

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

**CASE NO. 12948
ORDER NO. R-11872**

IN THE MATTER OF THE HEARING CALLED BY THE NEW MEXICO OIL CONSERVATION DIVISION ("DIVISION") ON ITS OWN MOTION FOR AN ORDER REQUIRING KC RESOURCES, INC. TO PROPERLY PLUG AND ABANDON FOUR (4) CERTAIN WELLS, IMPOSING CIVIL PENALTIES IN THE EVENT OF FAILURE TO COMPLY, AUTHORIZING THE DIVISION TO PLUG THESE WELLS IN DEFAULT OF COMPLIANCE BY KC RESOURCES, INC. AND ORDERING A FORFEITURE OF APPLICABLE PLUGGING BOND, IF ANY; LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 24, 2002, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 10th day of December, 2002, 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 its subject matter.

(2) The New Mexico Oil Conservation Division ("Division") on its own motion seeks an order directing KC Resources, Inc. of Cardiff, California to plug the four following-described wells located in Section 11, Township 12 South, Range 32 East, NMPM, Lea County, New Mexico, in accordance with a Division-approved plugging program:

- (a) New Mexico "BH" State NCT-1 Well No. 1 (API No. 30-025-08007), located 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 11;
- (b) New Mexico "BH" State NCT-1 Well No. 2 (API No. 30-025-08008), located 1980 feet from the North and West lines (Unit F) of Section 11;

- (c) New Mexico "BH" State NCT-1 Well No. 4 (API No. 30-025-00110), located 990 feet from the North and West lines (Unit D) of Section 11; and
- (d) New Mexico "BB" State NCT-1 Well No. 2 (API No. 30-025-08009), located 660 feet from the South line and 1984 feet from the West line (Unit N) of Section 11, which is owned and operated by Paladin Energy Corporation of Dallas, Texas.

(3) Further, should KC Resources, Inc. fail to plug and abandon these four wells, the Division seeks an order authorizing the State to proceed to plug and abandon these wells and: (i) to declare forfeiture of the bond furnished by KC Resources, Inc. to the extent necessary to fully reimburse the Division for its expenses incurred in accomplishing the foregoing; and (ii) to take necessary and appropriate measures to recover from KC Resources, Inc. any costs of plugging these wells in excess of the amount of the bond, if any.

(4) KC Resources, Inc. was represented at the hearing by legal counsel, and Mr. James Spillane, Land and Marketing Manager with KC Resources, Inc. testified via telephone.

(5) At the time of the hearing the Division's legal counsel requested dismissal of this proceeding for the above-described New Mexico "BB" State NCT-1 Well No. 2.

(6) The Division identified KC Resources, Inc. as the current owner and operator of the three above-described remaining wells in Section 11.

(7) These three wells are located on State of New Mexico mineral leases.

(8) Evidence was presented showing that KC Resources, Inc. has posted a surety bond (blanket plugging) in the amount of \$ 50,000.00 for all of its operations in the State of New Mexico in compliance with NMSA 1978, Section 70-2-14 and New Mexico Oil Conservation Division ("Division") Rule 101, which bond is conditioned upon compliance with the statutes of the State of New Mexico and the rules of the Division with respect to the proper plugging and abandonment of wells operated by KC Resources, Inc. Frontier Insurance Company of Rock Hill, New York, is the surety on this bond (Bond No. 54664), executed November 19, 1993.

(9) The purpose of this bond is to assure the Division that any and all wells operated by KC Resources, Inc. will be properly plugged and abandoned when not capable

of commercial production or no longer utilized for some other beneficial purpose.

(10) The above-described New Mexico "BH" State NCT-1 Well No. 1 (API No. 30-025-08007) was initially drilled to a total depth of 11,220 feet in 1952 and completed as an oil producer in the East Caprock-Devonian Pool (8930) by The Texas Company of Midland, Texas. The last month of reported production for this well was October, 1967. By Division Form C-104 dated June 23, 1994, KC Resources, Inc. became the operator of this well effective December, 1992.

(11) The New Mexico "BH" State NCT-1 Well No. 2 (API No. 30-025-08008) was initially drilled to a total depth of 11,235 feet by The Texas Company in 1952 and was completed as an oil producer in the East Caprock-Devonian Pool (8930) until November, 1967. In November, 1977 Texaco, Inc. of Hobbs, New Mexico recompleted this well up-hole into the East Caprock-Wolfcamp Pool (9310). The last month of reported production for this well was September, 1988. By Division Form C-104 dated June 23, 1994, KC Resources, Inc. became the operator of this well effective December, 1992.

(12) The above-described New Mexico "BH" State NCT-1 Well No. 4 (API No. 30-025-00110) was initially drilled to a total depth of 11,235 feet in 1953 and completed as an oil producer in the East Caprock-Devonian Pool (8930) by The Texas Company of Midland, Texas until March, 1962. By Division Form C-104 dated June 23, 1994, KC Resources, Inc. became the operator of this well effective December, 1992. In January, 1996 reports of Devonian production from this well resumed.

(13) The applicant's witness in this matter, Mr. Billy Pritchard, field inspector of the Division's district office in Hobbs (District I), testified at the hearing via telephone that: (i) the Division first contacted KC Resources, Inc. by letter dated July 7, 1995 and again by letter dated May 5, 2000 to either restore these wells to production, temporary abandon the wells in accordance with Division Rule 203, or to permanently plug these wells; (ii) the above-described New Mexico "BH" State NCT-1 Wells No. 1 and 2 have been inactive since KC Resources, Inc. took over operations in 1992, and no permit for temporary abandonment has been requested by the operator or approved by the Division; and (iii) the operator has filed reports indicating current production from the New Mexico "BH" State NCT-1 Well No. 4; however, field inspections indicate this well is not equipped to produce and has been incapable of producing since prior to 1999.

(14) By virtue of the failure to use these wells for beneficial purposes or to have approved temporary abandonment permits, the subject wells are presumed to have been abandoned by KC Resources, Inc.

(15) The current condition of these three wells are such that if action is not taken to properly plug and abandon them, waste will probably occur, correlative rights will also be

violated, livestock and wildlife may be subject to harmful contaminants, and fresh waters may be in danger of contamination.

(16) At the hearing KC Resources, Inc. requested a six-month period of time to bring these three wells into compliance.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of the New Mexico Oil Conservation Division ("Division"), KC Resources, Inc. of Cardiff, California is hereby ordered on or before June 1, 2003 to bring each of the following-described wells into compliance with Rule 201.B by accomplishing one of the following with respect to each well: (i) causing the well to be plugged and abandoned in accordance with Rule 202, and in accordance with a Division-approved plugging program; (ii) restoring the well to production; or (iii) causing the well to be temporarily abandoned with Division approval in accordance with Rule 203:

- (a) New Mexico "BH" State NCT-1 Well No. 1 (API No. 30-025-08007), located 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 11;
- (b) New Mexico "BH" State NCT-1 Well No. 2 (API No. 30-025-08008), located 1980 feet from the North and West lines (Unit F) of Section 11; and
- (c) New Mexico "BH" State NCT-1 Well No. 4 (API No. 30-025-00110), located 990 feet from the North and West lines (Unit D) of Section 11.

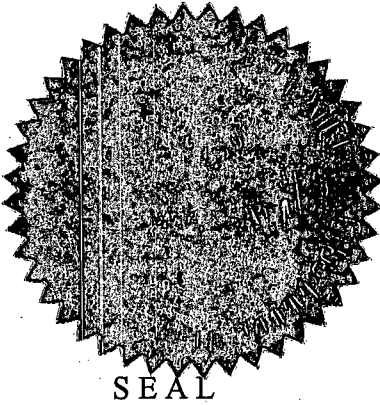
(2) As to any wells that KC Resources, Inc. fails to bring into compliance when required by this Order, the Division shall then take such actions as are necessary to cause these wells to be properly plugged and abandoned. Further, the Division shall then be authorized to take such action as is deemed necessary to: (i) declare forfeiture of the surety bond issued KC Resources, Inc. by Frontier Insurance Company of Rock Hill, New York (Bond No. 54664), executed November 19, 1993, to the extent necessary to fully reimburse the Division for its expenses incurred in accomplishing the foregoing; and (ii) take necessary and appropriate measures to recover from KC Resources, Inc. any costs of plugging the subject wells in excess of the amount of this bond, if any.

(3) Failure to comply with the provisions of this order shall subject KC Resources, Inc. to a fine of \$ 1,000.00 per day per well, commencing from the date of this

order until such work is completed (NMSA 1978, Section 70-2-31, as amended).

(4) 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

Lori Wrotenbery
LORI WROTENBERY
Director