

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

RECEIVED
2007 DEC 4 AM 9 18

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST KIMLAR OIL COMPANY, FINDING THAT OPERATOR KNOWINGLY AND WILLFULLY VIOLATED DIVISION RULES 19.15.3.116 AND 19.15.9.703 NMAC; ORDERING OPERATOR TO COMPLY WITH SUCH RULES BY A DATE CERTAIN; ASSESSING PENALTIES; EDDY COUNTY, NEW MEXICO.

CASE NO. 14054

APPLICATION FOR COMPLIANCE ORDER AGAINST KIMLAR OIL COMPANY

1. Kimlar Oil Company (“Operator”) is a business operating wells in New Mexico under OGRID 152098.

2. Operator is the operator of record for the following subject wells:

- Gourley Federal No. 003; API No. 30-015-22660; A-31-22S-28E
- Gourley Federal No. 004; API No. 30-015-22661; J-31-22S-28E

3. Oil Conservation Division (“OCD”) Rule 19.15.3.116 NMAC (“Rule 116”) requires OCD to be notified of any unauthorized release occurring during the drilling, producing, storing, disposing, injecting, transporting, servicing or processing of crude oil, natural gases, produced water, condensate or oil field waste including regulated NORM, or other oil field related chemicals, contaminants or mixture thereof, in the State of New Mexico. OCD Rule 116 states the notification shall be made by the person operating or controlling either the release or the location of the release. OCD Rule 116

requires notification to be made within a certain number of days following the discovery of the release. Notification requirements include completing and filing a Form C-141. OCD Rule 116 requires the notification to be made to the division district office for the area within which the release takes place and may require notice to the division's environmental bureau chief.

4. Rule 116 also requires the responsible person to complete division approved corrective action for releases which endanger public health or the environment. Releases are addressed in accordance with a remediation plan submitted to and approved by OCD or with an abatement plan submitted in accordance with Section 19 of 19.15.1 NMAC.

5. On April 23, 2007, OCD entered into Agreed Compliance Order ("ACO") 7-174 with Operator to resolve a Rule 116 violation at the Gourley Federal No. 003 well. In ACO 7-174, Operator agreed to the correctness of the following facts: On February 15, 2007, OCD Deputy Oil and Gas Inspector Mike Bratcher inspected the Gourley Federal No. 003 well and observed contamination from a possible stuffing box leak. The Gourley Federal No. 003 well is located in a water sensitive area, making it a major release and triggering Rule 116 notification and cleanup requirements.

6. Under Ordering Paragraph No. 2 of ACO 7-174, OCD waived the \$1,000.00 civil penalty assessed for Operator's knowing and willful violation of Rule 116 for the Gourley Federal No. 003 well (failure to give immediate verbal and timely written notification of major release originating from the stuffing box, no remediation plan and no cleanup) on the condition that "Kimlar submits a remediation plan of the release at the Gourley Federal #003 well no later than April 20, 2007 and completes the remediation

with in a reasonable time frame thereafter, not to exceed six (6) months. If the work is not completed within the specified time, the **One Thousand Dollar** penalty shall automatically become due and owing and shall be paid immediately by Kimlar to the OCD.”

7. Under Ordering Paragraph No. 3, Operator could request an extension to complete the requirements set out in Ordering Paragraph No. 2.

8. Operator did not file a remediation plan for the Gourley Federal No. 003 well by the April 20th deadline set forth in ACO 7-174.

9. On August 14, 2007, OCD staff reminded Operator (Becky Hill) that the remediation plan for the Gourley Federal No. 003 well was past due and that the well had to be remediated in accordance with OCD’s requirements and standards by October 20, 2007.

10. As of this date, Operator has not notified OCD of the release at the Gourley Federal No. 003 well in accord with the notification requirements of OCD Rule 116. Nor has Operator provided OCD with a remediation plan for the Gourley Federal No. 003 well. OCD Deputy Oil and Gas Inspector Richard Inge observed contamination when he inspected the Gourley Federal No. 003 well on November 16, 2007. Operator did not request an extension of time to complete the remediation. Operator has not paid the \$1,000.00 civil penalty that became due when Operator failed to complete the work within the time frame set out in Ordering Paragraph No. 3.

11. OCD Rule 19.15.9.703 NMAC (“Rule 703”) states “Injection wells shall be equipped, operated, monitored and maintained to facilitate periodic testing and to assure continued mechanical integrity which 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.”

12. On September 24, 2007, OCD entered into ACO 195 with Operator to resolve a violation of Rule 703 at the Gourley Federal No. 004 well. In ACO 195, Operator agreed to the correctness of the following facts: On October 23, 2006, OCD Deputy Oil and Gas Inspector Gerry Guye tried to perform a mechanical integrity test on the Gourley Federal No. 004 well but was unable to do so because Operator’s representative failed to show up to witness the test. On October 24, 2006, Deputy Inspector Guye sent Operator a letter of violation which informed Operator that the well had to be shut-in until Operator rescheduled the test, and that the violation had to be corrected by November 23, 2007. Operator nevertheless continued to inject until February 2007. On April 20, 2007, Deputy Inspector Guye sent Operator a “corrected” letter of violation which informed Operator that the violation had to be corrected by May 18, 2007.

13. As of this date, Operator has not allowed OCD to perform a mechanical integrity test on the Gourley Federal No. 004 well.

14. NMSA 1978, Section 70-2-31(A) provides that any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars for each violation, and that in the case of a continuing violation, each day of violation shall constitute a separate violation.

15. NMSA 1978, Section 70-2-33(A) defines “person” to mean “any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity.”

WHEREFORE, the Enforcement and Compliance Manager of the Division hereby applies to the Director to enter an order:

- A. Determining that Operator violated OCD Rule 19.15.3.116 by not notifying OCD of the release at the Gourley Federal No. 003 well in accord with the rule and by not cleaning up the release;
 - i. Finding Operator’s violation of OCD Rule 19.15.3.116 to be knowing and willful;
 - ii. Assessing penalties for Operator’s knowing and willful violation of OCD Rule 19.15.3.116;
 - i. Ordering Operator to remediate the contamination at the Gourley Federal No. 003 well by a date certain;
- B. Determining that Operator violated OCD Rule 19.15.9.703;
 - i. Finding Operator’s violation of OCD Rule 19.15.9.703 to be knowing and willful;
 - ii. Assessing penalties for Operator’s knowing and willful violation of OCD Rule 19.15.9.703;
 - iii. Ordering Operator to allow OCD to perform a mechanical integrity test by a date certain;
- C. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this fourth day of December 2007 by



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
(505) 476-3463
sonny.swazo@state.nm.us

Attorney for the New Mexico Oil
Conservation Division

- Case No. 14054. Application of the New Mexico Oil Conservation Division for a Compliance Order against Kimlar Oil Company. The Applicant seeks an order finding operator in violation of 19.15.3.116 and 19.15.9.703 NMAC; requiring operator to bring the wells into compliance with 19.15.3.116 and 19.15.9.703 by a date certain; and assessing penalties. The affected wells are:

- Gourley Federal No. 003; API No. 30-015-22660; A-31-22S-28E
- Gourley Federal No. 004; API No. 30-015-22661; J-31-22S-28E

The wells are located approximately 9 miles southeast of Carlsbad, in Eddy County, New Mexico.