

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

**IN THE MATTER OF THE OIL CONSERVATION DIVISION COMPLIANCE  
AND ENFORCEMENT BUREAU FOR A COMPLIANCE ORDER AGAINST  
SIANA OPERATING, LLC, FOR WELLS OPERATED IN LEA COUNTY, NEW  
MEXICO.**

**OCD CASE NO. 15475**

**SETTLEMENT AGREEMENT**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, §§ 70-2-1 through 70-2-38, as amended (“Act”), and the rules promulgated in accordance with the Act, the Director of the Oil Conservation Division (“Division” or “OCD”), and Siana Operating, LLC, (“Operator” or “Siana”) enter into this Settlement Agreement (“Agreement”).

Siana agrees to comply with the following settlement for violations of the Act, and in the event of non-compliance, the OCD may seek additional penalties.

**I. FINDINGS**

1. The Oil Conservation Division is charged with the authority to enforce Act and the rules promulgated in accordance with the Act. NMSA 1978, Section 70-2-6(A).
2. The New Mexico Attorney General is charged with collecting penalties issued pursuant to NMSA 1978, Section 70-2-31.
3. Siana is a foreign limited liability company that operates 11 wells in Lea County, New Mexico, under OGRID No. 168687. See *Exhibit 1: Well List*, attached hereto and incorporated by reference as if set forth in its entirety.

4. The New Mexico Secretary of State has Operator registered under corporation number 1922178, identifies Tom M. Ragsdale as the Manager, and has no director listed.

5. The New Mexico Secretary of State has the address of Operator's agent as: Registered Agent Solutions, Inc., 530-B Harkle Rd., Ste. 100, Santa Fe, NM 87505.

6. Siana's corporate mailing address of record with OCD is: 11 Marchelle Court, Midland, TX 79705.

7. Siana has personally represented to the OCD that the following address is current: Siana Oil & Gas Co., LLC, 12012 Wickchester Lane, Suite 410, Houston, TX 77079.

8. Pursuant to 19.15.7.24 NMAC, on February 19, 2015, the OCD sent Operator notice via certified mail that that the OCD had revoked Operator's authority to transport from and inject into all wells it operates pursuant to 19.15.7.24 NMAC for failure to provide any monthly production reports since July 2015.

9. Siana's monthly production report, OCD form C-115, for August 2015 was due on October 15, 2015, pursuant to 19.15.7.24 NMAC.

10. Between February 19, 2016 and March 9, 2016, OCD inspectors, as well as representatives from the United States Department of the Interior, Bureau of Land Management and New Mexico State Land Office, witnessed continued injection and transportation activities on Siana's wells, in violation of the Division directive issued on February 19, 2016, 19.15.20 NMAC (transporting without an allowable), 19.15.26 NMAC (injecting without authority), and NMSA 1978, § 70-2-32 for sale of illegal oil.

11. In response to the continued injection, the OCD issued Emergency Order E-41 on March 9, 2016, requiring Operator to shut-in all wells immediately, whether by closing a valve or disconnection or other means, and remain shut-in for no longer than 15 days.

12. Siana has since filed all missing production reports and is current through January 2016 and has remained shut-in since Emergency Order E-41 was issued.

13. Releases on Operator's sites were first discovered on September 28, 2015, by State Land Office inspectors at the APD Federal salt water disposal well site. The inspectors immediately contacted the OCD, who then notified Siana.

14. Operator did not file a release notification, OCD form C-141, until January 11, 2016. The completed C-141 indicated two barrels ("bbls") had been released and recovered. OCD immediately notified Operator that the completed C-141 did not accurately reflect the status of the site because the amount witnessed was much greater than 2 bbls.

15. The OCD conducted inspections of Operator's other well sites and during the inspection, the Bureau found evidence of unauthorized releases of oil, produced water, condensate or oil field waste, or other oil field related chemicals, contaminants or mixture of the chemicals or contaminant at the following well sites:

- a. APD Federal #001, API No. 30-025-28554, having a continuous release;
- b. Blue Dunn #001, API No. 30-025-33513, first witnessed on February 19, 2016;

- c. Curry Federal #002, API No. 30-025-24003, first witnessed on March 1, 2016;
- d. Newkumet Federal #001, API No. 30-025-32937, first witnessed on March 1, 2016; and
- e. Triple A Federal #002, API No. 30-025-27521, first witnessed on March 1, 2016.

16. Operator reported the releases witnessed in paragraph 15 to the OCD on March 9, 2016.

17. 19.15.29 NMAC requires an operator to notify the Division's environmental bureau chief within 24 hours of a major release as defined by 19.15.29.7.A NMAC.

18. For releases that endanger public health or the environment, 19.15.29.11 NMAC requires the responsible person to address releases in accordance with a remediation plan submitted to and approved by the Division or with an abatement plan submitted in accordance with 19.15.30 NMAC.

19. Siana submitted a delineation plan for the APD Federal #001 site on April 5, 2016 and it was conditionally approved by the Division on April 6, 2016.

20. Siana submitted delineation plans for its remaining wells to the OCD on April 22, 2016.

21. 19.15.25.8.B NMAC requires an operator to plug and abandon or temporarily abandon a well within 90 days after: (1) a 60 day period following the suspension of drilling activities; (2) a determination that a well is no longer usable for a beneficial purpose; or (3) a period of one year of continuous inactivity.

22. Operator had one well in Temporary Abandonment Status, the Curry State No. 1, API No. 30-25-26848, that expired on September 13, 2011, in violation of 19.15.25.8 and 19.15.25.12 NMAC.

23. Upon review of Operator's injection permits, the OCD discovered additional violations with the two salt water disposal wells Siana operates.

24. The APD Federal #001 is missing required documentation to verify the packer setting as required by the OCD-issued injection permit SWD-712.

25. OCD-issued injection permit SWD-588 for the Curry Federal #002 authorized an injection interval from a depth of 5,230' to 6,180'.

26. Upon review the OCD discovered that Operator filed a subsequent report that stated additional perforations were placed from 6,220' to 7165'. The additional perforations do not have any associated request to increase the injection interval.

## **II. CONCLUSIONS**

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.

2. Siana is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, § 70-2-31(A).

3. Siana does not dispute the above violations of the Act and the rules promulgated pursuant to it, and wishes to settle this matter with the OCD.

## **III. SETTLEMENT AGREEMENT**

**WHEREFORE**, the parties agree to the following:

### **1. Compliance Schedule**

- a. Siana will continue to file Monthly Production Reports as required by 19.15.7.24 NMAC. If no production occurs, Siana must still report zero production to the OCD.
- b. Upon execution of this Agreement, the OCD will reinstate Siana's authority to transport from the following wells:
  - i. Blue Dunn #001
  - ii. Blue Dunn #002
  - iii. Curry Federal #002
  - iv. Curry State #002
  - v. Curry State #005
  - vi. Curry State #006
  - vii. Newkumet Federal #001
  - viii. Royal Trude #001
  - ix. Triple A Federal #002
  - x. Injection authority into the APD Federal #001 and the Curry Federal #002 remains revoked until Siana resolves additional violations of injection permits (see Agreement paragraphs 1.g, h, i).
- c. Siana shall file a sundry notice to return the Curry State #001 to compliance with 19.15.25.8 NMAC within 30 days of the signing of this Agreement in accordance with the following schedule:
  - i. If Siana chooses to plug and abandon the Curry State No. 1, it shall be done in accordance with OCD rules and approvals.

- ii. Siana shall commence work on the Curry State No. 1 no later than 90 days after Siana files the sundry.
  - iii. Siana is actively trying to determine ownership of the Curry State #001. Provided Siana makes a good faith attempt, the OCD will grant an extension with regard to the Curry State No. 1 if needed if Siana cannot determine ownership of the well prior to the deadlines established in Agreement paragraphs 1.c.i, ii.
- d. Siana shall address releases at the Blue Dunn #1, the Curry Federal #2, the Triple A Federal #2, and the Curry State #5 in accordance with a remediation or abatement plan Siana shall submit in accordance the following deadlines:
  - i. delineate the releases at the sites within 30 days of OCD's approval of the site specific delineation plan;
  - ii. submit a work plan for remediation or abatement as required by the OCD to address the releases in accordance with division rules and 19.15.30 NMAC as required, within 30 days after delineation, which shall include a timeline by which Siana will complete the remediation;
  - iii. commence work to remediate the sites within one week of the Division's approval of the work plan;
- e. Provided Siana complies with the timeline established in paragraph d. above, Siana shall address the APD Federal #001 release in

accordance with the following schedule provided it does not have any access restrictions imposed by the State Land Office ("SLO"):

- i. delineate the release at the site within 75 days of receiving approved work plans for the sites identified in paragraph d. above.;
  - ii. submit a work plan for remediation or abatement as required by the OCD to address the release in accordance with division rules and 19.15.30 NMAC as required, within 30 days after delineation, which shall include a timeline by which Siana will complete the remediation;
  - iii. commence work to remediate the site within one week of the Division's approval of the work plan;
- f. If Siana does not comply with the established timelines set forth in paragraph d. above, Siana shall complete all delineation, work plans, and work in accordance with the same timelines established for the other sites set forth in paragraph d from the date of non-compliance;
- g. Solely with respect to the APD Federal No. 1, Siana neither admits nor denies any of the allegation in the application or any other allegation but agrees to the work outlined paragraph e. above;
- h. If Siana is to plug and abandon the APD Federal #001, per the SLO requirements, Siana shall file a sundry notice within 30 days of the SLO granting access to the site to perform the plugging procedure, and commence work no later than 60 days after Siana files the sundry;



- i. If Siana returns the APD Federal #001 to injection, Siana must submit documentation to the OCD verifying the packer setting prior to commencing injection activities;
- j. Siana will apply for additional perforations in the Curry Federal #002 within 30 days of the signing of this Agreement. The OCD will not object to the application so long as Siana complies with the terms of this Agreement.
- k. OCD will dismiss the claims in OCD Case No. 15475 for violating 19.15.7.24 NMAC (reporting violations), 19.15.20 NMAC (transporting without an allowable), 19.15.26 NMAC (injecting without authority), 19.15.29 NMAC (release notification violations), NMSA 1978, Section 70-2-32 for sale of illegal oil, and 19.15.25.8 NMAC for failing to plug the Curry State No. 1, and agrees not to pursue civil penalties through an action in district court as long as the Siana complies with this Agreement;

2. Civil Penalties

- a. Siana will pay a civil penalty of \$1,000 per day for 19 days from February 19 to March 9, 2016 for violating the directive in the OCD's letter revoking Siana's authority to transport and inject, for a total of \$19,000;
- b. Siana will pay the civil penalty in Agreement paragraph 2.a. in accordance of the following schedule:

- i. \$1,000 is due within 30 days of both parties signing this Agreement;
  - ii. \$8,500 is due within six months of both parties signing this Agreement;
  - iii. The remaining \$9,500 will be paid within one year of both parties signing this Agreement;
- c. Siana will pay a civil penalty of \$1,000 per day for any missed deadlines or requirements specified in this Agreement, unless the OCD grants an extension in writing prior to the expiration of the deadline. OCD will not unreasonably withhold approval of reasonable extensions for good cause shown, provided Siana requests extensions prior to the expiration of the deadlines, and remains in compliance with the other terms of the Agreement, the Act, and the rules promulgated in accordance with the Act.
- d. Siana shall pay the civil penalty in Agreement paragraph 2.c. within 45 days of Siana receiving a demand from the OCD unless Siana is able to cure the violation(s) to OCD's satisfaction thereby negating the need for penalty assessment. OCD shall make demand to Siana for additional penalties to the following address:

Siana Oil & Gas Co., LLC,  
12012 Wickchester Lane  
Suite 410  
Houston, TX 77079

- e. Payment shall be made to the State of New Mexico General Fund by certified or corporate check and sent to the following address:

Director, Oil Conservation Division  
New Mexico Energy, Minerals & Natural Resources Department  
1220 South St. Francis Drive Santa Fe, NM 87505  
Re: SE 2016-002

#### **IV. OTHER TERMS AND CONDITIONS**

1. By signing this Agreement, Siana expressly:
  - a. acknowledges the authority of the Director to render the above Findings, Conclusions, and Agreement;
  - b. agrees to comply with the Agreement;
  - c. waives any right, pursuant to the Act or otherwise, to a hearing either prior or subsequent to the entry of this Agreement or to an appeal from this Agreement; and
  - d. agrees that if it fails to comply with this Agreement, OCD may enforce the Agreement by suit or otherwise to the same extent and with the same effect as a final OCD Order entered after notice and hearing or civil suit in accordance with all terms and provisions of the Oil and Gas Act.
2. Nothing in this Agreement relieves Siana of its liability should its operations create waste and/or pose additional threats to the environment or correlative rights.

3. Siana and the OCD have the right to modify or terminate this Agreement by written instrument signed by both parties. Once Siana complies with all the terms of this Agreement, this Agreement will terminate.

Done at Santa Fe, New Mexico this 3 day of June, 2016.

By: David Catanach  
David Catanach  
Director, Oil Conservation Division

#### ACCEPTANCE

**SIANA, OPERATING LLC.** (OGRID No. 168687), operator of record of the wells identified in *Exhibit 1*, hereby accepts the foregoing Agreement, and agrees to all of the terms and provisions as set forth in the Agreement.

**SIANA, OPERATING, LLC.**

By: [Signature]  
Title: CFO  
Date: 6/3/2016

**NEW MEXICO SPECIAL ASSISTANT ATTORNEY GENERAL**, representing the Oil Conservation Division of the Energy, Minerals and Natural Resources Department, hereby accepts the foregoing Agreement, and agrees to all of the terms and provisions as set forth in the Agreement, and retains jurisdiction to enforce this Agreement should the provisions not be complied with.

**NEW MEXICO SPECIAL ASSISTANT ATTORNEY GENERAL**

By: [Signature]  
Title: Special Assistant Attorney General  
Date: 6/3/2016

*Exhibit 1: Well List*

Well API No.	Name	Lease Type	Last Production	Well in violation of 19.15.8.9 NMAC?	Single Well Bond Amount	Bond in Place
30-025-28554	APD Federal #001	F	01/2016	No		
30-025-33513	Blue Dunn #001	P	01/2016	No		
30-025-33616	Blue Dunn #002	P	01/2016	No		
30-025-24003	Curry Federal #002	F	01/2016	No		
30-025-26848	Curry State #001	S	02/1993	No	\$18,205.00	\$18,205.00
30-025-28647	Curry State #002	S	01/2016	No		
30-025-39908	Curry State #005	S	01/2016	No		
30-025-41453	Curry State #006	S	01/2016	No		
30-025-32937	Newkumet Federal #001	F	01/2016	No		
30-025-34052	Royal Trude #001	P	01/2016	No		
30-025-27521	Triple A Federal #002	F	01/2016	No		