

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

**CASE NO. 12946
ORDER NO. R-11860**

IN THE MATTER OF THE HEARING CALLED BY THE NEW MEXICO OIL CONSERVATION DIVISION ("DIVISION") ON ITS OWN MOTION FOR AN ORDER REQUIRING GLADSTONE RESOURCES, INC. TO PROPERLY PLUG AND ABANDON TWO (2) CERTAIN WELLS, IMPOSING CIVIL PENALTIES IN THE EVENT OF FAILURE TO COMPLY, AUTHORIZING THE DIVISION TO PLUG THESE WELLS IN DEFAULT OF COMPLIANCE BY GLADSTONE RESOURCES, INC., AND ORDERING A FORFEITURE OF APPLICABLE PLUGGING BONDS; LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 24, 2002, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 5th day of November, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Gladstone Resources, Inc. of New York City, New York, is the current owner and operator of the McGarrity Well No. 1 (**API No. 30-025-22245**), located 660 feet from the South line and 2310 feet from the West line (Unit N) of Section 6, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico, and in compliance with Section 70-2-14, NMSA 1978, and Division Rule 101 has posted with the Division a single-well cash bond in the amount of \$ 5,000.00 (Bond No. OCD-476) in a certificate of deposit with the Lea County State Bank of Hobbs, New Mexico.

(3) Gladstone Resources, Inc. is also the current owner and operator of the McNeill Well No. 1 (**API No. 30-025-26880**), located 660 feet from the North and East lines (Unit A) of Section 27, Township 19 South, Range 38 East, NMPM, Lea County, New Mexico, and in compliance with Section 70-2-14, NMSA 1978, and Division Rule 101 has posted with the Division a single-well cash bond in the amount of \$ 7,500.00 (Bond No. OCD-477) in a certificate of deposit with the Lea County State Bank of Hobbs, New Mexico.

(4) The purpose of a one-well cash plugging bond is to assure the Division that the well covered by that bond will be properly plugged and abandoned when not capable of commercial production or no longer utilized for some other beneficial purpose.

(5) The witness in this matter, Mr. Billy Pritchard, field inspector of the Division's district office in Hobbs (District I), testified at the hearing via telephone supporting the Division's position that the subject wells should be plugged and abandoned.

(6) Mr. Pritchard further testified that the aforementioned McGarrity Well No. 1 is located close to residential dwellings in the community of Nadine, New Mexico, and the current condition of this well is such that if immediate action is not taken to properly plug and abandon the well, persons, livestock, and wildlife may be subject to harmful contaminants, fresh waters may be in danger of contamination, waste will probably occur, and correlative rights will also be violated.

(7) The above-described McGarrity Well No. 1, formerly named the Keohane Well No. 1, was initially drilled to a total depth of 7,450 feet and dually completed as an oil producer in the Skaggs-Grayburg and East Weir-Blinbry Pools by William B. Barnhill of Roswell, New Mexico. This well was the subject of Division Order No. R-3365, issued in Case No. 3707 on January 16, 1968. In 1993 Team Exploration recompleted this well as an oil producer from the Eumont Gas Pool. In March, 1994 Gladstone Resources, Inc. became its operator. This well has not produced hydrocarbons and has been inactive for more than one year, and no permit for temporary abandonment has been requested by the operator or approved by the Division.

(8) By virtue of the failure to use the subject well for a beneficial purpose or to have an approved current temporary abandonment permit, the well is presumed to have been abandoned.

(9) The operator did not appear at the hearing.

(10) The McGarrity Well No. 1, as described above, should be plugged and abandoned in accordance with the program presented by Mr. Pritchard at the hearing as soon as possible.

(11) Further, the Division Director should be authorized to take such action as is deemed necessary to: (i) declare forfeiture of Gladstone Resources, Inc.'s cash bond for this well held by Lea County State Bank of Hobbs, New Mexico and order foreclosure; and (ii) take necessary and appropriate measures to recover from Gladstone Resources, Inc. any costs of plugging the subject well in excess of the amount of this bond, if any.

(12) Mr. Pritchard testified that the above-described McNeill Well No. 1 was initially drilled by Kenia Oil & Gas, Inc. of Midland, Texas to a total depth of 7,800 feet and completed as an oil producer in the Nadine-Drinkard Abo Pool. In March, 1994 Gladstone Resources, Inc. became its operator. This well has not produced hydrocarbons and has been inactive for more than one year, and no permit for temporary abandonment has been requested by the operator or approved by the Division.

(13) By virtue of the failure to use the subject well for a beneficial purpose or to have an approved current temporary abandonment permit, the well is presumed to have been abandoned.

(14) The current condition of the McNeill Well No. 1 is such that if action is not taken to properly plug and abandon this well, waste will probably occur, correlative rights will also be violated, livestock and wildlife may be subject to harmful contaminants, and fresh waters may be in danger of contamination.

(15) At this time, the Division seeks an order directing the operator to plug the McNeill Well No. 1 in accordance with the program presented by Mr. Pritchard at the hearing and, if the operator fails to do so, authorizing the Division to proceed to plug and abandon this well and: (i) declare forfeiture of Gladstone Resources, Inc.'s cash bond for this well held by Lea County State Bank of Hobbs, New Mexico and order foreclosure; and (ii) take necessary and appropriate measures to recover from Gladstone Resources, Inc. any costs of plugging the subject well in excess of the amount of this bond, if any.

IT IS THEREFORE ORDERED THAT:

(1) The supervisor of the Hobbs District Office of the New Mexico Oil Conservation Division is hereby authorized to direct the commencement of plugging operations on the Gladstone Resources, Inc. McGarrity Well No. 1 (**API No. 30-025-22245**), located 660 feet from the South line and 2310 feet from the West line (Unit N) of Section 6, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico.

(2) Further, the Division Director shall take such action as is deemed necessary to: (i) declare forfeiture of Gladstone Resources, Inc.'s single-well cash bond in the amount of \$5,000.00 (Bond No. OCD-476) held in a certificate of deposit with the Lea County State Bank of Hobbs, New Mexico and order foreclosure; and (ii) take necessary and appropriate measures to recover from Gladstone Resources, Inc. any costs of plugging the subject well in excess of the amount of this bond, if any.

IT IS FURTHER ORDERED THAT:

(3) Gladstone Resources, Inc. is hereby ordered to plug and abandon its McNeill Well No. 1 (**API No. 30-025-26880**), located 660 feet from the North and East lines (Unit A) of Section 27, Township 19 South, Range 38 East, NMPM, Lea County, New Mexico, on or before December 1, 2002.

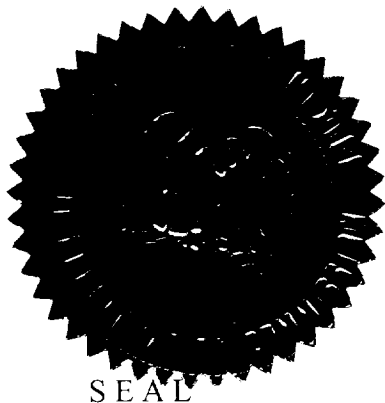
(4) Prior to plugging and abandoning the McNeill Well No. 1, Gladstone Resources, Inc. shall obtain from the supervisor of the Division's District Office in Hobbs an approved plugging program and shall notify the Hobbs District Office of the date and time this work is to commence whereupon the Division may witness such work.

(5) Should Gladstone Resources, Inc. fail or refuse to carry out such provision in accordance with the terms of this order, the Division shall then take such actions as are necessary to cause this well to be properly plugged and abandoned. Further, the Division shall then be authorized to take such action as is deemed necessary to: (i) declare forfeiture of Gladstone Resources, Inc.'s single-well cash bond in the amount of \$7,500.00 (Bond No. OCD-477) held in a certificate of deposit with the Lea County State Bank of Hobbs, New Mexico and order foreclosure; and (ii) take necessary and appropriate measures to recover from Gladstone Resources, Inc. any costs of plugging the subject well in excess of the amount of this bond, if any.

(6) Failure to comply with the provisions of this order with respect to its McNeill Well No. 1 shall subject Gladstone Resources, Inc. to a fine of \$1,000.00 per day, commencing from the date of this order until such work is completed (NMSA 1978, Section 70-2-31).

(7) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, reading "Lori Wrotenbery".

LORI WROTENBERY
Director