

**MINUTES OF THE MEETING
OF THE OIL CONSERVATION COMMISSION
HELD ON FEBRUARY 23, 2012**

The Oil Conservation Commission met at 9 o'clock a.m. on February 23, 2012, in Porter Hall, Wendell Chino Building, 1220 S. St. Francis Drive, Santa Fe, New Mexico.

PRESENT: **SCOTT DAWSON, Member**
 ROBERT BALCH, Member
 JAMI BAILEY, Chair

Bill Brancard served as the Commission counsel.

The meeting was called to order by Chairman Bailey. A reference to the "December 8, 2012" Commission meeting was changed to "2011" in the minutes of the January 23, 2012 Commission meeting, and they were approved and adopted.

Reopened Case 14055, the application of C & D Management Company to reopen Case No. 14055, etc., Eddy County, New Mexico, was called. Appearances were made by James Bruce for C & D Management Company (C & D) and Sonny Swazo for the Oil Conservation Division (OCD). Mr. Bruce made an opening statement explaining his presentation of the case and Mr. Swazo made an opening statement explaining the OCD's position in the case.

Mr. Bruce's witness was Martina Castle who testified by telephone from Las Vegas, Nevada. Ms. Castle explained she is the sole owner and sole shareholder in C & D. She testified that she received the property from Tom Kiser, the previous owner, who passed away and left it to her in his will. She explained that, prior to his death, Mr. Kiser was unable to make decisions due to an illness, and that was the reason for his non-compliance. She stated she wishes to comply with the provisions of the order and has talked with Daniel Sanchez and Sonny Swazo to see what is necessary for compliance. She explained she has hired an accountant to report on all wells owned by C & D and a pumper to manage the wells. She said that additional bonding will be submitted to the OCD for one well, but C & D needs additional time to bring the wells into compliance. She said that in order to pay the OCD the \$160,000 it is owed for wells already plugged, she needs to be able to produce the wells and transport and sell the product. She asked that the authority to transport be reinstated and that a new schedule for bringing the wells into compliance be granted. She informed the Commission that 50% of the profits from the sale of the production will be paid directly to the OCD. Mr. Swazo, Commissioner Balch, and Chairman Bailey cross-examined the witness, and she was excused.

Mr. Swazo's witness was Daniel Sanchez, Compliance and Enforcement Manager with the OCD in Santa Fe, New Mexico. He said that the OCD has no objection to a new schedule for bringing wells into compliance since the new owner has shown that she is willing to comply with the provisions of the original order. He said that if the Commission agrees to a new schedule for bringing wells into compliance, six months should be an adequate amount of time. He stated that no wells are currently scheduled to be plugged, and the OCD is willing to hold off on plugging. He said the OCD has no objection to reinstating C & D's authority to transport. Commissioner Dawson and Commissioner Balch cross-examined the witness, and he was excused.

After a motion by Commissioner Dawson and a second to the motion by Commissioner Balch, the Commission voted unanimously to close the meeting pursuant to NMSA 1978,

Section 10-15-1-H, to deliberate on the case. After a motion by Commissioner Dawson and a second by Commissioner Balch, the Commission voted unanimously to return the meeting back into open session. Chairman Bailey announced that Reopened Case 14055 was the only matter discussed during the closed session. Counsel Brancard explained that the Commission unanimously decided that the prior orders of the Commission should be stayed for one year; the OCD should hold off on plugging any C & D wells during this time; the inactive wells should be brought back into compliance; the operator should provide the necessary financial assurance; the operator should make significant progress in paying the OCD for the wells the OCD has already plugged; and C & D's authority to transport should be reinstated. The attorneys were asked to provide proposed findings of fact and conclusions of law to the Commission counsel in three weeks (March 15, 2012).

Reopened Case 14575, the motion of Targa Midstream Services LLC to reopen the case to offer proof of completion and results of pressure testing, was called. Appearances were made by William Scott for Targa Midstream Services LLC (Targa) and Gabrielle Gerholt for the Oil Conservation Division (OCD). Mr. Scott made an opening statement explaining the background of the case and summarizing his presentation of the case at this hearing.

Mr. Scott's witness was Alberto Gutierrez, a registered petroleum geologist and President of Geolex Inc. in Albuquerque, New Mexico. He discussed a report he prepared on the subject acid gas injection well detailing the design, drilling and completion data, and the geology and hydrogeology. He said that the purpose of this hearing is to demonstrate to the Commission that Targa has complied with the provisions of the order authorizing the subject well. He said that Targa is asking that the injection be authorized for 30 years; that the maximum injection pressure be increased; and that the perforation of an additional interval be authorized. He listed all of the work done on the well to satisfy the requirements of the order including, among other things, obtaining Division approval of a H₂S Contingency Plan, correcting prior C-115s, reporting of open-hole logging and current production, and completing step-rate tests and MITs. He discussed the stratigraphy in the Eunice Gas Plant SWD Well No. 1 and presented a summary of the reservoir testing and characterization. He said it is his opinion that the performing of MITs every year as requested by the OCD instead of every five years is not unreasonable but unnecessary. Ms. Gerholt, Commissioner Dawson, Commissioner Balch, and Chairman Bailey cross-examined the witness, and he was excused.

Ms. Gerholt made an opening statement explaining what OCD is seeking with its entry of appearance in this matter. Her witness was William V. Jones, Petroleum Engineer with the OCD in Santa Fe. He said he reviewed the materials submitted by Targa on the subject well and gave his interpretation of the log data from resistivity, porosity, micro-scanner logs and tracer surveys. He discussed the variability's of different assumptions regarding injection rates. He recommended that Targa be required to do a certain amount of testing in the injection well within five years to determine which zone is taking the fluid; that MITs be conducted every year; and that a contingency plan be in place in case something happens to the well. He recommended that the district offices and Targa meet to determine the procedure if a mechanical problem exists in the well. He stated that if an additional interval is perforated, the plume might go further in a faster amount of time. He said that Targa's proposed increase in the injection pressure is acceptable to the OCD. Mr. Scott, Commissioner Dawson, and Commissioner Balch cross-examined the witness, and he was excused.

Mr. Gutierrez was recalled as a rebuttal witness to address the OCD's concerns about a new zone being perforated which could be the preferential zone for accepting the injectate. Commissioner Dawson cross-examined the witness, and he was excused.

After a motion by Commissioner Dawson and a second to the motion by Commissioner Balch, the Commission voted unanimously to close the session pursuant to NMSA 1978, Section 10-15-1-H, to deliberate on the case. After a motion by Commissioner Dawson and a second by Commissioner Balch, the Commission voted unanimously to return the meeting back into open session. Chairman Bailey announced that the only matter discussed during the closed session was Reopened Case 14575. Counsel Brancard announced that the Commission determined that Targa has presented information as required by the order and unanimously agreed to issue a long-term permit for 30 years with a 10-year review period; the injection pressure shall be increased to 1600 psi; OCD-requested testing shall occur every 10 years; and MITs shall be annual. The increase to the perforation zone is denied based on insufficient data at this time. The Commission agreed that a contingency plan should be developed with Targa and the district offices to decide when to notify the OCD and producers of potential concerns. Attorneys were requested to submit draft orders to the Commission counsel in three weeks (March 15, 2012).

The OCD's petition to rehear Case 14744 for a rule amendment of 19.15.14.8 was called. Appearances were made by Gabrielle Gerholt for the OCD and Michael Feldewert for the New Mexico Oil and Gas Association (NMOGA). Ms. Gerholt explained that, due to an inadvertent error, the new rule requires an operator to receive an approved permit for permission to drill (APD) prior to drilling, deepening or re-entering a well. She said that the OCD did not mean for an operator to obtain an APD from the Bureau of Land Management every time a well is plugged back or recompleted, and that is the reason for the petition for rehearing. Mr. Feldewert said that NMOGA supports the amendment as proposed by the OCD because it will eliminate a burden on the operators and remove a lot of confusion. Ms. Gerholt pointed out that Rule 19.15.14.8 NMAC has been published in the New Mexico Register. Counsel Brancard explained that once a rule is published in the Register, the rule is set, and the only way the Commission can modify it is to go back through the rulemaking process. Ms. Gerholt requested that the OCD's petition for rehearing of this matter be considered as a petition for a new rulemaking. Commission counsel will draft an order for the Chair's signature to set the matter for hearing.

Counsel Brancard explained that the Oil and Gas Accountability Project (OGAP) filed a petition for writ of prohibition with the District Court, which was granted by a judge on February 14, 2012, ordering the Commission to cease all proceedings related to the amendment of the Pit Rule, as applied for by the New Mexico Oil and Gas Association (NMOGA) in Case 14784 and by the Independent Petroleum Association of New Mexico (IPANM) in Case 14785, and set for hearing on April 16, 2012. NMOGA had previously filed a motion to put the current appeals of the 2008 and 2009 rulemakings on hold, and it was granted by a different judge. The writ of prohibition provides for a District Court hearing to be held on June 12, 2012 to show cause why the Commission should not refrain from hearing the two cases. The OCC filed a motion with the Court to expedite this hearing so it can be held in advance of the April hearing date. Michael Feldewert, on behalf of NMOGA, asked the Commission to continue to plan on hearing the case in April. Counsel Brancard said that three separate requests have been filed with the Court requesting a hearing, and no response has been received yet.

The meeting was adjourned at 2:50 p.m.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JAMI BAILEY, Chair