

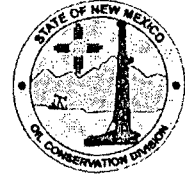
State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary-Designate

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

Jami Bailey, Division Director
Oil Conservation Division



Administrative Order SWD-1438
September 23, 2013

**ADMINISTRATIVE ORDER
OF THE OIL CONSERVATION DIVISION**

30-025-29711

Pursuant to the provisions of 19.15.26.8B. NMAC, Cobalt Operating, LLC (the "operator"), seeks an administrative order to re-enter and utilize its Consolidated State Well No. 3 with a location of 660 feet from the North line and 2128 feet from the West line, Unit letter C of Section 9, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, for produced water disposal purposes.

The Consolidated State Well No. 3 was previously approved for injection of produced water into the Strawn formation under Order R-13569 (Case No. 14834) dated June 14, 2012. Subsequent testing of the approved injection interval from 10944 feet to 11075 feet demonstrated that the formation was unable to accept any additional fluids without the potential for exceeding the fracture pressure. This interval was abandoned for injection and application was made for a deeper injection interval in the Devonian formation.

THE DIVISION DIRECTOR FINDS THAT:

The application has been duly filed under the provisions of 19.15.26.8B. NMAC and satisfactory information has been provided that affected parties as defined in said rule have been notified and no objections have been received within the prescribed waiting period. The applicant has presented satisfactory evidence that all requirements prescribed in 19.15.26.8 NMAC have been met and the operator is in compliance with 19.15.5.9 NMAC.

IT IS THEREFORE ORDERED THAT:

The applicant, Cobalt Operating, LLC (OGRID 286255), is hereby authorized to re-enter and utilize its Consolidated State Well No. 3 (API 30-025-29711) with a location of 660 feet from the North line and 2128 feet from the West line, Unit letter C of Section 9, Township 17 South, Range 37 East, NMPM, Lea County, for disposal of oil field produced water (UIC Class II only) into the Devonian formation through open-hole completion from approximately 11800 feet to 12700 feet. Injection will occur through internally coated tubing and a packer set within 100 feet of the permitted interval.

IT IS FURTHER ORDERED THAT:

The operator shall take all steps necessary to ensure that the disposed water enters only the approved disposal interval and is not permitted to escape to other formations or onto the

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surface. This includes the well rehabilitation proposed and described in the application.

The operator shall provide a copy of a cement bond log (CBL) or equivalent to the Division's district I office showing the emplacement of cement for the new 4-inch liner, the cement squeezed into the San Andres perforations and the top of cement for the existing 5 ½-inch casing (calculated at 4600 feet). If the CBL does not confirm an adequate bond where the new cement was to be emplaced, the operator must provide an alternative plan approved by Division district I to install a cement seal for this interval.

The operator shall supply the Division with a copy of a mudlog over the permitted disposal interval and an estimated in-situ water salinity from open-hole log correlations. If significant hydrocarbon shows occur in the injection interval while drilling, the operator shall notify Division district I and the operator shall be required to obtain permission from the Division prior to commencing injection.

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

The well shall pass an initial mechanical integrity test ("MIT") prior to initially commencing disposal and prior to resuming disposal each time the disposal packer is unseated. All MIT testing procedures and schedules shall follow the requirements in Division Rule 19.15.26.11A. NMAC. The Division Director retains the right to require at any time wireline verification of completion and packer setting depths in this well.

The wellhead injection pressure on the well shall be limited to **no more than 2360 psig**. In addition, the disposal well or system shall be equipped with a pressure limiting device in workable condition which shall, at all times, limit surface tubing pressure to the maximum allowable pressure for this well.

The Director of the Division may authorize an increase in tubing pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the disposed fluid from the target formation. Such proper showing shall be demonstrated by sufficient evidence including but not limited to an acceptable Step-Rate Test.

The operator shall notify the supervisor of the Division's district I office of the date and time of the installation of disposal equipment and of any MIT test so that the same may be inspected and witnessed. The operator shall provide written notice of the date of commencement of disposal to the Division's district office. The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Division Rules 19.15.26.13 and 19.15.7.24 NMAC.

Without limitation on the duties of the operator as provided in Division Rules 19.15.29 and 19.15.30 NMAC, or otherwise, the operator shall immediately notify the Division's district I office of any failure of the tubing, casing or packer in the well, or of any leakage or release of

water, oil or gas from around any produced or plugged and abandoned well in the area, and shall take such measures as may be timely and necessary to correct such failure or leakage.

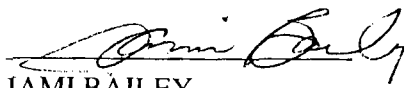
The injection authority granted under this order is not transferable except upon division approval. The division may require the operator to demonstrate mechanical integrity of any injection well that will be transferred prior to approving transfer of authority to inject.

The division may revoke this injection permit after notice and hearing if the operator is in violation of 19.15.5.9 NMAC. This administrative Order replaces the approved injection interval specified in Order R-13569 for the Consolidated State Well No. 3.

The disposal authority granted herein shall terminate two (2) years after the effective date of this order if the operator has not commenced injection operations into the subject well. One year after the last date of reported disposal into this well, the Division shall consider the well abandoned, and the authority to dispose will terminate *ipso facto*. The Division, upon written request mailed by the operator prior to the termination date, may grant an extension thereof for good cause.

Compliance with this order does not relieve the operator of the obligation to comply with other applicable federal, state or local laws or rules, or to exercise due care for the protection of fresh water, public health and safety and the environment.

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 or protectable waters or (2) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the disposal authority granted herein.



JAMI BAILEY
Director

JB/prg

cc: Oil Conservation Division – Hobbs District Office
State Land Office – Oil, Gas, and Minerals
Case No. 14834