

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

NMOCD – ACOI- 112

IN THE MATTER OF MERIT ENERGY COMPANY,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), the Director of the Oil Conservation Division ("OCD") and Merit Energy Company ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring wells identified herein into compliance with the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 14591 for the wells identified in Exhibit "A," attached.
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.

B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....

....

(3) a period of one year in which a well has been continuously inactive."

5. The wells identified in Exhibit "A" are currently out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if no action is taken on the wells.
6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-3(A) defines "person" in relevant part as

"any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity..."

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit "A" are either out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with Rule 201.
4. Operator is a "person" as defined by OCD Rule 7.P(2) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring at least 40 of the wells identified in Exhibit "A" into compliance with OCD Rule 201 by August 10, 2006 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202.B(2) and filing a C-103 describing the completed work; or
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.
2. Operator shall file a compliance report by August 10, 2006 using the OCD's web-based on-line application, identifying each well returned to compliance, stating the date it was returned to compliance, and describing how the well was returned

to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status).

3. When the OCD receives a timely compliance report indicating that Operator has returned at least 40 of the wells identified in Exhibit "A" to compliance and verifies the accuracy of that report, the OCD shall issue an amendment to this Order extending its terms for an additional six-month period, and requiring Operator to return at least 12 of the wells identified in Exhibit "A" to compliance during that six-month period and file a timely compliance report. OCD shall provide a copy of that amendment to Operator at Operator's address of record provided pursuant to OCD Rule 100.C. If, in any six-month period granted by amendment, Operator returns more than the required number of wells from Exhibit "A" to compliance, the wells in excess of the number required will count towards the Operator's requirements for the next six-month period.
4. If Operator continues to return wells to compliance at a rate of at least 12 wells each six-month period granted by amendment, OCD shall continue to issue amendments to this Order extending its term for an additional six-month period and providing that Operator shall return at least 12 of the wells identified in Exhibit "A" to compliance during that term or, if fewer than 12 of the wells identified in Exhibit "A" remain out of compliance, to return all of the remaining wells to compliance. The total length of this Agreed Compliance Order, including the initial six-month period and any amendments, shall not exceed two years. At the end of two years, Operator and the OCD may negotiate a new agreed compliance order.
5. If Operator fails to bring at least 40 wells into compliance during the initial six month period, or fails to bring at least 12 wells into compliance during any six month period granted by amendment, Operator agrees to pay a penalty equal to \$1000 times the number of wells it failed to bring into compliance under its schedule during the applicable six month period. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its schedule, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and serve the OCD's Enforcement and Compliance Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, the application shall be set for hearing. Once Operator pays the penalty or files an administrative application to request a waiver or reduction of the penalty, the OCD may, in its discretion, issue an amendment to this Order extending its terms for an additional six-month period.

Example A: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in a six-month period. At the end of the six-month period, Operator X has brought only 3 wells into compliance. Operator X pays the \$2000 penalty. The OCD exercises its discretion to issue an

amendment extending the term of the agreed compliance order for an additional six-month period, again requiring Operator X to bring at least 5 wells into compliance. During this additional six-month period, Operator brings only one well into compliance. Operator X pays a \$4000 penalty. Although Operator X pays the \$4000 penalty, the OCD exercises its discretion and declines to issue an amendment to extend the terms of the agreed compliance order for an additional six-month period.

Example B: Operator Y enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in a six-month period. Although Y has made arrangements for plugging the 10 wells, due to adverse weather conditions and mechanical difficulties with the available plugging rig, Y is able to plug only 3 wells. Y files an administrative application for hearing seeking to waive the \$7000 penalty, and serves the Enforcement and Compliance Manager with a copy of the application. The Enforcement and Compliance Manager does not concur with the application's request to waive the full amount of the penalty, so the application is set for hearing. The OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for an additional six-month period.

6. Thirty days after the expiration of the term of this Order and any amendments to this Order, any wells on Exhibit "A" not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
7. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance 40 of the wells identified in Exhibit "A" by August 10, 2006, and agrees to comply with the compliance deadlines set by any amendments to this Order;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 2 and as required by any amendments to this Order;
 - (d) agrees to pay penalties as set out in Ordering Paragraph 5 if it fails to return the required number of wells to compliance under the deadlines set by this Order or any amendments to this Order;
 - (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from this Order; and
 - (f) agrees that the Order and amendments to the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.

8. This Order applies only to those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act.
9. The Oil Conservation Division reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.
10. This Order is effective February 10, 2006.

Done at Santa Fe, New Mexico this 14th day of Feb, 2006

By: 

Mark Fesmire, P.E.

Director, Oil Conservation Division

ACCEPTANCE

Merit Energy Company hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Merit Energy Company

By: 

Daniel D Zilmer

Title: Region Manager

Date: 2/10/06

**Exhibit "A" to Agreed Compliance Order
for Merit Energy Company**

District	API	Well	ULSTR	Unit	Type	Production	Problem	Corrective Action	Group
2	30-015-05219	C A RUSSELL #006	C-18-17S-31E	C	I	May-05	WWV will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-20246	COLLATT ESTATE COM #001	J-1-23S-26E	J	G	Aug-04	Well is SI due to harmful well work that killed the well	Test uphole zones and evaluate potential	10
2	30-015-05613	EAST SHUGART UNIT #001	P-27-18S-31E	P	I	Jun-05	Problem unknown	RU to remediate well and return to injection or P&A	9
2	30-015-05687	EAST SHUGART UNIT #005	D-35-18S-31E	D	O	May-05	Currently online but needs well test	Get well test and file corrected C-115	1
2	30-015-05700	EAST SHUGART UNIT #007	B-35-18S-31E	B	O	May-05	Problem unknown	RU to remediate well and return to production or P&A	9
2	30-015-05704	EAST SHUGART UNIT #008	A-35-18S-31E	A	O	May-05	Problem unknown	Work completed	9
2	30-015-05694	EAST SHUGART UNIT #012	E-35-18S-31E	E	O	Aug-03	Paper work	P&A form has been submitted	4
2	30-015-05685	EAST SHUGART UNIT #029	N-34-18S-31E	N	I	Jun-05	Problem unknown	RU to remediate well and return to injection or P&A	9
2	30-015-27953	EAST SHUGART UNIT #062	G-3-19S-31E	G	O	May-05	Problem unknown	RU to remediate well and return to production or P&A	9
2	30-015-28209	EAST SHUGART UNIT #070	M-35-18S-31E	M	O	Feb-05	Problem unknown	RU to remediate well and return to production or P&A	9
2	30-015-28278	EAST SHUGART UNIT #078	K-35-18S-31E	K	O	Jun-05	Problem unknown	RU to remediate well and return to production or P&A	9
2	30-015-05249	FREN OIL COMPANY #001	O-19-17S-31E	O	O	Feb-03	Casing integrity	File notice of intent to P&A and schedule P&A	7
2	30-015-05255	FREN OIL COMPANY #007	N-19-17S-31E	N	I	Mar-05	Data processing	Inj. Wtr - 45 BWPD - File corrected C-115	2
2	30-015-05259	FREN OIL COMPANY #011	J-19-17S-31E	J	O	Dec-92	Paper work	P&A form has been submitted	4
2	30-015-05260	FREN OIL COMPANY #012	O-19-17S-31E	O	I	Oct-04	Data processing	Inj. Wtr - 95 BWPD - File corrected C-115	2
2	30-015-29537	FREN OIL COMPANY #025	I-19-17S-31E	I	O	Apr-05	Data processing	Inj. Wtr - 500 BWPD - File corrected C-115	2
2	30-015-28856	FRIESS FEDERAL #004	J-19-17S-31E	J	O	Sep-04	Data processing	Producing Oil - 1 Oil & 695 Wtr - File corrected C-115	3
2	30-015-05064	H E WEST A #005	J-4-17S-31E	J	I	Jun-05	Data processing	Inj. Wtr - 109 BWPD - File corrected C-115	2
2	30-015-05065	H E WEST A #006	H-4-17S-31E	H	I	Apr-05	WWV will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-05066	H E WEST A #007	I-4-17S-31E	A	I	Dec-03	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-05054	H E WEST A #011	G-3-17S-31E	G	I	Jul-05	Data processing	Inj. Wtr - 530 BWPD - File corrected C-115	2
2	30-015-28465	H E WEST A #030	F-3-17S-31E	F	O	Nov-04	Data processing	Producing Oil - 7 Oil & 34 Wtr - File corrected C-115	3
2	30-015-05068	H E WEST B #003	3-4-17S-31E	C	I	Dec-92	Problem unknown	RU to remediate well and return to injection or P&A	9
2	30-015-05118	H E WEST B #012	G-9-17S-31E	G	I	Apr-05	WWV will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-05122	H E WEST B #013	E-10-17S-31E	E	I	Aug-04	WWV will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-05119	H E WEST B #017	I-9-17S-31E	I	I	Sep-04	WWV will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-05057	H E WEST B #018	O-3-17S-31E	O	I	Sep-04	Scheduling MIT Test	Test completed 1/13/06	8
2	30-015-05125	H E WEST B #019	C-10-17S-31E	C	I	Jan-05	WWV will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-05126	H E WEST B #020	O-10-17S-31E	O	I	Nov-04	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-05950	H E WEST B #022Y	O-9-17S-31E	O	I	Oct-04	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-05128	H E WEST B #024	A-10-17S-31E	A	I	Jan-05	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-05060	H E WEST B #026	I-3-17S-31E	I	I	May-05	WWV will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-10376	H E WEST B #029	C-9-17S-31E	C	I	Jun-05	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-25921	H E WEST B #031	P-10-17S-31E	P	O	Nov-04	Data processing	Producing Oil - 2 Oil & 100 Wtr - File corrected C-115	3
2	30-015-25944	H E WEST B #033	L-3-17S-31E	L	I	May-05	WWV will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-25995	H E WEST B #036	H-9-17S-31E	H	I	Dec-04	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-26033	H E WEST B #041	N-10-17S-31E	N	O	Dec-04	Data processing	Producing Oil - 2 Oil & 100 Wtr - File corrected C-115	3
2	30-015-26049	H E WEST B #043	M-9-17S-31E	M	O	Nov-04	Data processing	Producing Oil - 3 Oil & 3 Wtr - File corrected C-115	3
2	30-015-26203	H E WEST B #047	B-9-17S-31E	B	I	Jul-04	Data processing	Inj. Wtr - 2 BWPD - File corrected C-115	2
2	30-015-27354	H E WEST B #067	G-10-17S-31E	O	Nov-04	Data processing	Producing Oil - 6 Oil & 280 Wtr - File corrected C-115	3	
2	30-015-28131	H E WEST B #072	P-9-17S-31E	P	O	Mar-95	SI	RU to remediate well and return to production or P&A	9
2	30-015-28469	H E WEST B #090	K-9-17S-31E	K	O	Oct-04	Casing integrity	RU to remediate well and return to production or P&A	9
2	30-015-29349	H E WEST B #094	B-10-17S-31E	B	I	Apr-05	MIT test	Passed test and returned to injection	9
2	30-015-29348	H E WEST B #096	L-4-17S-31E	L	I	Jul-05	Injection well will not take water	Cleanout well, acidize, and return to injection	6

**Exhibit "A" to Agreed Compliance Order
for Merit Energy Company**

District	API	Well	ULSTR	Unit	Type	Production	Problem	Corrective Action	Group
2	30-015-26008	HUDSON FEDERAL #006	H-18-17S-31E	H	I	May-05	Problem unknown	RU to remediate well and return to injection or P&A	10
2	30-015-31251	HUDSON FEDERAL #014	D-17-17S-31E	D	O	Jan-05	Data processing	Producing Oil - 8 Oil & 165 Wtr - File corrected C-115	3
2	30-015-05091	J L KEEL A #003	N-7 -17S-31E	N	I	Mar-05	Data processing	Inj Wtr - 141 BWPD - File corrected C-115	2
2	30-015-05094	J L KEEL A #006	P-7 -17S-31E	P	I	Dec-04	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-25423	J L KEEL A #016	F-7 -17S-31E	F	I	Apr-05	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-28047	J L KEEL A #022	A-7 -17S-31E		O	Aug-03	Problem unknown	RU to remediate well and return to production or P&A	9
2	30-015-05082	J L KEEL B #022	L-5 -17S-31E	L	I	Mar-05	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-05088	J L KEEL B #025	6-6 -17S-31E	L	I	Aug-04	Casing integrity	RU to remediate well and return to injection or P&A	9
2	30-015-05089	J L KEEL B #026	7-6 -17S-31E	M	I	May-05	Injection well will not take water	Cleanout well, acidize, and return to injection	6
2	30-015-24694	J L KEEL B #032	2-6 -17S-31E	B	I	May-05	Data processing	Inj Wtr - 83 BWPD - File corrected C-115	2
2	30-015-25448	J L KEEL B #035	3-6 -17S-31E	C	I	Jul-05	Data processing	Inj Wtr - 65 BWPD - File corrected C-115	2
2	30-015-26100	J L KEEL B #046	P-8 -17S-31E	P	O	Nov-04	Data processing	Producing Oil - 13 Oil & 40 Wtr - File corrected C-115	3
2	30-015-28099	J L KEEL B #053	O-6 -17S-31E	O	O	Sep-04	Problem unknown	RU to remediate well and return to production or P&A	9
2	30-015-05469	MAX FRIESS MA #002	A-30-17S-31E	A	I	Nov-04	WIW will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-26656	MAX FRIESS MA #005	A-30-17S-31E	A	O	Nov-04	Problem unknown	RU to remediate well and return to production or P&A	9
1	30-025-21267	MESCALERO RIDGE UNIT #013	L-35-19S-34E	L	O	Jan-99	Currently online but needs well test	Get well test and file corrected C-116	1
1	30-025-21613	MESCALERO RIDGE UNIT #014	D-35-19S-34E	D	O	Jan-95	Currently online but needs well test	Get well test and file corrected C-117	1
1	30-025-21858	MESCALERO RIDGE UNIT #016	O-35-19S-34E	O	O	Jul-93	Currently online but needs well test	Get well test and file corrected C-118	1
1	30-025-21856	MESCALERO RIDGE UNIT #022	C-21-19S-34E	C	O	Jun-01	Problem unknown	Test uphole zones and evaluate potential	10
1	30-025-02391	MESCALERO RIDGE UNIT #211	D-21-19S-34E	D	O	Sep-02	Problem unknown	Test uphole zones and evaluate potential	10
1	30-025-02399	MESCALERO RIDGE UNIT #282	B-28-19S-34E	B	S	Sep-04	SI	File notice of intent to P&A and schedule P&A	7
1	30-025-21264	MESCALERO RIDGE UNIT #359	I-35-19S-34E	I	G	Oct-00	Casing integrity	RU to remediate well and return to production or P&A	9
2	30-015-05237	TURNER A #009	B-19-17S-31E	B	I	Jun-05	Data processing	Inj Wtr - 225 BWPD - File corrected C-115	2
2	30-015-05216	TURNER A #013	I-18-17S-31E	I	I	May-05	WIW will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-05239	TURNER A #014	2-19-17S-31E	E	I	May-05	WIW will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-20097	TURNER A #035	H-19-17S-31E	H	I	Jul-05	Data processing	Inj Wtr - 180 BWPD - File corrected C-115	2
2	30-015-20098	TURNER A #036	G-19-17S-31E	G	I	Jun-05	Data processing	Inj Wtr - 154 BWPD - File corrected C-115	2
2	30-015-28890	TURNER A #045	C-19-17S-31E	C	O	Oct-04	Problem unknown	RU to remediate well and return to production or P&A	9
2	30-015-05182	TURNER B #002	M-17-17S-31E	M	I	Dec-04	Data processing	Inj Wtr - 1 BWPD - File corrected C-115	2
2	30-015-05184	TURNER B #005	L-17-17S-31E	L	I	Dec-92	Casing integrity	File notice of intent to P&A and schedule P&A	7
2	30-015-05186	TURNER B #030	P-17-17S-31E	P	I	Jun-05	WIW will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-05278	TURNER B #042	E-20-17S-31E	E	I	Jun-05	Problem unknown	RU to remediate well and return to injection or P&A	9
2	30-015-05314	TURNER B #043	M-20-17S-31E	M	I	Apr-05	Data processing	Inj Wtr - 303 BWPD - File corrected C-115	2
2	30-015-05313	TURNER B #046	P-20-17S-31E	P	I	Jan-05	Casing integrity	RU to remediate well and return to injection or P&A	9
2	30-015-05435	TURNER B #047	B-29-17S-31E	B	I	Oct-04	Data processing	Inj Wtr - 151 BWPD - File corrected C-115	2
2	30-015-05437	TURNER B #050	O-29-17S-31E	D	I	Jul-04	Casing integrity	File notice of intent to P&A and schedule P&A	7
2	30-015-05444	TURNER B #055	H-29-17S-31E	H	I	Jan-05	Data processing	Inj Wtr - 200 BWPD - File corrected C-115	2
2	30-015-05452	TURNER B #068	P-29-17S-31E	P	I	Jun-05	Data processing	Inj Wtr - 242 BWPD - File corrected C-115	2
2	30-015-05454	TURNER B #071	M-29-17S-31E	M	O	Oct-04	Casing integrity	RU to remediate well and return to production or P&A	9
2	30-015-05302	TURNER B #072	O-20-17S-31E	O	I	Jun-05	Currently online but needs MIT test	Schedule MIT test	8
2	30-015-05303	TURNER B #078	J-20-17S-31E	J	I	Jun-05	WIW will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-20109	TURNER B #079	K-20-17S-31E	K	I	Jun-05	WIW will take water but needs surface equipment work	Upgrade and repair surface equipment	5
2	30-015-26596	TURNER B #092	N-20-17S-31E	N	O	May-05	Data processing	Producing Oil - 8 Oil & 6 Wtr - File corrected C-115	3
2	30-015-26664	TURNER B #102	C-20-17S-31E	C	O	Jun-05	Data processing	Producing Oil - 3 Oil & 160 Wtr - File corrected C-115	3

Exhibit "A" to Agreed Compliance Order for Merit Energy Company

District	API	Well	ULSTR	Unit	Type	Production	Problem	Corrective Action	Group
2	30-015-29622	TURNER B #136	I-20-17S-31E	I	O	Jan-05	SI	Work completed	9
2	30-015-05201	V L FOSTER #002	J-17-17S-31E		O	Sep-97	Problem unknown	RU to remediate well and return to production or P&A	9
2	30-015-05203	V L FOSTER #004	J-17-17S-31E	J	O	Jan-99	Problem unknown	RU to remediate well and return to production or P&A	9

Merit Energy Company

By:

D. J. D. Zhn

Title:

Region Manager

Date:

2/10/06