

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

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Director

Oil Conservation Division

October 23, 2006

Mr. G.A. Baber
Pronghorn Management Corp.
P.O. Box 1772
Hobbs, NM 88241

Certified Mail No.: **7005 3110 0000 2015 1189**

NOTICE OF VIOLATION (1-06-16)

Operator: Pronghorn Management Corp, OGRID 122811

Wells: Fields #004; 30-025-25348
JF Black #001; 30-025-11178
Marshall #007; 30-025-25201
New Mexico BZ State NCT 5 #001; 30-025-03521
New Mexico BZ State NCT 5 #002; 30-025-03522
New Mexico BZ State NCT 5 #003; 30-025-03523
New Mexico DL State #001; 30-025-28223
New Mexico DL State #002; 30-025-28607
New Mexico EF State #001; 30-025-28680
State C #001; 30-025-03485
State HL #001; 30-025-26492

Violations: NMSA 1978, Section 70-2-31(B)(2)
OCD Rule 1115.A [19.15.13.1115.A NMAC]
OCD Rule 201 [19.15.4.201 NMAC]

Dear Mr. Baber,

The Oil Conservation Division ("OCD") has conducted an investigation of the production reporting of Pronghorn Management Corp. ("Pronghorn") for the wells identified above. Field inspections indicate that these wells have been incapable of production for an extended period of time. Pronghorn has filed production reports showing production from the wells during the time periods the wells were incapable of production.

Attached to this letter is a chart summarizing the results of the OCD's investigation. The first column identifies the well by name and API number. The second column summarizes the inspection results, showing the date of the inspection and the comments made by the inspector. The third column identifies those months since January 1, 2000 that Pronghorn has reported oil or gas production from each well. The fourth column lists the dates on which the OCD mailed notices to Pronghorn stating that specific wells were inactive and/or incapable of production. Note that as early as 10-3-00 the OCD notified Pronghorn of its concern some of Pronghorn's wells were reporting production even though those wells were incapable of production.

On June 29, 2006, Mr. G.A. Baber of Pronghorn met with OCD Compliance Officer Larry "Buddy" Hill to discuss Pronghorn's inactive wells. Compliance Officer Hill discussed OCD's field inspection records regarding the wells identified above. Pronghorn has since stopped filing production reports for the wells. To date, Pronghorn has not corrected its past production reports for the wells.

NMSA 1978, Section 70-2-31(B) makes it unlawful for any person to knowingly and willfully make 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 or any rule, regulation or order of the commission or the division issued pursuant to that act.

OCD Rule 1115.A [19.15.13.1115.A NMAC] requires the operator to file a monthly C-115 production report "setting forth complete information and data indicated on said forms in the order, format and style the division director prescribes."

OCD Rule 201 [19.15.4.201 NMAC] requires the operator of oil and gas wells to properly plug and abandon the well or place the well on approved temporary abandonment status within 90 days after a period of one year in which the well has been continuously inactive.

Pronghorn knowingly and willfully violated NMSA 1978, Section 70-2-31(B) and OCD Rule 1115 by filing false C-115 reports reporting production from wells incapable of production over a period of months, even though the OCD had notified Pronghorn that the wells were not producing, and then Pronghorn failed to correct those false reports after being alerted to the reporting issue by the OCD. Pronghorn also knowingly and willfully violated OCD Rule 201 by failing to properly plug and abandon the wells or place the wells on approved temporary abandonment status after the wells had been continuously inactive for a period in excess of one year plus 90 days.

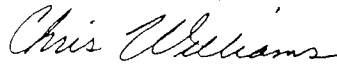
Pronghorn's misconduct warrants issuance of this "Notice of Violation" and assessment of civil penalties pursuant to NMSA 1978, Section 70-2-31(A) for violation of NMSA 1978, Section 70-2-31(B) and OCD Rules 1115 and 201. Section 70-2-31(A) authorizes penalties of up to one thousand dollars (\$1,000) per day per violation for any knowing and willful violation of any provision of the Oil and Gas Act, or any Rule adopted pursuant to the Act.

In view of the seriousness of this violation, the OCD Hobbs District Office believes, at this time, that a **Twenty-two Thousand Dollar (\$22,000.00)** civil penalty and a definite commitment to corrective action are essential. This proposed penalty is based on one violation of NMSA 1978, Section 70-2-31(B) and OCD Rule 1115 for each well identified above, and one violation of Rule 201 for each well identified above.

Please note that if the matter cannot be resolved administratively, the OCD may take further enforcement action, and may seek penalties in an amount greater than the amount proposed in this Notice of Violation. Enforcement action may include an enforcement hearing before an OCD hearing examiner seeking penalties and an order requiring that the wells identified above be plugged and abandoned pursuant to NMSA 1978, section 70-2-14(B).

Please contact me within ten (10) days at 505-393-6161, extension 102, to schedule an administrative conference to discuss this matter. OCD legal counsel may be present by telephone for this conference and you may bring legal counsel if you wish. The purpose of the administrative conference is to discuss the facts surrounding this Notice of Violation, and to determine if the matter can be resolved administratively through an agreed compliance order.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Chris Williams".

NMOCD District I Supervisor

cc: Daniel Sanchez, OCD Enforcement and Compliance Manager
Larry "Buddy" Hill, OCD District I Compliance Officer
David Bradshaw, OCD Automation and Records Bureau
Gail MacQuesten, OCD Assistant General Counsel
Theresa Duran-Saenz, Legal Assistant
NOV file

NOTICE OF VIOLATION
Pronghorn Management Corporation
OGRID: 122811

WELL	INSPECTION COMMENT SUMMARY	OIL REPORTS 2000-2006	GAS REPORTS 2000-2006	NOTICE RE IDLE WELLS
1 Fields #004 30-025-25348	<u>03/08/02</u> : Well not producing, Elec. off <u>09/03/02</u> : Not produced. No belts on motor <u>08/22/03</u> : Idle well <u>03/08/04</u> : Idle well; No belts on PU <u>09/01/05</u> : No motor on pumping unit <u>05/18/06</u> : Pumping unit has been removed <u>03/07/00</u> : No Elec. <u>09/12/00</u> : No activity. Elec. off <u>04/25/01</u> : No activity <u>01/15/03</u> : Idle; Flowline valve closed <u>03/08/04</u> : Idle well; No Elec; Battery equipment not functional <u>11/16/04</u> : Fuses down on pole; No activity <u>04/14/05</u> : Idle well <u>05/16/06</u> : Still showing production	01/00-02/01 04/01-03/06 01/00-03/06		
2 JF Black #001 30-025-11178				10-3-00 1-31-03 4-14-05
3 Marshall #007 30-025-25201	<u>03/08/02</u> : Elec. turned off <u>09/03/02</u> : Well not productive <u>08/22/03</u> : Idle well; Off HOA <u>03/08/04</u> : Idle well; Off Hoa; CSG closed <u>09/01/05</u> : No motor on pumping unit <u>05/18/06</u> : No pumping unit	01/00-08/05		9-13-02
4 New Mexico BZ State NCT 5 #001 30-025-03521	<u>09/13/00</u> : No motor on P/U; Shut in; Disconnected <u>03/09/04</u> : Idle well; No motor on P/U; SI-D <u>12/15/05</u> : Idle well; No Flowline connection <u>02/09/06</u> : Flowline open to air <u>05/16/06</u> : Still reporting production <u>09/13/00</u> : Shut in.; No activity <u>03/09/04</u> : Idle well; Shut in; No activity <u>04/01/05</u> : Idle well; Flowline open <u>12/15/05</u> : Idle well; Flowline not connected	01/00-03/06 06/04 07/04 09/04-03/06		10-3-00 4-4-05 4-7-05
5 New Mexico BZ State NCT 5 #002 30-025-03522				

		02/09/06: Flowline open to air.			
6	New Mexico BZ State NCT 5 #003 30-025-03523	09/13/00: No pumping unit 03/09/04: Idle well; Flowline parted 12/15/05: Not capable of production; Flowline open at well and parted at road 02/09/06: Flowline open to air		06/04-02/06	10-3-00
7	New Mexico DL State #001 30-025-28223	03/08/02: Elec. turned off 03/08/04: Idle well; Off Elec. 03/29/05: Idle well; No Elec. 05/16/06: Still reporting 05/16/06: No activity; Flowline valve closed	01/00-03/06		4-4-05 4-7-05
8	New Mexico DL State #002 30-025-28607	03/08/02: Elec. turned off 03/08/04: Idle well; No pumping unit 03/29/05: Idle well 09/01/05: No motor on pumping unit 05/16/06: Still reporting production 05/18/06: No change, no pumping unit	01/00-03/06		4-4-05 4-7-05
9	New Mexico EF State #001 30-025-28680	09/13/00: No pumping unit; Disconnected 03/08/02: No Flowline 03/08/04: Idle 03/29/05: No Flowline 05/16/06: Still reporting 05/18/06: No change	01/00-08/02 10/02-03/06		10-3-00 4-4-05 4-7-05
10	State C #001 30-025-03485	06/28/00: No activity 09/13/00: No activity; Shut in 03/09/04: Idle well 04/01/05: Idle well; Shut in; Disconnected 11/15/05: Idle well; Not capable of producing as is reported; Flowline open to air 12/15/05: No change; Flowline open to air 02/09/06: Flowline open to air 05/16/06: Still reporting production	01/00-02/06		4-4-05 4-7-05
11	State HL #001 30-025-26492	09/13/00: Shut in; Gas meter removed 01/29/04: Idle well; No valve on TBG; Open; No control. 03/08/04: Idle well; No TBG; Valve open to air 12/17/04: Idle well 05/18/06: TBG still open to air; no activity	01/00-03/06		10-3-00