

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

RECEIVED OOD

2014 OCT 29 P 3: 55

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF AGAVE ENERGY COMPANY
FOR AUTHORITY TO INJECT, LEA
COUNTY, NEW MEXICO

Reopened
Case No. 14720

**APPLICANT AGAVE ENERGY COMPANY'S
AMENDED THIRD MOTION TO AMEND ORDER NO. R-13507**

Applicant Agave Energy Company ("Agave") moves the Oil Conservation Commission ("Commission") to amend Order No. R-13507 by extending the deadline for Agave to commence injection of treated acid gas ("TAG") into its Red Hills AGI #1 disposal well. Agave is filing this amended motion for the sole purpose of requesting the Commission to allow any future request by Agave to extend the deadline to be addressed administratively by the Oil Conservation Division ("Division"). In support of its amended motion, Agave states:

1. On January 23, 2012, the Commission issued Order No. R-13507 authorizing Agave to drill and operate the Red Hills AGI #1 well (API 30-015-40448) to dispose of TAG containing carbon dioxide ("CO₂") and hydrogen sulfide ("H₂S") into the Cherry Canyon Formation.

2. Order No. R-13507 enumerates certain conditions, including requirements that Agave: (a) reenter the plugged and abandoned Smith Federal #001 (API 30-025-27491), Sims #001 (API 30-025-26958) and Government L Com #001 (API 30-025-25604) wells, perforate and squeeze cement across the injection zone in each well, and replug the wells in accordance with current Division requirements; (b) reenter the plugged and abandoned Government L Com

#2 (API 30-025-26939) well, place a balanced cement plug across the injection zone, and replug the well in accordance with current Division requirements; and (c) commence the injection of TAG within three years after the issuance of the order. **Order No. R-13507 at 7-8, Ordering ¶¶ 1(i), 1(j), and 2.**

3. Order No. R-13507 provides that any extension of the deadline for commencing injection “will require an application to and approval by the Commission.” *Id.* at 8, **Ordering ¶ 2.** This motion requests such relief.

4. On May 14, 2012, Agave filed a motion to amend Order No. R-13507 requesting the Commission to eliminate its requirements regarding the Smith Federal #001 well. On July 18, 2012, the Commission issued Order No. R-13507-A, which granted Agave’s motion and eliminated the requirement that Agave reenter and replug the Smith Federal #001 well. **Order No. R-13507-A at 3, Ordering ¶ 1.**

5. On August 13, 2012, Agave filed its Amended Second Motion to Amend Order No. R-13507 requesting the Commission to eliminate the requirements that Agave place a balanced plug in the Government L Com #002 well across the injection zone and reenter and replug the Government L Com #001 well. On December 6, 2012, the Commission issued Order No. R-13507-D, which: (a) removed the requirement that Agave place a balanced cement plug in the Government L Com #002 well across the injection zone and authorized Agave’s alternative plugging program for the well; and (b) delayed the requirement that Agave reenter and replug the Government L Com #001 well until five years from the date Agave begins injecting TAG into the Red Hills AGI #1 well. **Order No. R-13507-D at 4, Ordering ¶¶ 1, 2(a), and 2(b).**

6. During the initial hearing in this case held on December 8 and 9, 2011, Agave’s witnesses provided testimony regarding Agave’s ongoing construction of its Red Hills Gas

Processing Plant (“Red Hills Plant”) for purposes of processing gas produced from the Avalon Shale, Agave’s plan to double the capacity of the Red Hills Plant based on increases in Avalon Shale gas production, and the need for subsurface disposal of TAG when producers begin transporting sour inlet gas containing H₂S to the plant. They testified that the Red Hills Plant initially would be receiving only sweet inlet gas, and estimated that it would be one to four years before the plant would begin receiving sour inlet gas, the processing of which would necessitate the injection of TAG into the Red Hills AGI #1 disposal well.

7. Agave began operating the Red Hills Plant on May 24, 2013. Since the Commission issued Order No. R-13507, Agave has devoted significant resources to performing off-site well remedial work required by the Commission, developing the Red Hills AGI #1 well, and purchasing all of the equipment necessary for completing the well. Agave has drilled the Red Hills AGI #1 well and set the casing, but has not yet perforated the casing.

8. Because development of the Avalon Shale gas play has not proceeded at the pace it anticipated in 2011, Agave has not increased the capacity of the Red Hills Plant. Nor has Agave begun to receive sour inlet gas for processing. Consequently, Agave has taken the reasonable position that it should not expend the additional resources necessary to complete the Red Hills AGI #1 well until the Red Hills Plant either: (i) begins receiving increased amounts of sweet inlet gas with elevated CO₂ levels, which will require the injection, rather than venting, of the CO₂; or (ii) begins receiving sour inlet gas containing H₂S. While the timing of those events remains uncertain, Agave now estimates that either or both of them will occur in the next two to five years.

9. Agave has communicated with the Division regarding options for obtaining approved temporary abandonment (“TA”) status for the Red Hills AGI #1 well in accordance

with 19.15.26.12(B)(3) NMAC. The Division agrees with Agave that, rather than perforating and testing the well before requesting TA status, the best option is for Agave is to run the CBL, cap the well with a secure cap that allows for pressure measurement, and delay perforating the well until it becomes necessary for Agave to complete the well and commence injection.

10. Agave remains fully committed to completing and operating the Red Hills AGI #1 well. However, completing the well before there is a need to inject TAG is not a fiscally prudent option.

11. More importantly, completing the well before there is a need to inject would present technical problems that could prove detrimental to the wellbore. As the Division has acknowledged, perforating and completing the well, then leaving it idle until the need for injection arises, likely would result in scaling of the perforations and possibly would result in corrosion of the completion equipment in the well.

12. Should the Commission approve Agave's proposal to temporarily cap the Red Hills AGI Well #1 and grant its requested extension of the current deadline for commencing injection, Agave will formally request the Division and the Bureau of Land Management to place the well in approved TA status.

13. Given the course of events that have transpired since the Commission issued Order No. R-13507 in January of 2012, Agave is not in a position to commence the injection of TAG into the Red Hills AGI Well #1 by the January 23, 2015 deadline imposed by the order. Consequently, Agave requests that the Commission extend the deadline for commencing injection for two (2) years.

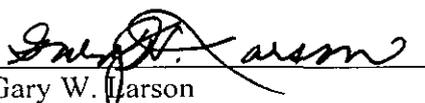
14. Agave has contacted counsel for the parties that have entered appearances in this case, Kaiser-Francis Oil Company ("Kaiser-Francis") and the Division, regarding this amended

motion. Kaiser-Francis does not oppose the amended motion. Agave has not been informed of the Division's position regarding the motion.

WHEREFORE, Agave requests that the Commission:

- (1) Administratively approve Agave's proposal to temporarily cap the Red Hills AGI #1 well and its request for a two-year extension of the current deadline for commencing injection;
- (2) Alternatively, if the Commission deems it necessary to conduct a hearing on this motion, set the matter for hearing on the Commission's November 19, 2014 docket;
- (3) Grant Agave's motion and enter an order amending Order No. R-13507 by extending the deadline for Agave to commence injection until January 23, 2017;
- (4) Provide in the order that any future request by Agave to extend the deadline for commencing injection may be addressed administratively by the Division; and
- (5) Grant Agave such further relief as the Commission deems appropriate.

HINKLE SHANOR LLP



Gary W. Larson
P.O. Box 2068
Santa Fe, NM 87504-2068
Phone: (505) 982-4554
Facsimile: (505) 982-8623
glarson@hinklelawfirm.com

Counsel for Applicant Agave Energy Company

CERTIFICATE OF SERVICE

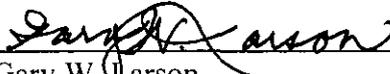
I hereby certify that on this 29th day of October, 2014, I served a true and correct copy of the foregoing *Applicant Agave Energy Company's Amended Third Motion to Amend Order No. R-13507* via email to:

James Bruce, Esq.
P.O. Box 1056
Santa Fe, NM 87504-1056
jamesbruc@aol.col

*Counsel for Kaiser-Francis Oil
Company*

Gabriel Wade, Esq.
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505
Gabriel.Wade@state.nm.us

*Counsel for the Oil Conservation
Division*



Gary W. Larson