

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. 11,901

APPLICATION OF THE OIL CONSERVATION )  
 DIVISION FOR A SHOW-CAUSE HEARING FOR )  
 THE PLUGGING OF FOURTEEN WELLS, LEA AND )  
 EDDY COUNTIES, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 18th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, December 11th, 1997, 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.

\* \* \*

STEVEN T. BRENNER, CCR  
 (505) 989-9317

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 Examiner Hearing  
 CASE NO. 11,901

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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 SAGA PETROLEUM, L.L.C.:

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

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:30 a.m.:

3           EXAMINER STOGNER: This hearing will come to  
4   order. At this time I will call Case Number 11,901, which  
5   is the Application of the Oil Conservation Division for a  
6   show-cause hearing for the plugging of 14 certain wells in  
7   Lea and Eddy Counties, New Mexico.

8           At this time I will call for appearances.

9           MR. CARROLL: May it please the Examiner, my name  
10   is Rand Carroll, appearing on behalf of the Division. I  
11   have two witnesses to be sworn.

12           EXAMINER STOGNER: Are there any other  
13   appearances?

14           MR. CARR: May it please the Examiner, my name is  
15   William F. Carr with the Santa Fe law firm Campbell, Carr,  
16   Berge and Sheridan. We're entering our appearance on  
17   behalf of Saga Petroleum, L.L.C. I do not have a witness.

18           EXAMINER STOGNER: There being no other  
19   appearances, at this time I will swear the witnesses.  
20   Please let the record show that one witness is here in  
21   person, and the other one will be appearing via telephone  
22   hookup with our Artesia District Office in Artesia, New  
23   Mexico.

24           (Thereupon, the witnesses were sworn.)

25           EXAMINER STOGNER: Mr. Carroll, you may proceed.

1 MR. CARROLL: Thank you. Mr. Examiner, I will  
2 first give you a number of exhibits.

3 The large stack are the well files for the 14  
4 wells in question.

5 Numbers -- Exhibits 1A through 1K are the 11  
6 wells in Lea County.

7 And Exhibits 1L, 1M and 1N are the three wells in  
8 Eddy County, New Mexico.

9 Exhibit 1 is some miscellaneous documents  
10 maintained by the Division, including some correspondence.

11 Exhibit 2 is a copy of the plugging bond file.

12 Exhibit 3 is a copy of the notice sent out in  
13 this case with the affidavit regarding notice on top of  
14 that exhibit.

15 And Exhibit Number 4 is the recommended plugging  
16 procedure for a representative well for the 11 Lea County  
17 wells.

18 CHRISTOPHER J. WILLIAMS,  
19 the witness herein, after having been first duly sworn upon  
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARROLL:

23 Q. Mr. Williams, will you please state your name and  
24 your city of residence for the record?

25 A. Chris Williams, Hobbs, New Mexico.

1           Q.   Mr. Williams, who is your employer and what is  
2 your position with that employer?

3           A.   My employer is the New Mexico Oil Conservation  
4 Division. I'm the District Supervisor in Hobbs.

5           Q.   And what are your duties as District Supervisor?

6           A.   To approve all APDs, anything having to do with  
7 the wells in Lea County, and any other things that have to  
8 do with the oil and gas business.

9           Q.   So your duties include the supervision of  
10 plugging of --

11          A.   Correct.

12          Q.   -- abandoned oil and gas wells?

13          A.   Correct.

14          Q.   Have you testified before the Division and had  
15 your qualifications accepted?

16          A.   No, I haven't.

17          Q.   Will you please give the Examiner a brief summary  
18 of your education and experience?

19          A.   I have a bachelor's degree in petroleum land  
20 management from the University of Texas, Permian Basin. I  
21 worked for Hunt Oil Company as an engineer for three years.  
22 I worked for Shell Oil Company for ten years as a gas-  
23 gathering foreman, completions foreman and a corrosion  
24 specialist, and I have worked for the Oil Conservation  
25 Division for seven and a half years, seven years as a gas

1 marketing specialist, the last six months as a District  
2 Supervisor.

3 Q. And Mr. Williams, are you familiar with the 11  
4 wells in Lea County involved in this case?

5 A. Yes.

6 MR. CARROLL: Mr. Examiner, are the witness's  
7 qualifications acceptable?

8 EXAMINER STOGNER: Are there any questions or  
9 objections?

10 MR. CARR: No questions.

11 EXAMINER STOGNER: Mr. Williams is so qualified.

12 Q. (By Mr. Carroll) Mr. Williams, where are these  
13 11 wells located?

14 A. They're located in -- from Sections 22 through, I  
15 think -- through 33, Township 9 South, Range 36 East, Lea  
16 County. And it's up near Crossroads.

17 Q. Are all these wells on the same lease?

18 A. Yes.

19 Q. And is that a fee lease?

20 A. Yes, it is.

21 Q. Mr. Williams, if you'll look at Exhibit Number 1,  
22 the last two pages, this appears to be a computer printout  
23 of wells operated by Meteor. The Meteor wells start at the  
24 bottom of the page.

25 A. Correct.



1 Q. And below the line we're looking at, let's see,  
2 ten wells that list Santa Fe Pacific as the operator?

3 A. Well, Meteor Development is the operator and  
4 Santa Fe Pacific is the name of the lease.

5 Q. Okay, right. And then the last two entries on  
6 that page list Santa Fe Pacific Railroad, and then Saga is  
7 noted there?

8 A. Right, Well Number 2 and Well Number 2Y.

9 Q. And that's an indication that Saga is now --

10 A. -- the operator.

11 Q. -- operator?

12 And then on the second page we have three wells  
13 listed, the Numbers 3, 4 and 1. Two of those are now  
14 operated by Saga, the 3 and the 1?

15 A. Right.

16 Q. Mr. Williams, please give the Examiner a brief  
17 history of these wells, when they were drilled, when they  
18 were first produced and when they were last produced?

19 A. These wells were drilled in the Fifties, early  
20 Fifties, by Mobil on the Santa Fe Pacific Railroad lease.

21 The last -- Then they were transferred from Mobil  
22 to a company called Bordeaux Operating.

23 Q. When did that occur?

24 A. That occurred in 19- -- I think that was 1987.

25 And then they were transferred from Bordeaux to Meteor in

1     October of 1991.

2             Q.     And did Meteor produce these wells?

3             A.     The last reported production we had was in 1991,  
4     but that was only on Wells Number 10 and 11.  The other  
5     well's last reported production was 1985.

6             Q.     Mr. Williams, something was just brought to my  
7     attention.

8             A.     What?

9             Q.     On January 23rd, 1973, there's a 103 filed with  
10    the Division, signed by a Mr. Stogner.  Do you have any  
11    idea who this O.T. Stogner, Jr., is?

12            A.     No, I don't.

13            Q.     Who's a petroleum engineer.

14                   EXAMINER STOGNER:  Maybe I can shed some light on  
15    this.

16                   Mr. D.T. Stogner --

17                   MR. CARROLL:  Oh, it's D.

18                   EXAMINER STOGNER:  -- is my uncle.  And it  
19    appears that this well was originally drilled not by Mobil  
20    but by Oil Development Company of Texas, which was the  
21    predecessor --

22                   THE WITNESS:  Okay.

23                   EXAMINER STOGNER:  -- operating, which he was  
24    employed at the time.

25                   THE WITNESS:  Which well is that?

1 EXAMINER STOGNER: This is the Santa Fe Pacific  
2 Railroad 22 Well Number 4.

3 MR. CARROLL: Well, that --

4 THE WITNESS: That is correct. That is correct.  
5 I missed that one.

6 Q. (By Mr. Carroll) So Mr. Williams, these wells  
7 were last produced in what year?

8 A. Some of them were last produced in 1985, and I  
9 think 10 and 11 were last produced in 1991. That's what we  
10 could find on ONGARD.

11 Q. Now, of these 11 wells in Lea County, do you  
12 believe any of these wells are still capable of production?

13 A. Wells Number 10 and 11 are capable of production.

14 Q. And how do you know that?

15 A. Both of these wells will pressure up to  
16 approximately 400 pounds, and you can flow them down and  
17 they'll produce approximately -- oh, about 450 barrels of  
18 oil.

19 Q. A month?

20 A. Yeah.

21 Q. And what's the third well that you believe is  
22 capable of production?

23 A. I think Saga has it, and it was capable of  
24 production. It was their -- But they're using it as a  
25 saltwater disposal well.

1 Q. Which well is that?

2 A. Number 3.

3 Q. Has the Division -- These wells capable of  
4 production, what's their current condition? Is the  
5 Division performing any operations currently to prevent any  
6 contamination of the environment?

7 A. We've had some problems with Number 10 and Number  
8 11. When they pressure up they have a tendency to leak at  
9 the check valve, and they'll leak out into the pasture.

10 So what we've done is, we hired Gandy's  
11 Corporation out of Tatum to bring trucks out, and we've  
12 bled those wells down to about 150 pounds and bled them  
13 directly to the truck. And we've got a total -- Out of  
14 those two wells in the last month and a half, we've got 765  
15 barrels total fluid and approximately 696 barrels of oil.

16 And that was just bleeding them to a truck  
17 without going through any kind of separation process. And  
18 we did that just to keep them from leaking all over the  
19 pasture.

20 Q. And the proceeds from the sale of this oil is  
21 going where?

22 A. They're in an escrow account with Gandy's.

23 Q. Mr. Williams, what's the current condition of  
24 these 11 wellbores and the production facilities located on  
25 the surface?

1           A.    The production facilities, there was one tank  
2 battery up there, which the tanks are now currently gone.  
3 There are two free water knockouts and one production  
4 separator.

5                   Those facilities are in very bad shape. There  
6 was a fire that set both the free water knockouts on fire  
7 and the heater treater on fire. We put the fire out and  
8 had all the fluid hauled out of those vessels. They can be  
9 rebuilt, but their value is very little in terms of  
10 salvage. Maybe \$1000 per free water knockout, maybe \$200  
11 for the heater treat.

12           Q.    Mr. Williams, are you here today recommending  
13 that the Division enter an order ordering the plugging of  
14 all 11 wells?

15           A.    Yes.

16           Q.    And the cleanup of the sites?

17           A.    Yes.

18           Q.    Have you been approached by other operators  
19 regarding these wells and the possibility of other  
20 operators taking over these wells?

21           A.    Yes, I have.

22           Q.    By which operators?

23           A.    Paladin and Saga Petroleum.

24           Q.    And what are their proposals?

25           A.    Their proposals are mainly just to take Wells

1 Number 10 and 11 and flow those wells, and they don't want  
2 the plugging liability of the other wells and they don't  
3 want the environmental liability of the tank battery site.

4 Q. What do you think of those proposals?

5 A. I don't -- I'd like to see us keep 10 and 11 --  
6 or somehow keep those producing, because they are  
7 producible. They're actually on the top of that Devonian  
8 structure, so they can produce.

9 The other outlying wells have never been as good  
10 as those two wells. Those wells need to be plugged,  
11 definitely.

12 I think the proposal to not accept the  
13 environmental liability, that puts it back in the State's  
14 lap if they don't.

15 Q. Well, it's already in the State's lap.

16 A. Right, yeah, I understand. But I think if you're  
17 going to take those two wells, the you should assume some  
18 of the environmental liability to go with them, and the  
19 lease --

20 Q. With those two wells?

21 A. Right, right. Well --

22 Q. So they would assume the liability to plug those  
23 two wells --

24 A. Yes.

25 Q. -- and the cleanup of those two wells?

1 A. Yes.

2 Q. But as to the other nine wells, the State may be  
3 amenable to separating the other nine off from these two?

4 A. I think it could be done that way.

5 Q. And that would relieve the State of liability, at  
6 least for two of the 11 wells?

7 A. Right.

8 Q. Mr. Williams, do you have a ballpark estimate as  
9 to the cost of plugging these wellbores and cleaning up the  
10 surfaces?

11 A. Ballpark estimate on plugging the wells would be  
12 about \$600,000.

13 Q. For the 11 wells it would be \$600,000?

14 A. Yes.

15 Q. What about for the Wells 10 and 11, the ones  
16 we're talking about that are still capable --

17 A. Ten and 11, those would probably run \$15,000  
18 apiece. \$15,000 to \$20,000, somewhere in there.

19 Q. So your proposal would be that if Saga or Paladin  
20 took over the Wells 10 and 11, they would assume the  
21 plugging liability for those two?

22 A. Right.

23 Q. So -- And that would relieve the State of \$30,000  
24 to \$40,000 of --

25 A. Right.

1 Q. -- plugging costs?

2 Do you know who the land owner is, the lessor?

3 A. Yeah, the land owner is Bobby Lewis. He's a  
4 rancher there.

5 Q. Are you aware whether the leases have expired?  
6 Is this one lease?

7 A. Yeah. Yes, it is. Santa Fe Pacific Railroad  
8 lease. I know --

9 Q. Do you know whether this lease has expired due to  
10 nonproduction?

11 A. No, I don't know that.

12 Q. In your opinion, will the Division order and the  
13 plugging of these wells be in the best interests of the  
14 conservation of oil and gas, prevention of waste,  
15 protection of correlative rights and protection of public  
16 health and the environment?

17 A. I think plugging of every well but Number 10 and  
18 11, in terms of possibility of groundwater contamination,  
19 yeah, it would be in the best interests of the State. But  
20 10 and 11, I still think are -- They're still good wells.  
21 And that wouldn't be a prevention of waste if we plug  
22 those.

23 Q. You mentioned earlier some cattle dying?

24 A. Right, we've had -- Mr. Lewis has lost three cows  
25 out there. All of them -- It was in the tank battery area.



1 They got through the fence. The fence was down, and they  
2 got through the fence and drank the saltwater, basically,  
3 and they died -- Two of them died within the battery and  
4 one of them died outside of the battery.

5 Q. And did the Division take action --

6 A. Yes.

7 Q. -- to prevent further damage to the livestock?

8 A. Right, we hired Weldon's roustabout crew out of  
9 Tatum to go out and repair the fence, and he hired a  
10 backhoe operator under our direction to rebuild the berm  
11 around the battery to keep any kind of fluid from getting  
12 out into the pasture.

13 Q. What did that cost?

14 A. I'm trying to -- I don't remember exactly what it  
15 cost. Around 1200 bucks, I think.

16 Q. Mr. Williams, what efforts has the Hobbs District  
17 Office made to contact Meteor and get Meteor to do  
18 something with these wells?

19 A. Gary Wink has written two or three letters, he's  
20 called them several times on the telephone, with no  
21 response.

22 Q. And is this correspondence and telephone contacts  
23 contained in what has been marked as Exhibit Number 1.

24 A. I don't know, let me look. Yes, there's a letter  
25 from Gary to Meteor.

1 Q. And has the Hobbs District Office had any  
2 response from Meteor?

3 A. No.

4 Q. I see what must have been -- Let's see, if you  
5 look at page 4 of Exhibit Number 1, the letter from Dennis  
6 Staal, S-t-a-a-l, the former secretary of Meteor.

7 A. Okay.

8 Q. Will you read the body of that letter, after  
9 "Gentlemen:"? Mr. Staal's response to the Hobbs District  
10 Office?

11 A. "Meteor Developments, Incorporated, is no longer  
12 in business. The wells in question were assigned to Santa  
13 Fe Pacific Railroad Company. A copy of the assignment is  
14 enclosed. I believe this was previously provided to your  
15 office."

16 Q. Did, in fact, Meteor attempt to assign these  
17 wells to Santa Fe Pacific Railroad?

18 A. We don't have any record of it. We know that --  
19 That's all we've heard. We have no --

20 Q. No C-104s were filed?

21 A. -- no written -- No, no written record.

22 Q. Has Santa Fe Pacific Railroad Company been in  
23 contact with you at all?

24 A. No, they haven't.

25 Q. Do you have anything to add regarding the 11

1 wells in Lea County at this time?

2 A. No, I don't.

3 MR. CARROLL: Mr. Examiner, I suggest Mr.  
4 Williams be questioned at this time, prior to moving on to  
5 Mr. Smith and the three wells in Eddy County.

6 EXAMINER STOGNER: Thank you, Mr. Carroll.

7 Mr. Carr, your witness?

8 MR. CARR: I have no questions.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. I pulled a few of the exhibits -- on the well  
12 files, I should say, 1I, 1J, in particular, 1E, 1F and 1K.

13 MR. CARROLL: Will you name them again, Mr.  
14 Examiner?

15 EXAMINER STOGNER: 1I, which is the well file for  
16 the Santa Fe Pacific Well Number 10.

17 1J is the well file for the Santa Fe Pacific Well  
18 Number 11.

19 1F is for the Santa Fe Pacific Well Number 6.

20 1E, as in Edward, is --

21 MR. CARROLL: -- Number 5.

22 EXAMINER STOGNER: -- Number 5.

23 And 1K is the Number --

24 MR. CARROLL: -- 12.

25 EXAMINER STOGNER: -- 12.

1           Q.    (By Examiner Stogner)  There appears to be a  
2   C-104 for each of these wells.  Perhaps you can go into a  
3   little more detail.  The C-104 shows a request for  
4   allowable authorization transport, and it shows the Santa  
5   Fe Pacific Railroad Company as the operator.  And down at  
6   the bottom it was signed by Meteor.

7           A.    Well, it shows Santa Fe Pacific as the lease  
8   name.  But the one I have is dated October 21st, 1991,  
9   original signed by Jerry Sexton.

10          Q.    No, I have one that is dated May 8th, 1996.

11               MR. CARROLL:  Mr. Examiner, I believe Mr.  
12   Williams was misspoken in response to a question earlier  
13   where I said -- where I asked you if there's been any  
14   record of Meteor's attempt to assign these wells to Santa  
15   Fe Pacific Railroad.

16               THE WITNESS:  I haven't seen any record.

17               MR. CARROLL:  I believe these C-104s are the  
18   attempt by Meteor to assign these wells back to Santa Fe  
19   Pacific Railroad, or to Santa Fe Pacific Railroad.

20               Santa Fe Pacific Railroad then contacted the  
21   Division and said, Those wells aren't ours, and we haven't  
22   agreed to this assignment.

23               THE WITNESS:  When I -- when we just -- Excuse  
24   me.  When we pulled our well files before I came up here,  
25   the latest C-104 that we had in our well files was October

1 21st, 1991.

2 Q. (By Examiner Stogner) Now, that's the approved  
3 C-104.

4 A. Okay.

5 EXAMINER STOGNER: This one, I notice -- and it's  
6 noted, the one I'm mentioning, for this Well Number 11,  
7 it's a C-104 filed in May of 1996. It's not approved by  
8 the Division. And in fact, it looks like it may have been  
9 sent back.

10 There's a correspondence here from Donna Pitzer  
11 with a notation on the bottom, "We are returning these C-  
12 104 for change of operator. Someone in your office needs  
13 to Sign in BOX 47. Also in reviewing our computer system,  
14 your company is not listed and show no bond for these  
15 wells. If you have any question on this, please call the  
16 number above."

17 Was that your previous questioning, Mr. Carroll,  
18 about Meteor's attempt to turn them over to the railroad  
19 company, but it was unsuccessful?

20 MR. CARROLL: Right, and that's what's stated in  
21 Mr. Staal's letter of February 27th of 1997 in response to  
22 Gary Wink's letter where it says -- that Mr. Williams read,  
23 "The wells in question were assigned to Santa Fe Pacific  
24 Railroad Company. A copy of the assignment is enclosed. I  
25 believe this was previously provided to your office."

1 Which would relate back to the attempted May,  
2 1996, transfer, which was not approved by the Division and  
3 returned to Meteor.

4 EXAMINER STOGNER: So this, in essence, was never  
5 in the file, was never approved by the Division?

6 MR. CARROLL: That is correct.

7 EXAMINER STOGNER: Okay. I just wanted to make  
8 sure my record on this was straight.

9 Q. (By Examiner Stogner) Just by looking through  
10 these well files, Mr. Williams, a majority of them appear  
11 to be old Mobil wells, or at least originally drilled by  
12 Mobil. Even some of them go back to Magnolia, I notice.

13 A. Right.

14 Q. But I did notice that Number 2, the Santa Fe  
15 Pacific Railroad, it looks like that was a Petroleum  
16 Development and then a Santa Fe Company well, and then it  
17 turned into Meteor.

18 Have you been in contact with Mobil --

19 A. No, I haven't.

20 Q. -- or Santa Fe?

21 A. No, I haven't.

22 Q. And when I say Santa Fe, in this instance, the  
23 Santa Fe -- not the railroad, but the Santa Fe Operating,  
24 or whatever the operating company, as we know it as Santa  
25 Fe.

1           A.    No, I haven't.

2                   EXAMINER STOGNER:   Okay, I have no other  
3 questions of Mr. Williams at this time.

4                   Any redirect?

5                   MR. CARROLL:   Yes, Mr. Examiner.

6                               REDIRECT EXAMINATION

7 BY MR. CARROLL:

8           Q.    Mr. Williams, have you come up with a recommended  
9 plugging procedure for the 11 wells located in Lea County?

10          A.    I did a plugging procedure for Well Number 1.  
11 Each one of these wells is going to be different. Each one  
12 of them has, according to our records -- we hope --  
13 different types of equipment in there. Some of them have  
14 5-1/2-inch liners, some of them have 3-1/2-inch liners,  
15 some of them have 4-1/2-inch tubing.

16                   And to be really honest, we're not really sure  
17 what's in those wells anymore. Most of the equipment was  
18 stripped, from what we understand, but we weren't there.  
19 No C-103s were submitted on whether they pulled casing or  
20 whether they pulled the equipment out, Meteor.

21          Q.    So your recommended plugging procedure for the  
22 Number 1 well would be --

23          A.    Each well --

24          Q.    -- roughly representative --

25          A.    Yeah, roughly.

1 Q. -- of all 11, with some variations from that  
2 procedure --

3 A. Right.

4 Q. -- depending upon the particular wellbore?

5 A. Right.

6 MR. CARROLL: Mr. Stogner, that has been marked  
7 OCD Exhibit Number 4 and submitted to you.

8 And with that, that's all I have of Mr. Williams.

9 EXAMINER STOGNER: Are you ready to admit these  
10 into the record at this time, or should we talk to Mr. --  
11 your second witness?

12 MR. CARROLL: I'd like to talk to Mr. Smith --

13 EXAMINER STOGNER: Okay.

14 MR. CARROLL: -- prior to --

15 EXAMINER STOGNER: All right.

16 MR. CARROLL: -- moving these into the record.

17 Mr. Smith, are you still with us?

18 MR. SMITH: I'm with you.

19 D. RAY SMITH (Present by telephone),  
20 the witness herein, after having been first duly sworn upon  
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARROLL:

24 Q. Mr. Smith, will you please state your name and  
25 your city of residence for the record?



1           A.    My name is Ray Smith.  I reside in Artesia, New  
2 Mexico.

3           Q.    Mr. Smith, who is your employer and what's your  
4 position with that employer?

5           A.    State of New Mexico, Oil Conservation Division.  
6 I'm a field representative.

7           Q.    And do your duties as a field representative  
8 include the supervising of the plugging of wells?

9           A.    That is correct.

10          Q.    Have you testified before this Division before  
11 and had your qualifications accepted?

12          A.    Yes, sir, I have.

13          Q.    Mr. Smith, are you familiar with the three wells  
14 involved in this case that are located in Eddy County, New  
15 Mexico?

16          A.    Yes, sir.

17          Q.    And where in Eddy County are these wells located?

18          A.    They're located in the south part of Carlsbad,  
19 the City of Carlsbad.

20          Q.    Are these wells within the city limits?

21          A.    Yes, they are.

22          Q.    Are these wells on the same lease?

23          A.    Yes, sir.

24          Q.    Is that a state lease?

25          A.    It is a state lease.

1           Q.   Mr. Smith, can you please give the Examiner a  
2   brief history of these wells, approximately when they were  
3   drilled, when they were first produced, and when they were  
4   last produced?

5           A.   Okay, sir.

6                   Starting with the Martin Number 2 well --  
7   Actually, these casing programs on all three wells are  
8   basically the same, so I can give you pretty much a picture  
9   of all three wells by just covering one of these.

10           MR. CARROLL:  And Mr. Examiner, these wells --  
11   the well files for these three are 1L, 1M and 1N.

12           EXAMINER STOGNER:  1L, 1M and 1N.  Thank you.

13           Q.   (By Mr. Carroll)  Okay, go ahead, Mr. Smith.

14           A.   Okay, the Martin Number 2 is Section 20, 22-27,  
15   Unit F.  The well was spud about 4:30 p.m., August 29,  
16   1975, by Belco Petroleum.

17                   9 5/8 casing was set at 368 and cemented to  
18   surface.  Excuse me, it was cemented with 175 sacks, which  
19   did not circulate but then was later one inch to surface.

20                   7 7/8 hole was drilled to 3375 and they set 3361  
21   feet of 5 1/2 casing, cemented with 700 sacks.  Estimated  
22   top of cement was 1200 feet.

23           Q.   Mr. Smith, maybe we can speed through this a  
24   little faster.  What's the total depth of this well, and  
25   what formation was targeted?

1           A.    It's in the Cherry Canyon, which is the upper  
2 part of the Delaware.

3           Q.    And how deep is that?

4           A.    3375.

5           Q.    Okay, when was this well first produced?

6           A.    It went on production shortly after it was  
7 completed. Let's see, I don't have the date of completion  
8 here.

9           Q.    You said it was drilled in 1975?

10          A.    That's correct.

11          Q.    Do you have a date of last production?

12          A.    The last production on all three wells was the  
13 ninth month of 1993.

14          Q.    Mr. Smith, are you aware of whether this state  
15 lease has expired under its own terms due to lack of  
16 production?

17          A.    No, I am not. I have not checked that.

18          Q.    Mr. Smith, in your opinion are any of these three  
19 wells capable of producing?

20          A.    I believe they are. They're pretty heavy water  
21 producers. I checked the ratio yesterday. Out of about  
22 200 barrels of oil, they have produced about 2500 barrels  
23 of water a month.

24          Q.    And in your opinion, that's economic?

25          A.    No, it is not.

1           Q.   Mr. Smith, I believe you just said you believe  
2 those wells are capable of production. So you're saying  
3 even though they're capable of production, they're not  
4 capable of economic production?

5           A.   If a person had a disposal well of his own, where  
6 he didn't have to truck the water off. That's the reason  
7 these wells were shut in, is the economics of it.

8           Q.   So you believe if somebody had a disposal well on  
9 site or pretty close to the site, that they could be  
10 economically produced?

11          A.   That is correct.

12          Q.   Mr. Smith, what's the current condition of these  
13 wellbores and the surface?

14          A.   Mr. Rand [sic], everything looks to be in pretty  
15 good shape. They were just shut in. Everything was  
16 producing up to September, there, of 1993. The tank  
17 battery seems to be in good condition. And I believe that,  
18 you know, someone could take these wells, like I say, if  
19 they had a disposal well, and go ahead with them.

20          Q.   Mr. Smith, have you been contacted by any other  
21 operators who have an interest in taking over these wells?

22          A.   Yes, Mr. Rand, I was contacted by Mr. -- I think  
23 I told you Joe Pierce, but correct that to Jim Pierce, of  
24 Roswell, New Mexico, came in and looked at the files a few  
25 days ago. He showed some interest there.

1 Q. Okay. Mr. Smith, have you made any effort to  
2 contact Meteor, to have them plug these wells or bring them  
3 back onto production?

4 A. Yes, sir, I have. Our first letter went out to  
5 Meteor in February of 1996. My second certified letter  
6 went out in June of 1997. I've had no response at all.

7 Q. Mr. Smith, in your opinion, do you have an  
8 estimate as to what it would cost to plug these three  
9 wells?

10 A. I would estimate \$30,000.

11 Q. Apiece, or all three?

12 A. \$10,000 apiece.

13 Q. Mr. Smith, in your opinion will the ordering of  
14 the plugging of these wells be in the best interests of  
15 conservation of oil and gas, the prevention of waste, the  
16 protection of correlative rights, and the protection of  
17 public health and the environment?

18 A. Yes, I do.

19 Q. Do you have anything further to add to your  
20 testimony?

21 A. The only other thing that you might want to put  
22 in the record is the fact that if the State ends up  
23 plugging these wells, then we're going to need to do  
24 considerable remediation around the tank batteries. The  
25 tanks have been run over, had considerable mess there, and

1 I've had to deal with this in the past.

2 Q. Mr. Smith, could a remediation of the surface be  
3 easily included in the contract for plugging if the State  
4 has to plug them?

5 A. I believe it could, uh-huh.

6 Q. What would be the additional cost to the \$30,000  
7 figure you quoted earlier for the remediation of the  
8 surface?

9 A. Oh, I would say you could be looking at an  
10 additional \$20,000 anyhow.

11 EXAMINER STOGNER: Per well?

12 THE WITNESS: Just around the tank battery site.

13 Q. (By Mr. Carroll) Per well? Oh, the tank  
14 battery --

15 A. Tank battery site. We don't have too much  
16 problem around the well sites.

17 Q. Anything further, Mr. Smith?

18 A. That is all I have.

19 Q. One other thing, Mr. Smith. You have drawn up  
20 plugging procedures for each of these wells?

21 A. Yes, sir.

22 Q. And is that the cover page to Exhibits 1L, 1M and  
23 1N, or the first two pages?

24 A. Well, I don't have your exhibits, that you have,  
25 with me here.

1 MR. CARROLL: Mr. Examiner, the -- Mr. Smith's  
2 plugging procedures are the first two pages of those three  
3 exhibits.

4 EXAMINER STOGNER: So noted.

5 MR. CARROLL: Thank you, Mr. Smith.

6 THE WITNESS: Yes, sir.

7 EXAMINER STOGNER: Mr. Carr, any questions of Mr.  
8 Smith?

9 MR. CARR: No questions.

10 EXAMINER STOGNER: I don't believe I have any  
11 questions of Mr. Smith. Thank you, sir.

12 MR. CARROLL: Mr. Examiner, I've prepared some  
13 other exhibits. If you will turn your attention to Exhibit  
14 Number 2, it is a copy of the bond well file. Meteor has  
15 in place -- or had in place -- a \$50,000 blanket bond  
16 issued by an insurance company by the name of Central  
17 Pacific Assurance, Limited, out of Beverly Hills,  
18 California.

19 I have included as the first three pages of  
20 Exhibit Number 2 a current listing of the insurance  
21 companies authorized to do business in the State of New  
22 Mexico. As you will note, Central Pacific Assurance,  
23 Limited, is not listed. Attempts to call or find a number  
24 for Central Pacific Assurance, Limited, resulted in no  
25 listing in southern California.

1           If you will turn your attention to OCD Exhibit  
2       Number 3, which is a copy of the notice sent to Meteor  
3       Developments, Inc., at two different addresses in Denver,  
4       Colorado, to Central Pacific Assurance, Limited, at their  
5       last known address in Beverly Hills, California, and to  
6       Santa Fe Pacific Railroad Company, you will note that the  
7       letter sent to Central Pacific Assurance was returned as  
8       addressee unknown.

9           It thus appears to the Division that the  
10       insurance company that issued the \$50,000 blanket bond is  
11       out of business, and the State will not be able to recover  
12       the \$50,000 in that bond.

13           Exhibit Number 3 contains the affidavit regarding  
14       notice and the return receipts from Meteor Developments,  
15       Inc., at the 216 16th Street, Suite 730, Denver, address,  
16       and a return receipt signed by Santa Fe Pacific Railroad  
17       Company, and then the return envelopes with addressee  
18       unknown to Central Pacific Assurance, Limited, and the  
19       other Meteor Developments Denver address.

20           With that, I move what have been marked Exhibits  
21       OCD Number 1, Number 1A through N, 2, 3 and 4 into the  
22       record.

23           EXAMINER STOGNER: Exhibits 1 through 4 and all  
24       the subparts will be admitted into the record at this time.

25           Let's see, Mr. Carroll, in that Central Pacific



1 Assurance, Limited, I notice on the letterhead they have a  
2 Nevada office, and their home office is in Majuro, Republic  
3 of Marshall Islands, which I believe is a territory of the  
4 U.S., isn't it? Have you done a search there or looked on  
5 the Internet?

6 MR. CARROLL: No, but I will attempt that in  
7 attempting to recover the \$50,000 wherever it may be found.

8 EXAMINER STOGNER: Anything else further in this  
9 matter?

10 MR. CARR: Mr. Stogner, I have a brief statement.

11 EXAMINER STOGNER: Mr. Carr?

12 MR. CARR: May it please the Examiner, Saga  
13 Petroleum, L.L.C., has discussed a proposal with the  
14 Division concerning these properties that include, among  
15 other things, unitization of the Crossroads Devonian field,  
16 the cleanup of the Meteor properties, the plugging of  
17 certain wells, and an effort to reactivate wellbores that  
18 are economic to produce.

19 I have provided the Examiner with a copy of a  
20 letter from a Mr. Charles Farmer, Manager for Saga  
21 Petroleum, Inc., dated December 16, 1997, which outlines  
22 their proposal. I would request that this letter be  
23 incorporated into the file of this case, and Saga Petroleum  
24 will be contacting the Division further concerning this  
25 matter.

1 EXAMINER STOGNER: In reading this, I'm assuming  
2 that this is just for the Crossroads Devonian area --

3 MR. CARR: Yes, sir, that is.

4 EXAMINER STOGNER: -- and not the wells in Eddy  
5 County?

6 MR. CARR: Correct.

7 EXAMINER STOGNER: Mr. Carroll, do you have any  
8 statement pursuant to this December letter from Saga, or  
9 anything to add or comment?

10 MR. CARROLL: Yes, Mr. Examiner. The Division  
11 stands ready to work with any operators willing to produce  
12 those wells that are capable of production. Part of our  
13 primary function is the conservation of Oil and Gas, and to  
14 leave producible oil and gas in the ground is contrary to  
15 our purpose.

16 So we will be talking to Saga, to Paladin, and to  
17 Mr. Pierce regarding the Eddy County wells as to some way  
18 of producing those and come to some agreement as to the  
19 liability assumed by such operators.

20 EXAMINER STOGNER: Thank you, Mr. Carroll.  
21 Anything further in this matter?

22 MR. CARROLL: No, Mr. Examiner.

23 EXAMINER STOGNER: Okay. With that, then this  
24 matter will be taken under advisement at this time.

25 Appreciate it. Thank you, Mr. Smith.

1 MR. SMITH: Yes, sir.

2 EXAMINER STOGNER: You may be excused now.

3 MR. SMITH: Thank you.

4 MR. CARROLL: Thanks, Ray.

5 EXAMINER STOGNER: With that, this hearing is  
6 adjourned.

7 Merry Christmas to all.

8 (Thereupon, these proceedings were concluded at  
9 10:08 a.m.)

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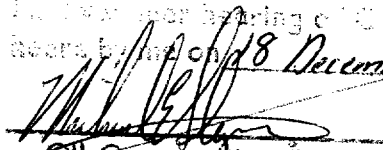
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File created by the Clerk of the Board  
of the Department of Agriculture  
in the hearing of Case No. 11901  
heard by me on 18 December 1997.  
  
Michael E. Stogner, Examiner  
Oil Conservation Division

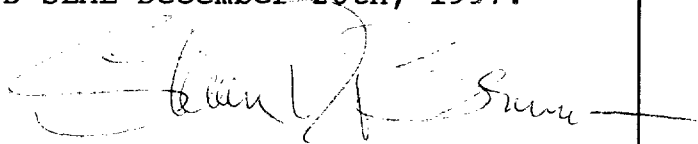
## CERTIFICATE OF REPORTER

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 December 20th, 1997.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 1998