

**MINUTES OF THE MEETING
HELD BY THE OIL CONSERVATION COMMISSION
ON DECEMBER 20 and 21, 2012**

The Oil Conservation Commission met at 9 o'clock a.m. on December 20, 2012, in Porter Hall, Wendell Chino Building, 1220 S. St. Francis Drive, Santa Fe, New Mexico.

PRESENT: **TERRY WARNELL, Member**
 ROBERT BALCH, Member
 JAMI BAILEY, Chair

Bill Brancard served as the Commission counsel.

The meeting was called to order by Chair Bailey.

After a motion by Commissioner Balch, the minutes of the November 15, 2012 meeting were approved and adopted by the majority. After a motion by Commissioner Warnell the minutes of the December 6, 2012 meeting were approved and adopted by the majority. After a motion by Commissioner Balch the amended deliberations of Cases 14784 and 14785 held on September 24-27, October 1 and October 4-5, 2012 Commission meetings were approved and adopted by the majority.

After a motion by Commissioner Balch, an order dismissing the portion of the Independent Petroleum Association of New Mexico's petition in Case No. 14785 that seeks an amendment to NMAC 19.15.39(8)(B) was approved and adopted by the majority.

Case 13589, Application of DCP Midstream LP to Re-Open Case No. 13589 to Amend Order No. *No. R-12546 for the Limited Purpose of Authorizing a Second Acid Gas Injection Well*, was called. An appearance was made by Adam Rankin for DCP Midstream LP (DCP), Gabrielle Gerholt for the Oil Conservation Division (OCD), and Richard Alvidrez for Smith Farm and Ranch and Andy and Naomi Smith. Mr. Rankin requested that the Oil Conservation Commission (Commission) allow for the late filing of Exhibit 7, containing additional water samples requested by the Oil Conservation Division (Division). With no objections, the acceptance of the late filing was unanimously approved.

Mr. Rankin made an opening statement representing that DCP's proposed Linam Acid Gas Injection #2 well (AGI #2), if approved, would improve reliability for the Linam Ranch gas processing facility.

Ms. Gerholt made an opening statement expressing no objections to the proposed AGI #2, but requesting the Commission to consider stipulations if the second well were approved. The conditions include annual Mechanical Integrity Testing (MIT), daily monitoring and monthly reporting to the Division, and requiring operator to establish parameters for immediate notification.

Mr. Alvidrez made an opening statement expressing objections to the approval of the AGI #2, based on the H₂S problems experienced with the AGI #1. He expressed concerns reflected in the OCD's records showing a tubing leak and the release of toxic

gas into the atmosphere. He said the public was unable to speak to DCP's staff at the provided emergency numbers during an alarm situation.

Mr. Rankin's first witness was Alberto A. Gutierrez, President of Geolex, Inc. in Albuquerque, New Mexico. He provided a review of the operational history of the AGI #1 stating it was the third AGI well drilled in New Mexico. He stated the well began injecting TAG in December 2009. DCP discovered a potential communication with the annular space in late 2011. OCD approved additional monitoring and reporting requirements. The well was shut down during repairs. He provided a summary of the AGI #1 workover completed by DCP in May 2012. He stated the workover was conducted in April through May 2012 under direct OCD oversight. After replacing the tubing and running of a casing integrity log, the well was tested and successfully passed the MIT. He stated that a second packer will have to be installed in the AGI #1 to address the compromised casing. He said that the proposed backup well, AGI #2, would prevent future operational shut downs and provided justification for the second AGI well. He stated the redundant well provides backup to the AGI #1 which can allow for continual safe operations. He told of the current injection limitations and requirements on the AGI #1 and stated no changes are proposed in the parameters for the AGI #2. He provided a summary of the geologic setting and injection zone. He said the robust design improvements in the AGI #2 well include temperature control and corrosion inhibitors. He explained that the design improvements are more protective of nearby production and water wells because of the corrosion resistance material in the tubing and the fiber optic line placed downhole to detect any potential problem. He stated that the 4 strings of casing were cemented to surface. He summarized the environmental and operational benefits of the approval of the AGI #2. He explained the need to return H₂S to its geologic reservoir and gathering of well data. Ms. Gerholt, Mr. Alvidrez, Commissioner Warnell, Commissioner Balch and Chair Bailey cross-examined the witness, and he was excused.

The next witness was Roberto Torrico, Senior Project Manager of DCP in Denver, Colorado. He explained the operational lessons learned from the AGI #1 well. He stated that DCP has made operational changes and equipment upgrades for better temperature control to prevent corrosion in tubing. He explained that DCP has a pressure control system in place. He stated that the AGI #1 well is operated within existing maximum pressure limits and, if approved, the AGI #2 well will follow the same operational protocol. Mr. Alvidrez and Commissioner Balch cross-examined the witness, and he was excused.

The next witness was Steve Boatenhamer, Linam Ranch Gas Plant Manager of DCP, Hobbs, New Mexico. He summarized the reasons on the need for a second injection well and DCP's discussions and coordination with the OCD regarding the planning for a second injection well. He stated a second well would mitigate the situation of having producing operators shutting in until DCP plant operations are resumed. He added a second well would reduce the need to flare, reducing emissions and increasing safety. Ms. Gerholt, Mr. Alvidrez, Commissioner Warnell, Commissioner Balch and Chair Bailey cross-examined the witness, and he was excused.

The meeting was recessed at 4:43 pm.

The meeting was reconvened at 9:00 am on December 21, 2012.

Ms. Gerholt's first witness was William V. Jones, Engineer, of the OCD, Santa Fe, New Mexico. He summarized his 2007 review of the AGI #1 application and his 2012 review of the proposed construction and operations of the AGI #2. He summarized his paper

review of the proposed application. He stated the application met the notice requirements and the C-108 rules set to protect correlative rights, fresh water, and prevent waste. Mr. Rankin, Mr. Alvidrez, Commissioner Warnell and Commissioner Balch cross-examined the witness, and he was excused.

The next witness was Elidio L. Gonzalez, Hobbs District Manager, of the OCD. He explained his review of the proposed construction and operation of the AGI #2. He discussed the similarities and differences between acid gas wells and enhanced recovery wells. He told of his involvement with the MIT on the AGI #1. He explained the safety factors, cost effectiveness and reduced downhole damage if the proposed AGI #2 well were approved. He told of the call from Mr. Smith in July 2012 regarding Mr. Smiths' discovery of H₂S in the water coming from the kitchen sink at his trailer house. He stated that Mr. Smith's complaint was referred to Geoffrey Leking, Environmental Specialist of the Oil Conservation Division for handling. Mr. Rankin, Mr. Alvidrez, Commissioner Warnell, Commissioner Balch and Chair Bailey cross-examined the witness, and he was excused.

Mr. Alvidrez' first witness was Geoffrey Leking, Environmental Specialist, of the OCD, Hobbs, New Mexico, who testified by telephone conference call. He provided a review of his testing and observations of the water coming from the sink of the trailer house on the Smiths' property. He told of his observation of Mr. Smiths' H₂S hand-held monitor attached from the faucet to the mouth of a large jar in the sink. He explained that after a short time of observing cloudy water from the faucet the meter began to go up and he began to smell H₂S. He told of his efforts to identify all potential sources including sampling of surrounding pits and ponds. Mr. Rankin, Ms. Gerholt, Commissioner Balch and Chair Bailey cross-examined the witness, and he was excused.

The next witness was Celey Keene, Laboratory Director, of Cardinal Laboratories, Hobbs New Mexico who testified by telephone conference call. She told of her contacts with the Smiths. She explained the testing of samples provided to her by the Smiths. She explained the results outlined in the written reports stating the water was analyzed for sulfate reducing bacteria. Mr. Rankin, Commissioner Balch and Chair Bailey cross-examined the witness, and she was excused.

The next witness was Randy Smith, Landowner of Smith Farm and Ranch, Hobbs, New Mexico. Mr. Smith told of his personal experiences with the operations of the AGI#1. He stated that on numerous occasions he heard knocking compressors, sirens and saw flashing lights. He summarized his discovery of H₂S in one of his water wells and explained the process of bleaching for bacteria. He asked the OCD for assistance in determining the source of H₂S in his water well. Mr. Rankin, Commissioner Warnell, Commissioner Balch and Chair Bailey cross-examined the witness, and he was excused.

The next witness was Wiley Scott Brake, Environmentalist, of Xcel Energy Maddox Power Plant, Hobbs, New Mexico who testified by telephone conference call. He stated that the old Maddox playa lake next to the power plant was decommissioned and completely dry other than occasional rain fall. He provided the description of the Xcel pond that is currently used as a waste water pond. He stated that the pond contains a poly lining material fused at the seams. He explained that monitoring of the location shows no sign of leakage. He told of his weekly inspections of the Smiths property and his use of H₂S detection equipment at the site. Ms. Gerholt, Mr. Rankin and Commissioner Balch cross-examined the witness, and he was excused.

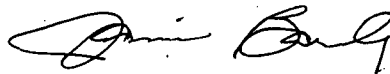
The next witness was Naomi Smith, Landowner of Smith Farm and Ranch, Hobbs, New Mexico. Mrs. Smith explained the process she followed in obtaining and delivering water samples from the trailer house sink to Cardinal Laboratories. She told of the physical conditions during the transportation of the water samples. She described the situation that led to a call to DPC. She stated that after hearing the alarms she had difficulties reaching DPC personnel at the phone numbers provided in the contingency plan notebook. Mr. Rankin cross-examined the witness, and she was excused.

Mr. Alberto Gutierrez was presented as a rebuttal witness for DCP. He testified to the distance, both vertically and horizontally, between the disposal zone for the AGI#1 well and the Smiths' well. The wells are about 4000 feet apart. After 3 years of injection, the estimated radius of the injection is .09 miles or 479 feet. The injection zone is over 8000 feet below the surface; the Smiths' well has a depth of about 100 feet.

Mr. Rankin, Ms. Gerholt and Mr. Alvidrez made closing statements. After a motion by Commissioner Balch and a second to the motion by Commissioner Warnell, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1-H, to deliberate on the case. The Commission voted to go back into open session. Chair Bailey announced that the only matter discussed during the closed session was Case 13589. She said a decision had been reached by the Commission, and Counsel Brancard summarized the unanimous decision of the Commission. Chair Bailey asked Mr. Rankin to prepare a draft order and submit it to the Commission counsel so an order can be signed at the February 2013 Commission meeting.

The meeting was adjourned at 6:12 p.m.

**STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION**



JAMI BAILEY, Chair