

State of New Mexico
Energy, Minerals and Natural Resources Department

OCD Case No. 15322

KEY ENERGY
Exhibit #4

Susana Martinez
Governor

John Bemis
Cabinet Secretary

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

Jami Bailey
Division Director
Oil Conservation Division



Administrative Order SWD-1344
July 17, 2012

ADMINISTRATIVE ORDER
OF THE OIL CONSERVATION DIVISION

Under the provisions of 19.15.26.8B NMAC, Key Energy Services LLC seeks an administrative order to utilize its Grace Carlsbad Well No. 1 (API 30-015-20573) located 1980 feet from the South line and 660 feet from the East line, Unit letter I of Section 36, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, for produced water disposal purposes.

THE DIVISION DIRECTOR FINDS THAT:

The application has been duly filed under the provisions of 19.15.26.8B NMAC and satisfactory information has been provided that affected parties as defined in said rule have been notified and no objections have been received within the prescribed waiting period. The applicant has presented satisfactory evidence that all requirements prescribed in 19.15.26.8 NMAC have been met and the operator is in compliance with 19.15.5.9 NMAC.

IT IS THEREFORE ORDERED THAT:

The applicant, Key Energy Services LLC, is hereby authorized to utilize its Grace Carlsbad Well No. 1 (API 30-015-20573) located 1980 feet from the South line and 660 feet from the East line, Unit letter I of Section 36, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, for disposal of oil field produced water (UIC Class II only) into the Brushy Canyon member of the Delaware Mountain Group through perforations from 4082 feet to 5200 feet through internally coated tubing and a packer set less than 100 feet above the permitted disposal interval.

As preparation and prior to commencing disposal, the applicant shall:

- a. Pull the 7 inch casing then perforate just above the current cement top of the 9-5/8 inch casing and attempt to squeeze cement to surface.
- b. Run 7 inch casing to at least 5200 feet and cement to surface.
- c. Ensure the well is plugged back to within 200 feet below the permitted disposal interval.

The applicant shall not commence disposal operations until at least one cemented casing covers the entire Delaware formation and at least two cemented casings cover the depth interval from 1900 feet (or top of Delaware) to surface.

In the event Applicant fails in its attempt to case and cement this well as detailed above, this

disposal permit shall expire *ipso-facto*.

IT IS FURTHER ORDERED THAT:

The operator shall take all steps necessary to ensure that the disposed water enters only the proposed disposal interval and is not permitted to escape to other formations or onto the surface.

After installing tubing, the casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge or an approved leak detection device in order to determine leakage in the casing, tubing, or packer. The casing shall be pressure tested from the surface to the packer setting depth to assure casing integrity.

The well shall pass an initial mechanical integrity test ("MIT") prior to initially commencing disposal and prior to resuming disposal each time the disposal packer is unseated. All MIT testing procedures and schedules shall follow the requirements in Division Rule 19.15.26.11A, NMAC. The Division Director retains the right to require at any time wireline verification of completion and packer setting depths in this well.

The wellhead injection pressure on the well shall be limited to **no more than 816 psi**. In addition, the disposal well or system shall be equipped with a pressure limiting device in workable condition which shall, at all times, limit surface tubing pressure to the maximum allowable pressure for this well.

The Director of the Division may authorize an increase in tubing pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the disposed fluid from the target formation. Such proper showing shall be demonstrated by sufficient evidence including but not limited to an acceptable Step-Rate-Test.

The operator shall notify the supervisor of the Division's district office of the date and time of the installation of disposal equipment and of any MIT test so that the same may be inspected and witnessed. The operator shall provide written notice of the date of commencement of disposal to the Division's district office. The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Division Rules 19.15.26.13 and 19.15.7.24 NMAC.

Without limitation on the duties of the operator as provided in Division Rules 19.15.29 and 19.15.30 NMAC, or otherwise, the operator shall immediately notify the Division's district office of any failure of the tubing, casing or packer in the well, or of any leakage or release of water, oil or gas from around any produced or plugged and abandoned well in the area, and shall take such measures as may be timely and necessary to correct such failure or leakage.

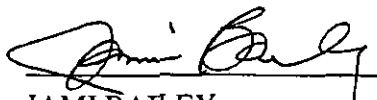
The injection authority granted under this order is not transferable except upon division approval. The division may require the operator to demonstrate mechanical integrity of any injection well that will be transferred prior to approving transfer of authority to inject.

The division may revoke this injection permit after notice and hearing if the operator is in violation of 19.15.5.9 NMAC.

The disposal authority granted herein shall terminate two years after the effective date of this order if the operator has not commenced injection operations into the subject well. One year after the last date of reported disposal into this well, the Division shall consider the well abandoned, and the authority to dispose will terminate *ipso facto*. The Division, upon written request mailed by the operator prior to the termination date, may grant an extension thereof for good cause.

Compliance with this order does not relieve the operator of the obligation to comply with other applicable federal, state or local laws or rules, or to exercise due care for the protection of fresh water, public health and safety and the environment.

Jurisdiction is retained by the Division for the entry of such further orders as may be necessary for the prevention of waste and/or protection of correlative rights or upon failure of the operator to conduct operations (1) to protect fresh or protectable waters or (2) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the disposal authority granted herein.



JAMI BAILEY
Director

JB/wvjj

cc: Oil Conservation Division – Artesia
State Land Office – Oil, Gas, and Minerals Division