



# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**

Governor

**Joanna Prukop**

Cabinet Secretary

**Mark E. Fesmire, P.E.**

Director

**Oil Conservation Division**

November 29, 2006

Randy G. Patterson, V.P.  
Exploration & Production  
Yates Petroleum Corporation  
105 So. Fourth Street  
Artesia, New Mexico 88210-2118

Certified Mail No.: 7001-1940-0001-9971-5062

## **NOTICE OF VIOLATION (2-06-26)**

Re: Facility: Pay SWD No. 2Q, API No. 30-005-63706  
Violations: OCD Rule 704 [19.15.9.704 NMAC]  
OCD Administrative Order SWD-975

Dear Mr. Patterson:

While on field inspection, Oil Conservation Division ("OCD") Field Inspector Phil Hawkins identified Yates Petroleum Corporation ("Yates") salt water disposal well, the Pay SWD No. 2Q, as operating without having completed OCD required tests and/or paperwork. On October 25, 2006, OCD Deputy Oil and Gas Inspector Gerry Guye performed a file and compliance review on Yates' Pay SWD No. 2Q. Inspector Guye found that Yates was in violation of ODC Rule 704 [19.15.9.704 NMAC] and Administrative Order SWD-975 in the operation of this well (*Attachment 1, relevant portion of Administrative Order SWD-975*).

OCD Rule 704.A (1) requires that before commencement of injection, the well "shall be tested to assure the integrity of the casing and the tubing and packer, if used, including pressure testing of the casing-tubing annulus to a minimum of 300 psi for 30 minutes or such other pressure and/or time as may be approved by the appropriate district supervisor. A pressure recorder shall be used and copies of the chart shall be submitted to the appropriate division district office within 30 days following the test date."

OCD Rule 704.A (3) provides that "[n] otwithstanding the test procedures outlined above, the division may require more comprehensive testing of the injection wells when deemed advisable, including the use of tracer surveys, noise logs, temperature logs, or other test procedures or devices." Further, OCD Rule 704.A (5) requires that the operator advise the OCD "of the date and

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time any initial, five-year, or special tests are to be commenced in order that such tests may be witnessed [by the OCD].”

Yates knowingly and willfully violated two (2) provisions of OCD Rule 704, as follows:

- (1) OCD Rule 704.A (5) by failing to notify the OCD of the date and time of the initial mechanical integrity test (“MIT”); and
- (2) OCD Rule 704.A (1) by failing to submit copies of the chart to the OCD Artesia District Office within thirty days following the test.

Administrative Order SWD-975 authorized, with conditions, Yates use of Pay SWD Well No. 2 as a produced water disposal. Prior to Yates injecting into the well, the Order requires that Yates:

- 1) supply the OCD with a copy of the mud log report covering the Silurian formation;
- 2) supply the OCD with a water analysis of the Silurian formation in this or a nearby well; and
- 3) estimate the initial reservoir pressure of the injection interval and send this estimate by letter to the OCD (referencing SWD-975); and
- 4) notify the OCD Artesia District Office Supervisor of the date and time of installation of the disposal equipment and mechanical integrity test, “so that the same may be inspected and witnessed.”

Yates knowingly and willfully violated Administrative Order SWD-975 four (4) times by:

- (1) failing to notify the OCD of the date and time of installation of the disposal equipment and MIT test;
- (2) submit to the OCD the required mud log report;
- (3) failing to submit to the OCD a water analysis; and
- (4) failing to submit to the OCD an estimate of the initial reservoir pressure of the injection interval.

By Letter of Violation (“LOV”) dated October 26, 2006, the OCD notified Yates that the well was out of compliance for failing to run a MIT and/or failing to notify the OCD Artesia District

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Office of the date and time of the installation of disposal equipment and of the mechanical integrity tests, so they could be inspected and witnessed. The LOV instructed Yates to immediately shut-in the well and bring it into compliance by November 6, 2006. (*Attachment 2, LOV.*)

After sending the LOV, Inspector Guye spoke by telephone with Michelle Taylor, Yates Regulatory Department, regarding the violations. Ms. Taylor told Inspector Guye that Yates had sent the OCD required documentation (though she did not specify exactly what documentation) to the Bureau of Land Management ("BLM"), but agreed to turn all information over to her field personnel. Inspector Guye advised Ms. Taylor, as he has done countless times in the past, that originals of OCD required documentation must be sent to it, with copies only to the BLM. To date, Yates has not provided the required documents to the OCD Artesia Office, as required.

Yates' misconduct warrants issuance of this Notice of Violation and assessment of civil penalties pursuant to NMSA 1978, §70-2-31(A) for violations of the OCD rules described above. Section 70-2-31(A) authorizes penalties of up to **one thousand dollars (\$1,000.00)** per day per violation for any knowing and willful violation of any provision of the Oil and Gas Act or any rule adopted pursuant to the Act.

Because the rule violation at issue is serious and occurred over a period of time, the OCD Artesia District Office believes at this time a **Five Thousand Dollar (\$5,000.00)** civil penalty and a definite commitment to future corrective action are essential. This penalty is based on two (2) violations of OCD Rule 704 (failure to notify the OCD of the date and time of the MIT and failure to submit required chart) and three (3) violations of Administrative Order SWD-975 (failure to submit mud log, water analysis and estimate of the initial reservoir pressure of the injection interval; there is no separate penalty being assessed for failure to notify of the MIT, as it was cited under OCD Rule 704).

Please contact Tim Gum within ten (10) days from the date of this letter at (505) 748-1283, ext. 102, to schedule an administrative conference to discuss this matter. OCD legal counsel may be present by telephone for this conference, and you may bring legal counsel if you wish. The purpose of the administrative conference is to discuss the facts surrounding this notice of violation, and to determine if the matter can be resolved administratively through an agreed compliance order.

If this matter cannot be resolved administratively, the OCD may take further enforcement action, which may include an enforcement hearing before an OCD hearing examiner seeking an order requiring that the wells be plugged and abandoned pursuant to NMSA 1978, § 70-2-14(B). That statute provides:

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If any of the requirements of the Oil and Gas Act or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.

Thank you for your assistance in this matter. If you have any questions, please do not hesitate to call.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Tim W. Gum", written in a cursive style.

Tim Gum  
District II Supervisor

cc: Bureau of Land Management  
Daniel Sanchez, OCD Compliance Manager  
Gail MacQuesten, OCD Assistant General Counsel  
Cheryl O'Connor, OCD Assistant General Counsel  
Gerry Guye, District II Deputy Oil and Gas Inspector

Encl: 1. Administrative Order SWD-975  
2. Letter of Violation dated Oct. 26, 2006



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Director

**Oil Conservation Division**

RECEIVED

APR 11 2005

ADMINISTRATIVE ORDER SWD-975

UNRECORDED

## **APPLICATION OF YATES PETROLEUM CORPORATION FOR PRODUCED WATER DISPOSAL, CHAVES COUNTY, NEW MEXICO.**

### **ADMINISTRATIVE ORDER OF THE OIL CONSERVATION DIVISION**

Under the provisions of Rule 701(B), Yates Petroleum Corporation made application to the New Mexico Oil Conservation Division on March 18, 2005, for permission to utilize for produced water disposal its PAY SWD Well No. 2 (API No. 30-005-63706) located 660 feet from the South line and 660 feet from the West line of Section 11, Township 8 South, Range 26 East, NMPM, Chaves County, New Mexico.

#### **THE DIVISION DIRECTOR FINDS THAT:**

- (1) The application has been duly filed under the provisions of Rule 701(B) of the Division Rules and Regulations;
- (2) Satisfactory information has been provided that all offset operators and surface owners have been duly notified;
- (3) The applicant has presented satisfactory evidence that all requirements prescribed in Rule 701 will be met; and
- (4) No objections have been received within the waiting period prescribed by said rule.

#### **IT IS THEREFORE ORDERED THAT:**

The applicant is hereby authorized to utilize its PAY SWD Well No. 2 (API No. 30-005-63706) located 660 feet from the South line and 660 feet from the West line of Section 11, Township 8 South, Range 26 East, NMPM, Chaves County, New Mexico, in such manner as to permit the injection of produced water for disposal purposes into the Silurian formation through perforations from approximately 6,188 feet to 6,222 feet and through plastic-lined tubing set with a packer located within 100 feet of the top of the injection interval.

**IT IS FURTHER ORDERED THAT:**

The operator shall take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface.

**Prior to injection, the operator shall:**

- 1) supply the Division with a copy of the mud log report covering the Silurian formation;**
- 2) supply the Division with a water analysis of the Silurian formation in this or a nearby well; and**
- 3) estimate the initial reservoir pressure of the injection interval and send this estimate by letter to the Division (referencing SWD-975).**

After installing injection tubing, the casing shall be pressure tested from the surface to the packer setting depth to assure casing integrity.

The casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge or an approved leak detection device in order to determine leakage in the casing, tubing, or packer.

The wellhead injection pressure on the well shall be limited to **no more than 1,238 psi**. In addition, the injection well or system shall be equipped with a pressure limiting device in workable condition which shall, at all times, limit surface injection pressure to the maximum allowable pressure for this well.

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the injected fluid from the injection formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

The operator shall notify the supervisor of the Artesia district office of the Division of the date and time of the installation of disposal equipment and of any mechanical integrity test so that the same may be inspected and witnessed.

The operator shall immediately notify the supervisor of the Artesia district office of the Division of the failure of the tubing, casing, or packer in said well and shall take such steps as may be timely and necessary to correct such failure or leakage.


**PROVIDED FURTHER THAT,** jurisdiction is retained by the Division for the entry of such 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 (1) to protect fresh water or (2) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the injection authority granted herein.

The operator shall provide written notice of the date of commencement of injection to the Artesia district office of the Division.

The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Rule Nos. 706 and 1120 of the Division Rules and Regulations.

The injection authority granted herein shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject well, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

Approved at Santa Fe, New Mexico, on this 4th day of April 2005.

  
MARK E. FESMIRE, P.E.  
Director

MEF/wvjj

cc: Oil Conservation Division – Artesia  
Bureau of Land Management – Roswell



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Director

**Oil Conservation Division**

26-Oct-06

## **YATES PETROLEUM CORPORATION**

105 S 4TH ST

ARTESIA NM 88210

### **LETTER OF VIOLATION - Inspection**

*LOV NW. 02 of 66*

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

### **INSPECTION DETAIL SECTION**

**PAY SWD No.002Q**

**M-11-8S-26E**

**30-005-63706-00-00**

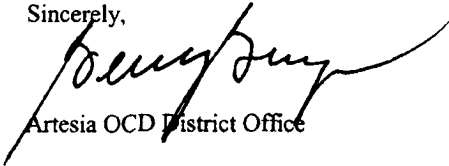
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/25/2006	File and Compliance Review	Gerry Guye	Yes	Yes	11/6/2006	iGEG0629828080

**Comments on Inspection:** Records this office indicate well started injection in November 2005. SWD-975 states in part .."Prior to commencing injection operations into the well, the casing shall be pressure tested from the surface to the packer setting depth to assure the integrity of said casing." and ..."The operator shall notify the supervisor of the Artesia district office of the Division of the date and time of the installation of disposal equipment and of the mechanical integrity tests so that the same may be inspected and witnessed." **THIS WELL MUST BE SHUT-IN IMMEDIATELY AND REMAIN SHUT-IN PENDING SCHEDULING WITH THE ARTESIA OFFICE FOR A WITNESSED MIT.**



In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,



Artesia OCD District Office

**Note:** Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.

\*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.