

Jones, William V., EMNRD

From: Gary Larson [glarson@hinklelawfirm.com]
Sent: Thursday, August 14, 2008 10:21 AM
To: Jones, William V., EMNRD
Cc: Feiner, Phillip; Masters, Keith
Subject: RE: Case 14128 heard on May 15 (Cato SA Unit)

Will,

Thanks for your email. I'm able to respond to several of the issues you raised, and will defer to Keith's expertise on the remaining issues.

First, I can confirm that all of Cano's proposed injection wells are to be perforated only within the unitized interval, and verify that no injection will occur below the base of the P3 San Andres interval as defined in R-9028. Second, Cano has taken the necessary steps to secure the required inactive well single-well bond, which should be in place tomorrow or Monday.

Let me know if you have any further questions regarding Cano's application.

Gary

From: Jones, William V., EMNRD [mailto:William.V.Jones@state.nm.us]
Sent: Wednesday, August 13, 2008 2:23 PM
To: Keith B. Masters, P.E.; Gary Larson
Cc: Ezeanyim, Richard, EMNRD; Brocks, David K., EMNRD; Phillips, Dorothy, EMNRD
Subject: Case 14128 heard on May 15 (Cato SA Unit)

Hello Mr. Larson and Keith:

Please open this attachment and click on the "injection" tab and look down at the RED rows. These two potential injection wells are not showing up in our database as being permitted for drilling - but these two were on the C-108 application and on your Excel spreadsheet you sent me.

For these two wells or injection "spots" intended to be injection wells: please verify the correct API, Wellname, footage Location.

The issue is that if the correct wells at the correct locations are not in the order - then Cano Petro would have to ask for an administrative order to permit the correct wells for injection. If Cano has decided to move the locations - then it has to obtain another injection permit. The injection permits are only valid

- 1) Horizontally - for specific API numbers (specified footage locations) and
- 2) Vertically - for the specified injection depths and injection formation names (critical thing is to stay within the unitized interval).

Also please check:

- 1) Are all the proposed injection wells to be perforated only within the Unitized interval? Please verify no injection will occur below the base of the P3 San Andres interval as defined in R-9028. Otherwise, Cano would have to deepen the Unit and re-negotiate parameters with the owners.
- 2) For any producing wells, are these producing from only the unitized interval? If a well does have perforations below the base of the P3, then please apply for a Downhole commingle permit (form C-107A) - interests would be diverse.
- 3) I just checked the Rule 40 status of Cano and it appears they need to send more bond money to Dorothy Phillips for some inactive wells. Please check this and take care of it as soon as possible.

<http://www.emnrd.state.nm.us/OCD/OCDPermitting/Report/Stats/InactiveWellFinancialAssuranceReport.aspx?Operator=248802>

This looks like a long drawn out request - but the answers are likely simple....
 If you send back the same spreadsheet, please mark all changes.

Regards,

William V. Jones PE

8/14/2008

Jones, William V., EMNRD

From: Keith B. Masters, P.E. [k_b_masters@mastersconsultingllc.com]

Sent: Thursday, August 14, 2008 9:40 PM

To: Jones, William V., EMNRD

Cc: 'Patrick McKinney'; 'Phillip Feiner'; 'Gary Larson'

This confirms my previous e-mail wherein I advised that Cano no longer plans to drill the wells that have not yet been permitted (No. 521 and No. 537).

None of the "older" producing wells were drilled deeper than the unitized interval. Out of 27 waterflood producers drilled to date, 15 have been completed in at least one zone deeper than the P3. Cano will apply for downhole commingling authority for these wells and any subsequently drilled or deepened wells perforated outside of the unitized interval.

Thanks once again for all of your help with this application. Should you have any additional questions or require any additional information, please do not hesitate to contact Mr. Larson or I.

Keith B. Masters, P.E.

Masters Consulting, LLC

2004 Big Canyon Dr.

Austin, TX 78746

Phone: (512) 906-2016

Fax: (512) 906-2729

Cell: (512) 517-9180

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

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2068
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

ORDER NO. WFX-593

APPLICATION OF KELT OIL AND GAS, INC. TO EXPAND ITS WATERFLOOD PROJECT IN THE CATO-SAN ANDRES POOL IN CHAVES COUNTY, NEW MEXICO

ADMINISTRATIVE ORDER
OF THE OIL CONSERVATION DIVISION

Under the provisions of Division Order No. R-9029, Kelt Oil and Gas, Inc. has made application to the Division on January 25, 1990 for permission to expand its Cato-San Andres Unit Waterflood Project in the Cato-San Andres Pool in Chaves County, New Mexico.

NOW, on this 13th day of February, 1990, the Division Director finds that:

- (1) The application has been filed in due form.
- (2) Satisfactory information has been provided that all offset operators have been duly notified of the application.
- (3) No objection has been received within the waiting period as prescribed by Rule 701(B).
- (4) The proposed injection well is eligible for conversion to water injection under the terms of Rule 701.
- (5) The proposed expansion of the above-referenced waterflood project will not cause waste nor impair correlative rights.
- (6) The application should be approved.

IT IS THEREFORE ORDERED THAT:

The applicant, Kelt Oil and Gas, Inc., be and the same is hereby authorized to inject water into the San Andres formation at approximately 3292 feet to approximately 3338 feet through 2 3/8-inch plastic lined tubing set in a packer at approximately 3250 feet in the following described well for purposes of secondary recovery to wit:

Administrative Order WFX-593
Kelt Oil and Gas, Inc.
February 13, 1990
Page 2

State "H" Well No. 17
1328' FNL & 1336' FEL (Unit G)
Section 16, T-8 South, R-30 East, NMPM,
Chaves County, New Mexico.

IT IS FURTHER ORDERED THAT:

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

Prior to commencing injection operations into the well, the casing shall be pressure tested from the surface to the packer setting depth to assure the integrity of said casing.

The casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge at the surface or left open to the atmosphere to facilitate detection of leakage in the casing, tubing or packer.

The injection well or system shall be equipped with a pressure limiting device which will limit the wellhead pressure on the injection well to no more than 658 psi.

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the injected fluid from the San Andres formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

The operator shall notify the supervisor of the Hobbs district office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity test so that the same may be inspected and witnessed.

The operator shall immediately notify the supervisor of the Hobbs district office of the Division of the failure of the tubing, casing or packer in said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

The subject well shall be governed by all provisions of Division Order No. R-9029 and Rules 701-708 of the Division Rules and Regulations not inconsistent herewith.

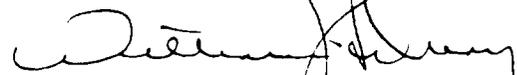
Administrative Order WFX-593
Kelt Oil and Gas, Inc.
February 13, 1990
Page 3

PROVIDED FURTHER THAT, jurisdiction of this cause is hereby retained by the Division for the entry of such further order or orders as may be deemed necessary or convenient for the prevention of waste and/or protection of correlative rights; upon failure of the operator to conduct operations in a manner which will ensure the protection of fresh water or in a manner inconsistent with the requirements set forth in this order, the Division may, after notice and hearing, terminate the injection authority granted herein.

The operator shall submit monthly progress reports of the project in accordance with Rules 706 and 1115 of the Division Rules and Regulations.

Approved at Santa Fe, New Mexico, on this 13th day of February, 1990.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

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