

BC+D

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

NMOCD-07-166

**IN THE MATTER OF MOUNTAIN STATES PETROLEUM CORP.**

**Respondent.**

**AGREED COMPLIANCE ORDER**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended (hereinafter, "Act"), and the rules promulgated under the Act, the Director of the Oil Conservation Division of the Energy Minerals and Natural Resources Department of the State of New Mexico (hereinafter, "OCD") issues this Order to **MOUNTAIN STATES PETROLEUM CORP.** (hereinafter "MSP") directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD Rules.

**I. FINDINGS**

- 1) The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
- 2) MSP is a domestic for Profit Corporation doing business in New Mexico, registered with the Public Regulatory Commission Secretary of the State, under number 0626556. MSP is an active entity with a principal address at 8101 W 34<sup>th</sup> Amarillo, Texas 79121. Its registered agent for service of process in New Mexico is C T Corporation System, 123 E. Marcy Street, Santa Fe, New Mexico 87501. MSP's business address is 3001 Knox St., Suite 403, Dallas, Texas 75025-7304. Local district address of 3001 Northridge, Farmington, New Mexico 87401. MSP's OGRID is 15346.
- 3) MSP operates the Hospah Sand Unit #92, UL "O", S36, T18N, R09W, API #30-031-20613, and the Hospah Sand Unit #93, UL "C", S01, T17N, R09W, API #30-031-20611; both are located in McKinley County, New Mexico.
- 4) On Wednesday July 26, 2006, the Aztec district office of the OCD received Sundry Notices (Form C-103) on the Hospah Sand Unit #s 92 and 93 indicating a subsequent report of "Remedial Work" for these units, returning each well to injection.
- 5) A subsequent OCD investigation found the following:

- a. On April 19, 2006, MSP conducted a Mechanical Integrity Test (“MIT”) on the Hospah Sand Unit #93. The MIT was witnessed by Deputy Oil and Gas Inspector Monica Kuehling.
- b. Deputy Inspector Kuehling’s inspection record states that the MIT on the Hospah Sand Unit #93 was a failure.
- c. On April 27, 2006, MSP conducted a MIT on the Hospah Sand Unit #92. The MIT was also witnessed by Deputy Oil and Gas Inspector Monica Kuehling.
- d. Deputy Inspector Kuehling’s inspection record reports that the Hospah Sand Unit #92 MIT was also a failure.
- e. MSP returned the Hospah Sand Unit #’s 92 and 93 wells to injection on June 26, 2006; the OCD had no record that either well had an acceptable MIT prior to injection, as required by OCD Rule 19.15.9.704.A(1) NMSA (hereinafter, “Rule 704.A(1)”) or that they are intact so as to meet the requirements of OCD Rule 19.15.9.703.A NMSA (hereinafter, “Rule 703.A”).
- f. OCD Rule 19.15.9.703.A provides that:
  - A. 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.
  - B. Injection project, including injection wells, ...shall be operated and maintained at all times in such a manner as will confine the injected fluids to the interval or intervals approved and prevent surface damage or pollution resulting from leaks, breaks, or spills.
  - ...
  - E. Injection wells ... which have exhibited failure to confine injected fluids to the authorized injection zone or zones may be subject to restriction of injection volume and pressure, or shot-in, until the failure has been identified and corrected.
- g. OCD Rule 704.A(1) requires that “[p]rior to commencement of injection and any time tubing is pulled or the packer is reseated, wells shall be tested to assure the integrity of the casing and the tubing and packer, if used, including pressure testing of the casing-tubing annulus to a minimum of 300 psi for 30 minutes or such other pressure and/or time as may be approved by the appropriate district supervisor. A pressure recorder shall be used and copies of the chart shall be submitted to the appropriate division district office within 30 days following the test date.”

- 6) MSP twice violated OCD Rule 704.A(1) by failing to provide evidence of an acceptable MIT to the Aztec Division Office before returning the Hospah Sand Unit #'s 92 and 93 wells to injection.
- 7) As a result, on June 29, 2006, the OCD issued **Notice of Violation (3-06-40)** to MSP, alleging two knowing and willful violations of OCD Rule 704.A(1).
- 8) At the Administrative Conference on this matter, MSP presented the following:
  - a. After the wells failed the MIT, there was a change of employees and the new field employee did not know the wells had failed.
  - b. MSP has conducted an injection well review.
  - c. MSP's problems resulted from a break down in internal communications.
  - d. MSP has changed their internal personnel hierarchy to improve communications and achieve compliance.

## **II. CONCLUSION**

- 1) The OCD has jurisdiction over the parties and subject matter in this proceeding.
- 2) MSP is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
- 3) MSP is subject to civil penalties under NMSA 1978, § 70-2-31(A) Hospah Sand Unit #92, and the Hospah Sand Unit #93, for knowing and willful violation of OCD Rule 704.A(1).
- 4) MSP did or should have known of OCD Rule 704.A(1).
- 5) MSP twice knowingly and willfully violated OCD Rule 704.A(1) by failing to provide evidence of an acceptable MIT to the Aztec Division Office before returning the Hospah Sand Unit #'s 92 and 93 wells to injection.

## **III. ORDER AND CIVIL PENALTY**

- 1) Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against MSP totaling **Two Thousand Dollars (\$2,000.00)** for two violations of Rule 704A(1), one at each the Hospah Sand Unit # 92 and Hospah Sand Unit # 93.
- 2) The civil penalty shall be paid at the time MSP executes this Order. Payment shall be made by cashier's or certified check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the New Mexico Oil

Conservation Division, Attention: Director, 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505.

- 3) By signing this Order, MSP expressly:
- a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
  - b. agrees to comply with Ordering paragraph 2;
  - c. waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior or subsequent to the entry of this Order or to an appeal from this Order;
  - d. agrees that if it fails to comply with this Order, the Order may be enforced by suit or otherwise to the same extent and with the same effect as a final Order of the Division entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act;
- 4) Nothing in this Order relieves MSP of its liability should its operations fail to adequately investigate and remediate contamination that poses a threat to ground water, surface water, human health or the environment. In addition, nothing in this Order relieves MSP of its responsibility for compliance with any other federal, state or local laws and/or regulations.

Done at Santa Fe, New Mexico, this 23<sup>rd</sup> day of February 2007.

By: 

Mark Fesmire, P.E.  
Director, Oil Conservation Division

**ACCEPTANCE**

**MOUNTAIN STATES PETROLEUM CORP.** hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in the Order.

**MOUNTAIN STATES PETROLEUM CORP.**

By: 

Title: CFO

Date: 2-22-07