



December 19, 2011

Mr. Elidio Gonzales
District Supervisor
New Mexico Oil Conservation Division
Hobbs Office – District 1
1625 North French Drive
Hobbs, New Mexico
88240

Re: DCP Midstream, LP, Linam Ranch Acid Gas Injection Well Notification (OCC Order No. R-12546)

Dear Mr. Gonzales,

Based on recent information and data associated with DCP Midstream, LP's (DCP's) Acid Gas Injection Well (AGI Well) at the Linam Ranch facility, DCP is providing this notification and report to the New Mexico Oil Conservation Division (OCD) per Paragraph M of Order No. R-12546 (as modified July 28, 2011 by Order No. R-12546-I) to advise the OCD of a suspected communication between the well tubing and annular space (inside the 7" production casing) in the AGI Well. The data indicate that there is a small tubing or packer seal leak that has created the communication. All the data we have reviewed indicates that the production casing has integrity and there has been no release of acid gas outside of the annular space or into any other formation than the injection zone. In fact, due to the design of the well, any acid gas that may have entered the annular space has effectively been trapped by the diesel based packer fluid and is being held in suspension without becoming acidic. DCP believes the AGI Well is continuing to operate safely, and we continue to monitor the well and prudently manage operations of the well. We intend to conduct maintenance and repair work to address this observed communication during a facility turn-around in May 2012.

Recent Activity Re: Conducting Mechanical Integrity Test

As the Hobbs District Office is aware, DCP has been undertaking preparatory work to conduct an appropriate Mechanical Integrity Test (MIT) of the Linam Ranch AGI Well. The MIT requirement for the Linam Ranch AGI Well was recently changed from once every five years to once every two years by action of the OCC in July 2011, when it issued Order No. 12546-I to DCP. As part of that preparatory work for an MIT, DCP removed a limited volume of the existing diesel in the annular space of the well, to lower the annular space pressure to prepare for the MIT. During that process, DCP observed a smaller than expected pressure drop, which prompted the company to immediately scrutinize in greater detail its well-related operational data.

Detection/Status of Potential Leak of Tubing or Seal at the Well Packer

From the well-related operational data and the limited pressure drop when bleeding a small amount of diesel from the annular space, we have determined that a communication exists between the well



DCP Midstream
10 Desta Dr. Suite 400 W
Midland, TX 79705
O: (432) 620-4050
F: (432) 620-4162

By Electronic Mail, and Regular Mail

April 29, 2012

Mr. Elidio Gonzales
District Supervisor
New Mexico Oil Conservation Division
Hobbs Office – District 1
1625 North French Drive
Hobbs, New Mexico 88240

Re: **DCP Midstream, LP, Linam Ranch Acid Gas Injection Well Notification (OCC Order No. R-12546; Agreed Compliance Order No. 275)**

Dear Mr. Gonzales,

DCP Midstream, LP (DCP) is the owner and operator of the Linam Ranch Acid Gas Injection Well (AGI Well), and is in the process of repairing the AGI Well consistent with the New Mexico Oil Conservation Division (OCD) Agreed Compliance Order No. 275 (January 23, 2012). DCP initiated repair work on the AGI Well on Friday morning, April 27, 2012. This notification letter follows DCP's notification telephone call to the OCD Hobbs office, last night, April 28, 2012.

Notification

In the process of circulating diesel fluid out of the AGI Well yesterday evening, April 28, 2012, DCP encountered a pocket of acid gas rising to the surface after removal of approximately 80% of the diesel from the well annulus resulting in a release of H₂S gas from the AGI Well to the separator and flare. Normally the flare would have allowed the H₂S to be incinerated preventing a release of H₂S. However, the temporary flare connected to the separator as part of the equipment for conducting the AGI Well repair, has no fuel-assist, and was extinguished by a finite volume of CO₂ and H₂S gas that came out of the well annulus. This pocket of acid gas, including CO₂, overwhelmed the temporary flare, extinguishing the flare and allowing for the release of a finite amount of acid gas through the flare device to the ambient air. No persons were injured, no equipment was damaged, one ambient H₂S monitor at the facility fence line and three H₂S Monitors at the well site were triggered from this limited release, the H₂S Contingency Plan for the AGI Well has been implemented, the release was quickly stopped, and the well repair process was shut down for the night and the AGI Well secured.

This letter follows our telephone call notice to your office last night, and is to notify you of this H₂S release associated with the AGI Well repair process, consistent with Para. M of OCD Order No. R-12546 (as modified July 28, 2011, by Order No. R-12546-I). DCP cannot ascertain the volume of H₂S that was released from the AGI Well, but it was a limited volume of CO₂, H₂S and acid gas that had been in the annular space. One H₂S monitor at the facility fence line was triggered.

Current Status of AGI Well Activities

Immediately following the release associated with this pocket of acid gas passing through the temporary flare, AGI Well repair work was shut down and the AGI Wellhead was closed. The release ceased immediately. Notifications were made pursuant to the Linam Ranch AGI Well H2S Contingency Plan. The AGI Well site was secured, and well repair work was ceased for the night. Total Safety Personnel remained on site, monitoring the AGI Well, monitors and ancillary equipment. The facility ambient H2S monitors are functioning and in operation. DCP is reviewing appropriate corrective actions this morning, which may include piping the AGI Well repair equipment to DCP fuel-assisted permanent flare at the AGI Well site.

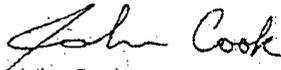
DCP Midstream Near-Term Activities

DCP takes the safe operation of the Linam Ranch AGI Well very seriously. In conducting the AGI Well repair work, DCP ensured the various H2S monitors were operable, instituted repair work safety measures, established a temporary flare to assist with any necessary destruction of acid gas if such were to emerge from the AGI Well, employed highly qualified personnel to undertake the AGI Well repair project, and confirmed relevant personnel understood the elements of the H2S Contingency Plan for the AGI Well.

DCP has implemented the H2S Contingency Plan, ceased the repair project for the night, and closed the AGI Wellhead. DCP will assess the effectiveness of the temporary safety flare at the AGI Well site, and whether use of the existing fuel-assisted permanent flare at the facility is feasible and would be effective. After this assessment, DCP will determine and institute the appropriate measures to ensure safe extraction of the remaining 20% of the diesel, so the next steps of the AGI Well repair can proceed.

We are available to meet and discuss this notification and event with you, and to discuss the appropriate measures which we are employing to ensure safe extraction of the annular fluid so that the well repair activities can continue. Please do not hesitate to call me should you want to discuss this issue, or would like to schedule a conference call or a meeting to discuss the continuing AGI Well operations.

Sincerely,



John Cook
Environmental Manager

cc: Director Jami Bailey, New Mexico OCD
Richard Ezeanyim, New Mexico OCD (Chief of Engineering)
Will Jones, New Mexico OCD
Gabrielle Gerholt, New Mexico OCD, Office of the General Counsel
Steve Boatenhamer
Mike Betz
Alberto Gutierrez, Geolex

Gerholt, Gabrielle, EMNRD

From: Bailey, Jami, EMNRD
Sent: Friday, January 06, 2012 8:05 AM
To: Bemis, John, EMNRD; Woods, Brett.F, EMNRD
Cc: Gerholt, Gabrielle, EMNRD
Subject: DCP acid gas well leak

In case you get "the phone call," DCP reported a leak in the tubing and/or packer in their Linam Ranch acid gas injection well just before Christmas. Yesterday we had a conference call with them and the OCD Hobbs district staff to discuss the issues and we will talk with them again this afternoon at 3:00. E.L. Gonzales and our engineers are extremely concerned because this well cannot pass an mechanical integrity test and although public safety is not a current concern, the situation could deteriorate quickly and with little warning.

✓ The issues:

1. DCP may have, and should have known, about the tubing/packer leak in late winter 2010, yet they did not report the problem until 12/19/11. Their commission order permitting the injection well calls for immediate notification to the Hobbs district office of any failure of the tubing, casing or packer in the well, and "shall take such measures as may be timely and necessary to correct such failure or leakage."
 2. DCP bled off diesel from the annulus and now there is a rising acid gas bubble approximately 300' long in the annulus. DCP's plan is to push diesel into the annulus to push the acid gas back into the injection formation. The engineers are leery about the safety of this part of the plan and its potential to make the leak worse or create a blowback.
 3. While there is unprotected pipe, embrittlement of the casing will occur, leading to an enhanced rate of corrosion. Valves controlling shut-down of the well become vulnerable.
 4. In July 2011, DCP agreed, and the OCC issued an order requiring MIT every 2 years. December 2011 marked the 2 year anniversary of first injection.
- DCP's plan is to wait an additional 5 months before shutting the well down for repairs. They cite the following reasons:
- Need to purchase replacement tubing;
 - The next facility turn-around is not scheduled until May 2012;
 - Temperature issues create condensation in lines;
 - Producers will need to shut-in or curtail production while the injection well is down;
 - Flaring H₂S creates environmental issues, and the Environment Dept has banned flaring.
- The OCD's position:
- The last 2 DCP reasons would occur in May anyway, so citing them as problems now is a wash;
 - The company does need a reasonable time to obtain replacement tubing;
 - The risk to the public, personnel, and inspectors increases the longer the delay in bringing down the well;
 - The risk of casing corrosion and loss of acid gas outside of the injection zone increases; and
 - DCP disregard for the OCC order and injection permit.

We ended yesterday's conversation with a request for DCP to submit today their pressure recordings for the well since 1st injection, and a reasonable timetable for correcting the problem. We will have another conference call with them at 3:00 this afternoon after review of the requested documents.

Jami

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Jami

Gerholt, Gabrielle, EMNRD

From: Bemis, John, EMNRD
Sent: Friday, January 06, 2012 8:55 AM
To: Bailey, Jami, EMNRD; Woods, Brett.F, EMNRD
Cc: Gerholt, Gabrielle, EMNRD
Subject: RE: DCP acid gas well leak

Keep us posted – obviously H2S must be dealt with in a way that assures no public safety risk.

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Detection/Status of Potential Leak of Tubing or Seal at the Well Packer

From the well-related operational data and the limited pressure drop when bleeding a small amount of diesel from the annular space, we have determined that a communication exists between the well

tubing and the annular space in the well (the annular space being inside the 7" production casing). From the data and well configuration, we believe this communication is due to a small tubing leak, or to a small seal leak inside the packer. From the data it appears to be more consistent with a leak in one or more of the five seals between the tubing and the packer. After a detailed review of the injection and annular space pressure data, we believe the leak may have started in the late winter or spring of 2011. Because the anomalies noted were so slight due to normal variations in injection and annular pressure, the communication was only detected when the small volume of diesel was bled from the annular space in preparation for the MIT.

Because the annular space is holding pressure, and the pressures at the packer level are generally balanced, this confirms that there is no leak from the production casing, but rather the most likely scenario is a slight leak in the packer/tubing seals. Our monitoring has never detected any acid gas at the well head, nor was any acid gas detected when the diesel was bled from the annular space. For this reason, and due to the specific gravities of the acid gas and the diesel, we believe that any small amount of acid gas that may have entered the annular space either from the tubing or around the packer seal assembly is trapped below the diesel on top of the packer. This is precisely why the well is designed with lighter diesel in the annular space, which prevents the possibility of corrosion or escape of the acid gas up the annular space. Furthermore, we are not observing any abnormal or systematic decrease in annular space pressure, which provides assurance that there has been no leak of acid gas or diesel from the production casing above the packer. In fact, the leak is probably so slight that it could not be detected from the simple review of the pressure differential data until the bleeding-off of the diesel did not result in the anticipated drop in pressure in the annular space in preparation for the MIT.

Current Status of Well Operations

Operating data from the AGI Well facility, which include data from the AGI Well itself, is continuously collected and observed in the Linam Ranch Plant DCS database. Real-time facility operations data are reflected on the DCS screens and are monitored by the plant operators who man the control room 24 hours per day. The site has cameras for visual monitoring, and plant operators make period rounds to ensure equipment is operating correctly. The Linam Ranch AGI Well operates in a continuous steady-state mode.

DCP Midstream Near-Term and Long-Term Activities

DCP takes the safe operation of the Linam Ranch AGI very seriously, and has considered and identified the steps the company is taking and will take to ensure safe, prudent operation of the well pending repair of the tubing and packer in May 2012. Those activities include:

- Real-time data operational data are collected continuously and are displayed on the DCS screens in the control room. These data include the AGI Well injection rate, the injection pressure, the injection temperature, and the tubing annular pressure. Plant operators will monitor for changing conditions, and will notify the operation management of any notable AGI Well operating condition changes. The plant operations team will meet with asset management monthly to conduct a thorough review of AGI Well operational data and trends, to assess well operational status.
- Replace to the maximum extent practicable and safe the diesel which was bled from the annular space. This activity will restore a complete filling of the annular space with diesel and safeguard

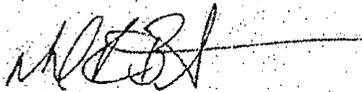
the tubing, casing and packer, will displace the small amount of acid gas which has leaked into the annular space into the reservoir, and will eliminate the potential for any acid gas to travel up the annular space through the diesel. DCP will then not further disturb the diesel in the annular space.

We believe that closely managing the operation of the AGI Well will minimize the potential for any increase in the communication between the tubing and the diesel-filled annulus. *i.e.*, (i) managing the AGI Well operation so as to lower to the extent possible the well injection pressure, (ii) manage for consistent injection operations of the AGI, and (iii) closely monitoring and maintaining equipment and systems associated with the AGI Well so as to minimize interruptions of AGI operations.

During next facility turn-around in May 2012, DCP will shut the well down, safely drain the diesel and any small residual acid gas in the annulus, pull the tubing and inspect the seals, and repair or replace all parts necessary to ensure that the communication between the tubing/packer seal and the annular space is eliminated. DCP will then conduct a complete OCD-observed MIT on the tubing, packer and seal assembly, and the 7" production casing prior to putting the well back on-line.

We are available to meet and discuss this notification and report with you, and discuss any data that we have as well as the steps we have in place to safely and prudently operate this facility. Please do not hesitate to call me should you want to discuss this issue, or would like to schedule a meeting to discuss the AGI Well operations.

Sincerely,



Michael R Betz
SENM Asset Director

cc: Richard Ezeanyim, New Mexico OCD (Chief of Engineering)
Steve Boatenhamer
John Cook
Alberto Gutiérrez, Geolex

- D. The operator shall report injection well or producing well failures requiring casing repair or cementing to the division prior to commencement of workover operations.
- E. The division may restrict the injected volume and pressure for, or 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.
[9.15.26.10 NMAC - Rp 19.15.9.703 NMAC, 12/1/08]

Below is a copy of the email sent to Richard.....

From: Chavez, Carl J, EMNRD
Sent: Wednesday, January 04, 2012 2:37 PM
To: Jones, William V., EMNRD
Subject: FW: Linam Ranch Acid Gas Injection Well Notification (OCC Order No. 12546)

Carl J. Chavez, CHMM
New Mexico Energy, Minerals & Natural Resources Dept.
Oil Conservation Division, Environmental Bureau
1220 South St. Francis Dr., Santa Fe, New Mexico 87505
Office: (505) 476-3490
Fax: (505) 476-3462
E-mail: CarlJ.Chavez@state.nm.us

Website: <http://www.emnrd.state.nm.us/ocd/>
"Why not Prevent Pollution; Minimize Waste; Reduce the Cost of Operations; & Move Forward with the Rest of the Nation?" To see how, go to "Pollution Prevention & Waste Minimization" at:
<http://www.emnrd.state.nm.us/ocd/environmental.htm#environmental>

From: Alberto A. Gutierrez, RG [mailto:aag@geolex.com]
Sent: Tuesday, December 20, 2011 10:07 AM
To: "RICHARD EZEANYIM \ (richard.ezeanyim@state.nm.us\)"@ame7.swcp.com; Sanchez, Daniel J., EMNRD; Chavez, Carl J, EMNRD
Cc: Betz, Michael R; 'Tourangeau, Paul R'
Subject: FW: Linam Ranch Acid Gas Injection Well Notification (OCC Order No. 12546)

Dear Daniel, Richard and Carl,

DCP provided the attached notice to Elidio at the district yesterday afternoon and when we spoke to him this morning, he requested that we also provide the notification to you and discuss the approach presented in the letter to resolve the issue we have detected with the Linam AGI well. I would like to set up a call or meeting with the appropriate individuals in your office today if possible. I will give a call shortly to see what time would be convenient. Thanks and Happy Holidays to all of you.

Regards
Alberto

Alberto A. Gutiérrez, RG
Geolex, Incorporated®
500 Marquette Avenue, NW Suite 1350
Albuquerque, NM 87102
505-842-8000 Ext. 105
505-842-7380 Fax

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From: Betz, Michael R

Sent: Monday, December 19, 2011 1:32 PM

To: ElidioL.Gonzales@state.nm.us

Cc: Cook, John W; Tourangeau, Paul R; Garrett, David F; Ledonne, David A; Root, Chris R; Jamerson, Kelly D; Figueroa, Jonas; Boatenhamer, Steven D

Subject: Linam Ranch Acid Gas Injection Well Notification (OCC Order No. 12546)

Mr. Gonzales,

Hello, my name is Michael Betz and have assumed the role of Asset Director over the SENM Asset for DCP Midstream. Attached is a letter that states our current understanding and go forward plan for the Acid Gas injection well at our Linam Ranch gas plant. A hard copy is being sent to your office. I am available at any time to answer additional questions around this operation and look forward to working with you in the future. Thanks for your time.

Michael R Betz
432-238-8875

No virus found in this message.

Checked by AVG - www.avg.com

Version: 2012.0.1890 / Virus Database: 2108/4690 - Release Date: 12/19/11

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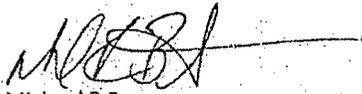
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