

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

John H. Bemis
Cabinet Secretary

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey
Division Director
Oil Conservation Division



Response Required – Deadline Enclosed

Underground Injection Control Program

"Protecting Our Underground Sources of Drinking Water"

04-May-12

HOBBS OCD

DUGAN PRODUCTION CORP
PO BOX 420
FARMINGTON NM 87499-

MAY 03 2012

RECEIVED

LETTER OF VIOLATION and SHUT-IN DIRECTIVE
Failed Mechanical Integrity Test

Dear Operator:

The following test(s) were performed on the listed dates on the following well(s) shown below in the test detail section.

The test(s) indicates that the well or wells failed to meet mechanical integrity standards of the New Mexico Oil Conservation Division. To comply with guidelines established by the U.S. Environmental Protection Agency, the well(s) must be shut-in immediately until it is successfully repaired. The test detail section which follows indicates preliminary findings and/or probable causes of the failure. This determination is based on a test of your well or facility by an inspector employed by the Oil Conservation Division. Additional testing during the repair operation may be necessary to properly identify the nature of the well failure.

Please notify the proper district office of the Division at least 48 hours prior to the date and time that the well(s) will be retested so the test may be witnessed by a field representative.

MECHANICAL INTEGRITY TEST DETAIL SECTION

KM CHAVEROO SA UNIT No.113

30-005-10531-00-00
P-2-8S-33E

Test Date:	5/4/2012	Expired TA Injection - (All Types)	
Test Reason:	5-year Test	Permitted Injection PSI:	
Test Type:	Std. Annulus Pres. Test	Test Result:	F
		FAIL TYPE:	Other Internal Failure
		Actual PSI:	
		Repair Due:	8/7/2012
		FAIL CAUSE:	

Comments on MIT: TOOK 25 BBLS TO LOAD; PRESSURED UP TO 250# WENT TO 0 IN LESS THAN A MINUTE; CASING WENT ON STRONG VACUUM; ***WELL FAILED PRESSURE TEST*** OPERATOR IN VIOLATION OF NMOCDD RULE 19.15.26.11****

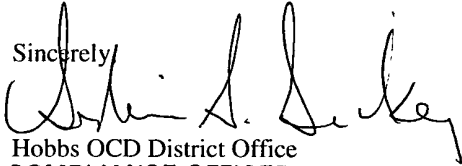
MAY 08 2012

May 4, 2012

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In the event that a satisfactory response is not received to this letter of direction by the "Repair Due:" date shown above, or if the well(s) are not immediately shut-in, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,

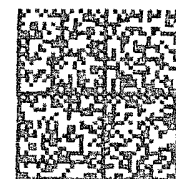


Hobbs OCD District Office

COMPLIANCE OFFICER

Note. Pressure Tests are performed prior to initial injection, after repairs and otherwise, every 5 years; Bradenhead Tests are performed annually. Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data. "Failure Type" and "Failure Cause" and any Comments are not to be interpreted as a diagnosis of the condition of the wellbore. Additional testing should be conducted by the operator to accurately determine the nature of the actual failure. * Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.

EMNRD
OIL CONSERVATION DIVISION
1625 N FRENCH DRIVE
HOBBS NM 88240



HASLER	015H14150977	US POSTAGE
	\$0.45	
	05/04/12	
	Mailed From 88240	

DUGAN PROD. CORP.
P.O. BOX 420
FARMINGTON, NM 87499