

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

CASE NO. 12949
ORDER NO. R-11865

IN THE MATTER OF THE HEARING CALLED BY THE NEW MEXICO OIL CONSERVATION DIVISION ("DIVISION") ON ITS OWN MOTION FOR AN ORDER REQUIRING SKYLINE ENERGY, L.L.C. TO PROPERLY PLUG AND ABANDON ONE (1) CERTAIN WELL, IMPOSING CIVIL PENALTIES IN THE EVENT OF FAILURE TO COMPLY, AUTHORIZING THE DIVISION TO PLUG THIS WELL IN DEFAULT OF COMPLIANCE BY SKYLINE ENERGY, L.L.C., AND ORDERING A FORFEITURE OF APPLICABLE SECURITY; 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 2nd day of December, 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) Skyline Energy, L.L.C. of Pearland, Texas is the current owner and operator of the State "B" AC-1 Well No. 2 (API No. 30-025-01057), located 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 11, Township 12 South, Range 33 East, NMPM, Lea County, New Mexico.
- (3) This well is located on a state lease issued by the New Mexico State Land Office (State Lease No. B-09950).
- (4) Evidence was presented showing that Skyline Energy, L.L.C. has posted a one-well surety bond in the amount of \$ 10,000.00 for this well in compliance with NMSA 1978, Section 70-2-14 and New Mexico Oil Conservation Division ("Division") Rule 101, which bond is conditioned upon compliance with the statutes of the State of New Mexico and the rules of the Division with respect to the proper plugging and abandonment of this well operated by Skyline Energy, L.L.C. XL Specialty Insurance Company of Lisle, Illinois, is the surety on this bond (Bond No. SB-0040746), executed March 17, 1997, as amended

*No longer
operator this
well.
Now
Northstar
Operating Co.*

by Rider executed January 29, 2002.

(5) The purpose of a one-well 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.

(6) At this time, the Division seeks an order directing the operator to plug this well in accordance with a Division-approved plugging program by January 15, 2003 and, if the operator fails to do so, authorizing the Division to proceed to plug and abandon the well and: (i) to declare forfeiture of the bond furnished by Skyline Energy, L.L.C. to the extent necessary to fully reimburse the Division for its expenses incurred in accomplishing the foregoing; and (ii) to take necessary and appropriate measures to recover from Skyline Energy, L.L.C. any costs of plugging the well in excess of the amount of the bond, if any.

(7) 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 well should be plugged and abandoned.

(8) Neither the operator nor a representative of XL Specialty Insurance Company appeared at the hearing.

(9) The above-described State "B" AC-1 Well No. 2 was initially drilled to a total depth of 11,033 feet in 1951 and completed as an oil producer in the Bagley-Siluro Devonian Pool by Texas Pacific Coal and Oil Company. In 1974 Texas Pacific Coal and Oil Company, under authority of Division Order No. R-4718, issued in Case No. 5145 on February 13, 1974, deepened this well to 11,041 feet and converted it into a salt-water disposal well with injection of produced salt water into the Devonian formation. In early 1997 Skyline Energy, L.L.C. became the operator. This well 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.

(10) By virtue of the failure to use the subject well for beneficial purposes or to have an approved temporary abandonment permit, the subject well is presumed to have been abandoned by Skyline Energy, L.L.C.

(11) The current condition of the State "B" AC-1 Well No. 2 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.

IT IS THEREFORE ORDERED THAT:

(1) Skyline Energy, L.L.C. of Pearland, Texas is hereby ordered to plug and abandon its State "B" AC-1 Well No. 2 (API No. 30-025-01057), located 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 11, Township 12 South, Range 33 East, NMPM, Lea County, New Mexico, on or before January 15, 2003.

(2) The operator shall plug and abandon its State "B" AC-1 Well No. 2 in accordance with the program presented by the Division's district office in Hobbs (District I) at the hearing.

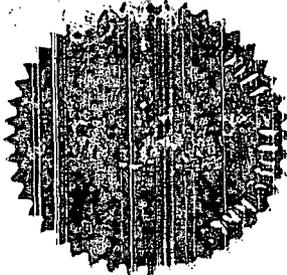
(3) Should Skyline Energy, L.L.C. fail or refuse to carry out such plugging and abandonment in accordance with the terms of this order, the Division shall then take such actions as are necessary to cause this well to be properly plugged and abandoned. Further, the Division shall then be authorized to take such action as is deemed necessary to: (i) declare forfeiture of the \$ 10,000.00 one-well surety bond issued Skyline Energy, L.L.C. by XL Specialty Insurance Company of Lisle, Illinois (Bond No. SB-0040746), executed March 17, 1997, as amended by Rider executed January 29, 2002, to the extent necessary to fully reimburse the Division for its expenses incurred in accomplishing the foregoing; and (ii) recover from Skyline Energy, L.L.C. any costs of plugging the subject well in excess of the amount of this bond, if any.

(4) Division Order No. R-4718, issued in Case No. S145 on February 13, 1975, is hereby rescinded.

(5) Failure to comply with the provisions of this order shall subject Skyline Energy, L.L.C. 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, as amended).

(6) 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

LORI WROTENBERY
Director