

Needhick pluging

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date AUGUST 24, 1995 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
William A. Jan	Campbell Jan + Page	Santa Fe
Kellin	Kellin	Santa Fe
Dave Rittersbacher	Chevron	Midland, TX
Chris Beznar	Arch Petr	"
Jack Brown	"	"
Patrick Tower	ENRON	MIDLAND, TX
Al Swanson	J. A. Swanson	Roswell, NM
HAL HAWKINS	ANSON	OK, OK
Jerry Elger	Naburg Plex	Midland
W. C. ...	"	"
RANDY CATE	Enron Oil & Gas	MIDLAND
"	"	"
Barry Zinz	"	"
Joe Clement	Great Western Pr'g	Loring, NM
Cos ...	Collins + ...	Midland, TX
Charlie ...	Grant ...	Farmington, NM

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Hearing Date AUGUST 24, 1995 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
<i>Tom C. Kinnell</i>	<i>Needles Company, Inc.</i>	<i>Long Beach, CA</i>

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: ) CASE NO. 11,354  
 )  
 HEARING CALLED BY THE OIL )  
 CONSERVATION DIVISION )  
 \_\_\_\_\_ )

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

**ORIGINAL**

BEFORE: DAVID R. CATANACH, Hearing Examiner

**RECEIVED**

SEP 7 1995

August 24th, 1995

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 24th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

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 Examiner Hearing  
 CASE NO. 11,354

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\* \* \*

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

FOR THE DIVISION:

RAND L. CARROLL  
Attorney at Law  
Legal Counsel to the Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

FOR NERDHLIC COMPANY, INC.:

CAMPBELL, CARR & BERGE, P.A.  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 1:45 p.m.:

3  
4           EXAMINER CATANACH: Okay, at this time we'll call  
5 Case 11,354, which is in the matter of the hearing called  
6 by the Oil Conservation Division on its own motion to  
7 permit the operator, Nerdhlic Company, Inc., and all other  
8 interested parties to appear and show cause why the  
9 following five wells in McKinley County, New Mexico, should  
10 not be plugged and abandoned in accordance with a Division-  
11 approved plugging program.

12           Are there appearances in this case?

13           MR. CARROLL: Yes, Mr. Examiner, Rand Carroll on  
14 behalf of the Division. I have one witness to be sworn in.

15           EXAMINER CATANACH: Additional appearances?

16           MR. CARR: May it please the Examiner, my name is  
17 William F. Carr with the Santa Fe law firm Campbell, Carr  
18 and Berge.

19           We represent Nerdhlic Company, Inc., in this  
20 matter, and I have one witness.

21           EXAMINER CATANACH: Will the witnesses please  
22 stand to be sworn in?

23           (Thereupon, the witnesses were sworn.)

24           MR. CARROLL: I call Johnny Robinson to the  
25 stand.

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JOHNNY ROBINSON,

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

DIRECT EXAMINATION

BY MR. CARROLL:

Q. Mr. Robinson, will you please state your name, the name of your employer, and your position with that employer for the record, please?

A. Johnny Robinson, with the State OCD in the Aztec District.

Q. And what is your position with the OCD?

A. Field Rep 2.

Q. And have you testified before this Division before regarding the plugging of abandoned oil and gas wells and had your qualifications accepted?

A. Yes, I have.

MR. CARROLL: Mr. Examiner, are Mr. Robinson's qualifications acceptable?

EXAMINER CATANACH: Any objection?

MR. CARR: We have no objection.

EXAMINER CATANACH: Mr. Robinson is so qualified.

Q. (By Mr. Carroll) Mr. Robinson, the purpose of today's hearing is to determine whether five wells operated by Nerdhlic Company should be plugged in accordance with OCD rules.

1           What have been marked as Exhibits OCD 1A through  
2 1E are the copies of the well files of these five wells.  
3 Could you briefly give us a history of each of these five  
4 wells as to when they were drilled, last production, maybe  
5 the current condition, why they should be plugged, and any  
6 other pertinent information?

7           A.    Okay.  On the Inditos Well Number 1, it was  
8 drilled in 1982.

9           Q.    And that's marked as 1A here?

10          A.    Right.  And then that well file where it shows  
11 the production casing and surface pipe and the various  
12 sundry notes on what they've done to the well.  And in that  
13 file we have letters requesting that they abandon the well  
14 or return it to production.

15                    Last known production was 1993.  It hasn't been  
16 produced since.  Right now, the casing is open, and there's  
17 no production equipment on the well.

18          Q.    And why should this well be plugged at this time?

19          A.    Because of the condition of the well and the  
20 deterioration possible inside the wellbore, and  
21 environmental issues.

22          Q.    Is it basically the same history for each of  
23 these five wells?

24          A.    Right.

25          Q.    Drilled at approximately the same time, the date

1 of last production was about the same time?

2 A. Yes, sir.

3 Q. Conditions the same, and the need for plugging  
4 the same?

5 A. Right. Several of the wells have junk in the  
6 hole that will be a problem.

7 Q. Are these five wells the only wells operated by  
8 Nerdhlic in New Mexico that might require plugging?

9 A. On this particular lease, I believe there's 13  
10 more wells on that lease. I wouldn't say they need  
11 plugging; they need to be addressed.

12 Q. So these -- Of the 18 total wells, these five  
13 wells were picked out as the ones that needed plugging at  
14 this time?

15 A. Right.

16 Q. Has the OCD been in contact with the operator to  
17 try and get these wells plugged or brought back onto  
18 production?

19 A. Yes, sir, they have. I started in December of  
20 1994 and have been working on it steady since.

21 Q. And is the correspondence to the operator  
22 contained in what has been marked OCD Exhibit Number 2, as  
23 well as internal correspondence regarding the plugging of  
24 these wells?

25 A. Right.

1 Q. What has been the response from the operator to  
2 the letters sent to them and the telephone calls regarding  
3 bringing these wells back onto production or the plugging  
4 of them?

5 A. I have had quite a bit of correspondence with Tim  
6 Collier, talking about --

7 Q. And who is Tim Collier?

8 A. Tim Collier is his consultant. We've talked  
9 about what we need to do and set up several dates of when  
10 we were going to start, but it never developed.

11 Q. And what was the talk regarding? Were the wells  
12 going to be brought back onto production, or were the wells  
13 going to be plugged?

14 A. Well, on the five -- We were looking at the five  
15 wells to plug, and then what it would take to be -- to test  
16 the remaining wells.

17 Q. Were any dates given to the operator to do  
18 something about these wells, and if not, this case would be  
19 brought to hearing?

20 A. In your Exhibit 2 there are several letters,  
21 December -- well, we started out in -- May 25th of 1993,  
22 and we had no response.

23 And then the next one was May the 16th, and then  
24 June of 1994, August.

25 Q. So you've been in continual contact -- Mr.

1 Robinson, I notice there aren't any copies of letters from  
2 Nerdhlic to the OCD in the file. Have we received anything  
3 in writing from the operator?

4 A. The only thing that I know of that we received  
5 was a -- and I didn't see it, I just heard about it, and it  
6 was an NIT to -- What they wanted to do was study for a  
7 waterflood, and Charles Gholson was the Field Rep 2 then,  
8 and they asked for time to look at the feasibility of a  
9 waterflood, and it was denied due to the conditions of  
10 these five wells.

11 Q. You referred to an NIT?

12 A. Notice of intent.

13 Q. Mr. Robinson, do you have recommended procedures  
14 for the plugging of these five wells?

15 A. Yes, I have.

16 Q. And are they set forth in what has been marked as  
17 OCD Exhibit Numbers 3A through 3E?

18 A. Yes.

19 Q. Can you go just through 3A to show what you've  
20 listed here for Inditos Number 1 well?

21 A. Okay, the Inditos well is fairly simple. The  
22 cement on the outside of the pipe is brought up to 683, and  
23 then the surface pipe is circulated. So all we would  
24 require is to clean out the hole to 1800, spot the first  
25 plug with 30 sacks, WOC, and then tag the plug, then come

1 up above the cement and perforate at 600 feet, either  
2 circulate it or set a 150-foot plug inside and outside the  
3 casing, then pull up to 450, or -- no, pull up to -- yeah,  
4 450 foot, and use 30 sacks there, and tag it.

5 Q. Mr. Robinson, if I could refer you to page 2 of  
6 Exhibit 3A, this is a form filed by Mr. Tom Knowlton, and  
7 is this basically the same type of plugging procedure  
8 you've set forth on page 1?

9 A. Basically it's about the same.

10 Q. It's about the same?

11 A. Uh-huh.

12 Q. And then page 3 shows a map of the location of  
13 the well and 4 is an actual picture of the wellhead?

14 A. Right.

15 Q. And Exhibits 3B through 3E contain the same type  
16 of information for the other four wells?

17 A. Right.

18 Q. Mr. Robinson, are you aware that there's any  
19 plugging bond in existence to cover the plugging of these  
20 five wells?

21 A. As I understand it, there's a blanket bond of  
22 \$50,000.

23 Q. And a copy of which is -- has been marked as OCD  
24 Exhibit Number 4?

25 A. Right.

1 MR. CARROLL: And Mr. Examiner, the notice sent  
2 to Norwest Bank of New Mexico, the holder of the plugging  
3 bond, and to Nerdhlic Company, has been marked as OCD  
4 Exhibit Number 5.

5 Q. (By Mr. Carroll) Mr. Robinson, in your opinion  
6 will the plugging of these five wells prevent waste,  
7 protect correlative rights and/or protect fresh water and  
8 the environment?

9 A. Yes, it will.

10 MR. CARROLL: Mr. Examiner, I offer what have  
11 been marked OCD Exhibits Numbers 1 through 5 into the  
12 record.

13 EXAMINER CATANACH: Exhibits 1 through 5 will be  
14 admitted as evidence.

15 MR. CARROLL: That's all I have of Mr. Robinson.

16 EXAMINER CATANACH: Mr. Carr?

17 CROSS-EXAMINATION

18 BY MR. CARR:

19 Q. Mr. Robinson, if I understand your testimony,  
20 there are 18 wells in this field that are operated, in  
21 fact, by Nerdhlic?

22 A. Yes, sir.

23 Q. And your concern and the subject of this hearing  
24 relates to five of these wells; is that right?

25 A. Right.

1 Q. And the five wells have been identified by you;  
2 is that right?

3 A. Right.

4 Q. Based on visual inspection of the various well  
5 sites?

6 A. Yes, sir.

7 Q. As a representative of the Oil Conservation  
8 Division, you are concerned that these properties be  
9 operated in accordance with OCD rules; isn't that fair to  
10 say?

11 A. Right.

12 Q. At the same time, wouldn't you agree with me that  
13 the individual who could best make the decision as to  
14 whether or not a well could be returned to production would  
15 actually be the operator, not the field representative of  
16 the Oil Commission?

17 A. Yes, sir.

18 Q. And would you agree with me that in that regard  
19 -- In this situation we don't have orphan wells, we do have  
20 someone to whom we can turn to get these plugged; isn't  
21 that fair to say?

22 A. Uh-huh.

23 Q. And wouldn't it be in the best interest of  
24 producing hydrocarbons that might be available or  
25 producible from this field to work with the operator to see

1 if in fact something couldn't be done to return the wells  
2 in the field to production?

3 A. Yes, sir.

4 Q. And if that was done in accordance with OCD rules  
5 and regulations, that ought to concern the Division; isn't  
6 that fair to say?

7 A. That's what I've been after.

8 Q. And you've been having a hard time --

9 A. Right.

10 Q. -- getting a response to this; isn't that fair to  
11 also say?

12 You have been able to communicate with Mr.  
13 Collier, have you not?

14 A. Yes, sir.

15 Q. It's not as if there was no one who would even  
16 talk to on these properties, like in some cases?

17 A. Right.

18 Q. When we look at the particular wells that are  
19 involved in this case, you indicated you had concern about  
20 potential environmental problems; is that right?

21 A. Yes, sir.

22 Q. Surface casing in each of these wells is cemented  
23 to approximately 500 feet; isn't that correct? From  
24 surface to 500?

25 A. No, sir, surface is anywhere from 30 to --

1 Q. All right.

2 A. -- 60 feet.

3 Q. And you've got -- From what you have on file, is  
4 there any basic concern about the way the casing was  
5 originally placed in the well?

6 A. Not as far as the records show.

7 Q. Now, are any of the fluids that are produced in  
8 these wells -- have they contained chlorides?

9 A. They're -- Not that I know of.

10 Q. Is there hydrogen sulfide being produced from any  
11 of these wells, or was there?

12 A. No, sir.

13 Q. In fact, we don't really have a situation where  
14 we've got a real potential for corrosion occurring, do we?

15 A. Well, the oil is pretty corrosive itself.

16 Q. If we were able to come forward with a proposal  
17 that would satisfy you that we were going to seriously  
18 evaluate the wells in this field in a relatively short  
19 period of time and then either go forward with plugging of  
20 the wells or getting them back on production, would that  
21 meet the concerns of the Division?

22 A. Yes, sir, I believe it would.

23 Q. Would you have any objection to our being able to  
24 agree or to propose that we either request 180 days to do  
25 that with periodic reporting of progress to you directly,

1 or even leave this case open for 180 days and require that,  
2 say, a report be filed every 30 or 45 or 60 days with you,  
3 documenting exactly what's being done to either get these  
4 wells back on production or move toward plugging? Would  
5 that meet your concern?

6 A. I'd like to see some sort of a starting time.

7 Q. Okay.

8 A. And --

9 Q. And what would you think would be appropriate on  
10 that? Would thirty days for a starting -- initial report  
11 -- would be a satisfactory period of time?

12 A. I think 30 days would be fine.

13 MR. CARR: I think that's all the questions I  
14 have of Mr. Robinson.

15 MR. CARROLL: I have a couple follow-up  
16 questions.

17 EXAMINER CATANACH: Go ahead.

18 REDIRECT EXAMINATION

19 BY MR. CARROLL:

20 Q. So, Mr. Robinson, if Nerdhlic came up with a  
21 proposed program to either plug these wells or bring them  
22 back into production, you would like a period of like 30  
23 days for them to file such a plan and then perhaps 180 days  
24 to actually complete the plan?

25 A. Well, I think 30 days to send in the sundry

1 notices and rig up on the first well, start the first well.

2 Q. And then what would be your recommended time  
3 frame for a completion of the activities?

4 A. I think the six months is -- would be all right.

5 Q. And do you have any recommendation as to any fine  
6 that might be imposed by the OCD pursuant to New Mexico  
7 Statue 70-2-31, if at the end of the six-month period  
8 either these wells have not been brought back under  
9 production or have not been plugged?

10 A. I would recommend a \$1000-per-well fine.

11 Q. Okay. And in your opinion, how have the  
12 negotiations in working with the operator up to this point  
13 been going?

14 A. Well, not too good.

15 Q. Nothing has really been filed with the OCD as to  
16 what they plan to do?

17 A. No.

18 MR. CARROLL: Okay, that's all I have.

19 MR. CARR: If I might just on recross for -- or  
20 just a second --

21 FURTHER EXAMINATION

22 BY MR. CARR:

23 Q. Mr. Robinson, you talk about a six-month deadline  
24 to complete the work. That obviously sort of depends on  
25 what we consider "the work" to be, right?

1           A.    Right.

2           Q.    And if there was regular progress being made that  
3 satisfied your concerns that good-faith efforts were being  
4 made to get the properties going and it was moving along,  
5 wouldn't that satisfy your concerns without an absolute,  
6 drop-dead date on the total project?

7           A.    No, I really don't think -- I think we need to  
8 stick with the six months.

9           Q.    And what would you think should be done in six  
10 months?

11          A.    I think they should either -- you know, the five  
12 wells should either be plugged or brought back to  
13 production or TA'd. The other 13 should be TA'd or --

14          Q.    If -- Just suppose with me, or assume that the  
15 Inditos Well Number 1 and the Bullseye Well Number 2 had  
16 been returned to production and that work had been done on  
17 the Bullseye Number 8 and it looked like things were going  
18 forward, perhaps, to make a determination on whether the  
19 Number 2 and Number 9 had to be plugged or if there was  
20 some potential there.

21                    Wouldn't it be better to have this a matter that  
22 after six months could be re-opened at the call of the  
23 Aztec office if you felt it wasn't moving along like it  
24 ought to move?

25          A.    Well, we do that anyway. I mean, we try to work

1 with the operator during that six months. If something  
2 came up that -- say, for instance, if you started plugging  
3 a well and it took longer than it should. But I really  
4 think the six months is long enough.

5 Q. I guess my question is, wouldn't it be better to  
6 look at it and see if good-faith efforts and progress isn't  
7 being made in six months, than just saying everything must  
8 be done in six months?

9 A. Rather than assess the fine? Is that what you're  
10 saying?

11 Q. Rather than just -- My concern is that if we set  
12 a six-month deadline and good-faith progress is being made  
13 and we run out of time, I don't want to have -- you know,  
14 would hate to have an order that says you're in violation.  
15 And I was just -- My concern was that if we were making  
16 good-faith effort, wouldn't it be better to say we'll re-  
17 open it if you don't, than saying if one well still needs  
18 to be plugged you are in violation, and force it back to a  
19 hearing or that kind of posture?

20 A. The only thing I don't like about that is,  
21 there's so much gray area there on what are -- to decide  
22 whether they're really trying to do what's needed to be  
23 done.

24 Q. And couldn't we entrust that gray area to you --

25 A. Yeah.

1 Q. -- and you could say, I think we'd better come  
2 back, I think they're trying?

3 A. (No response)

4 (Off the record)

5 Q. (By Mr. Carr) If we came forward and pressure-  
6 tested the wells in accordance with 203 and set a plug,  
7 would that, do you think, be something that would satisfy  
8 you in the short haul, while we evaluated -- continued the  
9 evaluation?

10 A. Right, uh-huh. Yeah, we're not asking for the  
11 wells to be returned to production, just brought into  
12 compliance with 203.

13 MR. CARR: All right, that's all I have. Thank  
14 you.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Robinson, when was correspondence with this  
18 company first initiated?

19 A. The first paperwork I have is 1993, I believe it  
20 was.

21 Q. And that was initiated by Charlie Gholson?

22 A. I believe it was Diana Fairchild. Fairhurst,  
23 Diana Fairhurst.

24 Q. What exhibit are you looking at?

25 A. It's on Exhibit 2, page 19.

1 Q. The OCD District Office has been working, or  
2 trying to work with this company for two years; is that  
3 correct? Over two years?

4 A. Right.

5 Q. Trying to get something done on these wells?

6 A. Right.

7 Q. And have not been successful in that period of  
8 time?

9 A. No, sir.

10 Q. Mr. Robinson, do you know if there's any fresh  
11 water in this area?

12 A. There's not many houses out there. The closest  
13 house is around three miles. But as far as I know, there's  
14 -- The water is fresh enough for the cattle, for stock, but  
15 I don't have a test of the water.

16 Q. Do you know what depth that might occur?

17 A. Well, all the way down to the producing zone.

18 Q. These wells are not cemented back into the  
19 surface casing, so there's a potential for some harm to  
20 freshwater supplies if these wells are left in their  
21 current condition?

22 A. Right. There's a few wells that are circulated  
23 but the majority of them aren't.

24 Q. Now, the question Mr. Carr asked you, would you  
25 be satisfied if the plug was set and the casing was tested?

1 That would satisfy your requirements, at least for the time  
2 being; is that correct? Or --

3 A. That would bring them in with Rule 203 as a TA'd  
4 well.

5 Q. So you would drop your plugging requirement at  
6 that point?

7 A. Right.

8 Q. Do you believe these wells would pass an MIT  
9 test?

10 A. I feel like some of them will.

11 Q. Those that didn't, would you recommend those be  
12 plugged?

13 A. The Rule 203 says that if it does fail the test,  
14 they have to be plugged or repaired.

15 Q. Has the option to temporarily abandon these wells  
16 been given to the Applicant for over two years, or to the  
17 company?

18 A. I've only -- According to the letter, it has  
19 been. Diana's letter -- She's requiring either P-and-A or  
20 TA approval.

21 EXAMINER CATANACH: I have nothing further of the  
22 witness, Mr. Carroll. He may be excused.

23 Mr. Carr, do you have a witness to put on?

24 MR. CARR: Yes, sir, I do. At this time we would  
25 call Mr. Tom Knowlton.

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TOM C. KNOWLTON,

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 name for the record, please?

A. Tom Knowlton.

Q. And Mr. Knowlton, where do you reside?

A. Long Beach, California.

Q. What is your position with Nerdhlic Company, Inc.?

A. I'm the president and owner.

Q. Could you just briefly describe for Mr. Catanach the size of your company, what you do as Nerdhlic, Inc.?

A. Well, we're -- We started out in the oil business, we developed nuclear magnetic resonance tools for finding hydrocarbons, and we currently operate in the Rockies, Montana and North Dakota. We started the Lodgepole play up there, if you're familiar, the play that's going on now, big play. We operate in Australia. And those are our two principal areas.

And we have an office in Long Beach, an office in Denver, and an office in Perth, Australia. We're a small company, about -- between employees and contract people, about 40 people.

1 Q. When did Nerdhlic acquire the properties which  
2 are the subject of this hearing?

3 A. I believe it was April 19th, 1990.

4 Q. And from whom did you acquire these?

5 A. We bought them from a company called Devcon.

6 Q. At the time you acquired these properties, what  
7 were your plans for them?

8 A. I was principally interested in the area for --  
9 if we could handle the paraffin problems in the Dakota,  
10 bypass production there, as well as a potential waterflood  
11 possibly in the Hospah. And then we're looking deeper in  
12 the Pennsylvanian section, which has never been drilled to.

13 Q. Have you actually performed certain work on the  
14 wells since you acquired them?

15 A. Yes, we spent over a million dollars in this  
16 field. The field was in sorry shape when we bought it, and  
17 we did some work to get some of the wells in compliance  
18 then, did study on the waterflood. And in 1993 there was a  
19 lot of work done in this field, pressure testing and -- I  
20 think that was before Mr. Robinson was involved in here.

21 Q. What are your current plans for this field?

22 A. Well, the current plans for the deep prospect is  
23 kind of proprietary, but the -- I think the initial reasons  
24 we went in are still valid. I think there's a potential  
25 waterflood in the Hospah.

1           But the primary thing we're investigating is a  
2 bug flood in the Dakota, because there's not a salt  
3 problem, there's a lot of fresh water. It's a good  
4 environment for a native-type microbe.

5           Q.    The OCD has been contacting your representatives  
6 for the last year or two concerning certain wells in this  
7 field. I think it would be helpful if you could really  
8 explain to Mr. Catanach what the focus of your business  
9 activity really has been during this period.

10          A.    In this -- general, or --

11          Q.    Generally speaking.

12          A.    Yeah. Our basic business approach is that we  
13 think we can find economic oil, large oil, and then sell  
14 it. Ours is kind of a commodity-based approach. We're not  
15 trying to become long-term producers, establish production  
16 and sell it.

17                We found in 1990, May of 1990, a large oilfield  
18 in northeast Montana and subsequently started this whole  
19 Lodgepole play, which is -- you know, there's acreage  
20 selling for thousands of dollars an acre up there now.

21                And it ate our lunch, moneywise. I sold a  
22 portion of that field, the discovery, for \$20 million to a  
23 New Zealand company, and they didn't come up with \$15  
24 million of the money, which we had planned to put into some  
25 of these operations.

1           So for the last two years I've been carrying this  
2 business pretty much by myself. Now we're getting back on  
3 our feet.

4           The history of this field, I believe it was Ms.  
5 Fairchild who contacted us in 1983 because I came out to  
6 this field -- it was May of 1993 -- and met with the land  
7 owner there, the son who runs it, Mr. Lee, and I think the  
8 gentleman's name is Mr. Foust, Denny Foust, who came down  
9 to the field.

10           And we walked around -- And I had an Australian  
11 guy who worked for me, John Royal, who's a driller. And we  
12 agreed on what we were going to do, and he came out and he  
13 spent a month or six weeks out here bringing into  
14 compliance quite a few of the wells at that time.

15           And then we concluded that we would go ahead with  
16 the -- doing the waterflood. And the engineer who worked  
17 for me out of Denver in September of 1993, who had  
18 originally brought this field to my attention, he and I  
19 didn't see eye to eye on some other things. He did a  
20 midnight flip with our records in Denver. A lot of the  
21 records of this field we've never recovered. They weren't  
22 kept in Long Beach, California. And in fact, I just  
23 noticed, I don't think I've ever received a notice of  
24 intent that you mentioned. It never came to California.  
25 I'd like to see that letter. So, I mean, there's been some

1 miscommunications.

2           But then late in 1994, when I believe Mr.  
3 Robinson got on the case, I had made the acquaintance a  
4 year or so before that of Mr. Collier, who is from New  
5 Mexico, knows the oil community here, and I sent him out  
6 here and he talked with Mr. Robinson at that time about  
7 what we could do, looked up a lot of records.

8           And I think verbally we -- We tried to get  
9 something started by February or March of this year, and we  
10 were unable to do that. But we are on a footing where we  
11 can do something now.

12           But I think the plan is still pretty much the  
13 same, to go in and pressure-test these wells and see where  
14 we're at on these particular five wells, if they're viable  
15 wells. But further than that, what we're 90-percent sure  
16 we'll do is do a bug flood out there in the Dakota.

17           Q. Mr. Knowlton, would 180 days give you the time  
18 you need to take a look at this field and work with the  
19 District Office in terms of making a determination on each  
20 of the wells that are the subject of this hearing, as to  
21 whether or not they should be plugged or have some economic  
22 viability as part of long-term plans for the field?

23           A. Well, in terms of pressure-testing for either  
24 plugging or repair, I think that certainly -- I can live  
25 with the time frame.

1           If we find that they're all viable wells and we  
2 start a bug flood, some of these things have quite a time  
3 curve before they get started. I'd hate to get a  
4 successful bug flood started on some of them then have to  
5 plug them back, you know, because one of the things that  
6 we've discovered -- This field is complex geology. It's a  
7 fractured system much like I'm familiar with in Montana.

8           I don't agree with the papers that are written in  
9 this area. We've done a lot of work. There's oil on  
10 downthrown sides of faults and that sort of thing.

11           And in a bug flood when you squeeze back, you're  
12 not quite sure where your communication is going to go, you  
13 know. And it could -- Some of these are 90 and 120 days  
14 before you see good results.

15           So the answer is yes, I can live with it, but I  
16 would hate for us to have to shut down in the middle of  
17 something that looks -- appears to be successful.

18           Q.   When Mr. Robinson was testifying he talked about  
19 his desire to have actually a rig or some physical activity  
20 going on the lease within 30 days.

21           Do you know if it's physically possible to get a  
22 pulling unit out into this area in that kind of a time  
23 frame?

24           A.   Well, it's physically possible. We could do the  
25 pressure testing, that sort of thing. But, you know, this

1 is a pretty remote location. And I'd like to get some  
2 economy of scale, I'd like 30 days to -- for the study of  
3 the microbe, and -- So I could live better with 60 as a  
4 lead time, because I think once we get started, we'll start  
5 -- we'll do the pressure testing and do everything.

6 Q. And would you be agreeable to then reporting at  
7 regular intervals to anyone in the Division --

8 A. Whatever -- Excuse me for interrupting. Yes, the  
9 answer is yes, we'll do whatever time frame they want.

10 Q. If your request is granted, do you believe this  
11 could result in the recovery of hydrocarbons from this  
12 field that otherwise could be lost by now plugging the  
13 well?

14 A. I think there's several million barrels of  
15 bypassed oil in the shallow zones in this field.

16 Q. And if this request of your is granted, would you  
17 therefore be afforded an opportunity to produce your fair  
18 share of the reserves in this field?

19 A. Yes.

20 Q. And are you willing to tell Mr. Catanach that you  
21 will work with the Division to bring this property into  
22 compliance with OCD rules as quickly as you can?

23 A. Absolutely.

24 MR. CARR: I have nothing further.

25 EXAMINER CATANACH: Mr. Carroll?

## 1 CROSS-EXAMINATION

2 BY MR. CARROLL:

3 Q. Mr. Knowlton, what's the extent of your leasehold  
4 acreage in this field?5 A. Originally there was a couple thousand acres.  
6 Right now, I couldn't tell you. There's been some stuff  
7 lost and regained.

8 Q. And are there more than 18 wells that you own?

9 A. Not that I know of.

10 Q. So there's 18 wells on approximately 2000 acres?

11 A. Yeah.

12 Q. And what did you spend the over one million  
13 dollars on in this field to try to develop it?14 A. Well, it was cleaning up pits, pressure-testing  
15 wells, same kind of thing we have here, restoring some to  
16 production, getting some new surface equipment.17 Q. Now, the OCD has expressed willingness to work  
18 with Nerdhlic the last couple of years. Why did it take  
19 coming to a hearing to have you represent to us that you're  
20 going to do this work and you'll do it within a certain  
21 period of time? We could have done this informally without  
22 coming to a hearing, so I'm just wondering the reason why.23 A. Well, I -- In my experience, I mean, the  
24 operational -- There have been a lot of operational  
25 problems on that ranch, and -- I don't know if you know the

1 family that -- They're pretty substantial people. But the  
2 rancher has been -- We've had a lot of equipment stolen  
3 down there, there's been a problem with that, and I think  
4 they've been concerned about that.

5 And quite frankly, it was about that time, 1993,  
6 I started having my financial problems with the lack of  
7 this funding that I had counted on, so that's delayed  
8 things a lot. And --

9 Q. Has all this information been communicated to the  
10 Aztec Office?

11 A. I don't believe so.

12 And the other is compounded -- In January of 1990  
13 [sic] the gentleman who handled all our exploration and  
14 production passed away of cancer, and I've been short-  
15 handed for the last six or seven months.

16 Q. Mr. Knowlton, you testified that you would need  
17 30, preferably 60, days to get the pressure testing done on  
18 these five wells?

19 A. Well, I envision doing more than that. I don't  
20 really see any sense in just pressure -- I know the wells  
21 have to be brought into compliance under 203.

22 But if we're going to have the same rigs out  
23 there, I think we're at a point where we're ready to go  
24 ahead with the microbe. We might as well just, you know,  
25 start to bring them into production once they're in shape

1 to be brought into production.

2 Q. Okay, so once you determine that there -- that  
3 you can do this bug flood on them -- And I'm not too  
4 familiar with a bug flood. How much time would it take,  
5 then, to get the whole bug-flood operation going?

6 A. It isn't as much the time of actually squeezing  
7 the microbe in as the time for the microbe to work  
8 chemically.

9 Q. How long does that take?

10 A. It depends, it depends on temperatures, it  
11 depends on what kind of contact is going on downhole.  
12 You're kind of buying a pig in a poke with it, and you  
13 don't really know what kind of communication is going to  
14 happen. You'll see it in, you know, what kind of  
15 production is coming back at you.

16 Q. So what's the best-case scenario and the worst-  
17 case scenario?

18 A. Well, a bug flood usually lasts for about six to  
19 eight months, so you'd know whether it was good or not  
20 working at all in that period of time.

21 Q. And then how long does it take to initiate the  
22 bug-flood operation?

23 A. It could probably be done within 60 days.

24 Q. So if we give you 60 days to pressure-test and  
25 initiate the bug flood, do you think the results should

1 show up in six to eight months?

2 A. After that.

3 MR. CARROLL: That's all I have, Mr. Examiner.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Well, Mr. Knowlton, I'm a little bit unclear.  
7 Sixty days -- Within the 60-day time period, you intend to  
8 pressure-test the five wells in question?

9 A. Yes.

10 Q. And initiate your flood?

11 A. Yes.

12 Q. If you pressure test these five wells -- You  
13 don't intend to temporarily abandon them?

14 A. Not at this point in time.

15 Q. You just want to pressure-test the casing and  
16 then utilize it in what capacity?

17 A. Well, first of all, we've got two elements here  
18 for the six months. We've got weather to deal with, or  
19 potentially weather to deal with.

20 Secondly, as I indicated, in our work this area  
21 is highly fractured. And you know, we may start a squeeze  
22 on one well, and it may go to another. We don't -- And I  
23 want to see the results of that. So I want to be able to  
24 be in communication in what we see as the zones in the  
25 Dakota and -- well, principally the Dakota.

1           So I wouldn't want to plug any of the wells, is  
2 what I'm saying.

3           Q.   Was this area ever flooded in any form or  
4 fashion?

5           A.   Waterflooded, no, but the Hospah field, of  
6 course, to the north has been waterflooded many times.

7           Q.   Are you aware that you would have to obtain  
8 Division approval to initiate a waterflood --

9           A.   Oh, yes.

10          Q.   -- or any kind of flood?

11          A.   Yes.

12          Q.   Which may take three to four months, I don't  
13 know --

14          A.   Well, the bug flood could be put on the next  
15 hearing.

16          Q.   Okay. The scenario is, you -- within the next 60  
17 days you pressure-test these five wells, and you find the  
18 casing is in good shape. Then you would want an additional  
19 six- to eight-month period to evaluate the effectiveness of  
20 the flood --

21          A.   Uh-huh.

22          Q.   -- before we take any further action on these  
23 five wells?

24          A.   Yes, or plug them.

25          Q.   And that's six to eight months from the date that

1 the flood is initiated?

2 A. Yes.

3 I should add, we haven't ruled out, you know,  
4 using heated tubing and chemicals. But the research we've  
5 done on chemicals, I think it's not that much benefit or  
6 cost effective. But that's a possibility too.

7 Q. What would you propose if any of these wells fail  
8 a casing pressure test? What would you propose to do with  
9 them?

10 A. If they can't be repaired, they should be  
11 plugged.

12 Q. Are you willing to initiate plugging operations  
13 at the time the casing fails?

14 A. If my consultant and Mr. Robinson can't agree,  
15 then I think the most economic thing to do is probably just  
16 to plug them.

17 EXAMINER CATANACH: I believe that's all I have  
18 of the witness.

19 MR. CARROLL: I have a follow-up question.

20 FURTHER EXAMINATION

21 BY MR. CARROLL:

22 Q. Mr. Knowlton, the Bullseye Number 8 is currently  
23 encased. We won't be able to pressure test that well.  
24 Could you make a commitment now to have that well plugged  
25 at about the same time that you perform these pressure

1 testing and bug-flood-initiation operations?

2 A. Well, first I'd like Mr. Collier to look at it  
3 and see if there's a possibility we can put some kind of  
4 casing in there or if there may be some other resolution to  
5 make it productive. And if we can't do that, then sure,  
6 I'd agree to plug it.

7 MR. CARROLL: That's all I have, Mr. Examiner.

8 EXAMINER CATANACH: Anything further, Mr. Carr?

9 MR. CARR: I'd like to make just a real brief  
10 statement, if that's appropriate.

11 EXAMINER CATANACH: Okay.

12 MR. CARR: Mr. Catanach, this isn't like many of  
13 the plugging cases that come before you. I'd submit that  
14 here you have an operator -- It's not an orphan property.  
15 You have an operator who has plans to continue to work with  
16 the property and attempt to return it to production.

17 Mr. Knowlton has come in and he's told you  
18 basically the kinds of things he'd like to attempt to  
19 achieve on this lease.

20 I think it's important to keep in mind as you go  
21 about writing an order disposing of this particular case  
22 that, as Mr. Knowlton has indicated, there are things that  
23 need to be determined in terms of this well. It was just  
24 discussed it's uncased.

25 And my point is that the order should not be so

1 restrictive as to limit Mr. Knowlton in an effort to in  
2 good faith bring the property back. And what I would  
3 emphasize is that any kind of order that you come up with  
4 -- yes, it has to have requirements in it that meet your  
5 concern. But I hope you'll be mindful of the fact that it  
6 also ought to have flexibility in it that will permit Mr.  
7 Knowlton to operate the properties without some  
8 unreasonable or artificial restriction on his ability to  
9 make decisions, in an attempt to bring this pool into an  
10 effective producing -- make it into an effective producing  
11 property.

12 That's all I have.

13 EXAMINER CATANACH: Okay. Mr. Carr, can you give  
14 me a rough draft outlining your proposals in this case?

15 MR. CARR: Yes, sir, I can.

16 EXAMINER CATANACH: Anything further, Mr.  
17 Carroll?

18 MR. CARROLL: No, Mr. Examiner.

19 EXAMINER CATANACH: There being nothing further,  
20 this case, Number 11,354, will be taken under advisement.

21 And this hearing is adjourned.

22 (Thereupon, these proceedings were concluded at  
23 2:35 p.m.)

24 \* \* \*

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 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 August 31st, 1995.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: ~~October 14, 1998~~ that the foregoing is  
I do hereby certify a complete and true record of the proceedings in  
the examiner hearing of Case No. 11354  
heard by me on 8/24 1995.

David R. Catanzano, Examiner  
Oil Conservation Division