

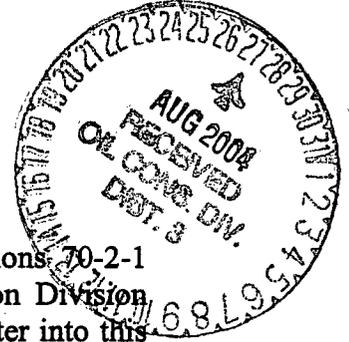
STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

OIL CONSERVATION
DIVISION

NMOCD - OGA 04-12

IN THE MATTER OF DUGAN PRODUCTION 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 **DUGAN PRODUCTION CORPORATION** ("Operator"), enter into this Order under which Operator agrees that the wells identified herein shall be brought 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 for the wells identified in Exhibit "A," attached.
4. The wells identified in Exhibit "A":
 - a. have been continuously inactive for a period of one year plus ninety days;
 - b. are not properly plugged and abandoned under OCD Rule 202 [19.15.4.202 NMAC]; and
 - c. have not been placed on temporary abandonment status under OCD Rule 203 [19.15.4.203 NMAC].
5. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any well drilled for oil, gas or injection; for seismic, core or other exploration, or for a service well, whether cased or uncased, shall be responsible for the plugging thereof.

B. A well shall be either properly plugged and abandoned or temporarily abandoned in accordance with these rules within ninety (90) days after:

....
....

(3) a period of one (1) year in which a well has been continuously inactive.”

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. OCD Rule 7.P (2) [19.15.1.7.P (2) NMAC] defines “person” as

“an individual or any other entity including partnerships, corporation, associations, responsible business or association agents or officers, the state or a political subdivision of the state or any agency, department or instrumentality of the United States and any of its officers, agents or employees.”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. As operator of the wells identified in Exhibit “A,” Operator is responsible for bringing those wells into compliance with Rule 201.
3. Operator is a “person” as defined by OCD Rule 7.P(2) 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 is hereby directed to bring each of the wells identified in Exhibit “A” into compliance with OCD Rule 201 by either:
 - (a) restoring such well to production or other OCD-approved beneficial use by December 31,2004;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202 by December 31,2004, and causing the site to be remediated in accordance with OCD Rule 202 within one year of plugging the wellbore; or
 - (c) securing OCD approval for temporary abandonment of the well in accordance with OCD Rule 203 by December 31,2004.
2. Operator shall plug, temporarily abandon or restore to production or other approved beneficial use a minimum of five (5) wells in May, and an additional six (6) wells in June, and an additional six (6) wells in July, and an additional six (6) wells in August an additional five (5) wells in September an additional six (6) wells in October an additional six (6) wells in November and the final five (5) wells in December so that all six (45) of the wells identified in Exhibit “A” are plugged, temporarily abandoned or restored to production or other beneficial use

by December 31,2004. If more than the required number of wells are plugged, temporarily abandoned or restored to production or other approved beneficial use during any month, the wells in excess of the number agreed to herein shall be credited to Operator's obligation hereunder for succeeding months, provided that all of the wells identified in Exhibit "A" shall be plugged, temporarily abandoned or restored to production or other approved beneficial use by December 31,2004 according to the following schedule (hereinafter "schedule"):

<u>Date:</u>	<u>Total number of wells:</u>
By the last day of June, 2004	11
By the last day of July, 2004	17
By the last day of August, 2004	23
By the last day of September, 2004	28
By the last day of October, 2004	34
By the last day of November, 2004	40
By the last day of December, 2004	45

final date: December 31,2004 All remaining wells

3. A well shall be considered "plugged" for purposes of the schedule set out in Ordering Paragraph (2), above, when the Operator has plugged the wellbore in accordance with Rule 202.A and B (1) and (2), and filed a sundry notice with the appropriate district office notifying them that the wellbore has been plugged. The wellsite must be remediated in accordance with Rule 202.B.(3) within one year of plugging the wellbore. Upon completion of the remediation, the Operator must contact the appropriate district office to arrange for an inspection of the well and location.
4. A well shall be considered "temporarily abandoned" for purposes of the schedule set out in Ordering Paragraph (2), above, when the well has successfully passed the mechanical integrity test required by Rule 203 and the Operator has filed the request for temporary abandonment with the appropriate district office.
5. A well shall be considered "restored to production or other approved beneficial use" for purposes of the schedule set out in Ordering Paragraph (2), above, when actual production or other approved beneficial use has commenced.
6. Operator shall file a written compliance report with the appropriate district office, and send a copy to the OCD's attorney, by the 10th day of each month starting with July listing the wells identified in Exhibit "A" that it has plugged, temporarily abandoned or restored to production or other approved beneficial use. For each well listed, the Operator shall identify each well plugged, temporarily abandoned or restored to production or other approved beneficial use, and the date that work was completed. Operator shall file monthly compliance reports until all wells identified in Exhibit "A" have been plugged, temporarily abandoned or

restored to production or other approved beneficial use. If, at any time, the OCD determines that a well identified in the Operator's compliance report is not plugged, temporarily abandoned or restored to production or other approved beneficial use according to the definitions set out in this agreement, the OCD shall promptly notify the Operator, and those wells shall not be credited toward the Operator's obligations under this Order until they are plugged, temporarily abandoned or restored to production or other approved beneficial use as defined in this agreement.

7. If, at the end of any month, the total number of wells the Operator has plugged, temporarily abandoned or restored to production or other beneficial use is less than the number required under the schedule, Operator shall have a one-month grace period in which to become current. If, at the end of that one-month grace period, Operator has not become current under the schedule, Operator shall pay a penalty of \$1000 times the number of wells it is short of the total required for the current month. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the appropriate district office with the next month's report. Penalties are calculated, and payable, each month.

Example A: ABC Company's agreed compliance order requires it to plug, temporarily abandon or restore to production or other approved beneficial use a minimum of 6 wells each month. ABC Company meets or exceeds its obligations in months 1-4. The agreed schedule calls for a total of 30 wells to be plugged, temporarily abandoned or restored to production or other approved beneficial use by the end of month 5. But at the end of month 5, ABC Company is two wells behind schedule. ABC Company will have a one-month grace period in which to become current. At the end of month 6, however, ABC Company has plugged, temporarily abandoned or restored to production or other approved beneficial use a total of 35 wells: one well short of the 36 required by the schedule. ABC Company must pay a penalty of \$1000 when it files its report for month 6. At the end of month 7, ABC Company is 4 wells short of the 42 required by the schedule. ABC Company must pay a penalty of \$4000 when it files its report for month 7.

Example B: XYZ Company's agreed compliance order requires it to plug, temporarily abandon or restore to production or other approved beneficial use a minimum of 5 wells each month. XYZ Company files compliance reports each month indicating that it is meeting its agreed schedule. In month 3, the OCD inspects the site of one of the wells listed as "plugged" in XYZ Company's compliance report for month 1, and determines that the wellbore has not been properly plugged under Rule 202.B(2) because the marker has not been placed on the site. Because the well has not been properly "plugged" as defined by this agreement, it will not count towards fulfilling XYZ Company's obligations under the schedule. XYZ Company will be responsible for calculating, and paying, any additional penalties that apply.

8. If Operator fails to plug, temporarily abandon or restore to production or other approved beneficial use all the wells identified in Exhibit "A" by December 31, 2004, Operator shall pay a penalty of \$2000 per well for each full month the well remains out of compliance with this order after that date. No grace period applies. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the appropriate district office with the next month's report. Penalties are calculated, and payable, each month.
9. For each plugged well, if the Operator fails to remediate the site and request inspection by the appropriate district office within one year of plugging the wellbore, the Operator shall pay a penalty of \$1000 for each full month that the well remains out of compliance with the remediation requirements of Rule 202.B(3). No grace period applies. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the appropriate district office. Penalties are calculated, and payable, each month.
10. If unforeseen circumstances will prevent the Operator from complying with the terms of this Order, the Operator should promptly notify the OCD of those circumstances and seek an amendment to the Order. All amendments must be in writing and signed by the Operator and the OCD director.
11. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to plug, temporarily abandon or restore to production or other approved beneficial use the wells identified in Exhibit "A" under the schedule set out in Ordering Paragraph (2), and remediate plugged wells within one year of plugging the wellbore as set out in Ordering Paragraph (3);
 - (c) agrees to file monthly compliance reports as required in Ordering Paragraph (6);
 - (d) agrees to pay penalties as set out in Ordering Paragraphs (7) (8) and (9) if it fails to meet the schedule set out in Ordering Paragraph (2) and the remediation requirements set out in Ordering Paragraph (3);
 - (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior or subsequent to the entry of this Order or to an appeal from this Order; and
 - (f) agrees that the Order may be enforced by Division or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the Division entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.

12. 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.

Done at Santa Fe, New Mexico this 9th day of June, 2004

By: 
Director, Oil Conservation Division

ACCEPTANCE

DUGAN PRODUCTION CORPORATION. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

By: 
Title: V.P. PRESIDENT
Date: 6/8/2004

EXHIBIT "A"

DUGAN PRODUCTION CORPORATION AGREED COMPLIANCE ORDER WELL LIST

	30-045-27094	G	NONE	ATLANTIS #004	B-03-30N-14W	
	30-045-22628	G	06-2000	BENGAL C #005	O-36-27N-13W	*16M
	30-039-22787	O	01-2002	BETTY C 31 #003	K-31-24N-07W	*16M
	30-039-22794	O	01-2002	BETTY C 31 #005	I-31-24N-07W	*16M
	30-045-26752	G	05-2000	BUDDHA TEMPLE #001	I-30-24N-08W	*16M
	30-045-09178	G	04-2001	CARPENTER #001	K-25-30N-14W	*16M
	30-039-23743	G	12-2001	COBH #001	O-22-24N-02W	*16M
	30-045-24465	G	NONE	COCHRAN #001	A-16-22N-08W	
	30-045-23199	G	07-2001	COM #002	1-02-29N-14W	*16M
	30-045-30247	G	04-2002	CUCCIA COM #090	1-14-31N-13W	*16M
	30-045-29985	G	06-2002	DOT COM #090	I-02-26N-11W	*16M
	30-045-20397	G	07-2001	FEDERAL I #004	3-01-29N-14W	*16M
	30-045-29063	G	NONE	GAYE #001	P-01-22N-09W	
	30-045-07576	G	08-1999	GENTLE #001	O-09-28N-11W	*16M
	30-045-06512	G	03-1999	GINTHER GAS COM #002	K-13-27N-13W	*16M
	30-045-28931	G	NONE	HENDRIX #001	B-07-22N-08W	
	30-045-29172	G	NONE	HENDRIX #002	B-07-22N-08W	
	30-045-25149	G	10-2002	HOLLY #001	L-16-24N-09W	*16M
	30-045-29378	O	01-1997	HOP-SING #001	B-27-23N-11W	
	30-045-23887	G	11-2000	IRISH #001J	P-12-26N-13W	*16M
	30-045-28976	G	NONE	JOPLIN #001	A-12-22N-09W	
	30-045-24229	G	09-2000	LA LEE ANN #001	B-28-27N-13W	*16M
	30-045-25589	G	09-2001	LA LEE ANN #002J	C-28-27N-13W	*16M
	30-045-29448	G	01-2001	LATEX #002	L-09-25N-10W	*16M
	30-045-29338	G	04-1998	LEE'S FERRY #090	J-19-24N-08W	
x	30-045-29420	G	01-2003	LUCERNE #003	M-08-28N-11W	
	30-045-23120	G	09-2002	MAE GALE A #001	E-24-29N-11W	*16M
	30-045-29158	G	NONE	MARLEY #001	N-36-23N-09W	
	30-045-05121	O	05-2002	MARY ANNE #001	M-09-24N-09W	*16M
	30-045-25050	O	07-2002	MARY ANNE #003	L-09-24N-09W	*16M
	30-045-28291	G	NONE	MAYRE #090	3-31-30N-14W	
	30-045-29659	G	NONE	MCCARTNEY #001	1-02-22N-09W	
	30-039-26372	G	NONE	MIGHTY COM #090	L-32-24N-07W	*16M
	30-045-28980	G	NONE	MORRISON #001	H-13-22N-09W	
	30-045-25919	O	06-2002	MUDDY MUDDA #001	D-21-24N-09W	*16M
	30-045-25295	O	09-2002	NOVEMBER 24 #001	I-27-24N-09W	*16M
	30-045-22307	G	11-2002	OKIE #001	P-08-24N-08W	*16M
	30-045-28579	O	NONE	PATRIOT #001	M-29-26N-13W	
x	30-045-23611	G	NONE	PHILS LAST JOB #001	D-04-30N-14W	
	30-045-29061	G	NONE	PRESLEY #001	P-07-22N-08W	
	30-043-20914	G	NONE	SOUTH SEAS #002	K-06-22N-07W	
	30-045-29680	G	04-2002	STATE COM #090	H-16-32N-12W	*16M
x	30-045-06574	G	12-2002	TONKIN #004	A-13-27N-12W	*16M
	30-045-05616	O	12-2001	WEST BISTI UNIT #155	L-36-26N-13W	*16M
	30-045-05598	O	02-2001	WEST BISTI UNIT #157	P-36-26N-13W	*16M
	30-045-28569	O	07-2000	WEST BISTI UNIT #172	J-13-26N-14W	*16M
	30-045-29062	G	NONE	ZAPPA #001	F-20-22N-08W	
	30-045-29148	G	NONE	ZAPPA #002	F-20-22N-08W	

Signed
Dugan Production Corp.

John Alexander