Cano Petro of NM, Inc. Violations of the Oil and Gas Act

OCC CASES 16040 AND 16359

OCD COMPLIANCE AND ENFORCEMENT BUREAU EXHIBIT 1

Witness List:

OCD Compliance and Enforcement Manager Daniel Sanchez – Mr. Sanchez is the Compliance & Enforcement Manager for the NMOCD and has served in that capacity since 11/2004. He oversees the OCD's district offices, is the Program Director for the EPA's UIC Program, and works with the BLM on co-jurisdictional issues with various operators.

OCD Environmental Bureau Chief Jim Griswold – Mr. Griswold is the OCD Environmental Bureau Chief. He has more than ten years' experience at the OCD, including four years at his current position, in addition to being professionally involved in the characterization and remediation of soil and groundwater contamination since 1989, and the oil and gas industry in general since 1981.

State Land Office Units/Commingling Manager Marilyn Gruebel – Ms. Gruebel's duties at the State Land Office include evaluating unit plans of development to ensure that the units are being operated in a manner that is continuously in the best interests of the State Land Office Trust. Duties also include approval and monitoring of commingling applications to ensure that the State Trust beneficiaries receive just compensation and that the state-owned minerals are properly developed.

Cano Petro of NM Inc.

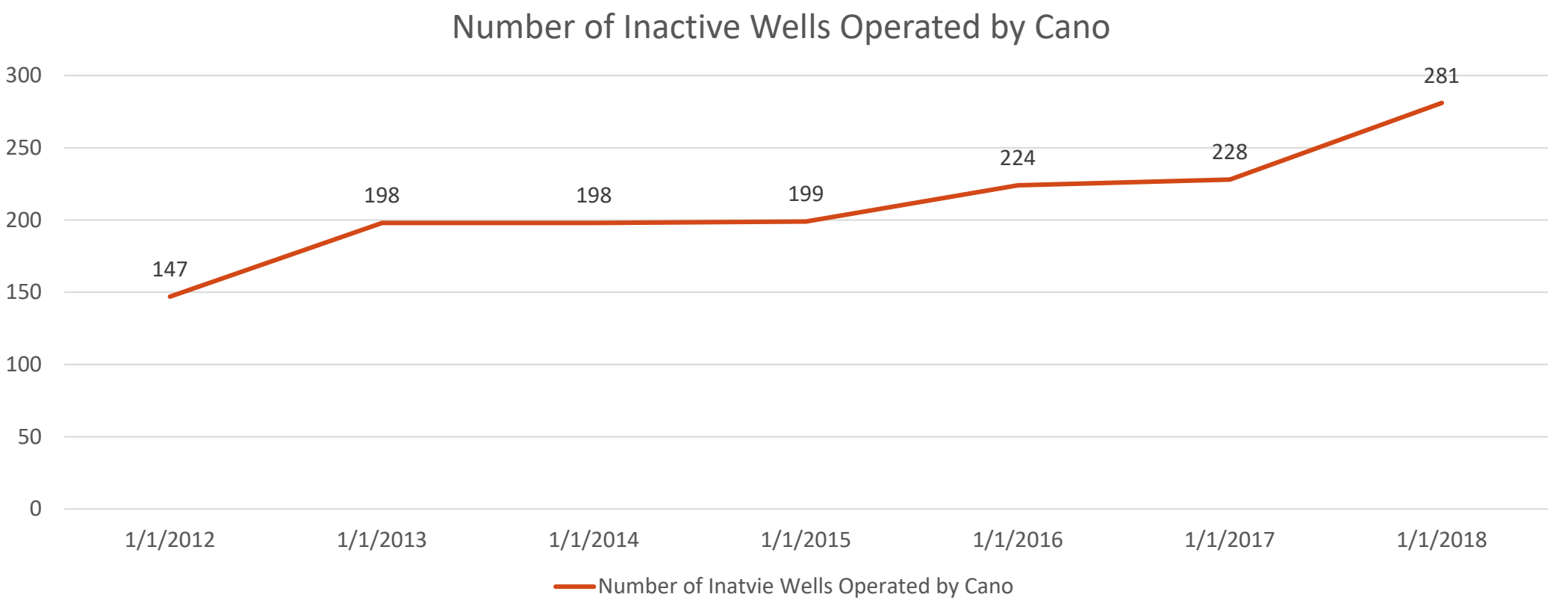
ORGID No. 248802

On July 9th, OCD visited 21 Cano well sites:

- Only one of the 21 wells had a meter.
- Between April 5 and today, inactive well total has increased from 269, to 291 today.
- Three wells are plugged but not released.
- Seven wells never showed any production.

Wells	Chaves	Roosevelt	Total
Total No. of Wells	296	27	323
Active Federal	3	0	3
Active State	5	0	5
Active Fee	24	0	24
Total Active	32	1	33
Inactive Federal	157	24	181
Inactive State	22	2	24
Inactive Fee	86	0	86
Total Inactive	265	26	291

Graph of Inactive Wells from 2012 to present



Cano Annual Production (2007-2017)

Year	Oil (bbls)	Gas (MCF)	Water Prod (bbls)	Water Inj. (bbls)
2007	15,794	41,940	0	174,060
2008	81,643	117,787	370,551	1,096,376
2009	104,506	161,273	4,214,034	4,286,341
2010	72,010	92,070	3,454,809	4,346,434
2011	60,230	101,642	5,263,364	4,999,675
2012	47,383	93,467	7,879,213	4,712,074
2013	54,203	95,174	7,955,573	5,772,929
2014	55,284	71,303	5,210,646	4,926,252
2015	37,716	3,797	4,019,537	4,012,478
2016	13,592	25	1,456,650	1,471,966
2017	10,833	13	1,057,532	1,056,991

OCC Order R-9210

When adopting Rule 201 (now currently 19.15.25.8 NMAC) in 1990, the Commission found that:

"(5) The proposed rules on abandonment will prevent migration of fluids, prevent waste, protect correlative rights and protect fresh waters."

Financial Assurance Violations

Cano currently needs acceptable financial assurance for 14 wells, totaling $120,200.00.

- Pending rule change will increase amount of bonding required.
- Between original application and *De Novo* hearing, number of wells requiring bonding increased from 4 to 14.

Releases of Oil and Produced Water

A check of OCD's database provided a total of ten reported releases involving CanoPetro.

Three of these reported releases occurred at the same location; the Cato #6 Tank Battery.

Only two of the ten reported releases have a closed status within the OCD database.

Unresolved releases are potentially in violation of either 19.15.29 NMAC or 19.15.30 NMAC.

Portions of the Cato Field were visited by OCD and BLM staff on July 9th of this year.

The Cato #6 battery was part of that limited inspection.

Cato San Andres Unit Battery #6

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Despite the presence of a synthetic liner beneath portions of the tank battery, the apparent history and inattention to best management practices leads the Environmental Bureau to the following recommendations:

- Drain and properly dispose of all liquids from the tanks.
- Remove and relocate the tanks, piping, and other infrastructure.
- Remove and properly dispose all liner(s).
- Investigate the vadose zone beneath the battery for adsorbed contamination by crude oil and produced water.
    - If the soils beneath the battery are contaminated, excavate and backfill with clean soils.
    - If soil contamination has impacted groundwater, perform a hydrogeologic investigation of the extents of that contamination and develop an appropriate abatement program.

Pit Rule Violations

Eight open pits were identified using Google Earth imagery. Four of those pits were inspected during the July field event.

Unclosed temporary pits are a violation of 19.15.17 NMAC.

Unclosed Pits

Unclosed Pits

Unclosed Pits

Pursuant to OCD's "pit rule" (19.15.17 NMAC), these pits must be closed using the following procedure:

- Remove and properly dispose pit contents.
- Remove and properly dispose pit liners.
- Sample and analyze soils beneath the pit for concentrations of adsorbed chloride, total petroleum hydrocarbons, benzene, toluene, ethylbenzene, and total xylenes.
    - If the soils are found to be contaminated in excess of the pertinent standards, the extents of the soil contamination must be determined and excavate soils found to be environmentally.
- Properly backfill the pit area, even if the soils are not adversely impacted.
    - If soil contamination has impacted groundwater, perform a hydrogeologic investigation of the extents of that contamination so an appropriate abatement program can be developed.

Surface Waste Storage

Two soil piles were identified using Google Earth imagery. Both were inspected during the July field event.

An unpermitted surface waste management facility is in violation of 19.15.36 NMAC.

Contaminated Soil Piles

Contaminated Soil Piles

Unpermitted or constructed surface waste management facilities must be dealt with as follows:

- Remove and properly dispose contaminated soils.
- Remove and properly dispose liners (if any).
- Investigate the vadose zone beneath the liners for adsorbed contamination by crude oil and produced water.
    - If the soils are found to be contaminated in excess of the pertinent standards, the extents of the soil contamination must be determined and excavate soils found to be environmentally.
    - If soil contamination has impacted groundwater, perform a hydrogeologic investigation of the extents of that contamination so an appropriate abatement program can be developed.