

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

NMOCD-06 148

IN THE MATTER OF SG INTERESTS I, LTD.
c/o NIKA ENEGRY OPERATING,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, §§ 70-2-1 through 70-2-38, as amended ("Act"), and the rules promulgated under the Act, the Director of the Oil Conservation Division of the Energy Minerals and Natural Resources Department of the State of New Mexico and **SG INTERESTS I, LTD.** (hereinafter "SG Interests") enter into this Order to resolve the violations alleged in the Notice of Violation dated July 14, 2006.

I. FINDINGS

1. The Oil Conservation Division (hereinafter "OCD") is the state division charged with administration and enforcement of the Act and OCD rules.
2. SG Interests is a foreign limited partnership doing business in New Mexico. It is an active entity with a principal address at ~~717 Texas Avenue, Suite 2100, Houston, Texas 77002~~. 2600
909 FANNIN 77010 (Its registered agent for service of process in New Mexico is C. T. Corporation System, 123 E. Marcy, Santa Fe, New Mexico 87501.?) SG Interests's local business address is P.O. Box ~~4289, Farmington, New Mexico 87499-4289~~. SG Interests's OGRID is ~~14538~~. *2677, DURANGO, CO 81302*
20572
3. SG Interests is the operator of record for the Federal 21-6-34 #3, Unit Letter N, Section 34, Township 21 North, Range 06 West, API # 30-043-21026
4. On July 10, 2006, OCD Deputy Oil and Gas Inspector Karen Sharp received a log from SG Interests for the Federal 21-6-34 #3 well. After researching the OCD files, she was unable to find an OCD record of the well.
5. An OCD investigation found the following:
 - a. SG Interests commenced drilling operations on the well on July 1, 2006.
 - b. As of July 1, 2006 the OCD had not received nor approved an application for a permit to drill this well.

6. The referenced well is on Federal land, subject to OCD Rule 1128 [19. 15.3.1128 NMAC].
7. OCD Rule 1128 provides that “[f]ederal forms shall be used in lieu of state forms when filing application for permit to drill ... and sundry notices and reports on wells and well completion or recompletion report and log for wells on federal lands in New Mexico.”
8. An OCD Director’s memorandum titled “Operations on Federal and Indian Lands” issued on January 2, 1985, instructs operators to provide “copies of drilling permits, sundry notices, well completion reports, and any other required information on Indian lands wells.” Operators must file “two copies of the forms and permits ... following their approval by the BLM” with the appropriate OCD district office.
9. OCD Rule 102.A [19 15.3.102.A NMAC] requires that “the operator shall obtain a permit prior to commencing drilling....”
10. OCD Rule 102.B [19 15.3.102.B NMAC] requires that an applicant for a permit to drill a well complete forms C-101 (application for a permit to drill a well) and C-102 (requires applicant provide to the OCD the well location and an acreage dedication plat).
11. Drilling a well without an OCD issued permit to drill is a Violation of OCD Rule 102.
12. SG Interests knowingly and willfully violated OCD Rule 102.A by failing to obtain a permit prior to commencing drilling.
13. NMSA §70-2-31(A) provides in relevant part, “[a]ny 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.” NMSA 1978, §70-2-33(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
14. As a result of its investigation, on July 14, 2006, the OCD issued Notice of Violation (3-06-36) to SG Interests alleging a knowing and willful violation of OCD Rule 102.A. [19 15.3.102.A NMAC].
15. During the Administrative Conference held by telephone on July 12, 2006, SG Interests Agent, Nika Energy, presented the following:
 - a. In the recent past, the OCD turn around on approval of Federal APD’s was running 3-4 working days. In order to avoid paying standby or worse, even losing the rig, SG Interests decided to build the well pad and get ready to drill after receiving BLM APD approval. SG Interests hoped that by the time the location was finished and ready to spud the OCD would have the APD approved and the drilling could start. In the rush to drill, it was assumed the permits were approved and the well was spud.

- b. Nika Energy, as an agent for SG Interests, expressed its regrets for this mistake and the subsequent problems it has created.
- c. To insure these types of violations do not occur again, SG Interests has instituted the following mitigation effort:

In the future, no wells will be spud until OCD online has been checked and the approved permit is downloaded and printed.

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. SG Interests is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
3. SG Interests is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Federal 21-6-34 #3 for one knowing and willful violation of OCD Rule 102.A.

III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against SG Interests totaling **One Thousand Dollars (\$1,000.00)** for one knowing and willful violation of OCD Rule 102.A (drilling a well without a permit).
2. The civil penalty shall be paid at the time SG Interests executes this Order. Payment shall be made by check payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the New Mexico Oil Conservation Division, Attention: Director, 1220 South Saint Francis Drive, Santa Fe, New Mexico, 87505.
3. By signing this Order, SG Interests expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with Ordering paragraph 2;
 - c. 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;
 - d. agrees that if it fails to comply with this Order, the Order may be enforced 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; and
 - e. agrees that if it fails to pay penalties assessed pursuant to this Order, upon application by the OCD, the district court may enter judgment against SG Interests

in the amount of the penalties assessed and, in the discretion of the court, may impose additional penalties for SG Interests's violation of the penalty provisions of this Order.

- Nothing in this Order relieves SG Interests of its liability should its operations fail to adequately investigate and remediate contamination that poses a threat to ground water, surface water, human health or the environment. In addition, nothing in this Order relieves SG Interests of its responsibility for compliance with any other federal, state or local laws and/or regulations.

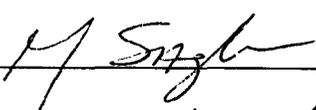
Done at Santa Fe, New Mexico, this 20th day of September 2006.

By: 
Mark Fesmire, Director
Oil Conservation Division

ACCEPTANCE

SG Interests I, LLC. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in the order.

SG Interests I, LLC.

By:  For Tripp Schust
Title: Agent
Date 9-19-06