

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

13 March 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Coastal Oil & Gas Cor- CASE
poration for salt water disposal, Lea 8524
County, New Mexico.

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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Santa Fe, New Mexico 87501

For the Applicant:

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A P P E A R A N C E S

For Mr. Chambers: R. W. Gallini
Attorney at Law
HEIDEL, SAMBERSON, GALLINI &
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I N D E X

BOBBY SMITH

Direct Examination by Mr. Bruce	4
Cross Examination by Mr. Gallini	15
Cross Examination by Mr. Taylor	25

STATEMENT BY MR. BRUCE 27

STATEMENT BY MR. GALLINI 29

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E X H I B I T S

Coastal Exhibit One, Map	7
Coastal Exhibit Two, Schematic	8
Coastal Exhibit Three, Log	8
Coastal Exhibit Four-A thru E, Schematics	9
Coastal Exhibit Five, Water Analysis	13
Coastal Exhibit Six, Return Receipts	13

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MR. QUINTANA: Call next Case
8524.

MR. TAYLOR: The application of
Coastal Oil & Gas Corporation for salt water disposal, Lea
County, New Mexico.

MR. BRUCE: Mr. Examiner, my
name is Jim Bruce from the Hinkle Law Firm in Santa Fe, re-
presenting Coastal Oil & Gas Corporation.

I have one witness to be sworn.

MR. QUINTANA: Are there other
appearances in the case?

MR. GALLINI: My name is R. W.
Gallini of the law firm Heidel, Samberson, Gallini, and Wil-
liams from Lovington, New Mexico, representing the objecting
surface owner, James Chambers.

MR. TAYLOR: Mr. Gallini, do
you have any witnesses?

MR. GALLINI: No.

MR. QUINTANA: Will you please
have the witness stand and be sworn?

(Witness sworn.)

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BOBBY SMITH,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. BRUCE:

Q Would you please state your name, address, occupation, and employer?

A My name is Bobby Smith. I reside in Midland, Texas, and I'm employed as a petroleum engineer for Coastal Oil & Gas Corporation.

Q Have you previously testified before the New Mexico OCD?

A No, I have not.

Q Will you please give a brief summary of your educational and work background for the Examiner?

A Graduated in May of 1980 from Texas Tech University with a Bachelor of Science in petroleum engineering.

Went to work for Amoco Production Company in West Texas for approximately one year and I've been employed with Coastal Oil & Gas Corporation since that time.

Q And what have your duties been at Coastal?

A For two years I was in Amarillo, Texas, working as a drilling engineer.

Then I was transferred in January of '83

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2 to Midland and worked for a little over a year as a drilling
3 engineer and then was transferred to the Production Depart-
4 ment approximately nine months ago.

5 Q And so your experience has been in West
6 Texas and Eastern --

7 A Yes.

8 Q -- New Mexico.

9 Are you familiar with Case 8524 and the
10 matters involved with respect to the salt water disposal
11 well involved in this case?

12 A Yes, I am.

13 MR. BRUCE: Mr. Examiner, is
14 the witness considered qualified?

15 MR. QUINTANA: He is considered
16 qualified.

17 Q Mr. Smith, would you please state briefly
18 what Coastal Oil & Gas Corporation seeks by this applica-
19 tion?

20 A Coastal Oil & Gas seeks authority to dis-
21 pose of produced water from our wells in the Baum Field into
22 the Pennsylvanian formation from a depth of 9738 to 9800
23 feet.

24 The well is the Federal 20 No. 1 Well,
25 Unit P, Section 20, in Township 13 South, and Range 33 East.
The well has been temporarily abandoned for some time.

Q Before we begin, has Form C-108 been
filed with the OCD?

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A Yes, it has.

Q Okay, would you please now refer to Exhibit Number One and briefly discuss its contents?

A Exhibit Number One is a map showing the wells in this area with the blue circle represents the area of review, half mile radius, and it shows the wells that -- to the east that have been plugged and the ones that are still active.

Q And with respect to Section 20, does Coastal own the lease on that entire section of land?

A Yes, we do.

Q And is it -- what type of lease is it?

A It's an oil and gas lease and it still -- we still have two producing wells on it.

Q And who granted that lease to Coastal?

A The Federal Government.

Q Are there any other salt water disposal wells in this area?

A Yes. There is a salt water disposal well approximately a half mile due east of our well, operated by Texaco.

Q And that's in the southwest quarter of Section 21?

A Southwest quarter of Section 21.

Q Do the productive wells in this area produce from the Pennsylvanian formation?

A Yes, sir.

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2 Q Will you please now refer to Exhibits Two
3 and Three and please describe them and detail the history,
4 current status, and proposed completion of the Federal 20
5 Well No. 1?

6 A Okay. Exhibit Two shows a schematic of
7 our Federal 20 No. 1 Well as it is completed.

8 We have 13-3/8ths surface casing set at
9 approximately 387 feet, cement circulated to surface; 8-
10 5/8ths intermediate casing set at 4,075 feet and it was
11 cemented with approximately 300 sacks, I believe; and 5-1/2
12 production casing set at 9840, cemented with 200 sacks.

13 Exhibit Number Three shows a -- is a copy
14 of the sidewall neutron porosity log through this interval.

15 The solid line at 9738 to -- excuse me,
16 97 -- 9738 to 46 shows the original perforations that are
17 still open, and the dashed line represents the proposed per-
18 forations if this application is approved.

19 Q Is this well currently temporarily aban-
20 doned?

21 A Yes. The well was temporarily abandoned
22 in July of 1970 and appropriate papers have been filed
23 through the years to amintain the status.

24 Q And who have they been filed with?

25 A Filed with the Federal Government.

Q Was the Federal 20 Well No. 1 drilled un-
der the terms of the currently existing Federal oil and gas
lease?

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A Yes, it was.

Q Would you please briefly now describe the current status of other wells within the area of review and in connection with that, please refer to Exhibits Four-A through Four-E?

A Okay. Exhibit Four-A is a Texaco producing well in the northwest quarter of Section 21.

This well produces from 10 perforations and is still active and makes a relatively small amount of oil and quite a bit of water.

And Exhibit Four-B represents the schematic of the salt water disposal well in the southwest quarter of Section 21, operated by Texaco. It is still active at this time.

Exhibit Four-C is a Texaco well in the southwest quarter of Section 21 that has been plugged and abandoned. The schematic represents the plugs that were set and the casing that was removed is shown on the schematic.

I can go over this briefly, the plugs. This information was obtained from the Hobbs Office of the CCD.

They set a bridge plug at 9650 and 35 sacks of cement on top of that and they cut the 5-1/2 casing at 5384, spotted a 40-sack plug inside and outside the casing; a 40-sack cement plug at the 8-5/8ths casing seat, in and out of the casing; a 40-sack plug within the 8-5/8ths from 2318 to 2418; a 40-sack plug inside the 8-5/8ths casing

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2 from 1767 to 1667; cut the 8-5/8ths casing at 877; set a 40-
3 sack plug at the 13-3/8ths casing seat from 300 feet to 400
4 feet, and a 10-sack surface plug.

5 Exhibit Four-D is a dry hole that was
6 drilled in Section 28 by Hanagan Petroleum Corporation, the
7 No. 1 Depco State. This well was plugged in the following
8 manner. Production casing was never run on this well.

9 A 25-sack plug was set from 9711 to 9811
10 in the open hole; a 25-sack plug from 7520 to 7620 in the
11 open hole; and a 25-sack plug from 5339 to 5439 in the open
12 hole; and a plug was set across the casing seat. I neglec-
13 ted to write that one down but it's 50 feet below and 50
14 feet above the casing seat; and the intermediate casing was
15 cut at 1,003 feet and a plug, 6-foot plug set above that
16 point; a 25-sack plug at the 13-3/8ths casing seat, and a
17 10-sack surface plug.

18 Exhibit Four-E is a well that was even-
19 tually plugged by Coquina Oil Corporation. It was original-
20 ly drilled by a different firm, and it has been plugged and
21 abandoned. It's in, also, the southwest quarter of Section
22 21, and it was plugged in the following manner with a cast
23 iron bridge plug at 9600 and 35 sacks of cement on top; 5-
24 1/2 production casing was cut at 6590 and a 35-sack plug was
25 set above that point; a 35-sack plug in the open hole from
5400 to 5300; a 40-sack cement plug at the 8-5/8ths casing
seat, 4140 to 4240; 8-5/8ths casing was removed from 800
feet and a 50-sack plug set from 737 to 837. They have a

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2 75-sack plug from 434 to 334 and a 15-sack surface plug.

3 Q Thank you. What will the injection
4 pressure be in this well, does Coastal anticipate?

5 A We anticipate a maximum injection
6 pressure of 1000 psi and, hopefully, the well will take
7 water on a vacuum initially. The Texaco well in the east
8 half of -- or in the west half of 21 takes the water on a
9 vacuum.

10 Q Using the OCD guideline of 0.2 pounds per
11 foot, what is -- what is the limitation pressure on this
12 well?

13 A This calculates to approximately 1950
14 psi, which is well above our anticipated max.

15 Q What is the source of the fluid to be
16 disposed of in this well?

17 A The fluid that will disposed of produced
18 water from the Penn formation from our leases in the area,
19 and part of the water will also be from MWJ, which is a
20 partner in our salt water disposal system for an older well
21 that is no longer of use.

22 Q Will some of the water come from other
23 Coastal wells in Section 20?

24 A Yes, it will.

25 Q So that all injected water will be from
the Pennsylvanian formation, is that correct?

A Yes, all injected water is from the Penn
formation.

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2 Q Therefore you anticipate no compatibility
3 problems between the injected and formation water, is that
4 correct?

5 A That's correct.

6 Q What volumes do you anticipate injecting,
7 approximately?

8 A Our produced water in the area is approx-
9 imately 1000 barrels a day and MWJ's is a comparable amount,
10 which would be approximately 2000 barrels a day total.

11 Q By what method have you been disposing of
12 your produced salt water in this area?

13 A For the past fifteen years we've been
14 utilizing a Devonian disposal well in the northeast quarter
15 of Section 20. We refer to this as the Trigg No. 1. It was
16 originally drilled by another company and plugged and Coas-
17 tal bought the well from them and deepened it to the Devon-
18 ian formation, and the well is -- has been more or less
19 trouble-free for fifteen years, but recently problems have
20 made us look elsewhere for means of getting rid of our
21 water.

22 Q Are any fresh water wells encountered
23 within a mile of the proposed salt water disposal well?

24 A We know of three within one mile that are
25 fresh water wells.

26 One is in the extreme northern part of
27 Section 29. One is just across the section line in Section
28 20, and a fresh water well in the center of Section 21.

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2 Q What zone or what formation is the -- is
3 the water found in this area?

4 A Ogallala formation.

5 Q Has a chemical analysis been performed of
6 this water?

7 A It has. We took samples a few weeks ago
8 and had a water analysis done for all three wells.

9 Q And is that attached as Exhibit Number
10 Five?

11 A Yes, it is.

12 Q Is Coastal aware of any faults connecting
13 the fresh water supplies with the disposal zone or with any
14 other zones containing salt water?

15 A No, we are not.

16 Q Have the offset leaseholders and the sur-
17 face owner been notified of this application and have they
18 been provided a copy of Form C-108?

19 A Yes, they have.

20 Q Are the certified mail receipts made an
21 exhibit of this hearing?

22 A Yes, they are Exhibit Six.

23 Q Have the leasehold operators objected to
24 this application?

25 A No, the leasehold operators haven't ob-
26 jected. I have visited with all -- with -- in person and
27 phone with all leasehold operators within the last week and
28 they're aware that the hearing was scheduled for today and

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none have elected to object.

Q With Coastal comply with OCD regulations regarding notice, testing, monitoring, and record keeping on this well?

A Yes, we will.

Q And is Coastal aware of the recent memo from the OCD concerning expansion of pressure testing requirements on salt water disposal wells?

A Yes, they are.

Q In your opinion will the granting of this application be in the interest of conservation, the prevention of waste, and the protection of correlative rights?

A Yes.

Q Were Exhibits One through Six prepared by you or under your direction?

A All exhibits except Number Five, which is the water analysis, which was prepared by an independent water laboratory, the rest were prepared by me.

Q And were the exhibits previously submitted to the OCD as part of Form C-108?

A Yes, they were.

MR. BRUCE: At this time, Mr. Examiner, I move the admission of Exhibits One through Six.

MR. QUINTANA: Exhibits One through Six will be admitted into evidence.

MR. BRUCE: I have no further questions of this witness at this time.

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2 MR. QUINTANA: Are there any
3 questions of the witness?

4 MR. GALLILNI: Yes, sir.

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6 CROSS EXAMINATION

7 BY MR. SMITH:

8 Q Mr. Smith, when you say that you're going
9 to dispose of produced water from your wells in the Baum
10 Field, did you tell if there's going to be wells you're
11 going to be disposing water from that are in sections other
12 than Section 20?

13 A Yes, there are.

14 Q Okay, and what sections will that be
15 from?

16 A Oh, sections in the same township and
17 range. I don't have my map of the whole area out there.

18 We have wells in Section 31, same town-
19 ship and range; Section 32, same township and range.

20 We have wells in Sections 5, 6, and 8 in
21 the township below, which is Township 14 South, and we have
22 a well in Section 1, one range to the west of Township 14.

23 Q All right, so what you're saying is that
24 in addition to the -- what, two, two producing wells on
25 this lease, that you're also going to be producing off
lease, or disposing of produced water off lease.

A Well, the original lease, which is NM-
2842, covers several of these sections, and the lease 2842-A

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covers Section 20.

Q All right, that's the only lease that's effective right now. The other ones are dead, aren't they?

A Well --

Q Expired.

A What other lease is that?

Q Well, the lease that you're talking about, the main lease, it's expired and you're now operating under -- under what --

A We operate the wells in Section 20 under 2842-A.

Q 2842-A, which covers 640 acres.

A Right.

Q Okay. Now, you also mentioned, I believe, that you have a partner, MWJ.

A Uh-huh.

Q Now where are they producing water from?

A They produce water from several wells in the Baum Field. I'm not aware of what all sections they're involved in.

Q So this again is different leases?

A Different lease.

Q All right, and are they going to be a partner in this proposed Federal 20 disposal well?

A They will be allowed to put water in the well.

Q Okay.

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A Which, we have an agreement with them that covers the old salt water disposal system, which included the gathering lines, storage facilities, and the use of the original disposal well in the northeast quarter of Section 20.

Q Now is this -- I don't know whether your counsel asked you or not, is this going to be -- this is going to be a closed system, right?

A Yes. No one else can be allowed to put water in it.

Q Other than you and --

A MWJ.

Q -- this other partner. Okay. Now, I believe you say that you have a salt water disposal well in the northeast quarter of Section 20. What's your plans for that disposal well?

A We have plans to plug the well.

Q In other words, you're going to do away with that.

A Yes, we will.

Q And so everything that has heretofore or that -- are you presently using it?

A No, we're not.

Q Okay.

A The well's not been in use for several months.

Q All right. Everything that's heretofore

1
2 been injected through your disposal well up in the northeast
3 quarter will now go down into the proposed Federal 20.

4 A That's correct.

5 Q All right, and you say that you -- now
6 when you made your application, I believe that you stated in
7 Paragraph 11 that there wasn't any fresh water wells, and
8 you've, in effect, amended your application?

9 A Yes, we have. We -- that was -- I asked
10 the production foreman over the telephone one day and he was
11 not aware of any fresh water wells, but he has -- we were
12 both -- you guys brought to our attention and we --

13 Q Did he ever tell you he got a drink of
14 water out of Mr. Chambers' well at his house, which is the
15 one located nearest to the well?

16 A He did not say.

17 Q Okay. In addition, then, I believe you
18 mentioned -- you mentioned three wells and that's what
19 we're, of course, concerned about.

20 A Sure.

21 Q But you mentioned one in a section that
22 -- that I'm not aware of, 21?

23 A Section 21, at the center of Section 21.

24 Q Okay.

25 A Now I do not know who owns that surface
there.

Q All right, are you aware also of a fresh
water well that was not tested that's within a mile of that

1 location, that's located in the northwest quarter of Section
2 20, which is a windmill for stock water purposes?

3 A We were not aware of it. We were aware
4 there was a well in that vicinity but we were not aware that
5 it was within one mile. It's pretty close to the -- to the
6 one mile radius; however, if it is within one mile we'd have
7 no problem with obtaining samples and submitting that.

8 Q Do you think that you could verify that
9 we'll get a chemical analysis of that one and insure that
10 there won't be any problem?

11 A Yes, sir, no -- no problem there.

12 Q Do you know which of these wells, like
13 Well No. 1, 2, and 3, could you identify which wells these
14 are?

15 A Yes, sir. Well No. 1 is the well in Sec-
16 tion 29 just --

17 Q Okay.

18 A -- south of the section line there.

19 Q Right.

20 A And the Well No. 2 is the well just north
21 of the section line at his ranch house.

22 And Well No. 3 is the one in the center
23 of Section 21.

24 Q All right.

25 MR. QUINTANA: Just a second.
Could you point those out to me on this?

A Yes, sir.

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2 One water well is located approximately
3 there, and one approximately there, and then one almost dead
4 center.

5 MR. GALLINI: And, Mr. Quin-
6 mana, just since you want to know, there is also another
7 well which -- which is located there, which is a windmill,
8 up in the northwest quarter.

9 MR. BRUCE: Do you have the
10 exact descriptive location?

11 MR. GALLINI: No, I don't, but
12 it's in that section, so it's within a mile.

13 MR. BRUCE: Not necessarily.

14 MR. GALLINI: Well, it -- it
15 is. It's close enough in. It's not over into that corner.
16 I don't have the location.

17 A Well, we're -- we're not, you know, we
18 don't have the exact footage location for all these water
19 wells. We've got a topo map which shows the approximate lo-
20 cation.

21 Q Right.

22 A It's kind of difficult to tell on them
23 sometimes the exact footage.

24 Q Okay. Now you say that Federal 20 was
25 temporarily abandoned.

A Yes, sir.

Q What, fifteen, nearly fifteen years ago,
right?

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A 1970, yes.

Q All right, it's been a long temporary --

A Yes, sir.

Q -- period of time.

And there's been no production of oil or gas or oil and gas since then. Okay.

And I've just about -- let me check a couple things.

Now, all of the minerals that are surrounding this Section 20, in other words, if you go 360 degrees, they're either State or fee, is that correct?

A That's correct, as far as I know. Well, in --

Q Within sections --

A Section 20 is a Federal lease.

Q That's right, I'm saying Section 20 is Federal and everything around it with the exception of 29 is -- is State and fee.

A As far as I know.

Q Okay. Are you all producing anything out of 29?

A No, sir. We drilled one dry hole in Section 29 that I know of.

Q So some of these --

A Excuse me, two wells in 29 are dry.

Q Okay. Mr. Smith, some of these -- some of this produced water is going to be traveling a good two

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and three miles away, isn't it?

A It has been for fifteen years.

Q To this other well.

A Yes, sir. The line, the line -- we have gathering facilities in Section 5, which -- to the Township 14 South and Range, same range as this, and the water travels from there via pipeline up to Section 20 to the northeast quarter. We have another storage facility up there, --

Q Okay.

A -- which will be dismantled and that site cleaned up.

Q What -- what steps has Coastal taken to obtain the consent from surface owner of Section 20 to utilize his surface for these operations of -- that you're contemplating in that Federal 20 where you're going to be bringing produced water off lease?

I'm not talking about the wells that you've got there on 20 because I realize that you have the right to dispose on the section there, but I'm talking about off lease, when you bring the water from other leases and then even letting somebody else, this partner, utilize it?

What arrangements have you made to -- to utilize that surface?

A We have -- we have visited with Mr. Chambers and offered him to pay damages for any surface damage we might -- that might be incurred during our change over to

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2 a salt water disposal well here in Section 20.

3 At the present we don't really anticipate
4 any surface facilities at the location. We'll just simply
5 tie into the pipeline that runs more or less right by the
6 existing well location and tie into the well.

7 And, like I say, the original lease
8 covered almost every section that I'm aware of we're produc-
9 ing in this field, and 2842-A covers Section 20, and I'm not
10 aware that 2842 was cancelled.

11 I know, you know, as far as I know both
12 leases are still in effect.

13 Q Do you think that main lease is still in
14 effect?

15 A As far as I know. I haven't been able to
16 obtain a copy of it.

17 Q Well, that's because it's in Denver, it's
18 expired, and you're operating under 2842-A. That's what the
19 people up here say, but at any rate, you -- Coastal Oil
20 doesn't have any intention of entering any kind of a lease
21 agreement with surface -- the use of that surface and that
22 well from Mr. Chambers.

23 A We -- we, like I say, we have a pad there
24 for the location for the well originally and we don't anti-
25 cipate enlarging that in any means at the present time.

26 We will not be utilizing any more surface
27 than we are now entitled to as owners of the said well.

28 Q You feel like you already have even your

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pipeline easements?

A That was --

Q Have you got a tank? You going to have any above ground storage tanks out there?

A Not at present; not at this site, and if we do have to add some in the future, we do have a tank battery in that southeast quarter of Section 20, approximately a quarter mile from the well.

Q Now up in that -- the old one that you said that you have abandoned, you have -- you have used above ground storage there --

A Yes, we have.

Q -- when you get greater capacity than that well's able to take, is that correct?

A That's -- that's because we have inadequate storage facilities in Section 5, which is our main gathering point. We have -- we have proposals to enlarge that -- that facility there to handle all the water.

MR. GALLINI: No further questions.

A Let me say that the only reason we would add a tank in Section 20 at this location would be if we have to pump the well at some time under pressure. Then we'll have to have a tank there to suction the water out of and the pump would be on that location.

MR. GALLINI: Thank you.

CROSS EXAMINATION

BY MR. TAYLOR:

Q Mr. Smith, did you -- did you provide us with a copy of the letter that you sent to the offset operators and surface owner along with the application? We have a copy of the -- we have a copy of some receipts, return receipts but we don't show anything that those were attached to indicating that they were given notice of a -- of their opportunity to object by writing to us, or otherwise contacting us.

Did you have a cover letter or something?

A Yes, I do. He's got it right here. He's going to present it.

Q Does your lease with the Federal Government allow for disposal of off-site water?

A Yes, it does. Like I say, this well that we have been disposing in was -- was a well that we did not drill. It was drilled by another company, and we purchased the well from them and set up a separate agreement and leased a 10-acre tract there and have utilized that facility for several years.

Q Have you notified the Federal Government of your application?

A Yes, we have.

Q Did this well have any perforations in it originally or is this going to be perforated?

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A Yes, this Federal 20 No. 1?

Q Yes, the disposal well.

A Have you got a copy of the sidewall neutron porosity log?

Q I guess I do.

A If you'll notice the solid line from 9738 to 46 feet, that represents the original perforations. The dashed line below there represents the proposed perforations.

Q From 9738 to 97-what?

A 46, the solid line there.

Q 46, that was the original perforations.

A Yes, sir.

Q And you're going to extend that to 9757?

A Yes, sir, and then also add the perms from 9777 to 9800 -- 9787 to 9800.

MR. TAYLOR: That's all the questions I have, if you could furnish us with a copy of that cover letter.

MR. BRUCE: I'll bring it over today. I only have copies for myself.

MR. QUINTANA: I have one request, Mr. Smith. Would you please provide us with a fresh water sample of the windmill in the northwest quarter of Section 20?

A Yes, sir.

MR. QUINTANA: Are there further questions of the witness?

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2 Any closing statements or
3 anything?

4 If not --

5 MR. BRUCE: Yes, Mr. Examiner,
6 I would like to make a brief closing statement.

7 The salt water disposal well,
8 or proposed well, is located in Section 20, 13 South, 33
9 East. James Chambers owns the surface in fee. The Federal
10 Government owns the minerals, and Coastal Oil & Gas leases
11 the minerals under a Federal Oil and Gas Lease NM-2842-A.
12 This lease is still in effect.

13 Under this lease Coastal has
14 drilled several wells in Section 20, including the proposed
15 salt water disposal well.

16 This well is temporarily
17 plugged and abandoned as indicated by Mr. Smith. Papers
18 regarding, or at least sundry notice forms have been filed
19 with the Federal Government, and if you desire we can
20 provide copies to the Division.

21 During the term of this lease
22 the lessee, Coastal, owns the equipment, including all the
23 well casing and fixtures, and can remove that equipment or
24 use it, or use the well as it sees fit. The Federal leases
25 contain the express provisions recognizing the ownership by
the lessee of the well casing.

Furthermore, during the lease
term a lessee owns the wellbore and is entitled to use it as

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2 he sees fit.

3 This case is somewhat similar
4 to OCD Case 8139, in which BBC, Incorporated, surface les-
5 see, or the owner of the surface easement from the Federal
6 Government, sought to use a temporarily abandoned well for
7 salt water disposal purposes.

8 While proceedings went forward
9 in the OCD an appeal of the BLM decision granting the sur-
10 face easement was prosecuted.

11 In a decision located at IBLA
12 84-440, the Interior Board of Land Appeals decided several
13 things: It stated, number one, that a Federal lessee has a
14 property right in the well casing. Number two, during the
15 lease term the lessee is entitled to the exclusive use of
16 each well and it does not matter if the well is temporarily
17 abandoned even for a number of years.

18 And finally number three, dur-
19 ing the lease term the lessee has the right to preclude
20 others from using that well.

21 Given these rights and (not un-
22 derstood), we do not believe Mr. Chambers has any rights to
23 the Federal 20 No. 1 Well during the term of the Federal
24 lease.

25 Mr. Chambers is apparently as-
serting property rights in the well adverse to those of
Coastal. We do not believe that Mr. Chambers has any pro-
perty rights in the well, and furthermore, we do not believe

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2 the OCD has jurisdiction to decide these property rights.

3 We believe that the OCD should
4 decide this case only on its technical merits and specific-
5 ally with respect to Mr. Chambers, whether fresh water sup-
6 plies will be adequately protected or adversely affected.

7 If the technical requirements
8 are met, which Coastal asserts have been met, then the ap-
9 plication should be granted. Any question with respect to
10 property rights should not be determined here but rather in
11 court.

12 MR. QUINTANA: Thank you.

13 MR. GALLINI: On behalf of Mr.
14 Chambers we'd like to state that they are the -- Coastal
15 States is the lessee of that Federal oil and gas lease, New
16 Mexico 2842-A, which covers all of Section 20, that 640 ac-
17 res.

18 Now, as was testified to, all
19 of the Sections in Township 13 South, Range 33 East, that
20 surround this Section 20 are State minerals, except 29,
21 which is due south of Section 20, is fee land.

22 Now we do not dispute the right
23 of Coastal Oil & Gas to dispose of water that's produced
24 from its operations in Section 20 under this NM 2842-A, pro-
25 vided they do not become what is commonly referred to as an
26 excessive user of easements.

27 We do object to Coastal's using
28 Mr. Chambers fee surface lands in connection with its opera-

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2 tions on other premises that are covered by other leases,
3 and there's testimony to that effect today.

4 Testimony is that they will be
5 transporting produced water from other leases to this pro-
6 posed salt water disposal well, in some cases as far as two
7 to three miles away.

8 It's our contention in this
9 matter that without the express consent of the surface
10 owner, which in this case is Mr. Chambers, that -- that they
11 can't do this, and we also further state thus far Coastal
12 has refused to negotiate with him for the use of this pro-
13 perty other than saying, well, if we spill any water, salt
14 water, out there, we'll pay damages for it.

15 It appears, and I think from
16 what I hear now it even strongly appears to be their posi-
17 tion that they have an unequivocal right to do anything they
18 want to do on this subject property regardless of whether it
19 pertains to operations under that lease or operations under
20 their lease they may have anywhere, and we state that Oil
21 Conservation Commission should not approve this application
22 until it's satisfied that appropriate consents have been ob-
23 tained from the surface owner for these proposed operations
24 to be conducted upon these lands, and we had another conten-
25 tion there about the fact that they omitted mentioning the
fact that there's -- they said there wasn't any fresh wells,
but I believe that's been cleared up, so that part of it I'm
not that concerned with, provided that they do test the

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other well, and I think you've already made that direction.

So with that, we -- we still assert our objection that until they have obtained the consent of the surface owner, which there has to be a reason why the surface owner is notified about this. Obviously, I'm sure there's other reasons besides this, but until they do, then disposal well should not approved.

MR. BRUCE: Mr. Smith has informed me that Coastal is willing to negotiate concerning any surface easement that may be necessary. Coastal does not assert that it has an unequivocal right with respect to off lease water but that is -- that question is not yet determined. It is a legal question and we don't think that's properly before the OCD.

MR. QUINTANA: Thank you.

MR. TAYLOR: I have a question. How much of the water that you plan to inject will come off the lease, either in a percentage or in actual numbers, if you know?

MR. SMITH: Oh, I don't have the exact rates in front of me but I would say 20 percent of the -- of our water, which is approximately 2-to-300 barrels a day would be off of Section 20, and I don't --

MR. TAYLOR: That was 200 to 300 barrels?

MR. SMITH: 200 to 300 barrels and I'm not, you know, I can't quote those production num-

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2 bers off the top of my head. I would have to research the
3 records to be extremely accurate, but I'm trying to --

4 MR. BRUCE: Just say it's an ap-
5 proximation.

6 And you intend to inject
7 approximately 1200 a day.

8 MR. SMITH: Well, our produced

9 MR. TAYLOR: Up to --

10 MR. SMITH: Our produced water.
11 Our produced water represents approximately 1000 to 1200
12 barrels a day. Right now it's been about 1000 for the last
13 couple of months, and we have -- our people have determined
14 that they -- the salt water disposal system agreement with
15 MWJ is more or less valid and we will have to take their
16 water also, which will total about 200 barrels a day from
17 both us and them.

18 MR. TAYLOR: So they have an
19 additional 500 or 800 or --

20 MR. SMITH: Yes.

21 MR. TAYLOR: That's all I have.

22 MR. QUINTANA: I have a ques-
23 tion.

24 Would you again repeat the
25 Federal lease number for this -- that covers Section 20?

MR. SMITH: 2842-A covers only
Section 20.

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2 2842 covered several sections
3 in different townships and ranges and we're still producing
4 off those leases, and so that lease must still be valid.
5 This 2842-A may have -- may have -- I'm not -- haven't read
6 that lease and it may --

7 MR. TAYLOR: Is that a replace-
8 ment lease or --

9 MR. SMITH: No, it's not. It
10 was included in the original lease.

11 MR. BRUCE: It must have been
12 BLM procedures. It must have been broken out from the main
13 lease for this one section of land (not clearly understood.)

14 MR. GALLINI: Here's a copy of
15 the --

16 MR. TAYLOR: Do you have a copy
17 of 2842-A?

18 MR. GALLINI: This is what they
19 have over here at the BLM.

20 I got that from Federal Ab-
21 stract Company and they have ordered a copy of the lease.
22 The way Mr. Sanchez explains it, he says when they expire
23 them send them back to Denver. You have to order it and
24 then they send it back to Santa Fe.

25 MR. TAYLOR: Do you have a copy
of your current lease?

MR. SMITH: Not with me, no, I
do not have.

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MR. TAYLOR: Could you provide
that to us?

MR. SMITH: Yes. Are you
talking about the current lease for --

MR. TAYLOR: Yeah, 2842-A.

MR. QUINTANA: Are there
further questions of the witness?

If not, he may be excused.

Case 8524 will be taken under
advisement.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete and correct transcript of the proceedings in the hearing held on the 12th day of MARCH 13 19 85. 8524
Gilbert P. Quintana, Examiner
Oil Conservation Division