

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

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION FOR  
THE PURPOSE OF CONSIDERING:

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION ("OCD")  
COMPLIANCE AND ENFORCEMENT MANAGER  
FOR A COMPLIANCE ORDER AGAINST CANYON  
E & P COMPANY. CASE NO. 15271

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 19, 2015

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the  
New Mexico Oil Conservation Division, Phillip Goetze,  
Chief Examiner, and Gabriel Wade, Legal Examiner, on  
Thursday, March 19, 2015, at the New Mexico Energy,  
Minerals and Natural Resources Department, Wendell Chino  
Building, 1220 South St. Francis Drive, Porter Hall,  
Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR  
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COMPLIANCE AND ENFORCEMENT MANAGER:

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1 (9:02 a.m.)

2 EXAMINER GOETZE: Next case will be Case  
3 15271, application of the New Mexico Oil Conservation  
4 OCD, compliance and enforcement manager for a compliance  
5 order against Canyon E & P Company.

6 Call for appearances.

7 MR. HERRMANN: Mr. Keith Herrmann  
8 representing the Oil Conservation Division.

9 MR. DOMENICI: Good morning. Pete Domenici  
10 representing Canyon. I also made a limited entry for  
11 the officers and directors.

12 EXAMINER GOETZE: Very good.

13 Any other appearances?

14 At this point would you identify your  
15 witness, have him stand, and he will be sworn in?

16 MR. HERRMANN: I have one witness,  
17 Mr. Daniel Sanchez.

18 DANIEL SANCHEZ,  
19 after having been first duly sworn under oath, was  
20 questioned and testified as follows:

21 MR. DOMENICI: Mr. Examiner, I filed a  
22 motion that I think might best be heard before the  
23 testimony, but --

24 MR. HERRMANN: Yes.

25 MR. DOMENICI: -- I don't want to give the

1 appearance of waiving that motion if you want to hear it  
2 later.

3 EXAMINER GOETZE: At this point we'll let  
4 him -- the Applicant proceed with presenting his  
5 evidence in the case, which you will respond, and then  
6 we'll delve into your motion to dismiss, if that's okay.

7 MR. DOMENICI: That's fine, however you  
8 want to proceed.

9 EXAMINER GOETZE: Very good.

10 Mr. Herrmann.

11 DIRECT EXAMINATION

12 BY MR. HERRMANN:

13 Q. Mr. Sanchez, would you please state your name  
14 and title and for the record?

15 A. I'm Daniel Sanchez. I'm the compliance and  
16 enforcement manager for the OCD.

17 Q. Can you briefly describe the duties you perform  
18 for the OCD?

19 A. I oversee the four district offices, the  
20 administrative staff. I oversee the compliance and  
21 enforcement program for the Division.

22 Q. How long have you performed in that capacity?

23 A. A little over ten years.

24 MR. HERRMANN: I would hereby like to move  
25 that Mr. Sanchez be admitted as an expert on OCD

1 operations and procedures.

2 MR. DOMENICI: No objection.

3 EXAMINER GOETZE: Very good. And then  
4 you'll go ahead and you will be an expert on OCD  
5 operations.

6 THE WITNESS: Yes, sir.

7 EXAMINER GOETZE: Very good. Continue.

8 Q. (BY MR. HERRMANN) Have you researched the  
9 alleged violations against Canyon E & P?

10 A. Yes, I have.

11 Q. At this point I'm going to admit Exhibit -- or  
12 what I have marked as Exhibit 1 for the OCD. Could you  
13 please identify that?

14 A. This is from the Office of the Secretary of  
15 State, and it's showing that Canyon E & P is no longer  
16 in good standing with them. It's also showing that the  
17 directors are Mr. Michael Myers and Karen Myers, and the  
18 vice president is Lisa Waun.

19 Q. Moving on to OCD Exhibit 2, could you describe  
20 how this matter came to the attention of the OCD?

21 A. Yes. We quit receiving C-115s from Canyon. I  
22 believe the last ones were in May of 2013. They  
23 currently operate 227 wells. Of those 227 wells, none  
24 of them are in active status. They are also requiring  
25 somewhere in the amount of \$445,000 in additional

1 bonding. A letter was sent out to Canyon on August 7th  
2 of 2014, letting them know about the C-115 issue.

3 Q. And that was a 60-day letter as required by  
4 rule?

5 A. Yes, it was.

6 Q. And if you move to the second letter dated  
7 September 10th, would you identify that?

8 A. Yes. This was a follow-up letter. This was, I  
9 believe, to inform them that they had gone to 120 days.

10 Q. Actually, this is the 90-day.

11 A. Oh, the 90 -- yeah, 90-day letter.

12 Q. Was it sent via certified mail?

13 A. Yes, it was.

14 Q. And the third letter dated October 31st, was  
15 that also sent via certified mail?

16 A. It was sent certified mail informing them that  
17 their authorization to transport and inject has been  
18 revoked.

19 Q. Have they made any attempt to restore their  
20 authority to transport to or inject from their wells?

21 A. No.

22 Q. Next I'd like to move to admit OCD Exhibit 3.  
23 That is a well list of all of Canyon -- or the wells  
24 registered to Canyon E & P. Could you describe this  
25 exhibit?

1           A.    Yes.  It is their current well list, which is  
2   made up of 227 wells as of this morning.

3           Q.    Okay.  And from this list, how many wells are  
4   inactive in violation with OCD rules?

5           A.    227.

6           Q.    That is all their wells?

7           A.    Yes.

8           Q.    And how many require additional bonding?

9           A.    I believe there are about 61 that currently  
10   require it, and that amount is for \$445,410, and in June  
11   of this year, another four are going to require  
12   additional bonding in the amount of \$41,882.

13          Q.    Just one more time to be clear, could you  
14   summarize the bonding that is required?

15          A.    Well, currently they require \$445,410 in  
16   additional bonding on about 61 wells.

17          Q.    And in your estimate, what is going to be the  
18   estimated plugging cost of these wells?

19          A.    The average cost that we've seen currently over  
20   the last year, year and a half for plugged wells has  
21   been right around \$40,000 for the depth of most of these  
22   wells here, which would run the State a little over  
23   \$9 million to plug.

24          Q.    And do you happen to know how much bonding they  
25   currently have in place?



1           A.     Just a rough estimate, it was about \$1.1  
2 million in bonding.

3                   MR. HERRMANN: I have no further questions.

4                   EXAMINER GOETZE: Would you like to enter  
5 your exhibits?

6                   MR. HERRMANN: Yes. I would like to move  
7 to admit OCD Exhibits 1 through 4. 4 is the last, that  
8 I have not presented. It's my notice items. We  
9 advertised this in the "Artesia Reader" -- the Artesia  
10 paper, the Portales paper and the "Lea County Examiner."  
11 In an attempt to track down the operator who did not  
12 have a good address at the time, we applied for hearing.

13                   EXAMINER GOETZE: So with regard to Exhibit  
14 4 and notification, this is all efforts to contact  
15 E & P?

16                   MR. HERRMANN: Yes. I'm missing an  
17 affidavit of publication from the "Artesia Daily  
18 Reader," but I can supplement that. It did, in fact,  
19 get published.

20                   EXAMINER WADE: Any objections to the  
21 admission?

22                   MR. DOMENICI: No objection.

23                   EXAMINER GOETZE: So Exhibits 1 through 4  
24 are accepted.

25                               (NMOCD Exhibit Numbers 1 through 4 were

1                   offered and admitted into evidence.)

2                   EXAMINER GOETZE: Mr. Domenici, any  
3                   questions for this witness?

4                   MR. DOMENICI: Yes.

5                   CROSS-EXAMINATION

6                   BY MR. DOMENICI:

7                   Q. First focusing on the last exhibit, Exhibit 4,  
8                   which is the notice, can you confirm that there was no  
9                   effort to provide notice to any specific officer and  
10                  director -- named officer and director for Canyon?

11                  A. Not that I was aware of.

12                  Q. And the publication doesn't list any officers  
13                  or director by name?

14                  A. Not that I'm aware of, no.

15                  Q. And the compliance order itself doesn't contain  
16                  any specific assertions or allegations against any  
17                  officer and director?

18                  A. No.

19                  Q. And Exhibit -- I think Exhibit 1, which is the  
20                  Secretary of State form, that doesn't indicate the  
21                  tenure or the time when a particular person listed on  
22                  there was an officer or director, correct?

23                  A. No, it does not.

24                  Q. Do you know if OCD is continuing to try to  
25                  assert the plugging order against the officers and

1 directors sitting here today? You know I filed a motion  
2 yesterday. Do you know one way or another if they're  
3 trying to assert liability against the officers and  
4 directors?

5 A. Not at this time.

6 Q. Okay. Then let's move on to just a discussion  
7 of Exhibit 3, if we could, which is the list. Now, for  
8 the -- there are a number of columns on that list, and  
9 one of the columns is entitled "Bond in Place"?

10 A. Uh-huh.

11 Q. And I think the intent of that is to show there  
12 is a bond in place, and then you give the well bond and  
13 it has the dollar amount of the bond?

14 A. That is correct.

15 Q. And those amounts in that column were  
16 established by OCD?

17 A. Yes.

18 Q. And so the bond in place, where it indicates  
19 it's in place, that actually meets the OCD bonding  
20 requirements?

21 A. Yes, it does.

22 Q. And my understanding is there are approximately  
23 116 of the wells?

24 A. Yes.

25 Q. And then the other thing I'd like you to

1 comment on -- and I was just looking at the last  
2 production date column --

3 A. Uh-huh.

4 Q. -- and it seemed to me that -- I would say well  
5 over 100 of these wells haven't produced at all in the  
6 past -- 2010, so past five years?

7 A. Yeah. Prior to 2010, about 137 of those wells  
8 failed to show production.

9 Q. And do you know when Canyon became the operator  
10 of these wells, approximately?

11 A. I'm thinking 2008, 2009. I'd have to check  
12 that to be sure.

13 Q. Do you know how many wells were out of  
14 production at the time Canyon became operator,  
15 approximately?

16 A. I'm thinking about -- about 160.

17 Q. So Canyon stepped into an operatorship on a  
18 number of leases or units that had a large number of  
19 wells already out of production?

20 A. That's correct.

21 Q. Canyon didn't create the fact that those wells  
22 were out of production?

23 A. No.

24 Q. Canyon was aware of it; OCD was aware of it?

25 A. Yes.

1           Q.   And, in fact, Canyon bought those wells out of  
2 federal bankruptcy court. Is that your understanding?

3           A.   I don't recall.

4           Q.   Do you recall that these wells -- that there  
5 was bankruptcy on top of these wells?

6           A.   Yes.

7           Q.   And were there any individual bonds on any of  
8 these wells before Canyon took over as operator?

9           A.   I do not remember that.

10          Q.   There might have been a blanket bond, but to  
11 your knowledge --

12          A.   I believe it was a blanket bond in place at  
13 that time.

14          Q.   So Canyon actually increased the bonding on  
15 these wells by, I think you said, \$1.1 million?

16          A.   In that general area, yes.

17          Q.   Do you know if there were liens on these wells  
18 from the bankruptcy court or the bankruptcy estate?

19          A.   No. I don't know for sure.

20          Q.   Do you know if liens on these wells would  
21 impact the OCD's ability to use the equipment as part of  
22 the proceeds from the sale of equipment to cover the  
23 bonding costs?

24          A.   I'm not sure about that. I don't know how that  
25 works.

1 Q. If Canyon has reduced the liens on the wells  
2 by, let's say, around a million and a half dollars, do  
3 you know one way or another if that would benefit the  
4 OCD reclamation fund, actually providing -- or freeing  
5 up collateral that could be accessed by OCD to reimburse  
6 the fund?

7 A. Yeah. It would definitely be a benefit.

8 Q. So overall Canyon provided round numbers, over  
9 \$2 million -- or actually, Canyon improved the position  
10 of plugging these wells by over \$2 million. Would you  
11 agree with me?

12 A. Subject to check, yes.

13 Q. Because if the bankruptcy estate had just  
14 abandoned all of these wells, there would be no plugging  
15 bond, and they might have had to release their lien. So  
16 maybe I'll withdraw my question there.

17 So there might have been -- there is at  
18 least \$1 million of bond money?

19 A. (Indicating.)

20 Q. And do you know currently what the bankruptcy  
21 lien is against these wells?

22 A. No, I don't.

23 Q. If it's under \$250,000, would that be  
24 substantially less than it was during the corporate  
25 bankruptcies, if you know?

1           A.    I don't know that for sure.

2           Q.    And do you know if the bankruptcy estate has  
3   the ability to release its collateral liens well by  
4   well, sort of like individual bonds in place?

5           A.    I do not know that.

6                   MR. HERRMANN:  We're going to object  
7   because I think this is going to exceed what Daniel was  
8   brought here to testify on.

9                   EXAMINER GOETZE:  At this point I don't  
10   think the witness is qualified to carry on with delving  
11   into something that truly I think is out of his purview,  
12   but if you wish to make a point --

13                  MR. DOMENICI:  I think I can tie it up.

14          Q.    (BY MR. DOMENICI) So I think you mentioned the  
15   cost is \$40,000, round numbers, per well?

16          A.    Average, yes.

17          Q.    And does the -- how does the process actually  
18   work to get one of these wells actually plugged?  I know  
19   there is a bond and -- there is a plugging bond.  So  
20   what would actually happen?

21          A.    We have a contract in place with multiple  
22   pluggers.  We go to hearing, like we are at this point,  
23   with an operator, determine that the operator is  
24   incapable of meeting the requirements, which would be to  
25   either produce these wells or plug them, take some kind

1 of action on them. They are given a time limit to take  
2 care of those issues. If they don't, then we will start  
3 plugging those wells, after which we will go to collect  
4 whatever bonding is available. And after that, we would  
5 make the attempt at going after the operator of record  
6 to recoup the costs.

7 Q. And what do you do -- you or your contractor do  
8 with the equipment that's in the wells or attached to  
9 the wells when you -- before you plug or around the time  
10 you plug? How does that work?

11 A. That's salvage, and that salvage value goes  
12 towards the cost of the wells being plugged.

13 Q. Do you have any estimate of the salvage value  
14 per well?

15 A. No, I don't.

16 Q. Do you have any information on average salvage  
17 values or typical salvage values?

18 A. No, because they're really all over the board.  
19 It will depend on what equipment is on site, if there is  
20 oil in the tanks, a number of factors. There hasn't  
21 been a real average salvage value in the ones we've  
22 plugged.

23 Q. And there hasn't been any inventory for these  
24 wells?

25 A. We haven't gotten that far.



1 Q. And does the same contractor do the salvage as  
2 the plugging? Is that all part of the same --

3 A. In most cases, yes.

4 Q. And is there an economy of scale to plugging?  
5 If it's one well, it's 40,000; ten wells, it would drop,  
6 if you know?

7 A. I don't think we do it in terms of groups.  
8 It's based really on the depth of that well and  
9 eventually the condition of the well.

10 Q. That's all I have. Thank you.

11 EXAMINER GOETZE: Very good.

12 CROSS-EXAMINATION

13 BY EXAMINER GOETZE:

14 Q. Mr. Sanchez, for clarification on the well  
15 list, it's apparent that we have one, two, three,  
16 four -- we have the majority of these held up in four  
17 waterflood projects?

18 A. I didn't get to that.

19 Q. Most of these appear to be in waterflood  
20 projects?

21 A. Yeah, that's true.

22 Q. So very few of these are stand-alone or  
23 property developments?

24 A. Yes.

25 Q. So there is no agreement -- compliance

1 agreement with E & P at this point in time?

2 A. Not at this time. We had one in the past, but  
3 it was --

4 Q. And what was that attempt and when did that  
5 occur?

6 A. It occurred shortly after they became operator  
7 of record, and they failed to meet the terms of the  
8 agreement, so it wasn't extended.

9 Q. And following that agreement, were there any  
10 attempts by E & P to extend it?

11 A. They did request an extension after the first  
12 one, which we turned down because of the lack of  
13 progress at the time of the first agreement.

14 Q. I have no further questions.

15 EXAMINER GOETZE: Counsel?

16 CROSS-EXAMINATION

17 BY EXAMINER WADE:

18 Q. Just going a little further on those  
19 agreements, are you familiar with the terms of those  
20 agreements?

21 A. Not at this time. But basically it was to get  
22 a certain amount of the wells back into production,  
23 which they determined for themselves what that number  
24 would be, and we agreed to it. And I believe maybe 20  
25 percent of what they agreed to was actually done.

1           Q.    Was there any agreement as to putting  
2   individual well bonds on wells that previously weren't  
3   bonded?

4           A.    That wasn't part of the agreement.  That came  
5   into effect when the rule for additional bonding came  
6   into effect.

7           Q.    Prior to bringing this case, were there  
8   additional discussions regarding entering into an  
9   agreement?

10          A.    We had considered it at one time, but it was  
11   almost impossible to get ahold of Mr. Myers, the owner  
12   of the company, to try to work something out.

13                   EXAMINER GOETZE:  No further questions?

14                   EXAMINER WADE:  Well, I guess the last  
15   question would be:  Is there any willingness on the end  
16   of the operator to enter into discussions?

17                   MR. DOMENICI:  I would think it would be  
18   very difficult.  They tried to market these wells, to  
19   find investors or partners.  I don't want to say no,  
20   because there might be -- also, some of these units or  
21   leases have been terminated, so they would have to be  
22   reinstated in terms of trying to do an operation that  
23   involved both plugging and some kind of operation, which  
24   is what the original compliance orders were trying to  
25   do, was to identify wells to plug and wells to operate.

1 And there's been a long effort to try to find third  
2 parties to come and do that. And that's been done on  
3 the major unit, which is Twin Lakes. There is only a  
4 small number of wells in that unit. So there would  
5 certainly be some willingness to discuss -- to act --  
6 there's another compliance order coming on that. There  
7 are certain discussions involving Twin Lakes. As far as  
8 the other ones, I don't want to overstate or understate,  
9 but I don't see it being very likely.

10 EXAMINER WADE: Okay. No further  
11 questions?

12 Very good.

13 And the last item of discussion in this  
14 case, the motion to dismiss. We have received this  
15 yesterday.

16 And, Mr. Herrmann, have you had time to  
17 consider and respond?

18 MR. HERRMANN: Yes. Provided that this is  
19 not an attempt to indemnify Canyon E & P Company, we do  
20 not oppose this motion. We still identified the  
21 operators -- or the officers and directors of Canyon for  
22 purposes of future registration pursuant to our operator  
23 registration rules, but we do not oppose this motion.  
24 We do not have -- nor did we state an individual case  
25 for action against the directors and the officers.

1 EXAMINER GOETZE: Mr. Domenici?

2 MR. DOMENICI: I would ask the motion be  
3 granted then.

4 EXAMINER GOETZE: Very good.

5 Counsel, any more questions?

6 EXAMINER WADE: No.

7 EXAMINER GOETZE: Very good. Then we will  
8 take this case under --

9 EXAMINER WADE: Allow closing.

10 EXAMINER GOETZE: Does anybody have a  
11 closing statement?

12 CLOSING STATEMENT

13 MR. HERRMANN: I would just like to restate  
14 the relief that we're asking for, that Canyon E & P is  
15 found in violation of OCD Rules 19.15.5.9, 25.8 and 8.9,  
16 that all those wells be shut in until compliance with  
17 the order is achieved. And if the operator does not  
18 comply with the Division order, the operator be found  
19 out of compliance with the Division order and that all  
20 these wells be declared abandoned and authorizing the  
21 OCD to plug and abandon the wells, pursuant to OCD Rule  
22 19.15.8.13.

23 EXAMINER GOETZE: Very good.

24 Mr. Domenici.

25

1 CLOSING STATEMENT

2 MR. DOMENICI: My only closing on that  
3 would be that a reasonable period of time be allowed for  
4 the relief, particularly before the declaration of the  
5 abandonment and particularly with the Twin Lakes wells,  
6 since that is an operating unit. I don't know if you  
7 would stagger the amount of time, but I would request  
8 the most time for that one.

9 EXAMINER GOETZE: Very good. Then we will  
10 direct OCD to provide us the affidavit once it comes in  
11 to make a complete record.

12 And on that note, we will take Case 15271  
13 under advisement.

14 Thank you, gentlemen.

15 MR. HERRMANN: Thank you.

16 (Case Number 15271 concludes, 9:26 a.m.)

17 EXAMINER GOETZE: Let us take a  
18 five-minute -- a ten-minute break and come back, get the  
19 real work done.

20 (Break taken, 9:27 a.m. to 9:41 a.m.)

21

22

23

24

25

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_.

Oil Conservation Division

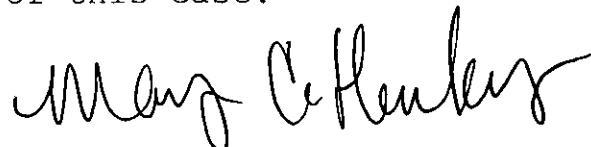
1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO  
3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified  
6 Court Reporter No. 20, and Registered Professional  
7 Reporter, do hereby certify that I reported the  
8 foregoing proceedings in stenographic shorthand and that  
9 the foregoing pages are a true and correct transcript of  
10 those proceedings that were reduced to printed form by  
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's  
13 Record of the proceedings truly and accurately reflects  
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither  
16 employed by nor related to any of the parties or  
17 attorneys in this case and that I have no interest in  
18 the final disposition of this case.

19   
20

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