

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

CASE NO. 14054
ORDER NO. R-12967

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION FOR
A COMPLIANCE ORDER AGAINST KIMLAR OIL COMPANY, EDDY
COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 3, 2008, at Santa Fe, New Mexico, before Examiners William V. Jones and David K. Brooks.

NOW, on this 30th day of June, 2008, the Oil Conservation Division ("Division") Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The Division seeks an order requiring Kimlar Oil Company OGRID 152098 ("Kimlar" or "operator"), to bring the Gourley Federal Well No. 3 (API No. 30-015-22660) located in Unit A of Section 31, Township 22 South, Range 28 East, NMPM, Eddy County, New Mexico, into compliance with Division Rule 116, including cleanup of contamination by a date certain and imposition of fines if such cleanup is not completed by that date.

(3) At the hearing, the Division asked that a Rule 703 violation included in the application in this case concerning the Gourley Federal Well No. 4 (API No. 30-015-22661) be dismissed as Kimlar had come into compliance prior to the hearing.

(4) Kimlar Oil Company was represented at the hearing by Ms. Becky Hill from Kimlar and Mr. Steve Williamson with Kojo Energy as a consultant. Kimlar was not represented by legal counsel.

(5) No other parties appeared at the hearing or otherwise opposed this application.

(6) The Division presented testimony and evidence showing that:

(a) The Gourley Federal Well No. 3 is located in a water sensitive area and less than 50 feet above ground water;

(b) The well has had numerous and obvious surface spills or leaks near the well location – evidenced by testimony and pictures;

(c) The well production records indicate the well makes a small amount of oil and gas and large amounts of water;

(d) Kimlar violated Division Rule 116 by failing to timely report the Major Releases and to pursue approved plans for cleanup of those releases. Kimlar did not give verbal notice and did not file Form C-141 within the allotted time period. The Division presented inspection records supporting this allegation.

(e) Kimlar and the Division had entered into an agreed compliance order which included this issue, whereby Kimlar agreed to file a remediation plan for this Gourley Federal Well No. 3 by April 20, 2007 and complete remediation within 6 months thereafter or pay penalties;

(f) Kimlar has failed to meet these deadlines, but has recently sampled the site and, as of the date of this hearing, has begun excavation for cleanup.

(g) The Division is waiving fines previously pertaining to this incident as specified in the agreed compliance order – but did ask at the hearing that fines against Kimlar of \$1,000 per day be included in this order if cleanup of the site is not complete within 30 days of this hearing date.

(7) Kimlar presented the following:

(a) Kimlar is a small company; Becky Hill works in the office, and her husband takes care of the wells in the field;

(b) Kojo Energy, Inc. was recently hired as a consulting firm to aide Kimlar on various issues including this remediation project.

(c) Kimlar's consultant estimates that most of the spills have been stuffing box leaks, and on this particular well, all remediation can be completed within 45 to 60 days from this hearing date.

(8) The evidence presented in this case indicates Kimlar has violated Rule 116 and as a result has placed existing fresh, underground water in this area in danger. Evidence shows that Kimlar has violated a signed agreed compliance order as contended by the applicant in this case.

(9) Kimlar itself presented evidence that its operations are stretched and presented this as a defense or a reason for the tardy reports, slow cleanup efforts, and violation of the agreed compliance order. Kimlar has acquired the services of a consulting firm and has indicated a readiness to report spills timely in the future. HOWEVER, reporting spills timely is NOT the same as preventing spills.

(10) The evidence presented by both sides shows this particular cleanup is underway, but also it became apparent that this type of environmental endangerment will likely happen again if Kimlar continues to operate these high water-cut, Delaware formation wells equipped with pumping units and insists on operating these without SCADA systems and with only one field person.

(11) The application for compliance order against Kimlar should be approved. Kimlar should be given approximately 30 days from the date of this order to complete cleanup of this site or be subject to \$1,000 per day in penalties thereafter.

(12) In addition, Kimlar shall install and/or implement a spill prevention system approved by the Artesia district office and afterwards provide a written update and status report of the new system to the Division.

IT IS THEREFORE ORDERED THAT:

(1) The application of the Division is approved insofar as Kimlar Oil Company (OGRID 152098) is hereby directed to complete cleanup of contamination near the following well by July 31, 2008.

Gourley Federal Well No. 3 (API No. 30-015-22660) located in Unit A of Section 31, Township 22 South, Range 28 East, NMPM, Eddy County, New Mexico.

(2) The operator shall obtain approval of this work from the supervisor of the Division's district office and shall notify the district office of this work so the Division may witness.

(3) In the event the operator fails to comply with Ordering Paragraph (1), then civil penalties of up to \$1,000 per day may accrue beginning from August 1, 2008 until the last day of cleanup.

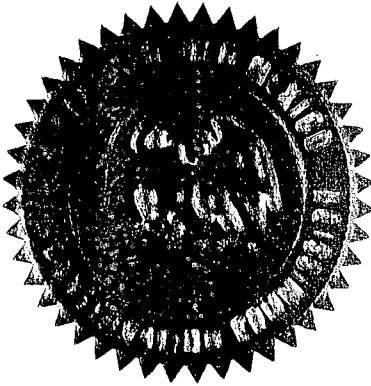
(4) The application as it pertains to a Rule 703 violation concerning the Gourley Federal Well No. 4 (API No. 30-015-22661) is hereby dismissed.

(5) Kimlar Oil Company shall install and/or implement, by January 1, 2009, a spill prevention system approved by the Artesia district office designed to reduce or eliminate stuffing box leaks and other spills from its wells and operations. By June 30, 2009, Kimlar shall provide a written update and status report including record of spills and performance of the new system to the Compliance Manager in Santa Fe with the Division.

If Kimlar does not implement such approved system it may be assessed a civil penalty, not to exceed \$1,000 per day for each day after June 30, 2009, that such report remains unfiled:

(6) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director

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