



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

MEMORANDUM

TO: All Oil and Gas Operators and Interested Parties

FROM: WILLIAM J. LEMAY, Director *WJL*
Oil Conservation Division

SUBJECT: OCD Policy On Approval of C-104s - Approval of New Operator on Property Transfers

DATE: March 8, 1996

Within the past few months Oil Conservation Division (OCD) has received applications (C-104s) requesting the transfer of operating responsibility (including plugging liability) on a large number of marginal and abandoned wells in New Mexico. In the past, approval of C-104s was conditioned upon the new operator having in place a blanket plugging bond to cover their plugging liabilities in the State. Recently however, a large number of marginal and abandoned properties have been purchased by companies residing out-of-state where little or no operating history is available and/or compliance with rules and regulations in New Mexico or other states is less-than-satisfactory.

Effective immediately, OCD approval of C-104s for over ten wells will require that the new operator meet the following requirements:

1. The new operator must have a blanket plugging bond in place.
2. In addition to the blanket bond, the OCD may request a separate one well bond for each well that has been inactive for a period of two years or longer. Legal authority for this requirement is Section 70-2-14 of the Oil and Gas Act entitled "Plugging requirement", Paragraph A, which states, "In addition to the blanket plugging bond the OCD may require a one well bond on any well that has been held in temporarily abandoned status for more that two years". Legal interpretation is that a one well plugging bond may be required even if the well is brought back on production at a later date. The two year period of inactivity evidences the fact that the well is at or near the end of its productive life. This additional bonding requirement may be imposed when the new operator has no significant permanent assets in New Mexico other than the large number of marginal wells and/or the new operator has no operating history or a less-than-satisfactory compliance record in New Mexico or other states. An increased blanket bond may be accepted in lieu of separate one-well bonds.

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There will be an industry committee to look into the matter of financial surety for the plugging of wells. It is unfortunate that the above policy is necessary, but recent developments in the oil patch have shown a pattern involving assignment of large numbers of marginal and inactive wells to companies which strip the wells of salvageable value without providing sufficient financial surety to insure that these wells will ultimately be plugged.