

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.

CASE NO. 14657

AFFIDAVIT OF NOTICE

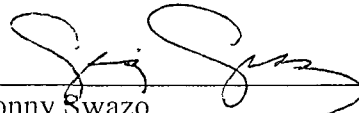
In accordance with Division Rule 19.15.5.10.D NMAC and Division Rule 19.15.4.12 NMAC I hereby certify:

1. Notice of the June 9, 2011 hearing in the above-captioned case was mailed on May 11, 2011 to the following by certified mail, return receipt requested, at least 20 days prior to the hearing date, with a copy of the application:

McDonnold Operating Inc.
505 N. Big Spring #204
Midland, TX 79702-4346

Certified Mail:7008 3230 0000 2318 8632

2. Attachment A is a copy of the notice and the signed certified return receipt for the notice that was mailed to McDonnold Operating Inc. on May 11, 2011.



Sonny Swazo

SUBSCRIBED AND SWORN to before me this 6th day of July, 2011.



Notary Public

My Commission Expires: 01-09-12

Case 14657
McDonnold Operating, Inc.
OCD Exhibit 1

New Mexico Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

John Bemis
Cabinet Secretary-Designate

Brett F. Woods, Ph. D.
Deputy Cabinet Secretary

Jami Bailey
Division Director
Oil Conservation Division



May 11, 2011

NOTICE OF HEARING

McDonnold Operating Inc.
505 N. Big Spring #204
Midland, TX 79702-4346

Certified Mail No. 7008 3230 0000 2318 8632

CASE NO. 14657: 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.

Dear Operator:

You are hereby notified that the New Mexico Oil Conservation Division (OCD) has filed the above-captioned application for a compliance order against McDonnold Operating Inc. (McDonnold). A copy of the application is enclosed.

A hearing on this application will take place before a Division hearing officer on **Thursday, June 9, 2011**, at 8:15 a.m.; in Porter Hall, First Floor, 1220 South St. Francis Drive in Santa Fe, New Mexico. At that hearing you will have an opportunity to oppose the entry of the order. **If you intend to present evidence at the hearing, you should file a pre-hearing statement at least four business days in advance of the hearing, as required by 19.15.14.1211.B NMAC.** A copy of that rule is enclosed. I have also enclosed a copy of 19.15.14.1212 NMAC, which addresses representation at administrative hearings before the Division.

If you have questions about the application you may call me at (505) 476-3451 or Sonny Swazo at (505)476-3463.

Very truly yours,

Gail MacQuesten
Assistant General Counsel

Case 14657
McDonnold Operating, Inc.
OCD Exhibit I
Attachment A



May 11, 2011

Page 2

Encl Application in Case No 14657
19 15 14 1211 NMAC
19 15 14 1212 NMAC

Ec Daniel Sanchez, Enforcement and Compliance Manager
Larry "Buddy" Hill, Supervisor, Hobbs District Office
Sonny Swazo, Assistant General Counsel

19.15.4.13 PLEADINGS, COPIES, PRE-HEARING STATEMENTS, EXHIBITS AND MOTIONS FOR CONTINUANCE:

A. Pleadings. Applicants shall file two sets of pleadings and correspondence in cases pending before a division examiner with the division clerk and six sets of pleadings and correspondence in cases pending before the commission with the commission clerk. For cases pending before the commission, the commission clerk shall disseminate copies of pleadings and correspondence to the commission members. The party filing the pleading or correspondence shall at the same time serve a copy of the pleading or correspondence upon each party who has entered an appearance in the case on or prior to the business day immediately preceding the date when the party files the pleading or correspondence with the division or the commission clerk, as applicable. Parties shall accomplish service by hand delivery or transmission by facsimile or electronic mail to a party who has entered an appearance or, if the party is represented, the party's attorney of record. Service upon a party who has not filed a pleading containing a facsimile number or e-mail address may be made by ordinary first class mail. Parties shall be deemed to have made an appearance when they have either sent a letter regarding the case to the division or commission clerk or made an in person appearance at a hearing before the commission or before a division examiner. A written appearance, however, shall not be complete until the appearing party has provided notice to other parties of record. An initial pleading or written entry of appearance a party other than the applicant files shall include the party's address or the address of the party's attorney and an e-mail and facsimile number if available.

B. Pre-hearing statements.

(1) A party to an adjudicatory proceeding who intends to present evidence at the hearing shall file a pre-hearing statement, and serve copies on other parties or, for parties that are represented, their attorneys in the manner Subsection A of 19.15.4.13 NMAC provides, at least four business days in advance of a scheduled hearing before the division or the commission, but in no event later than 5:00 p.m. mountain time, on the Thursday preceding the scheduled hearing date. The statement shall include:

- (a) the names of the party and the party's attorney;
- (b) a concise statement of the case;
- (c) the names of witnesses the party will call to testify at the hearing, and in the case of expert witnesses, their fields of expertise,
- (d) the approximate time the party will need to present its case, and
- (e) identification of any procedural matters that are to be resolved prior to the hearing.

(2) A party other than the applicant shall include in its pre-hearing statement a statement of the extent to which the party supports or opposes the issuance of the order the applicant seeks and the reasons for such support or opposition. In cases to be heard by the commission, each party shall include copies of exhibits that it proposes to offer in evidence at the hearing with the pre-hearing statement. The commission may exclude witnesses the party did not identify in the pre-hearing statement, or exhibits the party did not file and serve with the pre-hearing statement, unless the party offers such evidence solely for rebuttal or makes a satisfactory showing of good cause for failure to disclose the witness or exhibit.

(3) A pre-hearing statement filed by a corporation or other entity not represented by an attorney shall identify the person who will conduct the party's presentation at the hearing and include a sworn and notarized statement attesting that the corporation's or entity's governing body or chief executive officer authorizes the person to present the corporation or entity in the matter.

(4) For cases pending before the commission, the commission clerk shall disseminate copies of pre-hearing statements and exhibits to the commission members.

C. Motions for continuance. Parties shall file and serve motions for continuance no later than 48 hours prior to time the hearing is set to begin, unless the reasons for requesting a continuance arise after the deadline, in which case the party shall file the motion as expeditiously as possible after becoming aware of the need for a continuance.

[19.15.4.13 NMAC - Rp, 19.15.14.1211 NMAC, 12/1/08]

19.15.4.14 CONDUCT OF ADJUDICATORY HEARINGS:

A. Testimony. Hearings before the commission or a division examiner shall be conducted without rigid formality. The division or commission shall take or have someone take a transcript of testimony and preserve the transcript as a part of the division's permanent records. A person testifying shall do so under oath. The division examiner or commission shall designate whether or not an interested party's un-sworn comments and observations are relevant and, if relevant, include the comments and

observations in the record

B. Pre-filed testimony The director may order the parties to file prepared written testimony in advance of the hearing for cases pending before the commission. The witness shall be present at the hearing and shall adopt, under oath, the prepared written testimony, subject to cross-examination and motions to strike unless the witness' presence at hearing is waived upon notice to other parties and without their objection. The parties shall number pages of the prepared written testimony which shall contain line numbers on the left-hand side.

C. Appearances pro se or through an attorney Parties may appear and participate in hearings either pro se (on their own behalf) or through an attorney. Corporations, partnerships, governmental entities, political subdivisions, unincorporated associations and other collective entities may appear only through an attorney or through a duly authorized officer or member. Participation in adjudicatory hearings shall be limited to parties, as defined in 19-15-4-10 NMAC, except that a representative of a federal, state or tribal governmental agency or political subdivision may make a statement on the agency's or political subdivision's behalf. The commission or division examiner shall have the discretion to allow other persons present at the hearing to make a relevant statement, but not to present evidence or cross-examine witnesses. A person making a statement at an adjudicatory hearing shall be subject to cross-examination by the parties or their attorneys.

[19-15-4-14 NMAC - Rp, 19-15-14-1212 NMAC, 12/1/08]

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 WFA-510; LEA COUNTY,
NEW MEXICO.

CASE NO. 14057

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

Application for Compliance Order
McDonnold Operating Inc.

UNIT		RVRS-Q-	
009		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 E-21-24S-37E E 30-025-11175 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	30-025-04406	BAY FEDERAL #002	D-15-235-37E	D	14372	MCDONNOLD OPERATING INC	F	O	10/2008	
1	30-025-16738	CLINE FEDERAL #002	E-15-235-37E	E	14372	MCDONNOLD OPERATING INC	F	O	11/2009	PEIROSE
1	30-025-16739	CLINE FEDERAL #002	D-15-235-37E	D	14372	MCDONNOLD OPERATING INC	F	O	11/2009	PEIROSE
1	30-025-30870	RED CLOUD #002	H-3-255-37E	H	14372	MCDONNOLD OPERATING INC	P	G	04/2001	YATES SEVEN RIVERS
1	30-025-24814	STATE A 16 #001	H-16-245-37E	H	14372	MCDONNOLD OPERATING INC	S	O	04/2003	7 RYRS 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 Langhe 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 necessary 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 Langhe Jack Unit injection wells failed mechanical integrity tests on March 9, 2010.

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

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

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

Langhe 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 Langhe 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.

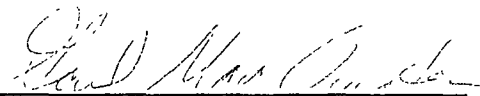
B. In addition or in the alternative, determining that McDonnold is in violation of the terms of R-3269 and WFX-510 and OCC injection rules 19.15.26.10 NMAC, 19.15.26.11 NMAC and 19.15.26.13 NMAC based on the demonstrated mechanical integrity failures of its injection wells, its failure to correct those failures, its continued injection after being directed to shut-in the wells, its failure to file injection reports, and the release at the Langhe 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 Langhe 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 14 day of May 2011 by



Garl MacQuisten
Sonny Swazo

Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
1220 S. St. Francis Drive
Santa Fe, NM 87505
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Attorneys for the New Mexico Oil
Conservation Division

Case No. _____. 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.

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to.

McDonnold Operating Inc.
505 N. Big Spring #204
Midland, TX 79702-4346

COMPLETE THIS SECTION ON DELIVERY

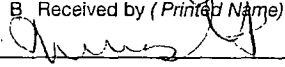
A. Signature

X 

☐ Agent

☐ Addressee

B. Received by (Printed Name)



C. Date of Delivery

5-15-11

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. Article Number

(Transfer from service label)

7008 3230 0000 2318 8632

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540