

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

NMOCD - ACOI 126-A

IN THE MATTER OF McKAY OIL CORP.,

Respondent.

**AMENDED
AGREED COMPLIANCE ORDER**

Pursuant to Ordering Paragraph 3 of Agreed Compliance Order 126, the Director of the Oil Conservation Division (“OCD”) hereby amends that order as follows:

FINDINGS

1. Agreed Compliance Order 126 (ACOI 126) requires McKay Oil Corp. (Operator) to return to compliance with OCD Rule 201 the fourteen wells identified in ACOI 126 by October 31, 2006, and file a compliance report by that date. “Compliance,” as defined in ACOI 126, requires Operator to perform the work required to return a well to production or other beneficial use, plug the wellbore, or place the well on approved temporary abandonment, and file the appropriate paperwork.

2. ACOI 126 further provides that if Operator fails to return all fourteen wells identified in ACOI 126 by October 31, 2006, Operator shall be subject to a penalty of \$1000 for each identified well it failed to return to compliance by October 31, 2006. ACOI 126 provides that Operator may request a waiver or reduction of the penalty and an amendment to ACOI 126 extending its terms for an additional period not to exceed six months.

3. Operator filed a timely compliance report, and the OCD has verified that OCD records indicate that Operator has returned the following wells identified in ACOI 126 to compliance:

- | | |
|-----------------------|--------------|
| • Bonnie Federal #001 | 30-005-62551 |
| • Isler Fee #001 | 30-005-60955 |
| • Macho State #001 | 30-005-61028 |
| • Miller Federal #001 | 30-005-60955 |
| • Rugged Federal #001 | 30-005-62851 |
| • West Fork Unit #001 | 30-005-62625 |
| • Wolf State #001 | 30-005-61044 |

4. The following wells identified in ACOI 126 remain out of compliance:

- Cottonwood Federal Com #001 30-005-62654
- Huggins Draw #001 30-005-61142
- Sherri #001 30-005-61278
- South Four Mile Draw B Fed. Com #008 30-005-63152
- Terry Federal #004 30-005-62350
- West Fork Unit #002 30-005-62482
- West McKay Harvey Federal A #001 30-005-62189

5. Operator requested a waiver of penalties, and provided the following information in support of its request.

- Cottonwood Federal Com #001: Operator states it has been working over the well since February 28, 2006, and is currently swabbing the bottom zones. Operator states it is without a pump-jack to lift water and enable water to flow.
- Huggins Draw #001: Operator states it was without equipment from July 1, 2006 through September 28, 2006 to work on the well. Operator states it began work on the well October 13, 2006, and is currently swabbing upper zones and unloading large quantities of water.
- Sherri #001: Operator faxed a copy of a federal sundry notice indicating the wellbore was plugged and the plugging was approved by the Bureau of Land Management November 13, 2006. Approval has not yet been recognized by the OCD.
- South Four Mile Draw B Fed. Com #008: Operator faxed a copy of a federal sundry, which also appears in OCD files, reporting the wellbore plugged in December 2002, but no marker installed. OCD records, however, show that Operator reported production from this well as recently as 2004.
- Terry Federal #004: Operator faxed a copy of a federal sundry indicating that the well was returned to production on October 14, 2006. A C-115 production report showing this production will not be due until mid-December, 2006.
- West Fork Unit #002: Operator faxed an OCD sundry notice (not yet approved) indicating that the well was returned to production on October 21, 2006. A C-115 production report showing this production will not be due until mid-December, 2006.
- West McKay Harvey Federal A #001: Operator states it is without proper equipment to re-work the well.

CONCLUSIONS

1. Operator failed to meet its goal of returning 14 wells to compliance by October 31, 2006, missing its goal by 7 wells.

2. Operator has demonstrated good faith in its attempt to meet the goal set in ACOI 126 by returning 7 wells to compliance, by completing the work necessary to return two additional wells to production, by completing the work necessary to plug the wellbore of one well, and by working to bring additional wells to compliance.

3. The OCD should waive the \$7,000 penalty otherwise due under the terms of ACOI 126.

4. The OCD should amend ACOI 126 to extend its terms through February 28, 2007 and require Operator to return the wells identified in Findings Paragraph 5, above, to compliance by that date or be assessed a penalty of \$1,000 for each well not returned to compliance by that date.

ORDER

1. The OCD waives the \$7,000 in penalties otherwise due under the terms of ACOI 126 for Operator's failure to return 7 wells to compliance by October 31, 2006.

2. Operator shall return to compliance by February 28, 2007 the 7 wells identified in Findings Paragraph 5, above.

3. If Operator fails to return the 7 wells identified in Findings Paragraph 5, above, to compliance by February 28, 2007, Operator shall be assessed a penalty of \$1,000 for each well not returned to compliance by that date.

4. Operator shall file a compliance report by February 28, 2007 using the Oil Conservation Division's web-based on-line application.

5. The terms of ACOI 126 otherwise remain in effect.

Done at Santa Fe, New Mexico this 28th day of November, 2006

By: 
Mark Fesmire, P.E.
Director, Oil Conservation Division