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. 14326 ORDER NO. R-13166

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION ("DIVISION") THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER FOR A COMPLIANCE ORDER AGAINST NACOGDOCHES OIL AND GAS, INC. [OGRID 256689] FINDING THAT OPERATOR IS IN VIOLATION OF 19.15.8.9 NMAC, 19.15.25.8 NMAC, AND 19.15.7.24 NMAC; REQUIRING THAT OPERATOR PLUG AND ABANDON ALL 121 OF ITS WELLS IN NEW MEXICO BY A DATE CERTAIN; AND IN THE EVENT OF NON-COMPLIANCE AUTHORIZING THE DIVISION TO PLUG AND ABANDON THE WELLS, AND FORFEIT ANY APPLICABLE FINANCIAL ASSURANCE, PURSUANT TO SECTION 70-2-14(B) NMSA 1978.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 9, 2009, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim, and again on August 20, 2009 before examiner David K. Brooks.

NOW, on this 15th day of September 2009, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.
- (2) The New Mexico Oil Conservation Division ("Division") seeks an order requiring Nacogdoches Oil and Gas, Inc. ("NOG" or "Nacogdoches" or "Operator") to plug and abandon all 121 of its wells identified on Exhibit "A" attached to this order [Titled Nacogdoches Case No. 14326 -121 Inactive wells in violation of OCD Rule 19.15.25.8 NMAC at the time OCD Filed the Application] or alternatively transfer these wells to

another unaffiliated operator by a date certain, or in the event that Operator fails to do so, pursuant to Section 70-2-14(B) NMSA 1978, authorizing the Division to plug and abandon all such wells and forfeit any applicable financial assurances.

- (3) The Division appeared at the hearing through legal counsel and presented the following testimony.
- (a) Nacogdoches Oil and Gas, Inc. acquired 183 wells from Mountain States Petroleum on August 31, 2007, and is the current operator of these wells at the time of the hearing;
- (b) On April 20, 2009, **121** of these wells as shown in **EXHIBIT "A"** attached to this order were inactive in violation of Division Rule 19.15.25.8 NMAC:
- (c) Further, on April 20, 2009, **39** of these wells as shown in **EXHIBIT "B"** attached to this order required single well financial assurances for state and fee lands because they were in violation of Division Rule 19.15.8.9(C);
- (d) Nacogdoches also failed to report production on a monthly basis in violation of Division Rule 19.15.7.24 NMAC; and
 - (e) Nacogdoches is out of compliance with Division Rule 19.15.5.9 NMAC.
- (4) On April 23, 2009, the Division filed an application for a compliance order against Nacogdoches Oil and Gas, Inc. This case was initially heard on July 9, 2009.
- (5) The witness for the Division testified that on July 8, 2009, just a day before the hearing, Nacogdoches still has 86 wells in the inactive well list in violation of Division Rule 19.15.25.8 NMAC, and 28 wells still required single well financial assurances in violation of Division Rule 19.15.8.9(C).
- (6) The Division's financial assurance administrator testified by affidavit that Nacogdoches Oil and Gas, Inc. posted \$50,000 blanket plugging financial assurance Number LOCA276171, through Compass Bank, 24 Greenway Plaza, Suite 1601, Houston Texas 77046. She also testified that as of April 23, 2009, the date of filing this application, NOG has 39 wells that required single well financial assurances, and by July 8, 2009, NOG has 28 wells that still required single well financial assurances. She further testified that the blanket financial assurance and any single well financial assurances posted by NOG have been provided in the form of Letters of Credit.
- (7) Nacogdoches Oil and Gas, Inc. appeared at the hearing through legal counsel and presented the following testimony:
- (i) Nacogdoches Oil and Gas, Inc. acquired the 183 wells from Mountain States Petroleum on August 31, 2007, however, the Division did not recognize Nacogdoches as the

operator of those wells until March 18, 2008. As a consequence, all the production was reported under Mountain States Petroleum, the prior operator of these wells;

- (ii) Nacogdoches has worked very hard to return the wells to production or injection after acquiring the Wells from Mountain States Petroleum;
- (iii) Recently Nacogdoches filed an application for a salt water disposal well, but the application was continued indefinitely because Nacogdoches was out of compliance with Division Rule 19.15.5.9;
- (iv) Several wells could come into compliance with the Division Rules if the salt water disposal well is approved namely: (1) some of the shut-in producing wells could be put on production again, (2) the injection wells that failed Mechanical Integrity Tests (MITs) or that have constant sand problems could be replaced with the new salt water disposal well;
- (v) If additional wells are allowed to be put on production by approving the salt water disposal well, the project will be economical. The project can produce between 300 to 400 barrels of oil per day; and
- (vi) Nacogdoches has spent approximately \$8 million in capital investment for the purchase of hardware, pipe, flow lines, plugging equipment, acid trucks, pulling units, and bulldozers, and this does not include the purchase price of the property.
- (8) After the hearing on July 9, 2009, the case was continued to August 20, 2009, to enable the Operator to come into compliance with all the Division Rules. Specific instructions given to the Operator to ensure that it complies with the Division Rules include the following: (1) bring all its inactive wells into compliance with Rule 19.15.25.8 NMAC; (2) post all additional financial assurances; and (3) file all the production and injection reports on form C-115. If on August 20, 2009, the Operator had complied with all these requirements to the satisfaction of the Compliance and Enforcement Manager, this case would therefore be dismissed. Should the Operator fail to comply with all these requirements on this date, then this case would be taken under advisement and an order entered.

The Division determined the following:

- (9) At the August 20, 2009 hearing, it was determined that the Operator failed to comply with all the Division Rules, the specific instructions and requirements outlined on July 9, 2009, and therefore, the case was accordingly taken under advisement.
- (10) Evidence presented by the Division at the hearing on August 20, 2009, indicated that there were still 48 inactive wells in violation of Division Rules 19.15.5.9 NMAC, and 19.15.25.8 NMAC. These wells are shown on **EXHIBIT** "C" attached to this order.

- (11) Nacogdoches did bring 38 wells out of 86 wells into compliance by August 20, 2009 [86-48 = 38].
- (12) Nacogdoches complied with the financial assurance requirements even though some single well financial assurances were posted on the morning of August 20, 2009, just before the hearing.
- (13) Nacogdoches has complied with the monthly reporting requirements of the Division.
- (14) The Operator however, could not demonstrate that it has complied with all the Division Rules, and for failure to comply with all the Rules, and specific requirements by August 20, 2009, the Operator is still in violation of Division **Rule 19.15.5.9 NMAC**. As a consequence, the Operator should be ordered to take one of the following actions with respect to each of the 48 inactive wells on or before December 31, 2009:
 - (a) Plug and abandon the wells.
 - (b) Obtain OCD approved temporary abandonment status for the wells.
 - (c) Return the wells to regular production or injection.
 - (d) Transfer the wells to another unaffiliated operator.
- (15) Should the Operator fail to comply with this Order by December 31, 2009, then:
- (a) its blanket plugging financial assurance, and any single well financial assurances applicable to wells remaining out of compliance with the Rules shall be forfeited;
- (b) the Division may proceed to plug and abandon any well that remains out of compliance with Division Rules, and the Operator shall, immediately upon presentation of an invoice, reimburse the Division for all costs incurred in properly plugging and abandoning any such well, in excess of applicable financial assurance proceeds; and
- (c) after notice to the Operator and opportunity for a hearing, unless the Operator demonstrates that it has, in fact, complied with all the requirements of this Order by December 31, 2009, the Division Director may order the Operator to shut in all of the wells that it operates until it replaces the blanket financial assurances herein declared forfeited, and furnishes any additional financial assurances required for continuation of its operations under applicable Division Rules.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of the Division, Nacogdoches Oil and Gas, Inc. is hereby ordered to take one of the following actions on or before December 31, 2009:

- (a) Plug and abandon the wells.
- (b) Obtain OCD approved temporary abandonment status for the wells.
- (c) Return the wells to regular production or injection.
- (d) Transfer the wells to another unaffiliated operator.
- (2) Should the Operator fail to comply with this Order by December 31, 2009, then:
- (a) its blanket plugging financial assurance, and any single well financial assurances applicable to the wells remaining out of compliance with the Rules shall be forfeited;
- (b) the Division may proceed to plug and abandon any well that remains out of compliance with Division Rules, and the Operator shall, immediately upon presentation of an invoice, reimburse the Division for all costs incurred in properly plugging and abandoning any such well, in excess of applicable financial assurance proceeds; and
- (c) after notice to the Operator and opportunity for a hearing, unless the Operator demonstrates that it has, in fact, complied with all the requirements of this Order by December 31, 2009, the Division Director may order the Operator to shut in all of the wells that it operates until it replaces the blanket financial assurances herein declared forfeited, and furnishes any additional financial assurances required for continuation of its operations under applicable Division Rules.
- (3) On the other hand, should the Operator comply with all the provisions of this order by December 31, 2009, it shall be allowed to re-open its salt water disposal application which was continued indefinitely.
- (4) 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.

CEAT

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.

Director

EXHIBIT "A" Nacogdoches - Case No. 14326 - 121 Wells Inactive [in violation of OCD Rule 19.15.25.8] at time Application Filed by OCD

30-031-20369	30-03	37.	A FE RK 8 #033	SANTA FE	37.
30-031-20303	30-03	36.	A FE RR B #032	SANTA FE	36.
30-031-20855	30-03:	35.		SANTA FE	35.
30-031-20413	30-03	34.		SANTA FE	34.
30-031-20372	30-03	33.		SANTA FE	33.
30-031-20147	30-03	32.	A FE RAILROAD A #083	SANTA FE	32
30-031-20021	30-03	31.	A FE RAILROAD A #074	SANTA FE	31.
30-031-20853	30-03:	30.	A FE RAILROAD #051	SANTA FE	30.
30-031-20854	30-03	29.	SANTA FE RAILROAD #050	SANTA	29.
30-031-20838	30-03:	28.	SANTA FE RAILROAD #049	SANTA	28.
30-031-20837	30-03	27.	SANTA FE RAILROAD #048	SANTA	27.
30-031-20836	30-03	26.	SANTA FE RAILROAD #047	SANTA	26.
30-031-20804	30-03	25.	SANTA FE RAILROAD #045	SANTA	25.
30-031-20713	30-03:	24.	SANTA FE RAILROAD #044	SANTA	24.
30-031-20712	30-03	23.	SANTA FE RAILROAD #043	SANTA	23.
30-031-20745	30-03:	22.	SANTA FE RAILROAD #042	SANTA	22.
30-031-20594	30-03	21.	SANTA FE RAILROAD #041	SANT.	21.
30-031-20451	30-03	20.	SANTA FE RAILROAD #040	SANTA	20.
30-031-20452	30-03	19.	A FE RAILROAD #039	SANTA FE	19.
30-031-20150	30-03:	18.	SANTA FE RAILROAD #023	SANT/	18.
30-031-20141	30-03	17.	SANTA FE RAILROAD #021	SANT/	17.
30-031-20140	30-03:	16.	A FE RAILROAD #020	SANTA	16.
30-031-20139	30-03	15.	A FE RAILROAD #019	SANTA	15.
30-031-20138	30-03:	14.	A FE RAILROAD #018	SANTA	14.
30-031-20036	30-03:	13.	A FE RAILROAD #015	SANTA	13.
30-031-20037	30-03	12.	A FE RAILROAD #014	SANTA	12.
30-031-20038	30-03:	11.	A FE RAILROAD #013	SANTA	11.
30-031-20032	30-03:	10.	A FE RAILROAD #012	SANTA	10.
30-031-05531	30-03	9	A FE RAILROAD #009	SANTA	9.
30-031-05496	30-03	œ	A FE RAILROAD #008	SANTA	œ
30-031-05141	30-03	7.	A FE RAILROAD #007	SANTA	7.
30-031-05151	30-03	6.	A FE RAILROAD #004	SANTA	6.
30-031-05147	30-03:	'n	SANTA FE RAILROAD #003	SANT/	'n
30-031-20182	30-03:	4.	SANTA FE PACIFIC RAILROAD #009	SANT/	4.
30-031-20181	30-03:	įω	SANTA FE PACIFIC RAILROAD #008	SANTA	ω
30-031-20165	30-03:	2.	SANTA FE PACIFIC RAILROAD #002	SANTA	2.
30-031-20341	30-03:	i,	SANTA FE #029	SANTA	'n
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EXHIBIT "A" Nacogdoches - Case No. 14326 – 121 Wells Inactive (in violation of OCD Rule 19.15.25.8) at time Application Filed by OCD

	73. SOUTH HOSPAH UNIT #037X	72. SOUTH HOSPAH UNIT #036	71. SOUTH HOSPAH UNIT #035	70. SOUTH HOSPAH UNIT #033				66. SOUTH HOSPAH UNIT #029	65. SOUTH HOSPAH UNIT #028	64. SOUTH HOSPAH UNIT #027	-	62. SOUTH HOSPAH UNIT #025	61. SOUTH HOSPAH UNIT #024	60. SOUTH HOSPAH UNIT #022	59. SOUTH HOSPAH UNIT #021	58. SOUTH HOSPAH UNIT #017	57. SOUTH HOSPAH UNIT #016	56. SOUTH HOSPAH UNIT #015	55. SOUTH HOSPAH UNIT #014	54. SOUTH HOSPAH UNIT #013	53. SOUTH HOSPAH UNIT #012	52. SOUTH HOSPAH UNIT #011	51. SOUTH HOSPAH UNIT #010	50. SOUTH HOSPAH UNIT #009	49. SOUTH HOSPAH UNIT #008	48. SOUTH HOSPAH UNIT #007	47. SOUTH HOSPAH UNIT #006	46. SOUTH HOSPAH UNIT #005	45. SOUTH HOSPAH UNIT #004	44. SOUTH HOSPAH UNIT #003	43. SOUTH HOSPAH UNIT #002	42. SOUTH HOSPAH UNIT #001	41. SANTA FE RR B #037	40. SANTA FE RR B #036	39. SANTA FE RR B #035	38. SANTA FE RR B #034	
/3. 30-031-20133	•		•	70. 30-031-20124	69. 30-031-20125	68. 30-031-20122	67. 30-031-20121	66. 30-031-20120	65. 30-031-20095	64. 30-031-20094	63. 30-031-20093	-			-			-	55. 30-031-20053	•		-	-	-	•	•	•	•	•	•	•	•	•	•	•	38. 30-031-20390	i

EXHIBIT "A" Nacogdoches - Case No. 14326 - 121 Wells Inactive Jin violation of OCD Rule 19.15.25.8] at time Application Filed by OCD

110.	108.	107.	106.	105.	104.	103.	102.	101.	100.	99.	98.	97.	96.	95.	94.	93.	92.	91.	90.	89.	88.	87.	86.	85.	84.	83.	82.	81.	80.	79.	78.	77.	76.	75.	74.
HOSPAH SAND UNIT #038 HOSPAH SAND UNIT #052	HOSPAH SAND UNIT #037	HOSPAH SAND UNIT #035	HOSPAH SAND UNIT #032	HOSPAH SAND UNIT #029	HOSPAH SAND UNIT #028	HOSPAH SAND UNIT #027	HOSPAH SAND UNIT #025	HOSPAH SAND UNIT #019	HOSPAH SAND UNIT #017	HOSPAH SAND UNIT #015	HOSPAH SAND UNIT #003	SANTA FE #017	SANTA FE #016	HOSPAH SAND UNIT #050	HOSPAH SAND UNIT #039	LONE PINE DAKOTA D UNIT #023	SOUTH HOSPAH UNIT #064	SOUTH HOSPAH UNIT #063	SOUTH HOSPAH UNIT #062	SOUTH HOSPAH UNIT #061	SOUTH HOSPAH UNIT #060	SOUTH HOSPAH UNIT #059	SOUTH HOSPAH UNIT #058	SOUTH HOSPAH UNIT #057	SOUTH HOSPAH UNIT #054	SOUTH HOSPAH UNIT #053	SOUTH HOSPAH UNIT #052	SOUTH HOSPAH UNIT #051	SOUTH HOSPAH UNIT #050	SOUTH HOSPAH UNIT #049	SOUTH HOSPAH UNIT #048	SOUTH HOSPAH UNIT #047	SOUTH HOSPAH UNIT #046	SOUTH HOSPAH UNIT #039	SOUTH HOSPAH UNIT #038
110.	108.	107.	106.	105.	104.	103.	102.	101.	100.	99.	98.	97.	96.	95.	94.	93.	92.	91.	90.	89.	88.	87.	86.	85.	84.	8 3.	82.	81.	80.	79.	78.	77.	76.	75.	74.
30-031-05179 30-031-05182	30-031-05219	30-031-05222	30-031-05224	30-031-05225	30-031-05216	30-031-05214	30-031-05212	30-031-05203	30-031-05213	30-031-05207	30-031-05205	30-031-20102	30-031-20086	30-031-05201	30-031-05171	30-031-20201	30-031-20547	30-031-20544	30-031-20545	30-031-20546	30-031-20411	30-031-20410	30-031-20409	30-031-20408	30-031-20407	30-031-20278	30-031-20243	30-031-20242	30-031-20364	30-031-20363	30-031-20362	30-031-20361	30-031-20360	30-031-20152	30-031-20151
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EXHIBIT "A" Nacogdoches - Case No. 14326 - 121 Wells Inactive [in violation of OCD Rule 19.15.25.8] at time Application Filed by OCD

34. SANTA FE RAILROAD #047	33. SANTA FE RAILROAD #045	32. SANTA FE RAILROAD #043	31. SANTA FE RAILROAD #042	30. SANTA FE RAILROAD #041	29. SANTA FE RAILROAD #040	28. SANTA FE RAILROAD #039	27. SANTA FE RAILROAD #023	26. SANTA FE RAILROAD #021	25. SANTA FE RAILROAD #020	24. SANTA FE RAILROAD #019	23. SANTA FE RAILROAD #018	22. SANTA FE RAILROAD #015	21. SANTA FE RAILROAD #014	20. SANTA FE RAILROAD #013	19. SANTA FE RAILROAD #009	18. SANTA FE RAILROAD #008	17. SANTA FE RAILROAD #007	16. SANTA FE RAILROAD #004	15. SANTA FE #029	14. SANTA FE #017	13. SANTA FE #016	12. HOSPAH SAND UNIT #105	11. HOSPAH SAND UNIT #095	10. HOSPAH SAND UNIT #052	HOSPAH SAND UNIT #035	8. HOSPAH SAND UNIT #032	HOSPAH SAND UNIT #029	6. HOSPAH SAND UNIT #028	5. HOSPAH SAND UNIT #027	HOSPAH SAND UNIT #025	3. HOSPAH SAND UNIT #019	HOSPAH SAND UNIT #017	1. HOSPAH SAND UNIT #015
	33, 30-031-20804	32. 30-031-20712	31. 30-031-20745	30. 30-031-20594	29. 30-031-20451	28. 30-031-20452	27. 30-031-20150	26. 30-031-20141	25. 30-031-20140	24. 30-031-20139	23. 30-031-20138	-	21. 30-031-20037	20. 30-031-20038				16. 30-031-05151		-				10. 30-031-05182	•	8. 30-031-05224	•	•	5, 30-031-05214	4. 30-031-05212	3. 30-031-05203	2. 30-031-05213	1. 30-031-05207

EXHIBIT "B" Nacogdoches - Case No. 14326 - 39 Wells in violation of financial assurance requirements at time OCD filed Application

		39.	38.	37.	3 6,	35.
		SANTA FE RAILROAD A #074	SANTA FE RAILROAD #051	SANTA FE RAILROAD #050	SANTA FE RAILROAD #049	SANTA FE RAILROAD #048
		39. 30-031-20021	38. 30-031-20853	37. 30-031-20854	36. 30-031-20838	35. 30-031-20837
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EXHIBIT "C" Nacogdoches - Case No. 14326 –48 Wells Inactive [in violation of QCD Rule 19.15.25.8] as of 8/20/09 Order No. R-13166, September 15, 2009

94	30-031-20094	34.	34. SOUTH HOSPAH UNIT #02/	
38	30-031-05498	33.	٠	
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34	30-031-05134	32.	32. SOUTH HOSPAH UNIT #021	(A)
57	30-031-20057	31.	31. SOUTH HOSPAH UNIT #017	w
54	30-031-20054	30.	30. SOUTH HOSPAH UNIT #013	
20	30-031-20020	29.	29. SOUTH HOSPAH UNIT #012	N
13	30-031-20013	28.	28. SOUTH HOSPAH UNIT #009	N.I
15	30-031-20015	27.	27. SOUTH HOSPAH UNIT #008	N
)9	30-031-20009	26.	26. SOUTH HOSPAH UNIT #006	N
16	30-031-05146	25.	25. SOUTH HOSPAH UNIT #005	N)
15	30-031-05145	24.	24. SOUTH HOSPAH UNIT #004	N)
39	30-031-05139	23.	23. SOUTH HOSPAH UNIT #002	N
)1	30-031-20391	22.	22. SANTA FE RR B #035	2
)3	30-031-20303	21.	21. SANTA FE RR B #032	 N
55	30-031-20855	20.	20. SANTA FE RAILROAD A #097	 N
1.3	30-031-20413	19.	19. SANTA FE RAILROAD A #087	
72	30-031-20372	18.	18. SANTA FE RAILROAD A #084	
17	30-031-20147	17.	17. SANTA FE RAILROAD A #083	
21	30-031-20021	16.	16. SANTA FE RAILROAD A #074	
33	30-031-20853	15.	15. SANTA FE RAILROAD #051	
13	30-031-20713	14.	14. SANTA FE RAILROAD #044	
0	30-031-20150	13.	13. SANTA FE RAILROAD #023	
32	30-031-20182	12.	12. SANTA FE PACIFIC RAILROAD #009	
)1	30-031-20201	11.	11. LONE PINE DAKOTA D UNIT #023	
74	30-031-20174	10.	10. LONE PINE DAKOTA D UNIT #014	
33	30-031-20183	9	9. LONE PINE DAKOTA D UNIT #012	ώ
31	30-031-20831	œ	8. HOSPAH SAND UNIT #100	00
11	30-031-20611	7.	7. HOSPAH SAND UNIT #093	-
13	30-031-20613	6	6. HOSPAH SAND UNIT #092	
84	30-031-20248	'n	5. HOSPAH SAND UNIT #084	LIT
15	30-031-20115	4	4. HOSPAH SAND UNIT #058	
)4	30-031-05194		3. HOSPAH SAND UNIT #051	ເມ
71	30-031-05171	2	2. HOSPAH SAND UNIT #039	N
79	30-031-05179	1.	1. HOSPAH SAND UNIT #038	

EXHIBIT "C" Nacogdoches - Case No. 14326 - 48 Wells Inactive [in violation of OCD Rule 19.15.25.8] as of 8/20/09

Order No. R-13166, September 15, 2009

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