



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

January 14, 2005

Mr. Donnie Hill
BC & D Operating Inc.
P.O. Box 1680
Hobbs, NM 88241

Re: Blankenship #001, API 30-025-07766, Unit Letter E, Sec.12, T20S, R38E
Blankenship A #001, API 30-025-07769, Unit Letter L, Sec. 12, T20S, R38E.
GW Shahan #002, API 30-025-11873, Unit Letter B, Sec. 33, T25S, R37E

Dear Mr. Hill,

The three wells identified above are out of compliance with Oil Conservation Division (OCD) Rule 201, which requires wells that have been inactive for a continuous period exceeding one year plus ninety days to be plugged and abandoned, placed on temporary abandonment status, or returned to an OCD-approved productive use. According to OCD records, the last month of reported production for the Blankenship #001 well is May 1992; the last month of reported production for the Blankenship A #001 well is June 1979; and the last month of reported production for the GW Shahan is August 2003. All three wells need to be brought into compliance.

These three wells are located in OCD's District I. Currently, BC & D Operating Inc. is bringing six wells in OCD's District III into compliance under an agreed compliance order. I am writing to suggest a similar agreed compliance order to address the wells in District I. Under the terms of the draft order, BC & D Operating Inc. will bring the three wells identified above into compliance by May 31, 2005. If it fails to meet that deadline, it will pay a penalty of \$1000 for each full month of non-compliance. I have enclosed a copy of the proposed order.

If the agreed compliance order is acceptable, please sign it and return it to me. I will present it to our director, Mark Fesmire, for his approval and signature, and return a copy of the fully executed order to you.

If, however, you have any questions or concerns about the proposed order, please call me. My direct line is (505) 476-3451.

I hope to hear from you by the end of January. If we are not able to negotiate an agreed compliance order with a mutually agreeable schedule for achieving compliance, the OCD will file an application for hearing. We will request an order setting a deadline for compliance, and authorizing the OCD to plug the wells and forfeit the applicable financial assurance in the event of noncompliance.

Very truly yours,

Gail MacQuesten
Assistant General Counsel

cc: Chris Williams, OCD District I
Billy Prichard, OCD District I

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

NMOCD – OGA 04-_____

IN THE MATTER OF BC & D OPERATING INC.,

Respondent.

AGREED ORDER DIRECTING COMPLIANCE

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended (“Act”), the Director of the Oil Conservation Division (“OCD”) issues this Order to BC & D Operating Inc. (“Operator”), directing compliance with the Act and the OCD Rules.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD rules.
2. Operator is a domestic profit corporation registered with the New Mexico Public Regulation Commission under SCC number 1613132.
3. Operator is the operator of record under OGRID 25670 for the following wells located in Lea County, New Mexico (hereinafter the “subject wells”):

Blankenship #001, API 30-025-07766, Unit Letter E, Sec.12, T20S, R38E
Blankenship A #001, API 30-025-07769, Unit Letter L, Sec. 12, T20S, R38E
GW Shahan #002, API 30-025-11873, Unit Letter B, Sec. 33, T25S, R37E

4. OCD rule 19.15.4.201 NMAC requires an operator to plug and abandon or temporarily abandon a well in accordance with OCD rules within 90 days after a period of one year of continuous inactivity.
5. The subject wells have been inactive for a continuous period exceeding one year plus 90 days, and have neither been plugged and abandoned pursuant to 19.15.4.202 NMAC nor temporarily abandoned pursuant to 19.15.4.203 NMAC.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.

2. As operator of the subject wells, Operator is responsible for bringing those wells into compliance with OCD rule 19.15.4.201 NMAC.

3. The subject wells are not in compliance with OCD rule 19.15.4.201 NMAC because they have been inactive for a continuous period exceeding one year plus ninety days, and are neither plugged and abandoned nor on approved temporary abandonment status.

ORDER

1. Operator is hereby directed to bring each of the subject wells into compliance with 19.15.4.201 NMAC by one of the following means:

- (a) restoring the well to production or other OCD-approved beneficial use by May 31, 2005;
- (b) causing the wellbore to be plugged in accordance with 19.15.4.202 NMAC by May 31, 2005, and causing the site to be remediated in accordance with 19.15.4.202 NMAC within one year of plugging the wellbore; or
- (c) securing OCD approval for temporary abandonment of the well in accordance with 19.15.4.203 NMAC by May 31, 2005.

2. A well shall be considered "restored to production or other approved beneficial use" for purposes of order paragraph 1(a) above when actual production or other approved beneficial use has commenced. A well "restored to production" by swabbing must also successfully pass the mechanical integrity test required under 19.15.4.203 NMAC.

3. A well shall be considered "plugged" for purposes of order paragraph 1(b) above when the operator has plugged the wellbore in accordance with 19.15.4.202.A and B(1) and (2), and filed a sundry notice with the appropriate district office notifying them that the wellbore has been plugged. The wellsite must be remediated in accordance with 19.15.4.202.B(3) NMAC within one year of plugging the wellbore. Upon completion of the remediation, the operator must contact the appropriate district office to arrange for an inspection of the well and location.

4. A well shall be considered "temporarily abandoned" for purposes of order paragraph 1(c) above when the well has successfully passed the mechanical integrity test required by 19.15.4.204 NMAC and the operator has filed the request for temporary abandonment with the appropriate district office.

5. Further, if the subject wells are not brought into compliance with 19.15.4.201 NMAC by May 31, 2005:

- (a) Operator agrees to pay \$1000 for each full month of non-compliance with this order;

- (b) the OCD shall immediately seek an order allowing it to plug the subject wells in accordance with an OCD-approved plugging program and forfeit the applicable security.

6. If Operator plugs and abandons the subject wells but fails to remediate the site within one year of plugging the wellbore, Operator agrees to pay \$1000 for each full month of noncompliance with the remediation requirements of 19.15.4.202.B(3) NMAC.

7. By signing this order, Operator expressly:

- (a) acknowledges the correctness of the Findings and Conclusions set forth in this order;
- (b) agrees to comply with ordering paragraphs one through six;
- (c) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior or subsequent to the entry of this order or to an appeal from this order;
- (d) agrees that if it fails to comply with this order, the order may be enforced by suit or otherwise to the same extent and with the same effect as a final order of the OCD entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act (NMSA 1978, Sections 70-2-1 through 70-2-38, as amended); and
- (e) agrees that if it fails to pay penalties assessed pursuant to this order, upon application by the OCD the district court may enter judgment against Operator in the amount of the penalties assessed.

Done at Santa Fe, New Mexico, this ____ day of ____, 2005.

By: _____
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

BC & D Operating Inc. hereby accepts the foregoing order, and agrees to all of the terms and provisions set forth in the order.

BC & D Operating Inc.

By: _____
Title: _____
Date: _____