APR. 5. 2006 10:32AM

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NO. 0596 P. 1

DOMENICI LAW FIRM, P.C.

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April 5, 2006

VIA FACSIMILE FILING 505-476-3462

Total Fax 21 pages

Florene Davidson Oil Conservation Division 1220 South St. Francis Drive Santa Fe, New Mexico 87505

RE: Matter of the Application of DKD, LLC for an Order Directing Gandy Corporation to Sur-Case, Lea County, New Mexico; Case No. 13686

Dear Ms. Davidson:

Please find attached Intervenor Gandy-Marley's Response to DKD's Application for Emerge Order for filing in the above captioned case.

Thank you for your courtesies.

Sincerely, Domenici Law Firm, P.C.

Charles N. Lakins, Esq.

cc: 1679 J. Scott Hall, Attorney for DKD

Sylvia Rudy, Administrative Assistant srudy@domenicilaw.com

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

IN THE MATTER OF THE APPLICATION OF DKD, LLC FOR AN ORDER REVOKING THE INJECTION AUTHORITY FOR THE GANDY CORPORATION STATE "T" WELL NO. 2, LEA COUNTY, NEW MEXICO

CASE NO. 13686

INTERVENOR'S RESPONSE TO DKD'S APPLICATION FOR EMERGENCY ORDER

Gandy Corporation ("Gandy") through its undersigned counsel, Domenici Law Firm, P.C. (Charles N. Lakins, Esq.), hereby submits the following in response to DKD, LLC's Application for Emergency Order terminating Gandy Corporation's injection operations through its State "T" Well No. 2.

- Gandy is the owner and operator of the State "T" Well No. 2 (API No. 30-025-03735), located 4290' FSL and 500' FWL, Lot 12, Section 6, Township 16 South, Range 36 East, NMPM, in Lea County, New Mexico.
- Gandy is currently operating its State "T" Well No. 2 under the authority of Division Order No. IPI-264, dated December 19, 2005. See attached Exhibit A (two pages).
- Division Order No. IPI-264 authorized Gandy to increase the surface injection pressure on the well to a maximum surface injection pressure of 1,930 PSIG.
- 4. Gandy denies DKD's assertion that Gandy has failed to conduct injection operations to ensure inject fluids remain in the authorized injection intervals as permitted by the Division.
- 5. Gandy denies DKD's assertion that as a result of Gandy's operations, injected waters have been permitted to escape to other formations or onto the surface.

- 6. Gandy denies DKD's assertion that Gandy's operation of the State "T" No. 2 well is causing damage to other wells in section 6, denies DKD's assertion that there is a reasonable likelihood of future damage, and denies DKD's assertion that there is a reasonable likelihood that contamination of fresh waters may occur if Gandy's operations are allowed to continue.
- 7. Gandy denies DKD's assertion that Gandy has failed to submit monthly reports of disposal operations and disposition of produced waters in accordance with the Division's Rules. Attached to this response are Gandy's Monthly Operator Report(s) for each month from January 2005 through February 2006. See attached Exhibit B (14 pages).
- 8. Gandy denies DKD's assertion that Gandy has failed to notify the Division of any possible mechanical failure or the leakage of fluids from the State "T" Well No. 2. Gandy has experienced no mechanical failures or leakage of fluids from the well.
- 9. DKD asserts that there is a reasonable likelihood that a hearing on the merits of DKD's Amended Application may be further delayed. DKD filed its Amended Application on March 27, 2006, after the April 27, 2006 hearing date had been set. In its Amended Application, DKD requested a change in relief from a request to show cause to a request that Gandy's well immediately be plugged and abandoned. Any delay that may result due to DKD's change in requested relief will be due to the actions of DKD, not due to the actions of Gandy.
- 10. If a delay occurs due to DKD's change in requested relief, such delay does not entitle DKD to an emergency order that Gandy immediately shut in its well, when the only well of DKD's that is allegedly impacted is a well that DKD has previously notified the Division was being plugged and abandoned.
- 11. Gandy does not believe that there is a reasonable likelihood that the April 27, 2006 hearing on the merits will be further delayed. That date is 23 days from the date DKD's Emergency

Application was filed. There is no justifiable reason for Gandy to terminate its injection operations before a hearing on the merits that is scheduled three weeks in the future.

- 12. DKD does not have standing to request relief on the behalf of any other well owner or operator. No other well owner or operator has entered an appearance in this matter, or made any allegation of injury caused to their well by Gandy's State "T" Well No. 2.
- The only well owned or operated by DKD that DKD has alleged any impact to is the Snyder "A" No. 1 Well (API No. 30-025-34197), which is located on Gandy's surface estate.
- 14. In December 2002, the previous owner of the Snyder "A" No. 1 Well, Energen Resources Corporation, reported to the Oil Conservation Division that the well would not blow down, and that it's engineering department was looking at zones behind the pipe.
- 15. The last reported effort at production of the Snyder "A" No. 1 Well in October 2004 failed to produce.
- 16. In its "Application of DKD, LLC for an order directing Gandy Corporation to Show Cause", OCD Case No. 13,686, at Paragraph 14, DKD stated that in mid May 2005 it was determined that the Snyder "A" Well No. 1 had experienced a casing collapse at approximately 8825', and that the well has since been plugged and abandoned.
- 17. The Snyder "A" Well No. 1 has not been plugged and abandoned.
- In December 2005, DKD requested a one-year extension to plug and abandon the Snyder
 "A" Well No. 1. The Division granted a six-month extension to June 15, 2006.
- 19. A recent field inspection of the Snyder "A" Well No. 1 reflected an extremely unsafe condition on the wellhead. As it exists, the well it is not properly capped, it is known to have a bad casing, approximately 800 pounds of pressure are indicated, and the top of the well has only a stuffing box and rods.

20. If DKD's Snyder "A" Well No. 1 were properly plugged and abandoned, as DKD previously notified the Division that it intended to do, DKD could not make any claim of the alleged injury that it now makes, and DKD would have no standing to request the relief that it now asks the Oil Conservation Division to grant.

WHEREFORE, Gandy Corporation requests that the Division:

1. Deny all relief requested in DKD's Emergency Application.

Respectfully Submitted, DOMENICI LAW FIRM, P.C.

Charles N. Lakins, Esq.

Attomeys for Gandy Corporation. 320 Gold Avenue SW, Suite 1000 Albuquerque, NM 87102 (505) 883-6250

I certify that on the 5th day of April 2006, a true and correct copy of the foregoing was faxed to the following:

Ted Apodaca, Esq. Energy Minerals & Natural Resources Dept. 1220 S. St. Francis Drive Santa Fe, NM 87505 (505) 476-3462

Charles N. Lakins, Esq.

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J. Scott Hall, Esq. Attorney for DKD, LLC PO Box 1986 Santa Fe, NM 87504 (505) 989-9857 DOMENICI-LAW-FIRM

GANDY CORFURATION

NO. 0596 P. 6 PAGE 62/03



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON Governor Joanna Prukop Cabinet Socretary

December 19, 2005

Mark E. Lo. Director Off Conservation Division

Division Order No. IPI-264

Gandy Corporation P.O. Box 827 Tatum, New Moxico 88267

Attention: Mr. Larry Gandy

RE: Injection Pressure Increase State "I" Well No. 2 Lea County, New Mexico

Dear Mr. Gandy:

Reference is made to your request received by the Division on December 15, 2005, to increase the surface injection pressure on the State "T" Well No. 2. This request is based on a step rate test conducted on the well on November 23, 2005. The results of the step rate test show that an increase in the surface injection pressure for this well is justified and will not result in the fracturing of the injection formation and confining strata.

You are therefore authorized to increase the surface injection pressure on the following well:

WELL NAME & NUMBER	MAXIMUM SURFACE INJECTION PRESSURE
State "T" Well No. 2 API No. 30-025-03735 Unit L, Section 6, T-16 South, R-36 East, NMPM, Lea County, New Mexico	19 30 PSIG

The Division Director may rescind this injection pressure increase if it becomes apparent that the injected fluid is not being confined to the injection zone or is endangering any fresh water aquifers.



Injection Pressure Increase Gandy Corporation December 19, 2005 Page 2

Sincerely, 6

Mark E. Fesmire, P.E. Division Director

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cc: Oil Conservation Division - Hobbs File: Case No. 13293

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