

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)

jamesbruc@aol.com

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2009 JUL -2 P 12: 52

July 2, 2009

Hand delivered

Mark E. Fesmire, P.E.
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 14337/Nacogdoches Oil and Gas Inc.

Dear Mr. Fesmire:

Enclosed is the response of Nacogdoches Oil and Gas Inc. to the Division's motion to dismiss or continue the above matter. I have been exceedingly busy during the past two weeks, and had planned on submitting this response today. However, I understand that an order has been entered continuing the case. As such, please also consider the response as a motion for reconsideration.

Very truly yours,



James Bruce

Attorney for Nacogdoches Oil and Gas Inc.

cc: Counsel and Hearing Examiner w/encl.

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

2009 JUL -2 P 12: 53

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**APPLICATION OF NACOGDOCHES OIL AND
GAS, INC. FOR APPROVAL OF A WATER DISPOSAL
WELL, MCKINLEY COUNTY, NEW MEXICO**

Case No. 14,337

**RESPONSE OF NACOGDOCHES OIL AND GAS INC.
TO
DIVISION'S MOTION TO DISMISS OR CONTINUE**

This response is submitted by Nacogdoches Oil and Gas, Inc. ("NOG") in opposition to the motion filed by the Oil Conservation Division to dismiss this case or, in the alternative, to continue this matter indefinitely.

1. In this case NOG seeks an order approving water disposal into the Entrada formation in the South Hospah Unit Well No. 9, located 330 feet from the north line and 2051 feet from the east line of Section 12, Township 17 North, Range 9 West, NMPM. The disposed water will be produced water from its other wells in McKinley County.

2. In Case 14,326 the Division seeks an order requiring NOG to plug and abandon all 183 wells it operates in New Mexico. NOG vigorously opposes the Division's application.

3. The wells at issue in Case No. 14,326 were mismanaged by prior operators for a number of years, and most if not all of the wells were out of compliance for substantial periods of time before NOG acquired these properties in late 2007. In order to acquire the properties and be named operator, NOG was required to post substantial bonds with the state and federal governments, which it has done.

4. Since acquiring the properties, NOG has been working with state, federal, and Indian authorities to bring the wells into compliance, and a number of the wells listed in the case are already in compliance, or repair work has been completed. See, e.g., Exhibit 1. NOG has spent substantial sums working on these properties, and to date has seen no return on its investment.

5. As to other wells on the non-compliance list, NOG is constrained by current limits on its water disposal capabilities, which limits the number of wells which it can produce. As a result, NOG, after exhausting other water disposal options, prepared and filed the application in this case to increase its disposal capability. Approval of the application will allow it to promptly bring a number of wells into compliance. Requiring plugging and abandonment of the wells will cause waste, violating the Division's primary statutory mandate.

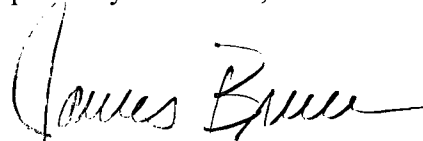
6. In short, in order to bring further wells into compliance, NOG needs to acquire further water disposal capability, which is why Case No. 14,337 was filed.¹ The injection case is part and parcel of the compliance case. Delaying a hearing will only delay bringing additional wells into compliance.

7. The water disposal case is not a difficult matter, and the direct case will take approximately one-half hour to present. The undersigned is aware of constraints on travel placed on Division personnel due to budgetary constraints. Likewise, operators such as NOG have reduced costs. The witnesses needed to testify in this case will be present on July 9, 2009 for the compliance case. It is a waste of NOG's time and money to make them travel to Santa Fe again to present a case which can be presented next week.

WHEREFORE, NOG requests that it be allowed to present its case on July 9, 2009.

¹ If necessary, NOG will amend its application to seek an exception to NMAC 19.15.5.9, *et al.* so that an order may be entered in Case No. 14,337 even though it has out-of-compliance wells.

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Nacogdoches Oil and Gas, Inc.

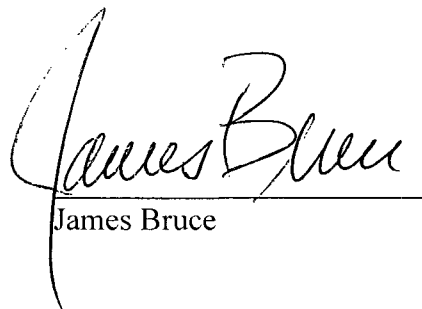
CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing pleading were hand delivered to the following counsel or Division personnel this 2nd day of July, 2009:

Mikal Altomare
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

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

David K. Brooks
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505



James Bruce



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
1235 La Plata Highway
Farmington, New Mexico 87401

IN REPLY REFER TO:

NMMN-081208 et al. (LC)
3162.3-2 (21110)

June 16, 2009

Mr. Mike Allen
Nacogdoches Oil & Gas Inc.
PO Box 6322418
Nacogdoches, TX 75963

Dear. Mr. Allen:

Reference is made to the following leases located in McKinley County, New Mexico:

NMMN-081208; NMMN-0536034; NMMN-8269; NMMN-12335 and NMMN-17543.

Also referenced is our letter dated September 27, 2007, in which required Nacogdoches to complete the following items:

- 1) Central South Hospah tank battery facility:
 - a) Clean up and repair injection station. Done.
 - b) Clean up and repair oil storage facilities. Done.
 - c) Berm around all fluid storage facilities. Must be able to contain one and a half times the volume of the tanks inside. In the progress.
 - d) Disassemble and remove any useless or unnecessary tanks, equipment etc. In the progress.
- 2) Gathering and Injection infrastructure:
 - a) Mechanical Integrity Test (MIT) all flow lines and repair prior to any injection or production. Done.
 - b) MIT all manifolds and repair prior to any injection or production. Done.
- 3) Remove any oil stained soil, junk and trash on the leases. In the progress.
- 4) Wells:
 - a) MIT well bores prior to commencing production/injection. Note: wells that fail an MIT must be either plugged or repaired following approval from this office. Done.
 - b) Return wells to production/injection. In the progress.
 - c) Submit procedures to recomplete and commingle wells. In the progress of testing wells.
 - d) Submit procedures and plug unnecessary wells. Will submit upon completion of testing wells.
- 5) Secure power lines and remove unnecessary ones. In the progress.
- 6) Repair roads and drag locations to remove weeds. In the progress.

If you have any questions please contact Stephen Mason with this office at (505) 599-6364.

Sincerely,

Stephen Mason
Petroleum Engineer, Petroleum Management Team

Enclosure

EXHIBIT

1

List of leases and associated wells in the South Hospah Field:

Section 12, T. 17 N., R. 9 W.

Upper Hospah Leases:

NMNM-081208

Well No. 1(formally 1X), 2, 5, 15, 16, 17, 26, 27, 28, 30*, 31*, 48, 51, 52, 58* & 59*.

NMNM-0536034

Well No. 21 & 22.

NMNM-8269

Well No. 37X

Lower Hospah Leases:

NMNM-12335

Well No. 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 24, 25, 29, 30*, 31*, 32, 33, 35, 36, 38, 39, 46, 47, 49, 50, 53, 54, 57, 58* & 59*, 60, 61, 62, 63 & 64.

NMNM-17543

Wells: none

*Dual upper and lower Hospah sand wells. Each zone is a different lease.

Note: Lower Hospah lease also includes the Dakota as well as deeper formations.

Wells in **bold** have been reactivated.

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

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**APPLICATION OF THE NEW MEXICO OIL
CONSERVATION DIVISION FOR A COMPLIANCE
ORDER AGAINST NACOGDOCHES OIL AND
GAS, INC.**

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2009 JUL - 2 PM 12:50
Case No. 14,326

AMENDED PRE-HEARING STATEMENT

This amended pre-hearing statement is submitted by Nacogdoches Oil and Gas, Inc. ("NOG") as required by the Oil Conservation Division.

APPEARANCES

APPLICANT

Oil Conservation Division

APPLICANT'S ATTORNEY

Mikal Altomare

OPPONENT

Nacogdoches Oil and Gas, Inc.
P.O. Box 632418
Nacogdoches, Texas 75963

OPPONENT'S ATTORNEY

James Bruce
P.O. Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attention: Mike Finley
(936) 560-4747

STATEMENT OF THE CASE

APPLICANT

Applicant seeks a compliance order requiring NOG to bring 121 wells, located in McKinley County, into compliance.

OPPONENT

NOG has been working to bring its wells into compliance. A number of the wells listed in the case are already in compliance. As to other wells, NOG is constrained by current limits on its water disposal capabilities, which limits the number of wells which it can produce. As a result,

NOG has prepared and will be filing a water disposal application to increase its disposal capability, which will allow it to bring other wells into compliance.

Moreover, a number of the wells are on federal and Indian land, and the BLM is satisfied with the progress NOG is making on bringing those wells into compliance.

PROPOSED EVIDENCE

APPLICANT

WITNESSES

EST. TIME

EXHIBITS

OPPONENT

WITNESSES

EST. TIME

EXHIBITS

Mike Allen
(V.P. - Engineering)

30 min.

Approx. 5

Mike Dehnisch
(V.P. - Operations)

30 min.

Approx. 5

Mike Finley
(President)

20 min.

Approx. 5

IN ADDITION, BLM personnel Jim Lovato and Val Jameson may attend the hearing, and NOG may call them as witnesses to testify as to the BLM's position in this matter.

PROCEDURAL MATTERS

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Nacogdoches Oil and Gas, Inc.

cc: Mikal Altomare (via hand delivery)