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

2016 MAR 22 P. 2: 01

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION ("OCD") COMPLIANCE AND ENFORCEMENT MANAGER FOR A COMPLIANCE ORDER AGAINST DOMINION PRODUCTION COMPANY, LLC, FINDING THAT THE OPERATOR IS IN VIOLATION OF AGREED COMPLIANCE ORDER 285 AND 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. MCKINLEY COUNTY, NEW MEXICO.

**CASE NO. 15379
ORDER NO. R-14132**

MOTION TO STAY ORDER NO. R-14132

Dominion Production Company, LLC, ("Dominion"), by its undersigned attorneys, Montgomery and Andrews, P.A., moves pursuant to Rule 19.15.4.23B NMAC that the Division Director enter an order staying portions of Order No. R-13494 pending the hearing *de novo* and issuance by the Oil Conservation Commission of its order in this matter. A stay is necessary to prevent waste of recoverable hydrocarbon reserves and to prevent gross negative consequences to the operator and interest owners of the lands that are the subject of the Application by the Division's Enforcement Bureau.

Dominion is the operator of 165 wells it acquired in October, 2012, all in McKinley County, New Mexico. Prior to that time, over many decades in fact, numerous wells were allowed to fall out of compliance. Several wells, as many as 121 at once, were the subject of previous compliance orders. (See Order No. R-13166 (September 15, 2009); Nacogdoches Oil and Gas). In order to obtain the Division's approval for the transfer of the wells and operations from Nacogdoches Oil and Gas to it, Dominion entered into an agreed compliance order which scheduled the restoration or plugging of twelve inactive wells (ACOI-266). At the time of the transfer to Dominion, WTI oil was trading near \$100 per barrel.

Dominion completed the work under ACOI-266 on schedule, but was not allowed to report swabbed oil as C-115 production. As a consequence, numerous wells which would have otherwise qualified as producers were transferred to the inactive well list. Other wells were identified as needing additional financial assurance. It was determined that a number of injection wells had gone without inspections and mechanical integrity tests as far back as 2000. Injection operations into one well occurred without an injection permit. Other wells needed new location signs and some lacked sundry notices. The accumulation of these items of non-compliance prompted the Division and Dominion to enter into a new compliance order, executed in January of 2015 (ACO-285). By then, crude prices had declined and oil was trading from approximately \$45 to \$55 per barrel. (Hearing Transcript Excerpts, Ex. "A", attached. Tr., pg. 61-62). Dominion was able to make significant progress and completed a significant number of compliance items. Some field work was delayed by weather and lease access issues, but more importantly work was slowed by reduced project cash flow caused by the collapse in commodity prices. After transportation and royalty, Dominion was then netting only \$28 per barrel. (*Id.*) Oil prices have continued their decline. (WTI Index, Ex. "B", attached.) Despite this, Dominion expended nearly \$900,000.00 on corrective actions, including the remediation of a nearby land-farm that it doesn't even own. (TR, pg. 76, L1-25 - Pg. 77, L-1; pg. 130, L18-25)

The Division's Aztec office and the Enforcement Bureau in Santa Fe were provided with periodic progress reports. Those reports noted that the deteriorating market for oil was making it difficult to achieve the timelines for performance under ACO-285. Because the compliance order made express provision for adjustment of the timeline for good cause shown (ACO-285, ¶9), Dominion proposed that the schedule for compliance be adjusted to reflect the new economic reality. This, the Enforcement Bureau declined to do, opting instead to file its Application for Compliance Order and seek a hearing before a Division Examiner.

At the hearing, the Enforcement Bureau's witnesses agreed that a decline in market conditions could constitute good cause for extending the time for completing the work. (Tr., pg. 44, L3-10) More significantly, the Division disregarded the evidence presented establishing that the persistently poor market for crude oil constitutes a *force majeure* event, or at least good cause for establishing a reasonable and achievable schedule for accomplishing compliance. The Division's witnesses also admitted that they failed to perform the Division's statutory duty to act to prevent waste by giving no consideration to whether its compliance and enforcement actions in this matter would result in economic waste or a reduction in otherwise recoverable reserves. (Tr., pg. 44, L11-25, pg. 45, L1-4.)

Finally, Order No. R-14132 was crafted without any consideration of the effect of changed market conditions on the Operator's ability to perform corrective actions under the previous schedule set out in ACO-285. At the hearing, Dominion proposed a more realistic timetable for obtaining additional financial assurance, performing plugging and abandonment operations and completion of mechanical integrity tests. This too was ignored. Instead, Order No. R-14132 set the following arbitrary schedule:

IT IS THEREFORE ORDERED THAT:

(1) Dominion Production Company, LLC ("Dominion" or "Operator") shall complete the following remaining requirements of Agreed Compliance Order AC0-285 within the specified period:

- (a) complete the repairs (including testing and either returning to injection or place in temporary abandonment) for the South Hospah Unit Well No. 39 (API 30-031 -201 52, a Federal well) or plug and abandon within sixty (60) days of the issuance date of this order;
- (b) conduct mechanical integrity tests on the three remaining wells, the Hospah Sand Unit Well No. 58 (API 30-031-20115), Hospah Sand Unit Well No. 51 (API 30-031 -20242, a Federal well), and Lone Pine Dakota D Unit Well No. 14 (API 30-031-20174), within sixty (60) days of the issuance date of this order; and

- (c) plug and abandon the live remaining wells, the South Hospah Unit Well No. 52 (API 30-031-20243), South Hospah Unit Well No. 60 (API 30- 031-20411, a Federal well), Santa Fe Railroad A Well No. 87 (API 30-031-20413), South Hospah Unit Well No. 100 (API 30-031-20831), and Santa Fe Railroad A Well No. 97 (API 30-031-20855) within ninety (90) days of the issuance date of this order.

(2) Dominion shall provide, within sixty (60) days of the issuance date of this order, adequate financial assurance under Division Rule 19.15.8.9 NMAC for the forty (40) wells identified as requiring additional bonds and listed in the last column of Exhibit "A", attached hereto.

(3) Dominion shall bring into compliance with Division Rule 19.15.25.8 NMAC within two hundred and seventy (270) days of the issuance date of this order, the seventy-four (74) inactive wells identified in Exhibit "A" (the "subject wells") by accomplishing one of the following with respect to each well:

- (a) causing the well to be plugged and abandoned in accordance with Division Rule 19.15.25.8 NMAC and in accordance with a Division-approved plugging program;
- (b) restoring the well to production if the well is an oil and gas well;
- (c) restoring the well to injection if the well is an injection well in accordance with Division Rule 19.15.26 NMAC; or
- (d) causing the well to be temporarily abandoned with Division approval in accordance with Division Rule 19.15.25.13 NMAC.

It is further stipulated that the operator shall be required to resolve the compliance status of the subject wells at a minimum rate of six (6) wells for each thirty (30)-day period within 270-day allotted time.

Of all these directives, only item (2) is achievable. With current cash flows, none of the others is achievable within the deadlines set. By the terms of Order No. R-14132, if Dominion is unable to complete the performance items by the times specified, regardless of the reason, then the Division is authorized to do the following:

- (a) to plug and abandon the subject wells that are out of compliance with Division rules;
- (b) to restore and remediate the well locations;
- (c) to direct forfeiture of the applicable financial assurance of the Operator;
- (d) to recover costs from the Operator in accordance with Division Rule 19.15.8.13 NMAC; and
- (e) to have opportunity to seek indemnification from the Operator as provided in NMSA 1978, Section 70-2-14(E) if there are not sufficient funds to cover all costs the Division incurs plugging and abandoning the wells and restoring and remediating the well locations.

Order No. R-1432, Order ¶ 6 (February 25, 2016). (Exhibit “C”).

Any one of these acts by the Division would necessarily constitute “gross negative consequences” for Dominion, and indeed plugging and abandonment of the wells would result in the waste of approximately thirteen million barrels of otherwise recoverable oil. (Tr., pg. 88, L25 – pg. 89, L1-18).

A stay of the time periods in paragraphs (1) and (3) will not lead to the likelihood of harm to the environment or contamination of clean water supplies. The Enforcement Bureau’s witness was unable to identify any well that poses any immediate threat to the environment. (Tr., pg. 21, L14-25) Testimony by Dominion’s witness affirmatively established that none of its wells pose an immediate threat to the environment. (Tr., pg. 62, L19-25, pg. 63, L1-3) Order No. R-14132 accordingly included no finding or conclusion of threat to the environment by any well.

WHEREFORE, Dominion Production Company, LLC requests that the Division Director enter a stay of Order No. R-14132, Order ¶¶ (1)(a)(b) and (c) and (3)(a)-(d). A proposed order of stay is attached. (Exhibit “D”).

Respectfully submitted,
MONTGOMERY & ANDREWS, P.A.

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Attorneys for Dominion Production Company, LLC

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was delivered by electronic mail to the following counsel of record on March 22, 2016:

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Assistant General Counsel
Energy, Minerals & Natural Resources
Department
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J. Scott Hall
J. Scott Hall

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:

ORIGINAL

CASE 15379

APPLICATION OF THE NEW MEXICO OIL CONSERVATION
DIVISION ("OCD") COMPLIANCE and ENFORCEMENT
MANAGER FOR A COMPLIANCE ORDER AGAINST DOMINION
PRODUCTION OPERATING, LLC.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

OCTOBER 29, 2015

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
October 29, 2015, at the New Mexico Energy, Minerals,
and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

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EXHIBIT A

A P P E A R A N C E S

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I N D E X

CASE NUMBER 15379 CALLED
 New Mexico Oil Conservation Division
 CASE-IN-CHIEF:

WITNESS BRANDON POWELL

	Direct	Redirect	Further
By Mr. Herrmann	7	25	137

	Cross	ReCross	Further
By Mr. Hall	14	139	

EXAMINATION

Examiner Goetze 26

Mr. Wade 25

WITNESS DANIEL SANCHEZ

	Direct	Redirect	Further
By Mr. Herrmann	28	47	141

	Cross	Recross	Further
By Mr. Hall	36	50	142

EXAMINATION

Examiner Goetze 54

Mr. Wade 52

1 DOMINION PRODUCTION COMPANY, LLC,
2 CASE-IN-CHIEF

3 WITNESS DAVID BURNS

4	By Mr. Hall	Direct 55	Redirect	Further
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5	By Mr. Herrmann	Cross 91	Re-Cross	Further
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6		EXAMINATION		
7	Examiner Goetze	125		
8	Mr. Wade	116		

9	WITNESS DONALD SYTSMA			
10	By Mr. Hall	Direct 126	Redirect	Further

11	By Mr. Herrmann	Cross 135	Re-Cross	Further
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17 Reporter's Certificate

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1 compliance order, not the agreed compliance order.

2 EXAMINER GOETZE: Would your second witness
3 provide more clarification on this?

4 MR. HERRMANN: Yes.

5 EXAMINER GOETZE: Would you rather I would
6 have you address these with the next witness?

7 MR. HALL: Let me ask one more question of
8 this witness --

9 Q. (By Mr. Hall) -- because I understand you were
10 actually the inspector on the ground at the Hospah
11 field; is that right?

12 A. Yes. I've been an inspector, and my inspection
13 staff has been there as well.

14 Q. In the prayer in paragraph eleven of the
15 compliance order, can you identify any of the wells in
16 Exhibit A that pose an immediate environmental threat
17 that only plugging can prevent?

18 A. I would say that's a broad statement. Inactive
19 wells, if left out there for a period of time, become
20 environmental threats. And I believe these all have
21 been active for an extended period of time, so we don't
22 know the integrity of those wells at this time.

23 Q. So the answer is, no, you cannot identify any
24 specific well that poses an environmental threat that
25 only plugging can resolve?

1 on those six points for an order from the Hearing
2 Examiner.

3 Q. Look back at paragraph nine, the last sentence
4 says, "OCD may extend the time for completion of the
5 work for good cause shown."

6 Did I read that correctly?

7 A. Yes, you did.

8 Q. Is showing a decline in market conditions, a
9 decline in productive oil, in your opinion, good cause?

10 A. In certain cases, yes, it is.

11 Q. Okay. You acknowledged that the Division and the
12 bureau have statutory duties to prevent economic waste?

13 A. Yes.

14 Q. And what steps has the bureau taken to assure
15 that its compliance and enforcement actions at Hospah
16 will not result in the reduction of recoverable reserves
17 out of the field?

18 A. I couldn't answer that right now. I don't know
19 that.

20 Q. So the answer is none?

21 A. At this point, no, no.

22 Q. Did the bureau make an estimate of the reserves,
23 otherwise recoverable reserves that would be lost if the
24 violation wells were to be plugged?

25 A. No, I think in that case we would rely on the

1 operator's knowledge of their own field to determine
2 whether or not there are reserves there that would be
3 effective one way or the other. We wouldn't do our own
4 study of that.

5 MR. HALL: May I approach the witness,
6 Mr. Examiner?

7 EXAMINER GOETZE: Please.

8 MR. WADE: Do you have additional copies of
9 what you are going to present?

10 MR. HALL: I don't. I will have to
11 supplement the record.

12 MR. WADE: Can we let counsel take a look at
13 it first, and I think I might want to take a look at it
14 as well.

15 MR. HALL: I'll tender this through my
16 witness.

17 MR. WADE: I did see that you marked it in
18 some way.

19 MR. HALL: Yes.

20 (By Mr. Hall (cont'd:))

21 Q. Mr. Sanchez, let me hand you what we have marked
22 as Dominion Exhibit A. Could you identify that for the
23 record, please.

24 A. This is a letter written by Dominion to myself,
25 Gabrielle Gerholt, who was our attorney at the time, and

1 A. I think it is a U.S. Government source energy
2 information, I believe.

3 Q. Energy Information Administration?

4 A. Yes, EIA.

5 Q. All right. And at the time the agreed compliance
6 order was signed in January of 2015, approximately what
7 were prevailing prices for oil at that time?

8 A. I think the industry at that time knew the prices
9 were on a downward trend; but, at the same time, there
10 was a reluctance, I feel, to accept the fact that it was
11 going to be long term.

12 So everybody kind of expected a kind of rebound
13 in the oil price. And if you look at the graph there,
14 you see a little blip. But I think the overall trend
15 proved to be down against everybody's common belief.

16 Q. What was the approximate price at January 2015?

17 A. Without being able to read the tick marks in the
18 graph, I would say probably in the order of around 45 to
19 55, somewhere in that region, I would guess.

20 Q. And at the time that agreed compliance order was
21 signed in January, what were you receiving for
22 production at the Hospah field?

23 A. When we receive production at the Hospah field,
24 there are certain deductions that have to be applied.
25 There's the 20 percent royalty that we pay and the

1 twelve, forty deduction for transportation.

2 So from, say, a \$50 oil price, then we would be
3 looking at somewhere in the region of \$28, would be our
4 net price.

5 Q. Today?

6 A. Yes, today.

7 Q. Do you consider the decline in market prices for
8 oil to be a force majeure event?

9 A. In my opinion, yes.

10 MR. HERRMANN: Objection. That is a legal
11 conclusion. He is not a legal witness.

12 MR. HALL: The question has been asked and
13 answered already. I believe we've established him as an
14 expert. And he is entitled to opine on such matters --

15 EXAMINER GOETZE: There are entire oil
16 companies with experts (inaudible). I will take it as
17 an opinion and we will leave it at that.

18 BY MR. HALL (cont'd):

19 Q. Mr. Burns, if we refer to the well lists that are
20 attached to the OCD's application, the inactive well
21 list, and then the wells requiring additional financial
22 assurance, do any of those wells pose an immediate
23 environmental threat that only plugging can prevent?

24 A. Are you talking about the wells in the compliance
25 order 285 or are we talking about the 75 wells?

1 Q. The 75 wells.

2 A. No, I don't believe they comprise an immediate
3 environmental threat.

4 Q. Let's talk about Dominion's efforts to come into
5 compliance. If you would refer to Exhibit No. 2,
6 please. Tell us what Exhibit No. 2 shows.

7 A. Exhibit 2 is reference to bonds that we were
8 required to place to the BLM for the federal lands that
9 we also lease in the Hospah area.

10 And this states the amount of bonds that each
11 party were paying prior to Dominion coming along. And
12 on there you will see that BC and D were at 1.25
13 million; amount states 1.25 million. Energy was 600,000
14 and the amount requested from Dominion was 350,000.

15 Q. And how did you succeed in getting the amounts of
16 bonds reduced for BLM lands?

17 A. We took the BLM around the lease, and they were
18 very impressed with the amount of effort that we had
19 taken to actually improve the lease and they reduced the
20 bond accordingly.

21 Q. All right. And let's carry on. Let's look at
22 Exhibits 3 and 4, starting with Exhibit 3.

23 Could you explain to the Hearing Examiner what
24 this exhibit shows.

25 A. Exhibit 3, basically, is the list of injection

1 Q. Attributable to the pricing environment?

2 A. Yes, absolutely. When you are getting \$28 net,
3 that's not exactly a great deal.

4 Q. And other parts of the delay are attributable to
5 the front loading of compliance costs?

6 A. Yes. We are having to absorb a lot of costs both
7 to the BLM and from the OCD. The BLM has been, I would
8 say, a lot more reasonable. The OCD has been, in my
9 opinion, not as reasonable as the BLM.

10 But, yeah, it's front-end loading costs. We've
11 had fairly close to -- and Don Sytsma will testify to
12 this, I believe. From my memory I think we have had in
13 excess of \$900,000 in 2014 expended on that field out
14 with production.

15 Q. Did Dominion incur the costs of remediating a
16 land farm at Hospah?

17 A. Yes. The remediation is still ongoing. But,
18 yes, we incurred the cost of that also.

19 Q. Have you ever seen a permit for that land farm?

20 A. I've asked for that, but I've never seen it.

21 Q. Is the land farm an asset or a liability that
22 Dominion acquired from Nacogdoches?

23 A. No. I checked the PSA that we had with
24 Nacogdoches, and we acquired the wells from them, but we
25 certainly didn't acquire any land farm under the terms

1 of the agreement with them.

2 Q. All right. Has the costs of maintaining your
3 plugging bonds with the state been affected by any
4 recent actions taken by the (inaudible)?

5 A. Yes, we had a teleconference in July, I believe
6 it was. And at that point we agreed that we would try
7 and get the bonds in place sooner rather than later.

8 But when I had my last conversation with Chris
9 Whigham at West Texas National Bank, he advised me he
10 had received notification of intent from the state that
11 there was a possibility they would pull our plugging
12 bonds. And his reaction to me was, based on the
13 uncertainty and the hearing, then they could not afford
14 the credit to us to put the bonds in place. So we now
15 have to establish new banking relationships as a result.

16 Q. Will that result in an additional cost to
17 Dominion?

18 A. Yes, it will. It will mean basically that any
19 plugging bonds going forward will be backed by cash CDs;
20 that's what it basically means.

21 Q. All right. And those are revenues that are
22 diverted from complying?

23 A. They are revenues that could have plugged the
24 wells.

25 Q. Yes. Has the OCD released any of the single well

1 cross-linkers, which is allowed in the U.S., but is also
2 a proven cause of cancer.

3 So none of this design includes any chrome
4 cross-linkers. This is all natural, biodegradable. He
5 designed it in such a way that when the polymer went to
6 the ground, it remained movable. It never sat up. And
7 so it will be all recovered through the injectors.

8 And this is why we bought the field. We didn't
9 buy the field for the one barrel a day from 165 or 175
10 wells. We bought the field for this type of activity.

11 Q. What is Dr. Littmann's testament of additional
12 recoveries if the polymer flood project is implemented?

13 A. Just in the Upper Hospah Sand alone from the
14 pilot study, the estimate is 2.25 million barrels
15 recoverable.

16 Q. And is Dominion committed to implement the
17 polymer flood project at Hospah?

18 A. Dominion has implemented the polymer flood study
19 based on again our capital raise through the new
20 organization that we put together. It is the primary
21 plan -- we only really have two plans for the Hospah
22 right now. One is the polymer flood, and the second is
23 the development of the natural gas, liquids from natural
24 gas.

25 Q. Let me ask you, if Dominion is ordered to plug

1 and abandon the wells at Hospah, would Exhibits 7 and 8
2 show the volumes of otherwise recoverable reserves that
3 would be lost?

4 A. Without going back and drilling a significant
5 amount of wells for a new operator, it will be lost,
6 yes.

7 Q. And where are those volumes? *Field-* *Q2*

8 A. If you look at the ~~fuel~~-wide study, just on the
9 South Hospah alone, Dr. Littmann predicts nine million
10 barrels. So if you then go to HSU -- and HSU is
11 slightly smaller acreage -- and he also said one side of
12 the fault would be beneficial, so he's probably looking
13 in the region of four million barrels recoverable.

14 Q. Would the loss of those volumes constitute waste?

15 A. The lack of those volumes constitute waste of our
16 investment.

17 Q. And waste of the resource as well?

18 A. Absolutely, yes.

19 Q. In your opinion, Mr. Burns, does the decline in
20 oil prices constitute good cause under the compliance
21 order for extending the time for completion of the
22 compliance work at Hospah?

23 A. I believe it does.

24 Q. And is Dominion requesting that any order that
25 results from this hearing incorporate the timetable

1 that many investors in North America -- and it is less
2 in Europe -- are still waiting to figure out where the
3 bottom is and how long is it going to last before they
4 move back in.

5 So we have had some delays with that. But we
6 have consciously slowed things up to be able to get
7 repositioned to do that toward the bottom and be able to
8 bring the capital in.

9 The existing private placement is going to happen
10 sooner or later. And it is going to happen because it
11 has to happen. Part of the strategy is to retain the
12 assets and continue to grow them.

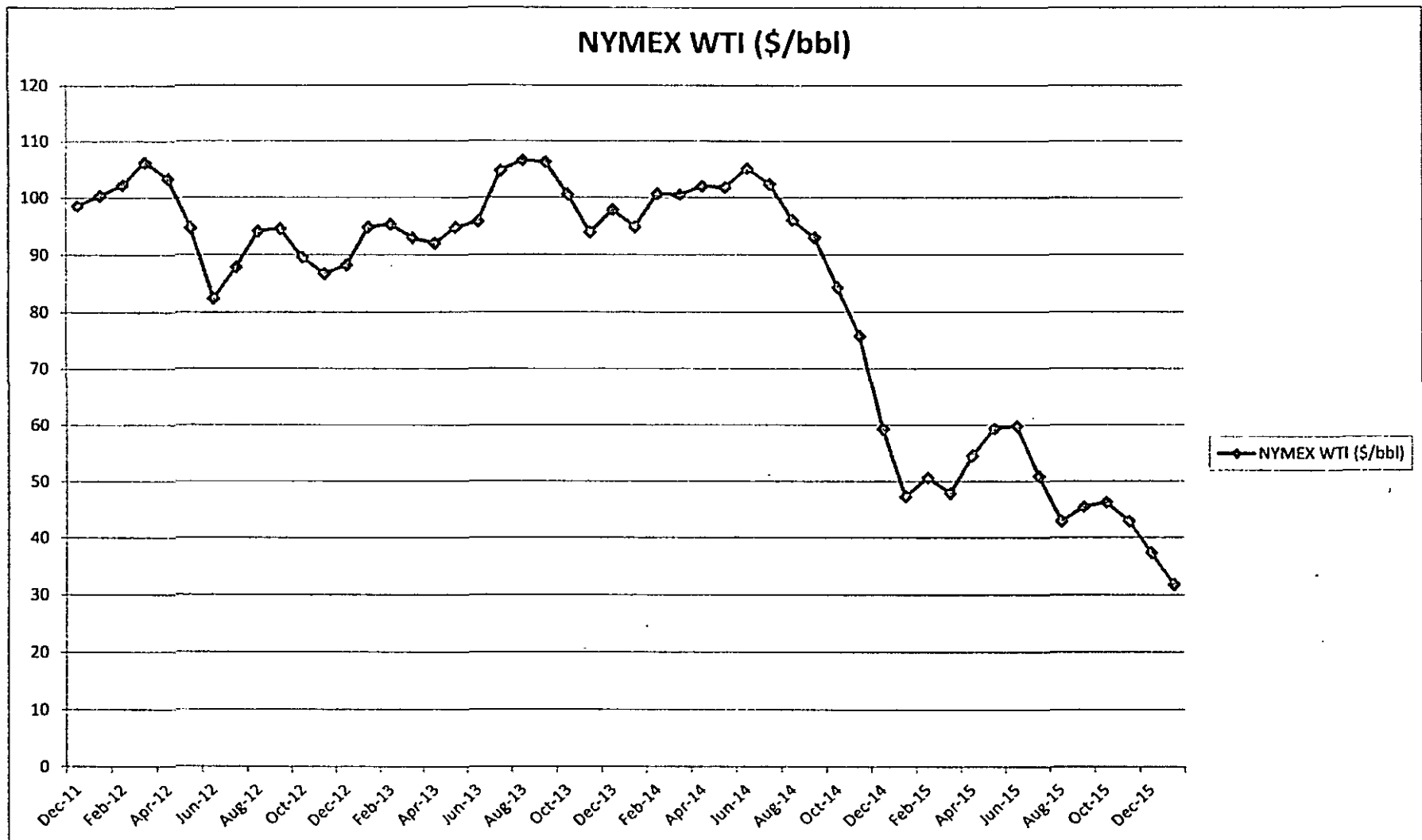
13 Q. Let's look at what have been marked as Exhibits 9
14 and 10 in the exhibit packet.

15 A. Okay.

16 Q. Would you identify those and explain those to the
17 Hearing Examiner; what do those show?

18 A. Exhibit 9 is an estimate of remediation costs,
19 environmental compliance remediation cost that's been
20 incurred by Dominion on behalf of its partners for 2014
21 and part of 2015.

22 We have subsequently gone through this list and
23 the number is actually closer to 900,000, rather than
24 the 675 David has here. We sat down, we went through
25 the invoices, we went through the expenditures to make



**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:**

**CASE NO. 15379
ORDER NO. R-14132**

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION ("OCD") COMPLIANCE AND ENFORCEMENT MANAGER FOR A COMPLIANCE ORDER AGAINST DOMINION PRODUCTION COMPANY, LLC, FINDING THAT THE OPERATOR IS IN VIOLATION OF AGREED COMPLIANCE ORDER 285 AND 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.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 29, 2015, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 25th day of February, 2016, 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 of the subject matter

(2) The Division seeks a compliance order against Dominion Production Company, LLC ("Dominion" or "Operator") finding the Operator is in violation of Division Rules 19.15.5.9 NMAC, 19.15.25.8 NMAC, and 19.15.8.9 NMAC, as to the wells listed in Exhibit "A" (the "subject wells"), declaring the subject wells abandoned by the Operator. The subject wells and corresponding violation are summarized as follows:

- (a) the 74 inactive wells (identified in Exhibit "A") exceed the amount allowed under Division Rule 19.15.5.9 NMAC; and

(b) the 40 wells (identified in the last column of the Exhibit "A") are in violation of Division Rule 19.15.8.9 NMAC for financial assurance.

(3) The Division also seeks a determination that Dominion was not in compliance with the Agreed Compliance Order (ACO) 285 dated January 25, 2015. The Division identified only partial completion of the ACO conditions which included the plugging of the listed wells, performing remedial work for specific wells, and conducting required mechanical integrity tests (MITs).

(4) The Division further seeks authorization to plug and abandon the subject wells and forfeit the applicable financial assurances and recover costs from the Operator in accordance with Division Rule 19.15.8.13 NMAC.

(5) The subject wells are located within the Hospah oil field which is found in the southeast portion of the San Juan Basin.

(6) At hearing, Mr. David Burns, president of Dominion, appeared in opposition through legal counsel. No other party appeared at the hearing, or otherwise opposed the granting of this application.

Applicant appeared at hearing through counsel and presented the following testimony.

(7) The Operator is a foreign corporation registered with the New Mexico Secretary of State. The record of the Secretary showed Mr. David Burns and Mr. W. Andrew Krusen, Jr. as officers of the corporation.

(8) The Division notified the Operator regarding the violations and pending hearing. This included a registered mailing to Mr. Burns on August 19, 2015.

(9) The Operator is registered under OGRID No. 291567.

(10) Dominion became operator of the subject wells with the approval of the Division on October 12, 2012.

(11) The Operator maintains a \$50,000 blanket bond and numerous individual well bonds as required for financial assurance under Division Rule 19.15.8.9 NMAC. Notice of this application was provided on August 19, 2015, to Frost Bank and West Texas National Bank, both financial entities providing financial assurance for Dominion.

(12) The Division provided testimony relating to inspection of the subject wells and the wells included in Order ACO-285. The Division noted the following:

(a) the Operator had nine wells with compliance issues identified in Order ACO-285 that were remaining to be resolved;

- (b) the remaining issues included the proper abandonment of five injection wells, the completion of required MITs for three injection wells, and the completion of casing repairs followed by a MIT for one injection well;
- (c) the Operator was integral to the development of the ACO including the selection of wells identified for resolution of outstanding violations and the schedule for completion; and
- (d) the inactive wells represent a general environmental threat since the mechanical integrity of the inactive wells has not been assessed periodically as required under Division rule.

(13) The subject wells are completed and are currently shut-in with no evidence of production reported to the Division.

(14) The subject wells have been inactive in excess of a period of one (1) year plus 90 days, and are not plugged or abandoned, nor placed in temporary abandonment status in violation of Division Rule 19.15.25.8 NMAC.

(15) The current condition of the subject wells and associated well locations represent a potential danger to the environment and the general public.

(16) The Division identified 40 of the subject wells as requiring additional financial assurance, under Division Rule 19.15.8.9 NMAC, in the amount of \$278,038.

(17) The Division requests an order that provides a definitive schedule for resolving the remaining compliance items of Order ACO-285, and providing to the Division the financial assurance required for the subject wells

Operator appeared at hearing through counsel and presented the following testimony.

(18) Dominion acquired the leases in the Hospah oil field that contain the subject wells in order to conduct an enhanced oil recovery (EOR) project. The EOR project proposed the use of polymer flooding in conjunction with an improved well pattern that is specific to the polymer flooding response.

(19) Dominion provided a consultant's evaluation of the estimated recovery by using the polymer flooding for the southern portion of the Hospah field at approximately three million barrels of oil. The same report also stated a similar potential for the same volume of additional oil that could be recovered in the northern portion of the field.

(20) Dominion has proposed that it be allowed to conduct a limited application of polymer flooding as a pilot project for a small portion of the field. The results of the pilot project would provide direction as to the existing wells to be used for the full field

EOR operation, identification of existing wells to be abandoned, and development of the locations for future injection and production wells.

(21) The Operator stated that since becoming the operator of the subject wells the general condition of the Hospah field has improved and it has made significant effort to resolve the violations and compliance issues contained in ACO-285.

(22) The Operator stated the costs of the compliance items, including the additional bonding for the subject wells, would interfere with Dominion's effort to reorganize financially and proceed with the proposed EOR project.

(23) Dominion also identified current pricing of petroleum commodities, poor weather conditions, and the cost anticipated for initiating the pilot project as having impacted the ability to complete the required compliance as originally scheduled.

(24) The Operator cited inequity of requests by the Division for subject wells to be tested since the testing as required under Division rule had not been conducted by the previous operator and was only recently initiated when Dominion became operator of the subject wells.

(25) The Operator noted that the Division is empowered to prevent waste of resources and that Dominion's EOR project provided the opportunity of increased hydrocarbon production.

(26) The Operator stated that the subject wells do not represent an environmental risk in their current state.

(27) The Operator proposed a resolution of outstanding compliance issues: Dominion would complete the requirement for financial assurance by March 2016, complete the plugging and abandonment of wells by July 2016, and complete the MITs by the end of December 2016.

The Division Concludes as Follows:

(28) Dominion is the operator of record for the subject wells and is responsible for compliance with the Oil and Gas Act and Division rules.

(29) NMSA 1978, Section 70-2-14(B) provides, in relevant part, *"If any of the requirements of the Oil and Gas Act [70-2-1 NMSA 1978] or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules."*

(30) Division Rule 19.15.5.10(B) NMAC authorizes the Division to commence compliance proceedings for violation of a provision of the Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38 or a provision of a rule or order issued pursuant to the Act.

(31) As established by the evidence provided at hearing, the Operator is in violation of Division Rules 19.15.5.9 NMAC (the inactive well rule), 19.15.8.9 NMAC (the financial assurance rule), 19.15.25.9 NMAC (wells properly abandoned rule), 19.15.26.10 NMAC (the operation and maintenance of injection wells) and 19.15.26.11 NMAC (the testing of injection wells).

(32) Dominion should assess and determine the status of the subject wells as to beneficial use as required by Division Rule 19.15.25.9 NMAC and as to the mechanical integrity as required by Division Rule 19.15.26.11 NMAC.

(33) Dominion should be required to plug and abandon the subject wells found not to be beneficial and, in the event of non-compliance, the Division should be authorized to plug and abandon the subject wells, and to restore and remediate the well locations utilizing the financial assurance of the Operator. The Division should also be authorized to recover costs from the Operator if the financial assurance is insufficient for the cost of plugging and abandoning the subject wells.

IT IS THEREFORE ORDERED THAT:

(1) Dominion Production Company, LLC ("Dominion" or "Operator") shall complete the following remaining requirements of Agreed Compliance Order ACO-285 within the specified period:

- (a) complete the repairs (including testing and either returning to injection or place in temporary abandonment) for the South Hospah Unit Well No. 39 (API 30-031-20152, a Federal well) or plug and abandon within sixty (60) days of the issuance date of this order;
- (b) conduct mechanical integrity tests on the three remaining wells, the Hospah Sand Unit Well No. 58 (API 30-031-20115), Hospah Sand Unit Well No. 51 (API 30-031-20242, a Federal well), and Lone Pine Dakota D Unit Well No. 14 (API 30-031-20174), within sixty (60) days of the issuance date of this order; and
- (c) plug and abandon the five remaining wells, the South Hospah Unit Well No. 52 (API 30-031-20243), South Hospah Unit Well No. 60 (API 30-031-20411, a Federal well), Santa Fe Railroad A Well No. 87 (API 30-031-20413), South Hospah Unit Well No. 100 (API 30-031-20831), and Santa Fe Railroad A Well No. 97 (API 30-031-20855) within ninety (90) days of the issuance date of this order.

(2) Dominion shall provide, within sixty (60) days of the issuance date of this order, adequate financial assurance under Division Rule 19.15.8.9 NMAC for the forty (40) wells identified as requiring additional bonds and listed in the last column of Exhibit "A", attached hereto.

(3) Dominion shall bring into compliance with Division Rule 19.15.25.8 NMAC within two hundred and seventy (270) days of the issuance date of this order, the

seventy-four (74) inactive wells identified in Exhibit "A" (the "subject wells") by accomplishing one of the following with respect to each well:

- (a) causing the well to be plugged and abandoned in accordance with Division Rule 19.15.25.8 NMAC and in accordance with a Division-approved plugging program;
- (b) restoring the well to production if the well is an oil and gas well;
- (c) restoring the well to injection if the well is an injection well in accordance with Division Rule 19.15.26 NMAC; or
- (d) causing the well to be temporarily abandoned with Division approval in accordance with Division Rule 19.15.25.13 NMAC.

It is further stipulated that the operator shall be required to resolve the compliance status of the subject wells at a minimum rate of six (6) wells for each thirty (30)-day period within 270-day allotted time.

(4) For this order, if skimming, swabbing, or similar activity is used as the method for "restoring the well to production", then the operator shall be required to recover a minimum of ten (10) barrels of oil per well per monthly reporting period.

(5) All subject wells categorized as Federal wells are subject to the authority of the U. S. Bureau of Land Management and shall secure approval from the Bureau of Land Management for any activity required under this order for Federal wells.

(6) If the Operator has not completed the requirements detailed in Ordering Paragraph (1) within the prescribed time periods, Dominion shall be in violation of this order and the Division shall be authorized:

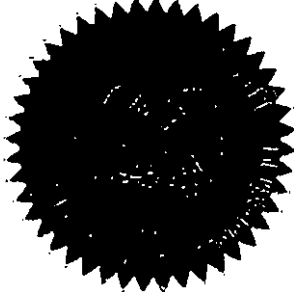
- (a) to plug and abandon the subject wells that are out of compliance with Division rules;
- (b) to restore and remediate the well locations;
- (c) to direct forfeiture of the applicable financial assurance of the Operator;
- (d) to recover costs from the Operator in accordance with Division Rule 19.15.8.13 NMAC; and
- (e) to have opportunity to seek indemnification from the Operator as provided in NMSA 1978, Section 70-2-14(E) if there are not sufficient funds to cover all costs the Division incurs plugging and abandoning the wells and restoring and remediating the well locations.

(7) If the Operator has not completed the work described in Ordering Paragraphs (1) through (3) within the specified time, Dominion shall be in violation of this order and the Division shall be authorized to proceed with the alternative actions listed in Ordering Paragraph (6).

(8) If the Operator cannot complete the work described in Ordering Paragraph (3) within the specified time, the Operator shall file, prior to the expiration date in the ordering paragraph, an application for hearing to request an extension. At hearing, the Operator shall provide evidence of the work completed to date, shall show cause for the extension, and shall provide an alternate schedule to complete the work.

(9) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director

EXHIBIT "A"
CASE NO. 15379
ORDER NO. R-14132

Identity No. For Case	API Well No.	Well Name	Well No.	Operator Name	Type	Status	Surface Owner	OCD UL-Sec-Twp-Rng	Footage FNL/FSL	Footage FEL/FWL	County	OCD Exhibit 2: Remaining ACO-285 Condition	OCD Exhibit 3: Inactive Well	OCD Exhibit 4: Bond Required
1	30-031-05141	SANTA FE RAILROAD	007	DOMINION PRODUCTION COMPANY, LLC	O	A	P	E-7-17N-8W	1650 N	330 W	McKinley		Yes	
2	30-031-05146	SOUTH HOSPAH UNIT	005	DOMINION PRODUCTION COMPANY, LLC	O	A	F	B-12-17N-9W	990 N	2712 E	McKinley		Yes	
3	30-031-05158	HOSPAH SAND UNIT	005	DOMINION PRODUCTION COMPANY, LLC	O	A	P	C-1-17N-9W	990 N	1650 W	McKinley		Yes	Yes
4	30-031-05171	HOSPAH SAND UNIT	039	DOMINION PRODUCTION COMPANY, LLC	O	A	P	K-1-17N-9W	1980 S	1980 W	McKinley		Yes	
5	30-031-05176	HOSPAH SAND UNIT	009	DOMINION PRODUCTION COMPANY, LLC	O	A	P	J-1-17N-9W	2310 S	2310 E	McKinley		Yes	
6	30-031-05182	HOSPAH SAND UNIT	052	DOMINION PRODUCTION COMPANY, LLC	O	A	P	G-1-17N-9W	2310 N	2970 W	McKinley		Yes	
7	30-031-05185	HOSPAH SAND UNIT	002	DOMINION PRODUCTION COMPANY, LLC	O	A	P	L-1-17N-9W	1808 S	354 W	McKinley		Yes	
8	30-031-05186	HOSPAH SAND UNIT	024	DOMINION PRODUCTION COMPANY, LLC	O	A	P	G-1-17N-9W	1600 N	2020 E	McKinley		Yes	Yes
9	30-031-05189	HOSPAH SAND UNIT	012	DOMINION PRODUCTION COMPANY, LLC	O	A	P	B-1-17N-9W	990 N	2310 E	McKinley		Yes	
10	30-031-05192	HOSPAH SAND UNIT	023	DOMINION PRODUCTION COMPANY, LLC	O	A	P	D-1-17N-9W	990 N	960 W	McKinley		Yes	Yes
11	30-031-05193	HOSPAH SAND UNIT	089	DOMINION PRODUCTION COMPANY, LLC	O	A	P	B-1-17N-9W	660 N	1900 E	McKinley		Yes	Yes
12	30-031-05194	HOSPAH SAND UNIT	051	DOMINION PRODUCTION COMPANY, LLC	O	A	P	B-1-17N-9W	660 N	1980 E	McKinley		Yes	
13	30-031-05195	HOSPAH SAND UNIT	022	DOMINION PRODUCTION COMPANY, LLC	O	A	P	A-1-17N-9W	330 N	660 E	McKinley		Yes	
14	30-031-05201	HOSPAH SAND UNIT	050	DOMINION PRODUCTION COMPANY, LLC	O	A	S	P-36-18N-9W	330 S	660 E	McKinley		Yes	Yes

EXHIBIT "A"
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15	30-031-05203	HOSPAH SAND UNIT	019	DOMINION PRODUCTION COMPANY, LLC	O	A	S	O-36-18N-9W	330 S	2060 E	McKinley		Yes	
16	30-031-05205	HOSPAH SAND UNIT	003	DOMINION PRODUCTION COMPANY, LLC	O	A	S	N-36-18N-9W	330 S	1650 W	McKinley		Yes	
17	30-031-05207	HOSPAH SAND UNIT	015	DOMINION PRODUCTION COMPANY, LLC	O	A	S	N-36-18N-9W	330 S	2590 W	McKinley		Yes	Yes
18	30-031-05211	HOSPAH SAND UNIT	016	DOMINION PRODUCTION COMPANY, LLC	O	A	S	N-36-18N-9W	990 S	2700 E	McKinley		Yes	
19	30-031-05213	HOSPAH SAND UNIT	017	DOMINION PRODUCTION COMPANY, LLC	O	A	S	N-36-18N-9W	990 S	2310 W	McKinley		Yes	Yes
20	30-031-05214	HOSPAH SAND UNIT	027	DOMINION PRODUCTION COMPANY, LLC	O	A	S	P-36-18N-9W	990 S	660 E	McKinley		Yes	Yes
21	30-031-05217	HOSPAH SAND UNIT	036	DOMINION PRODUCTION COMPANY, LLC	O	A	S	J-36-18N-9W	999 S	999 E	McKinley		Yes	Yes
22	30-031-05219	HOSPAH SAND UNIT	037	DOMINION PRODUCTION COMPANY, LLC	O	A	S	I-36-18N-9W	990 S	990 E	McKinley		Yes	
23	30-031-05220	HOSPAH SAND UNIT	054	DOMINION PRODUCTION COMPANY, LLC	O	A	P	L-31-18N-8W	1980 S	577 W	McKinley		Yes	Yes
24	30-031-05222	HOSPAH SAND UNIT	035	DOMINION PRODUCTION COMPANY, LLC	O	A	S	K-36-18N-9W	2310 S	2310 W	McKinley		Yes	Yes
25	30-031-05223	HOSPAH SAND UNIT	034	DOMINION PRODUCTION COMPANY, LLC	O	A	S	J-36-18N-9W	2310 S	2310 E	McKinley		Yes	Yes
26	30-031-05224	HOSPAH SAND UNIT	032	DOMINION PRODUCTION COMPANY, LLC	O	A	S	I-36-18N-9W	2310 S	1050 E	McKinley		Yes	Yes
27	30-031-05225	HOSPAH SAND UNIT	029	DOMINION PRODUCTION COMPANY, LLC	O	A	S	G-36-18N-9W	550 S	550 W	McKinley		Yes	Yes
28	30-031-05531	SANTA FE RAILROAD	009	DOMINION PRODUCTION COMPANY, LLC	O	A	P	F-7-17N-8W	1650 N	1650 W	McKinley		Yes	Yes

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29	30-031-05570	SANTA FE RAILROAD A	072	DOMINION PRODUCTION COMPANY, LLC	O	A	P	P-1-17N-9W	330 S	1250 E	McKinley		Yes	Yes
30	30-031-05594	HOSPAH SAND UNIT	055	DOMINION PRODUCTION COMPANY, LLC	O	A	P	G-1-17N-9W	1650 N	2710 E	McKinley		Yes	Yes
31	30-031-20019	SANTA FE RAILROAD A	073	DOMINION PRODUCTION COMPANY, LLC	O	A	P	O-1-17N-9W	330 S	2000 E	McKinley		Yes	Yes
32	30-031-20021	SANTA FE RAILROAD A	074	DOMINION PRODUCTION COMPANY, LLC	O	A	P	I-1-17N-9W	1650 S	330 E	McKinley		Yes	
33	30-031-20036	SANTA FE RAILROAD	015	DOMINION PRODUCTION COMPANY, LLC	O	A	P	E-7-17N-8W	1650 N	990 W	McKinley		Yes	Yes
34	30-031-20037	SANTA FE RAILROAD	014	DOMINION PRODUCTION COMPANY, LLC	O	A	P	D-7-17N-8W	330 N	990 W	McKinley		Yes	Yes
35	30-031-20038	SANTA FE RAILROAD	013	DOMINION PRODUCTION COMPANY, LLC	O	A	P	D-7-17N-8W	930 N	330 W	McKinley		Yes	Yes
36	30-031-20072	SANTA FE RAILROAD A	075	DOMINION PRODUCTION COMPANY, LLC	O	A	P	P-1-17N-9W	330 S	330 E	McKinley		Yes	
37	30-031-20086	SANTA FE	016	DOMINION PRODUCTION COMPANY, LLC	O	A	P	C-7-17N-8W	330 N	2310 W	McKinley		Yes	Yes
38	30-031-20102	SANTA FE	017	DOMINION PRODUCTION COMPANY, LLC	O	A	P	F-7-17N-8W	1950 N	1950 W	McKinley		Yes	Yes
39	30-031-20115	HOSPAH SAND UNIT	058	DOMINION PRODUCTION COMPANY, LLC	I	A	P	O-36-18N-9W	30 S	2350 E	McKinley	Conduct MIT	Yes	
40	30-031-20118	SOUTH HOSPAH UNIT	036	DOMINION PRODUCTION COMPANY, LLC	I	A	F	B-12-17N-9W	900 N	2630 E	McKinley		Yes	
41	30-031-20129	WHIGHAM	003	DOMINION PRODUCTION COMPANY, LLC	O	A	P	H-11-17N-9W	2300 N	350 E	McKinley		Yes	Yes
42	30-031-20138	SANTA FE RAILROAD	018	DOMINION PRODUCTION COMPANY, LLC	O	A	P	D-7-17N-8W	600 N	710 W	McKinley		Yes	Yes

EXHIBIT "A"
CASE NO. 15379
ORDER NO. R-14132

Identity No. For Case	API Well No.	Well Name	Well No.	Operator Name	Type	Status	Surface Owner	OCD UL-Sec-Twp-Rng	Footage FNL/FSL	Footage FEL/FWL	County	OCD Exhibit 2: Remaining ACO-285 Condition	OCD Exhibit 3: Inactive Well	OCD Exhibit 4: Bond Required
43	30-031-20152	SOUTH HOSPAH UNIT	039	DOMINION PRODUCTION COMPANY, LLC	I	A	F	H-12-17N-9W	2160 N	660 E	McKinley	Remedial work on well	Yes	
44	30-031-20165	SANTA FE PACIFIC RAILROAD	002	DOMINION PRODUCTION COMPANY, LLC	G	E	P	L-13-17N-9W	1980 S	660 W	McKinley		Yes	
45	30-031-20174	LONE PINE DAKOTA D UNIT	014	DOMINION PRODUCTION COMPANY, LLC	I	E	P	H-13-17N-9W	1980 N	4620 W	McKinley	Conduct MIT	Yes	
46	30-031-20181	SANTA FE PACIFIC RAILROAD	008	DOMINION PRODUCTION COMPANY, LLC	G	E	P	D-24-17N-9W	740 N	640 W	McKinley		Yes	Yes
47	30-031-20182	SANTA FE PACIFIC RAILROAD	009	DOMINION PRODUCTION COMPANY, LLC	G	A	P	F-13-17N-9W	2180 N	2180 W	McKinley		Yes	
48	30-031-20183	LONE PINE DAKOTA D UNIT	012	DOMINION PRODUCTION COMPANY, LLC	G	A	P	B-13-17N-9W	800 N	3500 W	McKinley		Yes	
49	30-031-20201	LONE PINE DAKOTA D UNIT	023	DOMINION PRODUCTION COMPANY, LLC	G	A	P	K-13-17N-9W	1650 S	2310 W	McKinley		Yes	
50	30-031-20242	SOUTH HOSPAH UNIT	051	DOMINION PRODUCTION COMPANY, LLC	I	A	F	E-12-17N-9W	1775 N	620 W	McKinley	Conduct MIT	Yes	
51	30-031-20243	SOUTH HOSPAH UNIT	052	DOMINION PRODUCTION COMPANY, LLC	I	A	F	C-12-17N-9W	720 N	1850 W	McKinley	Plug and abandon	Yes	
52	30-031-20303	SANTA FE RR B	032	DOMINION PRODUCTION COMPANY, LLC	O	E	P	M-5-17N-8W	990 S	330 W	McKinley		Yes	
53	30-031-20338	HOSPAH SAND UNIT	001Y	DOMINION PRODUCTION COMPANY, LLC	O	A	P	A-1-17N-9W	925 N	1330 E	McKinley		Yes	
54	30-031-20341	SANTA FE	029	DOMINION PRODUCTION COMPANY, LLC	O	A	P	B-7-17N-8W	990 N	1680 E	McKinley		Yes	Yes
55	30-031-20369	SANTA FE RR B	033	DOMINION PRODUCTION COMPANY, LLC	O	E	P	L-5-17N-8W	2310 S	330 W	McKinley		Yes	Yes
56	30-031-20372	SANTA FE RAILROAD A	084	DOMINION PRODUCTION COMPANY, LLC	I	A	P	O-1-17N-9W	5 S	2900 E	McKinley		Yes	

EXHIBIT "A"
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ORDER NO. R-14132

Identity No. For Case	API Well No.	Well Name	Well No.	Operator Name	Type	Status	Surface Owner	OCD UL-Sec-Twp-Rng	Footage FNL/FSL	Footage FEL/FWL	County	OCD Exhibit 2: Remaining ACO-285 Condition	OCD Exhibit 3: Inactive Well	OCD Exhibit 4: Bond Required
57	30-031-20390	SANTA FE RR B	034	DOMINION PRODUCTION COMPANY, LLC	O	A	P	M-5-17N-8W	330 S	330 W	McKinley		Yes	
58	30-031-20391	SANTA FE RR B	035	DOMINION PRODUCTION COMPANY, LLC	I	A	P	E-5-17N-8W	2310 N	330 W	McKinley		Yes	
59	30-031-20411	SOUTH HOSPAH UNIT	060	DOMINION PRODUCTION COMPANY, LLC	I	A	F	H-12-17N-9W	2210 N	1300 E	McKinley	Plug and abandon	Yes	
60	30-031-20413	SANTA FE RAILROAD A	087	DOMINION PRODUCTION COMPANY, LLC	I	A	P	P-1-17N-9W	5 S	50 E	McKinley	Plug and abandon	Yes	
61	30-031-20415	SANTA FE RR B	037	DOMINION PRODUCTION COMPANY, LLC	O	E	P	M-5-17N-8W	890 S	330 W	McKinley		Yes	Yes
62	30-031-20416	SANTA FE RR B	036	DOMINION PRODUCTION COMPANY, LLC	O	E	P	L-5-17N-8W	1650 S	330 W	McKinley		Yes	Yes
63	30-031-20441	SANTA FE RAILROAD A	090	DOMINION PRODUCTION COMPANY, LLC	O	A	P	P-1-17N-9W	1000 S	330 E	McKinley		Yes	Yes
64	30-031-20442	SANTA FE RAILROAD A	089	DOMINION PRODUCTION COMPANY, LLC	O	A	P	O-1-17N-9W	330 S	2450 E	McKinley		Yes	
65	30-031-20451	SANTA FE RAILROAD	040	DOMINION PRODUCTION COMPANY, LLC	O	A	P	E-7-17N-8W	1440 N	420 W	McKinley		Yes	Yes
66	30-031-20594	SANTA FE RAILROAD	041	DOMINION PRODUCTION COMPANY, LLC	O	A	P	D-7-17N-8W	1000 N	1000 W	McKinley		Yes	Yes
67	30-031-20608	HOSPAH SAND UNIT	095	DOMINION PRODUCTION COMPANY, LLC	O	A	P	B-1-17N-9W	350 N	2550 E	McKinley		Yes	Yes
68	30-031-20717	HOSPAH SAND UNIT	096	DOMINION PRODUCTION COMPANY, LLC	O	A	P	K-36-18N-9W	1850 S	1875 W	McKinley		Yes	Yes
69	30-031-20749	SANTA FE RR B	039	DOMINION PRODUCTION COMPANY, LLC	I	A	P	M-5-17N-8W	50 S	50 W	McKinley		Yes	Yes
70	30-031-20831	HOSPAH SAND UNIT	100	DOMINION PRODUCTION COMPANY, LLC	I	A	S	H-36-18N-9W	2505 N	1190 E	McKinley	Plug and abandon	Yes	

EXHIBIT "A"
CASE NO. 15379
ORDER NO. R-14132

Identity No. For Case	API Well No.	Well Name	Well No.	Operator Name	Type	Status	Surface Owner	OCD UL-Sec-Twp-Rng	Footage FNL/FSL	Footage FEL/FWL	County	OCD Exhibit 2: Remaining ACO-285 Condition	OCD Exhibit 3: Inactive Well	OCD Exhibit 4: Bond Required
71	30-031-20836	SANTA FE RAILROAD	047	DOMINION PRODUCTION COMPANY, LLC	O	A	P	D-7-17N-8W	1200 N	550 W	McKinley		Yes	Yes
72	30-031-20837	SANTA FE RAILROAD	048	DOMINION PRODUCTION COMPANY, LLC	O	A	P	E-7-17N-8W	2410 N	410 W	McKinley		Yes	Yes
73	30-031-20854	SANTA FE RAILROAD	050	DOMINION PRODUCTION COMPANY, LLC	O	A	P	E-7-17N-8W	1980 N	100 W	McKinley		Yes	Yes
74	30-031-20855	SANTA FE RAILROAD A	097	DOMINION PRODUCTION COMPANY, LLC	I	A	P	O-1-17N-9W	240 S	1655 E	McKinley	Plug and abandon	Yes	

Type: O - oil well; G - gas well; I - EOR injection well Status: A - active; E - expired temporary abandonment (TA) Surface Owner: P - private; S - state; F - federal MIT: mechanical integrity test

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

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION ("OCD") COMPLIANCE AND ENFORCEMENT MANAGER FOR A COMPLIANCE ORDER AGAINST DOMINION PRODUCTION COMPANY, LLC, FINDING THAT THE OPERATOR IS IN VIOLATION OF AGREED COMPLIANCE ORDER 285 AND 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;
MCKINLEY COUNTY, NEW MEXICO**

**CASE NO. 15379
ORDER NO. R-14132-A**

ORDER OF THE DIVISION

This matter came before the Division Director on the Motion To Stay Order No. R-14132 filed on behalf of Dominion Production Company, LLC pursuant to 19.15.4.23B NMAC of the Division's Rules.

NOW, on this ____ day of March 2016, the Division Director, on consideration of the Motion and the materials submitted therewith and otherwise being duly advised,

FINDS THAT:

- (1) The Division Director has jurisdiction of the matter pursuant to *inter alia* Rule 19.15.4.23 and is authorized to grant a stay if necessary to prevent waste, protect correlative rights, protect public health or the environment or prevent gross negative consequences to an affected party.
- (2) On February 25, 2015, after hearing, the Division entered Order No. R-14142 in this case.
- (3) Dominion Production Company, LLC ("Dominion" or "Operator") is the operator of 74 wells identified in Exhibit "A" to Order No. R-14142, and as such is an "affected party" within the meaning of Rule 19.15.4.23B.
- (4) On March 11, 2015, Dominion filed an Application for Hearing De Novo and the matter is scheduled before the New Mexico Oil Conservation Commission on May 19, 2016.

EXHIBIT D

(5) Order No. R-14132 directs Dominion to bring its wells into compliance with a number of the Division's rules by taking certain actions within specified time periods. Order No. R-14132 provides, among other matters, as follows:

IT IS THEREFORE ORDERED THAT:

(1) Dominion Production Company, LLC ("Dominion" or "Operator") shall complete the following remaining requirements of Agreed Compliance Order AC0-285 within the specified period:

- (a) complete the repairs (including testing and either returning to injection or place in temporary abandonment) for the South Hospah Unit Well No. 39 (API 30-031-20152, a Federal well) or plug and abandon within sixty (60) days of the issuance date of this order;
- (b) conduct mechanical integrity tests on the three remaining wells, the Hospah Sand Unit Well No. 58 (API 30-031-20115), Hospah Sand Unit Well No. 51 (API 30-031-20242, a Federal well), and Lone Pine Dakota D Unit Well No. 14 (API 30-031-20174), within sixty (60) days of the issuance date of this order; and
- (c) plug and abandon the live remaining wells, the South Hospah Unit Well No. 52 (API 30-031-20243), South Hospah Unit Well No. 60 (API 30-031-20411, a Federal well), Santa Fe Railroad A Well No. 87 (API 30-031-20413), South Hospah Unit Well No. 100 (API 30-031-20831), and Santa Fe Railroad A Well No. 97 (API 30-031-20855) within ninety (90) days of the issuance date of this order.

(2) Dominion shall provide, within sixty (60) days of the issuance date of this order, adequate financial assurance under Division Rule 19.15.8.9 NMAC for the forty (40) wells identified as requiring additional bonds and listed in the last column of Exhibit "A", attached hereto.

(3) Dominion shall bring into compliance with Division Rule 19.15.25.8 NMAC within two hundred and seventy (270) days of the issuance date of this order, the seventy-four (74) inactive wells identified in Exhibit "A" (the "subject wells") by accomplishing one of the following with respect to each well:

- (a) causing the well to be plugged and abandoned in accordance with Division Rule 19.15.25.8 NMAC and in accordance with a Division-approved plugging program;

(b) restoring the well to production if the well is an oil and gas well;

(c) restoring the well to injection if the well is an injection well in accordance with Division Rule 19.15.26 NMAC; or

(d) causing the well to be temporarily abandoned with Division approval in accordance with Division Rule 19.15.25.13 NMAC.

It is further stipulated that the operator shall be required to resolve the compliance status of the subject wells at a minimum rate of six (6) wells for each thirty (30)-day period within 270-day allotted time.

(6) Dominion contends that the Division did not adequately consider that the depressed market for crude oil has adversely affected the Operator's ability to abide by the performance schedules contemplated in Order No. R-14132. Dominion further contends it will incur gross negative consequences if the performance schedules are enforced against it and the Division takes action under Order No. R-14132, Order ¶ 6. Dominion also contends that waste of recoverable oil would result.

(7) Dominion submitted sworn testimony from the October 29, 2015 transcript of testimony and other materials to support its contentions. The Division Director also takes notice of the ongoing unfavorable market conditions for crude oil prices and their effect on project cash flows.

(8) There is no evidence any immediate threat of environmental harm from the wells identified in Exhibit "A" to Order No. R-14132.

(9) By the nature of the relief sought by its motion, Dominion does not seek to avoid its obligations as operator to bring the wells into compliance. It seeks only the modification the time for it to do so.

(10) The time periods for performance of corrective actions specified in Order No. R-14132, Order ¶¶ (1) – (3) should be stayed pending the issuance by the Oil Conservation Commission of its order following hearing *de novo* in this matter.

IT IS THEREFORE ORDERED THAT:

(1) The time periods for performance of corrective actions specified in Order No. R-14132, Order ¶¶ (1) – (3) are stayed pending the issuance by the Oil Conservation Commission of its order following hearing *de novo*.

(2) Dominion shall continue to make its best efforts to obtain full regulatory compliance for its wells.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

DAVID R. CATANACH
Director