like -- hopefully, maybe
13 this will be helpful to the BLM -- sounds like you've
14 already started the process -- but I'd like to know who owns
15 what in this situation.

16 Q. (By Mr. Stovall) Now, the next part of this
17 situation -- and the Examiner has just raised the question
18 -- also this well is a part of a unit; is that correct?

19 A. The unit has been terminated.

20 Q. The unit has been terminated. And I assume
21 Paramount was the unit operator?

22 A. Yes.

23 Q. Oh, good, at least we're keeping it all in one
24 family here. Does this well have any potential in any other
25 horizons? Is it a potential producing well?

1 A. There's always that possibility. From the
2 records, the well has exhibited casing integrity problems,
3 so there could be a potential of -- that the well bore is
4 probably in a state that it probably may not be usable.

5 Q. And have you had any discussions, formally or
6 informally, with Southland, who we all know, for the record,
7 is owned by Meridian at this point, with respect to taking
8 over the well for the purpose of attempting to use it for
9 other formations?

10 A. We have had some informal meetings or discussions
11 with Southland/Meridian, and they have, not in writing, but
12 they have voiced that they're not interested in the wells,
13 and we should seek action against the lessee to get them
14 plugged.

15 Q. But the lessee doesn't exist, so here you are in
16 front of the OCD.

17 A. Unfortunately.

18 Q. In your opinion as a petroleum engineer, Mr.
19 Mason, do you believe this well is not capable of being used
20 for any beneficial purpose?

21 A. I would say with -- as I said before, with the
22 problems that the well has exhibited with the drilling mud
23 coming up to the surface would indicate that the casing
24 integrity has been compromised, and the well bore is
25 probably in a pretty bad shape, and the best option would be

1 to plug it.

2 Q. Now, you were present during the presentation of
3 case 10334; is that correct?

4 A. Correct.

5 Q. And you've heard all the questions I asked Mr.
6 Chester with respect to plugging procedures and the state's
7 concern about plugging a well adequately without spending
8 more money than it has to and all that. Are you in
9 agreement with his testimony?

10 A. I would say somewhat. Normally, we would take
11 into account what OCD's concerns are and try to address
12 those matters.

13 Q. Do you -- and, again, I realize that we're
14 probably asking questions that you don't have the authority
15 to enter a decision on -- but you are, in fact, the witness
16 on the stand and the only one so far with BLM. You
17 understand that in the event the BLM should require
18 something that was beyond what the OCD thought was necessary
19 and it caused an additional expense, that the OCD might say,
20 "No, we're unwilling to pay for that particular procedure"?

21 A. Correct.

22 Q. And, again, I will state for the record, and I
23 think we all know that we do have a cooperative relationship
24 here -- you have no problem working with the district office
25 to develop a plugging procedure that satisfies both

1 agencies; is that --

2 A. I have no problem with the state office.

3 Q. What was your answer again?

4 A. I have no problem working with the state office
5 over there.

6 Q. When you're saying "the state office," you're
7 talking about the office of the state OCD as opposed to the
8 state BLM office?

9 A. Right.

10 Q. I assume you don't have anything to do with the
11 bonding itself. Do you have any responsibility in that
12 area?

13 A. No, that's handled through our Santa Fe office.

14 Q. So you are not in a position to explain how a
15 bond slipped through which apparently was unauthorized?

16 A. No, I wouldn't.

17 Q. And your testimony that the bond is, in fact,
18 invalid is based upon the information provided in Exhibit B?

19 A. Correct.

20 Q. Provided to you by the state office?

21 A. Correct.

22 Q. Do you know who owns the surface in this area?
23 Is it BLM surface as well?

24 A. I believe it is. There is BLM surface, and there
25 was -- some of those lands were transferred over to Bolack,

1 but I believe where this well is located is still BLM's.

2 MR. STOVALL: For the purposes of keeping this record
3 clear, I move the admission of the testimony, but not
4 necessarily the exhibits, from case 10334, since I've
5 referred to them in relying on Mr. Mason's answers in the
6 context of those questions.

7 HEARING EXAMINER: Well, I've already entered them, Mr.
8 Stovall.

9 MR. STOVALL: In this case?

10 HEARING EXAMINER: Yes, sir.

11 MR. STOVALL: Oh, okay. In that case, I don't need to
12 do that.

13 HEARING EXAMINER: A little late.

14 MR. STOVALL: I have no further questions.

15 HEARING EXAMINER: I'm going to do some clarification
16 here. On your Exhibit Number A, Mr. Mason, on the front
17 page there, talks about some field reports of this well and
18 about mud oozing out of the casing and such as that. What
19 is the present state of this well?

20 THE WITNESS: The present state -- as a matter of fact,
21 I was by it about a couple of weeks ago, and the well head
22 is -- appears to be secured and doesn't appear to be any
23 leakage above the surface.

24 HEARING EXAMINER: Okay. Is there any coal gas well
25 production or development in this area?

1 THE WITNESS: There's been a few tests in the general
2 area, within, I would say, five miles of it.

3 HEARING EXAMINER: Are there any coal gas wells
4 immediately offsetting this acreage?

5 THE WITNESS: No, sir.

6 HEARING EXAMINER: Are there any proposed wells that
7 the BLM might have on record of applications to drill coal
8 gas wells?

9 THE WITNESS: Not in that area, no.

10 HEARING EXAMINER: It appears on your Exhibit A, again
11 on the third page, there are some known producing intervals
12 up above the Gallup that are open to the casing that do not
13 have cement behind it; is that correct.

14 THE WITNESS: That's correct.

15 HEARING EXAMINER: Mr. Mason, for the record, you were
16 introduced as a petroleum engineer. Have you testified
17 about the OCD or any other jurisdictional body before?

18 THE WITNESS: No.

19 HEARING EXAMINER: What is your educational
20 background?

21 THE WITNESS: I have a B.S. in geological engineering
22 from the University of Missouri at Raleigh.

23 HEARING EXAMINER: And your work experience? When did
24 you graduate?

25 THE WITNESS: 1979, and started with U.S.G.S. at that

1 time.

2 HEARING EXAMINER: How long have you been up in the
3 Farmington district office?

4 THE WITNESS: Since August of '80.

5 HEARING EXAMINER: I'm going to accept Mr. Mason's
6 qualifications at this time, Ms. Miller.

7 Are there any other questions of Mr. Mason at
8 this time?

9 MR. STOVALL: I can't think of any. But, as I say, I
10 would like to know something about who owns what out there.

11 HEARING EXAMINER: Shall we leave the record open on
12 this until a later date, Mr. Stovall?

13 MR. STOVALL: How time-consuming is that going to be to
14 do that?

15 MS. MILLER: A couple of weeks.

16 HEARING EXAMINER: I'll leave the record open in this
17 case, oh, how about for a month? And that way the
18 information can be provided.

19 Does anybody else have anything further in this
20 case? In that case, we'll close the books on this
21 particular case 10335 until the additional information --
22 and, again, we'll hold the jurisdiction to reopen this case
23 if we feel the need to at a later date.

24 Let's take a 20-minute recess at this time.

25 (The foregoing hearing was adjourned at

1 the approximate hour of 9:51 a.m.)

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 STATE OF NEW MEXICO)


2 :

3 COUNTY OF SANTA FE)

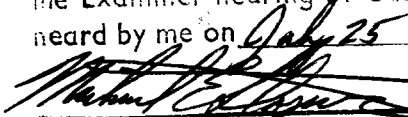
4 I, FREDA DONICA, RPR, a Certified Court Reporter, DO
5 HEREBY CERTIFY that I stenographically reported these
6 proceedings before the Oil Conservation Division; and that
7 the foregoing is a true, complete and accurate transcript of
8 the proceedings of said hearing as appears from my
9 stenographic notes so taken and transcribed under my
10 personal supervision.

11 I FURTHER CERTIFY that I am not related to nor employed
12 by any of the parties hereto, and have no interest in the
13 outcome hereof.

14 DATED at Santa Fe, New Mexico, this 16th day of
15 September, 1991.

16 
17 Freda Donica
18 Certified Court Reporter
19 CCR No. 417

20 I do hereby certify that the foregoing is
21 a complete report of the proceedings in
22 the Examiner hearing of Case No. 10335,
23 heard by me on July 25 1991.

24 
25 Michael E. Lopez, Examiner
Oil Conservation Division