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 TO CONSIDER:

CASE NO. 16049
ORDER NO. R-14734

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION COMPLIANCE AND ENFORCEMENT BUREAU FOR A COMPLIANCE ORDER AGAINST GP II ENERGY, INC. FOR WELLS OPERATED IN EDDY AND LEA COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 22, 2018, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 8th day of June 2018, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT

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

(2) The Oil Conservation Division Compliance and Enforcement Bureau (the "Bureau") seeks a compliance order against GP II Energy, Inc. (the "Operator" or "GP II"):

a. determining the Operator is out of compliance with 19.15.25.8 NMAC and with Paragraph (4) of Subsection A of 19.15.5.9 NMAC;

b. requiring the Operator to return to compliance with 19.15.25.8 NMAC and with Paragraph (4) of Subsection A of 19.15.5.9 NMAC within forty-five days, and requiring producing wells shut-in until compliance is achieved; and

c. 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 Subsection E of NMSA 1978, § 70-2-14.

(3) The Subject Wells are the following:

API	Well Name	Surface Location (ULSTR)	Last Production
30-025-10508	NM M STATE #017	M-29-22S-37E	Dec-93
30-025-10515	NM M STATE #025	L-29-22S-37E	Oct-95
30-025-24254	NM M STATE #065	K-29-22S-37E	Dec-15

(4) Subsection B of Rule 19.15.28.8 NMAC requires among other things, operators to either properly plug and abandon a well or place the well in approved temporary abandonment within 90 days after a period of one year in which the well has been continuously inactive.

(5) Paragraph (4) of Subsection A of 19.15.5.9 NMAC states that an operator is in compliance with Subsection A of 19.15.5.9 NMAC if the operator 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.

(6) The Bureau appeared at the hearing through legal counsel and presented the following testimony:

a. Operator is registered under OGRID No. 8359.

b. Operator currently has three (3) Subject Wells out of compliance with 19.15.25.8 NMAC out of a total of 24 operated wells, exceeding the amount allowed under Paragraph (4) of Subsection A of 19.15.5.9 NMAC.

c. The Subject Wells are not included in an agreed compliance order between the Division and the Operator.

d. On June 20, 2017, the Bureau sent 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 as required by Subsection B of 19.15.5.9 NMAC if no action was taken by Operator to return to compliance within 30 days.

e. Operator has not resolved the outstanding compliance issues.

f. Pursuant to Paragraph (4) of Subsection A of 19.15.5.9 NMAC, GP II may have a total of no more than two (2) wells out of compliance with Subsection B of 19.15.25.8 NMAC.

g. Operator has one well requiring a single well bond. Applicant is working with the operator to resolve this issue and the issue is not a part of this case.

(7) GP II did not appear in this case or at the hearing. No other party appeared at the hearing or otherwise opposed the granting of the Bureau's application.

(8) The Division maintains a public database, through its *E-permitting* website, summarizing the well status for all current operators in New Mexico. This database also identifies the wells in violation of the financial assurance requirements, along with the corresponding amount for each well necessary to satisfy the applicable financial assurance requirement.

(9) Paragraph (4) of Subsection I of 19.15.2.7 NMAC defines as "inactive well" a well "that is not being used for beneficial purposes such as production, injection or monitoring and that is not being drilled, completed, repaired or worked over."

(10) Division well records indicate that the current condition of the Subject Wells may pose a threat to health, safe and the environment, if no action is properly taken to plug and abandon the wells, return the wells to production, or place the wells in approved temporary abandonment status.

The Division Concludes

(11) Subsection B of 19.15.5.10 NMAC authorizes the Division to commence compliance proceedings for violation of a provision of the Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, or a provision of a rule or order issued pursuant to the Act.

(12) GP II is the operator of record for the Subject Wells and is responsible for compliance with the Oil and Gas Act and Division Rules. The Bureau has established that the GP II is in violation of 19.15.25.8 NMAC as to the Subject Wells.

(13) The Operator should be required to return to compliance with 19.15.25.8 NMAC and with Paragraph (4) of Subsection A of 19.15.5.9 NMAC within 45 days. In the event of non-compliance,

a. the wells operated by GP II should be declared as abandoned, and the OCD should be authorized to plug the wells in in accordance with Division-approved plugging programs and restore and remediate the locations; and

b. the Division should be authorized to recover costs from the Operator's financial assurance as permitted by 19.15.8.13 NMAC and seek indemnification and costs as permitted by Subsection E of NMSA 1978, § 70-2-14.

IT IS THEREFORE ORDERED THAT

(1) GP II shall return to compliance with 19.15.25.8 NMAC and with Paragraph (4) of Subsection A of 19.15.5.9 NMAC within 45 days of the issuance date of this Order by either plugging and abandoning, placing in approved temporary abandonment status, or returning its wells to production.

(2) If after 45 days, Operator has not performed the work described in Ordering Paragraph (1), GP II shall be in violation of this Order and the Division shall be authorized,

a. to plug and abandon the well or wells operated by GP II that are out of compliance with Division rules in accordance with Division-approved plugging programs;

b. to restore and remediate the well locations;

c. to direct forfeiture of the applicable financial assurance of GP II;

d. to recover plugging, restoration, and remediation costs from Operator's financial assurance as permitted by 19.15.8.13 NMAC; and

e. to seek indemnification and costs from the Operator as provided in Subsection E of NMSA 1978, § 70-2-14 if there are not sufficient funds recovered from financial assurance to cover all costs the Division incurs while plugging and abandoning the wells and restoring and remediating the well locations.

(3) 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

Heather Riley

HEATHER RILEY
DIRECTOR

SEAL