

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 NO. 12,739
)	
APPLICATION OF THE NEW MEXICO OIL)	
CONSERVATION DIVISION FOR AN ORDER)	
REQUIRING COULTHURST MANAGEMENT AND)	
INVESTMENTS, INC., TO BRING 12 WELLS)	
INTO COMPLIANCE WITH RULE 201.B AND)	
ASSESSING APPROPRIATE CIVIL PENALTIES,)	
SANDOVAL COUNTY, NEW MEXICO)	
)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: LORI WROTENBERY, CHAIRMAN
JAMI BAILEY, COMMISSIONER
ROBERT LEE, COMMISSIONER

March 26th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Chairman, on Tuesday, March 26th, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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J. C. BRENNER, CCR

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 Commission Hearing
 CASE NO. 12,739

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* * *

A P P E A R A N C E S

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* * *

STEVEN T. BRENNER, CCR
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1 WHEREUPON, the following proceedings were had at
2 10:28 a.m.:

3 CHAIRMAN WROTENBERY: And then the last of the
4 inactive well cases we'll call next is Case 12,739. This
5 is the Application of the New Mexico Oil Conservation
6 Division for an order requiring Coulthurst Management and
7 Investments, Inc., to bring 12 wells into compliance with
8 Rule 201.B and assessing appropriate civil penalties,
9 Sandoval County, New Mexico.

10 This is being heard by the Commission upon the
11 Application of Coulthurst Management and Investments, Inc.,
12 for *de novo* review of the Division Order.

13 And I'll call for appearances.

14 MR. BROOKS: May it please the Commission, I'm
15 David Brooks, Assistant General Counsel, Energy, Minerals
16 and Natural Resources Department of the State of New
17 Mexico, appearing for the New Mexico Oil Conservation
18 Division. I have one witness.

19 CHAIRMAN WROTENBERY: Thank you, Mr. Brooks.

20 MR. CARR: May it please the Examiner, my name is
21 William F. Carr with the Santa Fe office of Holland and
22 Hart, L.L.P. We represent Coulthurst Management and
23 Investments, Inc. I have one witness.

24 I also think the record should reflect that Mr.
25 Brooks and I have stipulated that the testimony of Charles

1 Perrin that was presented on October the 18th can be
2 admitted into the record of this case on stipulation and
3 that Mr. Perrin is not required to be here today to re-
4 present that testimony.

5 MR. BROOKS: That is correct.

6 COMMISSIONER BAILEY: Thank you, Mr. Carr and Mr.
7 Brooks.

8 And your witness is --

9 MR. CARR: -- is John Coulthurst.

10 CHAIRMAN WROTENBERY: Mr. Coulthurst, will you --

11 MR. CARR: Do you want to go first --

12 CHAIRMAN WROTENBERY: -- remain standing and --

13 MR. CARR: -- I didn't know you had a witness --

14 CHAIRMAN WROTENBERY: -- be sworn --

15 MR. BROOKS: Yes, Ms. Prouty --

16 CHAIRMAN WROTENBERY: -- and I assume Ms. Prouty
17 will be testifying again?

18 MR. BROOKS: Yes, she has previously been sworn.

19 CHAIRMAN WROTENBERY: And she's previously been
20 sworn. But Mr. Coulthurst, we need to get you sworn in.

21 (Thereupon Mr. Coulthurst was sworn.)

22 CHAIRMAN WROTENBERY: Thank you.

23 MR. CARR: And is Ms. Prouty going to testify
24 first?

25 MR. BROOKS: Yes.

1 CHAIRMAN WROTENBERY: I think Ms. Prouty will
2 testify first, Mr. Brooks will present his case.

3 MR. CARR: All right.

4 MR. BROOKS: Okay.

5 CHAIRMAN WROTENBERY: Thank you, Mr. Coulthurst.

6 MR. BROOKS: Call Ms. Prouty.

7 JANE E. PROUTY,

8 the witness herein, after having been first duly sworn upon
9 her oath, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BROOKS:

12 Q. Ms. Prouty, would you state your name for the
13 record, please?

14 A. Jane Prouty.

15 Q. And by whom are you employed?

16 A. The Oil Conservation Division.

17 Q. In what capacity?

18 A. I'm the manager of the area that processes the
19 C-115's, the production reports.

20 Q. And in that capacity are you responsible for --
21 you and your staff and people that work under your
22 direction -- responsible for receiving the reports filed by
23 operators concerning production on their wells in New
24 Mexico and maintaining the records of the reports so filed?

25 A. Yes.

1 Q. In this connection, did I ask you to prepare a
2 report through the most current available data concerning
3 production of wells operated by Coulthurst Management and
4 Investment Corp.?

5 A. Yes.

6 Q. I'll ask you to look at Exhibit Number 1 and
7 identify it for the record.

8 A. That's the report for the particular wells you
9 asked me.

10 Q. The Commission has heard the manner -- in the
11 previous case, testimony concerning the manner in which
12 these reports are assembled, so they are familiar with it.
13 But for the record, would you just very briefly review how
14 these reports are assembled?

15 A. Yes. I ask the database for all oil, gas, water
16 or injection -- oil, gas, water produced, or any injection
17 -- from January, 1997, through the current time for the
18 wells that you listed for me. And this report shows that
19 C-115's were filed for every month, but these particular
20 wells didn't have any oil, gas, water produced, or
21 injection volumes. I believe that's correct.

22 Q. Would you review the exhibit and confirm that, in
23 fact, there was no production reported?

24 A. Correct, for these wells there is no production.

25 Q. And what is the most recent month covered by

1 those reports?

2 A. We've received the February -- No, no, excuse me.
3 We've received the January, 2002, report, is the most
4 recent one.

5 Q. And would you conclude from that that the wells
6 listed -- and I forget exactly how many of them -- the
7 wells listed on that list, on that report, remain inactive
8 through the month of January, 2002?

9 A. Yes.

10 MR. BROOKS: No further questions for this
11 witness, pass the witness.

12 MR. CARR: I have no questions of this witness.

13 CHAIRMAN WROTENBERY: Commissioners, any
14 questions?

15 COMMISSIONER BAILEY: No.

16 COMMISSIONER LEE: (Shakes head)

17 CHAIRMAN WROTENBERY: Thank you, Ms. Prouty.

18 MR. BROOKS: We'll offer Exhibit Number 1.

19 MR. CARR: No objection.

20 CHAIRMAN WROTENBERY: Exhibit Number 1 is
21 admitted into the record.

22 MR. BROOKS: Okay, the remaining exhibits, 2
23 through -- let's see -- 2, 3 -- there should be a 4, but
24 I'm not seeing it in my stack -- 5, 6 -- 5 and 6 -- 2, 3, 4
25 and 5 are copies of documents appearing in the Division's

1 files. Exhibit Number 6 is a copy of the transcript of Mr.
2 Perrin's testimony at the Division Hearing. I believe all
3 of these documents should be covered by the stipulation
4 between myself and Mr. Carr. If you have any objection,
5 please so not.

6 MR. CARR: I have no objection to the admission
7 of these exhibits.

8 MR. BROOKS: Okay, based on the stipulation we'll
9 tender Exhibits 2 through 6 inclusive.

10 CHAIRMAN WROTENBERY: Exhibits 2 through 6 are
11 admitted into the record of evidence in the case.

12 And we do have an Exhibit Number 4 that is a note
13 apparently from Mr. Coulthurst to Charlie Perrin.

14 MR. BROOKS: Yes, that's what it should be.

15 CHAIRMAN WROTENBERY: Okay.

16 MR. BROOKS: Okay, Mr. Carr, would you further be
17 prepared to stipulate that Exhibits Numbers 4, 5 and 6
18 constitute the only communications received by the Division
19 from Coulthurst in response to this proceeding prior to the
20 Division Hearing?

21 MR. CARR: I would stipulate that they are the
22 communications received from Coulthurst prior to the
23 Division. There has been communication since that --

24 MR. BROOKS: Yes, I believe those communications
25 would be in the possession of the Commission, but if not,

1 you may offer them.

2 Thank you very much. With that, the Division
3 rests.

4 CHAIRMAN WROTENBERY: I do have one question to
5 ask --

6 MR. BROOKS: Sure.

7 CHAIRMAN WROTENBERY: -- that Mr. Ross has
8 pointed out that the testimony at the Division Hearing was
9 actually given by Frank Chavez instead of Charles Perrin?

10 MR. BROOKS: I believe that is correct. I
11 apologize for that misunderstanding. Does our stipulation
12 also apply to Mr. Chavez's testimony?

13 MR. CARR: Yes, it does.

14 CHAIRMAN WROTENBERY: Okay. And would you
15 explain, Mr. Brooks, who Mr. Chavez is?

16 MR. BROOKS: Okay, I believe --

17 CHAIRMAN WROTENBERY: I think he's --

18 MR. BROOKS: -- the record --

19 CHAIRMAN WROTENBERY: -- it is explained --

20 MR. BROOKS: -- of the Division Hearing will
21 reflect --

22 CHAIRMAN WROTENBERY: -- in the record.

23 MR. BROOKS: -- that Mr. Frank Chavez is the
24 District Supervisor of District Number 1, which includes --
25 OCD District Number 1, which includes San Juan and Rio

1 Arriba Counties, New Mexico, among other counties.

2 CHAIRMAN WROTENBERY: And would you also explain
3 who Mr. Perrin is, if there is one --

4 MR. BROOKS: I believe --

5 CHAIRMAN WROTENBERY: -- for Mr. Coulthurst, who
6 Mr. Perrin --

7 MR. BROOKS: -- that the record will probably --

8 CHAIRMAN WROTENBERY: -- are two --

9 MR. BROOKS: -- also reflect that Mr. Charlie
10 Perrin is a field representative with the Aztec District
11 Office, who works under the supervision of Mr. Chavez.

12 CHAIRMAN WROTENBERY: Okay, thank you.

13 Anything else --

14 MR. BROOKS: No, the --

15 CHAIRMAN WROTENBERY: -- Mr. Brooks?

16 MR. BROOKS: -- Division would rest at this
17 point.

18 CHAIRMAN WROTENBERY: Thank you, Mr. Brooks.

19 Mr. Carr?

20 MR. CARR: May it please the Commission, at this
21 time we call John Coulthurst.

22 CHAIRMAN WROTENBERY: Mr. Coulthurst, thank you
23 for making the trip to testify before the Commission.

24 MR. COULTHURST: It's always nice going to New
25 Mexico. Thank you.

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JOHN COULTHURST,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. John Coulthurst.

Q. Mr. Coulthurst, where do you reside?

A. In Berkeley, California.

Q. What is your relationship to Coulthurst Management and Investment, Inc.?

A. I am the president, sole owner and only officer of that corporation.

Q. Would you describe for the Commission the nature of the business of Coulthurst Management and Investment?

A. It's a holding company for oil and gas properties.

Q. Do you operate any properties other than those which are at issue in this hearing?

A. None whatsoever.

Q. Have you previously testified before this Commission?

A. No, sir.

Q. Would you review briefly your educational

1 background?

2 A. I have a bachelor of arts in economics out of
3 Haverford College, outside of Philadelphia.

4 Q. And when did you receive your degree?

5 A. 1959.

6 Q. Do you have any professional training in either
7 petroleum geology or engineering?

8 A. No, I do not.

9 Q. Do you rely on consultants and others for these
10 types of technical services?

11 A. Absolutely.

12 Q. Could you describe just generally your work
13 experience as it relates to the oil and gas industry?

14 A. Well, I invested as a limited partner in a bunch
15 of limited partnerships in the 1980s, ran into Gene Wilson
16 during that time and was very impressed by him.

17 Q. And who is Mr. Wilson?

18 A. Mr. Wilson is a well known New Mexico geologist.
19 He has about 50 years of experience. He's quite a
20 character, but an honorable man.

21 Q. And is this individual who has provided
22 geological expertise to you in this effort?

23 A. Yes, he has.

24 Q. When did you acquire your interest in the South
25 San Luis Pool?

1 A. 1991.

2 Q. And are you familiar with the status of the lands
3 in that pool?

4 A. Well, I'm not a geologist, but I think I know
5 what's going on, yes.

6 Q. And are you familiar with the status of the wells
7 in that pool?

8 A. Yes.

9 Q. Would you review for the Commission what is the
10 purpose of your testimony here today?

11 A. Well, I'd like to review the history, for one
12 thing, of Coulthurst Management and how we've been trying
13 to develop the properties, you know, which are the subject
14 of this Application.

15 Q. You'll provide the Commission with the current
16 status of these properties?

17 A. Yes.

18 Q. There are 12 wells that are involved in this
19 hearing; isn't that correct?

20 A. Correct.

21 Q. And Ms. Prouty just testified that none of those
22 wells were actively producing at this time. You agree with
23 that, do you not?

24 A. Absolutely.

25 Q. You're also here today to respond to the Oil

1 Conservation Division's demand to bring certain wells into
2 compliance with these rules, are you not?

3 A. Absolutely. I just -- That's why I'm here.

4 Q. And you're going to review for the Commission
5 your plans and what you propose to do to meet that
6 objective, bringing these wells into compliance?

7 A. Correct.

8 Q. Now, when did you acquire these properties?

9 A. 1991.

10 Q. And from whom?

11 A. Noel Reynolds.

12 Q. And what was your plan for these properties at
13 that time?

14 A. The plan, as recommended by a couple of experts,
15 was to acquire the properties and to drill deeper than all
16 those old, shallow wells, to try to find an expected oil
17 zone at around 600 feet.

18 Q. At the time you acquired these properties, there
19 was an engineering report on them recommending waterflood
20 operations?

21 A. Yes, because of the fact I wouldn't acquire the
22 properties knowing that you can't get any serious
23 production out of reserves at 600 feet without implementing
24 a waterflood, that's correct.

25 Q. And who was the individual who, in fact, made

1 that recommendation?

2 A. Well, I don't really know him well, but he was
3 recommended by Gene Wilson: William Weiss, out of the
4 university at Socorro, I believe.

5 Q. And it was on his recommendation that you
6 acquired these properties and intended to implement
7 waterfloods?

8 A. Absolutely, that's from day one.

9 Q. We're talking about certain properties at this
10 time. How many acres are we actually dealing with?

11 A. Basically, with the exception of the Jenny 1,
12 which is the north of the Section 33, we're basically
13 talking about Section 33 less 80 acres.

14 Q. And these are in Township 18 North, Range 3 West?

15 A. That's correct.

16 Q. How many wells are there actually on these
17 properties?

18 A. Well, the one Jenny well, which is in Section 28,
19 which we intend to plug. And then there are six wells that
20 we drilled in Section 33, and I believe eight ancient wells
21 that have been there for 20 or 30 years, at least.

22 Q. We have eight old wells?

23 A. Yes.

24 Q. We have six new wells?

25 A. Correct.

1 Q. We have 14 wells that are now in this reservoir?

2 A. Correct.

3 Q. Twelve of them are inactive?

4 A. Well, actually only six of the wells that were
5 drilled actually are in the reservoir that we're talking
6 about. The old wells are in a tiny reservoir that was the
7 first wells, you know, to make that field development
8 originally. I don't know, it might have been back in the
9 1950s. I don't have any well files on them.

10 Q. What are your current plans for these wells?

11 A. It's never changed and that is, now that we have
12 two good wells that are now winding down as far as initial
13 production because of gas -- not gas but pressures -- we
14 intended, and I do intend, to implement a waterflood.
15 That's what our intention is.

16 Q. Two wells will be producing in that waterflood?

17 A. At the beginning, yes, sir.

18 Q. And how many wells are you initially hoping to
19 plug and abandon?

20 A. We need to plug -- This is what the geologist
21 recommended. We needed to plug four of those old eight
22 wells as soon as possible.

23 Q. So four plugged, two producing, and the balance
24 of those you intend to bring into temporarily abandoned
25 status or convert to water wells?

1 A. Right, due to the fact that we don't need them
2 for water purposes. In other words, we're not using those
3 wells for injection wells. We're going to need water to
4 inject the new injection well that we had hoped to do this
5 fall, and those are going to be the sources. And actually
6 four of those old wells we are hoping to keep as potential
7 water sources for wells to be drilled in the future, deeper
8 in that old area of the field.

9 Q. What volumes have been produced from this area
10 prior to your acquisition of the property?

11 A. I saw prior to purchasing the property that the
12 old wells produced over a period of 20 to 40 years
13 something in the neighborhood of 2000 barrels.

14 Q. And since you acquired the properties, what's the
15 cumulative production?

16 A. The cumulative production is exactly 1000 percent
17 more than that over the last nine years. We have produced
18 over 20,000 barrels and are producing at the rate of 2700
19 barrels a day -- I mean a year, I wish it was a day --
20 right now, and we are extremely proud of our record.

21 Q. How old are these wells?

22 A. Which wells?

23 Q. The wells that you acquired from Mr. Reynolds.

24 A. Well, I don't have well files on them, but I am
25 told they're between 20 and 50 years old.

1 Q. And how deep are the wells that you initially
2 acquired?

3 A. Almost all of them are around 350 to 400-and-
4 something feet.

5 Q. And the wells that you've drilled, are they
6 deeper than that?

7 A. They're down to about 700 feet, yes, sir.

8 Q. Are there freshwater zones in the area?

9 A. Yes, there are.

10 Q. Is water being used, fresh water, for any purpose
11 in this area?

12 A. Yes, we offered at the request of the farmer, or
13 the cattle farmer in the area -- we have been allowing him
14 to use water that we get from our wells that are producing,
15 and that we had the water tested and we had the BLA
16 approval at no cost to the farmer and at no cost to the BLM
17 so that the farmer could get water.

18 Q. Is he using it for stock water?

19 A. Yes he is, sir.

20 Q. What is the character of the land upon which all
21 of these wells are located? State, federal or fee?

22 A. It's all federal.

23 Q. And have you been working with the Bureau of Land
24 Management concerning these properties?

25 A. Very closely.

1 Q. What sort of bond have you in place to cover your
2 operations on these properties?

3 A. We have a \$25,000 Bank of America CD in the BLM
4 name.

5 Q. Could you just briefly review your efforts with
6 the Bureau of Land Management to deal with these wells in
7 their current status?

8 A. Around nineteen ninety- -- I was going to say --
9 Let me go to the next page, because I want to be as
10 accurate as I can. 1998, the BLM sent me a certified
11 letter at my current address, which has been the same for
12 ten years, giving me the same -- I'm not a lawyer, but it
13 looked like the same letter that I got from the OCD, with
14 the same typical 30 days put up or -- you know, or you're
15 going to get shot, which is very exciting when you're not a
16 lawyer, let me tell you. I've never received a letter like
17 that in my life, and it's very frightening.

18 And when I got that letter I immediately called
19 up the BLM and talked with both Pat Hester and Brian Davis,
20 who is a geologist for the BLM, and reviewed what we were
21 doing and telling them in no uncertain terms that we were
22 in the same boat that they were, in the same direction, and
23 that we're spending 100 percent of our cash flow to expand
24 the production of the field, and had done so.

25 Q. They told you basically you had to do something

1 with these inactive wells, did they not?

2 A. That's right, and they said that what we had to
3 do -- they said, Well, what do you want to do?

4 And I said, We want to spend 100 percent of our
5 cash flow to get the production up and going and to form a
6 waterflood on the BLM land, and if we spent money getting
7 rid of the plugging of some of these old wells before we
8 were ready to drill the injection well, then we would have
9 to -- because we were working with our cash flow, we're a
10 small company, and that you couldn't have it both ways. If
11 we wanted to expand the production, then would they be so
12 kind as to let us do so and put off for a while, while we
13 did the good work for the waterflood?

14 Q. Did they require that you submit a written
15 proposal for the implementation of a waterflood?

16 A. That is correct, it took me 90 days. In fact, I
17 came to see you just before that at the recommendation of a
18 friend. And you said, Fill out the paperwork, they're good
19 people to work with. And I did that, it took me 90 days.
20 And I'm not saying --

21 Q. Who assisted you in that regard, with technical
22 work?

23 A. Well, the technical work was all work done in the
24 past by Gene Wilson and Mr. Weiss.

25 Q. And that report provided that you would be

1 drilling an injection well hopefully in the fall of this
2 year?

3 A. That's correct.

4 Q. When were you contacted by the Oil Conservation
5 Division?

6 A. Well, the records show that they sent me a letter
7 on May the 2nd, I had in my file. Amazing, because I'm not
8 the world's best filer. But anyway, I did have that in my
9 file, and it said something about Bradenhead tests and to
10 submit a plan within 30 days on this BLM lease.

11 Q. Did you respond directly to the OCD?

12 A. No, I did not, because -- and that was a big, big
13 mistake -- because I'd already answered that same basic
14 question of what we were going to do with the wells, with
15 the BLM.

16 Q. You're aware that there was a hearing in
17 September of last year concerning these wells?

18 A. Yes, sir.

19 Q. And when did you learn about that hearing?

20 A. I learned of it Thursday afternoon, five o'clock
21 west coast time, when the phone rang and Mr. Perrin was on
22 the phone.

23 Q. And that's Mr. Perrin from the Aztec office of
24 the Division?

25 A. That's what he said, yes.

1 Q. And that was the Thursday afternoon immediately
2 preceding the hearing; is that correct?

3 A. That is correct, a very frightening thing to get.

4 Q. And what happened at that time?

5 A. He said, Why didn't you respond to our letter?

6 And I said, What letter?

7 And he said, The one we sent you by certified
8 mail.

9 And I said I had not received any notices in my
10 box that I had a certified letter, from anybody.

11 Q. You did not receive a letter?

12 A. No, sir.

13 Q. You would agree that when certified mail is sent
14 to someone, people normally receive it?

15 A. Not only that, if they don't receive it when
16 they're -- you know, if they're not home, they're supposed
17 to get a receipt saying, you know, we have tried to deliver
18 a letter.

19 Q. But you were unaware of the hearing till the
20 Thursday before?

21 A. That is absolutely correct.

22 Q. And what did you do?

23 A. I asked Mr. Perrin, what the heaven's name could
24 I do?

25 He said, Give me a timetable so that -- when you

1 could take care of these requests. And he told me the
2 requests. He was very helpful on the phone.

3 And I said, Well, how much time do I have to
4 figure this out?

5 And he said, Two and a half days.

6 Q. And were you able to meet that deadline?

7 A. I sure tried, I called everybody I could, and the
8 answer is, I couldn't even -- I don't have files on it, the
9 BLM said it's impossible to give you a date as to when you
10 could even get the answer back if you could fill out the
11 forms and get them to us in two days.

12 Q. And when you say that, you're talking about a
13 plugging program approved by the BLM; is that correct?

14 A. That's correct. I finally got ahold of somebody
15 in the second day, which was Monday, I believe, who would
16 call me back since I have no -- I've never dealt with a
17 plugging company in my life and didn't expect to do so
18 until they got into this waterflood.

19 And I finally -- They called back and they said,
20 We can't give you a date, we're very busy. We'll give you
21 a date after you give us the form that's been approved by
22 the BLM.

23 Q. And that was when you requested the continuance
24 of the hearing; is that correct?

25 A. I didn't know what else to do, yes.

1 Q. And that's what has been included as Exhibit 5 in
2 the exhibits of the Oil Conservation --

3 A. I believe so.

4 Q. No extension was granted, correct?

5 A. Apparently not.

6 Q. And the matter went to hearing. Did you,
7 following the hearing, have further conversations with the
8 Oil Conservation Division?

9 A. Yes, I was away on business the week the hearing
10 was held. I remember -- think that was a Thursday, and
11 Charlie Perrin left his office Tuesday, so he needed every
12 answer by Tuesday mid-day.

13 And the week I got back, I think Monday morning,
14 I started calling around, trying to figure out what to do.
15 And I called Mr. Perrin, called the BLM, called the
16 plugging company and went from there.

17 Q. Did you submit to the Oil Conservation Division a
18 written proposal for this work?

19 A. Yes, I did.

20 Q. And when did you do that?

21 A. I'm looking back in my records on these notes,
22 because I really don't remember.

23 I believe it was November the 8th. Is that
24 right, Bill? Do you have that in your file someplace?

25 Q. There is a copy of it, I believe, in front of you

1 there.

2 A. Well, there's been more than one, there's been
3 a lot of -- Oh, yes, 11-8 was the date that I got it by
4 e-mail to Mr. Perrin --

5 Q. And that, may it please the Commission --

6 A. -- and Pat Hester, by the way.

7 Q. And that has been marked as Coulthurst Exhibit
8 Number 1.

9 What action did the Division take as a result of
10 the Examiner Hearing?

11 A. I'm not sure I understand your --

12 Q. Was an order entered following the Examiner
13 Hearing?

14 A. Well, I got a fine in the mail which said you're
15 fined and an order with it, I believe. Is that what --

16 Q. And did that order direct you to plug or return
17 the wells to beneficial use?

18 A. Absolutely, and I had no argument with it.

19 Q. And it imposed a \$12,000 fine, did it not?

20 A. Yes, I'm a little upset by that.

21 Q. What have you done since the Division entered the
22 order?

23 A. Well, I guess I would call it playing ping-pong
24 between the plugging company and the BLM and talking to
25 Charlie Perrin. I haven't talked to Charlie in about

1 probably a month and a half, because our first -- We had
2 two different types of filings with the BLM.

3 The first one was with a request to integrity-
4 test four wells. That went back and forth twice or three
5 times, and I finally got the approval in writing about two
6 weeks ago from the BLM.

7 The other with the plugging, with the wells on
8 it, that's gone back twice now to the BLM, and they've
9 changed the ground rules on what we had intended, which is
10 a greater problem.

11 Q. Did they increase the cementing and perforating
12 requirements for the proposed plugging?

13 A. Yes, I actually haven't talked to them in detail,
14 because I wanted to get the form reviewed and filed and
15 agreed to as fast as possible so that I could give it to
16 everybody here and Mr. Perrin and then talk to the BLM as
17 to what they were talking about. But they suggested that
18 we need to, on these 400-foot, roughly, old wells, to
19 perforate and to squeeze cement behind them to protect, I
20 suspect, the environment. And we're in favor of doing
21 anything they recommend, but it increases the cost
22 dramatically.

23 Q. Did you meet with the BLM concerning their
24 additional requirements for the plugging of these wells?

25 A. Well, not in the sense of -- I asked them when I

1 talked with them recently -- in fact, I talked to Pat
2 Hester yesterday and I said, Pat, have you had a chance to
3 review with the engineer as to whether or not we could do
4 this just by having professionals cement the old wells in,
5 just like Noel Reynolds did, I think maybe a mile north of
6 us, so that we could do it cheaper and better and leave us
7 more funds to complete our process on the waterflood?

8 And she said she hadn't done it yet, she'd be out
9 this week and expected to be able to come back in the next
10 couple of weeks with -- either signed off on the plugging
11 or something to help us.

12 Q. Now, who is the contractor that you're working
13 with?

14 A. It's Phoenix Well Service.

15 Q. And they're in Lindrith, New Mexico

16 A. Yes. I've never been there, but that's what they
17 tell me.

18 Q. What are the -- at this point in time, the
19 estimated costs you're looking at for plugging each well?

20 A. Noel Reynolds did his for about -- something like
21 \$1500 a well, and the professional engineer at the Lindrith
22 Company says that they are estimating close to \$5000
23 because of having to go into each well, perforate, squeeze,
24 et cetera.

25 Q. And what are the estimated costs for integrity

1 testing?

2 A. They are suggesting that it's going to cost
3 something in the neighborhood of \$2500 per well.

4 Q. At this point in time, where are you in the
5 process of trying to bring wells into compliance with OCD
6 rules?

7 A. Well, we're waiting for the last bit of approval
8 from the BLM, and then -- that's what we're waiting for.

9 Q. And then when you get that approval from the BLM,
10 what do you intend to do?

11 A. I intend to, as soon as possible, plug the four
12 wells, and to get the OCD to talk to the BLM so that we can
13 have a meeting of the minds on the waterflood also.

14 Q. Are you then intending to go forward with the
15 other work required to bring the wells into compliance with
16 OCD Rules?

17 A. Absolutely.

18 Q. And what do you request be done here today?

19 A. You mean, when will the written request be done?

20 Q. No, what are you asking the Commission to do
21 today?

22 A. Well, I'm asking them to give me enough time so
23 that I can get the BLM to be happy with the OCD and the OCD
24 to be happy with the BLM, because I've given my word on the
25 development of the property through the waterflood, which

1 is why I filled out that paperwork a year and a half ago.

2 Q. And you'd for everybody, then, to be happy with
3 you?

4 A. Heavens, yes, I'm not fighting with anybody.
5 You're preaching to the choir.

6 Q. Are you requesting that this case be continued
7 for a period of time?

8 A. We're going to need enough time to get the
9 paperwork from the BLM, talk with Charlie Perrin, talk with
10 Pat Hester and see if there can't be a legitimate
11 compromise so the BLM is happy, the OCD is happy, and we
12 can get on with our job.

13 Q. If this case is continued, will you plug four
14 wells?

15 A. Absolutely.

16 Q. If this case is continued, will you go forward
17 with Mr. Perrin's coordinating efforts to bring this
18 property into compliance with OCD Rules?

19 A. Absolutely, and may I also say in Mr. Perrin's
20 defense that Mr. Perrin and the OCD had absolutely no
21 knowledge of the waterflood applications that I filed with
22 the BLM, the BLM never said that I should file it jointly
23 with the OCD, and so consequently they didn't know.

24 Q. During this period of time will you also file the
25 forms for the waterflood effort with the Oil Conservation

1 Division?

2 A. Yeah, you're getting tough. You know, if I have
3 to, I certainly will slug my way through it, yes.

4 Q. And we've discussed what that will entail, have
5 we not?

6 A. Actually, you've only said that it's pretty
7 complex. It sounds a little frightening, but that's why
8 they have engineers.

9 Q. All right. During this period of time will you
10 coordinate your activities with Mr. Perrin?

11 A. Absolutely, because if we don't get an agreement
12 with the BLM and OCD on this, then if I do everything that
13 Charlie Perrin wants me to do -- if I had the money, all of
14 it -- then I'm going against the BLM promise that I made to
15 them and the filing that I did to them.

16 Q. Now, money is a critical factor in this matter,
17 is it not?

18 A. Yeah, we're just a small -- we are, we're a small
19 company.

20 Q. What is the impact on your efforts to bring these
21 wells into compliance with the \$12,000 fine?

22 A. Well, obviously it would cripple it because we
23 don't have a lot of money.

24 Q. Are you requesting that if you meet regulatory
25 requirements within the continuance period, that no fine be

1 imposed?

2 A. I sure hope so. I'd like to spend the money
3 intelligently, rather than just spend it on fines.

4 Q. How much time are you going to need to get this
5 thing going forward, realistically?

6 A. Well, let's say -- you know, I'm a hopeful person
7 -- let's say it takes two to four weeks to get the
8 paperwork signed and everybody happy with whatever they
9 need to get done on the plugging paperwork with the BLM.

10 Then I'm hoping that we can start immediately
11 with Charlie Perrin and Pat Hester and get some agreement
12 fast, and then during that time get the plugging company to
13 go in there and plug those four wells as fast as possible.
14 And the last time I asked that question they said four to
15 eight weeks, maximum.

16 Q. How much time do you think you need?

17 A. Well, my problem is, I can't tell you how long it
18 will take Mr. Perrin and the BLM to have an agreement that
19 they both can live with. But I'm hopeful that, you know,
20 way in advance of six months we can get everything done,
21 everybody happy, and we'd be off and running on the
22 development.

23 MR. CARR: That concludes my examination of Mr.
24 Coulthurst.

25 We'd move the admission into evidence of

1 Coulthurst Exhibit Number 1.

2 MR. BROOKS: No objection.

3 CHAIRMAN WROTENBERY: Coulthurst Exhibit Number 1
4 is admitted as evidence.

5 And --

6 MR. CARR: And I pass the witness.

7 CHAIRMAN WROTENBERY: -- Mr. Brooks?

8 MR. BROOKS: Thank you.

9 EXAMINATION

10 BY MR. BROOKS:

11 Q. Mr. Coulthurst, let me retrieve OCD Exhibit
12 Number 1 from that table, if I may. Thank you.

13 A. Sure.

14 Q. To clarify the record, because you have testified
15 concerning the amount of production you have in this area,
16 the evidence has been offered by the Division that the Ann
17 Number 3, 5, 6 and 15, and the Darla Number 1, 2, 7, 16 and
18 the Erin Number 1, 3, 4 and the Jenny Number 1 -- all of
19 those wells are inactive and have been inactive
20 continuously for a period of five years.

21 Do you dispute that?

22 A. What was your phrase about -- for the period of
23 five years they were what?

24 Q. Inactive, there's been no production from those
25 wells?

1 A. Absolutely correct. And not only that, but I'm
2 going to tell you that we never intended to produce the old
3 wells because they're not economic.

4 Q. Okay. Did you say that you -- and are these --
5 the wells that I listed, are those all old wells?

6 A. No, sir. The Erin wells are all in that group of
7 wells that we drilled looking for oil, but unfortunately we
8 only hit two good oil wells out of those Erin wells. But
9 two of them are offsetting the producing wells and they're
10 perfect, absolutely perfect, water sources for the water
11 injection well that will be put in between the Erin 2 and
12 the 9.

13 Q. Now, the Erin 1, 3, 4 --

14 A. The 3 and 4 are going to be used for the
15 injection -- for water sources --

16 Q. Okay.

17 A. -- for our hopefully new water injection well.

18 The Erin 1 happens to have a bad cement job
19 behind it, and it looks like it hit the oil zone. We
20 didn't want to spend the money on trying to remediate the
21 cement job until after we got the water injection well
22 started, because that would be very important to the
23 revenues of both the state, the BLM and yours truly.

24 Q. Now, the five Ann wells that I listed, are those
25 among the old wells that you never intended to produce?

1 A. Absolutely.

2 Q. And what do you intend to do with those?

3 A. Well, the Ann wells and -- what are the other oil
4 wells called?

5 Q. And then there are -- there are five --

6 A. Darla --

7 Q. -- Ann wells --

8 A. -- the Darla and the Ann wells.

9 Q. -- and there are three Darla wells --

10 A. Okay, look --

11 Q. -- actually four Darla wells.

12 A. Yeah. First of all --

13 CHAIRMAN WROTENBERY: May I ask a question --

14 MR. BROOKS: Sure.

15 THE WITNESS: Sure.

16 CHAIRMAN WROTENBERY: -- quickly? What are the
17 five Ann wells? Because on the list in front of me I see
18 four Ann wells.

19 MR. BROOKS: Okay, I may be mistaken. There's
20 the Number 3, the Number 5, the Number 6 and the Number 15.
21 I stand corrected, there are four Ann wells --

22 CHAIRMAN WROTENBERY: Okay.

23 THE WITNESS: And four Darla.

24 MR. BROOKS: -- and there are four Darla wells,
25 the Number 1, the Number 2, the Number 7 and the Number 16.

1 Go ahead.

2 CHAIRMAN WROTENBERY: Thank you.

3 THE WITNESS: And I'm sorry, what was the exact
4 question?

5 Q. (By Mr. Brooks) Well, I don't remember for sure,
6 so let me go back --

7 A. Well, do you want to know what we want to do with
8 those wells?

9 Q. What are you going to do with the four Ann wells,
10 first off?

11 A. Well, the list -- My original request to Charlie
12 was to plug the Ann 5, the Ann 6, the Darla 16. And I
13 changed that a couple days later; I wanted to put the Jenny
14 Number well [sic] in that plugging group. So I want to
15 plug the Ann 5, the Ann 6 and the Darla 16 of the old
16 wells, okay?

17 Q. Yes.

18 A. The Jenny Number 1 is a new well that's north of
19 there. And we want to keep the rest of the old wells as a
20 water source, not to pressurize them or to, you know, use
21 them as an injection well.

22 Why? Because we can't tell yet -- Until we drill
23 a deeper well, right in that area -- nobody's ever done it
24 -- we are hoping, reasonably, and the geologists are
25 suggesting it, that if we -- when we drill a well there, we

1 could use those wells as a water source for another
2 injection well, in fact, maybe two injection wells.

3 Now, if we plug all of these old wells, then by
4 definition it's going to cost us a lot more money when we
5 drill a well. Now, if we drill a well in that area and
6 it's no good, then obviously we should -- and we would
7 volunteer to plug those wells immediately because we don't
8 have any use for them.

9 Q. Well, let me get back to where I was here, to
10 make sure I understand this correctly.

11 A. Okay.

12 Q. The Ann wells and the Darla wells, are those all
13 old wells?

14 A. They're ancient.

15 Q. And the Erin wells --

16 A. -- are all new.

17 Q. -- are new wells that you've drilled?

18 A. Yes, sir.

19 Q. And the Jenny wells are also new wells?

20 A. There's one Jenny well and that was a new well to
21 the north. We were hoping to get lucky and extend the
22 field, but it didn't work.

23 Q. Okay.

24 A. Although we tried. It looked pretty good on
25 the --

1 Q. Now, according to your schedule, which I had not
2 focused on and I should, two of the Ann wells, the Numbers
3 5 and 6, are to be plugged?

4 A. Yes, sir.

5 Q. One of them is to be converted to a water well.
6 That's the Ann Number 3, correct?

7 A. Yes, sir.

8 Q. Now, then there's also on our list the Ann Number
9 15. What is your intended disposition of that?

10 A. I have no idea what the Ann 15 even is. You have
11 me.

12 Q. Okay, so you're not acquainted with the Ann
13 Number 15?

14 A. I certainly am not, no.

15 Q. And that would be located according to our
16 records in Unit Letter A, which would be the northeast
17 quarter of the northeast quarter of Section 33, Township 18
18 North, Range 3 West.

19 A. That's the Ann 15?

20 Q. Yes.

21 A. Okay.

22 Q. Okay. Now the Darla wells, there are four of
23 those. You plan to plug one and you plan to convert three
24 to water wells, correct?

25 A. Right. Not water injection, water wells.

1 Q. Water-producing wells?

2 A. Water-producing, just like if somebody drilled a
3 water well for you.

4 Q. Okay. Now, the Erin wells, what do you plan to
5 do with those?

6 A. Erin 3 and 4, we've already checked the viability
7 -- their waterflow potential, and they both should be
8 combined -- the idea is to combine them jointly with one
9 pipeline directly to the water injection well north of
10 there, which we haven't drilled yet.

11 Q. Now, what function will these serve? Will these
12 be --

13 A. Just like the rest of those old --

14 Q. -- water wells?

15 A. -- water wells.

16 Q. Okay.

17 A. They're not water injection wells, there will be
18 no pressure on them.

19 Q. And which wells will be your producing wells?

20 A. At the moment the Erin 2 and the Erin 9.

21 Q. They're not on our list, right?

22 A. No, because they're producing.

23 Q. So would all three of the Erin wells be water
24 wells, water-production wells?

25 A. Two of them are going to be water wells, the Erin

1 1 Number 1 should be worked on by squeezing and then
2 tested. And then we'll know whether it should be either
3 plugged, or, it would be a wonderful water injection well
4 downdip from the Erin Number 2. So then we would hit it
5 from both sides, and that would be nirvana.

6 Q. Okay, what's the disposition, then, of the Jenny
7 Number 1?

8 A. We want to plug that as fast as possible.

9 Q. Okay. You indicated that the estimate you had
10 received for plugging these wells in accordance with the
11 BLM specifications was approximately \$5000 per well; is
12 that correct?

13 A. That's the second estimate. The first estimate
14 was much cheaper.

15 Q. Okay. If the \$5000-per-well estimate were
16 accurate for all of these -- It looks like 12 wells --

17 A. You mean -- you're suggesting plugging the water
18 wells?

19 Q. Well, no, I'm just doing some mathematics here,
20 we're dealing with 12 wells --

21 A. Well, that's a lot of money, if you --

22 Q. -- at \$5000 per well --

23 A. -- wanted to plug them all at once, that's
24 \$60,000, yes.

25 Q. Correct. And that is considerably more than the

1 \$25,000 in security you've posted with the BLM, is it not?

2 A. It certainly is. That's why I believe we need to
3 plug some wells, so that you don't have any financial risk.

4 Q. Now, you are aware, are you not, that the
5 commencement of waterflood requires approval by the Oil
6 Conservation Division as well as the BLM?

7 A. I am as of today, even though --

8 Q. And you're --

9 A. -- no one ever mentioned that.

10 Q. You are aware that that requires approval, but
11 that approval must be made by the Santa Fe Office --

12 A. I don't know.

13 Q. -- specifically?

14 A. That's why we have that gentleman over there.
15 I'm sure he'll help me.

16 Q. Okay. And he has advised you that there is a
17 fairly extensive procedure involved?

18 A. He says it's awful.

19 Q. Well, I think the Division Examiners might agree
20 with him.

21 A. You know, the BLM told me, David, that they had
22 not had an approval done or asked for on a waterflood in a
23 lot of years.

24 Q. Well, okay. You had indicated -- Your testimony
25 seemed to indicate that there was some conflict between

1 what the OCD District Office was requiring or expecting and
2 what the BLM was requiring and expecting. Could you
3 elaborate on that?

4 A. There is a huge problem.

5 Q. And what is the nature of that problem?

6 A. The problem is, is that we've been working for
7 two and a half years with the BLM, we filed the papers that
8 we thought were needed, and along comes the OCD and says
9 drop everything and spend all your money and plug all the
10 wells or do something with them instantly. And we don't
11 have the money to do both, that's the problem.

12 And by the way, the BLM prior to this has been
13 extremely helpful. They are wonderful people, and we'd
14 like to get the same relationship with you gentlemen.

15 Q. Well, has the OCD indicated -- has anyone with
16 the OCD indicated to you that following through with your
17 plan that you have told us you've submitted and -- Well,
18 let me back up.

19 Has the plan that you've submitted to the BLM
20 been approved by the BLM?

21 A. Has the plan that I submitted to the BLM been
22 approved yet?

23 Q. Been approved by the BLM?

24 A. Which plan?

25 Q. Well, I don't know because I haven't seen your

1 plan. I'm just asking --

2 A. Actually, that was requested by Charlie Perrin,
3 and I had it specially e-mailed to him from a computer
4 center, and unfortunately he was not at his office prior to
5 the hearing and you never saw it.

6 Q. I never did see it, but --

7 A. -- but he's got it.

8 Q. Has this plan that we're talking about, has it
9 been approved by the BLM?

10 A. The waterflood plan?

11 Q. Yes.

12 A. No, it has not, they've been sitting on it for a
13 year and a half, at, partially, my request because I told
14 the geologist, Look, in fact, we're not going to have
15 enough money to drill the injection well until
16 approximately this fall -- that's prior to all the OCD
17 stuff -- and so I know you're having fun and you're
18 overworked, but can you get it done by the spring of this
19 year?

20 And he said sure. They've been very helpful.
21 But they haven't finished kicking the tire around on that
22 plan.

23 Q. Okay. Could you explain to us why -- Well, back
24 up.

25 There are four wells you're going to plug in any

1 event, correct?

2 A. Yes, sir.

3 Q. Can you explain to us why it's necessary to hold
4 off on plugging those wells until the entire plan is
5 approved?

6 A. Well, it's necessary for two reasons.

7 One, I don't have the money to plug all the wells
8 all at once. That's the practical aspect of it, if anybody
9 cares.

10 And the other reason is, the practical aspect is,
11 it would seem to be a pretty sad thing to plug the wells
12 before you know you're going to need them or not, the other
13 four wells, because if -- you want to get as much
14 production going as fast as you can economically, and if
15 you plug those wells and then drill a well -- pick a
16 number; two years from now? -- and you hit and you'd like
17 to have the water use from the wells that you're suggesting
18 that we -- you know, all eight plugged immediately -- then
19 what you're going to do is, you're going to increase the
20 cost dramatically and slow the development.

21 Q. But my question was specifically tailored to the
22 four wells that you're going to plug in any event. What
23 reason is there not to go ahead and plug those wells?

24 A. What reason there is to plug the four wells?

25 Q. Not to plug. If you're going --

1 A. Oh, why wouldn't --

2 Q. -- you have four wells you know you need to plug,
3 why not go ahead and plug them?

4 A. I'm going to.

5 Q. Can you tell us when?

6 A. Well, it will be after we get the approval from
7 the BLM.

8 Q. What approval from the BLM?

9 A. They have to sign off on the -- they said, and
10 Charlie said so too. You have to put an application in --
11 a sundry notice, I believe it's called -- to the BLM, and
12 they have to okay the engineering of it.

13 Q. Okay, I agree with that, but the only thing
14 you're waiting for --

15 A. -- is their approval.

16 Q. -- is the -- on plugging these wells is the
17 approval of your C-103 request to plug; is that correct?

18 A. I guess that's what you call it, yes, sir.

19 Q. Has --

20 A. Pat Hester --

21 Q. -- Notice of intent to plug --

22 A. Yes, sir.

23 Q. -- is what it's called. That has been filed?

24 A. It's been filed twice, actually, and the last one
25 was filed a few weeks ago, and Pat Hester says it has to

1 have a little adjustment to it, so she hoped to have the
2 actual sign-off on that application in the next couple
3 weeks.

4 Q. Okay. And after that is done, you will proceed
5 to plug those wells?

6 A. Faster than -- If I could do it myself, I'd do it
7 the next day.

8 Q. Okay. So would it be fair to say that you
9 probably could have those four wells plugged within the
10 next 60 days?

11 A. I sure hope so, I'm tired of hearing about them.

12 Q. Okay. Now, implementing your plan as to the
13 remaining eight wells will require the approval of both the
14 BLM and the OCD, correct?

15 A. I am hoping and keeping my fingers crossed that
16 the OCD and the BLM will come to some reasonable compromise
17 so that we can allow the waterflood to go sooner rather
18 than never --

19 Q. Well, are you --

20 A. -- and it requires your help too.

21 Q. Is there -- This goes back to the question I
22 asked before. Is there any conflict that you're aware of
23 between what the OCD wants and what the BLM wants, other
24 than that the OCD has this inactive well program, and
25 they're trying to get all the inactive wells taken care of

1 as soon as possible?

2 A. The only conflict is not in intent but in timing.

3 Q. You're not aware of anything the BLM wants to
4 require you to do that the OCD disapproves of?

5 A. I hope not. No, I'm not.

6 Q. Or anything that the OCD wants you to do that the
7 BLM disapproves of?

8 A. Well, "disapproves", that's an interesting word.
9 The BLM agreed that we should do everything we could with
10 our cash flow to expand the production of the field. And
11 so only if the OCD doesn't allow the BLM a little latitude
12 on timing -- If they do allow a latitude on timing, we're
13 going to have a lot of fun and increase the revenues for
14 both the State and the BLM.

15 Q. Has the BLM given you any indication of the
16 timing that they will require to get approval on these
17 matters?

18 A. Approval on the plugging?

19 Q. No, on the waterflood operation?

20 A. Not really, because I haven't asked the question.
21 I was going to ask the question this spring, but I've been
22 kind of busy with the OCD, and so consequently I haven't
23 asked Brian Davis that question.

24 Q. So you're not in a position -- Even given the
25 question about how long the OCD approval will require,

1 you're not in a position to give us an indication of how
2 long it would take to get this implemented, this --

3 A. The waterflood, you mean?

4 Q. -- the waterflood project implemented?

5 A. I can only guess that if we use enough money to
6 plug the four wells, that that will delay us about six
7 months. So if you add six months to the fall, which was
8 our original estimate, then theoretically we should be
9 putting in the water injection well and keeping our fingers
10 crossed in the spring of this coming year. That's the
11 theory behind it. And if I had more money I'd do it
12 tomorrow.

13 Q. Now, just a few housekeeping matters here. Mr.
14 Carr referred to a hearing in September. If you have
15 copies of your correspondence and refer to them, would it
16 not be accurate to -- I don't know, do you have copies of
17 your correspondence with Mr. Perrin?

18 A. Actually, I gave them all to my lawyer.

19 Q. Okay, I will show you what's been marked as OCD
20 Exhibits Numbers 5 and 6 --

21 A. Okay.

22 Q. -- and ask you if that does not refresh your
23 recollection that in fact these events transpired in
24 October of 2001?

25 A. That's the letter I wrote. Therefore, that

1 should be completely accurate --

2 Q. Okay --

3 A. -- as far as I know.

4 Q. -- Mr. Coulthurst, your address is 1990 Marin
5 Avenue, Berkeley, California 94707; is that correct?

6 A. Not only that, I've been there 13 years.

7 Q. Okay. I will show you a copy of what has been
8 marked as OCD Exhibit Number 3. That appears to be a
9 letter addressed to the address I just read, does it not?

10 A. Absolutely.

11 Q. And would you look at the second page there, and
12 does that appear to be correctly addressed on the envelope?
13 I realize it's a little hard to read because the postal
14 service apparently scratched through it.

15 A. I don't know why they did that. It looks like
16 the correct address.

17 Q. Can you give us any explanation why that letter
18 was returned unclaimed?

19 A. The only -- well, I'm guessing. First of all, I
20 never saw -- the post office -- I get about 20 certified
21 letters a year from all kinds of people. I have absolutely
22 no knowledge when it comes who it's from, because there's
23 no name on them.

24 Q. Right.

25 A. The only way that I don't get something is if the

1 postman doesn't leave a slip saying he tried to deliver it.

2 Q. Well, do you ever get those slips and not follow
3 up on them and go to the post office and collect the mail?

4 A. Not only have I never done that, I implore you
5 and request you, please call the BLM and ask them.

6 MR. BROOKS: Okay. I believe that concludes my
7 examination. I'll pass the witness.

8 CHAIRMAN WROTENBERY: Commissioner Bailey?

9 EXAMINATION

10 BY COMMISSIONER BAILEY:

11 Q. I never did hear clearly what the name of the
12 field is.

13 A. It's called the South San Luis Field. There is a
14 little North San Luis Field, which is about a mile and a
15 half or something like that, which Noel Reynolds has kept.
16 Noel Reynolds had this field, and basically was not
17 successful in doing anything with it before I bought it.

18 Q. Do you know right off the zone of production?

19 A. It's the Menefee zone at around 650 feet,
20 depending on which well you're talking about.

21 Q. I listened very carefully when Mr. Carr
22 enumerated all of the commitments that you did commit to,
23 and there was a commitment to plug and abandon the four
24 wells as soon as the BLM gives approval for the plugging
25 program?

1 A. That is correct.

2 Q. That you will file the correct forms with the OCD
3 as far as the unit, application and the plugging and
4 abandonment?

5 A. Yes, with Mr. Carr's help, because it sounds
6 complex, yes.

7 Q. That you will coordinate with the OCD on all
8 matters in which the OCD is involved?

9 A. Absolutely.

10 Q. But I did not hear any commitment on Bradenhead
11 tests for the remaining wells.

12 A. That is because at the moment I don't have enough
13 money to do everything at once, that's correct.

14 Q. So you're not making any commitment at all to --

15 A. I will make a commitment with --

16 Q. -- test these --

17 A. -- yes --

18 Q. -- remaining wells?

19 A. -- yes, ma'am, I will do that as soon as
20 financially feasible.

21 Q. In the meantime, you testified that there are
22 zones of fresh water within the wells that you are saving
23 as water wells?

24 A. Correct, that's why they're water wells.

25 Q. However, the producing zone is not being isolated

1 from those water --

2 A. That's because those wells --

3 Q. -- freshwater --

4 A. -- were not cemented properly, that's correct.

5 Q. Which means that there is potential contamination
6 of the fresh water in that area by these wells that you are
7 not going to be testing?

8 A. That is correct, and that -- however, we have
9 taken water out of the zones, and not only were they not
10 contaminated, but they were okayed by the BLM after being
11 tested in a laboratory.

12 And also they're very low-pressure zones, and the
13 problem is, the only thing that flows out of them is not
14 the oil but the water.

15 Q. I'm sure the environmentalists will be interested
16 in this one.

17 I would also like to ask you if you intend to
18 take any other measures to protect the freshwater zones
19 until you have time to perform these Bradenhead tests.

20 A. I don't know what else we could do, with the --

21 Q. I'm sure that's a discussion between you and the
22 BLM and Charlie Perrin --

23 A. I would hope so.

24 Q. -- that needs to take place.

25 A. Absolutely.

1 Q. So there's a commitment to have that type of
2 conversation with the --

3 A. Much more than that.

4 COMMISSIONER BAILEY: Okay, those are the only
5 questions I have right now.

6 CHAIRMAN WROTENBERY: Commissioner Lee?

7 EXAMINATION

8 BY COMMISSIONER LEE:

9 Q. Did you pay Gene Wilson and William Weiss as a
10 consultant?

11 A. Did I pay them as a consultant? Absolutely.

12 FURTHER EXAMINATION

13 BY MR. CARR:

14 Q. Mr. Coulthurst, did Mr. Weiss work for you, or
15 was that work done prior to your acquiring the property?

16 A. I paid him as a consultant to give me an opinion
17 on the waterflood potential for the project before I bought
18 the project, yes, sir.

19 MR. CARR: All right, thank you.

20 FURTHER EXAMINATION

21 BY COMMISSIONER LEE:

22 Q. Do you realize -- What time is that? What year
23 is that?

24 A. What year that I paid him as a consultant? 1990.

25 Q. Do you realize William Weiss was a Commissioner

1 of this body?

2 A. I have no idea what his background is, except I
3 heard he was very good and he was a professor at the school
4 in Socorro --

5 Q. So you are willing --

6 A. -- and that was before I bought the property.

7 Q. So you are willing to ask them to come over here
8 to present your plan?

9 A. You want me to hire him to do what?

10 Q. Are they willing to come over here to -- under
11 oath, to tell us what their plan is?

12 A. They don't have a plan. He gave me a suggestion
13 that --

14 Q. But he did the consulting with you?

15 A. That is correct. I'm sure they would be willing
16 to come over anywhere and tell you that he was a
17 consultant.

18 Q. You didn't know this consulting activity is legal
19 or illegal?

20 A. I don't even know why -- Why would it be illegal?
21 I guess the answer is no, I don't know.

22 Q. Okay, thank you.

23 A. And by the way, I hadn't bought it yet. All I
24 was asking was geological advice.

25 Q. But you did pay them?

1 A. Absolutely, he wouldn't do it for nothing. And
2 he was supposed to be n expert in waterfloods, that's all I
3 know.

4 Q. Okay.

5 A. And he's not participating in this field at all.

6 Q. I just want to know whether you paid him or not.

7 A. Absolutely, yes, sir.

8 COMMISSIONER LEE: Okay, thank you.

9 CHAIRMAN WROTENBERY: Thank you.

10 EXAMINATION

11 BY CHAIRMAN WROTENBERY:

12 Q. I would just like to follow up on some of the
13 questions Commissioner Bailey had, because I heard two
14 different things at two different times, because I
15 understood when you were responding to some of Mr. Carr's
16 questions that you intended to temporarily abandon eight of
17 the 12 wells.

18 Let me ask first of all, make sure I heard the
19 testimony right. There are a total of 14 wells; is that
20 correct?

21 A. Including two producing. Is that right? That
22 sounds right.

23 Q. Yes, and two of those are producing. I think you
24 mentioned one of those is the Erin Number 2. What's the
25 other producer?

1 A. 2 and 9, Erin 2 and 9, they're both --

2 Q. Erin Number 9.

3 A. They're ten acres apart, east-west.

4 Q. And Erin Number 2, Erin Number 9 are producing,
5 they're not part of this proceeding?

6 A. No.

7 Q. The other 12 wells, I believe, are part of this
8 proceeding?

9 A. Yes, ma'am.

10 Q. They're all inactive, you've said that.

11 A. Yes, ma'am.

12 Q. Four of them you intend to plug and abandon. And
13 at one point I thought I heard you testify that the other
14 eight you intended to temporarily abandon under the
15 Commission's procedures, which involve a pressure test and
16 the setting of a bridge plug or some type of --

17 A. Well, it would be wonderful if we could
18 temporarily abandon those wells until we need to use them
19 and test them for the waterflood, but I don't know whether
20 the OCD will allow me to do that. That seems to be a
21 terrible waste of money, to spend money on them before you
22 need them, but...

23 And plus the fact, I don't have enough capital to
24 do all the testing and all the plugging instantly. I do
25 over a period of time --

1 Q. Okay.

2 A. -- because our investors have been superb on
3 this, and they have not gotten one penny on their -- the
4 only people that have made any money on this deal are the
5 OCD and the BLM.

6 Q. Do you understand that you have several options
7 for bringing these wells into compliance?

8 A. I'd like to hear a clarification of it, please.

9 Q. Okay. One of them would be to return them to
10 production.

11 A. It's not going to happen, because they're not
12 economic.

13 Q. One of them would be to plug and abandon them,
14 and you've identified four that you do plan to plug and
15 abandon.

16 A. Right, and they should be plugged.

17 Q. Okay, and another would be to temporarily abandon
18 them under the provisions of the Division's Rules, which
19 would involve some testing to ensure that the wells are not
20 a hazard to the environment.

21 A. I would need some time to do all the testing on
22 all the wells, because I don't have enough capital to do
23 all the testing and the plugging at the same time. But
24 remember, please, that the BLM does have a \$25,000 bond.
25 So I'm not asking the OCD to take any financial risk in

1 this once we do the four wells.

2 But I also know that you apparently have a
3 concern of testing them as quickly as possible so that
4 there's no potential -- environmental-disaster potential,
5 although I think they've been there for 20 to 40 years.
6 I've not heard anybody say there is one, but we're
7 certainly not encouraging it.

8 Q. And at this point we really don't know --

9 A. Well, we're really not --

10 Q. -- what the integrity --

11 A. Nobody's --

12 Q. -- of the casing is on those wells?

13 A. No, the only testing we ever did for the fresh
14 water came out clean enough to drink.

15 Q. When you answered Mr. Carr's question about how
16 long you would need to bring these wells into compliance, I
17 think at one point you mentioned six months. What work --

18 A. Well, six months --

19 Q. -- were you proposing to do within that six-month
20 or 180-day period?

21 A. Right, I'd like to -- With the capital that we
22 have, I would like to plug those wells as fast as possible
23 and ask the -- and I'm going to ask. I'd like to have the
24 OCD and the BLM have some agreement so that we can have
25 some serious time, maybe a year or two, to do the integrity

1 testing, so that we have some money available to implement
2 the waterflood as we were doing with the BLM.

3 You know, it takes a long time to get the money
4 up when you're producing nine barrels a day. I wish it was
5 faster.

6 Q. And I also had one question for you about the Ann
7 Number 15, because you were saying you really don't know
8 which well that is. In your plan that you submitted to
9 Charlie Perrin, you described a well about 200 feet west of
10 the Ann 19 --

11 A. Uh-huh.

12 Q. -- and you said you had no record of it.

13 A. I could find -- Nobody could find a record for
14 me. That's right, that may be the Ann 15.

15 Q. And then you asked whether that was the Ann 15.

16 A. And he said he --

17 Q. How did you know about this well 200 feet west of
18 the Ann 19?

19 A. Because we asked the plugging company to go out
20 there and kick the tires and tell us the status of the
21 wells, those old wells, and they came back with one well
22 that they couldn't identify.

23 Q. Okay.

24 A. There's obviously an old well that's been there
25 for a lot of years, and I'm guess- -- We can all guess but

1 don't know. It may be the Ann 15. And something should be
2 done about --

3 Q. What is your plan for that particular well?

4 A. I have no plan, I haven't gotten that far, but
5 obviously it has to be done. That will be part of the
6 discussion over the next month or so with Mr. Perrin.

7 Q. What has the BLM told you, if anything at all,
8 about the compliance status of these wells? Because BLM
9 has similar rules to the Oil Conservation Division's
10 concerning the --

11 A. Yeah, they basically said as long as you're
12 rolling ahead as fast as possible to increase production,
13 they were willing to wait to plug the wells and integrity
14 test until after the injection well was put in. That's
15 what they said to me.

16 And that's when they said, Please file
17 immediately the waterflood application, which took me about
18 two and a half months to wade through that package. So I
19 was trying to follow their advice.

20 And thank heavens they said that, because
21 otherwise we'd never get to do the waterflood. Well, not
22 never, but it would take probably three years.

23 Q. Do you own or operate wells in any other state
24 besides New Mexico?

25 A. No, nothing.

1 CHAIRMAN WROTENBERY: Those are all the questions
2 I had. Did you have anything else, Commissioners?

3 COMMISSIONER BAILEY: No.

4 COMMISSIONER LEE: (Shakes head)

5 CHAIRMAN WROTENBERY: Mr. Carr, did you have any
6 follow-up?

7 MR. CARR: No, no questions. I have just a brief
8 statement.

9 CHAIRMAN WROTENBERY: Go ahead.

10 MR. CARR: May it please the Commission,
11 obviously we have an operator who isn't trying to hide from
12 his responsibilities here. We would like to get into the
13 position that Mr. Coulthurst said where -- you know, not
14 only happy with the BLM and the OCD but with him. To do
15 that, there are a certain amount of resources available.
16 To access the bond as a regulatory agency would leave you
17 in the position of Mr. Coulthurst, with something you want
18 to do without the funds to do it. And yet at the same
19 time, Mr. Coulthurst is ready to go after and address the
20 first four by plugging them.

21 And then as to these other compliance issues, in
22 these water problems which no one is trying to avoid or
23 duck, address those and coordinate that activity with not
24 just the BLM but with the Aztec Office of the OCD. We've
25 requested a continuance of the case. It isn't that we

1 would suggest you wait six months and hear from us again in
2 six months. We commit to you to stay in close contact with
3 Mr. Perrin and with your offices in Aztec and come forward
4 with a program that will not be putting these wells --
5 leaving your concern sometime in the distant future, but
6 getting us on a timetable so that we're together going
7 after this problem, so that it isn't a problem for your or
8 for Coulthurst Management and Investment.

9 CHAIRMAN WROTENBERY: Thank you, Mr. Carr.

10 Mr. Brooks?

11 MR. BROOKS: Yes. First of all, I will represent
12 to the Commission that -- calling your attention to OCD
13 Exhibit Number 2, the affidavit of notice, that the letter
14 which was sent to Mr. Coulthurst giving him notice of the
15 Division Hearing in October, although it was correctly
16 addressed, was neither -- so far as I have been able to
17 ascertain after examining my files, the Division's case
18 files and talking with those people who receive the mail, I
19 have been unable to ascertain that either the return
20 receipt has ever been returned to the Division, or the
21 letter itself has ever been returned to the Division, and
22 that's a most unusual situation. So far as I can tell, I
23 can't ascertain that either has ever been returned to the
24 Division. So there does seem to be a reasonable
25 possibility that Mr. Coulthurst did not have notice of the

1 Division Hearing, as he has so stated.

2 In view of that, and in view of the plans he has
3 announced, I believe that allowing him some time to bring
4 these wells into production should be -- is not
5 inappropriate.

6 However, I believe that if the proceeding is to
7 be continued, it should be continued not in excess of 60
8 days, because it should not take longer than that to plug
9 these four wells. And I believe that if the commitment to
10 plug these four wells promptly is not complied with, then
11 the mitigating circumstances in Mr. Coulthurst's favor
12 would be largely exhausted.

13 The Commission probably has a better idea than I
14 do, because I'm relatively new here, how long all this
15 procedure will take, so far as getting these applications
16 approved by both the BLM and by us. But I would suggest
17 that the appropriate time to revisit this would be in 60
18 days to see if the plugging has been done. and I would
19 suggest to the Commission that if it is, the Division would
20 not have any objection to a further reasonable continuance
21 to give an opportunity to determine if the plans that he
22 has submitted are feasible. Thank you.

23 CHAIRMAN WROTENBERY: Thank you, Mr. Brooks.

24 We recognize, then, that we have a request here
25 from Mr. Coulthurst for a continuance in this case. I

1 believe the Commission needs to deliberate on that question
2 before we make a decision whether to continue the case or
3 whether to take it under advisement at this time. We will
4 do that later today, and then we'll make an announcement
5 about our next step in this particular matter.

6 Is there anything else, then, from --

7 MR. BROOKS: Nothing further, your Honor.

8 CHAIRMAN WROTENBERY: -- at this time?

9 Thank you very much, and thank you for your
10 testimony, Mr. Coulthurst.

11 THE WITNESS: Thank you for your time. I'm sorry
12 it took so long.

13 (Off the record at 11:41 a.m.)

14 (The following proceedings had at 4:40 p.m.)

15 CHAIRMAN WROTENBERY: And then I think I need to
16 make an announcement. In Case Number 12,739 we did leave
17 open the question of whether we would continue that case or
18 take it under advisement at this time, and I believe based
19 on our deliberations we had decided to take this case under
20 advisement at this time, and we will do our best to issue
21 an order in that case, along with the other cases we heard
22 today, at the next Commission hearing on April 26th, 2002.

23 (Thereupon, these proceedings were concluded at
24 4:41 p.m.)

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 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 April 9th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002