

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

NMOCD
Artesia

FORM APPROVED
OMB NO. 1004-0137
Expires: January 31, 2018

SUNDRY NOTICES AND REPORTS ON WELLS
Do not use this form for proposals to drill or to re-enter an abandoned well. Use form 3160-3 (APD) for such proposals.

5. Lease Serial No.
NMNM16087

6. If Indian, Allottee or Tribe Name

7. If Unit or CA/Agreement, Name and/or No.

8. Well Name and No.
HUSKY-MCKAY FEDERAL 1

9. API Well No.
30-005-61616-00-S1

10. Field and Pool or Exploratory Area
PECOS SLOPE-ABO

11. County or Parish, State
CHAVES COUNTY, NM

SUBMIT IN TRIPLICATE - Other instructions on page 2

1. Type of Well
 Oil Well Gas Well Other

2. Name of Operator
MCKAY OIL CORPORATION
Contact: MELISSA SZUDERA
E-Mail: mszudera@marathonoil.com

3a. Address
ONE MCKAY PLACE
ROSWELL, NM 88201

3b. Phone No. (include area code)
Ph: 713-296-3179

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
Sec 18 T8S R26E SWSE 660FSL 1930FEL

12. CHECK THE APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input checked="" type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Hydraulic Fracturing	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input type="checkbox"/> Other
	<input type="checkbox"/> Change Plans	<input checked="" type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation: Clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports must be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 must be filed once testing has been completed. Final Abandonment Notices must be filed only after all requirements, including reclamation, have been completed and the operator has determined that the site is ready for final inspection.

MIRU 10-21-2018

RECEIVED

1) 10-22-2018 - 4 1/2" CIBP @ 3986'.

2) 10-24-2018 - 4 1/2" CIBP @ 3986' w/120sx cmt (Tag CIBP w/tbg.). Tag TDC 2457'. PUH to 2000'. Spot 25sx.

NOV 01 2018

3) 10-26-2018 - 56sx @ 932' tag TOC @ 170' Perf @ 100' cmt to surf w/30sx. Verified. NU WH. DHM to be installed. DISTRICT II-ARTESIA O.C.D.

Approved as to plugging of the well bore. Liability under bond is retained until surface restoration is completed

GC 11-2-18
Accepted for record - NMOCD

14. I hereby certify that the foregoing is true and correct.
Electronic Submission #441745 verified by the BLM Well Information System For MCKAY OIL CORPORATION, sent to the Roswell Committed to AFMSS for processing by JENNIFER SANCHEZ on 10/30/2018 (18JS01485E)

Name (Printed/Typed) MELISSA SZUDERA Title REGULATORY COMPLIANCE REP

Signature (Electronic Submission) Date 10/30/2018

ACCEPTED FOR RECORD

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

OCT 30 2018

Approved By _____ Title _____ Date _____

Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Office BUREAU OF LAND MANAGEMENT CARLSBAD FIELD OFFICE

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Instructions on page 2)

** BLM REVISED **

ENTERED

Revisions to Operator-Submitted EC Data for Sundry Notice #441745

	Operator Submitted	BLM Revised (AFMSS)
Sundry Type:	ABD SR	ABD SR
Lease:	NMNM16087	NMNM16087
Agreement:		
Operator:	MARATHON OIL PERMIAN LLC 5555 SAN FELIPE ST HOUSTON, TX 77056 Ph: 713-296-3179	MCKAY OIL CORPORATION ONE MCKAY PLACE ROSWELL, NM 88201 Ph: 505-623-4735
Admin Contact:	MELISSA SZUDERA REGULATORY COMPLIANCE REP E-Mail: mszudera@marathonoil.com Ph: 713-296-3179	MELISSA SZUDERA REGULATORY COMPLIANCE REP E-Mail: mszudera@marathonoil.com Ph: 713-296-3179
Tech Contact:	MELISSA SZUDERA REGULATORY COMPLIANCE REP E-Mail: mszudera@marathonoil.com Ph: 713-296-3179	MELISSA SZUDERA REGULATORY COMPLIANCE REP E-Mail: mszudera@marathonoil.com Ph: 713-296-3179
Location:		
State:	NM	NM
County:	CHAVEZ	CHAVES
Field/Pool:	ABO	PECOS SLOPE-ABO
Well/Facility:	HUSKY - MCKAY 1 Sec 18 T8S R26E Mer NMP SWSE 660FSL 1930FEL	HUSKY-MCKAY FEDERAL 1 Sec 18 T8S R26E SWSE 660FSL 1930FEL

received
JUL 02 2018

Lessee Copy NM OIL CONSERVATION
ARTESIA DISTRICT

NOV 16 2018

Number 18RH17W
Page 1 of 11

Certified Mail - Return Receipt Requested
7012346000016957223

**UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT** RECEIVED
NOTICE OF WRITTEN ORDER

IDENTIFICATION	
HD	
Lease	NMNM16087
CA	
Unit	
PA	

Bureau of Land Management Office ROSWELL FIELD OFFICE	Operator MCKAY OIL CORPORATION
Address 2909 W. SECOND ST. ROSWELL NM 88201	Address ONE MCKAY PLACE ROSWELL NM 88201
Telephone 575.627.0272	Attention
Inspector HOSKINSON	Attn Addr

Site Name HUSKY-MCKAY FEDERAL	Well/Facility/FMP 1	1/4 1/4 Section SWSE 18	Township 8S	Range 26E	Meridian NMP	County CHAVES	State NM
Site Name	Well/Facility/FMP	1/4 1/4 Section	Township	Range	Meridian	County	State
Site Name	Well/Facility/FMP	1/4 1/4 Section	Township	Range	Meridian	County	State

The following condition(s) were found by Bureau of Land Management Inspectors on the date and at the site(s) listed above.

Date	Time (24-hour clock)	Corrective Action to be Completed by	Date Corrected	Authority Reference
06/19/2018	10:30	07/27/2018		43CFR3162.1(a) 43CFR3162.3-4

Remarks:

Our records indicate that Marathon Oil Co is the Lessee's of Record for lease NMNM16087. As per 43 CFR 3160.0-5 Lessee means any person holding record title in a lease issued or approved by the United States. As the Lessee of Record you are ultimately responsible for the required plugging of the wellbore and reclamation of Lease. Our records indicate that McKay Oil Corporation is the operator of record for this lease. Operator is defined as any person or entity including but not limited to the lessee or operating rights owner, who has stated in writing to the authorized officer that it is responsible under the terms and conditions of the lease for the operations conducted on the leased land or a portion thereof. The operator has been issued Written Orders that have been unanswered. (Remarks continued on following page(s).)

When the Written Order is complied with, sign this notice and return to above address.

Company Representative Title _____ Signature _____ Date _____

Company Comments _____

Warning

The Authorized Officer has authority to issue a Written Order in accordance with 43 CFR 3161.2. Written Order correction and reporting time frames begin upon receipt of this Notice or 7 business days after the date it is mailed, whichever is earlier. Each stipulation must be corrected within the prescribed time from receipt of this Notice and reported to the Bureau of Land Management Office at the address shown above. If you do not comply as noted above under "Corrective Action to be Completed By", you shall be issued an Incident of Noncompliance (INC) in accordance with 43 CFR 3163.1(a). Failure to comply with the INC may result in assessments as outlined in 43 CFR 3163.1 and may also incur civil penalties (43 CFR 3163.2). All self-certified corrections must be postmarked no later than the next business day after the prescribed time frame for correction.

Section 109(d)(1) of the Federal Oil and Gas Royalty Management Act of 1982, as implemented by the applicable provisions of the operating regulations at Title 43 CFR 3163.2(f)(1), provides that any person who "knowingly or willfully" prepares, maintains, or submits false, inaccurate, or misleading reports, notices, affidavits, records, data, or other written information required by this part shall be liable for a civil penalty of up to \$25,000 per violation for each day such violation continues, not to exceed a maximum of 20 days.

Review and Appeal Rights

A person contesting a decision shall request a State Director review of the Written Order. This request must be filed within 20 working days of receipt of the Notice with the appropriate State Director (see 43 CFR 3165.3). The State Director review decision may be appealed to the Interior Board of Land Appeals, 801 North Quincy Street, Suite 300, Arlington, VA 22203 (see 43 CFR 3165.4). Contact the above listed Bureau of Land Management office for further information.

Signature of Bureau of Land Management Authorized Officer /s/ Robert Hoskinson Date 6/19/18 Time 11:00

Lead PET

FOR OFFICE USE ONLY

Number 51	Date	Type of Inspection PI
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BLM Remarks, continued

43CFR3162.1(a)

Lease NMNM17114 has not reported production since February 2006. McKay Oil Corporation has been issued a plugging order from the New Mexico Oil Conservation Division Compliance and Enforcement Bureau (attached) and the Operator has failed to submit 3160-5 Sundry Notice of Intent to Plug and Abandon Well.

CORRECTIVE ACTION:

SUBMIT SUNDRY 3160-5 NOTICE OF INTENT TO PLUG AND ABANDON WELL.

Per: 43 CFR 3162.3-4 Well Abandonment.

(a) The operator shall promptly plug and abandon, in accordance with a plan (3160-5) to be approved by the authorized officer.

Report your compliance with this Written Order on a Subsequent Sundry Notice on Form 3160-5 (Sundry Notice and Reports on Wells) stating the above problems have been corrected and are ready for inspection; an original and 4 copies are required.

FOR MONITORING AND TRACKING PURPOSES;

SUBMIT APPROPRIATE PAPERWORK TO THIS OFFICE

ATTENTION: ROBERT E. HOSKINSON Sr.

IF YOU HAVE ANY QUESTIONS, CONTACT:

ROBERT E. HOSKINSON Sr.
Lead Petroleum Engineering Technician
2909 West Second Street
Roswell, NM 88201
Office: (575) 627-0218
E-Mail: rhoskins@blm.gov

**BUREAU OF LAND MANAGEMENT
CASE RECORDATION
(LIVE) SERIAL REGISTER PAGE**

Run Date/Time: 06/19/18 09:47 AM

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01 02-25-1920;041STAT0437;30USC181ETSEQ
Case Type 311211: O&G LSE SIMO PUBLIC LAND
Commodity 459: OIL & GAS
Case Disposition: AUTHORIZED Case File Juris:

Total Acres
160.000

Serial Number
NMNM-- - 016087

Serial Number: NMNM-- - 016087

Name & Address		Int Rel	%Interest
BOERNE LAND & CATTLE	307 HERFF RD	BOERNE TX 78006	OPERATING RIGHTS 0.00000000
CURRY FLORENCE	1800 GLENARM PL STE 200	DENVER CO 802023829	OPERATING RIGHTS 0.00000000
MARATHON OIL CO	PO BOX 3128	HOUSTON TX 772533128	LESSEE 100.00000000
MCKAY PETROLEUM CORP	PO BOX 2014	ROSWELL NM 88202	OPERATING RIGHTS 0.00000000
PROVIDENCE MINERALS LLC	16400 DALLAS PKWY STE 400	DALLAS TX 752482643	OPERATING RIGHTS 0.00000000
ROCK RESOURCES PETRO LLC	PO BOX 2014	ROSWELL NM 88201	OPERATING RIGHTS 0.00000000
WHITING 1988 PROD	1700 BROADWAY #2300	DENVER CO 802902301	OPERATING RIGHTS 0.00000000
WHITING OG CORP	1700 BROADWAY #2300	DENVER CO 802902300	OPERATING RIGHTS 0.00000000

Serial Number: NMNM-- - 016087

Mer Twp	Rng	Sec	SType	Nr Suff	Subdivision	District/Resource Area	County	Mgmt Agency
23	0080S	0260E	018	ALIQ	SE;	ROSWELL FIELD OFFICE	CHAVES	BUREAU OF LAND MGMT

Serial Number: NMNM-- - 016087

Act Date	Code	Action	Action Remarks	Pending Office
04/23/1972	387	CASE ESTABLISHED	SPAR85;	
04/24/1972	888	DRAWING HELD		
06/21/1972	237	LEASE ISSUED		
07/01/1972	496	FUND CODE	05:145003	
07/01/1972	530	RLTY RATE - 12 1/2%		
07/01/1972	868	EFFECTIVE DATE		
03/01/1977	940	NAME CHANGE RECOGNIZED	HUSKY OIL DE/OIL	
08/23/1982	650	HELD BY PROD - ACTUAL		
10/08/1982	235	EXTENDED	THRU 06/30/84;	
10/25/1982	932	TRF OPER RGTS FILED		
11/05/1982	102	NOTICE SENT-PROD STATUS		
04/21/1983	933	TRF OPER RGTS APPROVED	EFF 11/01/82;	
04/21/1983	933	TRF OPER RGTS APPROVED	EFF 11/01/83;	
12/03/1983	932	TRF OPER RGTS FILED		
12/07/1983	932	TRF OPER RGTS FILED		
12/20/1983	932	TRF OPER RGTS FILED		
03/30/1984	933	TRF OPER RGTS APPROVED	(1)EFF 01/01/84;	
03/30/1984	933	TRF OPER RGTS APPROVED	(2)EFF 01/01/84;	
09/10/1984	817	MERGER RECOGNIZED	HUSKY OIL/MARATHON	
12/13/1984	932	TRF OPER RGTS FILED		
01/15/1985	963	CASE MICROFILMED/SCANNED	CNUM 103,773 GLC	
10/15/1985	932	TRF OPER RGTS FILED		
11/07/1985	932	TRF OPER RGTS FILED		
03/04/1986	933	TRF OPER RGTS APPROVED	(1)EFF 01/01/85;	
03/04/1986	933	TRF OPER RGTS APPROVED	(2)EFF 11/01/85;	
03/04/1986	933	TRF OPER RGTS APPROVED	(3)EFF 12/01/85;	

**NO WARRANTY IS MADE BY BLM
FOR USE OF THE DATA FOR
PURPOSES NOT INTENDED BY BLM**

**BUREAU OF LAND MANAGEMENT
CASE RECORDATION
(LIVE) SERIAL REGISTER PAGE**

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03/17/1986	963	CASE MICROFILMED/SCANNED	CNUM 103,773	EPR
03/04/1988	932	TRF OPER RGTS FILED		
04/26/1988	933	TRF OPER RGTS APPROVED	EFF 04/01/88;	
05/02/1988	974	AUTOMATED RECORD VERIF		CJC/SG
03/21/1990	932	TRF OPER RGTS FILED	MARATHON/WHITING	
05/23/1990	933	TRF OPER RGTS APPROVED	EFF 04/01/90;	
05/23/1990	974	AUTOMATED RECORD VERIF		RAO/VHG
08/09/1991	817	MERGER RECOGNIZED	TXO PROD/MARATHON	
09/26/1991	932	TRF OPER RGTS FILED	WHITING/WHITING-PARK	
09/30/1991	933	TRF OPER RGTS APPROVED	EFF 10/01/91;	
09/30/1991	974	AUTOMATED RECORD VERIF		RAO/MT
02/21/1992	909	BOND ACCEPTED	EFF 02/12/92;NM1981	
12/30/1993	932	TRF OPER RGTS FILED	WHITING-PARK/CURRENT	
01/20/1994	933	TRF OPER RGTS APPROVED	EFF 01/01/94;	
01/20/1994	974	AUTOMATED RECORD VERIF		VHG
11/22/2000	817	MERGER RECOGNIZED	DEVONENE/DEVONENEPROD	
06/04/2001	932	TRF OPER RGTS FILED	MCKAY OIL CORP ETAL;1	
08/01/2001	933	TRF OPER RGTS APPROVED	EFF 07/01/2001	
08/01/2001	974	AUTOMATED RECORD VERIF	ANN	
08/06/2001	932	TRF OPER RGTS FILED	DEVON/PROVIDENCE	
12/11/2001	104	ADDTL INFO RQSTD	BOND COVERAGE	
12/13/2001	103	ADDTL INFO RECD	BOND COVERAGE RECD	
01/10/2002	933	TRF OPER RGTS APPROVED	EFF 01/01/02;	
01/10/2002	974	AUTOMATED RECORD VERIF	LR	
12/19/2003	940	NAME CHANGE RECOGNIZED	WHITING PETRO/OIL&GAS	
04/19/2007	932	TRF OPER RGTS FILED	MCKAY PET/ROCK RESO;1	
06/11/2007	933	TRF OPER RGTS APPROVED	EFF 05/01/07;	
06/11/2007	974	AUTOMATED RECORD VERIF	JLV	
11/06/2009	104	ADDTL INFO RQSTD	60 DAY LETTER SENT;	
11/06/2009	974	AUTOMATED RECORD VERIF	RS;	

Line Nr Remarks

Serial Number: NMNM-- - 016087

0002	BONDED OPERATOR 01/20/94-MCKAY OIL CORP NM1981 S/W
0003	BONDED OPERATOR - 07/27/20001
0004	MCKAY OIL CORP - NM1981 - S/W
0005	BONDED TRANSFEREE - PER ABSS
0006	01/10/2002 - PROVIDENCE MINERALS LLC - NM2903 - N/W;
0007	06/11/07 - OPERATOR - MCKAY OIL CORP NM1981 SW/NM
0008	60 DAY LETTER SENT WELL NO.1- HUSKY-MCKAY

NO WARRANTY IS MADE BY BLM
FOR USE OF THE DATA FOR
PURPOSES NOT INTENDED BY BLM

**IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF CONSIDERING:**

**CASE NO. 15589
ORDER NO. R-14296**

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION
COMPLIANCE AND ENFORCEMENT BUREAU FOR A COMPLIANCE ORDER
AGAINST MCKAY OIL CORPORATION, FOR WELLS OPERATED IN CHAVES AND
LEA COUNTIES, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:30 a.m. on January 5, 2017, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 13th day of February, 2017, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) The Application of the Oil Conservation Division Compliance and Enforcement Bureau ("Applicant") asserted McKay Oil Corporation, a New Mexico Corporation, OGRID No. 14424 ("McKay" or "Operator") is in violation of Regulations 19.15.5.9 NMAC (non-compliant wells), 19.15.8.9 NMAC (financial assurance for plugging wells), and 19.15.25.8 NMAC (failure to properly plug and abandon wells).

(2) The Application complies with the requirements of 19.15.8.10 NMAC.

(3) Proper and sufficient public notice of the hearing has been provided in accordance with Regulation 19.15.4.9 NMAC.

(4) Proper and sufficient notice was given by certified mail, return receipt requested to McKay, and to Edward L. Mazel, the duly appointed and serving chapter 7 trustee for the Estate of McKay Oil Corporation, Bankruptcy No. 7-11-11678 TR, United States Bankruptcy Court, District of New Mexico.

(5) Applicant appeared through its counsel. Applicant received a return receipt indicating McKay Oil Corporation received the notice provided it, but did not appear. Trustee Mazel made arrangements to appear telephonically, but did not so appear at the appointed time. McKay Petroleum Corporation, McKay Living Trust and Schultz Oil and Gas Properties, each

(6) The Oil Conservation Division ("Division") has jurisdiction over this case and the subject matter pursuant to NMSA 1978, § 70-2-12.

(7) Applicant is seeking to enforce its police and regulatory powers, and pursuant to 11 U.S.C. §362(b)(4), this case is not subject to the automatic stay imposed by 11 U.S.C. § 362(a).

(8) The wells which are the subject of this case are:

Well Name	Well No.	API No.	County
Antelope Federal	1	30-005-61661	Chaves
Antelope Federal	2	30-005-61766	Chaves
Antelope Federal	3	30-005-61774	Chaves
Bonnie	1	30-005-62551	Chaves
Camp State	1	30-005-61446	Chaves
Five Mile Tank Federal	2	30-005-61403	Chaves
Husky-McKay	1	30-005-61616	Chaves
Inexco Federal	2	30-005-62389	Chaves
Inexco Federal	4	30-005-62382	Chaves
Inexco Federal	5	30-005-63601	Chaves
Inexco Federal	6	30-005-63740	Chaves
Jerry Don Federal	1	30-005-62221	Chaves
McKay B Federal	4	30-005-64082	Chaves
McKay Berrendo	1Y	30-005-62161	Chaves
Pronghorn Federal	1	30-005-62204	Chaves
Rugged Federal	1	30-005-62851	Chaves
West Fork Unit	1	30-005-62625	Chaves
West Fork Unit	2	30-005-62482	Chaves
West Fork Unit	4	30-005-62821	Chaves

-
- (9) McKay is the operator of each of the wells.
- (10) The Application requested issuance of an order from the Division:
- a. Determining that McKay is in violation of Regulations 19.15.8, 19.15.5.9 and 19.15.25.8 NMAC;
 - b. Requiring McKay to provide the Oil Conservation Division with acceptable financial assurance within thirty (30) days of issuance of any order;
 - c. Requiring McKay to return to compliance with Regulations 19.15.5.9(A)(4) and 19.15.25.8 NMAC within sixty (60) days of the issuance of any order by returning the wells to production, plugging the wells in accordance with Regulation 19.15.25 NMAC, or transferring the wells to an operator who is in compliance with the requirements of Regulation 19.15.5.9 NMAC.
 - d. Determining that in the event McKay does not comply with the actions required within the time permitted, the Division should find that McKay is in violation of a Division Order, that the wells that are not in compliance should be declared abandoned, that the Oil Conservation Division should then plug the abandoned wells in accordance with a Division-approved plugging program and restore and remediate the location, recover its costs from McKay's financial assurance as required by Regulation 19.15.8.13 NMAC, and seek indemnification under NMSA 1978 § 70-2-14(E).
 - e. requiring Operator to return to compliance with 19.15.5.9 and 19.15.25.8 NMAC within sixty (60) days of the date of the order;
 - f. in the event of noncompliance, finding the Operator in violation of a Division order for each day after the deadline established in the sought order, declaring the wells abandoned, authorizing the Division to plug the violating wells in accordance with a Division approved plugging procedure and restore and remediate the location, recover costs from the posted financial assurance as permitted by 19.15.8.13 NMAC, and seek indemnification as permitted by NMSA 1978, § 70-2-14 (E).
- (11) Applicant presented as its witness Daniel Sanchez, the Oil Conservation Division's Compliance and Enforcement Manager. After being qualified as a witness, Mr. Sanchez testified:
- a. That he was knowledgeable of the Oil Conservation Division's records regarding McKay.
 - b. That the Oil Conservation Division's records regarding McKay were kept in the ordinary course of the Division's business.

- d. That the subject wells each have an "active" status;
- e. That monthly production reports on OCD Form C-115 for active wells are required 45 days after each month has ended;
- f. That the last form C-115 supplied to the Division by McKay for any of subject wells was for August 2016;
- g. That the August 2016 report showed only one well, the Woolworth Ranch Unit No. 1 (API No. 30-025-26180), had reported oil and gas production;
- h. That twenty (20) of McKay's twenty-one (21) wells have been inactive with no production for more than one (1) year plus ninety (90) days;
- i. That apart from the Woolworth Ranch Unit Well No. 1, the most recent production from any of the subject wells was in February of 2015;
- j. That the Bonnie No. 1 last produced in January of 1994;
- k. That Regulation 19.15.25.8 NMAC requires all the subject wells be properly plugged and abandoned, returned to production, or placed in approved temporary abandonment status
- l. That the Woolworth Ranch Unit No. 1 is the only well operated by McKay that is not currently in violation of 19.15.25.8 NMAC;
- m. That McKay is in violation of 19.15.5.9(A)(4) NMAC, which requires an operator to have a maximum of two (2) inactive wells if operator has less than one hundred (100) wells;
- n. That three (3) of the Operator's twenty-one (21) wells have inadequate financial assurance in violation of 19.15.8.9 NMAC: the Camp State No. 1 requires Eight Thousand Six Hundred-Fifty Dollars (\$8,650) in single well financial assurance; the McKay Berrendo No. 1Y requires Nine Thousand Ten Dollars (\$9,010) in single well financial assurance; and the West Fork Unit No. 4 requires Eight Thousand Four Hundred Dollars (\$8,400) in single well financial assurance.
- o. That the financial assurance deficiency for the three (3) wells totals twenty six thousand sixty dollars (\$26,060);
- p. That McKay has one (1) Fifty Thousand Dollar (\$50,000) blanket bond and two (2) single well bonds on file with the Division in the amount of Nine Thousand Two Hundred Ninety-Two Dollars (\$9,292) and Nine Thousand Five Hundred Seventy-Eight Dollars (\$9,578);

(12) Trustee Mazel provided no pre-hearing statement, or testimony.

(13) Interested parties McKay Petroleum Corporation, McKay Living Trust, and Schultz Oil and Gas Properties, did not present witnesses, but adduced in cross-examination of Daniel Sanchez:

- a. That McKay Oil Corporation has filed for Chapter 7 Bankruptcy protections;
- b. That authority to operate the properties in the bankruptcy estate lies with Trustee Mazel;

(14) Through their counsel, the interested working interest owners stated they would like to see the Woolworth Ranch Unit Well No. 1 transferred to another operator.

(15) The Division, through its counsel, stated the Division would not oppose a transfer of the Woolworth Ranch Unit Well No. 1 to another operator, registered and in good standing in New Mexico, so long as the transfer was authorized in accordance with applicable statutes and regulations.

THE DIVISION CONCLUDES AS FOLLOWS:

(16) Oil Conservation Commission Order No. R-9210 in Finding Paragraph (5), states that well abandonment rules are in place to prevent migration of fluids, prevent waste, protect correlative rights, and protect fresh waters.

(17) NMSA 1978, Section 70-2-14(B) provides, in relevant part, "If any of the requirements of the Oil and Gas Act [70-2-1 NMSA 1978] or the rules promulgated pursuant to that act have not been complied with, the Oil Conservation Division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with Division rules."

(18) Regulation 19.15.5.10(B) NMAC authorizes the Division to commence compliance proceedings for violation of a provision of the Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, or a provision of a rule or order issued pursuant to the act.

(19) McKay is the operator of record for the subject wells and is responsible for compliance with the Oil and Gas Act and Oil Conservation Rules.

(20) Chapter 7 Trustee for McKay is the person authorized by the Bankruptcy Code to Control McKay's acts.

(21) The testimony provided by Applicant and the representations of counsel at the hearing clearly established that McKay is in violation of Regulations 19.15.5.9, 19.15.8.9, and 19.15.25 NMAC.

(22) The Application should be approved.

Bureau for a compliance order against McKay finding same in violation of Regulations 19.15.5.9, 19.15.8.9, and 19.15.25.8 NMAC, for the twenty (20) subject wells, all located in Chaves County, New Mexico, is hereby approved.

(2) McKay shall post adequate financial assurance as required by Regulation 19.15.8.9 NMAC and the Division for all wells for which the Division has determined bonding is insufficient within thirty (30) days of the issuance of this Order. At this time the wells are: the Camp State Well No. 1 for which the amount of single well financial assurance is Eight Thousand Six Hundred Fifty dollars (\$8,650); the McKay Berrendo Well No. 1Y, for which the single well financial assurance in the amount of Nine Thousand Ten dollars (\$9,010); and the West Fork Unit Well No. 4, for which the single well financial assurance is Eight Thousand Four Hundred dollars (\$8,400).

(3) The following twenty (20) wells are in violation of 19.15.25.8 NMAC. 19.15.5.9 NMAC which requires an operator of fewer than one hundred (100) wells to have no more than two (2) wells out of compliance with 19.15.25.8: NMAC:

Well Name	Well No.	API No.	County
Antelope Federal	1	30-005-61661	Chaves
Antelope Federal	2	30-005-61766	Chaves
Antelope Federal	3	30-005-61774	Chaves
Bonnie	1	30-005-62551	Chaves
Camp State	1	30-005-61446	Chaves
Five Mile Tank Federal	2	30-005-61403	Chaves
Husky-McKay	1	30-005-61616	Chaves
Inexco Federal	2	30-005-62389	Chaves
Inexco Federal	4	30-005-62382	Chaves
Inexco Federal	5	30-005-63601	Chaves
Inexco Federal	6	30-005-63740	Chaves
Jerry Don Federal	1	30-005-62221	Chaves
McKay B Federal	4	30-005-64082	Chaves
McKay Berrendo	1Y	30-005-62161	Chaves
Pronghorn Federal	1	30-005-62204	Chaves
Rugged Federal	1	30-005-62851	Chaves
West Fork Unit	1	30-005-62625	Chaves
West Fork Unit	2	30-005-62482	Chaves
West Fork Unit	4	30-005-62821	Chaves
West McKay Harvey Federal A	1	30-005-62189	Chaves

- a. causing the well to be plugged and abandoned in accordance with 19.15.25.8 NMAC and in accordance with a Division approved plugging program;
- b. restoring the well to production if the well is an oil and gas well; or
- c. causing the well to be temporarily abandoned with Division approval in accordance with 19.15.25.13 NMAC.

(5) If the Operator has not completed the ordering requirements within the prescribed period, the Operator shall be in violation of this order, and the Division shall be authorized:

- a. Subject to the applicable provisions of Title 11, United States Code, to plug and abandon the subject wells that are out of compliance with Division rules; and
- b. to recover costs from either the Operator or the United States Bureau of Land Management in accordance with 19.15.8.13 NMAC; and NMSA 1978, Section 70-2-14 (E) if funds available from applicable financial assurance are not sufficient to cover all costs which the Division incurs in plugging and abandoning the wells.

(6) If McKay cannot reasonably complete the work described above within the specified time, McKay may file, prior to the expiration of the deadlines set forth above, an application for hearing to request an extension. At hearing, McKay shall provide evidence of its good faith efforts at complying with this Order, the work completed to date, and why good cause exists for the extension. McKay shall also propose a revised schedule for completion of the required work.

(7) 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



DAVID R. CATANACH
Director



SEAL