

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

2009 SEP 9 PM 12 09

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE SUPERVISOR OF DISTRICT I, FOR AN ORDER REQUIRING KC RESOURCES INC. TO REMEDIATE CONTAMINATION AT A TANK BATTERY SITE IN COMPLIANCE WITH 19.15.3.116.D NMAC AND BRING THREE INACTIVE WELLS INTO COMPLIANCE WITH 19.15.4.201 NMAC; AUTHORIZING THE DIVISION TO PLUG SAID WELLS AND ORDERING A FORFEITURE OF THE APPLICABLE PLUGGING BOND IF THE OPERATOR FAILS TO COMPLY; AND ASSESSING APPROPRIATE CIVIL PENALTIES; LEA COUNTY, NEW MEXICO.

CASE NO. 13362

APPLICATION FOR COMPLIANCE ORDER

1. KC Resources Inc. (“Operator”) is the operator of record for the tank battery located at the site of the Lea YH State #003, API #30-025-26562, J-25-18S-34E, NMPM and is the operator of record for the for the following wells (“subject wells”):

Lea YH State #001, API #30-025-26104, O-25-18S-34E, NMPM
Lea YH State #002, API #30-025-26299, P-25-18S-34E, NMPM
Lea YH State #004, API #30-025-26687, I-25-18S-34E, NMPM

The subject wells and the tank battery are located in Lea County, New Mexico.

2. Frontier Insurance Company (“Surety”) is the surety on the \$50,000 blanket bond number 54664 posted by the Operator pursuant to NMSA 1978, Section 70-2-14 to secure the Operator’s obligation to plug and abandon the subject wells in compliance with the rules of the Oil Conservation Division (“Division”).

6. The area surrounding the tank battery located at the site of the Lea YH State #003 shows evidence of releases of oil and produced water. The oil-saturated soil and chlorides remaining on the surface of the ground at the site pose a danger to public health or the environment.

5. Division rule 19.15.3.116(D) NMAC requires the responsible person to complete corrective action according to a remediation plan submitted to and approved by the Division for releases that endanger public health or the environment.

4. The Lea YH State #001, #002 and #004 wells have been inactive for a period exceeding one year plus 90 days, and have not been plugged and abandoned or placed on temporary abandonment status under Division rules.

3. Division rule 19.15.4.201 NMAC requires an operator to plug and abandon or temporarily abandon a well in accordance with Division rules within 90 days after a period of one year of continuous inactivity.

7. The Division has repeatedly notified the Operator that the subject wells are in violation of Rule 201 and has asked the Operator to submit a remediation plan for the tank battery site as required by Rule 116.D.

8. To date, the Operator has not brought the subject wells into compliance with Rule 201 and has not submitted a remediation plan pursuant to Rule 116.D.

9. Division rule 19.15.101(M) NMAC authorizes the Director to order the operator to plug and abandon any well not in compliance with 19.15.4.201 NMAC by a date certain, and to direct the Division to forfeit the bond and cause such well to be plugged in accordance with a Division-approved plugging program if, after the time provided in such order, the operator has failed to plug the well.

10. NMSA 1978, Section 70-2-31 authorizes the Director to impose a civil penalty of \$1000 for each knowing and willful violation of any provision of the Oil and Gas Act or any rule or order issued pursuant to that act. The statute further provides that

in the case of a continuing violation, each day of violation constitutes a separate violation.

WHEREFORE, the Supervisor of District I of the Division hereby applies to the Director to enter an order:

- A. Determining that the Operator is not in compliance with 19.15.3.116.D NMAC because of its failure to remediate the contamination caused by releases at the tank battery site;
- B. Determining that the Operator's failure to submit a remediation plan for the tank battery site after being asked to do so by the Division constitutes a continuing, knowing and willful violation of 19.15.3.116.D NMAC, and assessing a civil penalty;
- C. Requiring the Operator to submit a remediation plan to the Division by a date certain, and to complete the remediation plan within 3 months of the date the plan is approved by the Division;
- D. Determining that the subject wells are not in compliance with 19.15.4.201 NMAC;
- E. Determining that the Operator's failure to properly plug and abandon the subject wells, after receiving notices of these violations from the Division, constitutes a continuing, knowing and willful violation of 19.15.4.201 NMAC and assessing a civil penalty;
- F. Requiring the Operator to bring the subject wells into compliance with 19.15.4.201 NMAC by a date certain by plugging and abandoning the

wells, placing the wells on temporary abandonment status, or returning the wells to a Division-approved beneficial use;

G. Further, if the subject wells are not brought into compliance with 19.15.4.201 NMAC by the date set by the order:


(1) Authorizing the Division to complete the plugging operations on the subject wells in accordance with a Division-approved plugging program; and

(2) Authorizing the Division to declare forfeit the security furnished by the Operator;

H. If the Operator fails to comply with the deadlines set by the order, assessing additional penalties for violating the order; and

I. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 9th day of September, 2004 by



Gail MacQuesten
Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505) 476-3451

Attorney for The New Mexico Oil
Conservation Division

Case No. 13362. Application of the New Mexico Oil Conservation Division for a Compliance Order. The Applicant seeks an order requiring operator KC Resources Inc. to remediate contamination at a tank battery site in compliance with 19.15.3.116.D NMAC and bring three inactive wells into compliance with 19.15.4.201 NMAC; authorizing the Division to plug said wells and ordering a forfeiture of the applicable plugging bond if the operator fails to comply; and assessing civil penalties. The tank battery is located at the site of the Lea YH State #003, API #30-025-26562, J-25-18S-34E, NMPM. The inactive wells are the Lea YH State #001, API #30-025-26104, O-25-18S-34E, NMPM; the Lea YH State #002, API #30-025-26299, P-25-18S-34E, NMPM; and the Lea YH State #004, API #30-025-26687, I-25-18S-34E, NMPM. The tank battery and wells are located approximately 22 miles west of Hobbs in Lea County, New Mexico.