

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Ken McQueen
Cabinet Secretary

Matthias Sayer
Deputy Cabinet Secretary

David R. Catanach, Division Director
Oil Conservation Division



Response Required – Deadline Enclosed
Underground Injection Control Program

March 23, 2017

Mr. Nevin Bannister
OWL SWD Operating, LLC
8214 Westchester Drive, Suite 850
Dallas, TX 75225

AND

Mr. Ben Stone
(As agent for OWL SWD Operating, LLC)
SOS Consulting, LLC
P. O. Box 300
Como, TX 75431

RE: NOTICE TO OPERATOR: FINAL REPORT AND RECOMMENDATIONS REGARDING INJECTION SURVEY RESULTS FOR THE MARALO SHOLES B WELL NO. 2 (API 30-025-09806; SWD-1127); OWL SWD OPERATING LLC
Maralo Sholes B Well No. 2 (API 30-025-09806)
660' FSL, 660' FEL; Unit P, Sec 25, T25S, R36E, NMPM, Lea County, New Mexico
Injection Authority: Administrative Order SWD-1127
Order Date: June 1, 2008
Permitted Interval: Yates and Seven Rivers formations; 2938 feet to 3055 feet

Gentlemen:

The Division has reviewed all testing information and the report submitted by CEK Engineering LLC on behalf of OWL SWD Operating, LLC (the "operator"). Additionally, the Engineering Bureau compiled information and data regarding the operation of the Maralo Sholes B Well No. 2 (the "subject well") at the request of the Director. A copy of the final report completed by the Division is attached to this correspondence.

The Division finds that the injection operation based on the surveys is confined to the vertical interval described in Administrative Order SWD-1127. However, this review identified several issues including an intermediate casing that is not properly cemented to protect formations that have the potential to qualify as Underground Sources of Drinking Water, evidence that at least one producing well within the same interval as the subject well is being impacted by the current disposal operation, and indications that the final distribution of injection fluids from this and other disposal wells in the Jal area could potentially impact the Capitan Reef aquifer.

As a result of the recommendations made in its report, the Division is proceeding with the following actions regarding the subject well:

1. The Division shall amend existing Administrative Order SWD-1127 to include a maximum rate not to exceed 6550 barrels of water per day. This amended order shall have an effective date of April 22, 2017 (30 days from the date of this correspondence), at which time the operation of the Maralo Sholes B Well No. 2 will be limited to this maximum rate.
2. The operator shall install a monitoring system at the wellhead to verify and document the disposal rate during inspection of the well site and that can be compiled for later review. This system shall be operational with the implementation of the amended order on April 22, 2017.
3. The operator shall submit a remedial plan for the Maralo Sholes B Well No. 2 that shall seal the shoe and the length of the 8 $\frac{1}{8}$ -inch intermediate casing as to isolate the following lithologies in the annulus of the borehole: the salt section, the identified occurrence of groundwater in the Rustler formation and the exposed section of the Santa Rosa Formation. This remedial plan shall be submitted in a C-103 Sundry Notice of Intent to the District Supervisor for review and approval within 30 days of this correspondence date.
4. The operator shall provide a list of produced water sources representative of current fluids being disposed in the subject well. This submittal shall also provide laboratory analyses representative of the major volumes or from the tank battery/pipeline for the Maralo Sholes B Well No. 2. This information is to be attached to a Division form C-103 and submitted to District I Supervisor no later than 60 days following the date of this correspondence.

Please contact either Daniel Sanchez, Fields Operations Manager (505.476.3493), or Phillip Goetze, Engineering Bureau (505.476.3493), with any questions regarding the content of this correspondence.

Sincerely,



DAVID R. CATANACH
Director

DRC/prg

cc: Bureau of Land Management – Carlsbad Field Office
Mr. Bob Gallagher, City Manager, City of Jal
Oil Conservation Division – Hobbs District Office
Well File API 30-025-09806
Administrative Order SWD-1127

Enclosure:

FINAL REPORT AND RECOMMENDATIONS REGARDING INJECTION SURVEY
RESULTS FOR THE MARALO SHOLES B WELL NO. 2 (API 30-025-09806; SWD-1127);
OWL SWD OPERATING LLC