

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

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION
COMPLIANCE AND ENFORCEMENT BUREAU FOR A COMPLIANCE
ORDER AGAINST COBALT OPERATING, LLC, FOR WELLS OPERATED IN
LEA COUNTY, NEW MEXICO.**

CASE NO. 16048

APPLICATION

FEB 20 2018 PM05:00

The Oil Conservation Division Compliance and Enforcement Bureau (“Bureau”), through its undersigned attorney, hereby files this application with the Oil Conservation Division (“OCD” or “Division”) pursuant to the provisions of NMSA 1978, §70-2-12 for a compliance order (1) determining operator Cobalt Operating, LLC, (“Operator”) is out of compliance with 19.15.5.9(A)(4), and 19.15.25.8 NMAC; (2) requiring the Operator to return to compliance with 19.15.5.9(A)(4) and 19.15.25.8 NMAC within forty-five (45) days, and requiring producing wells shut-in until compliance is achieved; and (3) in the event of non-compliance, declaring the wells abandoned and authorizing the OCD to plug the violating wells in accordance with a Division-approved plugging program and restore and remediate the location, recover costs from the Operator’s financial assurance as permitted by 19.15.8.13 NMAC, and seek indemnification and costs as permitted by NMSA 1978, § 70-2-14(E). This application deals specifically with Operator’s violations of 19.15.5.9(A)(4) and 19.15.25.8 NMAC and does not include all violations that may exist. The OCD retains its right to bring a compliance action for any other existing and future violations. In support of this application, the Bureau states:

1. Operator is a Foreign limited liability company that operates eleven (11) wells in Lea County, New Mexico, under OGRID No. 286255. See *Exhibit 1: Well List and Financial Assurance Report*, attached hereto and incorporated by reference as if set forth in its entirety.
2. Operator's address of record with OCD is: P. O. Box 51468, Midland, TX 79710.
3. The New Mexico Secretary of State has Operator registered under entity number 4508246.
4. Operator has one blanket bond, bond # LMP7625855, filed with the OCD, from Fidelity & Deposit CO of Maryland, for the amount of \$50,000.
5. Operator has additionally furnished the OCD with four (4) single well bonds on file with the OCD from Fidelity & Deposit CO of Maryland for a total amount of \$68,539
6. Operator has additionally furnished the OCD with two (2) single well bonds on file with the OCD from Lexon Insurance Company for a total amount of \$34,680.
7. Operator has additionally furnished the OCD with one (1) single well bond on file with the OCD from Great American Insurance Co. for a total amount of \$16,875.
8. Operator's has provided single well financial assurance for the following wells:
 - a. Angel #001, API # 30-025-07135, \$17,108 (Fidelity);
 - b. Angel #002, API # 30-025-07136, \$17,108 (Fidelity);

- c. Angel #003, API # 30-025-07133, \$17,108 (Fidelity);
- d. Consolidated State #003, API # 30-025-29711, \$17,700 (Lexon);
- e. State A #001, API # 30-025-21230, \$17,215 (Fidelity);
- f. Warren #001, API # 30-025-26323, \$16,980 (Lexon);
- g. Warren #002, API # 30-025-26953, \$16,875 (Great American).

9. Fidelity & Deposit CO of Maryland's address of record is: 1299 Zurich Way, Schaumburg, IL 60196.

10. Lexon Insurance Company's address of record is: 155 NE 100th Street, Suite 201, Seattle, WA 98125.

11. Great American Insurance Co.'s address of record is: P.O. Box 5425 Cincinnati, OH 45201-5425

12. 19.15.5.9(A) NMAC states that an operator is in compliance with Subsection A of 19.15.5.9 NMAC if the operator:

(1) currently meets the financial assurance requirements of 19.15.8 NMAC;

(2) is not subject to a division or commission order, issued after notice and hearing, finding the operator to be in violation of an order requiring corrective action;

(3) does not have a penalty assessment that is unpaid more than 70 days after issuance of the order assessing the penalty; and

(4) has no more than the following number of wells out of compliance with 19.15.25.8 NMAC that are not subject to an agreed compliance order setting

a schedule for bringing the wells into compliance with 19.15.25.8 NMAC and imposing sanctions if the schedule is not met:

- a. two wells or 50 percent of the wells the operator operates, whichever is less, if the operator operates 100 wells or less;
- b. five wells if the operator operates between 101 and 500 wells;
- c. seven wells if the operator operates between 501 and 1000 wells; and
- d. 10 wells if the operator operates more than 1000 wells.

13. 19.15.25.8 NMAC requires an operator to plug and abandon or temporarily abandon a well within 90 days after: (1) a 60 day period following the suspension of drilling operations; (2) a determination that a well is no longer usable for beneficial purposes; or (3) a period of one year in which a well has been continuously inactive.

14. The Operator currently has three (3) wells out of a total of eleven (11) wells out of compliance with 19.15.25.8 NMAC, exceeding the amount allowed under 19.15.5.9(A)(4) NMAC. See *Exhibit 2: Inactive Well List*.

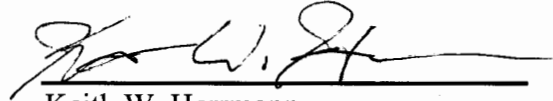
15. On August 1, 2017, the Bureau sent the Operator notice via first class mail that it was out of compliance with 19.15.5.9 NMAC and that the Bureau would seek formal compliance proceedings if no action was taken by the Operator to return to compliance within 60 days as required by 19.15.5.9(B) NMAC.

16. The Operator has not contacted the Bureau to resolve the outstanding compliance issues.

WHEREFORE, the Bureau, by and through its compliance and enforcement manager, hereby applies to the Director to enter an Order:

- A. determining that the Operator is in violation of 19.15.5.9(A)(4), and 19.15.25.8 NMAC;
- B. requiring the Operator to return the subject wells to compliance with 19.15.5.9(A)(4) and 19.15.25.8 NMAC within forty-five (45) days;
- C. requiring producing wells to be shut-in pursuant to 19.15.5.10(B) NMAC until compliance with the order is achieved;
- D. in the event of non-compliance with the sought Division order by the dates established by the OCD, finding the Operator in violation of a Division order, declaring the violating wells abandoned and authorizing the Division to plug the subject wells in accordance with a Division-approved plugging program and restore and remediate the location, and recover costs from the Operator's financial assurance as required by 19.15.8.13 NMAC and seek indemnification and costs as permitted by NMSA 1978, § 70-2-14(E);
- E. upon a finding of non-compliance with the issued Division order, requiring producing wells shut-it pursuant to 19.15.5.10(B) NMAC until compliance with the order is achieved;
- F. for such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 20 day of February, 2018
by

A handwritten signature in black ink, appearing to read "Keith W. Herrmann", is written over a horizontal line.

Keith W. Herrmann
Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
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Attorney for the Compliance and
Enforcement Bureau

Case No. 6048. **Application of The New Mexico Oil Conservation Division Compliance and Enforcement Bureau for a Compliance Order against Cobalt Operating, LLC, for Wells Operated in Lea County, New Mexico.** The Oil Conservation Division Compliance and Enforcement Bureau ("Bureau"), through its undersigned attorney, hereby files this application with the Oil Conservation Division ("OCD" or "Division") pursuant to the provisions of NMSA 1978, §70-2-12 for a compliance order (1) determining operator Cobalt Operating, LLC, ("Operator") is out of compliance with 19.15.5.9(A)(4), and 19.15.25.8 NMAC; (2) requiring the Operator to return to compliance with 19.15.5.9(A)(4) and 19.15.25.8 NMAC within 45 days and requiring producing wells shut-in until compliance is achieved; and (3) in the event of non-compliance, declaring the wells abandoned and authorizing the OCD to plug the violating wells in accordance with a Division-approved plugging program and restore and remediate the location, recover costs from the Operator's financial assurance as permitted by 19.15.8.13 NMAC, and seek indemnification as permitted by NMSA 1978, § 70-2-14(E).

Inactive Well Additional Financial Assurance Report

286255 COBALT OPERATING, LLC

Total Well Count: 11

Printed On: Tuesday, February 20 2018

Property	Well Name	Lease Type	ULSTR	OCD Unit Letter	API	Well Type	Last Prod/Inj	Inactive Additional Bond Due	Measured Depth	Required Bond Amount	Bond Required Now	Covered By Blanket TA Bond	Bond in Place	In Violation
312265	ANGEL #001	P	K-05-12S-38E	K	30-025-07135	O			12108				17,108	
	ANGEL #002	P	N-05-12S-38E	N	30-025-07136	O	11/2006	12/01/2008	12030	17030	Y		17,108	
	ANGEL #003	P	F-05-12S-38E	F	30-025-07133	O	02/1991	03/01/1993	12016	17016	Y		17,108	
309594	CONSOLIDATED STATE #003	S	C-09-17S-37E	C	30-025-29711	S	01/2016	02/01/2018	12700	17700	Y		17,700	
309595	HALE STATE #001Y	S	J-08-17S-37E	J	30-025-26773	O	10/2017	11/01/2019	11875	16875			0	
310420	MIDWAY 5 #001	P	O-05-17S-37E	O	30-025-31033	O	09/2017	10/01/2019	11075	16075			0	
313636	STATE 32 #001	P	N-32-23S-38E	N	30-025-21476	S	02/2017	03/01/2019	12235	17235			0	
313637	STATE A #001	S	H-05-24S-38E	H	30-025-21230	O	05/2017	06/01/2019	12215	17215			17,215	
	STATE A #002	S	3-05-24S-38E	C	30-025-21231	O			12310				0	
309596	WARREN #001	P	G-08-17S-37E	G	30-025-26323	O	07/2017	08/01/2019	11980	16980			16,980	
	WARREN #002	P	H-08-17S-37E	H	30-025-26953	O	10/2017	11/01/2019	11875	16875			16,875	

WHERE Ogrid:286255

Exhibit 2: Inactive Well List

Inactive Well List

Total Well Count: 11 Inactive Well Count: 3
Printed On: Tuesday, February 20 2018

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-07136	ANGEL #002	N-05-12S-38E	N	286255	COBALT OPERATING, LLC	P	O	11/2006	WOODFORD INT TO PA 01/09/2013		
1	30-025-07133	ANGEL #003	F-05-12S-38E	F	286255	COBALT OPERATING, LLC	P	O	02/1991	WOLFCAMP INT TO PA 01/19/2013	T	4/10/2013
1	30-025-29711	CONSOLIDATED STATE #003	C-09-17S-37E	C	286255	COBALT OPERATING, LLC	S	S	01/2016	SWD:DEVONIAN SWD-1438		

WHERE Ogrid:286255, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period