

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

APPLICATION OF TARCO ENERGY, L.C. FOR APPROVAL OF A PRESSURE
MAINTENANCE PROJECT IN THE YATES AND SEVEN RIVERS
FORMATIONS, EDDY COUNTY, NEW MEXICO.

CASE NO. 14931
ORDER NO. R-13680

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 29, 2012, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

Now, on this 14th day of February, 2013, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.
- (2) Tarco Energy, L.C. ("Tarco" or "Applicant"), seeks approval to institute a lease Pressure Maintenance Project into the Yates and Seven Rivers formations, Empire-Yates-Seven Rivers Pool (Code 22230) through its Russell C Well No .3 (API No. 30-015-37783) located 990 feet from the South line and 2225 feet from the East line in Unit O of Section 35, Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico.
- (3) Tarco submitted to the Division in October of 2012 an administrative application for salt water disposal. The Division directed Tarco to set the matter for hearing due to the presence of producing wells within one half mile of the proposed well in the proposed disposal interval. Applicant did not find water wells within one mile of the proposed well. Any possible fresh waters will be protected by surface casing and cement.

(4) The lease acreage consists of the following lands:

Township 17 South, Range 27 East, NMPM

Section 35: SE/4, NE/4 SW/4, SW/4 SW/4, SE/4 SW/4, and

Township 18 South, Range 27 East, NMPM

Section 2: NW/4 NE/4 and NE/4 NW/4

(5) Applicant has indicated that the proposed well located in Unit O of Section 35 is the only well it intends to use for injection purposes at this time. Therefore, the approved Project Area would be the above described lands contained in Section 35, Township 17 South, Range 27 East, and Section 2, Township 18 South, Range 27 East, NMPM, Eddy County, New Mexico.

(6) Within one half mile from the proposed injection well, there are 86 total wells drilled to this depth. Forty-nine of those are plugged and abandoned, and one is temporarily abandoned. All of these Area of Review wells are cased, cemented, and/or plugged to adequately isolate the intended injection interval within the Yates and Seven Rivers formations and to protect any underground fresh waters.

(7) Notice was provided by Applicant in this case of its intent to inject. Applicant notified all "affected persons" as defined in Rule 19.15.26.7A. NMAC. The surface owner at the well site of Russell C Well No. 3 is the Bureau of Land Management which was notified. The State Land Office was also notified of this application. There were no objections to the proposed Pressure Maintenance project.

(8) No other parties appeared at the hearing to oppose this application.

(9) Applicant (**OGRID 279579**) is the operator of this well located on the above described acreage. Applicant is now in compliance with Division Rule 19.15.5.9 NMAC and therefore eligible for approval of disposal and injection permits.

(10) Water from outside the Russell C lease should not be injected into this well. The operator should monitor the oil and water production from the producing area of review wells and report these productions to the Division on a quarterly basis.

(11) The proposed project should be called the Russell C Lease Pressure Maintenance Project. The Project Area to be affected by this Pressure Maintenance operation should consist of the lands described in Finding Paragraph (4), contained in Section 35, Township 17 South, Range 27 East, and Section 2, Township 18 South, Range 27 East, NMPM, Eddy County, New Mexico.

(12) Applicant should be approved to inject into the Russell C Well No. 3 (**API 30-015-37783**) located in Unit O of Section 35, into the Yates and Seven Rivers formations from perforated depths of 418 feet to 460 feet.

IT IS THEREFORE ORDERED THAT:

(1) The Applicant, Tarco Energy, L.C is hereby authorized to implement Lease Pressure Maintenance operations within the project area of its Russell C Lease by water injection into the Yates and Seven Rivers formations, Empire-Yates-Seven Rivers Pool (**Code 22230**).

(2) The project shall be called the Russell C Lease Pressure Maintenance Project and the Project Area shall consist of the above described lands contained in Section 35, Township 17 South, Range 27 East, and Section 2, Township 18 South, Range 27 East, NMPM, Eddy County, New Mexico.

(3) Injection is approved within the Russell C Well No. 3 (**API No. 30-015-37783**), located 990 feet from the South line and 2225 feet from the East line in Unit O of Section 35, Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico. Injections shall be through perforations from a depth interval from 418 feet to 460 feet, and through lined tubing and a packer set no higher than 100 feet above the injection interval.

(4) **Water from outside the Russell C lease shall not be injected into this well. The operator shall monitor the oil and water production from the producing area of review wells and report these productions to the Division on a quarterly basis.**

(5) The operator shall take all steps necessary to ensure that the injected water enters only the permitted injection intervals and is not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

(6) The casing-tubing annulus shall be filled with an inert fluid, and a gauge or approved leak-detection device shall be attached to the annulus in order to detect any leakage in the casing, tubing or packer.

(7) The injection well or pressurization system shall be equipped with a pressure control device or acceptable substitute that will limit the maximum surface injection pressure to 84 psi.

(8) The Division Director may administratively authorize a pressure limitation in excess of the above, upon a showing by the operator, supported by approved Step Rate Tests that such higher pressure will not result in the fracturing of the injection formation or confining strata or damage to the reservoir.

(9) In accordance with Division Rule 19.15.26.11A. NMAC, the operator shall test the approved injection well for mechanical integrity prior to commencing injection into that well and prior to resuming injection each time the packer is unseated. All MIT testing 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 wire-line verification of completion and packer setting depths in this well.

(10) The operator shall provide notice 72 hours in advance, to the supervisor of the Division's District II office of the date and time of the installation of injection equipment, and of any mechanical integrity test so that the same may be inspected and witnessed.

(11) The operator shall provide written notice of the date of commencement of injection to the Division's District II office. In accordance with Division rules, the operator shall submit monthly reports of the injection operations on Division Form C-115.

(12) Without limitation on the duties of the operator as provided in Division rules, or otherwise, the operator shall immediately notify the Division's District II 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 or around any producing 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.

(13) 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.

(14) The Division may revoke this injection permit after notice and hearing if the operator is a violation of Rule 19.15.5.9 NMAC.

(15) The injection authority granted herein shall terminate two years after the effective date of this order if the operator has not commenced injection operations into the permitted injection well, provided however, the Division, upon written request, mailed by the operator prior to the termination date, may grant an extension thereof for good cause.

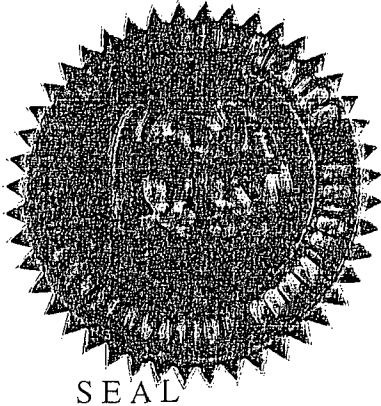
(16) One year after all injection into the project area has ceased (or not reported), the Division shall consider the project abandoned, and the authority to inject shall terminate ipso facto. The Division, upon written request mailed by the operator prior to that termination date, may grant an extension thereof for good cause.

(17) Compliance with this order does not relieve the operator of the obligation to comply with other applicable State, local, or Federal rules, or to exercise due care for the protection of fresh water, public health and safety, and the environment.

(18) 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 (or without prior notice and hearing in case of emergency), terminate the injection authority granted herein.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director