

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

NMOCD – ACOI- 109

IN THE MATTER OF FASKEN OIL & RANCH, LTD.,

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 Fasken Oil & Ranch Ltd. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring wells identified herein 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 limited partnership doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 151416 for the wells identified in Exhibit "A," attached.
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.

B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....

....

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

5. The wells identified in Exhibit "A" are currently out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if no action is taken on the wells.
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. NMSA 1978, Section 70-2-3(A) defines "person" in relevant part as

"any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity..."

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit "A" are either out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with Rule 201.
4. Operator is a "person" as defined by OCD Rule 7.P(2) and may be 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 agrees to bring at least 6 of the wells identified in Exhibit "A" into compliance with OCD Rule 201 by August 10, 2006 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202.B(2) and filing a C-103 describing the completed work; or
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.

Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return 6 wells to compliance under the terms of

this Order, but will reduce the number of wells for which Operator is responsible under the terms of this Order.

2. Operator shall file a compliance report by August 10, 2006 using the OCD's web-based on-line application, identifying each well returned to compliance, stating the date it was returned to compliance, and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status).
3. When the OCD receives a timely compliance report indicating that Operator has returned at least 6 of the wells identified on Exhibit "A" to compliance and verifies the accuracy of that report, the OCD shall issue an amendment to this Order extending its terms and requiring Operator to bring into compliance by February 10, 2007 any non-compliant wells remaining on Exhibit "A" that Operator operates. OCD shall provide a copy of that amendment to Operator at Operator's address of record provided pursuant to OCD Rule 100.C.
4. If Operator fails to bring at least 6 of the wells identified in Exhibit "A" into compliance by August 10, 2006, or if an amendment is issued, fails to bring into compliance by February 10, 2007 any non-compliant wells remaining on Exhibit "A" that Operator operates, Operator agrees to pay a penalty of \$1000 times the number of wells it failed to bring into compliance under its agreed schedule. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its schedule, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and serve the OCD's Enforcement and Compliance Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, the application shall be set for hearing. Once Operator pays the penalty or files an administrative application to request a waiver or reduction of the penalty, the OCD may, in its discretion, issue an amendment to this Order as described in Ordering Paragraph 3, above.

Example A: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in a six-month period. At the end of the six-month period, Operator X has brought only 3 wells into compliance. Operator X pays the \$2000 penalty. The OCD exercises its discretion to issue an amendment extending the term of the agreed compliance order for an additional six-month period, again requiring Operator X to bring at least 5 wells into compliance. During this additional six-month period, Operator brings only one well into compliance. Operator X pays a \$4000 penalty. Although Operator X pays the \$4000 penalty, the OCD exercises its discretion and declines to issue an amendment to extend the terms of the agreed compliance order for an additional six-month period.

Example B: Operator Y enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in a six-month period. Although Y has made arrangements for plugging the 10 wells, due to adverse weather conditions and mechanical difficulties with the available plugging rig, Y is able to plug only 3 wells. Y files an administrative application for hearing seeking to waive the \$7000 penalty, and serves the Enforcement and Compliance Manager with a copy of the application. The Enforcement and Compliance Manager does not concur with the application's request to waive the full amount of the penalty, so the application is set for hearing. The OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for an additional six-month period.

5. Thirty days after the expiration of the term of this Order and any amendment to this Order issued pursuant to Ordering Paragraph 3, any wells on Exhibit "A" not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
6. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance 6 of the wells identified in Exhibit "A" by August 10, 2006, and if an amendment to this order is issued pursuant to Ordering Paragraph 3, above, Operator agrees to return to compliance by February 10, 2007 any non-compliant wells remaining on Exhibit "A" that Operator operates;
 - (c) agrees to submit a compliance report by August 10, 2006 as required in Ordering Paragraph 2;
 - (d) agrees to pay penalties as set out in Ordering Paragraph 4 if it fails to return 6 wells to compliance by August 10, 2006 or, if an amendment to this order is issued pursuant to Ordering Paragraph 3, above, Operator fails to return to compliance by February 10, 2007 any non-compliant wells remaining on Exhibit "A" that Operator operates;
 - (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from this Order; and
 - (f) agrees that the Order and any amendments to the Order issued pursuant to Ordering Paragraph 3, above, may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
7. 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.

8. The Oil Conservation Division reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.
9. This Order is effective February 10, 2006.

Done at Santa Fe, New Mexico this 10th day of Feb, 2006.

By: _____

Mark Fesmire, P.E.

Director, Oil Conservation Division

ACCEPTANCE

Fasken Oil & Ranch, Ltd. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Fasken Oil & Ranch, Ltd.

By: _____

Mark B. Merritt

Title: _____

Oil and Gas Manager

Date: _____

2-9-06

Exhibit "A"
To Agreed Compliance Order for
Fasken Oil and Ranch, Ltd.

1. 30-015-20546 Arco 9 Morrison #1 B-9-19S-25E
Temporarily abandon the wellbore for recompletion into the Penn. Yates Petroleum has approached Fasken to take over as operator of this wellbore.
2. 30-015-31654 Avalon 10 Federal #42 6-10-21S-26E
TA well with CIBP above top perf at 2304'. The well is useful in the future as an injection well in the Delaware. This will be done as part of an on-going review of operations in this area as we are in need of salt water disposal wells to extend the economic life of wells. This is proposed as a late 2006 project due to our work on converting the Lake Federal No. 1 to salt water disposal in the next 6 months. See the Lake Federal No. 1 write-up below.
3. 30-015-31668 Avalon 10 Federal #43 7-10-21S-26E
TA well with CIBP above top perforation.
4. 30-015-20906 El Paso 3 Federal #1 27-3-21S-26E
Drill out CIBP's at 9797' and 10500' and downhole commingle the Wolfcamp, Strawn, Atoka and Morrow zones. More geological and engineering study is to be done before a final plan is developed. If this proposal is deemed uneconomic will TA with CIBP above top perf.
5. 30-015-21140 Howell 29 Com #1 G-29-20S-25E
The Howell 29 Com #1 was recompleted to the Wolfcamp pool and put on line on 2/2/06. Completion paperwork has been filed with the OCD Artesia office.
6. 30-015-21503 Lake Federal #1 33-3-21S-26E
TA well with a CIBP at 9290' (top perf 9324'). The well is useful in the future as a Salt Water Disposal well in the Bone Springs. An SWD application will be submitted in March.
7. 30-025-27552 Lottie York #1 P-14-17S-37E
Add lower Strawn perforations and stimulate to restore production. More geological and engineering study is to be done before a final plan is developed. If this proposal is deemed uneconomic will TA with CIBP above top perf.
8. 30-015-28111 Lottie York #2 J-14-17S-37E
TA well with CIBP above top perforation. Additional work could be performed on this wellbore pending the results of the Lottie York #1 shown above.
9. 30-015-22900 Shell Federal Com #5 7-5-21S-24E
A mechanical integrity test was performed on this wellbore and submitted to the OCD Artesia office on 12/27/05.
10. 30-025-32847 Wingerd #14 J-24-12S-37E
TA well with a CIBP above top perf. The well is useful in the future for a horizontal drain hole in the Devonian. More geological and engineering study is to be done before the horizontal plan is finalized.

Fasken Oil & Ranch, Ltd.
By: Grant B. Smith
Title: Oil and Gas Manager
Date: 2-9-06