

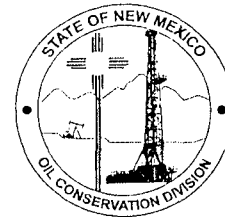
New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Jim Noel
Cabinet Secretary

Karen W. Garcia
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



September 8, 2010

Mark Fesmire, Division Director
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Hand delivered

RECEIVED OGD
2010 SEP -8 P 1:26

Re: BTA Oil Producers LLC, OGRID 260297
Owl 20504 JV-P #005, 30-015-35435
Injection application pTGW1014450225

Dear Mr. Fesmire,

I am writing to request that BTA Oil Producers LLC (BTA) be required to demonstrate that it has completed any actions required by the Engineering Bureau before an administrative order is granted allowing BTA to inject into the Owl 20504 JV-P #005. The following supports my request. If the information supplied below is not sufficient, I request that the injection application be set for hearing to allow testimony and evidence to support my request.

The Owl 20504 JV-P #005 (the Owl well) was previously permitted as a produced water disposal well by Administrative Order SWD-1091, issued August 7, 2007. In accordance with the common practice in the Oil Conservation Division, the order was written to authorize injection, but also to require BTA to perform certain actions before beginning injection. For example, the order required the following:

- "After installing injection tubing, the casing shall be pressure tested from the surface to the packer setting depth to assure casing integrity."



- “The operator shall notify the supervisor of the Artesia district office of the Division of the date and time of the installation of disposal equipment and of any mechanical integrity test to that the same may be inspected and witnessed.”

The order also set out certain requirements for BTA to meet once it started injecting, including the following:

- “The operator shall provide written notice of the date of commencement of injection to the Artesia district office of the Division.”
- “The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Rule Nos. 706 and 1120 of the Division Rules and Regulations.”

The order also provided that the injection authority would terminate one year after the effective date of the order if BTA did not commence injection operations.

More than one year passed after the issuance of the order without any C-115s filed showing commencement of injection. In fact, it wasn't clear from the OCD's well file if the well had even been completed. (The file didn't contain a Well Completion or Recompletion Report and Log, BLM Form No. 3160-4, as required for federal completions under 19.15.7.36 NMAC.) There was no report of pressure tests conducted on the casing after installation of the injection tubing, as required by the order. The well file did not contain any notice to the supervisor of the Artesia district office regarding the installation of disposal equipment or of any mechanical integrity testing, as required by the order.

On February 18, 2010, however, an OCD inspector found that the well was injecting.

On February 25, 2010, the OCD issued a letter to BTA telling BTA that it has lost its authority to inject because more than one year had passed without reported injection, and directed the BTA to bring its regulatory filings up to date and apply for a new injection permit. A copy of that letter is enclosed. Since that time, BTA has filed additional completion information on the well, and C-115s reporting injection from August 2007 to January 2010. BTA now seeks a new injection permit for the well.

The OCD's injection orders trust that the operator will perform all the actions required by the order. BTA violated that trust by injecting under Administrative Order SWD-1091 while ignoring the other provisions of the order. BTA's conduct demonstrates that it needs additional supervision to ensure that it complies with all order requirements. I respectfully request that BTA be required to demonstrate that it has met all OCD requirements before it is given authority to inject into the Owl 20504 JV-P #005. For example, if any corrective action is required, BTA should have to demonstrate that the action is completed before it is allowed to inject. If any special provisions are included regarding the injection well itself, such as the installation of a pressure limiting device, BTA should have to demonstrate that it has complied with those requirements before it is allowed to inject. And if any tests are required before injection, such as a mechanical integrity test, BTA should be required to demonstrate that it has passed those tests before the injection permit is granted.

September 8, 2010
Page 3

If you need additional information in order to address this request, I ask that BTA's application be set for hearing so that the OCD can supply testimony and evidence.

Sincerely,



Daniel Sanchez,
Compliance and Enforcement Manager

Encl: Formal Notice of Loss of Injection Authority, dated 2-25-10

Ec: Randy Dade, Supervisor, Artesia District
Richard Inge, Inspector, Artesia District
William F. Carr, Attorney for BTA Oil Producers LLC
Richard Ezeanyim, Bureau Chief, Engineering Bureau
David Brooks, Counsel to the Engineering Bureau
Will Jones, Engineering Bureau
Gail MacQuesten, OCD Attorney

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Jon Goldstein
Cabinet Secretary

Jim Noel
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



February 25, 2010

BTA Oil Producers LLC
104 S. Pecos
Midland, TX 79701

Certified Mail No.: 7008 3230 0000 2319 8730

FORMAL NOTICE OF LOSS OF INJECTION AUTHORITY **OPERATOR REQUIRED TO CEASE AND DESIST INJECTION**

Re: Owl 20504 JV-P #005, 30-015-35435
SWD-1091

Dear Operator:

This letter gives you formal notice that your authority to inject into the well identified above has terminated. **You must immediately cease and desist injecting into the Owl 20504 JV-P #005 well.**

19.15.26.12(C)(1) NMAC provides:

"Whenever there is a continuous one year period of non-injection into all wells in an injection or storage project or into a salt water disposal well or special purpose injection well, the division shall consider the project or well abandoned, and the authority for injection shall automatically terminate ipso facto."

19.15.26.12(C)(2) NMAC provides:

"For good cause shown, the director may grant an administrative extension or extensions of injection authority as an exception to Paragraph (1) of Subsection C of 19.15.26.12 NMAC, provided that any such extension may be granted only prior to the end of one year or [sic] continuous non-injection, or during the term of a previously granted extension."



The well identified above was permitted as a produced water disposal well by Administrative Order SWD-1091, issued August 10, 2007. The Order included the following provisions:

- "After installing injection tubing, the casing shall be pressure tested from the surface to the packer setting depth to assure casing integrity."
- "The operator shall notify the supervisor of the Artesia district office of the Division of the date and time of the installation of disposal equipment and of any mechanical integrity test to that the same may be inspected and witnessed."
- "The operator shall provide written notice of the date of commencement of injection to the Artesia district office of the Division."
- "The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Rule Nos. 706 and 1120 of the Division Rules and Regulations."
- "The injection authority granted herein shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject well, provided however, the Division, upon written request by the operator received by the Division prior to the termination date, may grant an extension thereof for good cause shown."

The OCD has not found any administrative extensions of the injection authority for this well, and more than one year has passed since the issuance of the Order without any C-115s filed showing commencement of injection. In fact, it isn't clear from the OCD's well file if or when the well was completed. (The well file contains a sundry notice subsequent report of completion signed by BTA on 7-7-09, and back-dated to 6-22-07. The file does not contain a Well Completion or Recompletion Report and Log, BLM Form No. 3160-4, as required for federal completions under 19.15.7.36 NMAC.) There is no report of pressure tests conducted on the casing after installation of the injection tubing, as required by Administrative Order SWD-1091. The well file does not contain any notice to the supervisor of the Artesia district office regarding the installation of disposal equipment or of any mechanical integrity testing, as required by Administrative Order SWD-1091.

On February 18, 2010, however, an OCD inspector found that the well was injecting. It is not clear when BTA commenced injection because, as discussed above, it did not notify the Artesia office when it commenced injection and it has not filed C-115 reports showing injection for the well. On August 27, 2008 and September 2, 2009, the OCD mailed letters to BTA regarding the scheduling of mechanical integrity tests for its injection wells, provided a list of BTA's active injection wells, and requested that BTA contact the OCD if it had any injection wells that did not appear on the list. BTA did not contact the OCD to notify it that it was operating the Owl 20504 JV-P #005.

Pursuant to 19.15.26.12(C)(1) NMAC, the injection authority granted by Administrative Order SWD-1091 has automatically terminated. No extension can be granted now. If BTA wishes to inject into the Owl 20504 JV-P #005 it will need to apply for a new permit under 19.15.26.8 NMAC. Please note that the OCD may not approve an injection permit while BTA is out of compliance with 19.15.5.9 NMAC. See 19.15.26.8.A NMAC. BTA is out of compliance with 19.15.5.9 NMAC until it satisfies the corrective action requirements of Order No. R-13218.

All injection into the Owl 20504 JV-P #005 well must cease immediately. By copy of this letter, I am notifying the Artesia District Office that BTA's injection authority for this well has terminated. Artesia District Office inspectors will be checking the well to determine if it is continuing to inject. BTA should immediately bring its regulatory filings for the Owl 20504 JV-P #005 up to date.

If BTA continues to inject into this well without authority or fails to bring its regulatory filings up to date, the OCD intends to take further enforcement action. That action may include requiring any injection permit applications from BTA to be set for hearing. The OCD may oppose issuance of injection permits, based on BTA's non-compliance, or may request that any permit issued contain additional terms designed to increase supervision of BTA's actions to ensure compliance. The OCD may also seek an administrative order requiring BTA to plug the well under NMSA 1978, Section 70-2-14(B), and authority for the state to plug the well if BTA does not do so. Or the OCD may seek an order from District Court pursuant to NMSA 1978, Section 70-2-28 enjoining BTA from injecting into the identified well and assessing penalties under NMSA 1978, Section 70-2-31(A) for the knowing and willful violation of 19.15.26.12 (C)(1).

If you disagree with the OCD's conclusion that the injection authority has terminated, please provide documentary proof that you are operating under an administrative extension of injection authority or otherwise have authority to inject.

Sincerely,

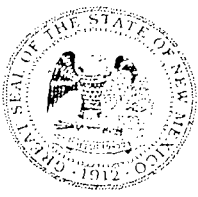


Daniel Sanchez

Underground Injection Control Director for the State of New Mexico

Attachment: Administrative Order SWD-1091

Ec, w/o attachment: William Jones, OCD Engineer
Randy Dade, Supervisor, Artesia District
Richard Inge, Inspector, Artesia District
Glenn von Gonten, OCD Environmental Bureau
William Carr, Attorney for BTA



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

ADMINISTRATIVE ORDER SWD-1091

APPLICATION OF BTA OIL PRODUCERS FOR PRODUCED WATER DISPOSAL, EDDY COUNTY, NEW MEXICO

ADMINISTRATIVE ORDER OF THE OIL CONSERVATION DIVISION

Under the provisions of Rule 701(B), BTA OIL PRODUCERS made application to the New Mexico Oil Conservation Division for permission to utilize for produced water disposal its Owl 20504 JV-P Well No. 5 (API No. 30-015-35435) located at 2310 feet from the South line and 2310 feet from the East line of Section 18, Township 26 South, Range 27 East, NMPM, Eddy County, New Mexico.

THE DIVISION DIRECTOR FINDS THAT:

- (1) The application has been duly filed under the provisions of Rule 701(B) of the Division Rules and Regulations;
- (2) Satisfactory information has been provided that all offset operators and surface owners have been duly notified;
- (3) The applicant has presented satisfactory evidence that all requirements prescribed in Rule 701 will be met; and
- (4) No objections have been received within the waiting period prescribed by said rule.

IT IS THEREFORE ORDERED THAT:

The applicant is hereby authorized to utilize for produced water disposal its Owl 20504 JV-P Well No. 5 (API No. 30-015-35435) located at 2310 feet from the South line and 2310 feet from the East line of Section 18, Township 26 South, Range 27 East, NMPM, Eddy County, New Mexico, in such manner as to permit the injection of produced water for disposal purposes into the Cherry Canyon member of the Delaware formation through perforations from 2934 feet

to 3282 and through plastic-lined tubing set with a packer located within 100 feet of the top of the perforated injection interval.

IT IS FURTHER ORDERED THAT:

The operator shall take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface.

The casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge or an approved leak detection device in order to determine leakage in the casing, tubing, or packer.

After installing injection tubing, the casing shall be pressure tested from the surface to the packer setting depth to assure casing integrity.

The wellhead injection pressure on the well shall be limited to **no more than 587 psi**. In addition, the injection well or system shall be equipped with a pressure limiting device in workable condition which shall, at all times, limit surface injection pressure to the maximum allowable pressure for this well.

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the injected fluid from the injection formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

The operator shall notify the supervisor of the Artesia district office of the Division of the date and time of the installation of disposal equipment and of any mechanical integrity test so that the same may be inspected and witnessed.

The operator shall immediately notify the supervisor of the Artesia district office of the Division of the failure of the tubing, casing, or packer in said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

PROVIDED FURTHER THAT, jurisdiction is retained by the Division for the entry of such further orders as may be necessary for the prevention of waste and/or protection of correlative rights or upon failure of the operator to conduct operations (1) to protect fresh water or (2) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the injection authority granted herein.

The operator shall provide written notice of the date of commencement of injection to the Artesia district office of the Division.

The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Rule Nos. 706 and 1120 of the Division Rules and Regulations.

The injection authority granted herein shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject well, provided however, the Division, upon written request by the operator received by the Division prior to the termination date, may grant an extension thereof for good cause shown.

Approved at Santa Fe, New Mexico, on August 10, 2007.



MARK E. FESMIRE, P.E.

Director

MEF/wvj

cc: Oil Conservation Division – Artesia
Bureau of Land Management - Carlsbad