

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

ORIGINAL

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

CASE NO. 14403

APPLICATION OF ARMSTRONG ENERGY
CORPORATION FOR AMENDMENT OF DIVISION
ORDER NO. R-13183 TO REMOVE THE
REQUIREMENT FOR THE PLUGGING AND
ABANDONMENT OF THE FEDERAL A WELL NO. 1,
CHAVEZ COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 3, 2009
Santa Fe, New Mexico

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BEFORE: DAVID BROOKS: Hearing Examiner
TERRY WARNELL: Technical Advisor

This matter came for hearing before the New Mexico
Oil Conservation Division, David Brooks Hearing Examiner,
on December 3, 2009, at the New Mexico Energy, Minerals
and Natural Resources Department, 1220 South St. Francis
Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: PEGGY A. SEDILLO, NM CCR NO. 88
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A P P E A R A N C E S

For the Applicant: WILLIAM F. CARR, ESQ.
Holland & Hart, LLC
110 N. Guadalupe, Suite 1
Santa Fe, NM 87501

1 HEARING EXAMINER: At this time we will call
2 Case No. 14403, application of Armstrong Energy
3 Corporation for an amendment of Division Order R13183 to
4 remove the requirement for the plugging and abandonment of
5 the Federal A Well No. 1, Chavez County, New Mexico. Call
6 for appearances.

7 MR. CARR: If it please the Examiner, William F.
8 Carr of the Santa Fe office of Holland and Hart. We
9 represent Armstrong Energy Corporation. And I have one
10 witness.

11 HEARING EXAMINER: Will the witness please
12 identify yourself?

13 MR. STUBBS: Bruce Stubbs.

14 HEARING EXAMINER: Okay, Mr. Carr, you may
15 proceed.

16 MR. CARR: Thank you, Mr. Examiner.

17 BRUCE STUBBS,
18 The witness herein, after first being duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Would you state your name for the record,
23 please?

24 A. Bruce A. Stubbs.

25 Q. Mr. Stubbs, where do you reside?

1 A. Roswell, New Mexico.

2 Q. By whom are you employed?

3 A. Armstrong Energy Corporation.

4 Q. And what is your position or relationship with
5 Armstrong Energy Corporation?

6 A. I'm Vice President of Operations.

7 Q. Have you previously testified before the Oil
8 Conservation Division?

9 A. Yes, I have.

10 Q. In fact, you testified in the case that resulted
11 in the Order that we're seeking to have amended here
12 today; is that right?

13 A. That's correct.

14 Q. And at that time, were your credentials as an
15 expert in petroleum energy accepted and made a matter of
16 record?

17 A. Yes, they were.

18 Q. Are you familiar with the application before the
19 Division in this matter today?

20 A. Yes.

21 Q. You actually prepared the C-108 that was filed
22 in the original case?

23 A. Yes, I did.

24 Q. And have you prepared exhibits for presentation
25 at this time?

1 A. Yes, I have.

2 MR. CARR: We tender Mr. Stubbs as an expert in
3 petroleum engineering.

4 HEARING EXAMINER: He is so qualified.

5 Q. Mr. Stubbs, would you briefly state what it is
6 that Armstrong seeks in this case?

7 A. The Order issued by the Division, R13183, had a
8 requirement to reenter Federal A No. 1 and replug it. And
9 we're requesting to remove that requirement from the
10 order.

11 Q. Is Armstrong Exhibit No. 1 a copy of that order?

12 A. Yes.

13 Q. And is that requirement found in the ordering
14 paragraph?

15 A. That's correct.

16 Q. Did you address this well in the testimony that
17 was presented in the original case?

18 A. Yes, we did.

19 Q. And what did you testify to?

20 A. Well, I thought it was my duty to bring this
21 well to the attention of the Examiner that day, because
22 this was the only well in the half mile area of
23 investigation around our injection well that did not
24 either have casing or a cement plug across the interval
25 that we were going to inject into.

1 But I also brought to the attention of the
2 Examiner that that well is east of the porosity pinchout
3 and there is really not a zone there that's conducting
4 fluids. It's 1 or 2, 3 percent porosity, and it's in a
5 anhydrite filling, and there is really not a zone there.

6 So it was my -- well, I had a little concern
7 about it and wanted to let you know about it, it really is
8 not a problem as far as our project is concerned.

9 Q. And how did you ask that that well be treated?

10 A. It was our recommendation that the well file be
11 reviewed with the Artesia district office, and if they
12 concurred with our recommendation, that the well would not
13 have to be replugged.

14 Q. Following the hearing, did you consult, in fact,
15 with the Artesia district office?

16 A. Yes, I met with Randy Dade, the supervisor down
17 there.

18 Q. And did you reach an agreement on the well with
19 him?

20 A. He concurred with me that the well was
21 satisfactorily plugged to isolate any fluid movement.

22 Q. Is the well on federal land?

23 A. Yes, it is.

24 Q. Did you also confer with the BLM?

25 A. Yes, I brought it to the attention of the BLM.

1 This well was in question. And they reviewed it and they
2 also concurred that it was plugged properly and no
3 remedial action was necessary.

4 Q. Is the injection well as part of the waterflood
5 project ready to go as soon as you resolve the issue with
6 this well?

7 A. The well is drilled and completed. We'll be
8 laying an injection line next week and then it will be
9 ready for injection.

10 Q. When you received the order that required the
11 plugging of the well, did you contact the Oil Conservation
12 Division?

13 A. I went down and talked to Randy Dade and sent a
14 letter to the Oil Conservation Commission, and
15 Commissioner Fesmire replied with a letter not to inject,
16 is basically what it amounted to.

17 Q. Until the order was revised?

18 A. That's correct.

19 Q. Have you prepared exhibits for presentation here
20 today?

21 A. Yes, I have.

22 Q. Are those contained in what has been marked
23 Armstrong Exhibit 2?

24 A. That is correct.

25 Q. What is the first page of this exhibit?

1 A. It's just a summary of all the well data and
2 what's taken place.

3 Q. Let's go to the plat, the second page in Exhibit
4 2. Would you identify the subject well and then review
5 the exhibit for the Examiner?

6 A. This is a map of the Round Tank Queen area. The
7 subject well, the Federal A No. 1, is located in Section
8 29, 330 on the west line, 2310 on the south line. It's
9 2,533 feet southeast of our proposed injection well, the
10 Round Tank Queen No. 7, which is in unit letter A of
11 Section 30.

12 Q. Let's go to the Isopach Exhibit No. 2 in the
13 Exhibit 2.

14 A. This is an isopach map showing the Queen Sand
15 that we're going to be injecting into. The sand is
16 bounded on the west by a porosity pinchout. And it's also
17 bounded on the east by a porosity pinchout that runs just
18 about on the section line north/south between Sections 30
19 and 29, and 19 and 20.

20 Q. And the next page in the exhibit is a
21 photograph. What does that show?

22 A. This is a core. We just cored another well out
23 there. We ran Tank Queen No. 6 Y, which will be a
24 producing well offsetting to the west of the injection
25 well.

1 And this is what happens to the Queen whenever
2 the porosity gets below about 15 percent, is it starts
3 being filled with that anhydrite and other evaporates.

4 This is the other part of the core, upper part
5 of the Queen, and you can see it's about 50 percent
6 anhydrite, and 50 about 50 percent sand.

7 And as you move to the porosity pinchout, that
8 anydrite and evaporates probably increase more than it is
9 in this core.

10 This particular core has little or no
11 permeability, and on the logs, it shows about 10 percent
12 porosity. Whereas the log on the Federal A well is around
13 3 percent porosity.

14 Q. Next we have a -- what is this? Is that a log
15 of the injection well?

16 A. This is a log comparing the injection well,
17 which is Round Taken Queen Unit No. 7, and the Federal A
18 well.

19 Q. What does this show?

20 A. The zone of interest in Round Tank Queen Unit
21 No. 7 shows about 6 foot of sand at the bottom of the
22 Queen interval that has about 18 to 20 percent porosity.
23 That's the main zone, about 6 feet of sand.

24 As you can see in the Federal A well, that zone
25 is just almost nonexistent. It's showing just real low

1 porosity, like 4 percent porosity. It's a much thinner
2 zone. So it's east of the porosity pinchout and the
3 zone's just about disappeared.

4 MR. WARNELL: Is that neutron porosity?

5 THE WITNESS: Yes, sir, both of them are a
6 neutron log.

7 Q. All right. Let's go to the next page in the
8 exhibit, the wellbore diagrammatic sketch of the Federal
9 A.

10 A. This is the way the Federal A No. 1 is plugged.
11 It has a 35 sack unit plug from 2100 to 2000. Isolates
12 anything below the Andres River. The Queen zone is
13 about -- is from 1624 to 1638. Heavy mud was placed in
14 that interval of the hole. There is a cement plug at the
15 base of the surface pipe. Seven inch casing was set at
16 375 feet, and they sprouted a hundred sack plug across
17 that shoot, and there's a ten sack surface plug.

18 Q. In your opinion, is this well, the Federal A
19 No. 1 as it currently stands, could it pose a threat to
20 any fresh water in the area and become a vehicle for the
21 migration of injected fluid from the Round Tank waterflood
22 project?

23 A. No, I don't think so.

24 Q. All right. Behind that in the exhibit packet is
25 a letter dated October 28th. What is that?

1 A. That's the letter I sent to Mr. Warnell after I
2 met with Randy Dade in Artesia stating what our conclusion
3 was and recommending that the well -- or suggesting that
4 the well was plugged correctly and that we didn't need to
5 do any remedial action.

6 Q. And then behind that, what is the next document?

7 A. This is a letter from the Bureau of Land
8 Management out of the Roswell office. They've also
9 reviewed the well and concur that it's plugged correctly
10 and meets all accepted industry standards and really
11 doesn't present any kind of a problem.

12 Q. And you are requesting that the requirement for
13 the plugging of this well be deleted from the order?

14 A. That's correct.

15 Q. Is Exhibit No. 3 a notice affidavit?

16 A. Yes.

17 Q. Was notice provided to the same individuals that
18 were notified in the original affidavit?

19 A. That's correct.

20 Q. And it's notified the surface owners and the
21 leasehold operators within a half mile of the proposed
22 injection well?

23 A. That's correct.

24 Q. And those owners are identified on the second
25 page of the affidavit?

1 A. Yes.

2 Q. Were Armstrong Exhibits 1 through 3 either
3 prepared by you or compiled at your direction?

4 A. That's correct.

5 MR. CARR: May it please the Examiner, at this
6 time we move the admission of Armstrong Exhibits 1
7 through 3.

8 HEARING EXAMINER: Armstrong Exhibits 1 through
9 3 will be admitted.

10 MR. CARR: That concludes my direction
11 examination of Mr. Stubbs.

12 HEARING EXAMINER: Mr. Warnell? You're the
13 expert here, so --

14 MR. WARNELL: Mr. Stubbs, this one took me kind
15 of by surprise. And what I did is, I went back in and I
16 looked at the transcript from our last hearing. And one
17 of the questions -- let's see, you were talking here in
18 the transcript about the Federal A 1.

19 And I mentioned to you at that time that, "This
20 well concerns me a bit, too. You don't suppose it could
21 be a deal breaker, do you?" And you answered, "No. I
22 mean, if we get to the point that nobody is happy with it,
23 we will try to reenter and replug it. I don't like the
24 way this well is plugged either."

25 And now here today, you're saying that you no

1 longer feel that this well is a threat, but at the time of
2 our original hearing, I felt that you thought it was a
3 threat.

4 THE WITNESS: It was a concern.

5 MR. WARNELL: What happened.

6 THE WITNESS: We reviewed all the data, looked
7 at the core data, looked at the logs on the offset wells,
8 and at this point, I don't feel that there's any way that
9 zone will conduct any kind of fluid. So no, I don't think
10 there's a threat.

11 MR. WARNELL: But yet in the original hearing,
12 you felt there was a threat.

13 THE WITNESS: I felt I had to bring it to
14 everybody's attention so we could review it, and we have.
15 I don't think there's a threat at this point.

16 MR. WARNELL: Okay. No further questions.

17 HEARING EXAMINER: So what you're saying is that
18 there's some porosity in the Queen at the point where this
19 subject well is located that fluids that are injected will
20 never reach the well; is that correct?

21 THE WITNESS: That's correct. There's very
22 little porosity, but I think that the real thing is,
23 there's no permeability.

24 HEARING EXAMINER: Yeah. So that's not
25 necessarily inconsistent with your observation that you

1 don't like the way the well is plugged because it could be
2 a problem and conceivably, if you --

3 THE WITNESS: It was something that needed to be
4 reviewed. I say it's the only well out there that doesn't
5 have casing, cemented across the bleed, or a cement plug.
6 So I felt like it was something that everybody needed to
7 look at, review, and then make a recommendation. And
8 we've gone through that process.

9 HEARING EXAMINER: But you're convinced that
10 nothing in the Queen is ever going to reach that well?

11 THE WITNESS: No, I don't think so.

12 HEARING EXAMINER: Okay.

13 MR. CARR: If it please the Examiner, I would
14 call your attention to Page 27 of the prior transcript in
15 which Mr. Stubbs did testify that the well is probably not
16 conducting the fluids. So I don't think we're going to
17 have a problem with losing water into this wellbore.

18 And then I asked if he would recommend that it
19 be reviewed by the District before they proceed, and he
20 said that he would recommend that.

21 HEARING EXAMINER: Okay, very good. If there is
22 nothing further, Case No. 14403 will be taken under
23 advisement.

24 (Whereupon, the proceedings concluded.)

25 a complete record of the proceedings in
the Examiner's hearing of Case No. 14403
heard by me on 12-9-09

David K. Brock
Examiner

1 STATE OF NEW MEXICO)
) ss.
 2 COUNTY OF BERNALILLO)

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REPORTER'S CERTIFICATE

I, PEGGY A. SEDILLO, Certified Court
 Reporter of the firm Paul Baca Professional
 Court Reporters do hereby certify that the
 foregoing transcript is a complete and accurate
 record of said proceedings as the same were
 recorded by me or under my supervision.

Dated at Albuquerque, New Mexico this
 10th day of December, 2009.



PEGGY A. SEDILLO, CCR NO. 88
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