

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

**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
ORDER NO. R-12649
DE NOVO**

PRE-HEARING STATEMENT

This Pre-Hearing Statement is submitted by Miller Stratvert P.A. (J. Scott Hall) on behalf of DKD, LLC, as required by the Oil Conservation Commission.

APPEARANCES

APPLICANT'S ATTORNEY

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APPLICANT

DKD, LLC

OPPONENT'S ATTORNEY

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OPPONENT

Gandy Corporation

OTHER PARTY'S ATTORNEY

OTHER PARTY

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STATEMENT OF THE CASE

APPLICANT

Applicant is the owner and the operator of the Watson 6 No. 1 well located 2857' FSL and 1417' FWL in Unit N, Section 6, T16S, R36E which is utilized for the disposal of produced water by injection into the Cisco and Canyon formations (SWD 834). Applicant also owns and operates the Snyder A No. 1 well located 2319' FSL and 330' FWL in Unit L of said Section 6. Gandy Corporation operates the State "T" Well No. 2, the well that is the subject of the Application, at a location 2490' FSL and 500' FWL, Lot 12, Section 6, T16S, R36E. Gandy Corporation operates the State "T" Well No. 2 for the disposal of produced water pursuant to SWD-836 and Order No. R-12171. Applicant contends that Gandy Corporation has operated the State "T" Well No. 2 in violation of the Division's rules and orders with a result that injected waters have been permitted to escape to other formations or onto the surface causing damage to the property and threatening the contamination of fresh waters. Applicant seeks the entry of an Order revoking Gandy Corporation's injection authority and directing it to take such other actions necessary to reduce pressures in the injection formation and other formations so as to prevent further waste and damage to property.

Utilization of the State "T" Well No. 2 for injection and disposal purposes into the Sand Andres and Glorieta formations from a depth of 6000' to 6200' was authorized by the Division pursuant to SWD-836. The original authorization was issued to Pronghorn Management Corporation.

On July 9, 2002 the Division suspended Pronghorn's injection authority due to the failure to provide notice of its original application. Subsequently, on October 28, 2002, the Division issued Order No. R-11855 in Case No. 12905 rescinding Pronghorn's injection authorization. In a subsequent de novo proceeding, on May 15, 2003 the Commission issued Order No. R-11855-

B reinstating SWD-836. That Order also authorized Pronghorn to inject produced water into those intervals from 6000' to 6400'.

In approximately June of 2003, Pronghorn Management Corporation transferred the State "T" Well No. 2 to Gandy Corporation.

On May 3, 2004 the Department Secretary and Acting Division Director issued an Emergency Shut-in Order directing Gandy Corporation to cease injection for the reasons, among others, that Gandy Corporation perforated additional intervals and placed packers at depths that were not authorized by Order No. R-11855-B.

In 2004, Gandy Corporation made application to the Division in Case No. 13293 for authorization to inject into the additional perforated intervals.

Order No. R-12171 granted Gandy Corporation's application for authorization to inject produced water into the San Andres and Glorieta formations from 4810' to 6880' through 3-1/2" plastic line tubing set in a packer located within 100' above the top of the perforation. Gandy's injection authorization was also made subject to inter alia the following express conditions in Order No. R-12171:

(3) The wellhead injection pressure on the well shall be limited to no more than 962 psi. In addition, the injection well or system shall be equipped with a pressure limiting device in workable condition which shall, at all time, limit surface injection pressure to the maximum allowable pressure for this well.

(4) The Division Director may administratively authorize a pressure limitation in excess of the above upon a showing by the operator that such higher pressure will not result in migration of fluids out of the injection formation or the fracturing of the injection formation or confining strata.

(5) The operator shall notify in advance the supervisor of the Hobbs district office of the Division of the date and time of changes in packer, tubing, mechanical integrity tests, or any other work to be performed on this well.

(6) The operator shall immediately notify the Supervisor of the Division's Hobbs district office of the failure of the tubing, casing or packer in the disposal well or the leakage of water, oil or gas from or around this well or any producing or plugged and abandoned well within the area, and shall take all steps as may be timely and necessary to correct such failure or leakage.

(7) The operator shall take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface using any conduit such as fractures or wells.

On April 25, 2005, Gandy Corporation made application to the Division on Form C-103 to perforate the State "T" Well No. 2 with 1220 additional holes at specified zones between 4810' to 6880'. The Division approved the proposed work-over on April 25, 2005 and the work was performed on or about that same date.

On approximately December 15, 2005, Gandy Corporation made application to the Division to increase the surface injection pressure on the State "T" Well No. 2. On December 19, 2005, the Division issued Division Order No. IPI-264 authorizing Gandy Corporation to increase the surface injection pressure to 1930 psig. No third parties were notified of Gandy Corporation's application.

On April 27, 2006, the Division held an Examiner hearing on DKD's Application.

In June of 2006, Yates Petroleum Corporation drilled the Door BIW State Well No. 1 in the NE/SE of Section 1 T16S R35E, immediately to the west of the Gandy State "T" Well No. 2. During drilling, Yates encountered significant flows of disposal water at the disposal interval which ultimately caused the loss of the well.

On October 24, 2006, the Division entered Order No. R-12649 granting the relief requested in DKD's Application.

OPPOSITION OR OTHER PARTY

Gandy Corporation

PROPOSED EVIDENCE

APPLICANT

WITNESSES	EST. TIME	NO. OF EXHIBITS
Danny Watson Owner, DKD, LLC	30 minutes	6
George Friesen Petroleum Engineer	45 minutes	18
Paul Calloway Petroleum Engineer Energen Resources Corp.	20 minutes	2

OPPONENT

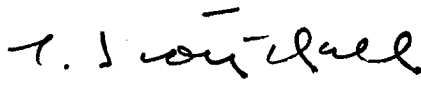
WITNESSES	EST. TIME	NO. OF EXHIBITS
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PROCEDURAL MATTERS

Gandy Corporation has filed a motion challenging the invocation of the Division's authority by DKD. DKD will file a response to the motion in advance of the hearing.

MILLER STRATVERT P.A.

By: _____


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Certificate of Mailing

I hereby certify that a true and correct copy of the foregoing was delivered to counsel of record on the 20th day of April 2006, as follows:

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