

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey, Division Director
Oil Conservation Division



**FORMAL NOTICE OF VIOLATION
LOSS OF AUTHORITY TO INJECT
VIOLATION OF ADMINISTRATIVE ORDERS**

September 4, 2014

Key Energy Services, LLC.
6 Desta Drive
Ste. 4300
Midland, TX 79705

RE: **ATHA #1, UNIT M, S31-21S-R36E (30-025-04861)**
GRACE CARLSBAD #1, UNIT I, S36-T22S-R26E (30-015-20573)
GP SIMS #2, UNIT A, S32-T21S-R37E (30-025-25525)
TRUCKERS BRINE STATION #2, UNIT K, S33-T18S-R38E (30-025-07551)

Dear Operator:

Please note this letter as notification that Key Energy Services, LLC is in violation of NMOCD Rules as stated and applies to the following:

The Grace Carlsbad #1 is in violation of the following NMOCD Rule.

19.15.5.11 ENFORCEABILITY OF PERMITS AND ADMINISTRATIVE ORDERS:

A person who conducts an activity pursuant to a permit, administrative order or other written authorization or approval from the division shall comply with every term, condition and provision of the permit, administrative order, authorization or approval.

Pursuant to 19.15.5.11, the disposal authority granted, per SWD-1344 has hereby been rescinded. According to and as stated within SWD-1344, "*The disposal authority granted, shall terminate two years after the effective date of this order if the operator has not commenced injection operations into the subject well. One year after the last date of reported disposal into this well, the Division shall consider the well abandoned, and the authority to dispose will terminate ipso facto*".

19.15.25.8 WELLS TO BE PROPERLY ABANDONED:

The operator shall either properly plug and abandon a well or place the well in approved temporary abandonment in accordance with 19.15.25.8 NMAC within 90 days after: a 60 day period following suspension of drilling operations; a determination that a well is no longer usable for beneficial purposes; or a period of one year in which a well has been continuously inactive.

Pursuant to 19.15.25.8, the Grace Carlsbad #1 has been non-productive for 82 months, either Temporary Abandon this well, place well in active status or plug and abandon the well.

SEP 05 2014

The G.P. Sims #2 and Truckers Brine Station #2 are in violation of the following NMOCD RULE.

19.15.25.10(D)(1)(3)(4)(E)(F) PLUGGING

- D. As soon as practical, but no later than one year after the completion of plugging operations, the operator shall:
- (1) Level the location;
 - (3) Remove deadmen and other junk; and
 - (4) Take other measures necessary or required by the division to restore the location to a safe and clean condition.
- (E) The operator shall close all pits and below-grade tanks pursuant to 19.15.17 NMAC.
- (F) Upon completion of plugging and clean up restoration operations as required, the operator shall contact the appropriate division district office to arrange for an inspection of the well and location.

Pursuant to 19.15.25.10 – The G P Sims #2 has been plugged and not released as of 2/4/2009. The Truckers Brine Station #2 has been plugged and not released as of 4/3/2007.

The Atha #1 is in violation of the following NMOCD Rule.

19.15.26.12(C)(1)(2) COMMENCEMENT, DISCONTINUANCE AND ABANDONMENT OF INJECTION OPERATIONS:

C. Abandonment of injection operations.

- (1) Whenever there is a continuous one year period of non-injection into all wells in an injection or storage project or into a salt water disposal well or special purpose injection well, the division shall consider the project or well abandoned, and the authority for injection shall automatically terminate ipso facto.
- (2) For good cause shown, the director may grant an administrative extension or extensions of injection authority as an exception to Paragraph (1) of Subsection C of 19.15.26.12 NMAC, provided that any such extension may be granted only prior to the end of one year or continuous non-injection, or during the term of a previously granted extension.

Please note the following:

Pursuant to 19.15.26.12(C)(1) (NMAC) Termination of Injection is enforced – Atha #1 has been inactive for excess of 12 consecutive months.

Pursuant to 19.15.26.8 (NMAC) Application for Continued use of Injection - Operator will need to re-apply for a new Salt Water Disposal Permit.

Pursuant to 19.15.5.9 (A)(NMAC) Compliance – The Division will only grant a permit if the Operator is in compliance with this rule and eligibility has been met.

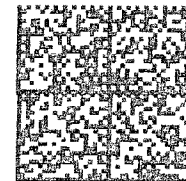
Failure to comply with State Rules and Regulations above constitutes the Loss Of Authority To Inject on the Atha #1.

Sincerely,



Maxey G. Brown
District I Office

EMNRD
OIL CONSERVATION DIVISION
1625 N FRENCH DRIVE
HOBBS NM 88240



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