

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

CASE NO. 12459

IN THE MATTER OF THE HEARING CALLED BY THE NEW MEXICO OIL CONSERVATION DIVISION THROUGH THE SUPERVISOR OF DIVISION DISTRICT II IN ARTESIA, NEW MEXICO ON ITS OWN MOTION FOR AN ORDER: (I) REQUIRING I.T. PROPERTIES TO PROPERLY PLUG AND ABANDON ONE (I) WELL IN EDDY COUNTY, NEW MEXICO; OR (II) AUTHORIZING THE DIVISION TO PLUG AND ABANDON THIS WELL, AND ORDERING A FORFEITURE OF THE PLUGGING BOND COVERING THIS WELL.

ORDER NO. R-11520A

AGREED ORDER

BY THE COMMISSION:

This case came before the Oil Conservation Commission (hereinafter "the Commission") on June 21, 2002 at Santa Fe, New Mexico, and the Commission, having carefully considered the evidence, the pleadings and other materials submitted by the parties hereto, now, on this 21st day of June, 2002,

FINDS:

1. Notice has been given of the application and of the hearing of this matter, and the Commission has jurisdiction of the parties and of the subject matter herein.
2. This case is before the Commission on the application of I.T. Properties for review *de novo* of this matter.
3. I.T. Properties of Arlington, Texas is the current owner and operator of the DHY State Well No. 1 (API No. 30-015-21638) located 1980 feet from the North and West lines (Unit F) of Section 23, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico (hereinafter "the subject well").
4. In compliance with NMSA 1978 Section 70-2-14, as amended, and Division Rule 101 [19 NMAC 15.C.101] I.T. Properties has posted with the Division a blanket plugging bond in the amount of \$50,000 to secure its obligation to properly plug and abandon its wells when no longer capable of commercial production and no longer utilized for some beneficial purpose. The applicable bond was issued by Gulf Insurance Company of Dallas, Texas, as surety, and is Bond No. 58-54-63.

5. The Division seeks an order directing I.T. Properties to properly plug and abandon the subject well in accordance with Division Rules and a Division-approved plugging program, including site remediation, and, if I.T. Properties fails to do so, authorizing the Division (i) to proceed to plug and abandon this well, (ii) to declare forfeiture of I.T. Properties' above-described plugging bond, and (iii) to recover, by suit if necessary, from I.T. Properties any costs of plugging and abandonment of the well and of remediation of the well site in excess of the amount of the bond.

6. The Division and I.T. Properties both appeared at the hearing and announced to the Commission that they were in agreement regarding the findings and order hereinafter set forth.

7. The subject well was originally drilled by DEPCO, Inc., was spudded on November 5, 1975, and was completed in January of 1976 in the Wolfcamp and Morrow formations, with perforations at 3,895 to 8,902 feet and at approximately 11,065 to 11,090 feet respectively.

8. On March 23, 1976, in Case No. 5684, on application of DEPCO, Inc. for a dual completion, the Commission, after notice and hearing, entered Order No. R-5184, authorizing the operator of the subject well:

... to produce oil from the Wolfcamp formation and gas from the Morrow formation through tubing and through the casing-tubing annulus, respectively, by means of a cross-over assembly, with separation of the zones achieved by packers set at approximately 8,818 feet and 10,985 feet.

9. I.T. Properties assumed operations, with Division approval, on March 5, 1991.

10. The subject well has not produced any hydrocarbon substance since August, 1996.

11. The subject well failed a packer leakage test conducted in October, 1996.

12. On January 31, 2001, in Case No. 12459, on application of the Division through the Supervisor of District I, the Division, after notice and hearing, entered Order No. R-11520, ordering the subject well plugged and abandoned. I.T. Properties duly and timely filed application for *de novo* review by the Commission of Order No. R-11520.

13. On May 1, 2001, I.T. Properties filed a Notice of Intent to Perform Remedial Work (C-103) on the subject well, declaring its intention to "squeeze off the casing leak at 3100' and put DHY State #1 back to production." This Notice of Intent was not approved by the Division.

14. On July 9, 2001, I.T. Properties filed a more detailed Notice of Intent to Perform Remedial Work (C-103) on the subject well describing a procedure for repair of

the casing. This C-103 was approved by the Artesia District Office of the Division on August 20, 2001, with the notation, "Casing must pass mechanical integrity test. Notify O.C.D. prior to repair actions & testing."

15. In September and October, 2001 I.T. Properties conducted remedial work on the subject well. The contractor was unable to dislodge the tubing, and the tubing was shot off at approximately 9,000 feet, leaving a string of 2.375 inch tubing in the hole below that level.

16. On December 8, 2001, I.T. Properties filed another form C-103 with reference to the subject well notifying of intent to "POH tubing and packer, replace with new string and redress packer. Swab and produce." This Notice of Intent was not approved by the Division.

17. On February 6, 2002, I.T. Properties filed a Subsequent Report of Remedial Work (C-103) performed on May 1, 2, May 27-30, September 27 through October 25 and November 2 through December 5, 2001, indicating that the casing leak had been repaired, 2.875 inch tubing run, and a packer set at 4,050 feet. This C-103 was not approved by the Division.

18. On March 7, 2002, a casing integrity test was conducted with the packer set at 4,050 feet. This test was witnessed and approved by the Division's Artesia District Office.

19. On March 11, 2002, the Division notified I.T. Properties that it would be necessary to conduct a casing integrity test with a packer set within 100 feet above the uppermost perforations before the subject well could be returned to production.

20. On May 23, 2002, I.T. Properties notified the Division's Artesia District Office that the packer set in the subject well had been moved down to 8,700 feet, and that a mechanical integrity test was to be conducted. The Artesia District Office of the Division notified I.T. Properties by letter dated May 27, 2002 that (1) prior to any M.I.T on the well the packer setting depth should be verified by a method approved by the Division, (2) the operator should notify the Division prior to any repair actions or well tests on the subject well so that such actions and tests could be witnessed by the Division, and (3) in accordance with the provisions of Order R-5184, the subject well could not be restored to production without first setting a packer at approximately 10,985, to isolate the Wolfcamp and Morrow formations, as provided in said Order.

21. The 2.375 inch casing in the hole below 9,200 feet has never been recovered, and it would be impossible to set a packer at 10,985 feet, as required by Order R-5184, without first recovering the tubing in the hole.

22. I.T. Properties proposes to restore the subject well to production by setting a packer at 8,700 feet and producing down-hole commingled gas from the Wolfcamp and Morrow formations through 2.875 inch tubing set in that packer.

23. On December 5, 2001, I.T. Properties filed with the Division's Santa Fe office an application for down-hole commingling of gas from the Wolfcamp and Morrow formations in the subject well. This application was returned as incomplete on December 20, 2001.

24. The Division's Artesia District Office does not oppose restoration of the subject well to production in the manner proposed by I.T. Properties, provided that I.T. Properties complies with any conditions required by the Division Director, upon the recommendation of a Division hearing examiner. The Division's Artesia district office and I.T. Properties are not now in agreement on the conditions that should be required, but both parties agree to submit this issue at the Division level.

25. I.T. Properties agrees that if its proposed procedure is not authorized, or proves not to be feasible, then it will cause the subject well to be plugged and abandoned.

IT IS THEREFORE ORDERED:

1. Pursuant to the Application of the Division, I.T. Properties of Arlington, Texas, is hereby ordered, no later than one hundred twenty (120) days from the date of this order, to plug and abandon the DHY State Well No. 1 (**API No. 30-015-21638**) located 1980 feet from the North and West lines (Unit F) of Section 23, Township 19 South, Range 28 East, NMPM, Eddy county, New Mexico, **unless**, within that period of time:

- a. The Division Director enters an order, after notice and hearing, authorizing I.T. Properties to down-hole commingle gas production from the Wolfcamp and Morrow formations in the subject well, as proposed by I.T. Properties, or amending Order No. R-5184 to permit the isolation of the Wolfcamp and Morrow zone by a packer set immediately below the Wolfcamp perforations.
- b. I.T. Properties complies with all terms and conditions of the order of the Division Director so-entered, and files a form C-104 (Request for Allowable and Authorization to Transport Gas) from the subject well, and secures approval thereof by the Supervisor of the Artesia District office of the Division.

2. If the Division Director enters an Order denying I.T. Properties' Application for Down-Hole Commingling in the subject well, or imposing conditions unacceptable to I.T. Properties, and I.T. Properties files a timely request for *de novo* review of such Division Order, such request shall be consolidated with the case, and this case shall be re-opened. If I.T. Properties fails to file a timely request for *de novo* review of such Division Order, this Order shall remain in full force and effect.

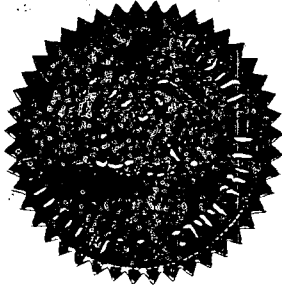
3. The Division Director is hereby authorized, after notice and hearing, to enter an order amending Order R-5184 in such manner, and to such extent, as she deems appropriate based on the record of the hearing and the recommendation of the hearing examiner, subject to review by the Commission on *de novo* appeal, as in other cases.

4. I.T. Properties, prior to plugging and abandoning the subject well, shall obtain from the Supervisor of the Artesia District Office of the Division an approved plugging program, and shall notify the Artesia District Office of the date and time this work is to commence, in order that the Division may witness such work.

5. Should I.T. Properties fail or refuse to carry out the provisions of this order in accordance with terms, in the event and within the time herein provided, the Division shall (a) cause the subject well to be plugged and abandoned, and the site thereof remediated, in accordance with NMSA Section 70-2-14, as amended, and Division Rules; (b) declare forfeit the \$50,000 blanket plugging bond (No. 58-54-63) issued by Gulf Insurance Company of Dallas, Texas, as surety, and I.T. Properties as principal, and any other security held by the Division to secure the obligation of I.T. Properties pursuant to NMSA 1978 Section 70-2-14, as amended, and (c) take such steps as may be necessary to recover, by suit or otherwise, from I.T. Properties, any costs incurred by the Division in complying with this Ordering Paragraph 3 over and above amounts realized from said bond or other security.

6. Jurisdiction of this case is retained for entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and hear hereinabove designated



STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

Lori Wrotenbery
LORI WROTENBERY, CHAIR

(absent)

JAMI BAILEY, MEMBER

Robert Lee
ROBERT LEE, MEMBER

SEAL

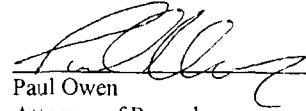
Approved for Entry:

New Mexico Oil Conservation Division

David K. Bailey

David K. Brooks
Assistant General Counsel

I.T. Properties


Paul Owen

Attorney of Record