

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

**APPLICATION OF GOODNIGHT
MIDSTREAM PERMIAN, LLC TO AMEND
ORDER NO. R-7767 TO EXCLUDE THE SAN
ANDRES FORMATION FROM THE EUNICE
MONUMENT OIL POOL WITHIN THE
EUNICE MONUMENT SOUTH UNIT AREA,
LEA COUNTY, NEW MEXICO.**

CASE NO. 24277

**APPLICATION OF GOODNIGHT
MIDSTREAM PERMIAN, LLC TO AMEND
ORDER NO. R-7765, AS AMENDED TO
EXCLUDE THE SAN ANDRES FORMATION
FROM THE UNITIZED INTERVAL OF THE
EUNICE MONUMENT SOUTH UNIT,
LEA COUNTY, NEW MEXICO.**

CASE NO. 24278

**APPLICATIONS OF GOODNIGHT MIDSTREAM
PERMIAN, LLC FOR APPROVAL OF
SALTWATER DISPOSAL WELLS
LEA COUNTY, NEW MEXICO**

CASE NOS. 23614-23617

**APPLICATIONS OF EMPIRE NEW MEXICO LLC
TO REVOKE INJECTION AUTHORITY,
LEA COUNTY, NEW MEXICO**

CASE NOS. 24018-24027

**APPLICATION OF GOODNIGHT MIDSTREAM
PERMIAN LLC TO AMEND ORDER NO. R-22026/SWD-2403
TO INCREASE THE APPROVED INJECTION RATE
IN ITS ANDRE DAWSON SWD #1,
LEA COUNTY, NEW MEXICO.**

CASE NO. 23775

MOTION TO DISMISS EMPIRE CASE NOS. 24021-24024, 24026, 24027

Empire New Mexico, LLC has submitted six applications urging the Commission to revoke the injection authority provided to Goodnight Midstream Permian, LLC to operate six saltwater-disposal (“SWD”) wells outside the Eunice Monument South Unit (“EMSU”) (Case Nos. 24021–24024 and 24026–24027). The Commission should dismiss these applications because Empire has failed to show that it has standing to challenge those six wells.

Empire does not allege concrete, particularized facts showing that it has suffered injury, or will suffer imminent injury, from Goodnight’s injection of produced water into these six wells. Instead, Empire puts forward nothing more than a one-sentence speculative hunch—based solely on cryptic “information and belief”—that produced water from these wells might somehow be migrating into the San Andres formation of the EMSU, thereby impairing Empire’s ability to recover hydrocarbons within the EMSU. But a speculative, conclusory one-liner is insufficient to meet Empire’s burden to show injury in fact.

Nor has Empire alleged facts showing that the produced water allegedly interfering with its recovery operations comes from Goodnight’s six wells outside the EMSU. And it is hard to see how it could. Empire itself, along with Goodnight and other operators, also operate saltwater-disposal wells that inject produced water into the San Andres formation both within and near the EMSU. How Empire knows that any of the produced water within the San Andres formation of the EMSU comes from Goodnight’s six wells outside the EMSU is anyone’s guess. That Empire’s factual allegations shed zero light on this subject means that Empire has also failed to establish the causation and redressability elements necessary to create standing.

Simply put, because Empire’s applications in Case Nos. 24021–24024, 24026, and 24027 fail on all three standing elements—injury, causation, and redressability—the Commission should dismiss those applications.

BACKGROUND

Goodnight is a midstream company whose business includes receiving produced water from oil-and-gas producers and disposing of it in various ways, including injection into SWD wells. Between 2019 and 2022, and consistent with New Mexico law, the Division approved Goodnight's applications to inject produced water into several SWD wells in Lea County, New Mexico.

Empire New Mexico, LLC is an oil-and-gas production company. It owns the mineral rights associated with the Eunice Monument South Unit ("EMSU"). The EMSU is an oil-and-gas production area subject to a unitization order issued under the Statutory Unitization Act, NMSA 1978 §§ 70-7-1 through -21. Two geological formations underlie the EMSU: the Grayburg formation and the San Andres formation. The Grayburg formation sits directly atop the San Andres formation, and these two formations make up the Unitized Interval within the EMSU. Empire is currently producing oil and gas from the Grayburg formation within the Unitized Interval. According to Empire—and contrary to historical practice, common wisdom, and prior Division findings—the San Andres formation within the Unitized Interval also contains residual hydrocarbons that Empire hopes to recover at some point in the future.

In November 2023, Empire submitted applications urging the Division to revoke Goodnight's injection authority for ten SWD wells. Four applications seek to revoke Goodnight's permits for four SWD wells within the EMSU that inject produced water into the San Andres formation.¹ Empire contends that these four wells are impairing Empire's ability to recover hydrocarbons from the Unitized Interval.

¹ These applications are Case Nos. 24018, 24019, 24020, and 24025.

The remaining six applications—the focus of this motion to dismiss—challenge Goodnight’s injection authority for six wells that fall outside the EMSU and that are injecting or will inject produced water into the San Andres formation:

1. Case No. 24021: This application challenges Order No. R-22506 in Case No. 21527, which granted injection authority to Goodnight to operate the Rocket SWD Well No. 1 (API# 30-025-pending). Goodnight has not yet drilled this well. When drilled, Empire alleges that the well will be about 4,715 feet from the EMSU.^{2,3} Empire alleges that water injected into this well might at some point migrate over to the EMSU. Were that to happen, Empire says, Empire’s ability to recover hydrocarbons within the Unitized Interval would be impaired.

2. Case No. 24022: This application challenges Administrative Order No. SWD-2391, which granted injection authority to Goodnight to operate the Pedro SWD #001 Well (API# 30-025-50079). Goodnight is currently injecting produced water into this well. Empire alleges that the well is about 4,235 feet from the EMSU.⁴ Empire alleges—based solely “[u]pon information and belief”—that water injected into this well is migrating over to the EMSU, impairing Empire’s ability to recover hydrocarbons within the Unitized Interval.

3. Case No. 24023: This application challenges Order No. R-22030 in Case No. 20825, which granted injection authority to Goodnight to operate the Verlander SWD Well No. 1 (API#

² Empire appears to misapprehend the location and boundary of its own unit. Under the Unit Agreement, Tracts 14 and 71 exclude the S/2 S/2 of Sections 21 and 22, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico. Ex. 3 (Ex. A and B to EMSU Agreement). This misapprehension causes Empire to substantially miscalculate the distances of Goodnight Midstream’s Rocket SWD #1, Ted 28 SWDW #001, Yaz 28 SWD #001, and Pedro SWD #001 from EMSU’s southern boundary.

³ The actual distance is 6,019 feet based on Division records establishing the EMSU boundary and approved location of the Rocket SWD Well No. 1. Ex. 1.

⁴ The actual distance is 5,580 feet based on Division records establishing the EMSU boundary and approved location of the Pedro SWD #001 Well. Ex. 1.

30-025-50632). Goodnight has not yet drilled this well. Empire alleges that the well is about 2,482 feet from the EMSU.⁵ Empire mistakenly alleges that Goodnight is currently injecting produced water into this well and alleges—based solely “[u]pon information and belief”—that water injected into this well is migrating over to the EMSU, impairing Empire’s ability to recover hydrocarbons from the Unitized Interval.

4. Case No. 24024: This application challenges Order No. R-20855 in Case No. 20555, which granted injection authority to Goodnight to operate the Nolan Ryan SWD Well No. 1 (API# 30-025-45349). Goodnight is currently injecting produced water into this well. Empire alleges that the well is about 3,285 feet from the EMSU.⁶ Empire alleges—based solely “[u]pon information and belief”—that water injected into this well is migrating over to the EMSU, impairing Empire’s ability to recover hydrocarbons from the Unitized Interval.

5. Case No. 24026: This application challenges Administrative Order No. SWD-2075, which granted injection authority to Goodnight to operate the Ted 28 SWD Well No. 1 (API# 30-025-44386). Goodnight is currently injecting produced water into this well. Empire alleges that the well is about 2,402 feet from the EMSU.⁷ Empire alleges—based solely “[u]pon information and belief”—that water injected into this well is migrating over to the EMSU, impairing Empire’s ability to recover hydrocarbons from the Unitized Interval.

6. Case No. 24027: This application challenges Order No. R-20865 in Case No. 20558, which granted injection authority to Goodnight to operate the Yaz 28 SWD Well No. 1 (API# 30-

⁵ The actual distance is 2,671 feet based on Division records establishing the EMSU boundary and approved location of the Verlander SWD Well No. 1. Ex. 1.

⁶ The actual distance is 3,264 feet based on Division records establishing the EMSU boundary and approved location of the Nolan Ryan SWD Well No. 1. Ex. 1.

⁷ The actual distance is 3,782 feet based on Division records establishing the EMSU boundary and approved location of the Ted 28 SWD Well No. 1. Ex. 1.

025-46382). Goodnight is currently injecting produced water into this well. Empire alleges that the well is about 230 feet from the EMSU.⁸ Empire alleges—based solely “[u]pon information and belief”—that water injected into this well is migrating over to the EMSU, impairing Empire’s ability to recover hydrocarbons from the Unitized Interval.

Goodnight, however, is not the only entity with active SWD wells in or near the EMSU. Empire itself operates a SWD well within the EMSU. **Ex. 1**. Permian Line Service, LLC operates two SWD wells within the EMSU (EME SWD 021 and N 11 001). So does Pilot Water Solutions (P 15 001). Rice Operating Company operates three SWD wells near the EMSU (EME SWD 033M, N 7 001, and State E Tract 27 #001). And another company, Parker Energy Support, operates a SWD well near the EMSU (Parker Energy SWD 005).

ARGUMENT

An applicant such as Empire may pursue an application with the Division or Commission only if the applicant has standing. 19.15.4.8(A) NMAC. An application is subject to dismissal if “the applicant does not have standing.” *Id.* To have standing, the applicant must establish that there is (1) an injury in fact, (2) a causal relationship between the injury and the challenged conduct, and (3) a likelihood that the injury will be redressed by a favorable decision. *ACLU of N.M. v. City of Albuquerque*, 2008-NMSC-45, ¶ 1, 188 P.3d 1222. The burden falls on the applicant to show that the applicant has standing. *See* 19.15.4.8(A) NMAC; *accord id.* 19.15.4.11(C) (stating that the Division or Commission may strike a notice of intervention “if the intervenor fails to show that the intervenor has standing, unless the intervenor’s participation will contribute substantially to the prevention of waste, protection of correlative rights or protection of public health or the

⁸ The actual distance is 1,575 feet based on Division records establishing the EMSU boundary and approved location of the Yaz 28 SWD Well No. 1. Ex. 1.

environment”). For Goodnight’s six wells outside the EMSU, Empire’s applications fail on all three standing elements.

1. Empire has failed to allege facts showing that it has suffered, or imminently will suffer, injury from Goodnight’s injection activities from the six wells outside the EMSU.

For these six wells, Empire has not carried its burden to allege facts showing that Goodnight’s injection activities have caused or will imminently cause Empire to suffer injury. The most it can muster is a single conclusory sentence that, based on nothing more than unspecified “information and belief,” water has migrated or will migrate from these wells over to the EMSU. But this bare-bones allegation does not satisfy Empire’s burden under the rules to *show* that it has standing. Instead, to satisfy its burden, Empire must allege the facts and “information” it is relying on to form its belief that produced water from these wells is migrating or will migrate to the EMSU. Because Empire has not provided any of those facts or information in its applications, it has failed to establish that it has standing to bring these six applications.

For the five wells that are more than a half mile away from the EMSU (Case Nos. 24021, 24022, 24023, 24024, and 24026), Empire has another, independent problem: the Division’s precedent set down in Order No. R-12811, *In re Application of Gandy Corp.*, Case No. 13962 (N.M. Oil Conservation Div. Sept. 24, 2007) (**Ex. 2**). In that case, a competitor of the applicant sought to intervene to oppose the applicant’s request for injection authority for a SWD well. Ex. 2, ¶ 9. Similar to Empire here, the competitor raised concerns that water from the applicants well might migrate and adversely affect the competitor’s own SWD well. *Id.* ¶ 11. But the Division determined that the competitor lacked standing. *Id.* ¶ 12. One reason for that determination was that the competitor’s well was beyond the “1/2 mile cutoff required for consideration of ‘affected’ parties as per Division Rule 701(B)(2).” *Id.* ¶ 12(b). That reasoning applies with equal force to these five wells. The Rocket, Pedro, Verlander, Nolan Ryan, and Ted wells are all more than a half mile from

the EMSU. Ex. 1. That fact provides another, independent ground to dismiss Empire's challenges to those five wells for lack of standing under *Gandy*.

Empire's applications in Case Nos. 24021 and 24023 suffer from a third, independent deficiency: Goodnight has not yet drilled the challenged Rocket 1 or the Verlander wells. Because of that, Empire's asserted injury is "simply too speculative" at this point. *ACLU of N.M.*, 2008-NM-045, ¶ 24. This future injury depends on a string of contingencies: (1) Goodnight will inject a sufficiently large volume of produced water into the wells; (2) some of that water will somehow migrate 6,019 feet (Rocket) and 2,671 feet (Verlander) over to the EMSU; and (3) enough of this water will migrate to the EMSU to materially impair Empire's ability to produce hydrocarbons from the Unitized Interval. Because Empire has not alleged facts shedding any light on if or when these contingencies will come to pass, it has failed to carry its burden to establish a "high likelihood" that it will suffer imminent future injury from Goodnight's Rocket SWD Well No. 1 and Verlander SWD Well No. 1. *Id.* ¶ 29.

2. Empire has failed to allege facts showing that water from Goodnight's six wells outside the EMSU has caused or will cause injury, and that revoking the permits for those wells will redress that injury.

Empire has failed to allege facts showing that the produced water from Goodnight's six wells outside the EMSU is materially contributing to the produced water within the San Andres formation of the Unitized Interval that is allegedly interfering with Empire's recovery operations. As noted above, Empire itself operates a SWD well that injects produced water into the San Andres formation within the EMSU. Ex. 1. Goodnight similarly operates four SWD wells that inject produced water into the San Andres formation within the EMSU. *Id.* Two other companies, Permian Line Service, LLC and Pilot Water Solutions, operate three more SWD wells that do the same thing. *Id.* Beyond these existing sources of produced water, there are other potential sources of

produced water, too: Rice Operating Company operates three SWD wells near the EMSU, and Parker Energy also operates a SWD well near the EMSU. *Id.*

Given these other existing sources, and potential sources, of produced water within the San Andres formation of the EMSU, how does Empire know that any of the produced water within that formation of the EMSU comes from Goodnight's six wells outside the EMSU? Empire's applications do not say. That is a fatal shortcoming. Because Empire's applications include no factual allegations on this point, it is "purely speculative" whether the produced water from these six wells is in fact causing any alleged impairment in Empire's recovery operations. *Simon v. E. Ky. Welfare Rights Org.*, 426 U.S. 26, 45–46 (1976). In standing parlance, Empire has failed to allege facts showing that the produced water within the San Andres formation of the EMSU is "fairly traceable" to Goodnight's six SWD wells outside the EMSU. For that reason, Empire has failed to establish the causation element of standing for its applications challenging those six permits.

Much the same can be said on the redressability element. Nothing in Empire's applications establishes a "substantial likelihood" that revoking the permits for these six wells would solve the problem Empire is complaining about, given the multiple other existing and potential sources of produced water within the San Andres formation of the EMSU. *Id.*; *cf. Duke Power Co. v. Carolina Env't Study Grp.*, 438 U.S. 59, 74–78 (1978) (concluding that the causation element was met because the plaintiffs had shown that, but for the challenged statute, the plaintiffs would not have suffered their alleged harms). After all, even if the Commission were to shut off the water allegedly coming from Goodnight's six SWD wells outside the EMSU, that would hardly solve Empire's alleged problems, because there would still be produced water coming from SWD wells within the EMSU—including Empire's own SWD well—and potentially produced water coming from other SWD wells near the EMSU operated by Rice and Parker Energy. In short, even if the Commission were to revoke Goodnight's permits for the six SWD wells outside the EMSU, Empire has failed

to allege facts showing that doing so would eliminate produced water injected into the San Andres and remove this impediment to Empire's producing hydrocarbons from the Unitized Interval. Cf. *Linda R.S. v. Richard D.*, 410 U.S. 614, 618 (1973) (concluding that the plaintiff lacked standing based on redressability because, even providing the plaintiff with the injunction she requested, it was "speculative" that the injunction would redress her injury). Empire has thus failed to establish the redressability element of standing for its applications challenging Goodnight's six wells outside the EMSU.

CONCLUSION

Because Empire has failed to allege facts showing that it has standing to challenge Goodnight's six SWD wells outside the EMSU, the Commission should dismiss Case Nos. 24021–24024 and 24026–24027.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on May 23, 2024, I served a copy of the foregoing document to the following counsel of record via Electronic Mail to:

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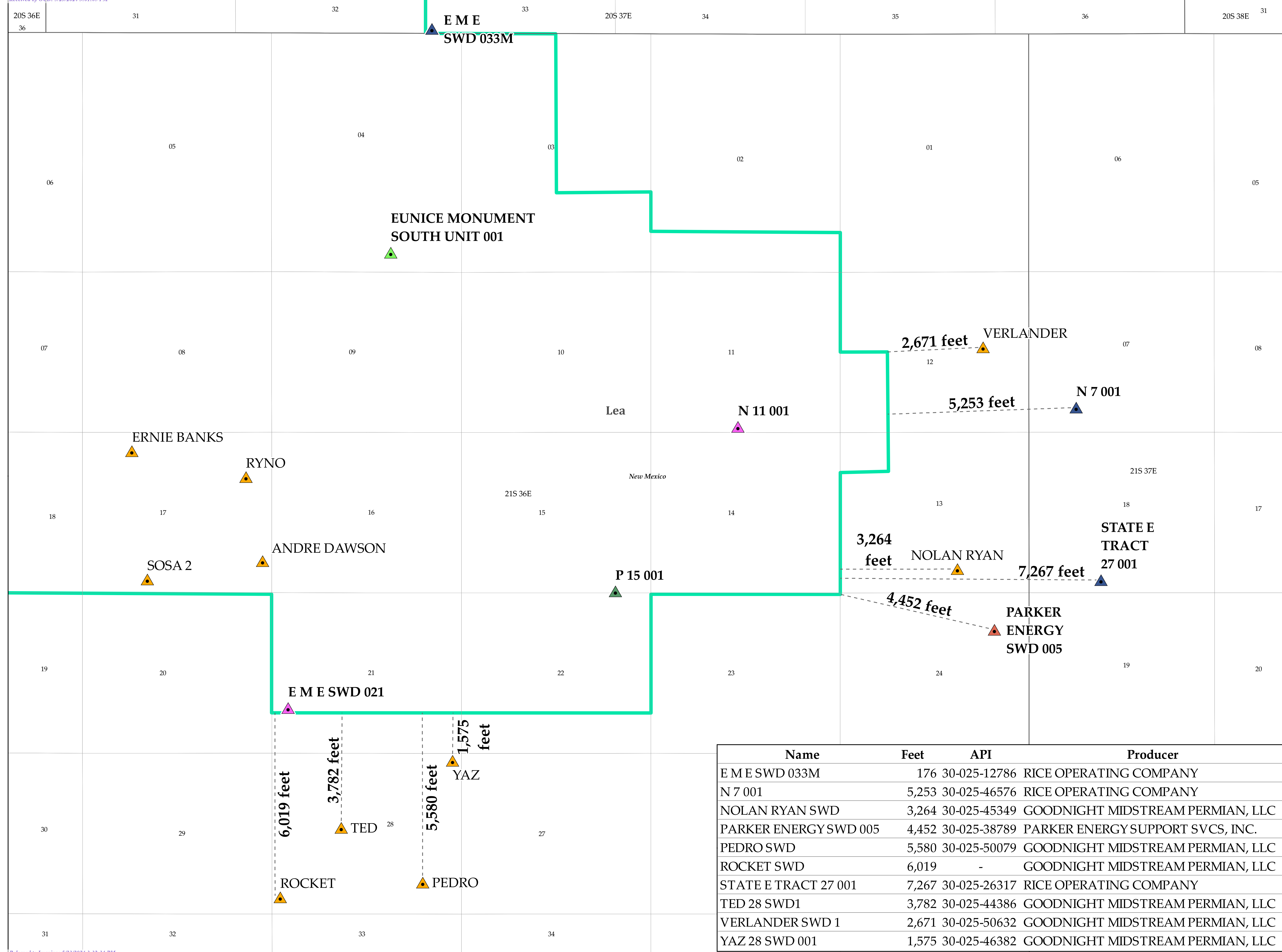
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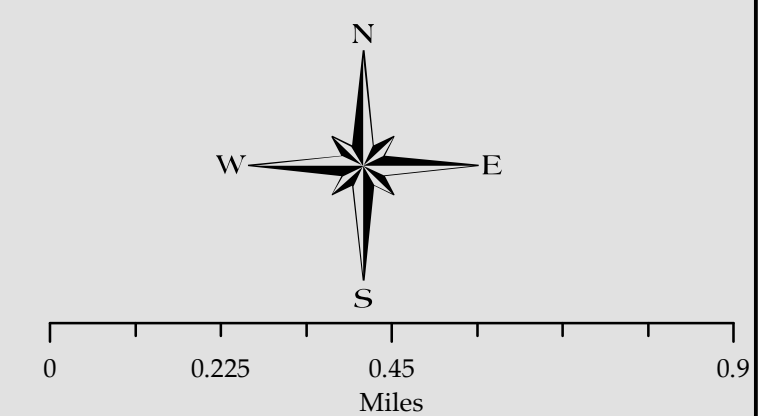
EXHIBIT 1



EMSU + GNM Wells

- Goodnight Midstream**
- SWD's
- Producer**
- EMPIRE PETROLEUM CORP
 - MERIT ENERGY
 - PARKER ENERGY SUPPORT
 - PERMIAN LINE SERVICE, LLC
 - PILOT WATER SOLUTIONS
 - RICE OPERATING COMPANY
 - EMSU Outline

Printed Date: May 22, 2024



1 in = 0 miles
1 inch = 1,335 feet

Coordinate System: GCS WGS 1984
Datum: WGS 1984
Units: Degree

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| Name | Feet | API | Producer |
|-----------------------|-------|--------------|----------------------------------|
| E M E SWD 033M | 176 | 30-025-12786 | RICE OPERATING COMPANY |
| N 7 001 | 5,253 | 30-025-46576 | RICE OPERATING COMPANY |
| NOLAN RYAN SWD | 3,264 | 30-025-45349 | GOODNIGHT MIDSTREAM PERMIAN, LLC |
| PARKER ENERGY SWD 005 | 4,452 | 30-025-38789 | PARKER ENERGY SUPPORT SVCS, INC. |
| PEDRO SWD | 5,580 | 30-025-50079 | GOODNIGHT MIDSTREAM PERMIAN, LLC |
| ROCKET SWD | 6,019 | - | GOODNIGHT MIDSTREAM PERMIAN, LLC |
| STATE E TRACT 27 001 | 7,267 | 30-025-26317 | RICE OPERATING COMPANY |
| TED 28 SWD1 | 3,782 | 30-025-44386 | GOODNIGHT MIDSTREAM PERMIAN, LLC |
| VERLANDER SWD 1 | 2,671 | 30-025-50632 | GOODNIGHT MIDSTREAM PERMIAN, LLC |
| YAZ 28 SWD 001 | 1,575 | 30-025-46382 | GOODNIGHT MIDSTREAM PERMIAN, LLC |

EXHIBIT 2

**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:**

**CASE NO. 13962
ORDER NO. R-12811**

**APPLICATION OF GANDY CORPORATION FOR AUTHORIZATION TO
INJECT INTO THE JULIA CULP WELL NO 2, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came before the Oil Conservation Division at 8:15 a.m. on July 26, 2007, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 24th day of September, 2007, 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) The applicant, Gandy Corporation ("Gandy"), seeks authority to re-enter the plugged and abandoned Julia Culp Well No. 2 (API No. 30-025-30879) located 2310 feet from the North line and 660 feet from the East line (Unit H) of Section 34, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico, and to utilize this well for commercial disposal of oil field waste waters into the Devonian formation at perforated and open hole depths of 13,865 to 14,500 feet.

(3) Gandy filed on February 1, 2007 an administrative application to re-enter and inject into this well. On February 12, after reviewing the application, the Division sent an email requesting clarification of certain items in Gandy's submittal. Gandy's consultant, Mr. Terry Duffey, replied to the data request on February 14. As part of the Division's requirements, notice was sent to approximately 93 affected parties. Prior to the 15-day suspense period, the Division received protest letters and deferred the application until such time as settlement could be reached between Gandy and the protesting parties. Protests or letters of concern were received from P. Kay Stokes and D.B. Wharton of Arkansas, Jerry and Jan Carlisle of Lovington ("J&J Service, Inc"),

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Edgar J. Huffman ("VISA Industries of Arizona") and Energen Resources Corporation ("Energen").

(4) On June 13, 2007, after reaching a tentative agreement with Energen, Gandy submitted a letter to the Division requesting this matter be heard before an Examiner and on July 19 submitted its pre-hearing statement.

(5) Energen entered an appearance in this case and submitted a pre-hearing statement. At the July 26 hearing, Energen stated through counsel it no longer protested the application.

(6) At the hearing, Mr. Jerry Carlisle of J&J Service, Inc. appeared to make a statement in opposition to the proposed injection well. J&J Service, Inc. did not file an entry of appearance or pre-hearing statement for this hearing. Mr. Carlisle presented a letter from Visa Industries of Arizona ("VISA") protesting Gandy's proposed injection well. Mr. Carlisle further stated that P. Kay Stokes and her uncle, Mr. Wharton, had called him prior to the hearing and stated they had already objected to Gandy's application.

(7) VISA also did not file an official entry of appearance or pre-hearing statement for this hearing and did not appear at the hearing. The letter dated July 24th from VISA authorized Jerry Carlisle to represent VISA's interests at the hearing. The letter expressed concerns of VISA's that (i) its remaining interest in the lease would be lost if this injection is approved, (ii) Gandy's injection in this area may have caused or could cause corrosion to wellbores in, or damage to production from, its Strawn wells in the West Lovington Strawn Unit.

(8) Mr. Carlisle made a statement that his company, J&J Service, Inc., helped pay for the drilling of the subject well, and now owns an interest in the Wolfcamp formation within this well, and wished to retain the well for possible production from the Wolfcamp formation. Further, Mr. Carlisle does not understand how Gandy could assume ownership of the well without dealing with all existing owners of record.

(9) DKD, LLC entered an appearance in this case by fax to the Division on July 22nd and entered a pre-hearing statement by fax on July 23rd as an "interested party who may present testimony based on the applicants presentation". By fax on July 23rd, DKD, LLC filed a "notice of intervention" as a competitor of the applicant who has concerns about the application. The reason given for late filing was (i) intervenor's usual attorney was conflicted out and (ii) DKD, LLC called its new attorney on time, but attorney was moving his office and did not get filings done until Sunday.

(10) On July 25th, applicant's attorney filed a motion with the Division to determine DKD as a non-party and to prohibit DKD's participation in the upcoming hearing. Reasons given, included; (i) DKD was not a person to whom Division rules require notice of the original administrative application or of the Division hearing; (ii) DKD is simply a competitor to Gandy in this area; and (iii) DKD did not timely file entry

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of appearance or pre-hearing statement. Gandy asked therefore that DKD be limited at the discretion of the Examiner in the hearing to “making a relevant statement, and being subject to cross-examination.”

(11) At the hearing, DKD presented argument and reasoning for status as a party with “standing.” DKD’s owner, Mr. Danny Watson, stated that:

(a) DKD operates a commercial disposal in this area, the Watson “6” Well No. 1, and therefore is a competitor to Gandy’s proposed commercial operations;

(b) DKD is also concerned about possible corroded casing and poor cement in Gandy’s proposed injection well over the equivalent interval that DKD is using for injection; and

(c) Injection or casing leaks in this area have been shown in previous Division cases to affect wells located more than ½ mile away.

(12) After listening to arguments, the Examiner decided to not allow DKD to have standing in this case for the following reasons:

(a) This matter was first considered by the Division in February at which time newspaper notice within Lea County was provided. Gandy finally made application for a hearing in June, and the hearing date was in late July. Despite this extended time period, DKD did not timely file an objection to the application.

(b) DKD’s nearest injection well is located over a mile from Gandy’s proposed well and therefore much further than the ½ mile cutoff required for consideration of “affected” parties as per Division Rule 701B(2).

(c) Gandy’s proposed injection well would inject into the Devonian while DKD’s nearest injection well uses a shallower interval for injection.

(d) Within Gandy’s well or any other proposed injection wells, the Division would not allow injection without adequate casing and cement and would require periodic internal Mechanical Integrity Testing (“MIT”) to ensure injection is confined to the permitted injection interval.

(e) Enforcement cases related to any future alleged rule or permit violations by the operator of the proposed injection well can be proposed by offset operators [such as DKD] and the merits would be considered at a Division hearing.

(13) Gandy produced two witnesses at this hearing who testified as follows:

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(a) Gandy has a need for additional disposal in this area and chose the Devonian as an injection horizon because it may take water on a vacuum and would not pressure up as other injection formations have done, restricting injection or causing problems with offset wells. Also, it is below the deepest producing horizon in this general area which is the Strawn.

(b) The proposed well was drilled in 1990 and therefore is a relatively new wellbore compared to other Devonian wells. The well is not near any Devonian production and is in fact located in a structural trough. The well is wet in the Devonian and likely has adequate permeability as shown by the drill stem test done by the driller from 13,865 to 13,900 feet. Due to interest in the Mississippian at 13,391 to 13,522 feet, casing was run on this well to 13,950 feet.

(c) Gandy proposes to re-enter this plugged well, tie in new 5-1/2 inch casing, squeeze off perforations in the depleted gas interval in the Mississippian and in the unproductive Atoka formation, squeeze cement to cover the corrosion prone interval in the upper Glorieta and lower San Andres formations, test the wellbore for mechanical integrity, test the Devonian injection capability and, if necessary, drill out of the casing to a maximum open hole depth of 14,500 feet to add additional injection capacity.

(d) There is only one well within 1/2 mile of this well that penetrated the Devonian. The Daisy Chambers Well No. 1 is located approximately 1/2 mile from the proposed injection well. It was drilled in 1955, produced from the Permo Penn formations at approximately 10,500 feet, and was plugged and abandoned in 1992.

(e) Gandy will run a water pipeline to this well from its existing injection facility and will obtain a permit for this pipeline separately from this application.

(f) Gandy provided notice and received no protest from the surface owner of the wellsite, Mr. Dan Fields. Gandy also worked out agreement with Energen Resources and provided notice to approximately 90 other affected parties within the 1/2 mile Area of Review. The parties who lodged a protest were primarily concerned about use of the wellbore – especially in the Permo Penn formations.

(g) Gandy did a study of possible productivity of the Permo Penn (Wolfcamp) formation in the vicinity of the proposed injection well and concluded that attempting to perforate and produce this interval would be risky. Wolfcamp production would be poor at best and probably already drained by previous nearby production.

(h) Many types of oil field waste waters will be injected into this well. The Devonian waters are relatively compatible with those waste waters. The

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Devonian water quality is very saline and is not protectable under the federal Safe Drinking Water Act or the New Mexico Water Quality Act.

(i) All fresh water intervals will be protected with casing and cement in the proposed injection well.

(14) Gandy did not provide testimony from a Landman, but did state in the hearing through counsel that its position is that the landowner now owns this wellbore, and Gandy has reached agreement with the landowner. In addition, and in case the landowner does not own this wellbore, Gandy has also reached an agreement with Energen as the operator of a lease which has production holding this wellbore. Thus Gandy demonstrated a good faith claim of ownership. In any case, ownership disputes are not within the jurisdiction of the Oil Conservation Division.

(15) The Division concludes that Gandy's proposed injection well should be approved and the proposed injection operation can be conducted in a safe and responsible manner, without causing waste, impairing correlative rights or endangering fresh water, public health or the environment.

IT IS THEREFORE ORDERED THAT:

(1) Gandy Corporation ("Gandy" or "operator") OGRID 8426, is hereby authorized to inject for disposal purposes into its Julia Culp Well No. 2 (API No. 30-025-30879) which will be re-entered at a location 2310 feet from the North line and 660 feet from the East line (Unit H) of Section 34, Township 15 South, Range 35 East, NMPM, in Lea County, New Mexico. Within this well, oil field waste waters are permitted for disposal into the Devonian formation through perforations from approximately 13,865 feet to 13,885 feet and through an open-hole interval from 13,950 feet to 14,500 feet, through plastic coated tubing set in a packer located within 100 feet of the top injection perforation or interval being used for injection.

(2) Prior to injecting into this well, the plugged wellbore shall be re-entered, new casing installed as deep as is practical, the existing cement top at 9280 feet raised with squeeze cementing operations to tie-in to the intermediate casing so as to cover all potential corrosive intervals, existing perforations in the Mississippian and the Atoka squeezed off, and the wellbore tested for mechanical integrity. If additional injection capacity is needed after perforating and testing the upper Devonian, the well shall be deepened to a maximum of 14,500 feet.

(3) After perforating the Devonian or while deepening the well, Gandy shall monitor the well for hydrocarbon shows and shall report any shows or swab test results to the Hobbs district office on sundry forms.

(4) After equipping the well with plastic coated tubing and packer, the casing-tubing annulus shall be loaded with an inert, corrosion resistant fluid as specified by the

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Order No. R-12811
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Hobbs district office and equipped with a leak detection device capable of determining any leakage in the casing, tubing, or packer.

(5) Mechanical integrity testing is required after installation of the injection tubing and prior to commencing injection operations and thereafter as required by Division rules.

(6) The operator shall notify the Hobbs district office of the time of the setting of the tubing and packer and of any mechanical integrity test ("MIT") so that such operations can be witnessed.

(7) The tubing shall have a gauge and pressure limiting device installed in order to control and to record injection pressures. The surface injection pressure shall be continuously regulated such that it never exceeds 2,773-psi. The Director may administratively authorize an increase in this injection pressure if the operator shows that a higher pressure will not result in formation fracturing or migration of injected fluids from the permitted injection formation. As justification, the operator must submit results of an injection test such as a Step-Rate-Test.

(8) The operator of the well (Gandy or any successor operator) shall take all steps necessary to insure that injected fluids enter the proposed injection interval and do not escape to other formations or onto the surface.

(9) Without limitation on the duties of the operator as provided in Division Rules 19 and 116, or otherwise, the operator shall immediately notify the Hobbs district office of any failure of the tubing, casing or packer in the well, or of any leakage or release of water, oil or gas from or around any produced or plugged and abandoned well in the area, and shall take such measures as may be timely and necessary to correct such failure or leakage.

(10) The operator shall submit monthly reports of injection volumes of waste water on Form C-115, in accordance with Division Rules 706 and 1115.

(11) The injection authority granted herein shall terminate one year after the effective date of this order if the operator has not commenced injection operations pursuant hereto; provided however, the Division Director, upon written request of the operator received by the Division prior to the end of one year, may extend this time for good cause.

(12) Compliance with this order does not relieve the operator of the obligation to comply with other applicable federal, state or local laws or rules, or to exercise due care for the protection of fresh water, public health, and the environment.

(13) At the discretion of the Division Director and after proper notice is provided, any proposed amendments or changes to this order may be done administratively; provided however, proposed amendments to raise the depth of the

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injection interval or change the target injection formation shall be done only after notice and hearing.

(14) Jurisdiction is retained by the Division for the entry of further orders as may be necessary for the prevention of waste and/or protection of correlative rights or upon failure of the operator to conduct operations (i) to protect fresh water or (ii) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the injection authority granted herein.

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Mark E. Fesmire
for MARK E. FESMIRE, P.E.
DIRECTOR

EXHIBIT 3

R 36 E

R 37 E

R 36 E

T 20 S

T 20 S

T 21 S

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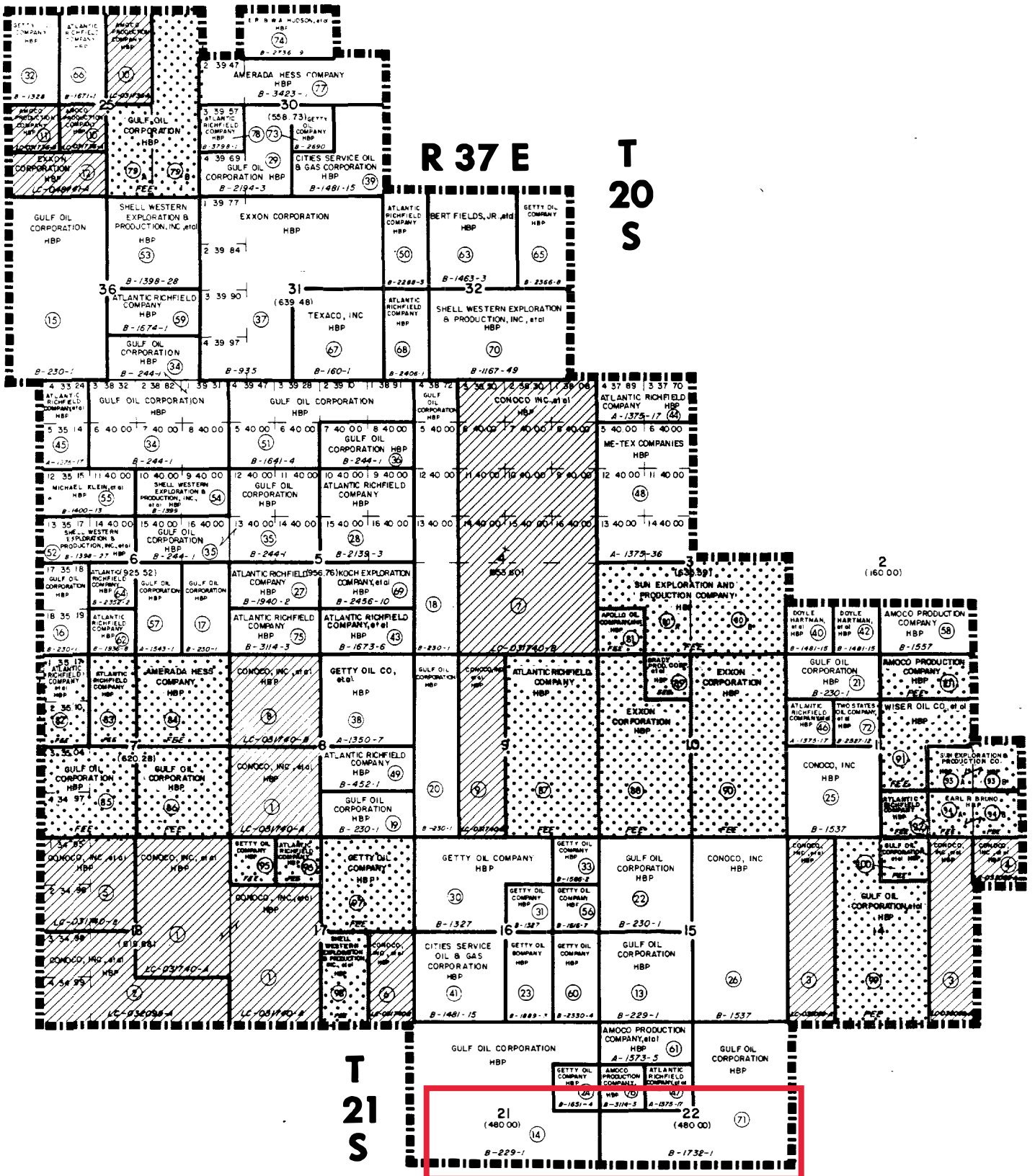


EXHIBIT "A"

EUNICE MONUMENT SOUTH UNIT AREA

LEA COUNTY, NEW MEXICO

| | ACREAGE | PERCENTAGE |
|--|----------------|---------------------------|
| | FEDERAL LANDS | 2,734.76 19.27 % |
| | STATE LANDS | 8,274.80 58.32 % |
| | PATENTED LANDS | 3,180.28 22.41 % |
| | TOTAL | 14,189.84 100.00 % |

UNIT OUTLINE TRACT NUMBER



SCALE IN MILES

NOTE UNLESS OTHERWISE INDICATED, THE VARIOUS SECTIONS ON THIS PLAT CONTAIN 640.00 ACRES

GULF OIL CORPORATION
MIDLAND, TEXAS

EXHIBIT "B"

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS
 IN ACCORDANCE WITH THE PARTICIPATION FORMULA FOR THE UNITIZED FORMATION FOR THE
 EUNICE MONUMENT SOUTH UNIT AREA
 LEA COUNTY, NEW MEXICO

September 27, 1984

| <u>TRACT NO. AND TRACT NAME</u> | <u>DESCRIPTION OF LAND</u> | <u>ACRES</u> | <u>SERIAL NO. AND EFFECTIVE DATE</u> | <u>BASIC ROYALTY OWNER AND PERCENTAGE</u> | <u>LESSEE OF RECORD</u> | <u>OVERRIDING ROYALTY OWNER AND PERCENTAGE</u> | <u>WORKING INTEREST OWNER AND PERCENTAGE</u> |
|----------------------------------|---|--------------|--|---|-------------------------|---|---|
| <u>Federal Lands:</u> | | | | | | | |
| 1. Meyer "A-1" (was Tract 81) | R21S-R36E, N.M.P.M. Sec. 8: SW $\frac{1}{4}$ Sec. 17: SW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 18: NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ | 640.00 | LC-031740-A HBP 2-19-31 Exchanged 2-1-51 | U.S.A. Schedule "C" | A. E. Meyer | Atlantic Richfield Co. .92105 Helen L. Bedford .01842 Henry De Graffenreid Bedford .01842 Rachel Bedford Bowen .01842 Triton Oil & Gas Corp. .11513 Charles H. Coll .13239 Jon F. Coll .13239 James N. Coll .13241 Max W. Coll, II .13241 Etz Oil Properties, Inc. .17269 George H. Etz, Jr., Trustee of George H. Etz, Sr. Trust .17269 Ima Hays .30703 Kirby Exploration Co. .57422 Munro L. Lyeth and Patricia D. Lyeth, First of Denver A/C 11033-00-8 .41447 Onez Norman Rooney .41447 Ellis Rudy .00143 Alann P. Bedford, Trustee Alann P. Bedford Trust .01842 Southland Royalty Co. 1.38158 | Conoco Inc. Amoco Producti Company Atlantic Richf Company Chevron U.S.A. Inc. |

| TRACT NO. AND TRACT NAME | DESCRIPTION OF LAND | ACRES | SERIAL NO. AND EFFECTIVE DATE | BASIC ROYALTY OWNER AND PERCENTAGE | LESSEE OF RECORD | OVERRIDING ROYALTY OWNER AND PERCENTAGE | WORKING INTEREST OWNER AND PERCENTAGE | PARTICIPAT OF TRACT IN UNIT |
|---|--|--------|-------------------------------|--------------------------------------|----------------------|---|---------------------------------------|-----------------------------|
| <u>STATE LANDS:</u> | | | | | | | | |
| 13. J.F. Janda (NCT-C) (was Tract 95) | T21S-R36E, N.M.P.M. Sec. 15: SW $\frac{1}{4}$ | 160.00 | B-229-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | 1.055350 |
| 14. Arnott-Ramsay (NCT-C) (was Tract 102) | T21S-R36E, N.M.P.M. Sec. 21: NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ | 440.00 | B-229-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | 2.739613 |
| 15. R.R. Bell (NCT-F) (was Tract 17) | T20S-R36E, N.M.P.M. Sec. 36: W $\frac{1}{2}$ | 320.00 | B-230-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | 3.195507 |
| 16. R.R. Bell (NCT-D) (was Tract 35) | T21S-R36E, N.M.P.M. Sec. 6: Lots 17,18 | 70.37 | B-230-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | .682139 |
| 17. R.R. Bell (NCT-B) (was Tract 38) | T21S-R36E, N.M.P.M. Sec. 6: E $\frac{1}{2}$ SE $\frac{1}{4}$ | 80.00 | B-230-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | 3.726787 |
| 18. Bell-Ramsey (NCT-A) (was Tract 47) | T21S-R36E, N.M.P.M. Sec. 4: Lots 4,5, 12,13 W $\frac{1}{2}$ SW $\frac{1}{4}$ | 238.72 | B-230-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | 1.459570 |
| 19. R.R. Bell (NCT-A) (was Tract 63) | T21S-R36E, N.M.P.M. Sec. 8: S $\frac{1}{2}$ SE $\frac{1}{4}$ | 80.00 | B-230-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | .426101 |
| 20. Bell-Ramsey (NCT-A) (was Tract 64) | T21S-R36E, N.M.P.M. Sec. 9: W $\frac{1}{2}$ W $\frac{1}{2}$ | 160.00 | B-230-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | .796347 |
| 21. R.R. Bell (NCT-E) (was Tract 71) | T21S-R36E, N.M.P.M. Sec. 11: N $\frac{1}{2}$ NW $\frac{1}{4}$ | 80.00 | B-230-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | .355963 |
| 22. R.R. Bell (NCT-C) (was Tract 94) | T21S-R36E, N.M.P.M. Sec. 15: NW $\frac{1}{4}$ | 160.00 | B-230-1 HBP 2/28/28 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | 2.683321 |
| 23. State "D" (was Tract 92) | T21S-R36E, N.M.P.M. Sec. 16: W $\frac{1}{2}$ SE $\frac{1}{4}$ | 80.00 | B-1889-3 HBP 6/8/28 | State of New Mexico 12 $\frac{1}{2}$ | Getty Oil Company | None | Getty Oil Company 100% | .918559 |

| TRACT NO. AND TRACT NAME | DESCRIPTION OF LAND | ACRES | SERIAL NO. AND EFFECTIVE DATE | BASIC ROYALTY OWNER AND PERCENTAGE | LESSEE OF RECORD | OVERRIDING ROYALTY OWNER AND PERCENTAGE | WORKING INTEREST OWNER AND PERCENTAGE | PARTIC OF TR IN U |
|---|---|----------|-------------------------------|---|--|--|--|-------------------|
| | | | | | | 9.375% | | |
| 70. State "J" (was Tract 27) | T20S-R37E, N.M.P.M. Sec. 32: SE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$ | 240.00 | B-1167-49 HBP 9/15/32 | State of New Mexico 12% | El Paso Natural Gas Company and Shell Western Exploration and Production, Inc. | None | Shell Western Exploration and Production, Inc. 100% | .287522 |
| 71. Harry Leonard (NCT-A) (was Tract 107) | T21S-R36E, N.M.P.M. Sec. 22: NE $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$ N $\frac{1}{2}$ SE $\frac{1}{4}$ | 320.00 | B-1732-1 HBP 2/28/33 | State of New Mexico 12 $\frac{1}{2}$ | Gulf Oil Corporation | None | Gulf Oil Corporation 100% | .825987 |
| 72. State "B" (was Tract 73) | T21S-R36E, N.M.P.M. Sec. 11: SE $\frac{1}{4}$ NW $\frac{1}{4}$ | 40.00 | B-2527-12 HBP 2/10/34 | State of New Mexico 12 $\frac{1}{2}$ | Two States Oil Company | None | Two States Oil Company 81.25% The Herman R. Crile Sr. Revocable Trust dated 9-28-76 18.75% | .073299 |
| 73. Skelly "G" (was Tract 12) | T20S-R37E, N.M.P.M. Sec. 30: NW $\frac{1}{4}$ SE $\frac{1}{4}$ | 40.00 | B-2690 HBP 4/2/34 | State of New Mexico 12 $\frac{1}{2}$ | Getty Oil Company | None | Getty Oil Co. 100% | .081241 |
| 74. Phillips (was Tract 7) | T20S-R37E, N.M.P.M. Sec. 30: NE $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ NE $\frac{1}{4}$ | 80.00 | B-2736-9 HBP 4/10/34 | State of New Mexico 12 $\frac{1}{2}$ | Wm. A. and Edward R. Hudson | William A. Hudson .072917 B.D. and Edward R. Hudson .145833 | W.A. and E.R. Hudson 85% E.R. Hudson, Agent 15% | .029017 |
| 75. State "G" (was Tract 45) | T21S-R36E, N.M.P.M. Sec. 5: S $\frac{1}{2}$ SW $\frac{1}{4}$ | 80.00 | B-3114-3 HBP 9/24/34 | State of New Mexico 12 $\frac{1}{2}$ | Atlantic Richfield Co. | Bradley Resources Corp. 5.46870 | Atlantic Richfield Company 100% | .693134 |
| 76. State "J" (was Tract 105) | T21S-R36E, N.M.P.M. Sec. 22: SW $\frac{1}{4}$ NW $\frac{1}{4}$ | 40.00 | B-3114-4 HBP 9/24/34 | State of New Mexico 12 $\frac{1}{2}$ | Amoco Production Co. | None | Atlantic Richfield Company 37.5% Amoco Production Co. 31.794% Landreth Production Corporation (carried working interest) 30.706% | .233315 |
| 77. State "W" (was Tract 8) | T20S-R37E, N.M.P.M. Sec. 30: Lot 2, SE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$ | 159.47 | B-3423-1 HBP 10/29/34 | State of New Mexico 12 $\frac{1}{2}$ | Amarada Hess Corporation | None | Amerada Hess Corporation 100% | .148770 |
| 78. State "193" (was Tract 9) | T20S-R37E, N.M.P.M. Sec. 30: Lot 3 | 39.57 | B-3798-1 HBP 4/22/35 | State of New Mexico 12 $\frac{1}{2}$ | Atlantic Richfield Co. | None | Atlantic Richfield Company 100% | .055491 |
| 66 STATE TRACTS | TOTALING | 8,274.80 | ACRES | OR 58.32% OF | UNIT AREA | | | |