

State of New Mexico
Energy, Minerals and Natural Resources Department

Michelle Lujan Grisham
Governor

Sarah Cottrell Propst
Cabinet Secretary

Todd E. Leahy, JD, PhD
Deputy Cabinet Secretary

Adrienne Sandoval, Division Director
Oil Conservation Division



**BY CERTIFIED MAIL – RETURN RECEIPT REQUESTED
AND ELECTRONIC MAIL**

December 5, 2022

James Markgraf
Vice President
Caza Operating, LLC
200 N Loraine St
Suite 1550
Midland, TX 79701
jmarkgraf@cazapetro.com

NOTICE OF VIOLATION

**TALON 5 8 FEDERAL #005H (30-025-47486)
COMANCHE 25 36 FEDERAL STATE COM #001H (30-025-47449)
COMANCHE 25 36 FEDERAL STATE COM #002Y (30-025-48368)
COMANCHE 25 36 FEDERAL STATE COM #004H (30-025-47452)**

The Director of the Oil Conservation Division (“OCD”) issues this Notice of Violation (“NOV”) pursuant to 19.15.5.10 NMAC.

(1) Alleged Violators: Caza Operating, LLC, OGRID 249099 (“Operator”).

(2) Citation, Nature, and Factual and Legal Basis for Alleged Violation(s):

19.15.5.11 ENFORCEABILITY OF PERMITS AND ADMINISTRATIVE ORDERS: *A person who conducts an activity pursuant to a permit, administrative order or other written authorization or approval from the division shall comply with every term, condition and provision of the permit, administrative order, authorization or approval.*

19.15.7.14 SUNDRY NOTICES AND REPORTS ON WELLS (Form C-103): *Form C-103 is a dual purpose form the operator files with the appropriate division district office to obtain division approval prior to commencing certain operations and to report various completed operations.*

19.15.7.24 OPERATOR'S MONTHLY REPORT (Form C-115): *An operator shall file form C-115 using the division's web-based online application on or before the 15th day of the second month following the month of production.*

19.15.27.7 H Emergency: *means a temporary, infrequent, and unavoidable event in which the loss of natural gas is uncontrollable or necessary to avoid a risk of an immediate and substantial adverse impact on safety, public health, or the environment, but does not include an event arising from or related to: [...]*

(3) scheduled maintenance;

(4) venting or flaring of natural gas for more than eight hours after notification that is caused by an emergency, unscheduled maintenance, or malfunction of a natural gas gathering system;

(5) the operator's negligence;

(6) recurring equipment failure 4 or more times within a single reporting area pursuant to Subsection A of 19.5.27.9 experienced by the operator within the preceding 30 days; or

(7) Four or more emergencies within a single reporting area, pursuant to Subsection A of 19.15.27.9 NMAC, experienced by the operator within the preceding 30 days, unless the division determines the operator could not have reasonably anticipated the current event and it was beyond the operator's control.

19.15.27.7 M Malfunction: *means a sudden, unavoidable failure or breakdown of equipment beyond the reasonable control of the operator that substantially disrupts operations, but does not include failure or breakdown that is caused entirely or in part by poor maintenance, careless operation, or other preventable equipment failure or breakdown.*

19.15.27.8 A Venting and Flaring of Natural Gas: *Venting or flaring of natural gas during drilling, completion, or production operations that constitutes waste as defined in 19.15.2 NMAC is prohibited. The operator has a general duty to maximize the recovery of natural gas by minimizing the waste of natural gas through venting or flaring. During drilling, completion and production operations, the operator may vent or flare natural gas only as authorized in Subsections B, C and D of 19.15.27.8 NMAC. [...]*

TALON 5 8 FEDERAL #005H (30-025-47486)

1. On August 6, 2020, OCD approved the Talon 5 Federal 5H APD under API number 30-025-47486. The APD granted Caza approval to drill a one and a half mile horizontal well in the KLEIN RANCH; WOLFCAMP (code 96989) pool located in the Wolfcamp formation.
2. On December 7, 2021, Caza perforated the well.
3. On January 18, 2022, Caza submitted its first of three C-104 packets, which was rejected for being out of compliance with financial assurance.

4. On March 31, 2022, Caza submitted another C-104, which was rejected on September 15, 2022, by OCD since the paperwork reflected a Bone Spring completed well.
5. On September 16, 2022, Caza resubmitted a C-104 packet along with a C-103Z General Sundry, which contained an unapproved Bureau of Land Management (“BLM”) Subsequent Report of changing producing zone from Wolfcamp to Bone Springs.
6. Operator drilled and completed the well in the Bone Spring formation, in violation of the terms of the APD.
7. Operator failed to notify OCD of its intent to modify the permitted drill plan.
8. Operator has not filed with OCD a C-115 reflecting production of this well but has submitted C-115Bs since April 2022 showcasing the well is venting and flaring.

COMANCHE 25 36 FEDERAL STATE COM #001H (30-025-47449)

9. As part of OCD’s review, it was discovered the Comanche 25 36 Federal State Com 1H well had large flaring volume for the month of August 2022.
10. Caza submitted eleven C-129 reports for the month of August ranging from August 16, 2022, to Augusts 31, 2022, a period of fifteen calendar days.
11. Eight of the eleven reports are considered “Major” Severity with Caza citing the reason of flaring as *“Downstream operator had gas plant shut down. This event was outside the control of the operator. No choice but to flare.”*
12. Venting or flaring of natural gas is prohibited, except as authorized in Subsections B, C and D of 19.15.27.8 NMAC. Operator’s C-129 reports of flaring do not detail emergencies or malfunctions as defined in 19.15.27.7 H & M NMAC.
13. Operator flared a substantial volume (21,814 mcf) of gas over a two-week period and after notice of downstream shutdown, in violation of 19.15.27.8 A NMAC.

COMANCHE 25 36 FEDERAL STATE COM #002Y (30-025-48368)

14. On February 22, 2021, OCD approved the Comanche 25 36 Federal State Com 2Y Application to Drill (“APD”) under API number 30-025-48368. The APD granted Caza Operating, LLC (“Caza”) approval to drill a one and a half mile horizontal well in the W/2 E/2 of Sections 25 and 36 Township 26S Range 35E, Lea County, New Mexico.
15. On July 14, 2021, Caza perforated the well.
16. On September 16, 2022, Caza submitted a C-104 which included an As-Drilled C-102. This C-102 shows the well to be completed in the E/2 E/2 of Sections 25 and 36 Township 26S Range 35E, Lea County, New Mexico.

17. On October 13, 2022, OCD emailed Caza asking for clarification on the discrepancy of the APD and the As-Drilled C-102. Caza responded *“The as drilled is correct. Caza moved the well path. The BLM said there was no issue as the interest owners are the same on the half section.”*
18. Operator drilled and completed the well in violation of the APD.
19. Operator failed to notify OCD of its intent to modify the permitted drill plan.
20. Operator has not filed with OCD a C-115 reflecting production of this well but has submitted C-115Bs since October 2021 showcasing the well is venting and flaring.

COMANCHE 25 36 FEDERAL STATE COM #004H (30-025-47452)

21. On July 22, 2020, OCD approved the Comanche 25 36 Federal State Com 4H APD under API number 30-025-47452. The APD granted Caza approval to drill a one and a half mile horizontal well in the WC-025 G-09 S263619C; WOLFCAMP (code 98234) pool located in the Wolfcamp formation.
 22. On July 14, 2021, Caza perforated the well.
 23. On August 31, 2021, Caza submitted its first of three C-104 packets, which was rejected for being out of compliance with financial assurance.
 24. On March 10, 2022, Caza submitted another C-104, which was rejected on September 15, 2022, by OCD since the paperwork reflected a Bone Spring completed well.
 25. On September 16, 2022, Caza resubmitted a C-104 packet along with a C-103Z General Sundry, which contained a Bureau of Land Management (“BLM”) Notice of Intent Request to change producing zone from Wolfcamp to Bone Springs dated January 12, 2021.
 26. Operator drilled and completed the well in the Bone Spring formation in violation of the terms of the APD.
 27. Operator failed to notify OCD of its intent to modify the permitted drill plan.
 28. Operator has not filed with OCD a C-115 reflecting production of this well but has submitted C-115Bs since October 2021 showcasing the well is venting and flaring.
- (3) *Compliance*: No later than two weeks after issuance of this NOV, Operator shall:
- 1) Submit to OCD complete and accurate C-115s for each well listed above;
 - 2) Submit BLM approved Subsequent reports for each completion change that was made;
 - 3) Submit a Landman affidavit that Caza had the right and interest to switch completed intervals for each well in which a change of completion occurred;
 - 4) Provide proof of the Midstream Operator shutting in take away.
- (4) *Sanction(s)*: OCD may impose one or more of the following sanctions:
- civil penalty

- modification, suspension, cancellation, or termination of a permit or authorization
- shutting in a well or wells
- plugging and abandonment of a well
- remediation and restoration of a well location and associated facilities, including the removal of surface and subsurface equipment and other materials
- remediation and restoration of a location affected by a spill or release
- forfeiture of financial assurance
- any other remedy authorized by law

For the alleged violations of 19.15.5.11 NMAC described above and consistent with applicable law, OCD proposes the following sanctions (one or more of which may ultimately be selected):

(a) Civil Penalty:

TALON 5 8 FEDERAL #005H (30-025-47486)

Failure to Comply with Permit	\$200,000.00
Failure to Notify OCD of Intent to Modify	\$200,000.00
Failure to Submit C-115	\$200,000.00

COMANCHE 25 36 FEDERAL STATE COM #001H (30-025-47449)

Venting and Flaring Not Authorized by 8(B-D)	\$ 27,500.00
--	--------------

COMANCHE 25 36 FEDERAL STATE COM #002Y (30-025-48368)

Failure to Comply with Permit	\$200,000.00
Failure to Notify OCD of Intent to Modify	\$200,000.00
Failure to Submit C-115	\$200,000.00

COMANCHE 25 36 FEDERAL STATE COM #004H (30-025-47452)

Failure to Comply with Permit	\$200,000.00
Failure to Notify OCD of Intent to Modify	\$200,000.00
Failure to Submit C-115	\$200,000.00

The civil penalty calculations are attached. OCD may recalculate the civil penalties for additional or ongoing violations occurring on or after the date of issuance of this NOV and will take into consideration Operator's good faith effort to comply with the applicable requirements.

(5) *Informal Review and Resolution:* A process is available for the informal review and resolution of the alleged violations in the NOV. To initiate the informal review process, contact the OCD employee identified at the end of this letter. If OCD and the alleged violator agree to resolve the alleged violations in the NOV, the agreement will be incorporated into a stipulated final order signed by both parties and stating that the alleged violator admits OCD's jurisdiction to file the NOV, consents to the specified relief, including the civil penalty, if any, and waives the right of review by the Oil Conservation Commission.

(6) *Hearing:* If this Notice of Violation is not resolved within thirty (30) days of receipt of service, OCD will hold a hearing on **February 16, 2023**. Please see 19.15.5.10 NMAC for more information regarding the hearing. However, please note that the hearing does not prohibit OCD from negotiating with the alleged violator at any time to settle the NOV.

For more information regarding this NOV, contact Jesse Tremaine, Assistant General Counsel, (505) 231-9312 or JesseK.Tremaine@emnrd.nm.gov.

Regards,



Adrienne Sandoval
Director

12/5/2022

Date

cc: EMNRD-OGC