

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 CHAPARRAL ENERGY, LLC, )  
FOR APPROVAL OF A SALTWATER DISPOSAL )  
WELL, LEA COUNTY, NEW MEXICO )

CASE NO. 13,695

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

July 6th, 2006

Santa Fe, New Mexico

2006 JUL 13 PM 4 08

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, July 6th, 2006, 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.

\* \* \*

## I N D E X

July 6th, 2006  
 Examiner Hearing  
 CASE NO. 13,695

	PAGE
APPEARANCES	3
REPORTER'S CERTIFICATE	11

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 3	5	8
Exhibit A	5	8
Exhibit B	5	8
Exhibit C	6	8
Exhibit D	6	8
Exhibit E	6	8
Exhibit 4	7	8

\* \* \*

## A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN  
Deputy General Counsel  
Energy, Minerals and Natural Resources Department  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

HINKLE, HENSLEY, SHANOR & MARTIN, L.L.P.  
218 Montezuma  
P.O. Box 2068  
Santa Fe, New Mexico 87504  
By: GARY W. LARSON

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   8:24 a.m.:

3           EXAMINER EZEANYIM: All right, the next is that I  
4   have to call Case Number 13,695, and this is the  
5   Application of Chaparral Energy, LLC, for a saltwater  
6   disposal well, Lea County, New Mexico.

7           Call for appearances.

8           MR. LARSON: Good morning, Mr. Examiner, Gary  
9   Larson for Chaparral Energy.

10          EXAMINER EZEANYIM: Any other appearances?

11          This case was heard on June 8th and was continued  
12   in four weeks today, so that -- to give the Applicant the  
13   opportunity to present the following, as I understand that.  
14   You need to present the diagram of all the area of the new  
15   wells that were mentioned in the transcript on that date,  
16   and then submit your formation tops from the surface to  
17   9000 feet, the surface -- formation tops from the surface  
18   to 9000 feet, and also a diagram of the injection well  
19   before conversion to injection well.

20          So do you have those information to submit today?

21          MR. LARSON: Yes, I do. If I might approach?

22          EXAMINER EZEANYIM: Sure, you may.

23          MR. LARSON: What I've handed to you, Mr.  
24   Examiner, is a supplemental affidavit of Ronald K. Brown.  
25   Mr. Brown provided testimony at the hearing on June the

1 8th, and he was directed by the Hearing Examiner at that  
2 time to provide the additional information and documents  
3 that you just listed. I've marked this as Chaparral  
4 Hearing Exhibit Number 3.

5 EXAMINER EZEANYIM: This one?

6 MR. LARSON: The one I just handed you, correct.

7 Exhibit A to the supplemental affidavit are  
8 copies of the certified return receipts of the hearing  
9 notice to Phoenix Hydrocarbons and Weldon Dallas, who's the  
10 grazing lease owner of the property.

11 Mr. Brown had submitted an initial affidavit at  
12 the June 8th hearing. He attached the letter but neglected  
13 to attach the certified return receipts, so these are being  
14 offered now to supplement his initial affidavit.

15 EXAMINER EZEANYIM: Okay. There is also a  
16 requirement that you supply an Application to the State  
17 Land Office. Is that done too?

18 MR. LARSON: Yes, that is Exhibit B. It's a  
19 letter to the Commissioner of Public Lands. Along with  
20 this letter Chaparral submitted a copy of its Application  
21 and provided notice of the hearing today. As of late  
22 yesterday afternoon, Chaparral had not yet received the  
23 return receipt for this letter.

24 EXAMINER EZEANYIM: From BLM -- I mean -- BLM,  
25 right? State Land Office?

1 MR. LARSON: State Land Office, correct. I don't  
2 know if it's a problem with the postal service, but as soon  
3 as they receive that, and I will file it in the record in  
4 this case.

5 EXAMINER EZEANYIM: Okay.

6 MR. LARSON: Exhibit C to the supplemental  
7 affidavit is the conversion diagram of the well that is the  
8 subject of Chaparral's Application.

9 EXAMINER EZEANYIM: This is before the well was  
10 converted to injection?

11 MR. LARSON: Correct.

12 EXAMINER EZEANYIM: Okay.

13 MR. LARSON: Exhibit D to the supplemental  
14 affidavit is a diagram of the Bell B well, which is the  
15 plugged and abandoned well in the area of concern.

16 EXAMINER EZEANYIM: Okay. And this well is owned  
17 by you or by other operators? This Bell B?

18 MR. LARSON: It is not owned by Chaparral.

19 EXAMINER EZEANYIM: Okay.

20 MR. LARSON: To my knowledge. I will check on  
21 that.

22 And then Exhibit E is the information Examiner  
23 Jones requested regarding the formation tops down to 9000  
24 feet. It's a letter prepared by Chaparral's geologist.

25 EXAMINER EZEANYIM: Exhibit E, is that what you

1 said?

2 MR. LARSON: Exhibit E, yes.

3 EXAMINER EZEANYIM: Okay. How many of these  
4 area-of-review wells are you supposed to submit a diagram  
5 for?

6 MR. LARSON: It was my understanding it was the  
7 before-conversion diagram of the well that's the subject of  
8 the Application, and then the plugged and abandoned well.

9 EXAMINER EZEANYIM: Those two only?

10 MR. LARSON: Yes, that was my understanding.

11 EXAMINER EZEANYIM: Well, if I read the  
12 transcript correctly, I think there might be about two  
13 area-of-review wells that they are supposed to submit  
14 diagrams for.

15 MR. LARSON: I do have a copy of what's called  
16 the Bell A well, I have a copy of that diagram. I didn't  
17 attach it to the affidavit.

18 EXAMINER EZEANYIM: I think that's required too.

19 MR. LARSON: Okay, could I just mark that as  
20 Hearing Exhibit Number 4?

21 If I might approach.

22 EXAMINER EZEANYIM: Sure. Thank you.

23 Anything further in this case?

24 MR. LARSON: I'm sorry?

25 EXAMINER EZEANYIM: Anything further?

1 MR. LARSON: I would move the admission of  
2 Chaparral Exhibit 3, which is the supplemental affidavit  
3 and attached documents.

4 EXAMINER EZEANYIM: Exhibit 3 and the  
5 supplemental documents shall be admitted into evidence.

6 Now --

7 MR. LARSON: Excuse me, as well as Exhibit Number  
8 4.

9 EXAMINER EZEANYIM: Number 4 --

10 MR. LARSON: Yes.

11 EXAMINER EZEANYIM: -- oh, is that -- I thought  
12 it's an attachment.

13 MR. LARSON: No, it wasn't.

14 EXAMINER EZEANYIM: Okay.

15 MR. LARSON: The one well, the Bell B well, was  
16 attached --

17 EXAMINER EZEANYIM: Okay, yeah.

18 MR. LARSON: -- the Bell A was not, so I've  
19 marked that as Exhibit 4.

20 EXAMINER EZEANYIM: Okay, it's my mistake.  
21 Exhibit 4 will be admitted into evidence.

22 Before I take this case under advisement, there  
23 are some issues here we need to revisit, and I think my  
24 attorney mentioned it in the original hearing.

25 At this point Chaparral Energy is not in

1 compliance with Rule 40, and as you know, before Rule 40 is  
2 -- before you can get this injection well, you have to  
3 comply with Rule 40.

4 I think what I need to do now is to refer to my  
5 attorney because I think she is the driving force in this  
6 case, but basically what I'm saying is that the case may be  
7 taken under advisement and we'll give you 30 days to comply  
8 with Rule 40. After 30 days and you are not in compliance  
9 with Rule 40, we dismiss the case without prejudice.

10 Let me refer to my attorney, Ms. Gail MacQuesten.  
11 Maybe we'll be able to tell you more of what you need to do  
12 in this case.

13 Gail?

14 MS. MACQUESTEN: We had discussed this in the  
15 previous hearing. Under Rule 40 an operator can have no  
16 more than a certain number of wells out of compliance with  
17 the inactive well rule. The number of wells an operator  
18 may have out of compliance depends on the size of the  
19 operator. An operator of Chaparral's size may have no more  
20 than five on the list, and currently it has more than that.

21 And as we had discussed before, there are ways  
22 for Chaparral to come into compliance. It can reduce the  
23 number of wells on the list by returning them to compliance  
24 by plugging and abandoning them, by placing them on  
25 temporary abandonment status, or by returning them to

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

production or other beneficial use.

Alternatively, they may enter into an agreed compliance order setting a schedule for them to bring the wells into compliance.

What the Hearing Examiner is saying at this point is that we would like to give Chaparral 30 days in which to come into compliance with Rule 40. If it does, then we may proceed to decide the issue of the injection well. And if not, we would be dismissing the case without prejudice, and Chaparral could re-apply once it is in compliance.

EXAMINER EZEANYIM: Any comments?

MR. LARSON: I understand. I've actually had some conversations with Ms. MacQuesten over the last several days, working toward entering into an agreed compliance order, so I think it's very feasible that we'll have that in place within 30 days.

EXAMINER EZEANYIM: Okay, thank you very much. So Case Number 13,695 will be taken under advisement and in the compliance with Rule 40 within 30 days.

MR. LARSON: Understood, thank you.

(Thereupon, these proceedings were concluded at 8:34 a.m.)

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13695 heard by me on 7/11/95  
[Signature], 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 July 6th, 2006.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006