

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

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APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE SUPERVISOR OF DISTRICT I, FOR AN ORDER DETERMINING THAT MGM OIL & GAS CO. KNOWINGLY AND WILLFULLY VIOLATED NMSA 1978, SECTION 70-2-31(B)(2), 19.15.13.115.A NMAC AND 19.15.4.201 NMAC; REQUIRING MGM OIL & GAS CO. TO BRING SIX WELLS INTO COMPLIANCE WITH 19.15.4.201 NMAC; ASSESSING APPROPRIATE CIVIL PENALTIES; AND IN THE EVENT OF NON-COMPLIANCE, AUTHORIZING THE DIVISION TO PLUG SAID WELLS AND FORFEIT THE APPLICABLE PLUGGING BOND; LEA COUNTY, NEW MEXICO.

CASE NO. 1337^y

APPLICATION FOR COMPLIANCE ORDER

1. The records of the Oil Conservation Division (“Division”) identify “MGM Oil & Gas Co.” as the operator of record under OGRID 14771 for the following wells located in Lea County, New Mexico (hereinafter the “subject wells”):

Kemnitz Wolfcamp Unit #6, API 30-025-01918, M-19-16S-34E

Kemnitz Wolfcamp Unit #9, API 30-025-01921, M-20-16S-34E

Kemnitz Wolfcamp Unit #19, API 30-025-01272, C-25-16S-33E

Kemnitz Wolfcamp Unit #21, API 30-025-01274, E-25-16S-33E

Kemnitz Wolfcamp Unit #22, API 30-025-01273, G-25-16S-33E

Kemnitz Wolfcamp Unit #28, API 30-025-01944, K-30-16S-34E

2. The records of the Division indicate that the Operator’s obligation to plug and abandon the subject wells in compliance with the rules of the Oil Conservation

Division ("Division") is secured with a \$50,000 blanket bond, number RLB0001523, issued by RLI Insurance Company ("Surety").

3. Division rule 19.15.4.201 NMAC (rule 201) requires an operator to plug and abandon or temporarily abandon a well in accordance with Division rules within 90 days after a period of one year of continuous inactivity.

4. Operator is reporting production for the subject wells.

5. Division inspections show, however, that the subject wells have been shut in since at least September 26, 2000. The wells have not been plugged and abandoned pursuant to 19.15.4.202 NMAC (rule 202) or temporarily abandoned pursuant to 19.15.4.203 NMAC (rule 203).

6. Division rule 19.15.101.M NMAC (rule 101.M) authorizes the Director to order the operator to plug and abandon any well not in compliance with rule 201 by a date certain, and to direct the Division to forfeit the bond and cause such well to be plugged in accordance with a Division-approved plugging program if, after the time provided in such order, the operator has failed to plug the well.

7. NMSA 1978, Section 70-2-31(B) prohibits any person from knowingly and willfully making any false entry or statement in a report required by the Oil and Gas Act or by any rule, regulation or order of the commission or division issued pursuant to that act for the purpose of evading or violating the Oil and Gas Act.

8. 19.15.13.1115.A NMAC (rule 1115.A) provides in relevant part:

"Operator's monthly report, form C-115 or form C-115-EDP, shall be filed on each producing lease and each secondary or other enhanced recovery project or pressure maintenance project injection well within the state of New Mexico for each calendar month, setting forth complete information and data indicated on said forms in the order, format and style prescribed by the division director. Oil production from wells which are

producing into common storage shall be estimated as accurately as possible on the basis of periodic tests.”

9. Form C-115 requires the operator to report the amount of production by well.

10. NMSA 1978, Section 70-2-31(A) provides, in relevant part,

“Any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars (\$1,000) for each violation. For purposes of this subsection, in the case of a continuing violation, each day of violation shall constitute a separate violation.”

WHEREFORE, the Supervisor of District I of the Division hereby applies to the Director to enter an order:

- A. Determining that the Operator has knowingly and willfully filed false reports of production on the subject wells for the purpose of evading or violating the Oil and Gas Act, in violation of NMSA 1978, Section 70-2-31(B)(2) and rule 1115.A;
- B. Determining that the subject wells are not in compliance with Division rule 201 and that the Operator has knowingly and willfully violated that rule;
- C. Imposing civil penalties for the Operator’s knowing and willful violation of NMSA 1978, Section 70-2-31(B)(2), rule 1115.A and rule 201;
- D. Requiring the Operator to bring each of the subject wells into compliance with rule 201 within a date certain by plugging and abandoning the well in accordance with rule 202, securing temporary abandonment status for the

subject well in accordance with rule 203, or returning the subject well to a Division-approved beneficial use; and

E. Further, if the subject wells are not brought into compliance with rule 201 by the date set by the order:

(1) Assessing an additional civil penalty against the Operator for violating the order;

(2) Authorizing the Division to plug the subject wells in accordance with a Division-approved plugging program; and

(3) Authorizing the Division to declare forfeit the applicable security; and

F. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 18th day of October, 2004 by



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Case No. 13374. Application of the New Mexico Oil Conservation Division for a Compliance Order. The Applicant seeks an order determining that MGM Oil & Gas Co. knowingly and willfully violated NMSA 1978, Section 70-2-31(B)(2), 19.15.13.115.A NMAC and 19.15.4.201 NMAC; requiring MGM Oil & Gas Co. to bring six wells into compliance with 19.15.4.201 NMAC; assessing appropriate civil penalties; and in the event of non-compliance, authorizing the Division to plug said wells and forfeit the applicable plugging bond. The affected wells are: Kemnitz Wolfcamp Unit #6, API 30-025-01918, M-19-16S-34E; Kemnitz Wolfcamp Unit #9, API 30-025-01921, M-20-16S-34E; Kemnitz Wolfcamp Unit #19, API 30-025-01272, C-25-16S-33E; Kemnitz Wolfcamp Unit #21, API 30-025-01274, E-25-16S-33E; Kemnitz Wolfcamp Unit #22, API 30-025-01273, G-25-16S-33E; and the Kemnitz Wolfcamp Unit #28, API 30-025-01944, K-30-16S-34E. The affected wells are located on a lease approximately 14 miles West and 4 miles South of Lovington in Lea County, New Mexico.