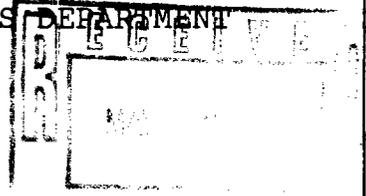


STATE OF NEW MEXICO

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 NOS. 11,507  
11,508

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION TO PLUG )  
WELLS IN RIO ARRIBA COUNTY, NEW MEXICO )

and 11,509  
(Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 2nd, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 2nd, 1996, 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

May 2nd, 1996  
 Examiner Hearing  
 CASE NOS. 11,507, 11,508 and 11,508 (Consolidated)

	PAGE
EXHIBITS	3
APPEARANCES	4
DIVISION WITNESS:	
<u>FRANK T. CHAVEZ</u>	
(District Supervisor, Aztec District Office, New Mexico Oil Conservation Division)	
Case No. 11,507:	
Direct Examination by Mr. Carroll	7
Cross-Examination by Mr. Carr	13
Examination by Mr. Prucino	17
Case No. 11,508:	
Direct Examination by Mr. Carroll	18
Case No. 11,509	
Direct Examination by Mr. Carroll	22
Cross-Examination by Mr. Carr	26
Examination by Examiner Stogner	27
CLOSING STATEMENTS:	
By Mr. Carroll	30
By Mr. Carr	31
By Mr. Prucino	33
REPORTER'S CERTIFICATE	36

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## E X H I B I T S

Case No. 11,507

Division	Identified	Admitted
Exhibit 1	10	13
Exhibit 2	12	13
Exhibit 3	12	13

\* \* \*

Case No. 11,508

Division	Identified	Admitted
Exhibit 1	18	22
Exhibit 2	18	22
Exhibit 3	18, 20	22
Exhibit 4	18, 21	22
Exhibit 5	18, 21	22

\* \* \*

Case No. 11,509

Division	Identified	Admitted
Exhibit 1	22, 23	25
Exhibit 2	22, 24	25
Exhibit 3	22, 24	25
Exhibit 4	22, 24	25
Exhibit 5	22, 24	25
Affidavit of Notice	25	-

\* \* \*

## 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 PETROLEUM DEVELOPMENT CORPORATION (Case No. 11,507);  
FRED SHELTON, JR., Case No. 11,508); and CHUZA OPERATING  
(Case No. 11,509):

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

FOR KACHINA PRODUCTION COMPANY:

SCHEUER, YOST and PATTERSON, P.C.  
125 Lincoln Ave., Suite 223  
Santa Fe, New Mexico 87504-9570  
By: ROGER L. PRUCINO

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   12:45 p.m.:

3  
4  
5  
6           EXAMINER STOGNER: At this time I'm going to  
7   consolidate and call Case Numbers 11,507, 11,508 and  
8   11,509, which is the Application of the Oil Conservation  
9   Division to plug several wells in Rio Arriba County, New  
10   Mexico.

11           At this time I'll call for appearances.

12           MR. CARROLL: May it please the Examiner, my name  
13   is Rand Carroll appearing on behalf of the Oil Conservation  
14   Division. I have one witness in each of these cases, the  
15   same witness, the to be sworn.

16           EXAMINER STOGNER: Any other appearances?

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

20           In Case 11,507 I would like to enter an  
21   appearance for Petroleum Development Corporation.

22           In Case 11,509 I would enter my appearance for  
23   Chuza Operating.

24           And I would advise the Division that I also  
25   represent Fred Shelton, Jr., in Case 11,508, who is the

1 father of Fred Shelton, III, and a different person.

2 EXAMINER STOGNER: Petroleum Development, 11,507.

3 MR. CARR: Yes, sir.

4 EXAMINER STOGNER: Chuza in 11,509?

5 MR. CARR: Yes.

6 EXAMINER STOGNER: And Fred Shelton, Jr. --

7 MR. CARR: Junior.

8 EXAMINER STOGNER: -- which is the father of Fred

9 Shelton, III --

10 MR. CARR: Correct.

11 EXAMINER STOGNER: -- in 11,508.

12 MR. CARR: Who is a principal -- the son is a

13 principal in, I believe, in Spur, and I don't know the

14 status -- representing --

15 EXAMINER STOGNER: Okay. Are there any other

16 appearances?

17 MR. PRUCINO: Mr. Examiner, I'm Roger Prucino,

18 representing Kachina Production Company.

19 EXAMINER STOGNER: Do you have any witnesses, Mr.

20 Prucino?

21 MR. PRUCINO: No.

22 EXAMINER STOGNER: You can come on up here and --

23 MR. PRUCINO: Thank you.

24 EXAMINER STOGNER: -- take a seat at this table.

25 Any other appearances?

1                   Okay, Mr. Carroll, please proceed.

2                                   FRANK T. CHAVEZ,

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

5                                   DIRECT EXAMINATION

6                   BY MR. CARROLL:

7                   Q.    Mr. Chavez, would you please state your name and  
8                   your place of residence for the record?

9                   A.    My name is Frank Chavez, and I reside in Aztec,  
10                  New Mexico.

11                  Q.    Mr. Chavez, what is your current position and  
12                  what are the duties of that position?

13                  A.    I am District Supervisor of the Oil Conservation  
14                  Division Aztec Office, which is District 3, and my duties  
15                  include being -- I'm the oil and gas inspector for the  
16                  District, and I supervise all the activities and inspection  
17                  and enforcement for the District.

18                  Q.    And do those duties include supervising the  
19                  plugging of abandoned wells?

20                  A.    Yes, they do.

21                  Q.    Are you familiar with the subject matter of Case  
22                  11,507?

23                  A.    Yes, I am.

24                  MR. CARROLL:  Mr. Examiner, I offer Mr. Chavez's  
25                  qualifications as a witness in this matter.

1 EXAMINER STOGNER: Are there any objections?

2 MR. CARR: No, none.

3 EXAMINER STOGNER: Mr. Chavez is so qualified.

4 Q. (By Mr. Carroll) Mr. Chavez, concerning the  
5 wells in Case 11,507, who is currently listed as operator  
6 for OCD purposes?

7 A. Petroleum Development Corporation.

8 Q. And what is the current status of the wells  
9 involved in this case?

10 A. They have been basically abandoned, without OCD  
11 approval.

12 Q. Mr. Chavez, the notice listed four wells, and I  
13 believe we're down to two wells?

14 A. That is correct.

15 Q. And why is that?

16 A. The other two wells have been assumed by another  
17 operator.

18 Q. And what were the names of the wells that were  
19 assumed by the other operator?

20 A. The El Poso Ranch Number 5 and the El Poso Ranch  
21 Number 6.

22 Q. So right now we're just asking that El Poso Ranch  
23 Numbers 8 and 11 be plugged?

24 A. That's correct.

25 Q. Mr. Chavez, can you give the Examiner a brief

1 history of these wells?

2 A. Yes, these wells were originally drilled several  
3 years ago by a different operator. I think the exhibits  
4 will show from files they were drilled by Texas Rose  
5 Petroleum, Incorporated, and since then they have, of  
6 course, changed operator. They were drilled under  
7 different names and numbers at that time also.

8 The wells produced for a short period of time,  
9 but for many of these wells we did not get complete C-115s  
10 or any C-115 reports, so there is little in OCD records to  
11 show that reports were received. The operator, Texas Rose,  
12 then basically walked off from the wells and abandoned  
13 operations in New Mexico.

14 Q. And how did Petroleum Development Corporation  
15 become operators of these wells?

16 A. They became operators -- I don't know the  
17 business arrangements, but they filed C-104s and a bond to  
18 assume operatorship of these wells.

19 I might note that our OCD records show that there  
20 were previous records to plug and abandon these wells, as a  
21 matter of OCD record, under Texas Rose.

22 Q. Right, and I will ask that the Examiner take  
23 administrative notice of the prior orders that ordered  
24 these wells be plugged.

25 Mr. Chavez, do you know why the prior orders were

1 never fulfilled in plugging these wells?

2 A. Well, Texas Rose seeks operations in New Mexico.  
3 There was some business and also some criminal issues that  
4 arose that -- where Texas Rose was no longer viable and  
5 able to plug the wells.

6 Then another operator took over operatorship of  
7 the wells in order to try to establish production, but that  
8 was never done either.

9 Q. And what was the name of that operator?

10 A. Well, that was also -- That was Petroleum  
11 Development.

12 Q. Mr. Chavez, if I can direct you to what has been  
13 marked OCD Exhibit Number 1, does this exhibit contain the  
14 efforts by the OCD to get Petroleum Development Corporation  
15 to plug these wells?

16 A. Yes, it does, but I do want to point, out there  
17 is one error.

18 On the third sheet, on Exhibit Number 1, is an  
19 extraneous page. It shows a proposed P and A for a well  
20 from a different operator. I think that was inadvertently  
21 put in as part of the copying routine, putting the exhibits  
22 together, and at the top of that it says, Jesus Canyon  
23 Number 1, and that has no relevance to this issue.

24 Q. And what have been the results of your attempts  
25 to get Petroleum Development Corporation to plug these

1 wells?

2 A. They made some assurances to us last year that  
3 they would effectively either temporarily abandon the wells  
4 or plug and abandon them within a period of time, and they  
5 did not do that.

6 Q. And later, in Exhibit Number 1, after the  
7 correspondence, we have what are recommended plugging  
8 procedures, I take it, that the District has prepared?

9 A. Yes, these are some recommended plugging  
10 procedures for the wells that exist out there.

11 Q. And how do you recommend that these wells be  
12 plugged?

13 A. Generally with a bottom plug, and then if there's  
14 a free point or the casing is recoverable, the casing  
15 should either be perforated at the free point or cut off  
16 and recovered, a plug set across that point, and then a  
17 plug below the surface pipe -- excuse me, across the base  
18 of the surface pipe, then a surface plug.

19 MR. CARROLL: Mr. Examiner, if you'll look at the  
20 rest of Exhibit Number 1, there are all the well reports --  
21 Well, actually it's a complete copy of the well files for  
22 both of these wells, including the prior orders that were  
23 entered in the case as ordering these wells plugged back in  
24 1986 and 1987.

25 Q. (By Mr. Carroll) Mr. Chavez, if I can refer you

1 to what has been marked Exhibit Number 2, is this a copy of  
2 the plugging bond that's on file with the Division?

3 A. Yes, it is. It's a plugging of a cash -- like a  
4 cash plugging bond, OCD Number 431.

5 Q. And that is in the amount of \$50,000 with United  
6 New Mexico Bank?

7 A. Yes, it is.

8 Q. And has United New Mexico Bank now -- has its  
9 operations been assumed by Norwest Bank?

10 A. As far as I know, yes, I think that's the way  
11 it's been done.

12 MR. CARROLL: Mr. Examiner, if I can refer you to  
13 what has been marked Exhibit Number 3, that is a copy of  
14 the notice that was sent to Petroleum Development  
15 Corporation, to Norwest Bank, and to Fred Shelton, Jr., and  
16 Fred Shelton, III.

17 And I'll also offer the affidavit regarding  
18 notice in Case Number 11,507.

19 EXAMINER STOGNER: That's marked as Exhibit 3?

20 MR. CARROLL: Yes, that's marked as Exhibit  
21 Number 3.

22 Q. (By Mr. Carroll) Mr. Chavez, at this time do you  
23 recommend that these two wells, the El Poso Ranch Numbers 8  
24 and 11, be plugged?

25 A. Yes, I do.

1 Q. And do you believe that the plugging of these  
2 wells will result in the prevention of waste, the  
3 protection of correlative rights and the protection of  
4 fresh water, public health and the environment?

5 A. Yes, I do.

6 Q. Are the documents contained in what have been  
7 marked OCD Exhibits 1 through 3 maintained by the OCD in  
8 its ordinary course of business?

9 A. Yes, they are.

10 Q. Do you have anything else to add in this matter  
11 at this time?

12 A. No, I don't.

13 MR. CARROLL: Mr. Examiner, I move what have been  
14 marked Exhibits Numbers 1 through 3 into the record.

15 EXAMINER STOGNER: Any objections?

16 MR. CARR: No objection.

17 MR. PRUCINO: No objection.

18 EXAMINER STOGNER: Exhibits 1 through 3 will be  
19 admitted into evidence at this time.

20 Thank you, Mr. Carroll.

21 Mr. Carr, your witness.

22 CROSS-EXAMINATION

23 BY MR. CARR:

24 Q. Mr. Chavez, although we've consolidated the  
25 cases, it is correct, is it not, that the Petroleum

1 Development Corporation Properties own a separate and  
2 independent lease from the wells involved?

3 A. Mr. Carr, I don't know that for a fact. I know  
4 that there has been at times some confusion and court  
5 issues, civil issues, arise concerning the actual leases.  
6 For OCD purposes we do recognize Petroleum Development as a  
7 separate operator, in this case for those two wells.

8 Q. I believe you indicated that originally there  
9 were four wells and two had been assumed by another  
10 operator. Do you know who that other operator might be?

11 A. Yes, that was Chuza.

12 Q. When we -- When an operator proposes to assume  
13 operation of a well, what does the Oil Conservation  
14 Division require before they will approve a transfer of  
15 operatorship?

16 A. For these particular wells, being that they're on  
17 fee leases, we would require that they have a plugging bond  
18 in place, either a blanket bond or individual well bonds,  
19 and that the operator file Form C-104 to claim their  
20 operatorship.

21 Q. If the well has not produced for a period of  
22 time, are there any other conditions imposed by the  
23 Division? I'm specifically looking at requirements under  
24 Rule 202 concerning temporarily abandoned wells. Are those  
25 a factor in -- considered prior to approving --

1           A.    They may be considered in a situation such as  
2 this where there are special conditions. Our knowledge of  
3 the area, our knowledge of the wells indicate that this is  
4 high risk.

5           I would at this time perhaps talk to the Division  
6 Director about imposing an extra requirement for an  
7 individual well bond, to be sure that we were adequately  
8 plugged beyond the blanket bond.

9           Q.    You've recommended a specific plugging program  
10 for the wells, at least generically. There may be things  
11 that have to be changed.

12           In your experience, would a one-well \$5000 bond  
13 reasonably cover those costs if you don't experience any  
14 unique things when you're on the well?

15           A.    Very likely not.

16           Q.    Have you been involved with employing companies  
17 to go out and actually plug wells when the State has to  
18 actually take over and go out and secure the plugging of an  
19 abandoned well?

20           A.    Yes, we have.

21           Q.    Are you able to achieve substantial savings by  
22 doing multiple wells at one time?

23           A.    Yes, we are, and that's one of the reasons these  
24 wells are grouped together.

25           Q.    When you -- If an operator came to you and wanted

1 to assign or convey a well to a party and convert it to a  
2 water-producing well, what would they have to do in terms  
3 of obtaining OCD approval for that kind of activity?

4 A. The operator would have to obtain from the land  
5 owner a document that we call "affidavit of conversion to a  
6 water well" and within which the land owner or the person  
7 who's going to use the water well states that they will  
8 take responsibility for the well as a water well.

9 The operator would also be responsible for  
10 plugging the well back to a point where any oil- and gas-  
11 productive zones would not be exposed in the wellbore and  
12 it would be in adequate condition so that there would be no  
13 contamination of groundwater or no underground waste would  
14 occur, and the well would then be left in that condition  
15 for the person who wanted to use it as a water well.

16 Q. Before such an activity is undertaken by an  
17 operator and a landowner, would it be appropriate for them  
18 to meet with your office to review the information on the  
19 well, prior to going out and obtaining affidavits and going  
20 forward?

21 Is it appropriate to start by coming to your  
22 office, or should they go out --

23 A. Yes, they should come talk to us first.

24 MR. CARR: That's all I have.

25 EXAMINER STOGNER: Thank you, Mr. Carr.

1 Mr. Prucino?

2 EXAMINATION

3 BY MR. PRUCINO:

4 Q. Mr. Chavez, are you aware of any immediate  
5 hazards posed by any of the wells in question?

6 A. The wells in question have been in an abandoned  
7 condition for a long time, and they suffer surface neglect.  
8 There are flow lines in the area, and I don't know if all  
9 of them are plastic or not.

10 There has been very little maintenance done in  
11 that area. Consequently, they're subject to any type of  
12 environmental consequences that could come from leaks of  
13 the wellhead equipment, leaks from the flow line.

14 Also, in this area there are storage tanks, and  
15 we have gauged all the storage tanks, though I don't have  
16 that information with me. The oil that is in those tanks  
17 has been sitting there for several years. It has  
18 consequently deteriorated in quality. And because of  
19 neglect, there is a danger that perhaps a leak could  
20 develop in the tank or valving that would cause flows to  
21 the surface.

22 We don't know the condition of the casing in the  
23 wells, because they haven't been produced. Consequently,  
24 any shallow groundwaters that exist out in the area could  
25 be at risk, to -- subject to casing corrosion and perhaps

1 fluids from the wellbore, migrated into the water zones.  
2 So there are risks involved, especially because of neglect,  
3 out in that area.

4 Q. Are you aware of any existing leaks in the  
5 storage valves that are on the site?

6 A. Not at this time.

7 MR. PRUCINO: I have no further questions.

8 EXAMINER STOGNER: Thank you, Mr. Prucino.  
9 Mr. Carroll, back to you.

10 MR. CARROLL: You don't have any questions  
11 regarding this case, Mr. Examiner?

12 EXAMINER STOGNER: No. I do not have any  
13 questions of Mr. Chavez at this time.

14 DIRECT EXAMINATION

15 BY MR. CARROLL:

16 Q. All right, Mr. Chavez, if you will please direct  
17 your attention to the exhibits that have been marked 1  
18 through 5 in Case 11,508.

19 A. Okay.

20 Q. OCD records show that Spur Oil is the operator of  
21 the seven wells listed on the first page of Exhibit Number  
22 1?

23 A. Yes, they do.

24 Q. And does Exhibit Number 1 contain the  
25 correspondence with the operator, Spur Oil, trying to get

1 them to bring these wells into compliance with OCD rules?

2 A. Yes, it does. There -- I thought that there  
3 might be other documents, but these documents have -- do  
4 support that we have been contacting Spur Oil,  
5 Incorporated, to plug these wells.

6 Q. Mr. Chavez, I believe Exhibit Number 1 contains  
7 the latest correspondence with the operator, and that prior  
8 correspondence will be included in the well files for each  
9 one of the wells?

10 A. I'm sorry, that's right, you're correct.

11 Q. Mr. Chavez, can you please give the Examiner a  
12 brief history of these seven wells?

13 A. The Samantha 1, 2 and 3 wells are part of a group  
14 that are in the El Poso Ranch area, along with the  
15 Petroleum Development and the Chuza Operating wells that  
16 are referenced in the cases put together. They were  
17 drilled also at a -- several years ago and have, after a  
18 few attempts to try to produce them, been basically  
19 abandoned to neglect.

20 The Gonzales and the Quinlan Ranch wells are  
21 located quite a bit further north. The Quinlan Ranch wells  
22 are located a few miles west of Chama, New Mexico, on the  
23 Quinlan Ranch, and the Gonzales wells are located further  
24 west on the Gonzales Ranch. These wells were also drilled.  
25 Very little attempt was made to produce them, from what we

1 can tell at the surface, and they have also been blocked  
2 off and abandoned to neglect.

3 Q. Has there been any attempt for the Gonzales and  
4 the Quinlan Ranch wells -- to convert them to water wells?

5 A. That subject has come up, and I think the Quinlan  
6 Ranch owners have discussed this in the past. There have  
7 been other wells on the Quinlan Ranch that have been  
8 converted to water wells, and I think one or two on the  
9 Gonzales Ranch also, and that may not be too difficult.  
10 The Samantha wells, though, we haven't had any contact on.

11 Q. Mr. Chavez, what has been the result of your  
12 efforts to get Spur Oil, Inc., to plug these seven wells?

13 A. They have not responded to any of our  
14 communications, written communications. Occasionally,  
15 they'll return a phone call and say that something will  
16 occur, but nothing ever happens.

17 Q. Now, when you refer to "they", who are you  
18 referring to? Who's your contact with Spur Oil?

19 A. Mr. Fred Shelton, III.

20 Q. Mr. Chavez, has your District developed  
21 recommended plugging procedures for these seven wells?

22 A. Yes, we have.

23 Q. And are they contained in what has been marked  
24 OCD Exhibit Number 3?

25 A. Yes, they are.

1 Q. And are these wells going to be plugged in  
2 approximately the same manner as the Petroleum Development  
3 Corporation wells?

4 A. Yes, they will be.

5 Q. Mr. Chavez, does Exhibit Number 4 contain the  
6 bond information regarding the bond for Spur Oil, Inc.?

7 A. Yes, it does.

8 Q. And is that a \$50,000 surety bond with Old  
9 Republic Insurance Company?

10 A. Yes, it is.

11 MR. CARROLL: Mr. Examiner, I also refer you to  
12 what has been marked OCD Exhibit Number 5. This is a copy  
13 of the notice that was sent to Spur Oil, Inc., Old Republic  
14 Insurance Company, Fred Shelton, Jr., and Fred Shelton,  
15 III, along with the affidavit regarding notice in this  
16 case.

17 Q. (By Mr. Carroll) Mr. Chavez, so at this time  
18 you recommend that these seven wells be plugged; is that  
19 correct?

20 A. Yes, I do.

21 Q. And it is your belief that the plugging will  
22 result in the prevention of waste, the protection of  
23 correlative rights and/or the protection of fresh water,  
24 public health and the environment?

25 A. Yes, I do.

1 Q. Do the documents contained in what has been  
2 marked OCD Exhibits 1 through 5 -- are they kept and  
3 maintained by the OCD in its ordinary course of business?

4 A. Yes, they are.

5 Q. Do you have anything else to add in this case?

6 A. No, I don't.

7 MR. CARROLL: Mr. Examiner, I move what has been  
8 marked OCD Exhibits 1 through 5 into the record.

9 EXAMINER STOGNER: Are there any objections?

10 MR. CARR: No objection.

11 MR. PRUCINO: No objection.

12 EXAMINER STOGNER: Exhibits 1 through 5 in Case  
13 Number 11,508 will be admitted into evidence at this time.

14 Thank you, Mr. Carroll.

15 Mr. Carr, your witness.

16 MR. CARR: No questions.

17 EXAMINER STOGNER: Mr. Prucino?

18 MR. PRUCINO: No questions.

19 EXAMINER STOGNER: I'll reserve until later.

20 Mr. Carroll, back to you.

21 DIRECT EXAMINATION

22 BY MR. CARROLL:

23 Q. Mr. Chavez, if you'll direct your attention to  
24 what has been marked OCD Exhibits 1 through 5 in Case  
25 11,509, which is the case involving Chuza Operating as the

1 operator, and it also involves seven wells.

2 A. Yes.

3 Q. If I can direct your attention to what has been  
4 marked Exhibit 1, is this a copy of the latest round of  
5 correspondence with Chuza Operating and the insurance  
6 company, Underwriters Indemnity, regarding the plugging of  
7 these seven wells or bringing them into OCD compliance?

8 A. Yes, it is.

9 Q. Could you give us a brief history of these seven  
10 wells?

11 A. The history of these is similar to the other  
12 wells in the El Poso Ranch area. Some of these wells were  
13 originally drilled by SunTex, and some were by Texas Rose  
14 Petroleum, about the same time period. The same thing  
15 applies. There was an attempt to produce some oil, with  
16 very little success, and consequently the operators  
17 abandoned the wells and walked away.

18 Q. And all seven wells are El Poso Ranch wells?

19 A. Yes, they're on the old ranch.

20 Q. So you haven't gotten any response from your  
21 results to get the operator to do something with these  
22 wells?

23 A. No. Excuse me, I need to correct that. No  
24 written response. We have had some phone conversations,  
25 but they have not resulted in any action.

1 Q. Mr. Chavez, does OCD Exhibit Number 2, A through  
2 G, contain the copies of the well files for these seven  
3 wells?

4 A. Yes, they do.

5 Q. And does Exhibit Number 3 contain the District-  
6 approved or District-recommended plugging procedures for  
7 these seven wells?

8 A. Yes, it does, and I have to make a note here.  
9 The top page on Exhibit 3 has a list of eight items on  
10 there, and actually only the first four are in this group.  
11 The other items are included -- Number 5 is included in  
12 Exhibit 2. Number 6 is also -- is included in Exhibit 4.  
13 Number 7 is included as -- also in Exhibit 2. And the  
14 listing of the wells is in Exhibit 1.

15 So just pay attention to the first four items on  
16 there, just what's on this exhibit.

17 Q. Mr. Chavez, does Exhibit Number 4 contain the  
18 information regarding the bond that has been placed by  
19 Chuza Operating Company through Underwriters Indemnity  
20 Company with the Division?

21 A. Yes, it does.

22 Q. And this is a \$50,000 blanket plugging bond?

23 A. Yes.

24 MR. CARROLL: Mr. Examiner, Exhibit Number 5  
25 contains the notice that was sent to Chuza Operating,

1 Underwriters Indemnity Company, Fred Shelton, Jr., and Fred  
2 Shelton, III.

3 I also offer an affidavit of notice.

4 Q. (By Mr. Carroll) Mr. Chavez, at this time to you  
5 recommend that these seven wells be plugged?

6 A. I do.

7 Q. And in your opinion will the plugging result in  
8 the prevention of waste, the protection of correlative  
9 rights and the protection of fresh water, public health and  
10 the environment?

11 A. Yes, it would.

12 Q. And are the documents contained in Exhibits 1  
13 through 5 maintained by the OCD in its ordinary course of  
14 business?

15 A. Yes, they are.

16 Q. Do you have anything else to add in this case?

17 A. No, I don't.

18 MR. CARROLL: Mr. Examiner, I move what have been  
19 marked OCD Exhibits 1 through 5 into the record.

20 EXAMINER STOGNER: Any objections?

21 MR. CARR: No objection.

22 MR. PRUCINO: No objection.

23 EXAMINER STOGNER: Exhibits 1 through 5 in Case  
24 11,509 will be admitted into evidence at this time.

25 Thank you, Mr. Carroll.

1 Mr. Carr, your witness.

2 CROSS-EXAMINATION

3 BY MR. CARR:

4 Q. Mr. Chavez, if these wells were operated in  
5 accordance with OCD rules, you wouldn't be interested in  
6 seeking the plugging of these wells; isn't that fair to  
7 say?

8 A. Well, yes, it's our job to be sure that we can  
9 produce as much oil as we can, yes.

10 Q. And those rules include, if a well stays  
11 temporarily or is abandoned for a certain period of time,  
12 that the operator do certain things if they want to  
13 maintain that well in an abandoned status; is that correct?

14 A. That's correct.

15 Q. Those are set out in Rule 202; is that fair?

16 A. Yes.

17 Q. There would have to be certain work done on the  
18 well and also a well-plugging bond posted; is that right?

19 A. That's correct.

20 Q. If that was done, if these wells were brought  
21 into compliance with Rule 202, the Division would not then  
22 be seeking plugging of them; is that right?

23 A. That's correct.

24 Q. To comply with 202, certain things would have to  
25 be done to the wellbore; isn't that right?

1 A. Yes, sir.

2 Q. And there would be certain costs in terms of  
3 setting a plug and testing it and ensuring basically the  
4 integrity of the wellbore; isn't that right?

5 A. That is correct.

6 Q. It wouldn't be prudent in terms of just the costs  
7 involved to go out and put the well in compliance with Rule  
8 202, say today, and then 90 days from today plug that well,  
9 would it?

10 A. No, no.

11 Q. It would be a duplication or a waste of cost,  
12 would it not?

13 A. That is correct.

14 Q. If a well, in fact, is going to be plugged,  
15 what's needed is that we actually get on a time schedule  
16 and get the well plugged; isn't that what you're really  
17 seeking?

18 A. That's correct.

19 MR. CARR: That's all I have.

20 EXAMINER STOGNER: Thank you, Mr. Carr.

21 Mr. Prucino?

22 MR. PRUCINO: No questions.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. Mr. Chavez, where roughly are all these wells

1 located? Are they in one general area?

2 A. Yes, they are, except for the Gonzales and the  
3 Quinlan wells, the Samantha, the wells -- these operators  
4 are located on the Old El Poso Ranch, which is just -- the  
5 entrance to this area would be about a half a mile to a  
6 mile west of El Vado Lake in an area called -- through a  
7 canyon that's called Puerta Grande. It is an alpine-type  
8 area, a coniferous forest area, a lot of wildlife. It's  
9 rather remote, and it's not near -- not really near any  
10 other production.

11 Q. Because it's so remote and not near production,  
12 it's imperative that once I guess your office gets a rig  
13 out there, ready to start plugging any of these wells, it's  
14 imperative for money savings that we plug them all. When I  
15 say "we", your office of the OCD.

16 A. Those that are to be plugged should be plugged as  
17 a group, yes. It saves a lot on transportation costs  
18 because of the distance to plugging services.

19 Not only that, because this area is a privately  
20 owned area, there are -- we try to work with the land  
21 owner, who -- generally, when they're out in this area they  
22 want to schedule private hunts, starting in September, so  
23 we try to get activities completed before September when  
24 the hunting season starts in that area.

25 Q. Also, that brings me up to my next question. Who

1 is the land owner now, the surface owner? And has that  
2 changed since these wells were drilled?

3 A. Yes, it has changed since it's drilled. The  
4 surface land owner now is the Jicarilla tribe. They own  
5 the land in fee.

6 Q. On all of the wells?

7 A. All except for the Samantha and the Quinlan  
8 wells.

9 Q. Okay. Now, those wells in which they now own the  
10 surface rights, if an operator was to get approval to drill  
11 in those areas, how would the plugging -- would the  
12 plugging bond be different? How would the tribal  
13 government enter into this picture now?

14 A. I don't know. There are some issues there  
15 where -- with the land owner being a tribe as to how they  
16 want to put any requirements on any activity under an oil  
17 and gas lease that they don't own.

18 But as far as our bonding requirements, we  
19 wouldn't change anything for ourselves.

20 Q. But it could be significantly different now than  
21 what it was whenever a nontribal entity owned the surface  
22 rights?

23 A. Yes, it could be.

24 EXAMINER STOGNER: I have no other questions of  
25 this witness.

1 Mr. Carr?

2 MR. CARR: No further questions.

3 EXAMINER STOGNER: Mr. Prucino?

4 MR. PRUCINO: No further questions.

5 EXAMINER STOGNER: Mr. Carroll?

6 MR. CARROLL: No other questions. I do have a  
7 couple of requests of the Examiner.

8 MR. CARR: Mr. Examiner, I also have a statement,  
9 whenever it would be appropriate.

10 EXAMINER STOGNER: Okay, I'll take statements  
11 from Mr. Carr and Mr. Prucino --

12 MR. CARROLL: My statement goes --

13 EXAMINER STOGNER: Okay, let's hear your  
14 statement first.

15 MR. CARROLL: The Division is aware that there  
16 are various negotiations going on to try to bring these  
17 wells back on to production or into compliance with OCD  
18 rules, and the Division requests that the Examiner allow a  
19 90-day period in each of these cases, and we would request  
20 that this 90-day period be drop-dead date, at the end of 90  
21 days if the wells aren't plugged or aren't brought back  
22 onto production or into compliance with OCD rules, that  
23 they be ordered plugged at that time.

24 We would also request that written reports be  
25 submitted by the operators or the people trying to

1 negotiate the purchase or transfer the operatorship of  
2 these wells at the end of 30 days and 60 days and that  
3 those reports be filed with Frank Chavez, of our Aztec  
4 District Office, and that if those reports aren't filed, we  
5 can also order those wells plugged at the end of 30 days or  
6 60 days.

7 That's all I have for a request at this time.

8 EXAMINER STOGNER: That would be written reports  
9 from the current operators, or anybody wanting to be  
10 operator?

11 MR. CARROLL: Anybody wanting to be operator or  
12 the current operator.

13 EXAMINER STOGNER: Okay. Thank you, Mr. Carroll.

14 Mr. Carr?

15 MR. CARR: Mr. Stogner, basically the proposal  
16 that has been outlined by Mr. Carroll is consistent with  
17 what I was going to request. As the Examiner is probably  
18 aware, four weeks ago Mr. Prucino and I met with  
19 representatives of the OCD, and we explained at that time  
20 that Mr. Prucino's clients were interested in going forward  
21 with an effort to return the wells to production.

22 My role in this is really as representative of  
23 Chuza Petroleum Development Corporation, and if what Mr.  
24 Prucino is attempting to do is successful, those wells may  
25 be transferred to him, and then the responsibility would

1 rest with their new company.

2 But our situation has been substantially  
3 complicated by the fact that as to Chuza we have been in a  
4 dispute with Mr. Shelton that resulted in litigation which  
5 was settled.

6 Pursuant to that settlement, we executed C-104s  
7 and delivered them to Mr. Shelton. And if we were put in a  
8 position of going out and trying to plug the wells right  
9 now, we're concerned that we would be getting into a  
10 position where we might be in breach of our settlement  
11 agreement, and it's not your -- but it is a problem that  
12 has complicated what we have been able to do with you.

13 We have been evaluating where we stand in terms  
14 of our financial ability to post individual bonds. We are  
15 of the opinion, Chuza, that those bonds can be posted,  
16 individual well bonds, within 90 days.

17 The question of who is actually responsible under  
18 that settlement for operation is not clear now, but we  
19 believe that can be resolved, and we want to commit to you  
20 that as to the wells that Chuza operates and as to the  
21 wells that Petroleum Development Corporation operates, that  
22 we can and will re-apply on a 30-day interval to you. We  
23 will, at the end of 90 days, be in a position to either  
24 abide by a plugging order that recognizes you to do what  
25 you need to keep this thing going, or we will be able to

1 put the wells in compliance with Rule 202.

2 EXAMINER STOGNER: Thank you, Mr. Carr.

3 Mr. Prucino?

4 MR. PRUCINO: Mr. Examiner, as Mr. Chavez has  
5 testified, and you are aware, the surface rights of the  
6 property in question are now owned by the Jicarilla Apache  
7 tribe, and as you noted, that can cause uncertainties, more  
8 administrative procedures to be followed.

9 Our clients, who are two new entities -- one  
10 would be an ownership entity, and Kachina Production, whom  
11 I have entered an appearance for today, will be an  
12 operating entity -- are currently dealing with both BIA and  
13 the Jicarilla Apaches regarding the steps that must be  
14 taken before we can move on site and take over those wells.

15 Issues such as environmental impact, surface  
16 right of way being granted, archeological studies, have all  
17 been studied and addressed. In fact, at the Apache  
18 Jicarillas' April 30th monthly meeting, their Oil and  
19 Mineral Committee, our client, through Daggett, Inc., out  
20 of Farmington, made a presentation to both the Oil and  
21 Mineral Committee of the Jicarilla Apaches and officers of  
22 the BIA who were in attendance, at which meeting several of  
23 these issues were discussed.

24 The current plan is for an environmental study  
25 and an archeological study to be performed, most likely

1 within the next month, and it will be presented to the  
2 Jicarilla Committee at its next monthly meeting, which will  
3 be the end of May, shortly thereafter, and possibly as late  
4 as the Committee's June meeting. We would hope to receive  
5 approvals of all reports that are submitted and any grant  
6 of right of way that might be necessary for the clients'  
7 use of the surface rights in the existing roads on the  
8 Jicarilla property.

9           Because of that timing, I guess our client has  
10 some concern with an absolute drop-dead date. I certainly  
11 have no problems submitting 30- and 60-day reports. I  
12 think that is appropriate.

13           I would ask the Examiner to consider the nature  
14 and content of those reports, in determining whether at the  
15 end of 90 days that will be deemed a drop-dead date, and  
16 simply ask that some leniency be granted if it appears that  
17 in the immediate future, for example, drilling will be  
18 commenced, but because of requirements of the Jicarillas or  
19 BIA, those actions cannot be taken immediately on that 90th  
20 day.

21           My clients certainly hope that the 90-day period  
22 can be satisfied, but if it turns into a 100-day period  
23 because of dealings with these agencies, we would certainly  
24 like to be able to complete the process.

25           EXAMINER STOGNER: Thank you, Mr. Prucino.

1 Does anybody else have anything further in these  
2 matters?

3 If not, then Cases Numbers 11,507, 11,508 and  
4 11,509 will be taken under advisement.

5 (Thereupon, these proceedings were concluded at  
6 1:25 p.m.)

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21 I do hereby certify that the foregoing is  
22 a complete record of the proceedings in  
the Examiner hearing of Case Nos. 11507, 11508, and 11509  
heard by me on 2 May 1996.

23 Michael E. Clark, Examiner  
24 Oil Conservation Division  
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 May 7th, 1996.




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STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998