

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

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION,
THROUGH THE SUPERVISOR OF DISTRICT IV, FOR AN ORDER
REQUIRING CKG ENERGY, INC. OR CEDAR GAS COMPANY TO
PROPERLY PLUG EIGHT WELLS AND TO CLOSE ABANDONED PITS;
QUAY COUNTY, NEW MEXICO.**

CASE NO. 13563

PRE-HEARING STATEMENT

The applicant, the Oil Conservation Division, submits this entry of appearance and pre-hearing statement.

APPEARANCES

APPLICANT

Oil Conservation Division

APPLICANT'S ATTORNEY

Cheryl O'Connor
Oil Conservation Division
Energy, Minerals and Natural
Resources Department
1220 S. St. Francis Drive
Santa Fe, New Mexico 87505
(505) 476-3480

OPPONENTS

CKG Energy, Inc.

Cedar Gas Company

OPPONENTS' ATTORNEY

Rebecca McElroy, for
Ronald E. Ingalls, Trustee
No appearance has been entered

STATEMENT OF THE CASE

APPLICANT

CKG Energy, Inc. (hereinafter, "CKG") is the operator of record for the Anna Katheryn # 001, API # 30-037-20051; Anna Katheryn # 002, API # 30-037-20052; John David # 001, API # 30-037-20053; John David # 0002, API # 30-037-20054; Randals # 0005, API # 30-037-20055; Randals # 0006, API # 30-037-20056; Randals # 007, API # 30-037-20057; and Walker # 001, API # 30-037-20078 wells, located in Quay County, New Mexico. The \$50,000.00 blanket cash plugging bond covering these wells identifies

the operator as CKG Energy, Inc. These wells were drilled in 2003 but have never been productive. All are located on the Randals and Walker ranches in Quay County.

By contract dated February 6, 2003, James T. Randals and Dorothy R. Randals, Trustees for the James T. Randals and Dorothy R. Randals Revocable Family Trust, Richard Randals, Jana D'Ann Randals Vick and T-4 Cattle Company, LLC, and Inter-American Corporation Energy, Inc. entered into an oil and gas lease (hereinafter, "Lease"). The Lease was assigned to CKG.

CKG drilled 8 wells on the properties. All of the wells are currently inactive and have associated drilling pits. The drilling pits contain brine and drill cuttings from drilling operations, and four of the pits also contain produced water. Rain and snow raised the fluid level in the pits to near the top of the berms. The plastic pit liners on the top of the berms are deteriorating.

The OCD is concerned that the brine may overflow the tops of the berms or leak through the cracks and tears in the liners. The District proposed a two-stage restoration plan.

CKG posted a \$50,000 blanket cash plugging bond with an assignment of cash collateral deposit with the Wells Fargo Bank, NA in Tucumcari, New Mexico to secure its obligation to plug and abandon its wells in accordance with the rules and orders of the OCD. Those rules include requirements to fill pits, level the location, remove deadmen and all other junk, and take such measures as are necessary or required to restore the location to a safe and clean conditions. See 19.15.4.202.B NMAC.

Further, OCD rules require pits to be closed within six months after cessation of use. 19.15.2.50.F NMAC.

Subcontract Agreement made July 18, 2005 assigned the Lease assigned to Cedar Gas Company (hereinafter, "Cedar"). Cedar agreed to "step into the shoes" of CKG, becoming fully liable as the operator for the wells.

CKG is currently in chapter 11 bankruptcy. The Bankruptcy Court appointed Ronald Ingalls as the Chapter 11 Trustee for the bankruptcy estate of CKG.

The Division filed this application pursuant to 19.15.3.101.M NMAC, seeking an order requiring CKG Energy, Inc., Ronald Ingalls, Trustee, or Cedar Gas Company to come into compliance with OCD Rule 201 by plugging the wells, placing them on temporary abandonment status, or returning them to a Division-approved beneficial use by a date certain, authorizing the Division to plug the wells in the event of noncompliance, and authorizing the Division to forfeit the financial assurance posted for the wells.

OPPONENTS

Neither CKG Energy, Inc., Ronald Ingalls, Trustee, nor Cedar Gas Company has formally entered an appearance in this case. Rebecca McElroy, counsel for Ronald Ingalls, as Trustee, has been in contact with the OCD. They advise they are in contact with several potential operators of the wells, who will take on the responsibility for cleaning the wells. To date, no contract has been entered into with any potential operator.

Cedar Gas Company has had no contact with OCD regarding this matter.

Counsel for the owners of the fee simple estate have been in contact with the OCD. Louis Puccini, Jr. represents T-4 Cattle. Mr. Puccini's position is that that the Trustee is unable and will remain unable to find a responsible operator. He advocates that termination of the lease with CKG so that the lessors can find a responsible operator.

PROPOSED EVIDENCE

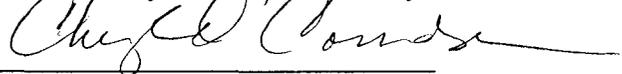
APPLICANT

WITNESS:	ESTIMATED TIME:
Roy E. Johnson	45 min.
Dorothy Phillips (by affidavit)	5 min.
Fran Chavez (by affidavit)	5 min.
Sally Martinez (by affidavit)	5 min.

PROCEDURAL MATTERS

None.

Respectfully submitted,
This 14th day of October 2005 by



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