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

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION,
THROUGH THE SUPERVISOR OF DISTRICT I, FOR AN ORDER REQUIRING
GREKA AM, INC. TO BRING SIX WELLS INTO COMPLIANCE WITH
19.15.4.201 NMAC, ASSESSING APPROPRIATE CIVIL PENALTIES, AND
AUTHORIZING THE DIVISION TO PLUG SAID WELLS AND FORFEIT THE
APPLICABLE SECURITY IN DEFAULT OF COMPLIANCE BY THE
OPERATOR; LEA COUNTY, NEW MEXICO.**

CASE NO. /3363

APPLICATION FOR COMPLIANCE ORDER

1. Greka AM, Inc. ("Greka") is a foreign profit corporation doing business in New Mexico under SCC number 2075331.

2. Greka's OGRID (oil and gas reporting identifier) is 195797 for the roles "plugging bond holder," "well operator," "C115 filer," and "PUN master operator." However, the records of the Oil Conservation Division ("OCD") do not show Greka as the operator of record for any wells in New Mexico.

3. Upon information and belief, Greka has been the operator in fact of the following wells located in Lea County, New Mexico since approximately May 2001:

- a. Harton State #1, API #30-025-28540, Unit Letter H, Section 7, Township 13 South, Range 36 East.
- b. Morris #1, API #30-025-29247, Unit Letter D, Section 8, Township 13 South, Range 36 East.

- c. Fern Guye #1, API #30-025-34488, Unit Letter M, Section 5, Township 13 South, Range 36 East.
- d. Saba State #1, API #30-025-33726, Unit Letter I, Section 7, Township 13 South, Range 36 East.
- e. San Simon 5 State #1, API #30-025-27564, Unit Letter E, Section 5, Township 22 South, Range 35 East.
- f. San Simon 5 State #2, API #30-025-28480, Unit Letter G, Section 5, Township 22 South, Range 35 East.

The said wells or wells are hereinafter called the "subject well(s)," whether one or more.

4. Greka posted blanket bond number 04128203 through the Fidelity and Deposit Company of Maryland in the amount of \$50,000 to secure its obligations to plug and abandon the subject wells in compliance with the rules of the OCD.

5. The operator of record for the subject wells, according to OCD records, is Saba Energy of Texas, Inc. ("Saba"). Saba is a foreign profit corporation doing business in New Mexico under SCC number 1667708. Upon information and belief, Saba is a wholly-owned subsidiary of Greka.

6. Saba posted blanket bond number RED 1023122 through the Redlands Insurance Company in the amount of \$50,000 to secure its obligations to plug and abandon the subject wells in compliance with the rules of the OCD.

7. Division rule 19.15.4.201 NMAC requires an operator to plug and abandon or temporarily abandon a well in accordance with Division rules within 90 days after a period of one year of continuous inactivity.

8. The subject wells have been inactive for a continuous period in excess of one year plus ninety days.

9. The subject wells have not been plugged and abandoned pursuant to Division rule 19.15.4.202 NMAC or temporarily abandoned in accordance with Division rule 19.15.4.203 NMAC.

10. Division rule 19.15.101(M) NMAC authorizes the Director to order the operator to plug and abandon any well not in compliance with 19.15.4.201 NMAC by a date certain, and to direct the Division to forfeit the bond and cause such well to be plugged in accordance with a Division-approved plugging program if, after the time provided in such order, the operator has failed to plug the well.

11. NMSA 1978, Section 70-2-31 authorizes the Director to impose a civil penalty of \$1000 for each knowing and willful violation of any provision of the Oil and Gas Act or any rule or order issued pursuant to that act. The statute further provides that in the case of a continuing violation, each day of violation constitutes a separate violation.

12. In case No. 13163, the OCD sought an order requiring Saba, as operator of record, to bring the subject wells into compliance with rule 19.15.4.201 NMAC, and authorizing the OCD to plug and abandon the wells and forfeit the applicable security if Saba failed to comply. Oil Conservation Commission ("OCC") Order No. R-12132-A, issued August 12, 2004, requires Saba to bring the wells into compliance by certain deadlines. If Saba fails to meet those deadlines, the order authorizes the OCD to plug and abandon the wells, forfeit the bond, and demand and collect reimbursement costs incurred above the bond amount. The order also imposes a \$270,000 fine for the knowing and willful violation of the division order in the case, Order R-122132, during the period from June 1 through July 15, 2004.

13. According to testimony presented at the hearing in the Saba case, the cost of plugging the 6 wells will greatly exceed the \$50,000 bond posted by Saba.

14. Greka is in knowing and willful violation of Division rule 19.15.4.201 NMAC because

- a. Pursuant to Division rule 19.15.1.12 NMAC it is the responsibility of the operator to obtain information pertaining to the regulation of oil and gas;
- b. Division rule 19.15.1.201 NMAC requires operators to plug and abandon or temporarily abandon within ninety days any well that has been inactive for a continuous period of one year;
- c. The terms of the blanket bond covering the subject wells, signed by Greka, puts Greka on notice that it is obligated "to plug all of said wells when dry or when abandoned in accordance with the rules, regulations, and orders of the Oil Conservation Division of New Mexico ...;"
- d. Greka, as operator in fact, has knowledge of each well's activity, and whether the well has been plugged and abandoned or temporarily abandoned under the OCD's rules; and
- e. Despite having knowledge of the requirements of OCD Rule 19.15.4.201 NMAC and the facts demonstrating violation of the rule, Greka has taken no action to bring the subject wells into compliance.

WHEREFORE, the Supervisor of District I of the Division hereby applies to the Director to enter an order:

- A. Determining that the subject wells are not in compliance with 19.15.4.201 NMAC;
- B. Assessing a civil penalty based on the Greka's knowing and willful violation of 19.15.4.201 NMAC by failing to bring the subject wells into compliance with that rule;
- C. Requiring Greka to bring the subject wells into compliance with 19.15.4.201 NMAC within a date certain by plugging and abandoning the

wells, placing the wells on temporary abandonment status, or returning the wells to beneficial use; and

D. For each subject well not brought into compliance with 19.15.4.201

NMAC by the date set by the order:

(1) Assessing an additional penalty of \$1000 per well against Greka for each full month of continued non-compliance after the date set by the order;

(2) Authorizing the Division to complete the plugging operations on the subject wells; and

(3) Authorizing the Division to declare forfeit the security furnished by the Greka; and

E. For such other and further relief as the Division deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 27th day of September, 2004 by



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Conservation Division

Case No. 13363. Application of the New Mexico Oil Conservation Division for an Order Requiring Greka AM, Inc. to Bring Six Wells into Compliance with 19.15.4.201 NMAC, Assessing Civil Penalties, and Authorizing the Division to Plug Said Wells and Forfeit the Applicable Security in Default of Compliance by Operator; Lea County, New Mexico. The Applicant seeks an order requiring Greka AM, Inc., the operator in fact of six inactive wells in Lea County, New Mexico, to bring the wells into compliance with 19.15.4.201 NMAC, imposing civil penalties, authorizing the Division to plug said well or wells if the operator fails to do so and forfeit Operator's plugging security, and providing for such other relief as the Division deems appropriate. The affected wells are the following:

Harton State #1	API # 30-025-28540	UL H, Section 7, T13S, R36E
Morris #1	API # 30-025-29247	UL D, Section 8, T13S, R36E
Fern Guye #1	API #30-025-34488	UL M, Section 5, T13S, R36E
Saba State #1	API #30-025-33726	UL I, Section 7, T13S, R36E
San Simon 5 State #1	API #30-025-27564	UL E, Section 5, T22S, R35E
San Simon 5 State #2	API #30-025-28480	UL G, Section 5, T22S, R35E

The San Simon 5 State #1 and #2 wells are located approximately 25 miles southwest of Hobbs, New Mexico. The remaining wells are located approximately 20 miles north of Lovington, New Mexico.