

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 OIL CONSERVATION DIVISION)
 TO ORDER PARAMOUNT PETROLEUM, INC., TO)
 PLUG 18 WELLS IN SAN JUAN COUNTY,)
 NEW MEXICO)

CASE NO. 11,917

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 22nd, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 22nd, 1998, 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.

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I N D E X

January 22nd, 1998
Examiner Hearing
CASE NO. 11,917

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APPLICANT'S WITNESS:		
<u>FRANK T. CHAVEZ</u> (District Supervisor, Aztec District Office, District 3, NMOCD)		
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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

* * *

1 WHEREUPON, the following proceedings were had at
2 12:02 p.m.:

3 EXAMINER STOGNER: At this time I will call Case
4 Number 11,917.

5 Call for appearances.

6 MR. CARROLL: Mr. Examiner, my name is Rand
7 Carroll, appearing on behalf of the Oil Conservation
8 Division. I have one witness to be sworn in.

9 EXAMINER STOGNER: Any other appearances? There
10 being none, will the witness please stand to be sworn?

11 (Thereupon, the witness was sworn.)

12 EXAMINER STOGNER: Mr. Carroll?

13 MR. CARROLL: Thank you.

14 FRANK T. CHAVEZ,

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

17 DIRECT EXAMINATION

18 BY MR. CARROLL:

19 Q. Mr. Chavez, will you please state your name and
20 place of residence for the record?

21 A. I'm Frank Chavez, I live in Aztec, New Mexico.

22 Q. And who is your employer, and what is your
23 position with that employer?

24 A. I'm employed by the Oil Conservation Division,
25 and I am District Supervisor of District 3.

1 Q. And do your duties as District Supervisor include
2 the supervision or the oversight of the plugging of
3 abandoned oil and gas wells?

4 A. Yes, they do.

5 Q. And are you familiar with the 18 wells which are
6 the subject matter of this case?

7 A. Yes, I am.

8 Q. And have you testified before the Oil
9 Conservation Division before regarding the plugging of
10 abandoned oil and gas wells and had your qualifications
11 accepted by the Examiner?

12 A. Yes, I have.

13 MR. CARROLL: Mr. Examiner, are the witness's
14 qualifications acceptable?

15 EXAMINER STOGNER: They are.

16 MR. CARROLL: Mr. Examiner, I will refer you to
17 the exhibits at this time.

18 Exhibit Number 1 is the letter from Johnny
19 Robinson to me requesting that we plug the 18 wells listed.
20 You will notice that there is three wells noted in the
21 margins. They are the subject -- They're not included in
22 this hearing, but they're the subject of prior orders
23 issued by the Division.

24 Those orders I have marked as Exhibit Number 5.

25 The well files have been marked 1A through 1R,

1 and they are bound by this rubber band.

2 Exhibit Number 2 is a copy of the plugging
3 procedures for these 18 wells.

4 Exhibit Number 3 is a copy of documents in our
5 bond file.

6 Exhibit Number 4 is the notice exhibit.

7 And then Number 5, again, is the copy of the
8 three prior orders issued regarding Paramount Petroleum.

9 Q. (By Mr. Carroll) Mr. Chavez, can you please give
10 the Examiner a brief history of these 18 wells?

11 A. Yes, these wells are located just south of the
12 City of Farmington in the Totah Gallup field. They produce
13 from the Gallup formation at a depth of approximately 5000
14 feet, or just below 5000 feet.

15 Back in the early 1980s the operator, Paramount
16 Petroleum Corporation, assumed operatorship of these wells
17 and pumped two or three of them for a short period of time
18 until the operator abandoned the operations.

19 We have plugged a couple of these wells already,
20 not of the ones on this case, but a couple of the wells
21 operated by Paramount on emergency, because they developed
22 casing failures and had waterflows to the surface.

23 We anticipate that because of the problems we had
24 in plugging those wells, and given the casing and cementing
25 programs on these wells that are the subject of this

1 hearing, that there will be severe corrosion problems.

2 And the trouble with plugging these wells is that
3 they do create an environmental and conservation problems.

4 Q. Mr. Chavez, are these wells located on federal
5 lands?

6 A. Yes, they are.

7 Q. And has the BLM requested that we plug them and
8 pay for the plugging?

9 A. Yes, they have.

10 Q. And what is the current condition of these wells?

11 A. Most of these wells still have a wellhead that
12 has integrity. The wellsites themselves are a little
13 difficult to get to, because since they've been abandoned
14 there's been no road maintenance and no maintenance of
15 other equipment at the site.

16 Some of these wells still have ancillary
17 equipment, like some separators or tanks still located on
18 site with the wells.

19 Q. Are there any value to that equipment?

20 A. Our experience has been, in talking with the
21 contractors, that there really isn't any value, or there's
22 very little value, if any at all, to the equipment because
23 of its age and condition and what might be required to
24 refurbish it and make it usable.

25 Q. In your opinion, Mr. Chavez, are the plugging of

1 these wells necessary to prevent waste and protect the
2 public health and environment?

3 A. Yes, it is.

4 Q. And Mr. Chavez, have plugging procedures been
5 drawn up to plug these wells?

6 A. Yes, we have worked with the Bureau of Land
7 Management to develop plugging procedures that are
8 acceptable for each of these wells.

9 Q. And that is what has been marked as OCD Exhibit
10 Number 2?

11 A. Yes, that's correct.

12 Q. Mr. Chavez, if you will refer to what has been
13 marked Exhibit Number 3, is the top few pages of this
14 exhibit what is the \$50,000 plugging bond that was filed by
15 Paramount Petroleum with the Division?

16 A. Yes, that is.

17 MR. CARROLL: Mr. Examiner, if you will look at
18 the rest of this file, the rest of this exhibit, you will
19 see some correspondence between National Surety Company,
20 which is one of the Fireman's Fund group of companies to
21 Ms. Diane Richardson, our former bond administrator,
22 denying National Surety Corporation's liability on the
23 subject bond because they say they did not execute it, and
24 the person that signed the bond was at no time an agent of
25 theirs. So it appears that this bond was forged.

1 You'll also see some documentation in here
2 indicating that the federal bond that was also filed by
3 Paramount Petroleum was also a fake bond or a forgery that
4 National Surety Corporation has denied liability for.

5 At this time I'd also like to refer you to what
6 has been marked OCD Exhibit Number 5. In all three of
7 these orders -- and those orders are 9626, 8530 and 8529 --
8 you will note findings that National Surety Company had no
9 knowledge of the plugging bond, and in at least one of
10 these cases the order was that National Surety should not
11 be held -- is relieved of any liability with regards to the
12 plugging of the well. That language is found in ordering
13 paragraph 2 of Order Number R-8530.

14 Q. (By Mr. Carroll) Mr. Chavez, any idea why a bond
15 was filed with the State if they're all federal bonds? Did
16 Paramount at one time have some fee and state wells?

17 A. Yes, there was one state well that is one of the
18 wells that was plugged under emergency, and that is the
19 reason that they had to file a plugging bond, in order for
20 us to designate them as operator and approve the C-104 for
21 that one state well, or well on state land.

22 And like I say, we plugged it because it was
23 leaking to the surface, flowing water and gas and oil to
24 the surface. And that is why there is a bond on place. Or
25 if there wasn't, they filed a bond form.

1 Q. Mr. Chavez, what attempts have been made by the
2 Aztec District Office of the OCD to contact Paramount
3 Petroleum Corporation?

4 A. Back in the early middle 1980s, we sent them
5 several letters. We had one issue where there was a
6 blowout of one of these wells to the surface with a casing
7 failure. The casing failure occurred and allowed gas,
8 water and oil, drilling mud, to come to the surface and
9 actually blew -- created a hazard across the road. Our
10 records in Aztec contain that.

11 We contacted them. They filed one report, but
12 they never followed up with any reports, and they stopped
13 filing C-115s, and they would not respond to any
14 correspondence or phone calls that we left with them.

15 Q. Do you know who the principals of Paramount
16 Petroleum Corporation are?

17 A. The man who signed the majority of the documents
18 is Lance W. Dreyer, and he's the person we've been trying
19 to contact.

20 Q. Is he the president? Do you know what his office
21 is?

22 A. Yes, some of the documents show that he's the
23 president of the company.

24 Q. Where was or is Paramount Petroleum Corporation
25 located?

1 A. Houston, Texas.

2 Q. So this is in the 1980s that the correspondence
3 was sent to Paramount Petroleum Corporation and the phone
4 calls were made?

5 A. Yes, sir.

6 Q. Have any attempts been made in the 1990s to
7 contact Mr. Dreyer?

8 A. No, we didn't make any more attempts on our own
9 after, from our office.

10 Q. Were attempts made by anybody else?

11 A. I think the Bureau of Land Management tried a
12 couple of times to contact them, but that's -- my
13 recollection is that they did in conversing with the Bureau
14 of Land Management, and they got no satisfactory response
15 from Lance Dreyer either.

16 Q. I happened to see a Larry Barker investigative
17 report on the television, and there was reference by I
18 think Channel 7 that they had contacted Mr. Dreyer; is that
19 correct?

20 A. Yes, they were able to get a phone number that
21 they could use to contact him. And I think on their
22 television report they stated that he claimed that he still
23 owned the wells and he was not in violation of any rules
24 and regulations.

25 But he has not contacted us with any

1 correspondence when we tried to get ahold of him.

2 Q. Are you aware of any phone calls Mr. Dreyer made
3 to the Division regarding this hearing?

4 A. Only that he did call this office, and he talked
5 to Sally Martinez about the scheduling of the hearing. And
6 I don't recall any other details, since I wasn't -- I was
7 just told about the phone call by Ms. Martinez this
8 morning.

9 Q. Were you -- Mr. Chavez, were you here for the
10 other three cases that were the subject of the orders
11 included as Exhibit 5?

12 A. I don't recall whether I was here for all three
13 or -- My recollection is not clear about that. I think
14 there was somebody from my office, probably Mr. Gholson,
15 who came up for those hearings.

16 MR. CARROLL: Mr. Examiner, at this time I will
17 refer you to what has been marked OCD Exhibit Number 4,
18 which the top page is the affidavit regarding notice, and
19 then copies of two letters with the return receipts.

20 As you can see, the first letter, dated December
21 31st, was sent to Paramount Petroleum Corporation. That
22 was returned as address unknown.

23 The second letter was sent out two days later,
24 although it was still dated December 31st, and it was sent
25 out January 2nd, which is 20 days prior to this -- prior to

1 today. And an address for Lance Dreyer was found, so he
2 was also sent a copy of this hearing.

3 And you will notice that the return receipt is
4 signed, and, as indicated by a phone call received by Sally
5 Martinez, Lance Dreyer apparently did receive notice of
6 this hearing.

7 Q. (By Mr. Carroll) Mr. Chavez, the three wells
8 involved in the cases which orders are included in Exhibit
9 Number 5 -- and those are the Aztec Totah Number 7, the
10 Number 16 and the Central Totah Number 1 -- do you recall
11 if those wells were plugged?

12 A. I don't think -- No, they weren't, they were not.

13 Q. In any event, they're not the subject of today's
14 hearing? We're not asking that they be ordered to be
15 plugged?

16 A. That's correct, there are already orders on
17 those.

18 Q. Mr. Chavez, due to the noncooperation received
19 from Paramount Petroleum Corporation and Lance Dreyer, do
20 you have any recommendation as to fines to be imposed?

21 A. Yes, I do. I recommend that they be fined \$1000
22 per well per day, not to exceed \$5000 per well, for the
23 failure to file reports, C-115 reports, for the failure to
24 properly abandon these wells under the rules and
25 regulations.

1 Q. Mr. Chavez, do you have anything further to add
2 in this case?

3 A. No, I don't.

4 MR. CARROLL: Mr. Examiner, at this time I'd like
5 to move what have been marked OCD Exhibits Numbers 1
6 through 5.

7 EXAMINER STOGNER: Exhibits 1 through 5, with all
8 of the Exhibits 1 subparts, will be admitted into evidence
9 at this time.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Mr. Chavez, you were asked about the
13 recommendation of a penalty, and you said \$1000 per day.
14 Theoretically or technically, when would that -- when the
15 first day of a penalty be charged?

16 A. I'd say within 30 days of the order.

17 Q. Okay, of the order. So you're advocating or
18 you're suggesting a 30-day period after an order is issued?

19 A. Yes, for the operator to come into compliance.

20 Q. And that's pretty much a standard with the
21 previous orders or any order?

22 A. Yes. We don't anticipate we'll get any response
23 from Mr. Dreyer after all these years.

24 Mr. Carroll asked me a question, was there
25 anything else to add? I might add for the record that all

1 the documentation and what we've done to try to determine
2 the validity of the bonds and everything, all that
3 information has been turned over to the Attorney General's
4 Office for possible criminal prosecution and investigation.

5 MR. CARROLL: And Mr. Examiner, I concur with the
6 30 days. That gives Mr. -- We do have an address for him
7 he is signing for mail at. He will receive a copy of the
8 order, which gives him a chance to comply with the order or
9 contact us regarding some acceptable plan for the
10 abandonment of these wells.

11 Q. (By Examiner Stogner) The list of wells on
12 Exhibit Number 1, is this the sum total of all of
13 Paramount's wells in the State, or is this just a portion
14 of it?

15 A. As far as I know, yes, they're all the wells that
16 we know of in the State.

17 Q. Okay. So the previous orders were for a one-well
18 type of a plugging order?

19 A. Yes.

20 MR. CARROLL: Yes.

21 Q. (By Examiner Stogner) So at the same time as
22 those were being issued, he was theoretically producing
23 these?

24 A. No, he was not producing these. The other wells
25 we brought to hearing because they developed problems at

1 the surface with flows, and we had not been able to move on
2 those because of delays in our plugging -- reclamation from
3 plugging processes.

4 Q. What's the geographical location of -- It appears
5 there's two leases, I would assume, or two fields of
6 operation, the Aztec Totah and the Central Totah. Are they
7 near a residential area or a built-up area, or are they --
8 What's the geographical location?

9 A. No, they're in the bluff and mesa and valley
10 area, just immediately south of Farmington. Actually,
11 they're visible from the City of Farmington when a person
12 looks south across the San Juan River and sees some
13 abandoned well locations and tanks. You can see several of
14 these locations from the City of Farmington itself, looking
15 south.

16 Q. They might pose Farmington some additional
17 dangers as being attractive nuisance, I would assume.

18 A. Well, yes, the -- Some of the equipment has shown
19 some signs of vandalism and graffiti on the tanks. One of
20 the areas is maybe considered a popular local carousing
21 place, if you want to use that terminology, because of the
22 broken bottles and all that are on that location.

23 In that sense, there is a possibility that
24 somebody could damage one of the tanks, and some of the
25 tanks up there have sludge in them. And given that, we

1 could have a spill from some of the tanks that are up
2 there.

3 So as an attractive nuisance, they are attractive
4 nuisance.

5 Q. Does the BLM or -- Are they responsible for the
6 surface in this area?

7 A. We're still in discussion with that. Right now,
8 we're looking at servicing only the wells. The surface
9 cleanup of the other facilities not directly associated
10 with -- directly on a well location, we're discussing it
11 with the BLM what needs to be done. Actually, it would be
12 abandoned property out in the middle of nowhere.

13 If any of those pose a hazard, we will try to
14 reduce -- Part of the plugging operation will be to reduce
15 the hazard. For example, clean out the slush from the
16 tanks, things like that, that absolutely need to be done if
17 the well sites can be made not hazardous to human health
18 and the environment.

19 Q. My aim in that particular question -- I can
20 understand where you're -- how you've answered it -- was
21 more so of, are they responsible, the BLM as the federal
22 entity responsible for that, once these wells are plugged
23 and abandoned, could the area be secured from the road use
24 or use of those well pads?

25 I mean, that's an attractive nuisance in itself

1 too. Would that help in eliminat- -- alleviating that
2 problem, getting these wells out of there and then putting
3 them out?

4 A. Well, our biggest concern with the wellheads
5 themselves is that some people who were out there doing
6 four-wheel drive recreation could actually run into one of
7 these wellheads.

8 They're not being maintained. We could easily
9 have corrosion problems or failures at the surface that
10 would cause flows to the surface from some of these
11 wellheads.

12 And as far as the BLM being able to manage that
13 land, they -- that would be up to them as far as what to do
14 to do anything other than to the well site and leave an
15 abandonment marker.

16 I doubt there's going to be any -- anybody will
17 put up any fencing or other restrictions on the land, since
18 it is public land.

19 A portion of this area where there are two wells
20 is right now in the planning stage with the City of
21 Farmington to be turned into a golf course. So it creates
22 an interesting dilemma on what to do to clean up those
23 sites and what the City of Farmington will have to do if
24 there's abandoned equipment on those sites.

25 EXAMINER STOGNER: Is there anything further of

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 January 25th, 1998.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998