

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 THE NEW MEXICO OIL)
 CONSERVATION DIVISION FOR AN ORDER)
 REQUIRING GLADSTONE RESOURCES, INC., TO)
 PROPERLY PLUG TWO WELLS, IMPOSING CIVIL)
 PENALTIES IN EVENT OF FAILURE TO COMPLY,)
 AUTHORIZING THE DIVISION TO PLUG SAID)
 WELLS IN DEFAULT OF COMPLIANCE BY)
 GLADSTONE RESOURCES, INC., AND ORDERING)
 A FORFEITURE OF APPLICABLE PLUGGING BOND,)
 LEA COUNTY, NEW MEXICO)
)

CASE NO. 12,946

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 24th, 2002

Santa Fe, New Mexico

OIL CONSERVATION DIV
 02 NOV - 8 PM 2:22

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 24th, 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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I N D E X

October 24th, 2002
Examiner Hearing
CASE NO. 12,946

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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS
 Attorney at Law
 Energy, Minerals and Natural Resources Department
 Assistant General Counsel
 1220 South St. Francis Drive
 Santa Fe, New Mexico 87505

* * *

ALSO PRESENT:

WILLIAM V. JONES, JR.
 Petroleum Engineer
 New Mexico Oil Conservation Division
 1220 South Saint Francis Drive
 Santa Fe, NM 87505

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 2:18 p.m.:

3 EXAMINER STOGNER: I'll call Case Number 12,946.
4 This is the Application of the New Mexico Oil Conservation
5 Division for an order requiring Gladstone Resources, Inc.,
6 to properly plug two particular wells in Lea County, New
7 Mexico.

8 At this time I'll call for appearances.

9 MR. BROOKS: Your Honor, I'm David Brooks,
10 Energy, Minerals and Natural Resources Department of the
11 State of New Mexico, appearing for the New Mexico Oil
12 Conservation Division.

13 EXAMINER STOGNER: No other appearances.

14 You have two witnesses, and I'll remind them
15 again for the record --

16 MR. BROOKS: I have two witnesses, and they've
17 both been previously sworn.

18 EXAMINER STOGNER: Previously sworn. Okay, Mr.
19 Brooks, you may continue.

20 DOROTHY L. PHILLIPS,
21 the witness herein, having been previously duly sworn upon
22 her oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BROOKS:

25 Q. State your name for the record, please, Ms.

1 Phillips.

2 A. Dorothy Phillips.

3 Q. By whom are you employed?

4 A. New Mexico Oil Conservation Division.

5 Q. In what capacity?

6 A. I am the plugging bond administrator.

7 Q. Ms. Phillips, you maintain a file on Gladstone
8 Resources, Inc.?

9 A. Yes, sir, I have two files for Gladstone
10 Resources, Inc.

11 Q. Okay. Before you look at your files I'll ask you
12 to look at Exhibits Numbers 13 and 14 that have been marked
13 in this proceeding, and could you identify those?

14 A. They are two single-well cash bonds for Gladstone
15 Resources, Inc.

16 Q. And to which wells do they refer?

17 A. OCD-477 is the number issued for McNeil Number 1,
18 and the other is OCD-476 for the McGarrity Number 1.

19 Q. And the one for the McNeil Number 1, OCD-477, is
20 Exhibit Number 14; is that correct?

21 A. That's correct.

22 Q. And what is the amount of that bond?

23 A. \$7500.

24 Q. And OCD-476 is the bond for the McGarrity Number
25 1; is that correct?

1 A. That's correct.

2 Q. And that is Exhibit Number 13?

3 A. That's correct.

4 Q. And what is the amount of that bond?

5 A. \$5000.

6 Q. Now, attached to each of these bonds is another
7 document labeled Assignment of Cash Collateral?

8 A. That's correct.

9 Q. And is that signed in each case by a bank?

10 A. Yes, by the assistant vice president of the Lea
11 County State Bank.

12 Q. Very good, and that's true of each of Exhibits 13
13 and 14?

14 A. That's correct.

15 Q. Okay, would you refer to your file for Shanley --
16 your bond file for Shanley Oil Company [sic], and can you
17 tell us if Exhibits 13 and 14 are true copies of the
18 original bonds maintained in your files?

19 A. Yes, for the Gladstone Resources, Inc. Exhibit
20 14 is the same as what is in my bond file.

21 Q. Okay.

22 A. And also again for Gladstone Resources, Inc.,
23 Exhibit 13 is what is in my bond file.

24 MR. BROOKS: Very good, we'll tender Exhibits 13
25 and 14.

1 EXAMINER STOGNER: Exhibits 13 and 14 will be
2 admitted into evidence.

3 MR. BROOKS: Pass the witness.

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. Ms. Phillips, up on the upper right-hand corners
7 there's a couple of numbers, OCD-476 and OCD-477. Are
8 these internal bond numbers, or what is that referring to?

9 A. Yes, sir, on cash bonds the OCD assigns the
10 number. On surety bonds, the surety assigns the number.

11 MR. BROOKS: And I'm -- Go ahead.

12 EXAMINER STOGNER: I have no other questions.

13 MR. BROOKS: Very good. I would add that we do
14 not make the bank a party to -- depository bank a party to
15 these proceedings where they're cash bonds, because the
16 bank is simply acknowledging that they are holding these
17 funds for the benefit of the OCD, and -- if we release them
18 in principal, and they -- unlike a surety, they don't
19 pledge their own assets to secure this plugging liability;
20 they just are willing to pay us the principal's money.

21 EXAMINER STOGNER: Okay, so noted. Thank you,
22 Mr. Brooks.

23 No other questions of Ms. Phillips at this time?

24 MR. BROOKS: No other questions of Ms. Phillips.

25 EXAMINER STOGNER: Okay.

1 MR. BROOKS: Call Billy Prichard.

2 MR. PRICHARD: Yes, sir.

3 BILLY PRICHARD (Present by Telephone),
4 the witness herein, having been previously duly sworn upon
5 his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BROOKS:

8 Q. Mr. Prichard, once again, Exhibit Number 1 is the
9 affidavit of Jane Prouty, Exhibit Number 2 is a summary
10 that I've prepared from the well files.

11 Would you state your name for the record, please,
12 Billy?

13 A. Yes, sir, Billy Prichard, compliance officer,
14 District 1, NMOCD.

15 Q. And were your credentials accepted in the
16 previous proceeding?

17 A. Yes, sir.

18 Q. Mr. Prichard, would you look at Exhibits Numbers
19 3, 4, 5, 6, 7, 8 -- 9 is another summary so you can
20 disregard 9 -- 10, 11 and 12, and would you tell us, are
21 those copies of documents that are contained in the well
22 files for the wells -- well, for the McGarrity and McNeil
23 wells of Gladstone Resources?

24 A. Yes, they are, these are forms that are
25 maintained in the District 1 well files.

1 Q. Okay. Now, Exhibits 1 [sic], 4, 5, 6, 7 and 8,
2 do those refer to the McGarrity well?

3 A. You got ahead of me, David, just a little.

4 Q. Exhibits 3 through 8, inclusive, do those -- do
5 each of those exhibits refer to the McGarrity Number 1
6 well?

7 A. Yes, they do.

8 Q. Now, there's another name, the Keohane Number 1,
9 on Exhibit Number 3, but that is API Number 30-025-26880 --
10 No, wait, I'm sorry, that's the McNeil. Exhibit Number 3
11 describes the Keohane Well Number 1. The API number given
12 is 30-025-22245. Is that the same API number as for the
13 well that's now called the McGarrity Number 1?

14 A. Yes, it is.

15 Q. Okay, would you go through Exhibits 3 through 8
16 and explain to the Examiner what each one of them is?

17 A. Okay, Exhibit 4 is the intent to drill the
18 Keohane Number 1 by William Barnhill, and it was approved
19 in 1967, and it has the same well number that is currently
20 carried by the McGarrity.

21 Q. Okay, go ahead. Exhibit Number 4?

22 A. Number 4 is a C-105, which is the completion of
23 the Keohane Number 1, the same legal description as the
24 McGarrity.

25 Q. Okay, Number 5?

1 A. Number 5 is a sundry notice, a C-103, that
2 outlines the completion and recompletion, it looks like, of
3 the McGarrity Number 1.

4 Q. Right, that was quite a bit subsequent to the
5 original drilling, was it not?

6 A. Yes, it was. That was approved in 1992.

7 Q. Okay, and Exhibit Number 6?

8 A. Exhibit Number 6 is a sundry notice, a C-103, to
9 recomplete into the San Andres by Team Exploration.

10 Q. Okay, and Exhibit Number 7?

11 A. Number 7 is a sundry notice approved in 1993 to
12 recomplete into the Eumont-Yates-Seven Rivers.

13 Q. Okay, and I wonder if they couldn't think of some
14 more formations to try in that well.

15 Exhibit Number 8, what is that?

16 A. Exhibit Number 8 is a C-104 changing ownership
17 from Team Exploration to Gladstone Resources, approved in
18 1994.

19 Q. Okay. Now I will ask you to look at Exhibits 10,
20 11 and 12 and ask you, do each of those exhibits refer to
21 the McNeil Well Number 1, API Number 30-025-26880?

22 A. Okay, this is a C-101 -- this is Exhibit Number
23 10.

24 Q. Right.

25 A. It was the intent to drill the McNeil Number 1 by

1 Kenai Oil and Gas out of Midland, Texas. It was approved
2 in 1980.

3 Q. Okay, Exhibit Number 11, what is that?

4 A. Exhibit Number 11 is the completion report of the
5 McNeil Number 1 by Kenai Oil and Gas, and it was approved
6 also in 1980, or received in 1980.

7 Q. And Exhibit Number 12?

8 A. Exhibit Number 12 is a change of operator from
9 Team Exploration to Gladstone Resources, approved in 1994
10 for the McNeil Number 1.

11 Q. Okay. Now, are you familiar with the Shanley Oil
12 Company McGarrity -- I'm sorry, Shanley was the last one.
13 Are you familiar with Gladstone Resources McGarrity and
14 McNeil Number 1 -- McGarrity Number 1 and McNeil Number 1
15 wells?

16 A. Yes, I am.

17 Q. In your opinion -- Well, first of all, do you
18 know how long those wells have been inactive?

19 A. You know, David, really I don't. I'd need to
20 look at Jane's deal. I do know that it's been an extremely
21 long time.

22 Q. Okay. Well, Exhibit Number 1 shows that there
23 has been no production since 1998 from the McGarrity, and
24 there has been no production since January of 1997 from the
25 McNeil, for the record.

1 In your opinion as a well inspector, do these
2 wells need to be plugged for the protection of the
3 environment, the prevention of waste and the protection of
4 correlative rights?

5 A. Yes, they do need to be plugged.

6 Q. Now, I didn't make a written notice of this, but
7 your boss, Mr. Williams, contacted me about one of the
8 wells in this package, and I believe it's one of the
9 Gladstone wells that he said was a high priority for
10 plugging. Do you know which one that is?

11 A. Yes, I do, it is the McNeil Number 1.

12 Q. And can you tell us why that would be a top-
13 priority plugging project?

14 A. Well, in my opinion the well poses a potential
15 hazard to residents, as there's houses on the east side of
16 it and on the west side of it. And what prompted this
17 going ahead and scheduling this well for hearing was the
18 fact that we had a big leak out there, and the fire
19 department called us out on it. We had to check the well
20 for several days after we were able to shut it in, and it
21 does pose a threat.

22 Q. And pursuant to Mr. Williams' direction, would
23 you request that the Examiner put this one at his earliest
24 convenience to get an order on?

25 A. Yes, I would.

1 Q. Okay, very good. Oh, and call your attention now
2 to what's been marked as Exhibits Numbers 15 and 16.

3 A. Yes.

4 Q. Are these plugging procedures prepared by you for
5 the McGarrity and McNeil wells, respectively?

6 A. Yes, they are.

7 Q. If these wells are plugged in accordance with
8 these procedures, would they be properly plugged and
9 abandoned in compliance with OCD Rules?

10 A. Yes, they would.

11 MR. BROOKS: Mr. Examiner, I tender in evidence
12 Exhibits 3 through 8 inclusive, and Exhibits 10 through 12
13 inclusive, and Exhibits 15 and 16.

14 EXAMINER STOGNER: Exhibits 3 through 8, 10
15 through 12, 15 and 16 will be admitted into evidence at
16 this time.

17 MR. BROOKS: Pass the witness.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Let's see, which well -- it was the McNeil. How
21 about the McGarrity well? What's the environment around
22 that?

23 A. There is a residence to the north of the
24 McGarrity well approximately three-quarters of a mile, and
25 I could be off on the distance some, but it is essentially

1 pastureland used by livestock. You know, there's very few
2 houses around it.

3 Q. Okay. How about water wells, windmills?

4 A. I would say that the water well at the residence
5 three-quarters of a mile to the north is probably the
6 closest water well.

7 EXAMINER STOGNER: Okay, I have no other
8 questions of Mr. Prichard.

9 MR. BROOKS: I have no other questions of Mr.
10 Prichard. At this time I would tender into evidence the
11 affidavit of Jane Prouty, Exhibit Number 1.

12 EXAMINER STOGNER: Exhibit Number 1 will be
13 admitted into evidence at this time, and I'll take notice
14 of Exhibit Number 2 and 9, which are summaries of the
15 information provided on the wellbore.

16 MR. BROOKS: Correct, and may I see the Court's
17 file for a moment, please? Oh, it's right here, I'm sorry.

18 I know that they got the notice in this, because
19 they did in all but the Firo, but -- Okay, we will ask the
20 Examiner to take judicial notice of the contents of the
21 Court's file which reflect that the notice -- notification
22 to Gladstone Resources -- now, the notice -- the original
23 20-day notice to Gladstone Resources was sent to Gladstone
24 Resources, care of Oil Reports, Post Office Box 706, Hobbs,
25 New Mexico, and was returned undeliverable. That is the

1 address that was shown in the Division's database.

2 Thereafter, when that was returned, two
3 additional addresses were procured from the Public
4 Regulation Commission, and a subsequent notice was sent to
5 the Public Regulation Commission. The Division's file
6 contains the return receipts from each of those two
7 addresses, and the one was sent by F. Carrasquiglio and the
8 other was signed by Florence -- Esmira? I can't read for
9 sure.

10 But anyway, I recognize that the 20-day notice
11 was not received. However, I do believe that we do have
12 legal jurisdiction because the 20-day notice was sent to
13 the last known address shown in the OCD's files, and
14 apparently Gladstone does have actual notice subsequent to
15 the 20-day period at another address.

16 So we'd request that the case be considered on
17 the notice as given.

18 EXAMINER STOGNER: So noted, I'll take that under
19 advisement.

20 With that, Case Number 12, 946 will be taken
21 under advisement.

22 (Thereupon, these proceedings were concluded at
23 2:34 p.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12946.
* * * heard by me on 24 October 2002.

 Examiner
Oil Conservation Division

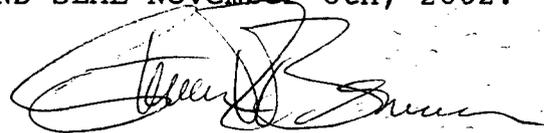
CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL November 6th, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006