

**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. 15277
ORDER NO. R-14155**

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION
("OCD") COMPLIANCE AND ENFORCEMENT MANAGER FOR A
COMPLIANCE ORDER AGAINST BLUE SKY NM, INC.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 14, 2015, at Santa Fe, New Mexico, before Examiner Michael McMillan.

NOW, on this 25th day of April, 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) Blue Sky NM, Inc. ("Blue Sky", or "Operator") failed to meet the terms of the Agreed Compliance Order (ACOI No. 282), and it expired August 14, 2014.

(3) The Oil Conservation Division (Division) seeks a compliance order against Blue Sky NM, Inc. 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 "1" (the "subject wells"), declaring the inactive wells abandoned by the Operator. The subject wells and corresponding violation are summarized as follows:

- (a) the 65 inactive wells (identified in Exhibit "1") exceed the amount allowed under Division Rule 19.15.5.9 NMAC; and
- (b) the 65 wells (Exhibit "1") are in violation of Division Rule 19.15.8.9 NMAC because the Operator has not furnished required financial assurance.

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

(5) Subject wells are located within the Twin Lakes; San Andres (Associated) Pool (Pool code 61570), (Twin Lakes), Chaves County, New Mexico.

(6) Blue Sky appeared at the hearing through legal counsel. Prior to hearing, counsel for Blue Sky filed a *Motion to Dismiss* the portion of the application which identified the complaint against the directors, officers, and incorporators of Blue Sky NM, Inc. jointly and severally.

(7) The Division appeared at the hearing through legal counsel and presented the following testimony:

- (a) Blue Sky is registered with the Division under OGRID No. 300825 and with the New Mexico Secretary of State under Corporation No. 4754581.
- (b) The Division identified Mo Shahid Fazil as President and Carla Petty as Secretary of the corporation.
- (c) Blue Sky has one blanket bond on file with the Division, Bond No. B008143, in the amount of \$50,000.
- (d) Blue Sky has provided to the Division fourteen single well bonds, all issued by U.S. Specialty Insurance Company, each in the amount of \$58,888, for the wells within Twin Lakes (see Exhibit "2"). In addition, Division holds five single well bonds in the amount of \$34,972 for five wells currently operated by Canyon E&P, Inc. in the Double "L" Queen Unit. Blue sky obtained these bonds in anticipation of obtaining these wells from Canyon E&P, Inc., a transaction never consummated.
- (e) Operator was subject to Administrative Agreed Compliance Order ACOI 282 (Compliance Order), issued on February 18, 2014.
- (f) Operator failed to meet the terms of the Compliance Order, and it expired August 14, 2014.
- (g) Blue Sky is operator of 65 wells that 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 Rule 19.15.25.8 NMAC.

- (h) Operator currently has 47 wells that require additional bonding in violation of Rule 19.15.8.9 NMAC, in excess of \$350,000 (three hundred fifty thousand dollars).
 - (i) Operator is out of compliance with Rule 19.15.5.9 NMAC by having 65 (Exhibit "1") wells out of compliance with Rule 19.15.25.8 NMAC which allows no more than two (2) wells out of compliance for an operator with a total number of wells of 100 or less.
 - (j) Of the 65 wells out of compliance, 29 wells (Exhibit "1") are injection wells that have lost their authority for injection.
 - (k) The only active salt water disposal well, the Twin Lakes San Andres Unit Well No. 40 (API 30-005-60696; "Injection well"), located 1650 feet from the South line and 1650 feet from the West line, Unit K, of Section 31, Township 8 South, Range 31 East, NMPM, Chaves County, is an active injection well with limited injection authority under Administrative Order SWD-1443, and has injected above permitted pressure.
 - (l) Field inspection by Division District II office noted environmental problems, and poor upkeep of the wells.
- (8) The Operator appeared at the hearing through legal counsel and presented the following testimony:
- (a) Blue Sky has proposed a six-month Agreed Compliance Order to allow for five proposed salt water disposal wells (Exhibit "A"), and resuming production for presently inactive wells.
 - (b) Blue Sky has been forced to shut-in production due to the limited injection capacity for produced water in Twin Lakes.
 - (c) Injection well cannot handle the volume of produced water in Twin Lakes.
 - (d) Blue Sky proposed that six bonds that were inadvertently placed on existing Canyon E and P wells by Blue Sky be removed and placed on the proposed salt water disposal wells. Five of those bonds will be placed on five proposed salt water disposal wells (Exhibit 2).
 - (e) The salt water disposal wells will become active, and have their financial assurance transferred to inactive wells.
 - (f) The five proposed salt water disposal wells were selected due to ease of permitting and allowing the largest number of wells to become active.

- (g) As the five salt water disposal wells become active, this will allow inactive wells to produce oil. The new inactive wells will then become active, and have their required bonds either released or transferred to new wells which were not adequately bonded.

The Division Concludes as Follows:

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

(10) 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."*

(11) 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.

(12) 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), and 19.15.25.9 NMAC (wells properly abandoned rule).

(13) Blue Sky 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.

(14) Injection well pressure is approved for 539 pounds per square inch (psi); however, injection well's pressure is consistently 655 psi, see Exhibit "3".

(15) Blue Sky should be required to plug and abandon the subject wells found not to be applied to beneficial use 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) Blue Sky NM, Inc. ("Blue Sky" or "Operator") shall bring into compliance with Division Rule 19.15.25.8 NMAC within sixty (60) days of the issuance date of this order, each of the sixty-five (65) inactive wells identified in Exhibit "1" (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;
- (c) causing the well to be temporarily abandoned with Division approval in accordance with Division Rule 19.15.25.13 NMAC.

(2) Operator shall comply with the conditions of Administrative Order SWD-1443 for the operation of Twin Lakes San Andres Unit Well No. 40 (API 30-005-60696). Further, failure to comply with the maximum allowable pressure shall result in termination of the disposal authority.

(3) The Respondent's *Motion to Dismiss* the complaint against the directors, officers, and incorporators of Blue Sky, jointly and severally, since Applicant made no allegations against these parties in the original application, is hereby granted.

(4) If the Operator has not completed the requirements detailed in Ordering Paragraph (1) within the prescribed time periods, Blue Sky 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 in excess of applicable financial assurance 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.

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

(6) 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.

(7) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director

EXHIBIT "1"
CASE NO. 15277
ORDER NO. R-14155
SUMMARY OF INACTIVE WELLS: TWIN LAKE SAN ANDRES UNIT

I/A COUNT	API WELL NO.	WELL NAME	TYPE	UL	SEC	TWP	RNG	INJECT STATUS
1	30-005-00342	Twin Lakes San Andres Unit No. 45	O	N	36	8 S	28 E	
2	30-005-00349	Twin Lakes San Andres Unit No. 54	I	D	1	9 S	28 E	LIA
3	30-005-60010	Twin Lakes San Andres Unit No. 47	O	P	36	8 S	28 E	
4	30-005-60031	Twin Lakes San Andres Unit No. 26	O	F	36	8 S	28 E	
5	30-005-60033	Twin Lakes San Andres Unit No. 34	I	L	36	8 S	28 E	LIA
6	30-005-60291	Twin Lakes San Andres Unit No. 46	I	O	36	8 S	28 E	LIA
7	30-005-60293	Twin Lakes San Andres Unit No. 65	O	F	1	9 S	28 E	
8	30-005-60329	Twin Lakes San Andres Unit No. 36	O	J	36	8 S	28 E	
9	30-005-60334	Twin Lakes San Andres Unit No. 25	I	E	36	8 S	28 E	LIA
10	30-005-60468	Twin Lakes San Andres Unit No. 66	O	G	1	9 S	28 E	
11	30-005-60470	Twin Lakes San Andres Unit No. 16	O	D	36	8 S	28 E	
12	30-005-60521	Twin Lakes San Andres Unit No. 27	I	G	36	8 S	28 E	LIA
13	30-005-60536	Twin Lakes San Andres Unit No. 18	O	B	36	8 S	28 E	
14	30-005-60560	Twin Lakes San Andres Unit No. 19	I	A	36	8 S	28 E	LIA
15	30-005-60563	Twin Lakes San Andres Unit No. 11	I	O	25	8 S	28 E	LIA
16	30-005-60571	Twin Lakes San Andres Unit No. 10	O	N	25	8 S	28 E	
17	30-005-60572	Twin Lakes San Andres Unit No. 5	O	L	30	8 S	29 E	
18	30-005-60578	Twin Lakes San Andres Unit No. 12	O	P	25	8 S	28 E	
19	30-005-60595	Twin Lakes San Andres Unit No. 30	O	E	31	8 S	29 E	
20	30-005-60596	Twin Lakes San Andres Unit No. 6	I	K	30	8 S	29 E	
21	30-005-60597	Twin Lakes San Andres Unit No. 14	O	N	30	8 S	29 E	
22	30-005-60697	Twin Lakes San Andres Unit No. 48	O	M	31	8 S	29 E	
23	30-005-60767	Twin Lakes San Andres Unit No. 49	O	N	31	8 S	29 E	
24	30-005-60768	Twin Lakes San Andres Unit No. 41	O	J	31	8 S	29 E	
25	30-005-60794	Twin Lakes San Andres Unit No. 86	I	P	1	9 S	28 E	LIA
26	30-005-60795	Twin Lakes San Andres Unit No. 32	I	G	31	8 S	29 E	LIA
27	30-005-60796	Twin Lakes San Andres Unit No. 50	I	O	31	8 S	29 E	LIA
28	30-005-60807	Twin Lakes San Andres Unit No. 59	I	C	6	9 S	29 E	LIA
29	30-005-60809	Twin Lakes San Andres Unit No. 76	I	I	1	9 S	28 E	LIA
30	30-005-60824	Twin Lakes San Andres Unit No. 60	O	B	6	9 S	29 E	
31	30-005-60844	Twin Lakes San Andres Unit No. 102	O	F	7	9 S	29 E	
32	30-005-60885	Twin Lakes San Andres Unit No. 70	I	G	6	9 S	29 E	LIA
33	30-005-60920	Twin Lakes San Andres Unit No. 61	I	A	6	9 S	29 E	LIA

EXHIBIT "1"
CASE NO. 15277
ORDER NO. R-14155
SUMMARY OF INACTIVE WELLS: TWIN LAKE SAN ANDRES UNIT

I/A COUNT	API WELL NO.	WELL NAME	TYPE	UL	SEC	TWP	RNG	INJECT STATUS
34	30-005-60973	Twin Lakes San Andres Unit No. 37	O	J	36	8 S	28 E	
35	30-005-60993	Twin Lakes San Andres Unit No. 81	I	I	6	9 S	29 E	LIA
36	30-005-60995	Twin Lakes San Andres Unit No. 78	I	K	6	9 S	29 E	LIA
37	30-005-61006	Twin Lakes San Andres Unit No. 88	I	O	6	9 S	29 E	LIA
38	30-005-61007	Twin Lakes San Andres Unit No. 68	I	E	6	9 S	29 E	LIA
39	30-005-61022	Twin Lakes San Andres Unit No. 89	O	P	6	9 S	29 E	
40	30-005-61032	Twin Lakes San Andres Unit No. 77	O	L	6	9 S	29 E	
41	30-005-61075	Twin Lakes San Andres Unit No.103	I	G	7	9 S	29 E	LIA
42	30-005-61095	Twin Lakes San Andres Unit No. 92	O	A	12	9 S	28 E	
43	30-005-61104	Twin Lakes San Andres Unit No. 107	I	K	7	9 S	29 E	LIA
44	30-005-61105	Twin Lakes San Andres Unit No. 100	I	E	7	9 S	29 E	LIA
45	30-005-61107	Twin Lakes San Andres Unit No. 95	I	A	7	9 S	29 E	LIA
46	30-005-61135	Twin Lakes San Andres Unit No. 57	I	A	1	9 S	28 E	LIA
47	30-005-61261	Twin Lakes San Andres Unit No. 99	O	H	12	9 S	28 E	
48	30-005-61332	Twin Lakes San Andres Unit No. 106	O	L	7	9 S	29 E	
49	30-005-61334	Twin Lakes San Andres Unit No. 108	O	J	7	9 S	29 E	
50	30-005-61452	Twin Lakes San Andres Unit No. 101	O	D	7	9 S	29 E	
51	30-005-61453	Twin Lakes San Andres Unit No. 111	I	M	7	9 S	29 E	LIA
52	30-005-61556	Twin Lakes San Andres Unit No. 110	O	I	12	9 S	28 E	
53	30-005-61604	Twin Lakes San Andres Unit No. 113	I	O	7	9 S	29 E	LIA
54	30-005-61633	Twin Lakes San Andres Unit No. 28	O	G	36	8 S	28 E	
55	30-005-61772	Twin Lakes San Andres Unit No. 109	I	J	12	9 S	28 E	LIA
56	30-005-62068	Twin Lakes San Andres Unit No. 105	I	H	12	9 S	28 E	LIA
57	30-005-62069	Twin Lakes San Andres Unit No. 64	O	E	1	9 S	28 E	
58	30-005-62212	Twin Lakes San Andres Unit No. 71	O	B	6	9 S	29 E	
59	30-005-62213	Twin Lakes San Andres Unit No. 80	O	G	6	9 S	29 E	
60	30-005-62565	Twin Lakes San Andres Unit No. 15	I	O	30	8 S	29 E	LIA
61	30-005-62845	Twin Lakes San Andres Unit No. 123	O	F	31	8 S	29 E	
62	30-005-63139	Twin Lakes San Andres Unit No. 201	O	O	1	9 S	28 E	
63	30-005-63140	Twin Lakes San Andres Unit No. 203	O	K	6	9 S	29 E	
64	30-005-63185	Twin Lakes San Andres Unit No. 316	O	I	36	8 S	28 E	
65	30-005-63189	Twin Lakes San Andres Unit No. 326	O	N	31	8 S	29 E	

EXHIBIT "1"
CASE NO. 15277
ORDER NO. R-14155
SUMMARY OF INACTIVE WELLS: TWIN LAKE SAN ANDRES UNIT

ABBREVIATIONS:

TYPE: O – oil producer; I – injection well; **UL:** unit letter or lot number; **SEC:** section; **TWP:** township; **RNG:** range; **I/A:** inactive well; **LIA:** lost injection authority

Status of listed wells based on Inactive Well List dated May 13, 2015, contained in Oil Conservation Division Exhibit 1.

EXHIBIT "2"
CASE NO. 15277
ORDER NO. R-14155
SUMMARY OF FINANCIAL ASSURANCE: BLUE SKY NM, INC.

BONDING ENTITY	BOND AMOUNT	BOND NUMBER	WELL API NO. ASSIGNED WITH BOND	COMMENT
U. S. Specialty Insurance Company	\$50,000	<i>B008143</i>	<i>Blanket</i>	
U. S. Specialty Insurance Company	\$7,005	B008153	30-005-60146	Double L Queen Unit
U. S. Specialty Insurance Company	\$7,010	B008154	30-005-60079	Double L Queen Unit
U. S. Specialty Insurance Company	\$6,942	B008155	30-005-60174	Double L Queen Unit
U. S. Specialty Insurance Company	\$7,005	B008156	30-005-60097	Double L Queen Unit
U. S. Specialty Insurance Company	\$7,010	B008157	30-005-60108	Double L Queen Unit
U. S. Specialty Insurance Company	\$7,760	B008159	30-005-60572	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,738	B008160	30-005-61633	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,860	B008161	30-005-60595	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,930	B008162	30-005-60768	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,730	B008163	30-005-60010	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,799	B008164	30-005-60697	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,630	B008165	30-005-60293	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,615	B008166	30-005-60468	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,730	B008167	30-005-60809	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,840	B008168	30-005-61022	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,710	B008169	30-005-61261	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,775	B008170	30-005-61334	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,821	B008171	30-005-63139	Twin Lakes San Andres Unit
U. S. Specialty Insurance Company	\$7,950	B008406	30-005-60824	Twin Lakes San Andres Unit
Subtotal: Bonds for Twin Lakes San Andres Unit Wells	\$108,888			
Subtotal: Bonds for Double L Queen Unit Wells (Excluded)	(\$34,972)			
Total Value of Applicable Bonds	\$158,888			

EXHIBIT "3"
CASE NO. 15277
ORDER NO. R-14155
TWIN LAKES SAN ANDRES UNIT NO. 40: SUMMARY OF INJECTION
PRESSURES

PRODUCED WATER INJECTED (U. S. barrels)	DAYS OF INJECTION	DATE OF MONTHLY REPORT	REPORTED INJECTION PRESSURE (psi)
0	0	01-Sep-13	655
0	0	01-Oct-13	655
0	0	01-Nov-13	655
0	0	01-Dec-13	655
0	0	01-Jan-14	655
0	0	01-Feb-14	655
0	0	01-Mar-14	655
0	0	01-Apr-14	655
0	0	01-May-14	655
0	0	01-Jun-14	655
0	0	01-Jul-14	655
1704	0	01-Aug-14	655
126	0	01-Sep-14	655
947	0	01-Oct-14	655
1409	0	01-Nov-14	655
1250	0	01-Dec-14	655
834	0	01-Jan-15	655
946	0	01-Feb-15	655
1280	0	01-Mar-15	655
1280	0	01-Apr-15	655