

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

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION
THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A
COMPLIANCE ORDER AGAINST MCDONNOLD OPERATING INC.
REVOKING INJECTION PERMITS R-3269 AND WFX-510; LEA COUNTY
NEW MEXICO.

2011 MAY 10 A 10:24
RECEIVED OCD
CASE NO. 14657

APPLICATION FOR COMPLIANCE ORDER
AGAINST MCDONNOLD OPERATING INC.

1. McDonnold Operating Inc. ("McDonnold") is a corporation operating wells in New Mexico under OGRID 14372.

2. McDonnold's operations include the following wells in the Langlie Jack Unit, in Lea County, New Mexico:

14965	LANGLIE	F	A-20-24S-37E	A	30-025-11171	O	37240	LANGLIE	12/2010	2252210	2252230	
	JACK							MATTIX;7				
	UNIT							RVRS-Q-				
	#003							GRAYBURG				
	LANGLIE F B-20-24S-37E B 30-025-11174 I 37240							LANGLIE	12/2010			
	JACK							MATTIX;7				
	UNIT							RVRS-Q-				
	#004							GRAYBURG				
	LANGLIE	P	C-20-24S-37E	C	30-025-11170	O	37240	LANGLIE	12/2010	2252210	2252230	1/1/2013
	JACK							MATTIX;7				
	UNIT							RVRS-Q-				
	#005							GRAYBURG				
	LANGLIE P D-20-24S-37E D 30-025-11173 I 37240							LANGLIE	12/2010			1/1/2013
	JACK							MATTIX;7				
	UNIT							RVRS-Q-				
	#006							GRAYBURG				
	LANGLIE P F-20-24S-37E F 30-025-11172 I 37240							LANGLIE	12/2010			1/1/2013
	JACK							MATTIX;7				
	UNIT							RVRS-Q-				
	#007							GRAYBURG				
	LANGLIE	P	G-20-24S-37E	G	30-025-11157	O	37240	LANGLIE	12/2010	2252210	2252230	1/1/2013
	JACK							MATTIX;7				
	UNIT							RVRS-Q-				
	#008							GRAYBURG				
	LANGLIE	F	H-20-24S-37E	H	30-025-11156	O	37240	LANGLIE	12/2010	2252210	2252230	
	JACK							MATTIX;7				

Application for Compliance Order
McDonnold Operating Inc.

UNIT #009		RVRS-Q- GRAYBURG	
LANGLIE F E-21-24S-37E E 30-025-11177 I 37240	LANGLIE	12/2010	
JACK	MATTIX;7		
UNIT	RVRS-Q-		
#010	GRAYBURG		
LANGLIE F L-21-24S-37E L 30-025-11176 O 37240	LANGLIE	12/2010	2252210 2252230
JACK	MATTIX;7		
UNIT	RVRS-Q-		
#011	GRAYBURG		
LANGLIE F I-20-24S-37E I 30-025-11154 I 37240	LANGLIE	12/2010	
JACK	MATTIX;7		
UNIT	RVRS-Q-		
#012	GRAYBURG		
LANGLIE F J-20-24S-37E J 30-025-11167 O 37240	LANGLIE	12/2010	2252210 2252230
JACK	MATTIX;7		
UNIT	RVRS-Q-		
#013	GRAYBURG		
LANGLIE F O-20-24S-37E O 30-025-11169 I 37240	LANGLIE	12/2010	
JACK	MATTIX;7		
UNIT	RVRS-Q-		
#014	GRAYBURG		
LANGLIE F P-20-24S-37E P 30-025-11155 O 37240	LANGLIE	12/2010	2252210 2252230
JACK	MATTIX;7		
UNIT	RVRS-Q-		
#015	GRAYBURG		
LANGLIE F A-29-24S-37E A 30-025-11276 I 37240	LANGLIE	12/2010	
JACK	MATTIX;7		
UNIT	RVRS-Q-		
#017	GRAYBURG		
LANGLIE F J-20-24S-37E J 30-025-32641 O 37240	LANGLIE	12/2010	2252210 2252230
JACK	MATTIX,7		
UNIT	RVRS-Q-		
#019	GRAYBURG		

3. The Langlie Jack Unit operates as a waterflood, pursuant to Order No. R-3269 (issued in 1967) and WFX-510 (issued in 1983). The injection wells for the Unit are highlighted above.

4. The Oil Conservation Division (OCD) seeks an order terminating McDonnold's authority to inject in the Langlie Jack Unit pursuant to Order No. R-3269 and WFX-510, based on two theories.

Termination of Injection Authority Based on 19.15.26.8(A) NMAC

5. 19.15.26.8(A) provides, in relevant part, that "[t]he division may revoke a permit for injection issued under 19.15.26.8 NMAC after notice and hearing if the operator is not in compliance with Subsection A of 19.15.5.9 NMAC."

6. McDonnold is out of compliance with Subsection A of 19.15.5.9 NMAC in two ways: it is out of compliance with financial assurance requirements and out of compliance on inactive wells.

7. **Financial Assurance Requirements.** Paragraph 1 of Subsection A of 19.15.5.9 NMAC requires the operator to be in compliance with financial assurance requirements of 19.15.8 NMAC. McDonnold's State A 16 #001, 30-025-24814, is a state well that has been inactive since 2003 and does not have the single well financial assurance required by 19.15.8 NMAC.

8. **Inactive Wells.** Paragraph 4 of Subsection A of 19.15.5.9 NMAC requires the operator to be in substantial compliance with the inactive well/temporary abandonment requirements of 19.15.25.8 NMAC. As an operator of 36 wells, McDonnold may have no more than 2 wells out of compliance with 19.15.25.8 NMAC to be in compliance with 19.15.5.9 NMAC. According to the inactive well list kept pursuant to 19.15.5.9 NMAC, the following five wells operated by McDonnold are in violation of 19.15.25.8 NMAC:

1	30-025-04408	BAY FEDERAL #003	D-35-20S-36E	D	14372	MCDONNOLD OPERATING INC	F	O	10/2008	
1	30-025-10738	CLINE FEDERAL #002	E-15-23S-37E	E	14372	MCDONNOLD OPERATING INC	F	O	11/2009	PENROSE
1	30-025-10739	CLINE FEDERAL #003	D-15-23S-37E	D	14372	MCDONNOLD OPERATING INC	F	O	11/2009	PENROSE
1	30-025-30870	RED CLOUD #002	M-3 -25S-37E	M	14372	MCDONNOLD OPERATING INC	P	G	04/2001	YATES SEVEN RIVERS
1	30-025-24814	STATE A 16 #001	M-16-24S-37E	M	14372	MCDONNOLD OPERATING INC	S	O	04/2003	7 RVRS QUEEN

Termination of Injection Authority Based on Failure to Comply with Injection Rules and Permit Terms

9. In addition or in the alternative, the OCD seeks termination of McDonnold's injection authority in the Langlie Jack Unit based on McDonnold's failure

to comply with the terms of its injection permits, and its failure to comply with the Oil Conservation Commission's (OCC's) injection rules.

10. The original order for the waterflood, R-3269, requires the operator to comply with the OCC's injection rules, then numbered Rules 701, 702, 703, and 704 (now renumbered as 19.15.26.8 through 19.15.26.11 NMAC). The second order for the waterflood, WFX-510, requires the operator to comply with the terms of the previous order and OCC injection rules, adding rules 705 and 706 (now renumbered as 19.15.26.12 and 19.15.26.13 NMAC). In addition, WFX-510 specifically provides that the operator take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface, and that the operator shall immediately notify the OCD of failures or leaks, and take such steps as may be timely or necessarily to correct such failure or leakage.

11. The OCC's injection rules include the following provisions:

- 19.15.26.10(A) NMAC: The operator shall equip, operate, monitor and maintain the well to facilitate periodic testing and to assure continued mechanical integrity that will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement through vertical channels adjacent to the well bore.
- 19.15.26.10(B) NMAC: The operator shall operate and maintain the injection project in such a manner as will confine the injected fluids to the interval or intervals approved and prevent surface damage or pollution resulting from leaks, breaks or spills.
- 19.15.26.10(C) NMAC: The operator shall report the failure of an injection well, producing well or surface facility, which failure may endanger underground sources of drinking water, to the division under the "immediate notification" procedure of 19.15.29.10 NMAC.
- 19.15.26.10(E) NMAC: The division may shut in injection wells or projects that have exhibited failure to confine injected fluids to the authorized injection zone or zones, until the operator has identified and corrected the failure.
- 19.15.26.11 NMAC: sets out mechanical integrity test requirements, including the requirement that tests to assure the wells continued mechanical integrity be conducted at least every five years.
- 19.15.26.13 NMAC: requires monthly reports of injection on C-115s.

12. McDonnold has violated the terms of its injection permits and the OCC's injection rules in the following ways:

- **Mechanical Integrity Failures.** Four of McDonnold's Langlie Jack Unit injection wells failed mechanical integrity tests on March 9, 2010:

Langlie Jack Unit No. 12, 30-025-11154

Langlie Jack Unit No. 14, 30-025-11169

Langlie Jack Unit No. 4, 30-025-11174

Langlie Jack Unit No. 17, 30-025-11276

According to the inspector's notes, the No. 12 demonstrated communication between tubing and casing; the No. 14 had a bad wellhead leak during the pressure test; and the No. 17 had a surface leak during the pressure test. The wells have not passed mechanical integrity tests since the failures in March 2010. These failures constitute a violation of the permit terms requiring the operator to inject only into the approved interval, and to prevent leaks. The failures also violate the operation and maintenance provisions of 19.15.26.10 NMAC and the mechanical integrity test requirements of 19.15.26.11 NMAC.

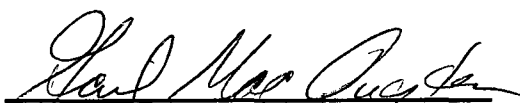
- **Continued Injection Despite Failures/False Reporting.** On March 10, 2010, the OCD sent McDonnold a Letter of Violation and Shut-In Directive, requiring McDonnold to shut-in the four wells identified above until repaired, and requiring the repairs to be completed by June 12, 2010. Despite the March 10, 2010 directive to shut-in the four injection wells until repaired, McDonnold has reported injection in each well through December 2010. Either McDonnold is continuing to inject into the wells despite the directive and the demonstrated failures of the wells, or it is reporting incorrectly. Continued injection despite failed mechanical integrity tests constitutes a violation of the permit terms requiring the operator to inject only into the approved interval, and to prevent leaks. Continued injection also violates the operation and maintenance provisions of 19.15.26.10 NMAC and the mechanical integrity test requirements of 19.15.26.11 NMAC.
- **Failure to File Injection Reports.** McDonnold has not filed its C-115 reports for January or February 2011. The January report was due March 15, 2011, and the February report was due April 15, 2011. See 19.15.7.24 NMAC. This failure to report constitutes a violation of 19.15.26.13 NMAC.
- **Failure to Manage Well to Prevent Surface Damage, and Failure to Report and Correct Release.** On April 18, 2011, Hobbs District Supervisor Larry "Buddy" Hill went to the site of the Langlie Jack Unit No. 14 and saw that a tank on the location had overflowed. It appeared that a backhoe had been used to

blade around the tank, across the location and into pasture south of the well approximately 40' into a depression. OCD personnel went back to the site on April 20, 2011, and saw fresh dirt and caliche covering the area around the tank and the location. When they scratched the surface of the dirt they found the underlying soil was wet and found oil and basic sediment. McDonnold has not managed the injection well to prevent surface damage, as required by 19.15.26.10(B) NMAC, and did not notify the OCD of the release under the immediate notification procedures set out in 19.15.29.10 NMAC, as required by 19.15.26.10(C) NMAC.

WHEREFORE, the Enforcement and Compliance Manager of the Division hereby applies to the Director to enter an order:

- A. Determining that McDonnold is in violation of 19.15.5.9 NMAC, based on its lack of compliance with financial assurance requirements and inactive well/temporary abandonment requirements;
- B. In addition or in the alternative, determining that McDonnold is in violation of the terms of R-3269 and WFX-510 and OCC injection rules 19.15.26.10 NMAC, 19.15.26.11 NMAC and 19.15.26.13 NMAC based on the demonstrated mechanical integrity failures of its injection wells, its failure to correct those failures, its continued injection after being directed to shut-in the wells, its failure to file injection reports, and the release at the Langlie Jack Unit No. 14 that it failed to report and has not properly corrected;
- C. Requiring McDonnold to correct the compliance issues identified in the order and provide proof of its compliance to the OCD Enforcement and Compliance Manager by a date certain;
- D. Setting this matter for a follow-up hearing at the next hearing date after the deadline set for compliance to determine if McDonnold's authority to inject in the Langlie Jack Unit should be revoked; and
- E. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 10th day of May 2011 by


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Conservation Division

Case No. 14657 Application of the New Mexico Oil Conservation Division for a Compliance Order against McDonnold Operating Inc. revoking injection permits R-3269 and WFX-510 for the Langlie Jack Unit. The requested revocation would affect the following injection wells: Langlie Jack Unit #004, B-20-24S-37E, 30-025-11174; Langlie Jack Unit #006, D-20-24S-37E, 30-025-11173; Langlie Jack Unit #007, F-20-24S-37E, 30-025-11172; Langlie Jack Unit #010, E-21-24S-37E, 30-025-11177; Langlie Jack Unit #012, I-20-24S-37E, 30-025-11154; Langlie Jack Unit #014, O-20-24S-37E, 30-025-11169; and Langlie Jack Unit #017, A-29-24S-37E, 30-025-11276. The affected wells are located approximately 5 miles south of Teague, New Mexico in Lea County.