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WRITER:

Kelcey C. Nichols
knichols@hinklelawfirm.com

September 19, 2008

Hand-delivered

Richard Ezeanyim
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Case No. 14136 and 14178 / Mesquite SWD, Inc. OGRID 161968 / Exxon State No. 8
(30-015-22055)

Dear Mr. Ezeanyim:

During our Pre-Hearing Conference on Monday, you mentioned you had not received the attachments to Mesquite's Motion to Quash. I have attached a copy of the motion and all exhibits for your records.

Very truly yours,

Kelcey C. Nichols

cc: Sonny Swazo
Clay Wilson
David and Anita Perini
Cindy Perini
Kay Havenor, Ph.D.

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2008 SEP 19 PM 4 10

RECEIVED
APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST MESQUITE SWD, INC., 11515 S. MESQUITE AVE., ALBUQUERQUE, NM 87123, PENDING MESQUITE'S AUTHORITY TO INJECT INTO THE EXXON STATE NO. 8 UNDER ORDER SWD-180 UNTIL MESQUITE SHOWS THAT THE INJECTED FLUIDS ARE NOT ESCAPING TO UNAUTHORIZED INJECTION ZONES; REQUIRING COMPLIANCE WITH ORDER NO. SWD-180 AND RULE 19.15.9.703 NMAC AND REQUEST FOR EXPEDITED HEARING; EDDY COUNTY, NEW MEXICO

Case No. 14136

IN THE MATTER OF MESQUITE SWD, INC.'S APPLICATION NO. PKVR0817936301
TO AMEND PERMIT SWD-180

Case No. 14178

**REPLY TO OIL CONSERVATION DIVISION'S RESPONSE IN OPPOSITION TO
MESQUITE SWD, INC.'S MOTION TO QUASH EMERGENCY ORDER NO. E-37**

Mesquite SWD, Inc. ("Mesquite") hereby responds to the New Mexico Oil Conservation Division's ("NMOCD's") Response in Opposition to Mesquite SWD, Inc.'s Motion to Quash Emergency Order No. E-37 ("Response"). In support of its Reply, Mesquite states:

I. Introduction

The NMOCD issued Emergency Order No. E-37 on May 9, 2008, shutting in the Exxon State No. 8 well due its operation in alleged violation of "Order No. SWD-180 and 19.15.9.703 A & B NMAC." **Emergency Order No. E-37, ¶ 6.** However, Emergency Order No. ER-37 disregarded the NMOCD amendment to Order No. SWD-180 in 1977, whereby an approved Application to Drill ("APD") authorized the Exxon State No. 8 to be drilled to a depth of 700 feet. Because amended Order No. SWD-180 allows the Exxon State No. 8 to dispose of salt water at a depth not to exceed 700 feet, no legal basis supports Emergency Order No. E-37.

The Response attempts to create a *post hoc* valid legal basis for the improvidently entered Emergency Order No. E-37. Yet nowhere does Emergency Order No. E-37 mention, let alone

discuss, any inactivity or lapse in the operation of the Exxon State No. 8 that would terminate the authority for the Exxon State No. 8 to inject salt water.

II. Legal standard

A legal order that lacks a valid legal basis should be quashed. *See, State v. Heinsen*, 2005-NMSC-35, ¶s 2, 4-5, 138 N.M. 441, 444-445 (affirming the quash of a order granting an appeal based on a non-appealable, non-final order); *Charles P. Young, Co. v. Anaya*, 119 N.M. 449, 451; 891 P.2d 1203, 1205 (1995) (affirming the quash of improperly issued subpoenas). The NMOCD bears the burden of showing that Mesquite has violated a specific rule of law or administrative regulation that supports Emergency Order No. E-37. *See, 19.15.14.1227(B) NMAC* (The NMOCD may seek a compliance proceeding “for violation of... any rule or order” issued pursuant to the Oil and Gas Act.); *19.15.14.1227(C)(2) NMAC* (“The division initiates an administrative compliance proceeding by filing a written application with the division clerk... identifying the Provisions of the Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, or the provision of the rule or order issued pursuant to the act, allegedly violated.”). Just as a defendant in a civil action must be informed of the plaintiff’s claims, so must the NMOCD inform an operator subject to an NMOCD emergency order of the specific rule or law that supports the order. *See, NMSA 1978 § 70-2-23* (The NMOCD is required to give a party reasonable notice before holding a hearing or issuing an order.); *19.15.14.1227(C)(2) NMAC*; *Johnson v. State Oil Conservation Comm’n*, 1999-NMSC-021, ¶17, 127 N.M. 120, 124 (voiding an order entered by the Oil Conservation Commission for failure to provide adequate notice under the agency rules); *Rule 1-008 NMRA 2008* (A complaint must set forth a short and plain statement of the claim.); *Valles v. Silverman*, 2004-NMCA-19, ¶ 18, 135 N.M. 91, 97 (N.M. Ct. App. 2003) (A party is entitled to know the basis of the claim against it.).

Due process and the NMOCD rules require: (1) that the NMOCD provide Mesquite with sufficient notice of the alleged violations that support Emergency Order No. E-37, and (2) that a valid legal basis supports Emergency Order No. E-37. *See, NMSA 1978 § 70-2-23; Johnson, 1999-NMSC-021, ¶17, 127 N.M. at 124.*

II. Argument

A. The NMOCD's *Post Hoc* Attempt to Support Emergency Order No. E-37 Is Invalid.

The NMOCD bears the burden of demonstrating that a valid legal basis supports Emergency Order No. E-37. *See, 19.15.14.1227(B) NMAC; 19.15.14.1227(C)(2) NMAC.* The NMOCD stated in Emergency Order No. E-37 that Mesquite violated rules 19.15.9.703(A) & (B) NMAC. **Emergency Order No. 37, ¶ 6.** More than three months later, in response to Mesquite's Motion to Quash, the NMOCD now states that Mesquite violated a completely different rule, 19.15.9.705(C) NMAC, and that the Exxon State No. 8 well was shut-in due to inactivity. *See, Response, Section I, p. 2.* New Mexico law prohibits the NMOCD from changing the legal basis of its emergency order five days before the scheduled hearing on Emergency Order No. E-37. *See, NMSA 1978 § 70-2-23.* To allow the NMOCD to assert this *post hoc* argument against Mesquite now would violate Mesquite's due process rights because Mesquite has not been provided with adequate notice of this alleged violation. *See, NMSA 1978 § 70-2-23; Johnson, 1999-NMSC-021, ¶17, 127 N.M. at 124.*

Furthermore, the NMOCD's allegations regarding inactivity of the Exxon State No. 8 between 1994 thorough 1997, and March 2005 through March 2006 are inaccurate. The wells surrounding the Exxon State No. 8, including the Exxon State No. 3, use the Exxon State No. 8 as a salt water disposal well. Mesquite has attached production well records from the Exxon State No. 3, which used the Exxon State No. 8 as a salt water production well between 1994 through 1997. *See, Ex. A.* Mesquite has also attached production receipts from Plains

Marketing, LP, for April, May and July of 2005. *See, Ex. B.* Plains Marketing, LP, could not produce oil without using the Exxon State No. 8 to dispose of its salt water. A notice for a mechanical integrity test on the Exxon State No. 8, and a Form C-115 for April 2006 further show that the Exxon State No. 8 was active between March 2005 through March 2006. *See, Ex. 3 and Ex. D.*

Additionally, the NMOCD's contention that the Exxon State No. 8's authority to inject salt water automatically terminated conflicts with the NMOCD's rules. The NMOCD rules prohibit a new operator from commencing operations "until the division approves the application for change of operator." **19.15.3.100(E)(2) NMAC.** As a practical matter, some period of inactivity will occur when a salt water disposal well is sold and the operators change because the new operator must wait for approval from the NMOCD before operating the well. *See, id.* Mr. Clay Wilson purchased the Exxon State No. 8 salt water disposal well and filed a Change of Operator, Form C-105A, with the NMOCD on December 1, 2005. *See, Ex. E, Form C-104A.* The NMOCD did not approve this Change of Operator form until April 25, 2006. *See, id.* The NMOCD rules prohibited Mr. Wilson from operating the Exxon State No. 8 before the NMOCD approved Mr. Wilson as a new operator. *See, 19.15.3.100(E)(2) NMAC.* Thus, Mr. Wilson cannot be penalized for any inactivity of that occurred between December 1, 2005 and April 25, 2006 as the NMOCD rules prohibited him from operating the well. *See, id.*

The NMOCD's actions further undermine its *post hoc* argument. Emergency Order No. E-37 expressly recognizes the Exxon State No. 8's authority to inject at a depth of up to 600 feet under Order No. SWD-180. **Emergency Order No. E-37, ¶ 2.** Presumably, if the Exxon State No. 8's authority to inject automatically terminated *ipso facto*, all injection authority would terminate, not just the authority to inject to from 601 to 700 feet. Additionally, the NMOCD has

visited the Exxon State No. 8 annually and never before raised the issue of inactivity, just as it does not raise this issue in Emergency Order No. E-37. The NMOCD's allegation that the Exxon State No. 8's authority to inject automatically terminated is nothing more than a misplaced attempt to gin up a valid legal basis for Emergency Order No. E-37. Notably, the NMOCD has failed to produce any information showing that the Exxon State No. 8's authority to inject automatically terminated or was revoked. In contrast, the NMOCD's records show that the NMOCD continued to approve forms and orders, including Mr. Wilson's Change of Operator form, years after the alleged lapse.

The NMOCD's *post hoc* legal theory is unsupported by the New Mexico law and the NMOCD's rules. Moreover, the NMOCD failed to provide proper notice of its allegations to Mesquite in direct contravention of the NMOCD rules and due process requirements. *See*, NMSA 1978 § 70-2-23; 19.15.14.1227(B) NMAC; 19.15.14.1227(C)(2) NMAC; *Johnson*, 1999-NMSC-021, ¶17, 127 N.M. at 124.

B. The Approved Application for Permit to Drill, which Amended Order No. SWD-180, Did Not Expire.

The Commission approved Mr. Rains' Application for Permit to Drill the Exxon State No. 8 on February 15, 2008. **Ex. A to Motion to Quash.** The Approved Application for Permit to Drill ("APD") bears a stamp stating that "Approval valid for 90 days unless drilling commenced, expires 5-18-77." *Id.* Mr. Rains submitted a Application to Drill for the Exxon State No. 8, on May 24, 1977, stating he proposed to commence drilling the well on May 23, 1977 to a depth of 700 feet. *Id.* Under New Mexico law, any activities made in preparation of drilling are sufficient for the commencement of drilling. *See, Johnson v. Yates Petroleum, Corp.*, 1999-NMCA-66, ¶11, 127 N.M. 355, 358 ("[A]ny activities in preparation for, or incidental to, drilling a well are sufficient" to constitute the commencement of drilling

operations.); *see also*, **Williams & Meyers, Oil and Gas Law § 618 (2007)** (“[I]n general it appears that the courts have been ready to find the commencement of operations (or the pursuit of drilling operations) where only the most modest preparations for drilling have been made.”) Thus, because Mr. Rains prepared to commence drilling on May 23, 2007 and made preparations in advance of that date, the approval did not expire on May 18, 1977. *See, Yates Petroleum, Corp.*, 1999-NMCA-66, ¶11, 127 N.M. at 358.

The Commission’s continued approval and understanding that amended Order No. SWD-180 allowed Mr. Rains to drill to 700 feet is shown by its subsequent approval of sundry notices and acceptance of the well completion report. After approving the sundry notice allowing Mr. Rains to commence drilling on May 26, 1977, the Commission approved two additional sundry notices with the knowledge that the Exxon State No. 8 would be drilled to a depth of 700 feet. *See, Exs. F and G, Sundry Notices*. Then, on November 28, 1977, the Commission approved a sundry notice stating that the Exxon State No. 8 had been “drilled to depth of 694” feet. *Ex. E to Motion to Quash*. The Commission also accepted the Well Completion Report showing that the Exxon State No. 8 had been completed to a dept of 694 feet. *See, id.* In contrast, the NMOCD has offered no evidence in support if its theory that the approval granted under Mr. Rains’ APD expired. The current Rule 1101 provides that, if the NMOCD denies an APD, the Form C-101 will be returned to the “applicant with the cause for rejection stated thereon.” **19.15.13.1101(C) NMAC**. Although this rule has likely changed since 1977, if the approval of Mr. Rains’ APD had expired, the NMOCD records would show that Mr. Rains was prohibited from drilling the Exxon State No. 8 to 700 feet. The reverse is true: the NMOCD records show approval after approval allowing Mr. Rains to drill and complete the Exxon State No. 8 to a depth of 700 feet. Consequently, the NMOCD has failed to support its position that the approval of the APD lapsed

or was otherwise revoked.

C. The NMOCD Response Misstates and Misunderstands the Results of the Tracer Survey.

The tracer survey conducted on the Exxon State No. 8 shows that the bottom depth of the logging tool was 690 feet, four feet short of the bottom of the Exxon State No. 8. The logger's comment that he observed injection fluid going past the total depth must be read in the context of the depth observable to the logger: 690 feet. Contrary to the NMOCD's assertion, the logger could not observe fluid moving past 694 feet *because he could only observe to 690 feet*. Sediment and cavings from the well accumulate in the bottom of the hole naturally and stop the descent of the logging tool. Although this material prevents the logging tool from reaching the bottom of the hole, the material is permeable and gravity will cause water to flow toward the bottom of the hole. Notably, Mr. Rains' driller's log shows that Mr. Rains stopped drilling after penetrating ten feet of vuggy dolomite. *See, Application, Attachment 3, Expert report Regarding Assessment of the Geological Structure and Stratigraphy and Hydrogeological Setting of the Mesquite Exxon State No. 8 Salt Water Disposal and Other Wells, p. 18-19.* Mr. Rains likely encountered a dense dolomite that resisted penetration. *See, id.* Therefore Mr. Rains could not have drilled the well deeper than 694 feet. *See, id.*

The NMOCD's conclusions are based on a misunderstanding of the tracing test and do not provide a legal basis for Emergency Order No. E-37.

III. Conclusion

For the reasons stated herein, Mesquite requests that that the Division Examiner enter an order quashing Emergency Order No. E-37 and allow the Exxon State No. 8 to operate pursuant to Order SWD No. 180, as amended and modified by the NMOCD on February 18, 1977.

Respectfully submitted,

HINKLE, HENSLEY, SHANOR & MARTIN, LLP



Thomas M. Hnasko
Kelcey C. Nichols
Post Office Box 2068
Santa Fe, NM 87504-2068
505.982.4554

Attorneys for Applicant Mesquite SWD, Inc.

CERTIFICATE OF SERVICE

I hereby certify that on this on this 15th day of September, 2008, I hand-delivered a true and correct copy of the foregoing and *Reply to Oil Conservation Division's Response in Opposition to Mesquite SWD, Inc.'s Motion to Quash Emergency No. Order E-37* to:

Mr. Sonny Swazo, Esq.
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505



Kelcey C. Nichols

District 1

P. O. Box 1980 Hobbs NM 88241-1980

District I

P. O. Drawer DD, Artesia, NM 88211-0719

District 1

1000 Rio Brazos, Aztec, NM 84710

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION

1220 S SAINT FRANCIS DRIVE

Santa Fe, NM 87505

OPERATOR'S MONTHLY REPORT

EXHIBIT

obbies*

A

Form C-115 First Page
Revised October 17, 1993
Instruction on Reverse Side
1 ☐ Amended Report

→

Amended Report

2 Operator: Mesquite S&W Inc.

3 OGRID: 161968

4 Month/Year

406

5 Address: PO Box 1479, CARLSBAD, NM 88220

6 Page 1 of 4

[illegible]

302443 Exxon State #008
30-015-22055

D 0 0 W 2458010 0 0 215019 0

I hereby certify that the information contained in this report is true and complete to the best of my knowledge.
24

Signature

Printed Name & Title LINDA J WILSON

Date

Phone Number 505-885-2909

DETACH CHECK STUB AT THE BOTTOM

CHECK NUMBER 03697408		CHECK DATE 04/20/2005		PLAINS MARKETING, L.P. P.O. BOX 4648 • HOUSTON, TX 77210-4648		OWNER NUMBER 0725577		TAXPAYER ID #	
LEASE NUMBER 01-06323		LEASE NAME EXXON STATE							
LEASE STATE/COUNTY NM/EDDY		BLUE COLLAR OIL							
OPERATOR NAME PRODUCT		OIL							
PRODUCTION DATE(MM/YY) 03/2005		142.52							
LEASE BARRELS OR MCF LEASE GROSS VALUE		6,398.44							
OPERATOR PAY LEASE SEVERANCE TAX		.00							
LEASE NET VALUE AVG PRICE PER BBL/MCF		5,894.45							
		44.90							
OWNER KIND OF INTEREST OWNER DECIMAL		WORKING .75000000							
OWNER GROSS VALUE OWNER SEVERANCE TAX		4,798.83							
		377.99							
OIL AND GAS ASSESSMENT COLORADO SEVERANCE TAX		.00							
UTAH WITHHOLDING TAX TAX RESERVE (SEE CODE)		.00							
OWNER NET		4,420.84							
LEASE NUMBER									
LEASE NAME									
LEASE STATE/COUNTY									
OPERATOR NAME									
PRODUCT									
PRODUCTION DATE(MM/YY)									
LEASE BARRELS OR MCF									
LEASE GROSS VALUE									
OPERATOR PAY									
LEASE SEVERANCE TAX									
LEASE NET VALUE									
AVG PRICE PER BBL/MCF									
OWNER KIND OF INTEREST									
OWNER DECIMAL									
OWNER GROSS VALUE									
OWNER SEVERANCE TAX									
OIL AND GAS ASSESSMENT									
COLORADO SEVERANCE TAX									
UTAH WITHHOLDING TAX									
TAX RESERVE (SEE CODE)									
OWNER NET									
CHECK GROSS 4,798.83		SEVERANCE TAX 377.99		WINDFALL PROFIT TAX .00		BACKUP WITHHOLDING .00		NON-RESIDENT ALIEN TAX .00	
CHECK NET 4,420.84									
WEB BLUE COLLAR OIL & GAS LLC		C/O DAVE PERTINI		PO BOX 1075					
YTD GROSS 8,773.25		YTD SEVERANCE TAX 691.05		YTD WINDFALL PROFIT TAX .00		YTD BACKUP WITHHOLDING .00		YTD NON-RESIDENT ALIEN TAX .00	
YTD CHECK NET 8,082.20									

FOR YOUR INFORMATION

DIRECT ALL INQUIRIES REGARDING
THIS CHECK TO:

PLAINS MARKETING, L.P.
ATTN: CUSTOMER RELATIONS
P.O. BOX 4648
HOUSTON, TX 77210-4648
800-772-7589
713-646-4460
713-646-5573 (FAX)

BE SURE TO INCLUDE LEASE NUMBER
AND OWNER NUMBER

TAX RESERVE CODES:

1. FEDERAL 2. STATE 3. LOCAL 4. OTHER
5. FEDERAL 6. STATE 7. LOCAL 8. OTHER
9. FEDERAL 10. STATE 11. LOCAL 12. OTHER
13. FEDERAL 14. STATE 15. LOCAL 16. OTHER
17. FEDERAL 18. STATE 19. LOCAL 20. OTHER
21. FEDERAL 22. STATE 23. LOCAL 24. OTHER
25. FEDERAL 26. STATE 27. LOCAL 28. OTHER
29. FEDERAL 30. STATE 31. LOCAL 32. OTHER
33. FEDERAL 34. STATE 35. LOCAL 36. OTHER
37. FEDERAL 38. STATE 39. LOCAL 40. OTHER
41. FEDERAL 42. STATE 43. LOCAL 44. OTHER
45. FEDERAL 46. STATE 47. LOCAL 48. OTHER
49. FEDERAL 50. STATE 51. LOCAL 52. OTHER
53. FEDERAL 54. STATE 55. LOCAL 56. OTHER
57. FEDERAL 58. STATE 59. LOCAL 60. OTHER
61. FEDERAL 62. STATE 63. LOCAL 64. OTHER
65. FEDERAL 66. STATE 67. LOCAL 68. OTHER
69. FEDERAL 70. STATE 71. LOCAL 72. OTHER
73. FEDERAL 74. STATE 75. LOCAL 76. OTHER
77. FEDERAL 78. STATE 79. LOCAL 80. OTHER
81. FEDERAL 82. STATE 83. LOCAL 84. OTHER
85. FEDERAL 86. STATE 87. LOCAL 88. OTHER
89. FEDERAL 90. STATE 91. LOCAL 92. OTHER
93. FEDERAL 94. STATE 95. LOCAL 96. OTHER
97. FEDERAL 98. STATE 99. LOCAL 100. OTHER

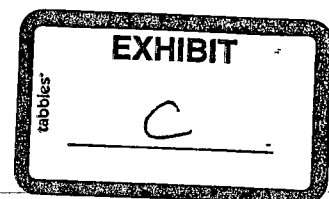
DETACH CHECK STUB AT END OF CHECK

CHECK NUMBER 05752242		CHECK DATE 05/20/2005		PLAINS MARKETING, L.P. P.O. BOX 4648 • HOUSTON, TX 77210-4648			OWNER NUMBER 0725577	TAXPAYER ID #
LEASE NUMBER 01-06323		LEASE NAME EXXON STATE					FOR YOUR INFORMATION	
LEASE STATE/COUNTY NM/EDDY		OPERATOR NAME BLUE COLLAR OI					DIRECT ALL INQUIRIES REGARDING THIS CHECK TO:	
PRODUCT OIL							PLAINS MARKETING, L.P.	
PRODUCTION DATE(MM/YY) 04/2005							ATTN: CUSTOMER RELATIONS	
LEASE BARRELS OR MCF 163.48							P.O. BOX 4648	
LEASE GROSS VALUE 7,073.29							HOUSTON, TX 77210-4648	
OPERATOR PAY .00							800-772-7589	
LEASE SEVERANCE TAX 557.15							713-646-4648	
LEASE NET VALUE 6,516.14							713-646-4671 (FAX)	
AVG PRICE PER BBL/MCF 43.27								
OWNER KIND OF INTEREST WORKING							BE SURE TO INCLUDE LEASE NUMBER AND OWNER NUMBER	
OWNER DECIMAL .75000000							TAX RESERVE CODES:	
OWNER GROSS VALUE 5,304.96							1. NO TAXES 2. NO TAXES/SEVERANCE	
OWNER SEVERANCE TAX 417.86							3. SEVERANCE 4. NET PRODUCTION PER/REAL 50%	
OIL AND GAS ASSESSMENT .00							6. NET PRODUCTION 7. NO TAXES/SEVERANCE PER/REAL 25%	
COLORADO SEVERANCE TAX .00							8. BUSINESS PRIVILEGE 9. STATE OCCUPATIONAL TAX	
UTAH WITHHOLDING TAX .00							5. REAL ESTATE	
TAX RESERVE (SEE CODE) .00								
OWNER NET 4,887.10								
LEASE NUMBER								
LEASE NAME								
LEASE STATE/COUNTY								
OPERATOR NAME								
PRODUCT								
PRODUCTION DATE(MM/YY)								
LEASE BARRELS OR MCF								
LEASE GROSS VALUE								
OPERATOR PAY								
LEASE SEVERANCE TAX								
LEASE NET VALUE								
AVG PRICE PER BBL/MCF								
OWNER KIND OF INTEREST								
OWNER DECIMAL								
OWNER GROSS VALUE								
OWNER SEVERANCE TAX								
OIL AND GAS ASSESSMENT								
COLORADO SEVERANCE TAX								
UTAH WITHHOLDING TAX								
TAX RESERVE (SEE CODE)								
OWNER NET								
CHECK GROSS 5,304.96	SEVERANCE TAX 417.86	WINDFALL PROFIT TAX .00	BACKUP WITHHOLDING .00	NON-RESIDENT ALIEN TAX .00	CHECK NET 4,887.10			
WFB BLUE COLLAR OIL & GAS LLC		C/O DAVE PERINI		PO BOX 1075		PAGE: 1 OF: 1		
YTD GROSS 14,078.21	YTD SEVERANCE TAX 1,108.91	YTD WINDFALL PROFIT TAX .00	YTD BACKUP WITHHOLDING .00	YTD NON-RESIDENT ALIEN TAX .00	YTD CHECK NET 12,969.30			

DETACH CHECK STUB AT DOTTED LINE

007700 407736

CHECK NUMBER 00350800	CHECK DATE 07/20/2005	PLAINS MARKETING, L.P. P.O. BOX 4648 HOUSTON, TX 77210-4648				OWNER NUMBER 0725577	TAXPAYER ID #
LEASE NUMBER 01-063234						FOR YOUR INFORMATION DIRECT ALL INQUIRIES REGARDING THIS CHECK TO: PLAINS MARKETING, L.P. ATTN: CUSTOMER RELATIONS P.O. BOX 4648 HOUSTON, TX 77210-4648 PH- 772-7589 TTX- 772-1467 772-772-1571 (FAX) BE SURE TO INCLUDE LEASE NUMBER AND OWNER NUMBER. TAX RESERVE CODES 1. AD VALOREM 2. SEVERANCE 3. NET PROCEEDS 4. BUSINESS PRIVILEGE 5. REAL ESTATE 6. AD VALOREM/SEVERANCE 7. NET PRO/BUS PRIV/REAL EST. 8. AD VAL/TRET PRO/BUS PRIV/REAL EST. 9. UTAH OCCUPATIONAL TAX	
LEASE NAME KXXON STATE							
LEASE STATE/COUNTY NM/EDDY							
OPERATOR NAME BLUE COLLAR OI							
PRODUCT OIL							
PRODUCTION DATE(MM/YY) 06/2005							
LEASE BARRELS OR MCF 160.27							
LEASE GROSS VALUE 7,579.49							
OPERATOR PAY .00							
LEASE SEVERANCE TAX 597.01							
LEASE NET VALUE 6,982.48							
AVG PRICE PER BBL/MCF 47.29							
OWNER KIND OF INTEREST WORKING							
OWNER DECIMAL 75000000							
OWNER GROSS VALUE 5,684.62							
OWNER SEVERANCE TAX 447.76							
OIL & GAS ASSESSMENT .00							
COLORADO SEVERANCE TAX .00							
UTAH WITHHOLDING TAX .00							
TAX RESERVE (SEE CODE) .00							
OWNER NET 5,236.86							
LEASE NUMBER							
LEASE NAME							
LEASE STATE/COUNTY							
OPERATOR NAME							
PRODUCT							
PRODUCTION DATE(MM/YY)							
LEASE BARRELS OR MCF							
LEASE GROSS VALUE							
OPERATOR PAY							
LEASE SEVERANCE TAX							
LEASE NET VALUE							
AVG PRICE PER BBL/MCF							
OWNER KIND OF INTEREST							
OWNER DECIMAL							
OWNER GROSS VALUE							
OWNER SEVERANCE TAX							
OIL & GAS ASSESSMENT							
COLORADO SEVERANCE TAX							
UTAH WITHHOLDING TAX							
TAX RESERVE (SEE CODE)							
OWNER NET							
CHECK GROSS 5,684.62	SEVERANCE TAX 447.76	WINDFALL PROFIT TAX .00	BACKUP WITHHOLDING .00	NON-RESIDENT ALIEN TAX .00	CHECK NET 5,236.86		
WEB BLUE COLLAR OIL & GAS LLC		C/O DAVE PERINI		PO BOX 1075		PAGE: 0001 OF: 0001	
YTD GROSS 19,762.83	YTD SEVERANCE TAX 1,556.67	YTD WINDFALL PROFIT TAX .00	YTD BACKUP WITHHOLDING .00	YTD NON-RESIDENT ALIEN TAX .00	YTD CHECK NET 18,206.16		



NEW MEXICO ENERGY, MINERALS and
NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Underground Injection Control Program

"Protecting Our Underground Sources of Drinking Water"

26-Jul-2005

BLUE COLLAR OIL & GAS LLC
P.O. BOX 1075
ARTESIA NM 88210-

228017

626-0843

Dear Sirs:

Our records indicate that the following well(s) are due for the type of mechanical integrity test indicated. If the required test is a pressure test, please have the necessary equipment on location and ready to commence the test at the specified time. For all types of tests, please have a representative on location to operate any valves or other equipment as necessary. Your representative should meet our inspector at the meeting place indicated below for the entire inspection group.

Scheduled Inspections / MITs

Meeting Place for this Inspection Group: Well indicated

Scheduled Date: 9/27/2005 2:30:00 PM

UL S-T-R	API Well No.	Well No.	Type Insp/MIT
Property Name: EXXON STATE			
O 15 21S 27E	30-015-22055-00-00	008	Pressure Test

If you have any questions or need to reschedule any test, please call Mr. Gerry Guye at 505-748-1283 at the Artesia district office between 7:00 am and 4:00 pm, at least two weeks prior to the indicated schedule date.

Sincerely,

Artesia OCD District Office

Instructions In Preparation for MIT Test(s)

→ All injection wells must be shut in. If the following instructions are not followed:

"Bradenhead"

Ensure company field representative has a copy of these instructions.

→ If your notification letter indicates "Bradenhead" under the title "Type Insp/MIT" then the following applies:

Bradenhead test:

1. Requires that injection pump be running at the time of the test and an operable pressure gauge or vacuum gauge installed on the tubing so that the injection pressure may be observed.
2. Casing & Bradenhead valves must be shut-in 24 hours prior to test.

**** THIS TEST DOES NOT REQUIRE A PUMP TRUCK!**

**** PLEASE MAKE SURE YOU HAVE ENOUGH WATER TO RUN THE INJECTION PUMP(S) FOR THE DURATION OF THE TEST(S)**

**** TEST(S) CANNOT BE PERFORMED IF THE CONDITIONS OF ITEMS # 1 & 2 ARE NOT MET.**

**** A company representative must be on location during the test(s) to operate valves and equipment.**

**IF YOUR WELL(S) FAILS THE TEST(S); IF WE ARE UNABLE TO CONDUCT THE TEST(S);
OR IF A REPRESENTATIVE DOES NOT MEET US:**

You will be required to shut in all injection wells scheduled for testing immediately!

"Pressure test"

Ensure company field representative has a copy of these instructions.

→ If your notification letter indicates "Pressure test" under the title "Type Insp/MIT" then the following applies:

Pressure Test:

1. Requires, in addition to the above, a pump truck capable of holding a minimum of 300 psi on the casing for a period of at least 30 minutes.
2. A chart recorder is required with a 1000 psi capability, a 60 minute clock, and must have been calibrated within 12 months. Documentation of this calibration must accompany the recorder.

**** THIS TEST DOES REQUIRE A PUMP TRUCK!**

**** PLEASE MAKE SURE YOU HAVE ENOUGH WATER TO RUN THE INJECTION PUMP(S) FOR THE DURATION OF THE TEST(S)**

**** TEST(S) CANNOT BE PERFORMED UNLESS ALL CONDITIONS ARE MET.**

**** A company representative must be on location during the test(s) to operate valves and equipment.**

**IF YOUR WELL(S) FAILS THE TEST(S); IF WE ARE UNABLE TO CONDUCT THE TEST(S);
OR IF A REPRESENTATIVE DOES NOT MEET US:**

You will be required to shut in all injection wells scheduled for testing immediately!

District I

P. O. Box 1880, Hobbs, NM 88241-1880

District II

P. O. Drawer 00, Artesia, NM 88211-0719

District III

1000 Rio Brazos, Aztec, NM 87410

State of New Mexico

Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION

P. O. Box 6428

Santa Fe, NM 87505

OPERATOR'S MONTHLY REPORT

Form C-115 First Page

Instruction on Reverse Side

1 ☐ Amended Report

.501968

2 Operator Blue Collar Oil & Gas LLC

5 Address: PO Box 1075 Artesia, NM 88220-1075

3 OGRID: 228017

4 Month/Year 4/05
8 Page 1 of 1

POOL NO. AND NAME Property No. and Name Well No. & U.L.-S-T-R API No.	INJECTION		PRODUCTION				DISPOSITION OF OIL, GAS, AND WATER									
	8 C O D E	9 Volume	10 Pressure	11 C O D E	12 Barrels of Oil/conden- sate produced	13 Barrels of water produced	14 MCF Gas Produced	15 Days Prod- uced	16 C O D E	17 Point of Disposition	18 Gas BTU or Oil API Gravity	19 Oil on hand at beginning of month	20 Volume (bbls/mcf)	21 Transporter Ogrid	22 C O D E	23 Oil on hand at end of month
44760 McGlader Yates 034088 Exxon State 1 J 15-21S-27E 30-015-01081 2 J 15-21S-27E 30-015-01082 3 O 15-21S-27-E 30-015-01086 7 O 15-21S-27E 30-015-01100 B8080 SWD, Yates 034088 Exxon State 8 O 15-21S-27E 30-015-22056	T T T P T T				0 0 0 105 0	7500	0	15 W	O	2458010	17.8	292 292 3471 -145 232	165 7800	34063		232
5/05 160 bbls @ end of mo 160 bbls 1100 @ 6000 (26400) 6/05 160 bbls sold																

I hereby certify that the information contained in this report is true and complete to the best of my knowledge.

24

Signature

Craig Huber, Manager
Printed Name & Title7/7/05
Date606.708.0269
Phone Number

chuber@swdell.net

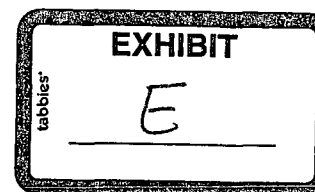
137' 210

159

State of New Mexico
Energy, Minerals and Natural Resources

Form C-104A
Permit 19175

Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505



Change of Operator

Previous Operator Information

OGRID: 228017
Name: BLUE COLLAR OIL & GAS LLC
Address: PO Box 1075
Address:
City, State, Zip: Artesia, NM 88210

New Operator Information

Effective Date: 12/1/2005
OGRID: 161968
Name: MESQUITE SWD, INC
Address: PO Box 1479
Address:
City, State, Zip: Carlsbad, NM 88221

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the certified list of wells is true to the best of my knowledge and belief.

Previous Operator

Signature: [Signature]
Printed Name: X Dennis Woods
Title: MANAGING member - Blue Collar, LLC
Date: 12-1-05 Phone: 505-380-8362

New Operator

Signature: [Signature]
Printed Name: CLAY L WILSON
Title: V.P.
Date: 12-1-05 Phone: 885-3996

NMOCD Approval

Electronic Signature: Carmen Reno, District 2
Date: April 25, 2006

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RECEIVED
NEW MEXICO OIL CONSERVATION COMMISSION
MAY 26 1977

Supersedes Old
C-102 and C-103
Effective 1-1-63

O.C.C.
ARTESIA, OFFICE

5a. Indicate Type of Lease
State ☒ Fee

5. State Oil & Gas Lease No.
B-2597

SUNDRY NOTICES AND REPORTS ON WELLS
DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO RE-OPEN OR PLUG BACK TO A DIFFERENT RESERVOIR.
SEE APPLICATION FOR PERMIT (FORM C-101) FOR SUCH PROPOSALS.

7. Unit Agreement Name

8. Farm or Lease Name
EXXON STAT

9. Well No.
8

10. Field and Foot, or Without
MAGLDER YA

11. Elevation (Show whether DR, RT, GR, etc.)
3270

12. County
Eddy

OIL WELL ☐ GAS WELL ☐ OTHER- WATER DISPOSAL WELL

Name of Operator
A.H. RAINS ✓

Address of Operator
10 X 927 CARLSBAD N.M. 88220

Location of Well
UNIT LETTER 0 1268 FEET FROM THE SOUTH LINE AND 2032 FEET FROM THE EAST LINE, SECTION 15 TOWNSHIP 20S RANGE 22E N.M.P.M.

Check Appropriate Box To Indicate Nature of Notice, Report or Other Data
NOTICE OF INTENTION TO:

CAFORM REMEDIAL WORK ☐
EMERGENCY ABANDON ☐
JLL OR ALTER CASING ☐

PLUG AND ABANDON ☐
CHANGE PLANS ☐

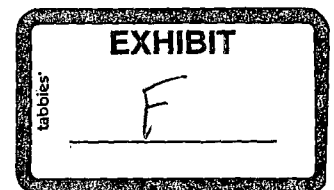
REMEDIAL WORK ☐
COMMENCE DRILLING OPS. ☒
CASING TEST AND CEMENT JOBS ☐

ALTERING CASING ☐
PLUG AND ABANDONMENT ☐

WATER DISPOSAL WELL ☐

OTHER BEGINNING 5-23-77

Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work) SEE RULE 1102.
APR 5-23-77
PROPOSED TO DRILL 7 7/8" HOLE TO A DEPTH 175' AND SET 8 5/8" CASING CEMENTED OVER THE TOP. THEN DRILL 7 7/8" HOLE TO A DEPTH OF 570' THEN SET 5 1/2" CASING AND CEMENT OVER THE TOP. TH. WILL DRILL WITH 4 3/4" BIT TO A DEPTH APPROX. 700'



I hereby certify that the information above is true and complete to the best of my knowledge and belief.

A.H. Rains

TITLE OPERATOR

DATE 5-24-1977

W.A. Sussett

SUPERVISOR, DISTRICT E

DATE MAY 26 1977

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TO OFFICE	
OPERATOR	1

NEW MEXICO OIL & GAS COMMISSION

Form C-103
Supersedes Old
C-102 and C-103
Effective 1-1-65

OCT 14 1977

5a. Indicate Type of Lease
State ☒ Fee ☐

5. State Oil & Gas Lease No.
E-2517

SUNDY NOTICES AND REPORTS CHARTERED OFFICE

(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO PLUG OR TO PLUG BACK TO A DIFFERENT RESERVOIR.
USE APPLICATION FOR PERMIT TO DRILL (FORM C-102) FOR SUCH PROPOSALS.)

1. OIL WELL <input type="checkbox"/> GAS WELL <input type="checkbox"/> OTHER: WATER DISPOSAL WELL	7. Unit Agreement Name
2. Name of Operator A. E. RAINS	8. Form of Lease Name EXXON STAT.
3. Address of Operator Box 127 CARISBAD, N.M. 88220	9. Well No. 1-8
4. Location of Well UNIT LETTER C 1268 FEET FROM THE SOUTH LINE AND 2032 FEET FROM THE 1435 LINE, SECTION 15 TOWNSHIP 21S RANGE 27E N.M.P.M.	10. Field and Pool, or Willcutt MAGNUSON #17
11. Elevation (Show whether DF, RT, GR, etc.) 5295	12. County SODDY

15. Check Appropriate Box To Indicate Nature of Notice, Report or Other Data
NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐
TEMPORARILY ABANDON ☐
PULL OR ALTER CASING ☐

PLUG AND ABANDON ☐
CHANGE PLANS ☐
OTHER ☐

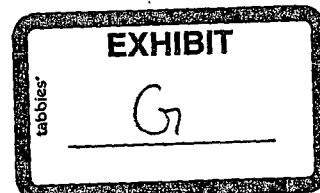
SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐
COMMENCE DRILLING OPNS. ☐
CASING TEST AND CEMENT JOBS ☐
OTHER ☐

ALTERING CASING
PLUG AND ABANDONMENT

17. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work) SEE RULE 1703.

DRILLED TO DEPTH OF 644' TREATED WELL WITH 400
ACID, RUN 565' OF 2" UPSET PLASTIC LINE PIPE
WITH PACKER, FILLED WELL WITH TREATED WA
IN BETWEEN 2 1/2" UPSET AND THE 5 1/2" CASING, WE
TAKING WATER UNDER VACUUM, 9-20-77



18. I hereby certify that the information above is true and complete to the best of my knowledge and belief.

By A. E. Rains TITLE OPERATOR DATE 10-13-1977
APPROVED BY W. A. Gussert TITLE SUPERVISOR, DISTRICT II DATE NOV 28 1977
CONDITIONS OF APPROVAL, IF ANY: