

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

NMOCD - ACO 226

IN THE MATTER OF LOUIS AND JUDY FULTON, dba CFM OIL 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") and 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and Louis and Judy Fulton, dba CFM Oil Company ("the Fultons" or "Operator") enter into this Agreed Compliance Order ("Order" or "ACO").

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. The Fultons operate wells in New Mexico under OGRID 3322.

Registration and financial assurance issues:

3. Prior to commencing operations, an operator of a well or wells in New Mexico must register with the division as an operator and obtain an oil and gas registration identification (OGRID) number. 19.15.9.8.A NMAC. If the entity responsible for a well or a group of wells changes, the operator of record and the new operator must apply for a change of operator. 19.15.9.9 NMAC. When the change of operator is complete, the wells will be identified under the new operator's OGRID.
4. NMSA 1978, Section 70-2-14 requires each person or business entity that operates an oil, gas or service well within New Mexico to furnish financial assurance to the OCD for the plugging and abandonment of the well.
5. Pursuant to NMSA 1978 Section 70-2-14 the Oil Conservation Commission (OCC) has adopted rules regarding financial assurances, requiring operators in New Mexico to either 1) post a single well financial assurance for each state or fee well, or 2) post a blanket \$50,000 financial assurance and post a single well financial assurance for each state or fee well inactive for more than 2 years. See 19.15.8.9 NMAC.
6. OCD records show a \$50,000 blanket cash bond associated with OGRID 3322. The bond was posted in 1991 and signed by Claud Clifton, Louis Fulton and George Moreau as partners in CFM Oil Company.

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7. OCD records show the following single well cash bonds for wells operated under OGRID 3322 that have been inactive for more than two years. These financial assurances identify the operator as Louis Fulton or Judy Fulton, dba CFM Oil Company, and describe the entity as a sole proprietorship. Four of the bonds were signed by Judy Fulton as "owner;" one of the bonds was signed by Judy Fulton as "Attorney in Fact."
 - \$6,700 for the Lucky Strike State No. 1, 30-005-63006, posted in 2010
 - \$7,543 for the Gulf State No. 1, 30-015-23319, posted in 2009
 - \$6,080 for the Williams No. 3, 30-015-00318, posted in 2010
 - \$5,800 for the State B III No. 16, 30-015-23455, posted in 2010
 - \$8,875 for the Miley No. 1, 30-015-02819, posted in 2007.
8. When the responsibility for a well or a group of wells changes from a partnership to a sole proprietorship, that requires an operator change. The sole proprietorship needs to acquire its own OGRID number, and the required financial assurances must be posted by the sole proprietorship.
9. To resolve the registration and financial assurance issues associated with the wells listed under OGRID 3322, Louis Fulton intends to create a new entity, CFM Oil, LLC, a single member limited liability company, with Louis Fulton as the initial member. CFM Oil, LLC will register with the OCD as an operator, obtain its own OGRID number, post the required financial assurances, and become operator of record of the wells currently identified with OGRID 3322.

Part 5.9 issues:

10. 19.15.5.9 NMAC (Part 5.9) considers whether an operator is seriously out of compliance with certain requirements. One of the requirements covered by Part 5.9 is the inactive well rule: 19.15.26.8 NMAC. An operator will be out of compliance with Part 5.9 if the operator has too many wells out of compliance with the inactive well rule that are not subject to an agreed compliance order setting a schedule for returning the wells to compliance and imposing sanctions if the operator does not meet that schedule.
11. As an operator of 148 wells, to be in compliance with Part 5.9 the Fultons may have no more than 5 wells in violation with the inactive well rule. See 19.15.5.9.A(4)b) NMAC.
12. If an operator is out of compliance with Part 5.9, the OCD may or must deny certain privileges to the operator. The OCD may deny well transfers to the operator (see 19.15.9.9 NMAC); the OCD may deny applications for permits to drill (see 19.15.14.10 NMAC); the OCD must deny requests for allowable and authorizations to transport (see 19.15.16.19 NMAC); and the OCD must deny injection permits. See 19.15.26.8 NMAC.
13. According to the list of inactive wells kept pursuant to Part 5.9, the Fultons have 8 wells in violation of the inactive well rule. These wells have been inactive for a period of more than one year plus 90 days, do not have their wellbores plugged, are not on approved temporary abandonment status, and are not subject to an agreed compliance order setting a schedule for returning the wells to compliance and imposing sanctions if the operator does not meet the schedule:

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Total Well Count: 148 Inactive Well Count: 8 Since: 7/29/2009

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production
2	30-015-23319	CS GULF STATE #002	D-32-16S-29E	D	3322	C F M OIL CO DBA LOUIS AND JUDY FULTON	S	O	01/2006
2	30-015-03950	DEKALB FEDERAL #001	P-31-16S-30E	P	3322	C F M OIL CO DBA LOUIS AND JUDY FULTON	F	I	05/2009
2	30-015-03952	DEKALB FEDERAL #003	J-31-16S-30E	J	3322	C F M OIL CO DBA LOUIS AND JUDY FULTON	F	I	05/2009
2	30-015-27407	EXXON FEDERAL #001	M-29-16S-29E	M	3322	C F M OIL CO DBA LOUIS AND JUDY FULTON	F	G	01/2000
2	30-015-03960	FEDERAL E #003	F-31-16S-30E	F	3322	C F M OIL CO DBA LOUIS AND JUDY FULTON	F	I	03/2007
2	30-015-23455	STATE B 1111 #016	F-22-17S-28E	F	3322	C F M OIL CO DBA LOUIS AND JUDY FULTON	S	O	09/2007
2	30-015-22129	WEST FEDERAL #001	G-14-17S-27E	G	3322	C F M OIL CO DBA LOUIS AND JUDY FULTON	F	G	01/2003
2	30-015-00318	WILLIAMS #003	B-25-18S-26E	B	3322	C F M OIL CO DBA LOUIS AND JUDY FULTON	P	O	09/2007

14. The Fultons have filed applications for injection permits for three of their non-compliant wells: the DeKalb Federal #001, the DeKalb Federal #003 and the Federal E #003. Because the Fultons are currently out of compliance with the inactive well rule as defined by Part 5.9, the OCD must deny those injection permits.
15. If the Fultons could obtain injection permits for three of its non-compliant wells and return them to injection, they would reduce the number of non-compliant inactive wells to 5, and be in compliance with Part 5.9.

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CONCLUSIONS

1. The eight wells identified in Findings Paragraph 13, above, are out of compliance with the inactive well rule, OCD Rule 19.15.25.8 NMAC.
2. The Fultons are out of compliance with Part 5.9 because they have more than 5 wells out of compliance with the inactive well rule that are not subject to an inactive well agreed compliance order that sets a schedule for returning the wells to compliance and sanctions if the operator fails to meet that schedule.
3. If the Fultons return the DeKalb Federal #001, the DeKalb Federal #003 and the Federal E #003 to injection, that will reduce their inactive well list to 5 and they will be in compliance with Part 5.9.
4. However, the Fultons cannot obtain injection permits for the DeKalb Federal #001, the DeKalb Federal #003 and the Federal E #003 while they are out of compliance with Part 5.9.
5. In order to allow CFM to apply for injection permits for the DeKalb Federal #001, the DeKalb Federal #003 and the Federal E #003, the OCD and the Fultons enter into an agreement under which the OCD will remove the three wells from the inactive well list for a limited period of time.
6. To resolve the outstanding issues regarding registration and financial assurances for the wells identified under OGRID 3322, Louis Fulton agrees to create a new, properly registered entity, post the required financial assurances under the name of that entity, and transfer the wells to that entity.

ORDER

1. Louis Fulton agrees that by April 1, 2011, they will transfer the wells identified under OGRID 3322 to a new, properly registered entity following the operator transfer provisions of 19.15.9.9 NMAC and post the required financial assurances under the name of the new entity.
2. If the wells identified under OGRID 3322 have not been transferred to a new entity by April 1, 2011, the OCD shall file an application for hearing requiring the Fultons to resolve the registration and financial assurance issues associated with the wells identified under OGRID 3322. The OCD may seek sanctions for the Fultons' non-compliance with the registration and financial assurance rules.
3. In consideration of the Fultons' efforts to return wells to compliance with the inactive well rule by applying for permits to return the wells to injection, the OCD agrees that until January 1, 2011 it will remove the following wells from the inactive well list kept pursuant to 19.15.5.9.F NMAC, and not consider these wells when determining the Fulton's compliance with Part 5.9:

2 30 015-03950 DEKALB P-31-165-301 P 3322 CFM OIL F-1 05/2009
FEDERAL CO DBA
#001 LOUIS ANI

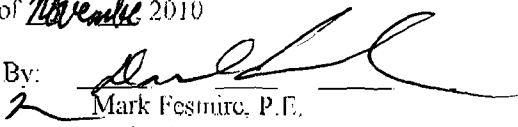
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JUDY
FULTON
2 30-015-03952 DEKALB J-31 165-30E J 3322 C F M OIL F I 05/2009
FEDERAL CO DBA
#003 LOUIS AND
JUDY
FULTON

2 30-015-03960 FEDERAL E F 31-165-30E F 3322 C F M OIL F I 03/2007
#003 CO DBA
LOUIS AND
JUDY
FULTON

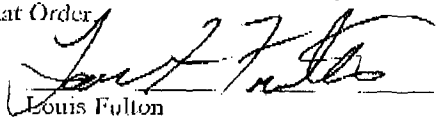
4. On January 2, 2011, the Dekalb Federal #001, the Dekalb Federal #003 and the Federal E #003 will reappear on the inactive well list kept pursuant to 19.15.5.9, F NMAC if they remain out of compliance with the inactive well rule.
5. If the OCD has not acted on the Fultons' injection applications for the wells by January 1, 2011, the Fultons may seek an amendment to this Order extending its effective date. The OCD will not extend the effective date of this Order if the Fultons have allowed additional wells to fall out of compliance with the inactive well rule.
6. This Order applies only to the enforcement of 19.15.25.8 NMAC against the three wells identified in Ordering Paragraph 1, above. If the wells identified in Ordering Paragraph 1, above, are out of compliance with the Oil and Gas Act or OCD rules other than 19.15.25.8 NMAC, they may be subject to immediate enforcement action under the Oil and Gas Act and OCD rules.
7. The OCD reserves the right to file an application for hearing to obtain authority to plug any well and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this 15th day of November 2010

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

ACCEPTANCE

Louis and Judy Fulton, dba CFM Oil Co., hereby accept the foregoing Order, and agree to all of the terms and provisions set forth in that Order.

By: 
Louis Fulton
Title: Owner
Date: 11-11-2010

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By: Judy Edilton
Title: Owner
Date: 11-11-10

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