

State of New Mexico
Energy, Minerals and Natural Resources Department

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Oil Conservation Division



Administrative Order SWD-1484
May 21, 2014

**ADMINISTRATIVE ORDER
OF THE OIL CONSERVATION DIVISION**

Pursuant to the provisions of Division Rule 19.15.26.8B. NMAC, KC Resources, Incorporated (the "operator") seeks an administrative order to re-enter and re-complete its Lea YH State Well No. 4 with a location of 1980 feet from the South line and 990 feet from the East line, Unit letter I of Section 25, Township 18 South, Range 34 East, NMPM, Lea 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 as a result of a negotiated settlement with the Division.

The well is identified in Exhibit "A" of the Agreed Compliance Order for Inactive Wells (ACOI)-285 approved April 14, 2014. The authority to inject for this well is subject to compliance of the terms and conditions of ACOI-285.

IT IS THEREFORE ORDERED THAT:

The applicant, KC Resources, Inc. (OGRID 122912), is hereby authorized to utilize its Lea YH State Well No. 4 (API 30-025-26687) with a location of 1980 feet from the South line and 990 feet from the East line, Unit letter I of Section 25, Township 18 South, Range 34 East, NMPM, Lea County, for disposal of oil field produced water (UIC Class II only) through perforations in the Cherry Canyon formation of the Delaware Mountain group from 6670 feet to 6930 feet. Injection will occur through internally-coated, 2 3/8-inch or smaller tubing and a packer set within 100 feet of the permitted interval.

IT IS FURTHER ORDERED THAT:

The operator shall take all steps necessary to ensure that the disposed water enters only the approved disposal interval and is not permitted to escape to other formations or onto the surface. This includes the well construction proposed and described in the application.

The operator shall cement the 5 1/2-inch casing from the top of cement (either the measured top at 7610 feet or as determined by a cement bond log conducted for the re-entry) to surface. If the cement cannot be circulated to the surface, the operator shall emplace cement a minimum length of 300 feet above the shoe of the 8 5/8-inch casing and shall submit to the Division's district I office a cement bond log (or equivalent) to verify the cement placement prior to commencing disposal.

The operator shall complete the listed corrective actions for three wells within the Area of Review prior to commencing disposal:

1. *Lea YH State Well No. 1 (API 30-025-26104)*

Corrective Action: *emplace cement in the annulus of 5 1/2-inch production casing to isolate or seal the injection interval from both deeper (the top of the Bone Spring formation at 7675 feet) and shallower formations not part of the approved interval.*

2. *Lea YH State Well No. 2 (API 30-025-26299)*

Corrective Action: *emplace cement in the annulus of 5 1/2-inch production casing to isolate or seal the injection interval from shallower formations not part of the approved interval.*

3. *Lea YH State Well No. 3 (API 30-025-26562)*

Corrective Action: *emplace cement in the annulus of 5 1/2-inch production casing to isolate or seal the injection interval from shallower formations not part of the approved interval.*

The operator shall prepare a cementing program for each well and submit the program to the Division's district I office for approval. The operator shall submit to the Division's district I office a cement bond log (or equivalent) for each well to verify the cement placement.

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 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 1334 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 I office of the date and

time of the installation of disposal equipment and of any MIT 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 I 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.

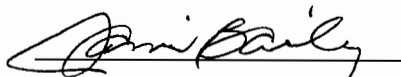
The injection authority granted under this order is not transferable except upon division approval. The Division may require the operator to demonstrate mechanical integrity of any injection well that will be transferred prior to approving transfer of authority to inject.

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 (2) 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/prg

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