

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. 14657
ORDER NO. R- 13448

APPLICATION OF THE NEW MEXICO OIL
CONSERVATION DIVISION FOR A COMPLIANCE
ORDER AGAINST McDONNOLD OPERATING, INC.,
REVOKING INJECTION PERMITS R-3269 AND WFX-510
FOR THE LANGLEIE JACK UNIT, LEA COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 7, 2011, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 22nd day of August, 2011, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.

(2) This is a compliance action commenced by the Division pursuant to Rule 5.10 [19.15.5.10 NMAC], wherein the Division seeks an order requiring McDonnold Operating Inc. ("McDonnold" or "Operator") to remedy certain violations of the Division's inactive well rule [19.15.25.8 NMAC], of rules regarding the operation of injection wells [19.15.26.10 and 19.15.26.11 NMAC] and reporting of production and injection [19.15.7.24 and 19.15.26.13 NMAC] and of the Division's rule regarding reporting and remediation of leaks and spills [19.15.29.8 and 19.15.29.11 NMAC]. In the event that Operator fails to comply with an order directing that it remedy the referenced violations, the Division seeks cancellation of Operator's injection permits pursuant to Rule 5.9 [19.15.5.9 NMAC] and the terms of the permits.

(3) At the hearing, the Division appeared through counsel and presented evidence as follows:

(a) McDonnold is the operator of 36 wells in the State of New Mexico.

(b) As of July 7, 2011 (the date of the hearing), seven of those wells were in apparent violation of the Division's inactive well rule, because operator's reports to the Division reflected no production from, or injection into, those seven wells for a period of more than one year plus 90 days.

(c) McDonnold is the operator of the Langlie Jack Unit, a Division-approved waterflood project permitted by Order No. R-3269, issued on July 10, 1967, and of the Langlie Jack Unit Well No. 4, an additional well in the Langlie Jack Waterflood Project permitted for injection by Administrative Order WFX-510, issued on April 19, 1983.

(d) On March 9, 2010, four injection wells in the Langlie Jack Unit, the Langlie Jack Unit Wells Nos. 4, 12, 14 and 17, were tested for mechanical integrity and failed.

(e) On March 10, 2010, the Division sent a formal Letter of Violation to Operator directing Operator to restore the mechanical integrity of these wells not later than June 12, 2010.

(f) Operator did not repair these wells within the time directed, and continued injection operations into Wells Nos. 12, 14 and 17. Operator eventually did repair Wells Nos. 12, 14 and 17 after this application was filed, and these wells passed mechanical integrity tests in June 2011.

(g) Operator has indicated that it intends to plug and abandon the Langlie Jack Unit No. 4 but has not filed a formal notice of intent to that effect.

(h) On April 18, 2011, a Division inspector discovered a leak at the Langlie Jack Unit Well No. 14, which was not reported by Operator. The Division directed Operator to remediate soil contamination occasioned by this leak not later than July 19, 2011.

(i) Operator has failed to file production and injection reports on its wells for the month of April 2011, which were due on June 15, 2011 pursuant to Division Rule 7.24.

(j) The Division's Compliance and Enforcement Manager requested that the Director order Operator to remedy all remaining violations within 90 days after issuance of the Order, and set a hearing after expiration of that time to

determine if Operator is then in compliance, and, if not, if Operator's injection permits should be cancelled.

(4) Operator appeared at the hearing through a corporate officer, Craig McDonnold. Mr. McDonnold testified that the Langlie Jack Unit Wells Nos. 12, 14 and 17 passed mechanical integrity tests on May 12, 2010, and that the test results were shown to, and orally approved by, Division personnel. However, this testimony was apparently based on reports to the witness by third parties, and the witness conceded that the alleged reports were not timely filed with the Division.

The Division Director concludes that:

(5) Division Rule 25.8 requires that wells that remain inactive for more than one year plus 90 days be plugged and abandoned unless returned to production or approved by the Division for temporary abandonment.

(6) On the date of the hearing, at least five of Operator's wells were in violation of Rule 25.8. Those were:

<u>Well Name</u>	<u>API No.</u>	<u>Date of Last Production or Injection</u>
Bay Federal No. 3	30-025-04408	Oct. 2008
Cline Federal No. 3	30-025-10739	Nov. 2009
Langlie Jack Unit No. 4	30-025-11174	Mar. 2010
Red Cloud No. 2	30-025-30870	Apr. 2001
State A 16 No. 1	30-025-24814	Apr. 2003

(7) Although the Division identified two other wells, the Cline Federal No. 2 (API No. 30-025-10738) and the Langlie Jack Unit No. 10 (API No. 30-025-11177) as inactive, Mr. McDonnold testified that production resumed from the Cine Federal No. 2 in May 2011, and the Langlie Jack Unit No. 10 was shown as inactive only since March 2010, and reports for May and June of 2011 (a part of the allowed period of inactivity) were not yet filed or due to be filed at the time of the hearing. Hence the evidence does not establish an existing violation of Rule 25.8 as to these wells. The evidence does establish an existing violation as to the Langlie Jack Unit No. 4, notwithstanding reported injection into that well in March 2010, since there was specific testimony that injection into that well has not been resumed.

(8) By reason of the continued inactivity of the wells identified in Finding Paragraph (6), Operator is in continuing non-compliance with Division Rule 5.9, and its injection permits are accordingly subject to cancellation at the discretion of the Division.

(9) Operator violated Division Rule 26.10, formerly Rule 703, compliance with which is required by Operator's injection permit (Order No. R-3269), by failing to promptly repair the Langlie Jack Unit Wells Nos. 12, 14 and 17 after they failed

mechanical integrity tests, and by continuing to inject into these wells after they failed mechanical integrity tests and after the Division directed Operator to cease such injection. These violations, however, have been remedied.

(10) Operator violated Division Rule 26.10, formerly Rule 703, compliance with which is required by Operator's injection permit (Administrative Order WFX-510), by failing to promptly repair the Langlie Jack Unit Well No. 4 after it failed its mechanical integrity test. Since this well has not been repaired or plugged as of the date of the hearing, this constitutes an ongoing violation of Division Rules and of the terms of Operator's permits

(11) The occurrence of the leak discovered on April 18, 2011 at the Langlie Jack Unit Well No. 14 constitutes a violation of Division Rule 26.10.B, and accordingly a violation of Operator's permits.

(12) Operator is in violation of Division Rule 7.24 by reason of its failure to file production and injection reports for the month of April, 2011. This violation was continuing on the date of the hearing.

(13) Operator should be ordered to remedy all of the above-identified continuing violations not later than 90 days after the date of issuance of this Order.

(14) A hearing should be set in this case after the expiration of the time allowed for compliance to determine if Operator has remedied all violations, and, if not, what action the Division should then take.

IT IS THEREFORE ORDERED THAT:

(1) McDonnold Operating Inc. ("Operator") is hereby ordered to perform and complete each of the following actions within 90 days after the issuance of this Order:

(a) Operator shall plug and abandon each of the wells identified in Finding Paragraph (6) of this Order, in accordance with applicable Division rules and a Division-approved plugging procedure, except for any of such wells that, within the time provided, has been restored to regular production or injection or approved by the Division for temporary abandonment. Operator shall not return the Langlie Jack Unit Well No. 4 to injection without first repairing the well and demonstrating its mechanical integrity in accordance with Division rules.

(b) Operator shall complete remediation of all contamination resulting from the leak at the Langlie Jack Unit Well No. 14 that occurred in April, 2011, to the satisfaction of the District Supervisor of the Division's Hobbs District Office.

(c) Operator shall file production and injection reports (Forms C-115) for the months of April, May and June, 2011, for all of the wells that it operates in

the manner provided in Division Rule 7.24, and shall file such reports for all succeeding months within the time provided in said rule.

(2) If within the time stipulated, Operator fully complies with all of the requirements of Ordering Paragraph (1), the Division shall file a Notice of Dismissal of this case.

(3) If Operator fails to comply with Ordering Paragraph (1)(a) above within the time provided, then without limiting any other provisions of this Order, Operator's financial assurance applicable to the wells described in Finding Paragraph (6) shall be forfeited, and the Division may proceed to plug and abandon said wells, or any of them, and to recover from operator any amount by which the cost of plugging said wells and remediating the sites thereof may exceed applicable financial assurance, as provided in NMSA 1978, Section 70-2-14, as amended.

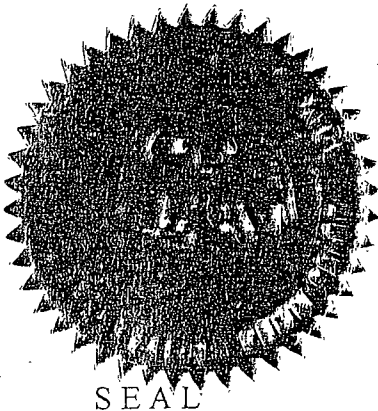
(4) A hearing is hereby set before a Division Examiner on December 1, 2011 at 8:15 a.m., in Porter Hall in the Wendell Chino Building at 1220 South St. Francis Drive in Santa Fe, New Mexico, to determine if Operator has complied with the provisions of this Order.

(5) In the absence of an appearance and demonstration of compliance by Operator at such hearing, the Division will determine Operator's compliance status from the records of the Division then on file.

(6) If the Division concludes after such hearing that Operator has not fully complied with this Order, the Division may then issue an Order cancelling Operator's permits to operate the Langlie Jack Waterflood Project, or such other order as the Division deems appropriate.

(7) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director