

New Mexico Energy, Minerals and Natural Resources Department

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Division Director
Oil Conservation Division



February 19, 2010

Liquid Resource Services, LLC
1819 N. Turner, Suite B
Hobbs, NM 88240

Mesquite SWD, Inc.
P.O. Box 1479
Carlsbad, NM 88221

Re: Operator Change Request
Hobbs State #3, 30-025-23621
From Liquid Resource Services, LLC, OGRID 243571
To Mesquite SWD, Inc., OGRID 161968

Dear Operators:

The Oil Conservation Division (OCD) received an application to transfer operations of the Hobbs State #3 well from Liquid Resource Services, LLC (Liquid Resource) to Mesquite SWD, Inc. (Mesquite). I am writing to alert you to an issue regarding that well that will affect the transfer.

The Hobbs State #3 well is a disposal well permitted for disposal by Administrative Order SWD-121. That Order permits disposal into the San Andres from 5144' to 5170.'

Liquid Resource filed a report indicating that "bad pipe" exists below 4150.' If this is correct, the well is disposing of water out of the permitted depth range. By letter dated September 9, 2009, the OCD required Liquid Resource to run an e-log from total depth to surface to demonstrate that the well was not injecting out of zone, apply for and obtain an injection permit allowing injection from 4136' to 5170,' or cease injection. A copy of that letter is enclosed.



Liquid Resource chose to apply for an injection permit with a revised injection zone. Oxy USA, Inc. protested the application. Liquid Resource has not pursued its application by filing a request for hearing.

It appears that the well is injecting outside its permitted zone, in violation of Administrative Order SWD-121 and 19.15.26 NMAC. By separate letter, the OCD will formally notify Liquid Resource that it must cease injection. See 19.15.26.10(E) NMAC, authorizing the OCD to shut in injection wells that have exhibited failure to confine injected fluids to the authorized injection zone or zones.

19.15.26.15 NMAC provides:

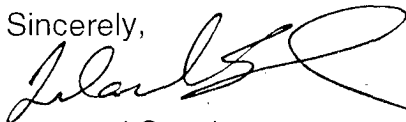
- A. Authority to inject granted under a division order is not transferable except upon division approval. An operator may obtain approval of transfer of authority to inject by filing completed form C-145.
- B. The division may require the operator to demonstrate mechanical integrity of each injection well that will be transferred prior to approving transfer of authority to inject.

The OCD relies on 19.15.26.15 NMAC to impose the following conditions on a transfer of the Hobbs State #3 well:

- First, if Liquid Resource and Mesquite proceed with the well transfer, it will be a transfer of operatorship only. The OCD will not transfer authority to inject under Administrative Order SWD-121. If Mesquite intends to use the well as a disposal well, it will need to apply for and obtain an injection permit for the well prior to injection.
- Second, Liquid Resource must conduct a mechanical integrity test demonstrating the integrity of the Hobbs State #3 prior to the transfer. The test must be witnessed by an inspector from the appropriate district office.

Please contact me to let me know whether Liquid Resource and Mesquite intend to proceed with the transfer, or whether they wish to cancel their application to transfer.

Sincerely,



J. Daniel Sanchez

Underground Injection Control Director for the State of New Mexico

Encl.: Letter of 9/9/09

EC: Larry "Buddy" Hill, Hobbs District Office
Sylvia Dickey, Hobbs District Office
William Jones, OCD Engineer
Dorothy Phillips, OCD Financial Assurance Administrator
William Carr, Attorney for OXY, USA, Inc.

New Mexico Energy, Minerals and Natural Resources Department

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Division Director
Oil Conservation Division



September 9, 2009

Mr. David A. Pyatt
Liquid Resource Services, LLC
1819 N. Turner, Suite B
Hobbs, NM 88240

Re: Administrative Order SWD-121 Hobbs State Well No. 3 API No. 30-025-23621

990 FNL, 1830 FEL, Sec 29, T18S, R38E, NMPM, Lea County
San Andres formation permitted disposal depths: 5144 to 5170 perforated

The Division issued Administrative Order SWD-121 on June 22, 1971, allowing this well to be used for disposal into the San Andres from 5144 to 5170. That order was issued after a demonstration of compliance with State rules governing injection and disposal.

On January 3, 2001, after a workover to repair corroded casing, 4136 feet of 2-3/8 inch, injection tubing was installed and the well returned to disposal. That report said "bad pipe" exists below 4150 feet. If this report is correct, this well is disposing of water out of the permitted depth range and must be shut-in or re-permitted to dispose from 4136 to 5170. If Liquid Resources contends this data is not correct or up to date, then it must run an elog - witnessed by the Hobbs OCD inspectors - from TD to surface showing the condition of the casing and actual location of the packer and tubing.

Liquid Resource Services must make application to the Division on form C-108 (application to inject) including sending notices to all affected parties, demonstrating that all area wells are adequately cemented over the proposed interval, and providing evidence that oil and gas reserves will not be adversely affected by this proposed disposal interval.

If Liquid Resource Services does apply for this revised disposal interval and a permit is NOT granted for whatever reason, Liquid Resource Services will have to cease injection into this well and if the well cannot be used for other purposes, it must be plugged.

Please submit a revised C-108 to this office by October 15, 2009. If Liquid Resource Services does not apply for the revised disposal permit by this date, the Division will enter a case before an examiner asking for this well to be plugged and abandoned.

J. Daniel Sanchez
Compliance and Enforcement Manager

Cc: Oil Conservation Division - Hobbs
State Land Office - Oil, Gas, and Minerals Division, and File: SWD-121

