

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

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Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



November 4, 2010

Kaiser-Francis Oil Co.
P.O. Box 21468
Tulsa, OK 74121

DENIAL OF REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT

Re: Kaiser-Francis Oil Company, OGRID No. 12361

- Bell Lake #32, API #30-025-39253, Lea County, New Mexico
- Bell Lake #19, API #30-025-26257, Lea County, New Mexico

Dear Operator:

The Oil Conservation Division (OCD) **denies** your request for allowable and authorization to transport for the wells identified above because your company is out of compliance with 19.15.5.9(A) NMAC [Part 5.9(A)]. See 19.15.16.19(A)(4) NMAC.

Your company is out of compliance with Part 5.9(A) on the following ground(s):

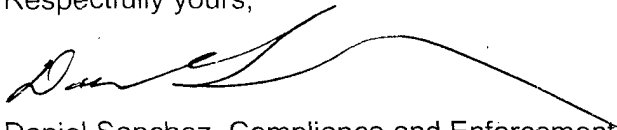
- XX** **Financial assurances.** Your company is in violation of the financial assurance requirements for well plugging set out in 19.15.8.9 NMAC. See 19.15.5.9(A)(1) NMAC. Specifically, your company has not posted the single-well financial assurances required for state or fee wells which have been inactive for more than two years. The wells requiring single-well financial assurances are identified in the attached sheet.
- _____ **Corrective action.** Order _____, issued on _____ after notice and hearing, found your company to be in violation of an order requiring corrective action. See 19.15.5.9(A)(2) NMAC.
- _____ **Unpaid penalties.** Your company has not paid the penalties assessed against your company in _____, issued on _____. More than 70 days have passed since the issuance of the order assessing the penalty. See 19.15.5.9(A)(3) NMAC.



_____ **Inactive wells.** According to the attached inactive well list, your company has too many wells in violation of the inactive well rule (19.15.25.8 NMAC) that are not subject to an inactive well agreed compliance order. See 19.15.5.9(A)(4) NMAC. As an operator of _____ wells, your company may have no more than _____ wells in violation of the inactive well rule. Your company has _____ wells in violation of the inactive well rule. In addition,

I have enclosed an information sheet explaining the requirements of Part 5.9. You may re-submit your request after your company has returned to compliance with Part 5.9.

Respectfully yours,



Daniel Sanchez, Compliance and Enforcement Manager

Ec: Mark Fesmire, Division Director, Santa Fe
Theresa Duran-Saenz, Legal Assistant, Santa Fe
Larry "Buddy" Hill, District 1 Supervisor
Randy Dade, District 2 Supervisor
Charlie Perrin, District 3 Supervisor
Ed Martin, District 4 Supervisor
Donna Mull, District 1 Compliance Officer

Inactive Well Additional Financial Assurance Report

12361 KAISER-FRANCIS OIL CO

Total Well Count: 54

Printed On: Thursday, November 04 2010

Property	Well Name	Lease Type	ULSTR	OCD Unit Letter	AP1	Well Type	Last Prod/Inj	Inactive Additional Bond Due	Measured Depth	Required Bond Amount	Bond Required Now	Bond In Place	In Violation
5434	ANTELOPE FEDERAL #001	F	F-22-18S-23E	F	30-015-23194	G	08/2010		Unknown			0	
22510	BELL LAKE #020	S	G-6 -24S-34E	G	30-025-34307	G	08/2010	09/01/2012	13366	18366		0	
	BELL LAKE #023	S	K-31-23S-34E	K	30-025-38118	G	08/2010	09/01/2012	13800	18800		0	
	BELL LAKE #027	F	L-5 -24S-34E	L	30-025-38562	O	08/2010		8968			0	
	BELL LAKE #028	F	M-5 -24S-34E	M	30-025-38565	O	08/2010		8965			0	
	BELL LAKE #029	F	K-5 -24S-34E	K	30-025-38566	O	08/2010		Unknown			0	
	BELL LAKE #032	F	M-5 -24S-34E	M	30-025-39253	G			13810			0	
5436	BELL LAKE STATE #001	S	N-31-23S-34E	N	30-025-08488	O	04/1997	05/01/1999	15120	20120	Y	20120	
	BELL LAKE STATE #012	S	J-31-23S-34E	J	30-025-24335	O	08/2010	09/01/2012	8910	13910		0	
5437	BELL LAKE UNIT #002	F	N-30-23S-34E	N	30-025-08489	S	08/2010		13044			0	
	BELL LAKE UNIT #003	S	3-6 -24S-34E	C	30-025-08490	O	08/2010	09/01/2012	8866	13866		0	
	BELL LAKE UNIT #006	S	O-6 -23S-34E	O	30-025-08483	G	05/2009	06/01/2011	16506	21506		0	
	BELL LAKE UNIT #014	S	F-5 -24S-34E	F	30-025-24611	G	08/2010	09/01/2012	14228	19228		0	
	BELL LAKE UNIT #016	F	A-7 -24S-34E	A	30-025-24910	O	08/2010		9005			0	
	BELL LAKE UNIT #018	S	I-36-23S-33E	I	30-025-25302	G	10/2000	11/01/2002	13960	18960	Y	18960	
	BELL LAKE UNIT #019	F	B-12-24S-33E	B	30-025-26257	O	09/2009		14760			0	
	BELL LAKE UNIT #020	S	E-32-22S-34E	E	30-025-34629	G	01/2007	02/01/2009	13370	18370	Y	18370	
	BELL LAKE UNIT #021	S	F-6 -24S-34E	F	30-025-36952	O	08/2010	09/01/2012	8900	13900		0	
	BELL LAKE UNIT #021	S	L-32-22S-34E	L	30-025-35118	G	08/2010	09/01/2012	13407	18407		0	
	BELL LAKE UNIT #022	F	P-31-22S-34E	P	30-025-35592	G	08/2010		13430			0	
	BELL LAKE UNIT #026	S	I-6 -24S-34E	I	30-025-38564	G	08/2010	09/01/2012	13625	18625		0	
5438	BELL LAKE UNIT 1 #004	S	F-6 -24S-34E	F	30-025-08491	G	08/2010	09/01/2012	13960	18960		0	
301622	BELL LAKE UNIT A #007	S	1-1 -24S-33E	A	30-025-08367	S			11688			0	
32538	COOPER 3 #007	P	3-3 -20S-37E	C	30-025-36252	O	08/2010	09/01/2012	5900	10900		0	
5452	FEDERAL 30 #002	F	K-30-19S-33E	K	30-025-27671	G	08/2010		13802			0	
25205	FORT 7 COM #001	P	O-7 -24S-29E	O	30-015-25658	G	06/2010	07/01/2012	12311	17311		0	
5453	FRANK STATE #001	S	I-7 -19S-23E	I	30-015-22790	G	08/2010	09/01/2012	7700	12700		0	
22987	HARGIS #001	P	G-24-22S-27E	G	30-015-25688	G	08/2010	09/01/2012	12296	17296		0	
34741	HUNGER BUSTER STATE #003	S	I-9 -21S-35E	I	30-025-37177	G	04/2008	05/01/2010	12001	17001	Y	0	Y
5470	J SPEIGHT #001	P	P-31-19S-39E	P	30-025-27796	G	08/2010	09/01/2012	3200	8200		0	
5448	J W COOPER #001	P	F-3 -20S-37E	F	30-025-20452	O	08/2010	09/01/2012	7957	12957		0	
5480	J WRIGHT #001	P	3-5 -20S-39E	D	30-025-27633	G	08/2010	09/01/2012	7740	12740		0	
5455	KIRKES COM #001	P	J-10-24S-28E	J	30-015-23299	G	08/2010	09/01/2012	12800	17800		0	
22991	MALAGA 1 COM #001	S	3-1 -24S-28E	C	30-015-26415	G	08/2010	09/01/2012	12100	17100		0	
22989	MALAGA 2 STATE COM #001	S	J-2 -24S-28E	J	30-015-26279	G	08/2010	09/01/2012	12050	17050		0	
23070	MALAGA 36 STATE #001	S	J-36-23S-28E	J	30-015-26564	G	08/2010	09/01/2012	12150	17150		0	
5457	MCELVAIN FEDERAL #001	F	J-30-18S-34E	J	30-025-24757	O	08/2010		14075			0	
34424	MESA 11 GRANDE #002Q	P	L-11-22S-26E	L	30-015-33720	G	08/2010	09/01/2012	11500	16500		0	
5459	MESA GRANDE #001	P	F-11-22S-26E	F	30-015-21815	G	08/2010	09/01/2012	11550	16550		0	
5460	MGF-SUN #001	P	N-32-19S-39E	N	30-025-27778	G	08/2010	09/01/2012	4415	9415		0	
15317	MUSE FEDERAL #014	F	P-21-23S-31E	P	30-015-05842	S			Unknown			0	
306700	NORTH BELL LAKE FEDERAL #002	F	N-5 -23S-34E	N	30-025-32672	O	08/2010		17710			0	
	NORTH BELL LAKE FEDERAL #003	F	H-6 -23S-34E	H	30-025-33077	G	08/2010		17540			0	
36436	NORTH BELL LAKE UNIT 4 #015	S	K-8 -23S-34E	K	30-025-24771	S	08/2010	09/01/2012	13589	18589		0	
22988	OWEN MESA 26 FEDERAL #001	F	G-26-24S-29E	G	30-015-25706	O	08/2010		12860			0	
5464	PHILLIPS HOUSE STATE #001	S	O-2 -20S-38E	O	30-025-07725	O	08/2010	09/01/2012	7106	12106		0	
5465	PURE GOLD A FEDERAL #001	F	N-21-23S-31E	N	30-015-23175	G	08/2010		14967			0	
5466	PURE GOLD B FEDERAL #001	F	O-20-23S-31E	O	30-015-23739	G	08/2010		Unknown			0	
5467	RED HILLS FEDERAL #001	F	A-6 -26S-33E	A	30-025-25049	G	08/2010		15249			0	
5471	STATE 8 #004	S	H-8 -16S-35E	H	30-025-08512	O	08/2010	09/01/2012	10535	15535		0	
	STATE 8 #006	S	N-8 -16S-35E	N	30-025-08514	O	08/2010	09/01/2012	10638	15638		0	
	STATE 8 #008	S	K-8 -16S-35E	K	30-025-12551	O	08/2010	09/01/2012	10624	15624		0	
22990	WILLOW LAKE 15 #001	P	O-15-24S-28E	O	30-015-26111	G	08/2010	09/01/2012	11829	16829		0	
	WILLOW LAKE 15 #002	P	J-15-24S-28E		30-015-28063	O	08/2010	09/01/2012	4912	9912		0	

WHERE Ogrid:12361

INFORMATION SHEET FOR PART 5.9

Oil Conservation Division (OCD) Rule 19.15.5.9 NMAC, commonly known as “Part 5.9,” requires operators to meet certain minimum compliance standards for the wells they already operate before they can drill, acquire, produce or inject into additional wells. If an operator is out of compliance as defined by Part 5.9, the OCD:

- May deny registration by the operator or certain related entities. *See* 19.15.9.8(B) NMAC.
- May deny applications for change of operator that would transfer wells to the operator. *See* 19.15.9.9(C) NMAC.
- Must deny injection permits. *See* 19.15.26.8(A) NMAC.
- May deny APDs. *See* 19.15.14.10(A) NMAC.
- Must deny allowable and authorizations to transport. *See* 19.15.16.19(A) NMAC.

In addition, the OCD may, after notice and hearing, revoke previously issued injection permits if the operator is out of compliance with Part 5.9. *See* 19.15.26.8(A) NMAC.

To stay in compliance with Part 5.9, an operator must:

- Keep current with the financial assurance requirements for well plugging. *See* 19.15.5.9(A)(1) NMAC.
- Comply with orders requiring corrective action. *See* 19.15.5.9(A)(2) NMAC.
- Pay properly assessed penalties. *See* 19.15.5.9(A)(3) NMAC.
- Have no more than a certain number of wells out of compliance with the inactive well rule. *See* 19.15.5.9(A)(4) NMAC.

FINANCIAL ASSURANCE REQUIREMENTS: The OCD’s financial assurance requirements for well plugging are set out in 19.15.8.9 NMAC. The OCD requires all state or fee wells to be covered by a financial assurance. The OCD does not require financial assurances for Federal or Indian wells.

The operator must either post a blanket financial assurance in the amount of \$50,000 to cover its state or fee wells, or post single-well financial assurances for each state or fee well in the amount set by the rule.

If the operator chooses to post a blanket financial assurance, it must also post single-well financial assurances for each state or fee well that has been inactive for more than two years that has not been plugged and released. Note that a single-well financial assurance is required even if the well is on approved temporary abandonment status, and even if the wellbore of the well has been plugged. To check compliance with this requirement, go to www.emnrd.state.nm.us/OCD, OCD Online, E-Permitting, Financial Assurance. Insert the operator name or OGRID, and hit “Get Report.” The report will list all the wells for that operator that have not been plugged and released. Wells currently in violation of the single-well financial assurance requirement will have a “Y” in the far right column, titled “In Violation.”

For information on how to post financial assurances, please contact OCD Financial Assurance Administrator Dorothy Phillips, (505) 476-3461, Dorothy.phillips@state.nm.us.

CORRECTIVE ACTION REQUIREMENTS: If an operator fails to take an action required by a hearing order or an agreed compliance order, the OCD may go to hearing to obtain a formal order finding the operator “in violation of an order requiring corrective action.” Once such an order is issued and becomes final, the operator will be out of compliance with Part 5.9 until that order is lifted. To lift the order, the operator must

complete the corrective action required, and file a motion to declare the order satisfied. The Oil Conservation Division or the Oil Conservation Commission, as appropriate, may grant the motion without hearing or may set the matter for hearing.

UNPAID PENALTIES: An operator with a penalty assessment unpaid more than 70 days after issuance of the order assessing the penalty will be in violation of Part 5.9 until that penalty is paid. Penalties may be assessed by the district court, or may be agreed to by the operator under an agreed compliance order entered into to resolve a compliance action.

INACTIVE WELLS: The inactive well rule, 19.15.25.8 NMAC, requires any well that has been inactive for a period of more than 15 months to be plugged and abandoned, placed on approved temporary abandonment status, or returned to production or other beneficial use. An operator will be out of compliance with Part 5.9 if it has too many wells in violation of the inactive well rule; the number of non-compliant wells allowed depends on the size of the operator. Under Part 5.9, if an operator operates:

- 1 well, it may have no wells out of compliance;
- 2 or 3 wells, it may have no more than 1 well out of compliance;
- 4 to 100 wells, it may have no more than 2 wells out of compliance;
- 101 to 500 wells, it may have no more than 5 wells out of compliance;
- 501 to 1000 wells, it may have no more than 7 wells out of compliance; and
- 1000 or more wells, it may have no more than 10 wells out of compliance.

To check compliance with 5.9 as to inactive wells, go to www.emnrd.state.nm.us/OCD, OCD Online, E-Permitting, Inactive Well List. Do not change the default search terms. Insert the operator name or OGRID, and hit "Get Report." The report will identify the wells that -- according to OCD records -- have been inactive for 15 months, are not on approved temporary abandonment status, do not have a plugged wellbore, and are not subject to an inactive well agreed compliance order. For purposes of Part 5.9, if a well appears on this list, there is a rebuttable presumption that the well is in violation of the inactive well rule. The heading of the list will also identify the total well count for the operator, and the total number of non-compliant inactive wells, so you can determine if the operator is in compliance with Part 5.9.

If your company has more non-compliant wells than allowed under Part 5.9, you will need to return wells to compliance by returning them to production or other beneficial use, placing them on approved temporary abandonment status, or plugging the wellbore. In some limited circumstances, the OCD may be willing to enter into an inactive well agreed compliance order setting a schedule for returning the wells to compliance and imposing sanctions if that schedule is not met. Wells covered by an inactive well agreed compliance order are not included when calculating Part 5.9 compliance. For information on inactive well agreed compliance orders, contact OCD Attorney Sonny Swazo at (505) 476-3463, Sonny.swazo@state.nm.us.