



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
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Cabinet Secretary

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Director
Oil Conservation Division

August 6, 2001

KLABZUBA OIL & GAS INC.
930 W. FIRST ST.
FT WORTH, TX 76102

RE: INACTIVE NON-COMPLIANCE WELL STATUS

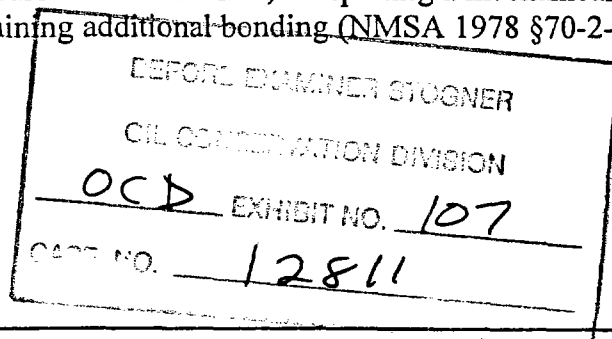
As you are aware, the OIL CONSERVATION DIVISION is currently addressing inactive wells (wells in non-compliance with the OCD rules) as a top priority on a statewide base. This project began on May 11, 2000 with a mass mailing of notices to all operators' statewide who had inactive wells. This letter referenced OCD Rules 201, 202 and 203. These rules state time frames regarding inactive wells and initiating temporary abandonment and plugging of such wells.

Specifically, "if the subject well(s) have been shut-in longer than one year and/or are in a non-reporting status, the division will require the well(s) to be brought into compliance with the OCD Rules and Regulations."

You may have received additional correspondence on this subject depending on how you responded to the May 11, 2000 letter.

Therefore you are hereby urgently requested to provide this office with a status report on all your inactive non-complaint wells within ten days of receipt of this letter.

Under the rules and regulations of the CCD and the Oil and Gas Act, wells must be produced or plugged. 19 NMAC 15.D.201.B (3). The only alternative to producing or plugging a well is to place the well into temporarily abandoned status (19 NMAC 15.D.203.). Placing a well into TA status requires obtaining a permit for temporary abandonment pursuant to Rule 203, completing a mechanical integrity test (19 NMAC 15.D.203.C) and sometimes obtaining additional bonding (NMSA 1978 §70-2-38).



Recognizing the fact that the high level of field activity in the oil patch is making the availability of service equipment (pulling units, etc.) problematic for some operators, the OCD may accept single well plugging bonds as an alternative to immediate compliance. This use of single well plugging bonds will be considered on a case-by-case basis and will be acceptable only for a period of one year. It should allow sufficient additional time to bring all inactive wells into compliance with the OCD rules and regulations through restoration of production, temporary abandonment or plugging.

A show cause hearing will be set for all wells not in compliance with OCD rules as of November 1, 2001. Wells for which additional bonding is approved as described in the preceding paragraph will not be set for hearing then. Wells under this special bonding will have to be in compliance (either restored to production, temporarily abandoned or permanently plugged in accordance with Rules 202 or 203) at the end of the one-year period. Otherwise proceedings for the plugging of such wells will be initiated at that time.

SHOW CAUSE HEARINGS REGARDING NON-COMPLIANT WELLS MAY RESULT IN ORDERS REQUIRING PLUGGING AND ABANDONMENT OF ALL NON-COMPLIANT WELLS, SHUTTING IN ALL PRODUCING WELLS, FORFEITING YOUR STATEWIDE BOND AND/OR ASSESSING A MONETARY CIVIL PENALTY PURSUANT TO NMSA 1978 § SECTION 70-2-31.A OF UP TO \$1,000 PER DAY PER NON-COMPLIANT WELL. IF YOUR BOND IS FORFEITED, YOU CAN NO LONGER OPERATE IN THE STATE OF NEW MEXICO.

Sincerely,

Tim W. Gum

Tim W. Gum
District II Supervisor
Oil Conservation Division

Xc: Lori Wrotenbery, Director
David Brooks, Attorney
Armando Lopez, BLM