

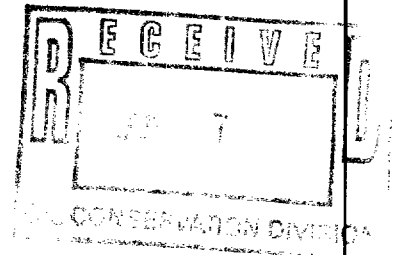
STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 11,515

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION ON ITS OWN)
MOTION TO PERMIT THE OPERATOR WOOSLEY)
OIL CO., AMERICAN EMPLOYERS' INSURANCE)
COMPANY, AND ALL OTHER INTERESTED)
PARTIES TO APPEAR AND SHOW CAUSE WHY)
CERTAIN WELLS IN MCKINLEY COUNTY, NEW)
MEXICO, SHOULD NOT BE PROPERLY PLUGGED)
AND ABANDONED)

ORIGINAL



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 13th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 13th, 1996, 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.

* * *

I N D E X

June 13th, 1996
 Examiner Hearing
 CASE NO. 11,515

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* * *

American Employers'	Identified	Admitted
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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 COMMERCIAL UNION INSURANCE COMPANIES and its
 affiliate AMERICAN EMPLOYERS' INSURANCE COMPANY:

MONTGOMERY & ANDREWS, P.A.
 325 Paseo de Peralta
 P.O. Box 2307
 Santa Fe, New Mexico 87504-2307
 By: EDMUND H. KENDRICK

ALSO PRESENT:

JAMES P. WOOSLEY
 Woosley Oil Company
 Cortez, Colorado

* * *

1 WHEREUPON, the following proceedings were had at
2 10:50 a.m.:

3 EXAMINER STOGNER: This hearing will come to
4 order.

5 At this time, I'm going to call Case Number
6 11,515, which is in the matter of the hearing called by the
7 Oil Conservation Division on its own motion to permit the
8 operator, Woosley Oil Company, American Employers'
9 Insurance Company, and all other interested parties to
10 appear and show cause why several certain wells in McKinley
11 County, New Mexico, should not be properly plugged and
12 abandoned.

13 At this time I'll call for appearances.

14 MR. CARROLL: May it please the Examiner, my name
15 is Rand Carroll, appearing on behalf of the Oil
16 Conservation Division. I have one witness to be sworn.

17 EXAMINER STOGNER: Call for any additional
18 appearances.

19 MR. KENDRICK: May it please the Examiner, I'm
20 Ned Kendrick with Montgomery and Andrews law firm,
21 appearing on behalf of Commercial Union Insurance Companies
22 and one of their affiliated companies, American Employers'
23 Insurance Company.

24 EXAMINER STOGNER: Okay, that was Commercial
25 Union --

1 MR. KENDRICK: Commercial Union Insurance
2 Companies. And then one of their affiliates is American
3 Employers' Insurance Company, who I think was notified of
4 this hearing.

5 EXAMINER STOGNER: Okay, just for the record,
6 Commercial Union Insurance Company is -- Where's their
7 offices?

8 MR. KENDRICK: They're -- I think their main
9 office is in Boston.

10 EXAMINER STOGNER: Boston.

11 MR. KENDRICK: But they have a field office in
12 Oklahoma that handles these kinds of matters.

13 EXAMINER STOGNER: And that's where -- You're
14 associated with the Oklahoma field office?

15 MR. KENDRICK: Yes, yes.

16 And I have -- I just spoke with Mr. Woosley and
17 he, I think, can be a witness on some issues. I don't know
18 if he'll be my witness or just a general witness to help us
19 all with some of the facts.

20 EXAMINER STOGNER: Well, Mr. Woosley, for the
21 record, why don't you go ahead and identify yourself, state
22 your name, your affiliation with the company, and your
23 address.

24 MR. WOOSLEY: Sir, my name is Jim Woosley. I
25 live in Cortez, Colorado. I was a previous operator and

1 person that drilled these particular wells, up until the
2 Citizens State Bank became the receiver, and at that time
3 I've had no more affiliation at all with this production.

4 EXAMINER STOGNER: Woosley Oil Company, was that
5 the company -- the operator that drilled the wells?

6 MR. WOOSLEY: Yes, sir, it was.

7 EXAMINER STOGNER: Is Woosley Oil Company still
8 in business?

9 MR. WOOSLEY: No, sir.

10 EXAMINER STOGNER: No, they are not. Okay.

11 MR. KENDRICK: I believe I misspoke earlier. Mr.
12 Woosley really wouldn't be my witness. He's a party that I
13 may ask questions of.

14 EXAMINER STOGNER: Oh, okay. That's why I
15 wanted, I guess, Mr. Woosley to identify himself.

16 Okay. At this time, Mr. Woosley, I'm going to
17 swear you in, because this is an official type of a
18 hearing, and Mr. Frank Chavez.

19 (Thereupon, the witnesses were sworn.)

20 EXAMINER STOGNER: Mr. Carroll, Mr. Kendrick, is
21 there any need for any opening remarks, or do we just need
22 to jump right in?

23 MR. CARROLL: There might be need for closing
24 remarks. I don't have any opening remarks.

25 MR. KENDRICK: Yeah, I have no opening remarks.

1 EXAMINER STOGNER: Okay. Then let's go ahead and
2 get started.

3 Mr. Carroll?

4 MR. CARROLL: Thank you, Mr. Examiner.

5 FRANK T. CHAVEZ,

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

8 DIRECT EXAMINATION

9 BY MR. CARROLL:

10 Q. Mr. Chavez, could you state your name for the
11 record?

12 A. My name is Frank Chavez. I'm District Supervisor
13 of the Oil Conservation Division, Aztec District 3 Office.

14 Q. And do your duties as Aztec District Supervisor
15 include the overseeing of the plugging of abandoned wells?

16 A. Yes, they do.

17 Q. And are you familiar with the subject matter of
18 Case 11,515, dealing with seven wells operated by the
19 Woosley Oil Company?

20 A. Yes, I am.

21 Q. Mr. Chavez, have you testified before the
22 Division before and had your credentials accepted as to
23 testimony regarding plugging matters in your district?

24 A. Yes, I have.

25 MR. CARROLL: Mr. Examiner, Are Mr. Chavez's

1 qualifications acceptable?

2 EXAMINER STOGNER: Any objections, Mr. Kendrick?

3 MR. KENDRICK: No.

4 EXAMINER STOGNER: Okay. There being none, Mr.
5 Chavez is so qualified.

6 Q. (By Mr. Carroll) Mr. Chavez, can you please give
7 us a brief history as reflected in the OCD records of the
8 wells in question?

9 A. The wells that are the subject of this hearing
10 were operated under OCD records by Woosley Oil Company
11 until the -- and produced until the late Seventies and mid-
12 Eighties, at which time they ceased production. Since
13 then, the wells have been left to basically neglect and
14 abandonment out in the field.

15 Q. And Mr. Chavez, if I could -- The well file
16 records are contained in what has been marked as OCD
17 Exhibits 1A through 1G, and if I could direct the Examiner
18 to Exhibit OCD Number 6 and have Mr. Chavez explain exactly
19 what OCD Exhibit Number 6 is.

20 A. Exhibit Number 6 shows the last record of
21 production in OCD records for the wells that are the
22 subject of this case. The only exception would be the
23 Santa Fe Energy Number 2, for which we have no record that
24 the well ever produced where it was reported to the OCD.
25 The last date of production for any of the wells the

1 subject of this case is reported to the OCD is December of
2 1984.

3 Q. And to your knowledge, Mr. Chavez, none of these
4 wells have produced any oil and gas since 1984 at the
5 latest?

6 A. That's correct.

7 Q. And it is your opinion, Mr. Chavez, that the
8 present condition of these wells require that they be
9 plugged at this time?

10 A. Yes, wells which are left neglected out in the
11 field have a tendency to deteriorate at the surface. With
12 the mechanical-equipment deterioration comes the potential
13 for spills and leaks to the surface.

14 Also, since they are not being produced it is
15 difficult to monitor whether or not there's downhole
16 deterioration of the mechanical equipment that would cause
17 contamination of groundwater.

18 Q. So, Mr. Chavez, it is your opinion that the
19 plugging of the wells at this time would protect
20 correlative rights, prevent waste and/or protect public
21 health and the environment and freshwater?

22 A. Yes, it is.

23 Q. Mr. Chavez, has your District written up any
24 recommended plugging procedures for the plugging of these
25 wells?

1 A. Yes, we have. They're included in Exhibit Number
2 2. Using the latest information that we have in our
3 records, there's a plugging program there for each well.

4 There is one questionable plugging program, which
5 would be for the Santa Fe Energy Number 2.

6 Since we do not have -- we don't believe we have
7 all the information as to the depth, mechanical downhole
8 configuration of that well, that plugging program is rather
9 speculative, and the well would have to be entered to -- or
10 otherwise we need to get information on the downhole
11 condition of that well.

12 Q. Okay. Do you have any idea how extensive the
13 plugging of these wells will be?

14 A. It will probably cost more than \$5000 per well,
15 as much as \$10,000.

16 Q. Mr. Chavez, if I can refer you to what has been
17 marked OCD Exhibit Number 3, do the documents contained in
18 Exhibit 3 relate to a bankruptcy filing by the principal of
19 the operator in this case?

20 A. Yes, page 1 and -- Well, all these pages refer to
21 documents, and including a response from attorneys out of
22 Grand Junction, Colorado, concerning the case and the
23 current financial condition of Mr. Woosley, who's the
24 principle of Woosley Oil company.

25 Q. Mr. Chavez, in your opinion was the reason these

1 wells haven't been produced since 1984 due to the
2 bankruptcy, or would these wells have not been produced
3 regardless of the bankruptcy proceeding?

4 A. I don't know whether the bankruptcy proceedings
5 themselves would have caused the wells to not be produced.
6 My understanding was that if there's a source of revenue,
7 that it would be taken, but I don't know that for a fact.

8 Q. Mr. Chavez, if I can refer you to what has been
9 marked Exhibit Number 4, this is a copy of the notice that
10 was sent to Woosley Oil Company, Citizens State Bank of
11 Cortez and American Employers' Insurance Company; is that
12 correct?

13 A. Yes, it is.

14 Q. And attached at the end, Mr. Examiner, is the
15 affidavit regarding notice in this case.

16 Mr. Chavez, if I can now refer you to what has
17 been marked Exhibit Number 5, the top page -- Is it your
18 understanding that the top page is a copy of the well file
19 card for Woosley Oil Company that is maintained by Diane
20 Richardson in the OCD Santa Fe office?

21 A. Yes, that's what that is.

22 Q. And this card shows, and the accompanying
23 document, show that there's a \$50,000 blanket bond that was
24 placed with American Employers' Insurance Company to cover
25 the wells operated by Woosley Oil Company?

1 A. That's correct.

2 Q. And to the best of your knowledge, is this bond
3 still in effect?

4 A. Yes, it is.

5 Q. Referring back to Exhibit Number 4 and the notice
6 issue, it is -- to the best of your knowledge, have Mr.
7 Woosley, the principal of Woosley Oil Company, the Citizens
8 State Bank of Cortez and the American Employers' Insurance
9 Company all been notified and have acknowledged receipt of
10 the notice of this hearing?

11 A. Yes, they have. The receipts are included, I
12 think, as the last page of this Exhibit Number 4.

13 Q. At this time, Mr. Chavez, do you know of any
14 reason whatsoever why these wells should not be ordered
15 plugged and that the -- if no one is found to plug these
16 wells, that the OCD should not go in and retain a
17 contractor to plug the wells?

18 A. That's correct.

19 MR. CARROLL: Mr. Examiner, I move what have been
20 marked OCD Exhibits 1 through 6 into the record.

21 EXAMINER STOGNER: Any objections?

22 MR. KENDRICK: No objection.

23 EXAMINER STOGNER: Exhibits 1 through 6 will be
24 admitted into evidence at this time.

25 MR. CARROLL: And that's all I have at this time,

1 Mr. Examiner.

2 EXAMINER STOGNER: Mr. Kendrick?

3 EXAMINATION

4 BY MR. KENDRICK:

5 Q. Mr. Chavez, do you have any record that the
6 Citizens State Bank of Cortez operated these seven wells?

7 A. No, I don't.

8 Q. Do you have any information about the status of
9 the leases on which these wells are located?

10 A. No, I don't.

11 Q. So you wouldn't know whether the leases are still
12 current and in whose name they are?

13 A. No, I don't.

14 Q. Is it an OCD requirement when there's a new
15 operator of any given well, that that operator file any
16 paperwork with the OCD?

17 A. Yes, a new operator is required to file a form
18 C-104, and for wells on state and fee lands they're
19 supposed to acquire a plugging bond.

20 Q. Was that done in this case by the Citizens State
21 Bank of Cortez?

22 A. No, it wasn't.

23 Q. If a new operator takes over a well and doesn't
24 file any paperwork, doesn't file a C-104 or obtain a
25 plugging bond, does the OCD enforce its regulations against

1 that operator and either order the operator to file the
2 appropriate form and the plugging bond or fine the operator
3 for failure to do so?

4 A. We -- I don't recall any specific instances where
5 -- off the top of my head where we've done that, but that
6 would be something we would have to do, to determine that
7 there is an actual operator for the well and that that
8 operator is bona fide.

9 And we would ask them, you know, if they're -- If
10 they're actually conducting operating activities, then we
11 would see if they're acting as a bona fide operator and
12 should file appropriate paperwork.

13 Q. And I gather from your records that you and
14 your -- and the entire OCD was unaware of any operation of
15 the seven subject wells after December, 1984?

16 A. That's correct, our field inspections have shown
17 no activity on these properties.

18 MR. KENDRICK: Okay, I have no further questions
19 of Mr. Chavez.

20 EXAMINER STOGNER: Okay. Thank you, Mr.
21 Kendrick.

22 Mr. Woosley, since you are an active part of this
23 case today, I'm going to allow you to ask Mr. Chavez any
24 questions that you may have.

25 And just keep them to questions; if you have any

1 statements or anything like that, we can take that at a
2 later time.

3 EXAMINATION

4 BY MR. WOOSLEY:

5 Q. Mr. Chavez, you mentioned a minute ago about you
6 didn't have the proper records on Well 1 and 2. Which one
7 was it you did not have the records on?

8 A. On the Santa Fe Energy Number 2 we've only got in
9 our well files a permit to drill, an acreage dedication
10 plat, a small plat showing the well location that's
11 attached to that, and a sundry notice dated August 15th,
12 1983, showing that the well was spud and surface pipe was
13 set. We had received no further documentation on that well
14 after that.

15 But our field inspection, the photos indicate
16 that the well was drilled deeper than the surface pipe.
17 There's a wellhead at the location, and an attempt has been
18 made to produce the well.

19 MR. WOOSLEY: I understood you to say State 2. I
20 have no questions.

21 THE WITNESS: I'm sorry, it was the Santa Fe
22 Energy Number 2.

23 MR. WOOSLEY: Yeah, okay. I don't think I have
24 any more questions.

25 EXAMINER STOGNER: Thank you, sir.

EXAMINATION

BY MR. STOGNER:

Q. Mr. Chavez, in looking at Exhibit Number 2, there are several pages and there are also several photographs. I believe that the photographs that Mr. Kendrick and Mr. Woosley have on their desk are photocopies, and there should be a photocopy on your desk. I have the originals here in front of me.

But I do not see any dates on these photos. Do you know about what time the field inspectors may have taken these photographs, how old they are?

A. They would have been taken prior to the submittal of the letter that's the second page. It's Number 2 on the bottom, and it was submitted August 8th of 1995.

Q. So these photos are about a year old?

A. That's correct. And they include more than just a photo of the actual well. They include photos of, for example, Number 3 and -- let's see, get these right -- Number 4 and Number 5. They're unnumbered on my copy here, but they're in between 3 and 6, so if they're Number 4 and 5, show a pit and a tank battery on the state lease for the Well Number 1, 2 and 3.

So there's more than just photos of individual wells in this package.

Q. Do you have any record or recollection of when

1 the last time either you or your field inspectors have
2 inspected these sites?

3 A. No, I know it's been within just the last few
4 months that we had one of the inspectors there, but I don't
5 recall which inspector it was and what the date was.

6 Q. Roughly speaking, I show these locations to be
7 somewhere in the vicinity of ten miles southeast of Chaco
8 Canyon. I'm assuming they're out in a remote area?

9 A. Yes, they are.

10 Q. Are they near a road of any kind?

11 A. Yes, they're actually not too far off of the
12 highway between Cuba and Crown Point. They're just north
13 of that highway.

14 Q. So they are somewhat accessible in some cases to
15 that -- I don't know if you call that a major road, but it
16 is paved, between Cuba and Crown Point?

17 A. That's right.

18 Q. At least part of it is paved.

19 A. It's all paved at this time.

20 EXAMINER STOGNER: Is it now? Okay. It's been a
21 while.

22 Any other questions of Mr. Chavez before I
23 release him at this point?

24 MR. KENDRICK: No further questions.

25 MR. WOOSLEY: I would like just to make a

1 statement.

2 EXAMINER STOGNER: Okay, let's take care of some
3 stuff before we get to that.

4 Okay. If there's no other questions of Mr.
5 Chavez, he may be excused.

6 Do you have anything further at this point?

7 MR. CARROLL: No, I don't, Mr. Examiner.

8 EXAMINER STOGNER: Okay, Mr. Kendrick, since you
9 don't have a witness today, I'll pass it on to Mr. Woosley,
10 if he would like to make a statement, do some presentations
11 or -- I'll turn it over to you at this time.

12 JAMES P. WOOSLEY,
13 the witness herein, after having been first duly sworn upon
14 his oath, testified as follows:

15 DIRECT TESTIMONY

16 MR. WOOSLEY: Just a general statement.

17 First of all, you know, I'm responsible for
18 drilling these and finding them, and we had a lot of mud
19 logger shows up and down the well, so naturally we started
20 on the bottom, working our way up, to test production as we
21 came up. So there's a lot of production behind the casing,
22 and naturally I hate to see them plugged. I certainly
23 can't give you any reason not to plug it.

24 Looking at these pictures, they have certainly
25 deteriorated. My son was in that area, oh, probably three

1 weeks ago, and he told me about this graffiti. And of
2 course that was right beside the road.

3 And he also said that all the electric motors are
4 missing. Just like Frank said, it just has a way of
5 deteriorating. All the electric lines are missing, most of
6 the flow lines are missing. It would be hard to get going
7 again.

8 But I wasn't aware that there wasn't some kind of
9 production reported on that after 1984. The operators
10 operated for the bank up until they became \$50,000 in debt
11 to them, and then they resigned as operators. And from
12 that time on, the bank continued to take funds out of this
13 continuously.

14 It became obvious after they filed the -- filed
15 and got the receivership for these properties -- and
16 they're all mentioned in those documents with the bank --
17 that I would never receive another nickel out of it.

18 And we already had a fairly decent Chapter XI
19 plan in existence, and it was working. It wasn't working
20 like we would like it to, but it was working, and people
21 were getting paid, and the wells were being operated.

22 But when they took the receivership, Woosley Oil
23 never got another penny out of it. I had no other choice
24 but to file VII. And they more or less torpedoed the
25 Chapter XI plan. And in essence, my hands have been tied.

1 It's been aggravating, but there was nothing I could do
2 about it.

3 That's all I have on it.

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. Mr. Woosley, just for the record, you said
7 "they". Who were you referring to?

8 A. "They" would probably be the bank or the
9 receivership.

10 Q. Okay. Do you know who they turned the operations
11 over to?

12 A. Well, to begin with, they turned it over to APA
13 Development, and they operated it until, like I say, until
14 they got so far in debt to them that they couldn't do it
15 anymore.

16 And so they wrote, officially resigning as their
17 operators, and after that I don't know who they got to
18 operate it.

19 Q. Do you know about what date or when the
20 receivership was taken away from -- or was assigned?

21 MR. KENDRICK: Mr. Examiner, I have an exhibit
22 that will shed some light on that.

23 EXAMINER STOGNER: Okay. In that case...

24 Mr. Woosley, in all fairness, I'm going to open
25 up any questions, if Mr. Carroll has any questions of you.

EXAMINATION

BY MR. CARROLL:

Q. Mr. Woosley, you answered the question I was going to ask, who was operating on behalf of the bank? And you said APA?

A. Yes, for a short time. Well, it was -- I can't remember how long it was.

I might have a -- But I do know they had to resign because they just were not getting paid. I'm not really aware of exactly what date that they resigned, but --

MR. CARROLL: Okay.

EXAMINER STOGNER: Mr. Carroll, any other questions?

MR. CARROLL: No.

EXAMINER STOGNER: Mr. Kendrick?

MR. KENDRICK: Mr. Examiner, I'd like to offer American Employers' Exhibit 1 to the witness to identify, and let me give you a copy.

EXAMINER STOGNER: How many -- Do you have additional copies?

MR. KENDRICK: I have numerous copies.

EXAMINER STOGNER: Do you have one for Mr. Chavez?

MR. KENDRICK: Yes.

EXAMINATION

BY MR. KENDRICK:

Q. Mr. Woosley, could you identify this exhibit?

A. Yes, I was actually there when it was signed. The judge asked me if it was okay. I said I don't think I had a choice. So they proceeded.

Q. And I take it this was an action in Colorado state court brought by the Citizens Bank of Cortez?

A. Uh-huh, after the XI.

Q. Okay. So then after -- you were in Chapter XI it was -- and the bank filed this state court action and asked the court to be appointed receiver of some of your properties?

A. All of them.

Q. All your oil and gas properties?

A. (No response)

Q. So are the wells at issue today, the seven wells we're talking about, are they covered by Exhibit B?

A. Exhibit "B", yes, sir.

Q. So in other words, the bank succeeded in having the court appointed as receiver of certain oil and gas properties, including the seven wells at issue today?

A. Yes, sir.

Q. And from that point onward, you had nothing further to do with these wells?

1 A. That's correct.

2 Q. And it is your understanding that the bank
3 operated these wells?

4 A. Yes, it is.

5 Q. And I guess the bank, through a contract
6 operator, including APA Development --

7 A. For a short time, yes.

8 Q. -- for a short time, operated these wells?

9 A. (No response)

10 Q. And the bank -- Do you have any idea what kind of
11 production was taken from these wells?

12 A. No, whatever the normal production was at that
13 time. I'm sure it was maintained up until the APA
14 resigned.

15 Q. Are these primarily gas wells?

16 A. No, sir, they're oil wells.

17 Q. They're oil wells. Was there any state allowable
18 limitations on production from these wells?

19 A. Just per 40. We weren't near that level.

20 Q. Uh-huh. Okay, so about how long did the bank
21 through its agents operate these wells?

22 A. I believe you have a copy of when they decided to
23 abandon the property and abandon -- I don't know how you do
24 that, but they did abandon the property through this same
25 court. However, I was not notified, neither was my

1 attorney. We accidentally found out -- I found out when I
2 was talking to the BLM about other matters.

3 Q. Now, I think, Mr. Woosley, you're referring to
4 OCD Exhibit 3, and attached -- one of the papers that are
5 part of Exhibit 3, I guess, are two attachments to a letter
6 to Mr. Carroll from your attorney, Mr. Fry, and that the
7 second attachment is a pleading or a document in this
8 Colorado state court proceeding, and it's titled Amended
9 Order for Abandonment of Certain Assets, and this was the
10 order you were referring to where the bank --

11 A. Uh-huh.

12 Q. -- abandoned the seven wells that are subject to
13 this proceeding?

14 A. Yes.

15 Q. Okay.

16 A. The date of it --

17 Q. Let's see --

18 A. June, 1995. So they were the operators up until
19 that time.

20 Q. Up until June 28th, 1995?

21 A. Yes, sir.

22 Q. Okay. The property that's subject to this
23 abandonment order is listed as oil and gas leases which
24 relate to land in McKinley County, New Mexico. These
25 leases are more fully described in Attachment B attached

1 hereto.

2 Attachment B is not part of the OCD Exhibit 3,
3 but is it true that the properties listed in Exhibit B to
4 this abandonment order are the same properties that are
5 listed in Exhibit B --

6 A. It would have to be --

7 Q. -- to the appointment, receiver?

8 A. It would have to be true, because that's the only
9 thing that Woosley Oil had in McKinley County.

10 Q. Okay. So it appears that the bank was entitled
11 to operate these seven wells from February 8th, 1989, which
12 is the date of the appointment of the bank as receiver by
13 the Colorado state court, up through June 28th, 1995, which
14 is the date that the court ordered the abandonment of this
15 property back to the lessors?

16 A. Yes, sir.

17 Q. And I think you've said that during this time you
18 had nothing to do with operating these wells?

19 A. None whatsoever.

20 Q. And now that these wells are abandoned, has
21 anybody contacted you to tell you that they're yours again
22 or --

23 A. No, sir.

24 Q. So as far as you know, you have no interest in
25 these wells right now?

1 A. No.

2 MR. KENDRICK: Okay, I have no further questions
3 of Mr. Woosley.

4 EXAMINER STOGNER: Mr. Carroll?

5 FURTHER EXAMINATION

6 BY MR. CARROLL:

7 Q. Mr. Woosley, were these oil and gas properties
8 pledged to the bank as security --

9 A. Yes, sir, they were.

10 Q. -- for a loan?

11 MR. CARROLL: That's all I have.

12 FURTHER EXAMINATION

13 BY EXAMINER STOGNER:

14 Q. Mr. Woosley, on the Santa Fe Energy Well Number
15 2, do you by chance have any additional information on what
16 Mr. Chavez described that he had on that well?

17 A. I think I probably do, yes, sir.

18 Q. Okay. Could I ask you subsequent to this hearing
19 to provide Mr. Chavez --

20 A. Yes, sir, I sure will.

21 EXAMINER STOGNER: I would appreciate that.

22 Thank you.

23 Anything further?

24 MR. CARROLL: Yes, I have a little closing
25 statement, Mr. Examiner.

1 EXAMINER STOGNER: Okay. First of all, Mr.
2 Kendrick, do you have any closing statements at this time?

3 MR. KENDRICK: Yes, I do.

4 EXAMINER STOGNER: Okay, I'm going to allow Mr.
5 Kendrick to go first, then Mr. Carroll.

6 MR. KENDRICK: In closing, American Employers'
7 Insurance Company asks the Examiner to -- if it is the
8 Examiner's decision to order plugging of these wells, to
9 order the Citizens Bank of Cortez to take responsibility to
10 plug these wells.

11 My reason for making this request is that under
12 the State statutes and regulations that this Division
13 operates under, it is the responsibility for anyone
14 operating a well to obtain a bond, and I'm referring to
15 Section 70-2-14 of the Oil and Gas Act, "Any person who
16 operates -- " that's in the present tense " -- oil or gas
17 well, as a condition precedent to producing the well shall
18 furnish a surety bond to the OCD, running to the benefit of
19 the State..." et cetera.

20 So that's a requirement for an operator,
21 anybody -- Any present operator of a well is required by
22 the State Oil and Gas Act to obtain a bond.

23 And then when you go to the OCD Regulations,
24 again Rule 101, the plugging-bond regulation, "Any person
25 who has acquired or proposes to acquire any oil or gas well

1 is required to obtain a bond running to the State of New
2 Mexico." So there is clearly an obligation on the bank to
3 obtain a bond.

4 And the bank had a further obligation when it
5 began operating the wells to file a Form C-104 with the
6 Division, showing a transfer of operator. And I believe
7 there may even be a requirement to have an allowable, to
8 even be able to produce anything out of the well, to become
9 the designated operator in the OCD records.

10 And of course, as a condition to becoming the
11 approved operator, the bank was required to post a bond. I
12 believe that that requirement is in -- I think both Rule
13 101 and Rule 1104.

14 So if the bank had been operating under OCD rules
15 properly, it would have obtained a bond, and American
16 Employers' Insurance Company would have been released from
17 the bond.

18 So we're asking that the Division hold the bank
19 responsible for doing what it should have done and what's
20 required under OCD statute and regulations, that the bank
21 was required to get a bond in order to take over these
22 wells.

23 As the evidence has shown, the bank did operate
24 the wells, the bank never informed OCD of its actions.
25 Because the bank was the operator, had the responsibility

1 to file appropriate paperwork and obtain a bond running to
2 the State of New Mexico, the bank should be held
3 responsible for plugging these wells.

4 That concludes my closing.

5 EXAMINER STOGNER: Thank you, Mr. Kendrick.

6 Mr. Carroll?

7 MR. CARROLL: Mr. Examiner, this case is a lot
8 more simple than it appears. Every operator in the state
9 is required to plug the wells when they're no longer
10 productive.

11 To make sure that this obligation is fulfilled,
12 they're also required to post a bond.

13 In this case, the operator had to declare
14 bankruptcy, and the operator apparently was discharged from
15 all its obligations. That is the purpose of having a bond,
16 in case the operator is unable to fulfill its obligations.

17 We have a bond in place for \$50,000. I ask that
18 the order issued order that the wells be plugged and that
19 the bond be foreclosed upon, and if the bond is
20 insufficient to cover the costs of plugging these wells,
21 that the OCD be allowed to pursue any party that may be
22 held liable for the additional costs of plugging the wells.

23 I would ask the Examiner to not hold up the
24 plugging of these wells based upon some argument that the
25 bank may be held liable. That shouldn't concern the OCD if

1 there's a bond in place. If the insurance company -- If
2 the bank, in fact, is liable the insurance company would
3 have a valid claim against such bank. The order of the OCD
4 would not affect any claim of subrogation by the insurance
5 company against the bank.

6 Off the top of my head, I don't know the exact
7 effect of a receivership. It would seem to me that the
8 bank as a receiver is acting on behalf of the debtor and is
9 trying to satisfy the obligations of the debtor when acting
10 as a receiver.

11 So I ask the Examiner not to complicate things,
12 order that the wells be plugged, that the bond be accessed
13 to plug these wells, and that the OCD have any right to
14 seek additional funds if the \$50,000 bond is insufficient.

15 EXAMINER STOGNER: Thank you, Mr. Carroll.

16 Does anybody else have anything further in Case
17 Number 11,515?

18 Then this matter will be taken under advisement.

19 (Thereupon, these proceedings were concluded at
20 11:30 a.m.)

21 I do hereby certify that the foregoing is
22 a true and correct record of the proceedings in
23 the public hearing of Case No. 11515,
24 heard by me on 13 Sept 1996
25 [Signature], 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 June 18th, 1996.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998