

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

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2015 MAR -3 P 4: 28

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION ("OCD") COMPLIANCE AND ENFORCEMENT MANAGER FOR A COMPLIANCE ORDER AGAINST BLUE SKY NM, INC., DIRECTORS, AND OFFICERS, JOINTLY AND SEVERALLY, FINDING THAT THE OPERATOR IS IN VIOLATION OF THE OIL AND GAS ACT, NMSA 1978, SECTIONS 70-2-1 *et seq.* AND OCD RULES, NMAC 19.15.2 *et seq.*, REQUIRING OPERATOR TO RETURN TO COMPLIANCE WITH DIVISION RULES BY A DATE CERTAIN, AND IN THE EVENT OF NON-COMPLIANCE, REQUEST FOR ADDITIONAL SANCTIONS.

CASE NO. 15277

OCD'S APPLICATION FOR COMPLIANCE ORDER
AGAINST BLUE SKY NM, INC.,

1. Blue Sky NM, Inc., ("Operator") is a sole proprietor of 80 wells in Chaves County, New Mexico, under OGRID No. 300825. See *Exhibit 1: Well List*.
2. Operator's agent's address of record is: 320 Gold Ave, SW Ste. 1000, Albuquerque, New Mexico 87102.
3. The New Mexico Secretary of State has Operator registered under corporation number 4754581. It identifies Mo Shahid, President, Carla Petty, Secretary, Pete Domenici, Jr., Incorporator, and Ilyas Chaudhary, Director, as the officers of record.
4. Operator has one blanket bond filed with the division, bond no. B008143, from U.S. Specialty Insurance Company, for the amount of \$50,000. Operator has additionally furnished the division with fourteen (14) single well bonds, all from U.S. Specialty Insurance Company. See *Exhibit 1: Well List*.
5. U.S. Specialty Insurance Company's address of record is: 13403 Northwest Freeway, Houston, Texas 77040.

6. As of the date of this application, Operator has sixty-four (64) wells that have been inactive for more than one year plus ninety (90) days. See *Exhibit 1: Well List*.

7. Division Rule 19.15.8.13 NMAC authorizes the Director to order the Operator to plug and abandon any well not in compliance with 19.15.25.8 NMAC and restore and remediate the location by a date certain.

8. Division Rule 19.15.25.8 NMAC requires an operator to plug and abandon or temporarily abandon a well within 90 days after: (1) a 60 day period following the suspension of drilling activities, (2) a determination that a well is no longer usable for a beneficial purpose, or (3) a period of one year of continuous inactivity.

9. NMSA 1978, Sections 70-2-12 and 70-2-38 authorize the Division to plug and abandon wells, and restore and remediate the location of abandoned wells.

10. Division Rule 19.15.5.9 (A)(4) NMAC (Compliance) states that an operator is compliant with Division Rule 19.15.5.9 if no more than the following number of wells it operates are compliant with Division Rule 19.15.25.8 NMAC (Wells to be Properly Abandoned): two wells or 50 percent of the wells the operator operates, whichever is less, if the operator operates 100 wells or less; five wells if the operator operates between 101 and 500 wells; seven wells if the operator operates between 501 and 1000 wells; and 10 wells if the operator operates more than 1000 wells

11. Operator currently has sixty-four (64) wells out of a total of eighty (80) wells out of compliance with Division Rule 19.15.25.8 NMAC, exceeding the amount allowed under Division Rule 19.15.5.9 (A)(4) NMAC.

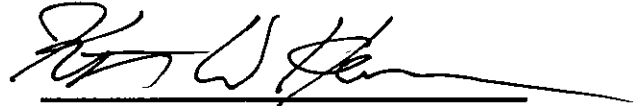
12. Division Rule 19.15.8.9 NMAC requires that an operator to cover a well that has been in temporary abandonment status for more than two years with a one-well financial assurance.

13. Operator currently has forty-six (46) wells that require additional bonding in violation of Division Rule 19.15.8.9 NMAC. See *Exhibit 1: Well List*.

WHEREFORE, the OCD by and through its compliance and enforcement manager, hereby applies to the Director to enter an Order:

- A. Determining that Operator's wells are not in compliance with Division Rule 19.15.25.8 NMAC and requiring Operator to plug and abandon the violating wells by a date certain;
- B. Determining that Operator is out of compliance with Division Rule 19.15.5.9 NMAC;
- C. Determining that operator is out of compliance with Division Rule 19.15.8.9 NMAC and requiring Operator to furnish the required financial assurance for the non-compliant wells by a date certain;
- D. If the violating wells are not brought into compliance with 19.15.25.8 NMAC by the date set in the Order, finding the operator in violation of a division order, declaring the well abandoned and authorizing the Division to plug the subject well in accordance with a Division-approved plugging program and restore and remediate the location and recover costs from the operators financial assurance as required by 19.15.8.13 NMAC;
- E. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 3 day of March, 2015 by

A handwritten signature in black ink, appearing to read 'Keith W. Herrmann', written over a horizontal line.

Keith W. Herrmann
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Conservation Division

Case No. 15277. Application of the New Mexico Oil Conservation Division ("OCD") Compliance and Enforcement Manager for a Compliance Order against Blue Sky NM, Inc., directors, and officers, jointly and severally, finding that the operator is in violation of the oil and gas act, NMSA 1978, Sections 70-2-1 *et seq.* and OCD rules, NMAC 19.15.2 *et seq.*, requiring operator to return to compliance with division rules by a date certain, and in the event of non-compliance, request for additional sanctions.

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2015 MAR -3 P 1:29

Exhibit 1: Well List

Well API No.	Name	Well Type	Last Production	Well in violation of 19.15.8.9 NMAC?	Single Well Bond Amount	Bond In Place	U.S. Specialty Insurance Co. Bond ID
30-005-00342	TWIN LAKES SAN ANDRES UNIT #045	State	Oct-12	Y	12818	0	
30-005-00349	TWIN LAKES SAN ANDRES UNIT #054	Private	Feb-12	Y	12666	0	
30-005-60010	TWIN LAKES SAN ANDRES UNIT #047	State	May-11		7730	7730	B008163
30-005-60028	TWIN LAKES SAN ANDRES UNIT #056	Private	Sep-14		7657	0	
30-005-60031	TWIN LAKES SAN ANDRES UNIT #026	State	Jan-14		7614	0	
30-005-60033	TWIN LAKES SAN ANDRES UNIT #034	State	Jun-12	Y	7617	0	
30-005-60291	TWIN LAKES SAN ANDRES UNIT #046	State	Jun-12	Y	7638	0	
30-005-60293	TWIN LAKES SAN ANDRES UNIT #065	Private	May-11		7630	7630	B008165
30-005-60329	TWIN LAKES SAN ANDRES UNIT #036	State	Aug-12	Y	7645	0	
30-005-60334	TWIN LAKES SAN ANDRES UNIT #025	State	Jun-12	Y	7595	0	
30-005-60468	TWIN LAKES SAN ANDRES UNIT #066	Private	Jun-11		7615	7615	B008166
30-005-60470	TWIN LAKES SAN ANDRES UNIT #016	State	Jan-12	Y	7593	0	
30-005-60521	TWIN LAKES SAN ANDRES UNIT #027	State	Jun-12	Y	7694	0	
30-005-60536	TWIN LAKES SAN ANDRES UNIT #018	State	May-12	Y	7700	0	
30-005-60560	TWIN LAKES SAN ANDRES UNIT #019	State	Feb-12	Y	7750	0	
30-005-60563	TWIN LAKES SAN ANDRES UNIT #011	Private	Feb-12	Y	7750	0	
30-005-60569	TWIN LAKES SAN ANDRES UNIT #029	State	Mar-14		7730	0	
30-005-60571	TWIN LAKES SAN ANDRES UNIT #010	Private	Feb-12	Y	7713	0	
30-005-60572	TWIN LAKES SAN ANDRES UNIT #005	Private	Jun-11		7760	7760	B008159
30-005-60578	TWIN LAKES SAN ANDRES UNIT #012	Private	Feb-12	Y	7750	0	
30-005-60595	TWIN LAKES SAN ANDRES UNIT #030	Private	Jun-11		7860	7860	B008161
30-005-60596	TWIN LAKES SAN ANDRES UNIT #006	Private	Feb-12	Y	7763	0	
30-005-60597	TWIN LAKES SAN ANDRES UNIT #014	Private	Oct-11	Y	7875	0	B008164
30-005-60657	TWIN LAKES SAN ANDRES UNIT #039	Private	Sep-14		7870	0	
30-005-60659	TWIN LAKES SAN ANDRES UNIT #085	Private	Mar-14		7602	0	
30-005-60696	TWIN LAKES SAN ANDRES UNIT #040	Private	Jan-15		7900	0	
30-005-60697	TWIN LAKES SAN ANDRES UNIT #048	Private	Jun-11		7799	7799	
30-005-60767	TWIN LAKES SAN	Private	Jun-13		7898	0	

	ANDRES UNIT #049						
30-005-60768	TWIN LAKES SAN ANDRES UNIT #041	Private	Jun-11		7930	7930	B008162
30-005-60794	TWIN LAKES SAN ANDRES UNIT #086	Private	Jun-12	Y	7800	0	
30-005-60795	TWIN LAKES SAN ANDRES UNIT #032	Private	Jun-12	Y	7861	0	
30-005-60796	TWIN LAKES SAN ANDRES UNIT #050	Private	May-12	Y	7888	0	
30-005-60807	TWIN LAKES SAN ANDRES UNIT #059	Private	Jun-12	Y	7867	0	
30-005-60809	TWIN LAKES SAN ANDRES UNIT #076	Private	Oct-10		7730	7730	B008167
30-005-60824	TWIN LAKES SAN ANDRES UNIT #060	Private	Sep-11		7950	7950	B008406
30-005-60844	TWIN LAKES SAN ANDRES UNIT #102	Private	Sep-12	Y	7785	0	
30-005-60885	TWIN LAKES SAN ANDRES UNIT #070	Private	Jun-12	Y	7850	0	
30-005-60920	TWIN LAKES SAN ANDRES UNIT #061	Private	Jun-12	Y	7960	0	
30-005-60973	TWIN LAKES SAN ANDRES UNIT #037	State	Dec-13		7751	0	
30-005-60984	TWIN LAKES SAN ANDRES UNIT #069	Private	Jan-15		7850	0	
30-005-60993	TWIN LAKES SAN ANDRES UNIT #081	Private	May-12	Y	7880	0	
30-005-60995	TWIN LAKES SAN ANDRES UNIT #078	Private	Jun-12	Y	7825	0	
30-005-61006	TWIN LAKES SAN ANDRES UNIT #088	Private	Jun-12	Y	7815	0	
30-005-61007	TWIN LAKES SAN ANDRES UNIT #068	Private	May-12	Y	7831	0	
30-005-61022	TWIN LAKES SAN ANDRES UNIT #089	Private	Jun-11		7840	7840	B008168
30-005-61031	TWIN LAKES SAN ANDRES UNIT #058	Private	Jan-15		7823	0	
30-005-61032	TWIN LAKES SAN ANDRES UNIT #077	Private	Feb-12	Y	7826	0	
30-005-61075	TWIN LAKES SAN ANDRES UNIT #103	Private	Jun-12	Y	7840	0	
30-005-61095	TWIN LAKES SAN ANDRES UNIT #092	Private	Jul-12	Y	7740	0	
30-005-61096	TWIN LAKES SAN ANDRES UNIT #067	Private	Jan-15		7740	0	
30-005-61104	TWIN LAKES SAN ANDRES UNIT #107	Private	Feb-12	Y	7840	0	
30-005-61105	TWIN LAKES SAN ANDRES UNIT #100	Private	Jun-12	Y	7780	0	
30-005-61106	TWIN LAKES SAN ANDRES UNIT #094	Private	Aug-14		7840	0	
30-005-61107	TWIN LAKES SAN ANDRES UNIT #095	Private	Jun-12	Y	7840	0	
30-005-61135	TWIN LAKES SAN ANDRES UNIT #057	Private	Jun-12	Y	7770	0	
30-005-61261	TWIN LAKES SAN ANDRES UNIT #099	Private	May-11		7710	7710	B008169
30-005-61332	TWIN LAKES SAN ANDRES UNIT #106	Private	Jun-12	Y	7700	0	
30-005-61334	TWIN LAKES SAN ANDRES UNIT #108	Private	May-11		7775	7775	B008170

30-005-61452	TWIN LAKES SAN ANDRES UNIT #101	Private	Sep-12	Y	7780	0	
30-005-61453	TWIN LAKES SAN ANDRES UNIT #111	Private	Feb-12	Y	7781	0	
30-005-61556	TWIN LAKES SAN ANDRES UNIT #110	Private	Nov-11	Y	7750	0	
30-005-61604	TWIN LAKES SAN ANDRES UNIT #113	Private	Oct-11	Y	7793	0	
30-005-61633	TWIN LAKES SAN ANDRES UNIT #028	State	Jun-11		7738	7738	B008160
30-005-61772	TWIN LAKES SAN ANDRES UNIT #109	Private	May-12	Y	7745	0	
30-005-62068	TWIN LAKES SAN ANDRES UNIT #105	Private	Feb-12	Y	7726	0	
30-005-62069	TWIN LAKES SAN ANDRES UNIT #064	Private	Aug-12	Y	7680	0	
30-005-62212	TWIN LAKES SAN ANDRES UNIT #071	Private	Oct-11	Y	7900	0	
30-005-62213	TWIN LAKES SAN ANDRES UNIT #080	Private	Dec-11	Y	7925	0	
30-005-62565	TWIN LAKES SAN ANDRES UNIT #015	Private	Feb-12	Y	7907	0	
30-005-62845	TWIN LAKES SAN ANDRES UNIT #123	Private	Oct-12	Y	8100	0	
30-005-63138	TWIN LAKES SAN ANDRES UNIT #200	Private	Feb-14		7800	0	
30-005-63139	TWIN LAKES SAN ANDRES UNIT #201	Private	Jun-11		7821	7821	B008171
30-005-63140	TWIN LAKES SAN ANDRES UNIT #203	Private	May-13		7862	0	
30-005-63147	TWIN LAKES SAN ANDRES UNIT #202	State	Sep-14		7750	0	
30-005-63185	TWIN LAKES SAN ANDRES UNIT #316	State	Sep-13		7767	0	
30-005-63187	TWIN LAKES SAN ANDRES UNIT #319	Private	Feb-14		7903	0	
30-005-63188	TWIN LAKES SAN ANDRES UNIT #321	Private	Sep-14		7816	0	
30-005-63189	TWIN LAKES SAN ANDRES UNIT #326	Private	Feb-12	Y	7855	0	
30-005-63190	TWIN LAKES SAN ANDRES UNIT #329	Private	Jan-15		7855	0	
30-005-63192	TWIN LAKES SAN ANDRES UNIT #331	Private	Jan-15		7830	0	