



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Betty Rivera
Cabinet Secretary

October 4, 2002

Lori Wrotenbery
Director
Oil Conservation Division

Gladstone Resources, Inc.
c/o Corporation Service Company
121 E. Palace
Santa Fe, NM 87501

Gladstone Resources, Inc.
1285 Avenue of the Americas
35th Floor
New York, NY 10019-6028

VIA CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Re: Case No. 12946; Application of the New Mexico Oil Conservation Division for an Order Requiring Gladstone Resources, Inc. to Properly Plug Two (2) Wells, Imposing Civil Penalties for Failure to Comply, Authorizing the Division to Plug Said Wells and Ordering a Forfeiture of Applicable Plugging Security; Lea County, New Mexico

Ladies and Gentlemen:

The attached letter and applications were mailed to you at the last address shown in the record of OCD on September 25, 2002, and were returned to the Division.

Should you have any questions, please call me at (505)-476-3450.

Very truly yours,

David K. Brooks
Assistant General Counsel



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Betty Rivera
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

September 24, 2002

Gladstone Resources, Inc.
c/o Oil Reports
P.O.Box 755
Hobbs, NM 88241

VIA CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Re: Case No. 12946: Application of the New Mexico Oil Conservation Division for an Order Requiring Gladstone Resources, Inc. to Properly Plug Two (2) Wells, Imposing Civil Penalties for Failure to Comply, Authorizing the Division to Plug Said Wells and Ordering a Forfeiture of Applicable Plugging Security; Lea County, New Mexico

Ladies and Gentlemen:

You are hereby notified that the New Mexico Oil Conservation Division has filed the referenced Application, a copy of which is enclosed herewith, seeking an Order requiring you to properly plug and abandon two (2) wells located in Lea County, New Mexico, specifically identified in said application.

A hearing on this application will take place before a Division hearing officer on Thursday, October 24, 2002, at 8:15 a.m., in the Division Hearing Room, First Floor, 1220 South St. Francis Drive in Santa Fe, New Mexico. At that hearing you will have an opportunity to show cause why an order should not be entered as requested in the Application.

You posted single-well bonds in the total amount of \$12,500, secured by deposits at Lea County State Bank, to secure your obligation to plug these wells. This security will be forfeited if an order is entered as requested in the attached application and you fail to comply therewith.

Inquiries concerning this application may be directed to the undersigned in the Santa Fe office of the Division at (505)-476-3450.

Very truly yours,

David K. Brooks
Assistant General Counsel

cc: Chris Williams, OCD Hobbs

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

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION,
THROUGH THE SUPERVISOR OF DISTRICT I, FOR AN ORDER REQUIRING
GLADSTONE RESOURCES, INC. TO PROPERLY PLUG TWO (2) WELLS IN
LEA COUNTY, NEW MEXICO, AUTHORIZING THE DIVISION TO PLUG
SAID WELLS AND ORDERING A FORFEITURE OF APPLICABLE SECURITY
DEPOSITS.**

CASE NO. _____

APPLICATION FOR PLUGGING AND FORFEITURE OF BOND

1. Gladstone Resources, Inc. ("Operator") is the operator of the following wells located in Lea County, New Mexico:

McGarrity Well No. 1 (API No. 30-25--22245) located 660 feet from the South line and 2310 feet from the West line (Unit N) of Section 6, Township 20 South, Range 38 East, Lea County, New Mexico.

McNeill Well No. 1 (API No. 30-25--26880) located 660 feet from the North and East lines (Unit A) of Section 27, Township 19 South, Range 38 East, Lea County, New Mexico.

2. Operator has posted single-well cash bonds in the amount of \$5,000 for the McGarrity Well and \$7,500 for the McNeill Well, secured by collateral assignments of cash deposits, to secure its obligation to properly plug and abandon these wells, in compliance with NMSA 1978, Sec. 70-2-14 and O.C.D. Rule 101. Lea County State Bank is the depository of said cash collateral deposits, which are held in accounts number 083186 for the McGarrity well and 082567 for the McNeill well.

3. The McGarrity Well No. 1 has not produced any hydrocarbon or carbon dioxide substance since 1998 and is no longer usable for beneficial purposes. The McNeill Well No. 1 has not produced any hydrocarbon substance since 1997 and is no longer usable for beneficial purposes. No permit for temporary abandonment of either of the said wells has been requested by the Operator or approved by the Division. The McNeill Well constitutes a hazard to public health and safety due to proximity to residences.

4. By virtue of Operator's failure to use the subject wells for production or other beneficial purposes or to secure current temporary abandonment permits, the wells are presumed abandoned, and are required to be plugged.

5. Division Rule 201.B, issued pursuant to the authority of NMSA 1978, Secs. 70-2-12 and 70-2-14, requires that wells that are inactive for more than one year or are no longer usable for beneficial purposes be properly plugged.

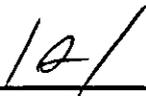
6. Division Rule 101.M, issued pursuant to the same authority, authorizes the Division, after notice and hearing, to order the operator to plug and abandon any well or wells not in compliance with Rule 201, and to direct the Division to cause such well or wells to be plugged in accordance with a Division approved plugging program if, after the time provided in such order, the operator and its surety, if any, have failed to do so.

WHEREFORE, the Supervisor of District I of the Division hereby applies to the Director to enter an order:

A. Determining whether the subject wells should be plugged and abandoned.

- B. Upon a determination that the wells should be plugged, directing the Operator to plug the wells without delay, in accordance with a division-approved plugging program, and to cause the sites thereof to be remediated in accordance with Division Rule 202.B(3).
- C. Further ordering that if the Operator fails to plug and abandon the wells as ordered by the Director, the Division be authorized: (i) to plug the subject wells in accordance with a division-approved plugging program and to cause the sites to be remediated; (ii) to declare forfeit the security furnished by the Operator to the extent necessary to fully reimburse the Division for its expenses incurred in accomplishing the foregoing; and (iii) to take necessary and appropriate measures to recover from the Operator any costs of plugging the subject wells and of site remediation in excess of the amount of the security, if any.
- D. For such other and further relief as the Division deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,



David K. Brooks
Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505)-476-3450

Attorney for The New Mexico Oil
Conservation Division

Case No. _____. **Application of the New Mexico Oil Conservation Division for an Order Requiring Gladstone Resources, Inc. to Properly Plug Two (2) Wells, Imposing Civil Penalties in Event of Failure to Comply, Authorizing the Division to Plug Said Wells in Default of Compliance by Gladstone Resources, Inc., and Ordering a Forfeiture of Applicable Plugging Bonds; Lea County, New Mexico.** The Applicant seeks an order requiring Gladstone Resources, Inc., the operator of two (2) inactive wells in Lea County, New Mexico, to properly plug and abandon the same, imposing civil penalties in event of failure to comply, authorizing the Division to plug said wells if the operator fails to do so, forfeiting Operator's plugging bonds, and providing for such other relief as the Director deems appropriate. The affected wells are the following:

<u>Operator</u>	<u>Well Name</u>	<u>API No.</u>	<u>Location</u>
Gladstone Resources	McGarrity Well No.1	30-025-22245	N-06-20S-38E
Gladstone Resources	McNeill Well No. 1	30-025-26880	A-27-19S-38E