

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

**CASE NO. 12770
ORDER NO. R-11709**

IN THE MATTER OF THE HEARING CALLED BY THE NEW MEXICO OIL CONSERVATION DIVISION ("DIVISION") ON ITS OWN MOTION FOR AN ORDER: (I) REQUIRING SIERRA BLANCA OPERATING COMPANY TO PROPERLY PLUG AND ABANDON NINETY (90) CERTAIN WELLS IN LEA COUNTY, NEW MEXICO; OR (II) AUTHORIZING THE DIVISION TO PLUG AND ABANDON THESE WELLS IN DEFAULT OF COMPLIANCE BY SIERRA BLANCA OPERATING COMPANY OR ITS SURETIES, AND ORDERING A FORFEITURE OF APPLICABLE PLUGGING BONDS AND CASH COLLATERAL COVERING THESE WELLS.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 15, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 9th day of January, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Sierra Blanca Operating Company ("Sierra Blanca") is the current owner and operator of ninety (90) certain wells located in Lea County, New Mexico, as further described in Exhibit "A" attached hereto and made a part hereof.

(3) Evidence was presented showing that Sierra Blanca has posted a surety (blanket plugging) bond in the amount of \$50,000.00 for all of its operations in the State of New Mexico in compliance with Section 70-2-14, NMSA 1978 and New Mexico Oil Conservation Division ("Division") Rule 101, which bond is conditioned upon compliance with the statutes of the State of New Mexico and the rules of the Division with respect to the proper plugging and abandonment of the wells operated by Sierra Blanca. Underwriters Indemnity Company of Houston, Texas, is the surety on this bond (Bond No. B05485), executed September 8, 1985, as amended by Rider executed March 5, 1998, to cover its obligations under its present name.

(4) In addition Sierra Blanca, under its former name, Secondary Oil Corporation, Inc. ("Secondary"), previously posted a surety (blanket plugging) bond in the amount of \$50,000.00 to cover all of its operations in the State of New Mexico, for the same purpose. International Fidelity Insurance Company of Little Rock, Arkansas, was the surety on this bond (Bond No. 000953560), issued on May 31, 1996. This bond was terminated effective April 24, 1998, as to any property or wells acquired, started or drilled by Secondary after that date, but remains in effect as to any property or wells acquired, started or drilled by Secondary prior to that date.

(5) Inasmuch as Sierra Blanca Operating Company is one and the same corporate entity as Secondary Oil Corporation, Inc., the new name being solely a result of a change of corporate name, the bond issued to Secondary covers the liabilities of Sierra Blanca without the necessity of an amendment for a name change only.

(6) Evidence indicates further that Secondary executed an "Assignment of Cash Collateral Deposit," assigning to the Division funds on deposit with Sunwest Bank of Roswell, N.A. (n/k/a Bank of America) in account No. 5700782237, to further secure the obligations of Secondary to plug and abandon its wells in the State of New Mexico in accordance with the statutes and rules herein cited.

(7) The purpose of a plugging bond is to assure that an operator will properly plug and abandon its well or wells when not capable of commercial production or no longer utilized for some other beneficial purpose.

(8) At this time, the Division seeks an order directing the operator to plug these wells in accordance with a Division-approved plugging program and, if the operator fails to do so: **(i)** authorizing the Division to proceed to plug and abandon these wells; **(ii)** authorizing the Division to collect on the bonds furnished by Sierra Blanca and Secondary and to draw upon the cash collateral deposit assigned to the Division by Secondary to the extent necessary to fully reimburse the Division for its expenses incurred in accomplishing the foregoing; **(iii)** authorizing the Division to take necessary and appropriate measures to recover from Sierra Blanca or Secondary any costs of plugging the subject wells and of restoring and remediation of the well-sites, in excess of the amount of the bonds and collateral, if any; and **(iv)** granting such other relief as the Division deems just and proper under the circumstances, including the imposition of fines on the operator for failure to comply with this order.

(9) Neither the operator nor the sureties appeared at the hearing.

(10) These wells have not produced hydrocarbons or have otherwise been inactive for more than one year, and no permit for temporary abandonment has been

requested by the operator or approved by the Division.

(11) By virtue of the failure to use the subject wells for beneficial purposes or to have approved temporary abandonment permits, the subject wells are presumed to have been abandoned by Sierra Blanca.

(12) The current conditions of these wells are such that if action is not taken to properly plug and abandon these wells, waste will probably occur, correlative rights will also be violated, livestock and wildlife may be subject to harmful contaminants, and fresh waters may be in danger of contamination.

(13) In order to prevent waste and to adequately protect correlative rights and the environment, the wells should be plugged and abandoned by Sierra Blanca, in accordance with a program approved by the supervisor of the Division's Hobbs district office, on or before March 1, 2002.

(14) Should Sierra Blanca not meet this March 1, 2002 plugging obligation, the Division Director should then be authorized to take such action as is deemed necessary to foreclose on the subject plugging bonds and recover from the operator the plugging cost incurred by the Division.

IT IS THEREFORE ORDERED THAT:

(1) Sierra Blanca Operating Company ("Sierra Blanca) is hereby ordered to plug and abandon the ninety (90) wells located in Lea County, New Mexico, as further described in Exhibit "A" attached hereto and made a part hereof, on or before March 1, 2002.

(2) Prior to plugging and abandoning these ninety wells, Sierra Blanca shall obtain from the supervisor of the Division's district office in Hobbs an approved plugging program and shall notify the Hobbs District Office of the date and time this work is to commence whereupon the Division may witness such work.

(3) Should Sierra Blanca fail or refuse to carry out such provisions in accordance with the terms of this order, the Division shall then take such actions as are necessary to have these wells properly plugged and abandoned. Further, the Division shall then be authorized to take such action as is deemed necessary to: (i) collect on the \$50,000.00 blanket plugging bond issued to Sierra Blanca by Underwriters Indemnity Company of Houston, Texas, as surety (Bond No. B05485), executed September 8, 1985, as amended by Rider executed March 5, 1998; (ii) collect on the \$50,000.00 blanket plugging bond issued to Sierra Blanca, under its former name, Secondary Oil Corporation, Inc., by International Fidelity Insurance Company of Little Rock, Arkansas, as surety (Bond No. 000953560), executed on May 31, 1996; (iii) draw upon the cash collateral deposit assigned

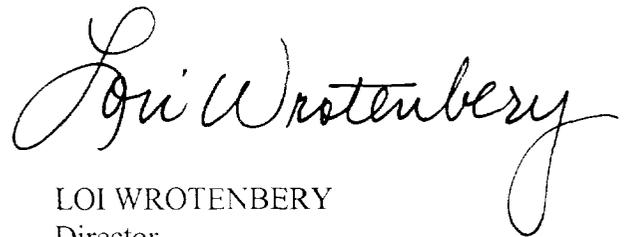
to the Division by Secondary on deposit with Sunwest Bank of Roswell, N.A. (n/k/a Bank of America) in account No. 5700782237; and (iv) recover from Sierra Blanca any costs of plugging the subject wells and of restoring and remediating the well sites in excess of the amount of the bonds and collateral.

(4) Failure to comply with the provisions of this order shall subject Sierra Blanca to a fine of \$1,000.00 per day per well until such work is completed (see Section 70-2-31, NMSA 1978).

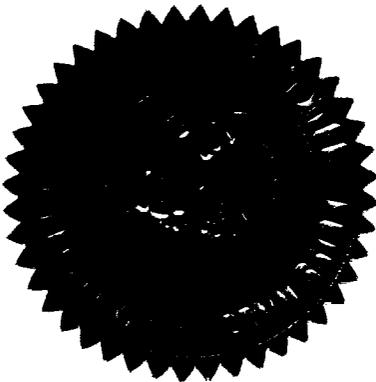
(5) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



LOI WROTENBERY
Director



SEAL

EXHIBIT "A"
CASE NO. 12770
DIVISION ORDER NO. R-11709

Ninety wells owned and operated by Sierra Blanca Operating Company to be plugged and abandoned, all located in Lea County, New Mexico.

Further, all land descriptions herein refer to the New Mexico Principal Meridian ("NMPM")

API WELL No.	Well Name	Well No.	Lot No./UL	Section	Township	N/S	Range	W/E
30-025-00238	NORTH CAPROCK QUEEN UNIT	001	A	7	13	S	32	E
30-025-00234	NORTH CAPROCK QUEEN UNIT	002	2/B	6	13	S	32	E
30-025-24595	NORTH CAPROCK QUEEN UNIT	002Y	B	7	13	S	32	E
30-025-00213	NORTH CAPROCK QUEEN UNIT	003	3/C	5	13	S	32	E
30-025-00223	NORTH CAPROCK QUEEN UNIT	003	3/C	6	13	S	32	E
30-025-00253	NORTH CAPROCK QUEEN UNIT	003	C	7	13	S	32	E
30-025-00264	NORTH CAPROCK QUEEN UNIT	004	D	8	13	S	32	E
30-025-24596	NORTH CAPROCK QUEEN UNIT	004Y	D	8	13	S	32	E
30-025-00214	NORTH CAPROCK QUEEN UNIT	005	E	5	13	S	32	E
30-025-00257	NORTH CAPROCK QUEEN UNIT	005	E	8	13	S	32	E
30-025-00208	NORTH CAPROCK QUEEN UNIT	006	F	32	12	S	32	E
30-025-00239	NORTH CAPROCK QUEEN UNIT	006	F	7	13	S	32	E
30-025-00259	NORTH CAPROCK QUEEN UNIT	006	F	8	13	S	32	E
30-025-00222	NORTH CAPROCK QUEEN UNIT	006F	F	6	13	S	32	E
30-025-00205	NORTH CAPROCK QUEEN UNIT	007	G	32	12	S	32	E
30-025-00233	NORTH CAPROCK QUEEN UNIT	007	G	6	13	S	32	E
30-025-00236	NORTH CAPROCK QUEEN UNIT	007	G	7	13	S	32	E
30-025-00245	NORTH CAPROCK QUEEN UNIT	008	H	7	13	S	32	E
30-025-00235	NORTH CAPROCK QUEEN UNIT	009	I	6	13	S	32	E
30-025-00254	NORTH CAPROCK QUEEN UNIT	009	I	7	13	S	32	E
30-025-00202	NORTH CAPROCK QUEEN UNIT	010	J	32	12	S	32	E
30-025-24597	NORTH CAPROCK QUEEN UNIT	010Y	J	7	13	S	32	E

API WELL No.	Well Name	Well No.	Lot No./UL	Section	Township	N/S	Range	W/E
30-025-00230	NORTH CAPROCK QUEEN UNIT	011	K	6	13	S	32	E
30-025-00263	NORTH CAPROCK QUEEN UNIT	011	K	8	13	S	32	E
30-025-00244	NORTH CAPROCK QUEEN UNIT	011	K	7	13	S	32	E
30-025-00209	NORTH CAPROCK QUEEN UNIT	012	L	32	12	S	32	E
30-025-00216	NORTH CAPROCK QUEEN UNIT	012	L	5	13	S	32	E
30-025-00229	NORTH CAPROCK QUEEN UNIT	012	6/L	6	13	S	32	E
30-025-00260	NORTH CAPROCK QUEEN UNIT	012	L	8	13	S	32	E
30-025-00200	NORTH CAPROCK QUEEN UNIT	013	M	32	12	S	32	E
30-025-00261	NORTH CAPROCK QUEEN UNIT	013	M	8	13	S	32	E
30-025-00206	NORTH CAPROCK QUEEN UNIT	014	N	32	12	S	32	E
30-025-00232	NORTH CAPROCK QUEEN UNIT	014	N	6	13	S	32	E
30-025-00262	NORTH CAPROCK QUEEN UNIT	014	N	8	13	S	32	E
30-025-00227	NORTH CAPROCK QUEEN UNIT	015	O	6	13	S	32	E
30-025-00179	NORTH CAPROCK QUEEN UNIT	016	P	30	12	S	32	E
30-025-00131	NORTHEAST CAPROCK QUEEN UNIT	001	L	16	12	S	32	E
30-025-00133	NORTHEAST CAPROCK QUEEN UNIT	002	K	16	12	S	32	E
30-025-00135	NORTHEAST CAPROCK QUEEN UNIT	003	J	16	12	S	32	E
30-025-00129	NORTHEAST CAPROCK QUEEN UNIT	004	I	16	12	S	32	E
30-025-00124	NORTHEAST CAPROCK QUEEN UNIT	005	L	15	12	S	32	E
30-025-00138	NORTHEAST CAPROCK QUEEN UNIT	006	P	17	12	S	32	E
30-025-00132	NORTHEAST CAPROCK QUEEN UNIT	007	M	16	12	S	32	E
30-025-00134	NORTHEAST CAPROCK QUEEN UNIT	008	N	16	12	S	32	E
30-025-00136	NORTHEAST CAPROCK QUEEN UNIT	009	O	16	12	S	32	E
30-025-00137	NORTHEAST CAPROCK QUEEN UNIT	010	P	16	12	S	32	E
30-025-00125	NORTHEAST CAPROCK QUEEN UNIT	011	O	15	12	S	32	E
30-025-00126	NORTHEAST CAPROCK QUEEN UNIT	012	P	15	12	S	32	E
30-025-00120	NORTHEAST CAPROCK QUEEN UNIT	013	M	14	12	S	32	E

API WELL No.	Well Name	Well No.	Lot No./UL	Section	Township	N/S	Range	W/E
30-025-00121	NORTHEAST CAPROCK QUEEN UNIT	014	N	14	12	S	32	E
30-025-00148	NORTHEAST CAPROCK QUEEN UNIT	015	B	20	12	S	32	E
30-025-00147	NORTHEAST CAPROCK QUEEN UNIT	016	A	20	12	S	32	E
30-025-00151	NORTHEAST CAPROCK QUEEN UNIT	017	D	21	12	S	32	E
30-025-00153	NORTHEAST CAPROCK QUEEN UNIT	018	C	21	12	S	32	E
30-025-00155	NORTHEAST CAPROCK QUEEN UNIT	019	B	21	12	S	32	E
30-025-00156	NORTHEAST CAPROCK QUEEN UNIT	020	A	21	12	S	32	E
30-025-00161	NORTHEAST CAPROCK QUEEN UNIT	021	D	22	12	S	32	E
30-025-00162	NORTHEAST CAPROCK QUEEN UNIT	022	C	22	12	S	32	E
30-025-00160	NORTHEAST CAPROCK QUEEN UNIT	023	B	22	12	S	32	E
30-025-00167	NORTHEAST CAPROCK QUEEN UNIT	025	D	23	12	S	32	E
30-025-00168	NORTHEAST CAPROCK QUEEN UNIT	026	C	23	12	S	32	E
30-025-00145	NORTHEAST CAPROCK QUEEN UNIT	027	G	20	12	S	32	E
30-025-00149	NORTHEAST CAPROCK QUEEN UNIT	028	H	20	12	S	32	E
30-025-00152	NORTHEAST CAPROCK QUEEN UNIT	029	E	21	12	S	32	E
30-025-00154	NORTHEAST CAPROCK QUEEN UNIT	030	F	21	12	S	32	E
30-025-00163	NORTHEAST CAPROCK QUEEN UNIT	031	H	22	12	S	32	E
30-025-00165	NORTHEAST CAPROCK QUEEN UNIT	032	E	23	12	S	32	E
30-025-00169	NORTHEAST CAPROCK QUEEN UNIT	033	F	23	12	S	32	E
30-025-00150	NORTHEAST CAPROCK QUEEN UNIT	034	L	21	12	S	32	E
30-025-28581	NORTHEAST CAPROCK QUEEN UNIT	035Y	N	16	12	S	32	E
30-025-08073	YOUNG UNIT	002	D	16	18	S	32	E
30-025-08078	YOUNG UNIT	003	A	17	18	S	32	E
30-025-08084	YOUNG UNIT	005	G	17	18	S	32	E
30-025-08077	YOUNG UNIT	006	H	17	18	S	32	E
30-025-08072	YOUNG UNIT	007	E	16	18	S	32	E
30-025-08083	YOUNG UNIT	009	I	17	18	S	32	E

API WELL No.	Well Name	Well No.	Lot No./UL	Section	Township	N/S	Range	W/E
30-025-08081	YOUNG UNIT	010	K	17	18	S	32	E
30-025-08079	YOUNG UNIT	011	N	17	18	S	32	E
30-025-08096	YOUNG UNIT	012	D	20	18	S	32	E
30-025-08092	YOUNG UNIT	013	C	20	18	S	32	E
30-025-00862	YOUNG UNIT	014	B	20	18	S	32	E
30-025-08097	YOUNG UNIT	015	C	20	18	S	32	E
30-025-08093	YOUNG UNIT	016	E	20	18	S	32	E
30-025-00860	YOUNG UNIT	018	G	20	18	S	32	E
30-025-08094	YOUNG UNIT	019	H	20	18	S	32	E
30-025-08101	YOUNG UNIT	021	J	20	18	S	32	E
30-025-08099	YOUNG UNIT	022	K	20	18	S	32	E
30-025-08100	YOUNG UNIT	024	N	20	18	S	32	E
30-025-08091	YOUNG UNIT	025	O	20	18	S	32	E
30-025-00875	YOUNG UNIT	030	C	29	18	S	32	E