

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

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION,
THROUGH THE SUPERVISOR OF DISTRICT IV, FOR AN ORDER
REQUIRING CKG ENERGY, INC. OR CEDAR GAS COMPANY TO
PROPERLY PLUG EIGHT WELLS AND TO CLOSE ABANDONED PITS;
QUAY COUNTY, NEW MEXICO.**

CASE NO. 13563

APPLICATION FOR PLUGGING AND PIT CLOSURE

1. CKG Energy, Inc. ("Operator") is the operator of the wells specifically identified on Exhibit A hereto (which Exhibit is incorporated herein by this reference for all purposes) located in Quay County, New Mexico. The said well or wells are hereinafter called the "subject well(s)," whether one or more.

2. Operator is in bankruptcy reorganization in the United States Bankruptcy Court for the Western District of Texas, in Austin, Texas. Ronald Ingalls, summoned as a respondent herein, has been appointed trustee for operator in such proceeding.

3. The subject well(s) have not produced any hydrocarbon or carbon dioxide substance nor been used for injection for more than one year plus ninety days and are no longer being used for beneficial purposes. No permit for temporary abandonment has been requested by the Operator or approved by the Division with respect to any of the subject well(s).

4. Division Rule 201.B requires that wells that are inactive for more than one year plus ninety days or are no longer usable for beneficial purposes, and not temporarily abandoned pursuant to Rule 203, be properly plugged.

5. Operator constructed drilling pits for use in connection with each of the referenced wells and has discharged large quantities of produced water into said pits. Division Rule 50.F(1) requires that pits be properly closed within six months after cessation of use. Furthermore, the discharge of produced water into these pits in the quantities discharged and without subsequent proper disposition thereof constituted disposition of produced water in a place or manner which will constitute a hazard to fresh water supplies, in violation of Division Rule 710.A.

6. Operator has posted financial assurance in the form of a blanket cash bond in the amount of \$50,000 to secure its obligation to properly plug and abandon all wells in the State of New Mexico in compliance with NMSA 1978, Sec. 70-2-14 and Division Rule 101, which bond is conditioned upon compliance with the statutes of the State of New Mexico and the Rules of the Oil Conservation Division ("Division") with respect to the proper plugging and abandonment of wells and remediation of well sites.

7. Division Rule 101.M authorizes the Division, after notice and hearing, to order the operator to plug and abandon by a date certain any well or wells not in compliance with Division rules, in accordance with a Division approved plugging program. If the operator fails to comply with said order, the same rule authorizes the Division to plug such wells and remediate such well sites and to declare forfeiture of the operator's financial assurance.

8. Cedar Gas Company (Cedar), also summoned as a respondent herein, has entered into a contract with Ingalls as trustee for Operator, whereby Ingalls and Cedar agreed, *inter alia*, that "Ingalls desires to sub-contract its responsibilities as operator of the wells to Cedar and Cedar desires to perform those duties." The Division further asserts, on information and belief, that Cedar, pursuant to such contract, entered upon the subject property and performed tests on some of the subject wells. Accordingly Cedar should be held as a responsible party to perform the obligations of Operator pursuant to the statutes and rules of the State of New Mexico.

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

- A. Determining whether the subject well(s) should be plugged and abandoned in accordance with a Division-approved plugging program.
- B. Upon a determination that the subject well(s) should be plugged, directing the operator and/or Cedar to plug the wells by a date certain.
- C. Further determining whether the pits should be closed, and upon a determination that they should be closed, ordering operator and/or Cedar to properly close said pits by a date certain.
- D. Further ordering that if Operator or Cedar fails to plug and abandon the subject well(s) as ordered by the Director, the Division be authorized, subject to first securing all necessary relief from the United States Bankruptcy Court supervising the reorganization of Operator: (i) to plug the subject wells in accordance with a division-approved plugging

program and properly close the subject pits; and (ii) to declare forfeit the security furnished by the Operator.

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

RESPECTFULLY SUBMITTED,

A handwritten signature in black ink, reading "David K. Brooks", is written over a horizontal line.

David K. Brooks
Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
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(505)-476-3450

Attorney for The New Mexico Oil
Conservation Division

Case No. _____
Exhibit A to Application

Wells Operated By CKG ENERGY, INC. , 221076
August 26, 2005

Property	Well Name	Lease Type	ULSTR	OCD Unit	API	Well Type	Pool ID	Pool Name	Last Prod/Inj	Oil POD	Gas POD
32638	ANNA KATHERYN #001	P	3-19-10N-27E	L	30-037-20051	G					
	ANNA KATHERYN #002	P	1-30-10N-27E	D	30-037-20052	G					
32636	JOHN DAVID #001	P	G-19-10N-27E	G	30-037-20053	G					
	JOHN DAVID #002	P	J-19-10N-27E	J	30-037-20054	G					
32635	RANDALS #005	P	D-20-10N-27E	D	30-037-20055	G					
	RANDALS #006	P	P-30-10N-27E	P	30-037-20056	G					
	RANDALS #007	P	F-29-10N-27E	F	30-037-20057	G					
32531	WALKER #001	P	N-11-10N-30E	N	30-037-20078	G					

Case No. 13563. **Application of the New Mexico Oil Conservation Division for an Order Requiring CKG Energy, Inc. and/or Cedar Gas Company to Properly Plug 8 Well(s) and to Close Pits, Quay County, New Mexico.** The Applicant seeks an order requiring CKG Energy, Inc., the operator of eight inactive well(s) in Quay County, New Mexico, to properly plug and abandon the same, and to properly close abandoned pits located at the sites of said wells, and providing for such other relief as the Director deems appropriate.