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

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION TO AMEND 19.15.5 NMAC; STATEWIDE.

CASE NO. 20895

NMOGA's PRE-HEARING STATEMENT

This Pre-Hearing Statement is submitted on behalf of the New Mexico Oil and Gas Association ("NMOGA"), through undersigned counsel, as required by NMAC 19.15.3.11.B.

NMOGA's PROPOSED MODIFICATIONS

NMOGA's members have reviewed the changes proposed by the Division under its Application filed in this matter. NMOGA submits the modifications in redline/strikeout format that are highlighted in yellow on NMOGA Exhibit A attached hereto (entitled "NMOGA's Proposed Modifications.") The reasons for NMOGA's modifications are:

1. NMOGA's modifications to proposed 19.15.5.10.C(1)(d), the first sentence of 19.15.5.10.D, and subparts 19.15.5.10.E(2)(b) and (d) are necessary to conform with Section 70-2-31 of the Oil and Gas Act. Section 70-2-31(B) states the purpose of a notice of violation ("NOV") is to identify the nature of the violation, provide a time frame for compliance, provide notice of an informal review process, and to provide notice of "potential sanctions" if the violation is not cured. Section 70-2-31(C) provides that sanctions and civil penalties are not addressed until a formal hearing where an Examiner first determines whether the violation should be upheld and then determines "whether any sanction, including civil penalties, shall be assessed." Section 70-2-13(D) further notes that penalties assessed by the division or commission "after hearing" cannot exceed \$200,000. The statute does not authorize the

imposition of sanctions by a NOV or where the NOV is cured. Rather, the NOV is the process by which "potential" sanctions are identified in the event the NOV is not timely cured or is upheld following a hearing.

- 2. NMOGA's modification to the second sentence of subpart 19.15.5.10.D clarifies that the imposition of daily penalties cannot extend any earlier than the date the that the Division demonstrates that the respondent was aware or should have been aware of the violation issued pursuant to 70-2-31(B). This is necessary to conform with Section 70-2-31 and due process.
- 3. NMOGA's modification to the second sentence of subpart 19.15.5.10.E(2)(a) ensures that the respondent has sufficient information about the violation and the proposed sanction to file an Answer under subpart E(2)(b).
- 4. NMOGA's modifications to the last sentence of 19.15.5.10.E(2)(c) ensure that the Hearing Officer chosen by the division is not involved in and prejudiced by informal efforts to resolve the NOV prior to the request for a hearing.
- 5. NMOGA's modification to the first sentence of 19.15.5.10.E(2)(e) conform with the normal 7-day time frame provided for the filing of prehearings statements in all other Division and Commission hearings. The proposed 15-days period prior to the hearing is too early to have exhibits prepared and witnesses identified.
- 6. NMOGA's modifications to 19.15.5.10.E(2)(e)(ii) conforms with the adjudicatory and rulemaking provisions, as well as the standard practice in all other Division and Commission hearings. Requiring a "full narrative" of each witness's testimony prior to hearing will increase the legal costs and is unnecessary since each witness will be examined orally at the Examiner hearing [see proposed 19.15.5.10.E(3)(b)] and each party has a de novo appeal right to the Commission.

- 7. Changing "may" to "shall" in **19.15.5.10.E(4)(b)** is necessary to conform with Section 70-2-13 of the Oil and Gas Act and to ensure that the director has enough information to render a decision following hearing.
- 8. Removal of the third sentenced in **19.15.5.10.F** is necessary because there is no authority in Section 70-2-13 of the Oil and Gas Act for the Commission on de novo review to have the matter heard by only a single Commissioner or by a second hearing examiner. There are also no proposed provisions addressing how this second examiner hearing would be conducted or fit within the de novo review by the full Commission.
- 9. NMOGA has proposed the insertion of **19.15.5.10.G** (**Rehearings**) to bring the proceedings within Section 70-2-25(B) of the Oil and Gas Act, which provides for an appeal to district court under Section 39-3-1.1 for any "party of record to the rehearing proceeding...." Without a rehearing proceeding, the Oil and Gas Act does not contain the specific statutory reference required by Section 39-3-1.1(A) to proceed to district court.
- 10. NMOGA's modifications to proposed 19.15.5.10.G (Payment of civil penalty) are necessary to address an appeal to district court. Payment of a civil penalty before a final order by an appellate court is not warranted and will require the Division to account separately for penalties paid under an appeal from those that are not subject to an appeal. Currently, there are no provisions for a suspense account or other means to address penalties paid but required to be refunded by an appellate court.

NMOGA'S PROPOSED EVIDENCE

Since NMOGA's proposed modifications are not technical in nature, NMOGA does not anticipate the need to present witnesses or evidence in support of its proposed modifications.

PROCEDURAL MATTERS

None at this time.

Respectfully submitted:

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CERTIFICATE OF SERVICE

I hereby certify that on December 17, 2019, I served a copy of the foregoing document to the following counsel of record via Electronic Mail to:

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NMOGA EXHBIIT A

NMOGA's Proposed Modifications (Highlighted)

19.15.5.3 STATUTORY AUTHORITY: 19.15.5 NMAC is adopted pursuant to the Oil and Gas Act, Section 70-2-6, Section 70-2-11, [and] Section 70-2-12 and Section 70-2-31 NMSA 1978.

[19.15.5.3 NMAC – N, 12/1/2008, A, X/XX/XXXX]

19.15.5.8 ENFORCEMENT OF STATUTES AND RULES: The division is charged with the duty and obligation of enforcing the state's rules and statutes relating to the conservation of oil and gas, including the prevention of waste and the protection of correlative rights, and [including] the protection of public health and the environment. An owner or operator shall obtain information pertaining to the regulation of oil and gas before beginning operations.

[19.15.5.8 NMAC - Rp, 19.15.1.12 NMAC, 12/1/2008, A, X/XX/XXXX]

19.15.5.9 COMPLIANCE:

- **A.** An operator is in compliance with Subsection A of 19.15.5.9 NMAC if the operator:
- (1) currently meets the financial assurance requirements of 19.15.8 NMAC;
- (2) is not subject to a division or commission order, issued after notice and hearing, finding the operator to be in violation of an order requiring corrective action;
- (3) does not have a penalty assessment that is unpaid more than [70] 30 days after issuance of the order assessing the penalty; and
- (4) has no more than the following number of wells out of compliance with 19.15.25.8 NMAC that are not subject to an agreed compliance or final order setting a schedule for bringing the wells into compliance with 19.15.25.8 NMAC and imposing sanctions if the schedule is not met:
- (a) two wells or fifty percent of the wells the operator operates, whichever is less, if the operator operates 100 wells or less;
- **(b)** five wells if the operator operates between 101 and 500 wells;
- (c) seven wells if the operator operates between 501 and 1000 wells; and
 - (d) 10 wells if the operator operates more than 1000 wells.
- [B. The division shall notify an operator on a monthly basis when, according to records on file with the division, a well on the inactive well list described in Subsection F of 19.15.5.9 NMAC shows no production or injection

for the past 12 months by making such information available on the division's website. Further, at least 60 days prior to commencing an enforcement action against an operator for a violation of 19.15.5.9 NMAC, the division shall notify the operator by first class mail to the address provided to the division pursuant to Subsection C of 19.15.9.8 NMAC.

- C. The division shall make available on its website and update weekly the status of operators' financial assurance 19.15.8 NMAC requires, according to division records.
- **D.** Orders requiring corrective action.
- (1) The division shall make available on its website division or commission orders, issued after notice and hearing, finding an operator to be in violation of an order requiring corrective action.
- (2) An operator who contests an order finding it to be in violation of an order requiring corrective action may appeal and may seek a stay of the order. An order that is stayed pending appeal does not affect an operator's compliance with Subsection A of 19.15.5.9 NMAC.
- (3) An operator who completes the corrective action the order requires may file a motion with the order's issuer to declare the order satisfied. The division or commission, as applicable, may grant the motion without hearing, or may set the matter for hearing.
- E. Penalty assessments.
- (1) The division shall make available on its website penalty assessments assessed under the Oil and Gas Act over the last 12 months and the date the operator paid them, according to division records.
- (2) Any order that is stayed pending appeal does not affect an operator's compliance with Subsection A of 19.15.5.9 NMAC.
- F] B. Inactive wells.
- (1) The division shall make available on its website, and update daily, an "inactive well list" listing each well, by operator, that according to division records:
- (a) shows no production or injection for past 15 months; [(a)] (b) does not have its well bore plugged in accordance with 19.15.25.9 NMAC through 19.15.25.11 NMAC;
- [(b)] (c) is not in approved temporary abandonment in accordance with 19.15.25.12 NMAC through 19.15.25.14 NMAC; and
- [(e)] (d) is not subject to an agreed compliance or <u>final</u> order setting a schedule for bringing the well into compliance with 19.15.25.8 NMAC [and imposing sanctions if the operator does not meet the schedule].
- (2) [For purposes of 19.15.5.9 NMAC, the listing of a well on the division's inactive well list as a] A well inactive for more than [one year plus 90]

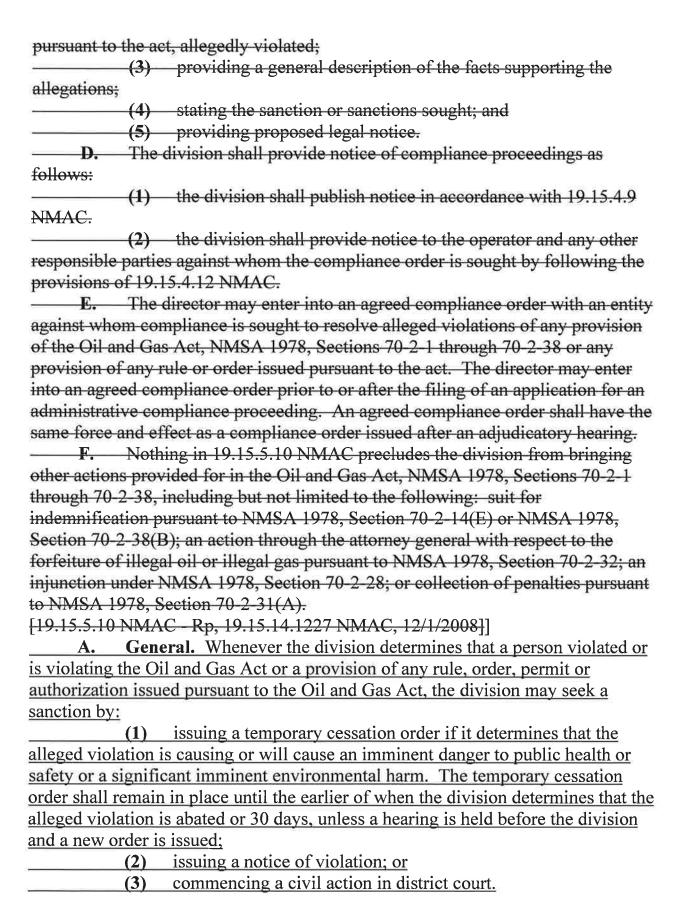
days] 15 months creates a rebuttable presumption that the well is out of compliance with 19.15.25.8 NMAC.

C. Financial assurance. The division shall make available on its website and update weekly the status of operators' financial assurance that 19.15.8 NMAC requires, according to division records.

[19.15.5.9 NMAC - Rp, 19.15.1.40 NMAC, 12/1/2008; A, 11/30/2016, A, xx/xx/xxxx]

19.15.5.10 [COMPLIANCE PROCEEDINGS:] ENFORCEMENT:

- [A. The provisions in 19.15.4 NMAC applicable to adjudicatory proceedings shall apply to compliance proceedings unless altered or amended by 19.15.5.10 NMAC.
- B. A compliance proceeding is an adjudicatory proceeding in which the division seeks an order imposing sanctions for violation of a provision of the Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38 or a provision of a rule or order issued pursuant to the act. Such sanctions may include but are not limited to:
- (1) requiring compliance with a provision of the Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38 or a provision of a rule or order issued pursuant to the act;
- (2) assessment of civil penalties pursuant to NMSA 1978, Section 70-2-31(A); Subsection A of Section 70-2-31 NMSA 1978;
- (3) corrective action including but not limited to abatement or remediation of contamination and removal of surface equipment;
- (4) plugging and abandonment of a well and restoration and remediation of the well location, and authority for the division to forfeit the applicable financial assurance if the well is not plugged and abandoned and the location restored and remediated;
- (5) denial, cancellation or suspension of a permit;
- (6) denial, cancellation or suspension of authorization to transport;
- (7) shutting in a well or wells.
- C. The division initiates an administrative compliance proceeding by filing a written application with the division clerk:
- (1) identifying the operator and any other responsible parties against whom the order is sought; including the surety if the division seeks an order allowing forfeiture of a surety bond;
- (2) identifying the provision of the Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, or the provision of the rule or order issued



B.	Sanctions. The division may seek one or more of the following
sanctions:	
0	1) a civil penalty;
x=	2) modification, suspension, cancellation or termination of a
permit or aut	norization;
	3) plugging and abandonment of a well;
	4) remediation and restoration of a well location and associated
facilitie	es, including the
	removal of surface and subsurface equipment and other
<u>1</u>	naterials;
	5) remediation and restoration of a location affected by a spill or
release;	
	6) forfeiture of financial assurance;
	7) shutting in a well or wells; and
	8) any other remedy authorized by law.
2	Notice of violation.
1.7.6-74	1) A notice of violation issued by the division shall state with
reasonable sp	70 PM
	(a) the identity of the alleged violator;
vialation inc	(b) the nature, factual and legal basis of the alleged
	uding the provision of the Oil and Gas Act or rule, order, permit or
aumorization	allegedly violated; (c) whether compliance is required immediately or within a
specified time	3 17
specified time	(d) the sanction(s) available for the alleged violation and the
sanction(s) nr	oposed by the division if the notice of violation is not cured;
<u>sanction(s) pr</u>	(e) the availability of a process for informal review and
resolution of	the alleged violation;
	(f) a statement that if the notice of violation is not informally
resolved with	in 30 days of service, the division will hold a hearing; and
	(g) the date of the hearing, which shall be no later than 90
days after the	date of the notice of violation.
	2) The division shall serve the notice of violation on the alleged
violator by ce	rtified mail.
	3) If during the informal review the division and the alleged
violator agree	to resolve the alleged violation, they shall incorporate their
	o a stipulated final order signed by both parties. The stipulated final
	te that the alleged violator admits the division's jurisdiction to file
	violation, consents to the specified relief, including the civil penalty,
if any, and wa	gives the alleged violator's right of review by the commission.

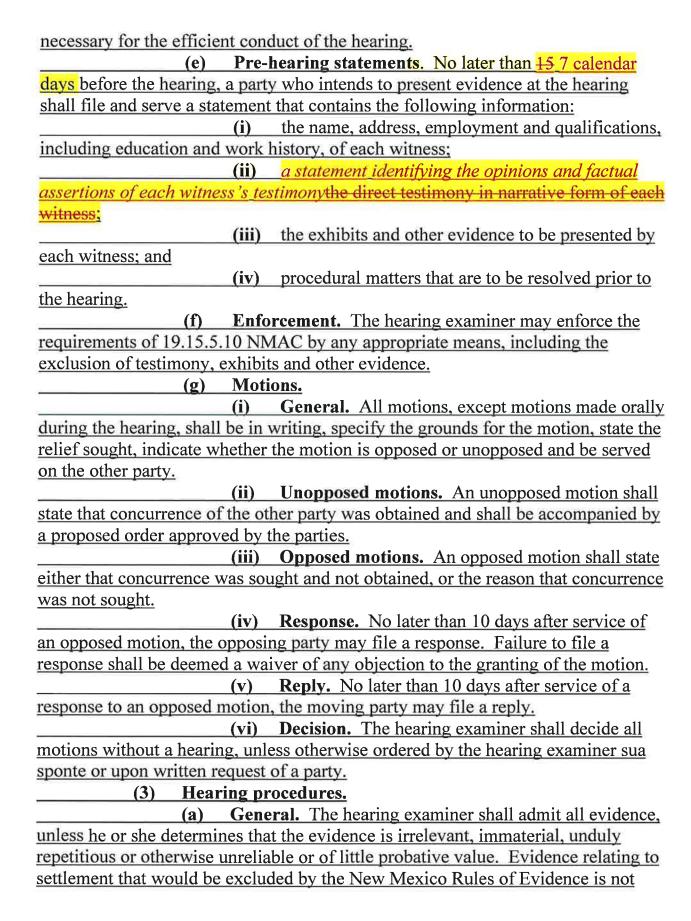
- (4) If the division and the alleged violator fail to enter a stipulated final order within 30 days of service, the division shall hold a hearing at the division's principal office.
- D. Civil penalties. The division shall calculate a proposed civil penalty for each alleged violation in the notice of violation. Any civil penalties assessed by the Division after hearing The calculation shall account for the seriousness of the violation, good faith efforts to comply with the applicable requirement, history of noncompliance under the Oil and Gas Act and other relevant factors. The civil penalty assessed by the division shall commence no earlier than the date that the Division demonstrates that the respondent was aware or should have been aware of the violation and shall not exceed \$2,500 per day of noncompliance for each alleged violation, unless the alleged violation presents a risk either to the health or safety of the public or of causing significant environmental harm, or unless the noncompliance continues beyond the time specified in the notice of violation or stipulated final order, whereupon the civil penalty may not exceed \$10,000 per day of noncompliance for each alleged violation, provided that the civil penalty assessed by the division for an alleged violation shall not exceed \$200,000.
- E. Adjudicatory procedures. These adjudicatory procedures shall apply to hearings on temporary cessation orders and notices of violation before the division, and the provisions of 19.15.4 NMAC shall not apply.
 - (1) General provisions.
- (a) Designation of parties. The parties shall be the division and the person served with a notice of violation or order, referred to herein as "respondent".
- (b) Representation. Respondent may appear and participate in a hearing either pro se or through counsel, provided that a collective entity, including a corporation, partnership, unincorporated association, political subdivision or governmental agency shall appear only through counsel or a duly authorized officer or member.
- (c) Rule applicability. In the absence of a specific provision in this section, the hearing examiner may apply the New Mexico Rules of Civil Procedure and Evidence.
- (d) Computation of time. In computing any period of time under 19.15.5.10 NMAC the day of the event from which the designated period begins to run shall not be included, and the last day of the computed period shall be included, unless it is a Saturday, Sunday or legal state holiday, in which case the time is extended until the next day which is not a Saturday, Sunday or legal state holiday. Whenever a party must act within a prescribed period after service, and service is by first class mail only, three days is added to the prescribed period.
 - (e) Extensions of time. The hearing examiner may grant an

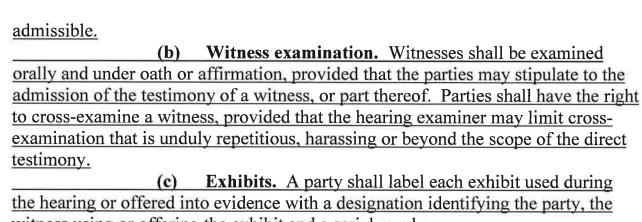
extension of time to file a document or continue a hearing upon timely motion upon consent of the parties, or for good cause shown after consideration of prejudice to the other party and undue delay to the hearing.

- (f) Filing of documents. A party shall file the original of each document and serve a copy on the other party, accompanied by a certificate of service identifying the method and address used to complete service.
- (g) Service of documents. A party shall serve each document on the other party or its counsel, as applicable, by personal service or first class mail, or by electronical mail if the parties agree.
- (h) Form of documents. Unless otherwise ordered, all documents, except exhibits, shall be on 8 1/2 x 11-inch white paper, shall contain the caption of the notice of violation or temporary cessation order on the first page and shall be signed by the party or its counsel, as applicable.

(2) Pre-hearing procedures.

- (a) **Docketing.** At the expiration of the 30 day period for informal resolution of a notice of violation, when a party appeals a final order under Subsection E of 19.15.5.10 NMAC, or when the division gives notice that it intends to extend a temporary cessation order, the division shall docket the notice of violation or order *for hearing, identity the factual basis for the alleged violation and proposed sanctions*, and serve a notice of docketing on respondent.
- **(b)** Answer. No later than 10 days after service of the notice of docketing, respondent shall file an answer stating its objection, if any, and the factual and legal basis for such objection, to each alleged violation and *proposed* sanction, including each element of the assessed civil penalty, in the notice of violation or order.
- (c) Hearing examiner. The hearing examiner shall have the authority to take all measures necessary to conduct a fair, impartial and efficient adjudication of issues, and to maintain order and avoid undue delay, including the authority to conduct pre-hearing conferences and hearings, rule on procedural and evidentiary motions, govern the examination of witnesses and the admission of evidence, issue orders and prepare a recommended decision. After the initiation and before the conclusion of a proceeding under this section, After the issuance of the notice of violation, the hearing examiner shall not discuss ex parte the merits of the proceeding with the division or the respondent.
- hold a pre-hearing conference. The hearing examiner may hold a pre-hearing conference to narrow the issues, eliminate or resolve preliminary matters and encourage settlement, and may issue a pre-hearing order on procedural and evidentiary matters, including a schedule for the filing of motions and testimony, stipulations regarding alleged violations and requested relief, including *proposed* civil penalties or elements thereof, and any other matter





- **Exhibits.** A party shall label each exhibit used during the hearing or offered into evidence with a designation identifying the party, the witness using or offering the exhibit and a serial number.
- (d) Burden of persuasion. The division has the burden of going forward with the evidence and of proving by a preponderance of the evidence the facts relied upon to show the alleged violation occurred and that the proposed civil penalty is appropriate. Following the establishment of a prima facie case, respondent shall have the burden of going forward with any adverse evidence or defense to the allegations.

Post-hearing procedures. **(4)**

- **Transcript.** The hearing shall be transcribed verbatim. (a) Respondent may order a copy of the transcript from the reporter at its own expense.
- **(b) Recommended decision.** The director shall may request that the hearing examiner prepare a recommended decision.
- **Final order.** The director shall file a final order addressing the material issues of fact and law and may assess a sanction for each alleged violation, which shall be served on the division and the respondent.
- **Commission review.** No later than 30 days after the director serves F. the final order, a party may file a notice of appeal with the commission and shall serve the notice of appeal on the other party. The commission shall schedule a hearing on the appeal and notify the parties of the date and time of the hearing. The commission may appoint a hearing examiner, who may be a member of the commission. The commission shall conduct a de novo review, provided however, that the parties may stipulate to the issues to be heard and to the admission of all or part of the record before the division. The commission shall conduct the hearing in accordance with the adjudicatory procedures in Paragraph (1), Subparagraphs (c) through (g) of Paragraph (2). Paragraph (3) and Subparagraph (a) of Paragraph (4) of Subsection E of 19.15.5.10 NMAC,
- **Rehearings.** Within 20 days after entry of a commission order a party of record whom the order adversely affects may file with the commission clerk an application for rehearing on a matter the order determined, setting forth the respect in which the party believes the order is erroneous. The commission

shall grant or refuse the application in whole or in part within 10 business days after the party files it, and the commission's failure to act on the application within such period shall be deemed a refusal and a final disposition of such application. In the event the commission grants the rehearing, the commission may enter a new order after rehearing as the circumstances may require.

- F.G. Payment of civil penalty. No later than 30 days after the director serves the final order, respondent shall pay the full amount of the civil penalty assessed in the final order, provided however that if respondent files a notice of appeal to the commission or a district court, no later than 30 days after the issuance of commission files a final order or the appeal is withdrawn, respondent shall pay the full amount of the civil penalty assessed in the final order.
- G.H. Resolution after commencement of hearing. If the parties agree to resolve a notice of violation at any time after the commencement of a hearing, they shall file a stipulated final order signed by both parties. The stipulated final order shall state that respondent admits the division's jurisdiction to file the notice of violation, consents to the specified relief, including the civil penalty, if any, and waives respondent's right of review by the commission or the court, as applicable.
- H. I. Publication. On or about October 1 of each year, the division shall publish a list identifying the temporary cessation orders and notices of violation issued during the preceding year, along with the civil penalty paid, if any.
- I.J. Reservation. Nothing in 19.15.5.10 NMAC precludes the division from bringing any other action and seeking any relief allowed by the Oil and Gas Act.

[19.15.5.10 NMAC - Rp, 19.15.14.1227 NMAC, 12/1/2008, A, xx/xx/xxxx]

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