

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

NMOCD-- 172

IN THE MATTER OF CHAPARRAL OIL & GAS CO.,

Respondent.

**AGREED ORDER DIRECTING COMPLIANCE
AND ASSESSING CIVIL PENALTY**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), and the regulations 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 ("OCD") issues this Order to **CHAPARRAL OIL & GAS CO. ("Chaparral")** directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD rules.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. Chaparral is a domestic, for-profit corporation doing business in New Mexico, registered with the Secretary of State under SCC number 0655456. Chaparral is an active entity with a principal address of 900 S. Main Street, Aztec, New Mexico 87410-0100 and mailing address at P.O. Box 100, Aztec, New Mexico 87410-0100. Its registered agent for service of process in New Mexico is Jerry Sandel. Chaparral has been assigned OGRID # 4076.
3. Chaparral is the operator of the Marie #2, Unit Letter J, Section 13, Township 28 North, Range 2 West, API #30-045-33540, San Juan County, New Mexico.
4. On February 7, 2007, Deputy Oil and Gas Inspector Kelly Roberts performed a routine inspection on the Chaparral Marie #2 well. Inspector Roberts found the well was actively producing. The location and equipment were in good shape. According to OCD records, Inspector Roberts noted that the well status showed as "not yet drilled."
5. An OCD investigation found the following:
 - a) The application for the permit to drill was approved on February 1, 2006.
 - b) On May 17, 2006 the OCD received the well logs that were run on May 3, 2006.
 - c) On June 16, 2006 the OCD issued NOV 03-06-31 for Violation of OCD Rule 50.A

(constructing a drilling pit without a permit).

- d) As of February 26, 2007, the OCD had not received any spud, casing or completion notices for the Marie #2 well.

6. OCD Rule 14 [19.15.1.14 NMAC] provides:

19.15.1.14 UNITED STATES GOVERNMENT LEASES:

Operator shall file or cause to be filed with the division copies of "application for permit to drill, deepen or plug back," (BLM form no. 3160-3), "sundry notices and reports on wells," (BLM form no. 3160-5), and "well completion or recompletion report and log," (BLM form no. 3160-4), as approved by the bureau of land management for wells on U.S. government land.

7. The Bureau of Land Management ("BLM") advised Inspector Roberts that they had received no copies of the sundries for their review and/or approval.

8. OCD Rule 1103 [19.15.13.1103 NMAC] provides:

19.15.13.1103 SUNDRY NOTICES AND REPORTS ON WELLS (Form C-103): Form C-103 is a dual purpose form the operator shall file with the appropriate district office of the division to obtain division approval prior to commencing certain operations and also to report various completed operations."

...

B. Form C-103 as a subsequent report.

- (1) The operator shall file form C-103 as a subsequent report of operations in accordance with the 19.15.13.1103 NMAC applicable to the particular operation being reported.

...

C. Information to be entered on form C-103, subsequent report, for a particular operation is as follows: report of commencement of drilling operations. Within 10 days following the commencement of drilling operations, the well's operator **shall** file a report thereof on form C-103. Such report shall indicate the hour and the date the well was spudded. (Emphasis added.)

D. Report of results of test of casing and cement job; report of casing alteration. The well's operator shall file a report of casing and cement test within 10 days following the setting of each string of casing or liner. Said report shall be filed on form C-103 and shall present a detailed description of the test method employed and the results obtained by such test and any other pertinent information required by 19.15.1.107 NMAC. The report shall also indicate the top of the cement and the means by which such top was determined. It shall also indicate any changes from the casing program previously authorized for the well.

9. No spud notice has been received by the OCD, a violation of OCD Rule 1103.C.
10. No surface casing report has been received, a violation of OCD Rule 1103.D.
11. No production casing report has been received, a violation of OCD Rule 1103.D.
12. OCD Rule 1105 [19.15.13.1105 NMAC] provides:

19.15.13.1105 WELL COMPLETION OR RECOMPLETION REPORT AND LOG (Form C-105):

A. Within 20 days following the completion or recompletion of any well, the operator shall file form C-105 with the division. It must be filed in quintuplicate and each copy accompanied by a summary of all special tests conducted on the well, including drill stem tests. In addition, one copy of all electrical and radio-activity logs run on the well must be filed with form C-105. If the form C-105 with attached log(s) and summaries is not received by the division within the specified 20-day period, the allowable for the well will be withheld until this rule has been complied with.

13. No well completion report has been received, a violation of OCD Rule 1105.A.
14. Production reports (form C-115) received by OCD indicate that the well began producing on October 1, 2006.
15. OCD Rule 1104.A and B [19.15.13.1104.A and B NMAC] provides:

19.15.13.1104 REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT OIL AND NATURAL GAS (FORM C-104):

A. The division may assign an allowable to a newly completed or re-completed well or a well completed in an additional pool, or issue an operator authorization to transport oil or natural gas from such a well if the operator:

- (1) has filed a complete form C-104;
- (2) has provided a sworn and notarized tabulation of all deviation tests run on the well, and directional surveys with calculated bottom hole location, in accordance with the requirements of 19.15.3.111 NMAC;
- (3) has dedicated a standard unit for the pool in which the well is completed, a standard unit has been communitized or pooled and dedicated to the well of the division has approved a non-standard unit; and
- (4) is in compliance with Subsection A of 19.15.1.40 NMAC.

B. The allowable the division assigns to an oil well shall be effective at 7:00 a.m. on the date of completion, provided the division receives form C-104 during the month of completion. Date of completion shall be that date when new oil is delivered into the stock tanks. Unless otherwise specified by special pool rules, the allowable the division assigns to a gas well shall be

effective at 7:00 a.m. on the date of connection to a gas transportation facility, as evidenced by an affidavit of connection from the transporter to the division, or the date of receipt of form C-1-04 by the division, whichever date is later.

16. As of February 23, 2007, the OCD had not approved a form C-104 for the Marie #2 well.
17. Producing the Marie #2 well for eighteen weeks or partial weeks without an allowable being assigned by the OCD pursuant to an approved C-104 is a violation of OCD Rule 1104.
18. As a result of its investigation, OCD issued **Notice of Violation (3-07-06)** to Chaparral alleging nine violations of OCD Rule 1104 by producing the Marie #2 well without an allowable being assigned by the OCD, pursuant to an approved C-104. The penalty was calculated as a separate violation for each two-week or partial two-week period beginning October 1, 2006 through February 7, 2007.
19. At the Administrative Conference on this matter, Chaparral presented the following:
 - a. The non-filing of the paperwork was an administrative oversight
 - b. The penalty is excessive for an administrative violation and should be reconsidered.
 - c. In the future, Chaparral representatives will verify permits are filed and approved before work is allowed to begin.

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Chaparral 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. Chaparral knowingly and willfully violated OCD Rule 14 for failing to file with the division copies of approved sundry notices and reports on the well.
4. Chaparral knowingly and willfully violated OCD Rule 1103.C and D by not submitting a C-103 or appropriate BLM sundries for the spud notice and the casing and cement reports.
5. Chaparral knowingly and willfully violated OCD Rule 1104 for a period of eighteen (18) weeks by producing the Marie #2 well without an allowable being assigned by the OCD pursuant to an approved C-104.
6. Chaparral knowingly and willfully violated rule 1105.A by not submitting a C-105 or appropriate BLM sundries for the completion reports.

7. NMSA 1978, Section 70-2-31(A) authorizes penalties of up to one thousand dollars (\$1,000.00) 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.
8. Chaparral is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Marie #2 for nine knowing and willfully violation of OCD Rule 1104. The penalty is calculated for each two-week period that Chaparral was out of compliance with OCD Rule 1104 by producing the Marie #2 well without an allowable being assigned by the OCD. Regarding the violations of Rules 14, 1103.C and D and 1105.A for failure to submit the proper sundries for spud, casing, cement, and completion. Chaparral is admonished that future violations may result in penalties.

III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **Nine Thousand Dollars (\$9,000)** against Chaparral. This penalty is based on Chaparral violating OCD Rule 1104 (producing without an allowable, pursuant to an approved C-104) nine times, calculated as a separate violation for each two-week period beginning October 1, 2006 through February 7, 2006. Each violation is assessed at one thousand dollars per two-week period. Pursuant to Section II, paragraph 8, there is no penalty being assessed for violations of OCD Rules 14, 1103.C, D and 1105.A for failure to submit the proper sundries for spud, casing, cement, and completion. Chaparral is admonished that future violations may result in penalties.
2. The civil penalty shall be **paid within sixty days** of execution of this Order. 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 New Mexico Oil Conservation Division, Attention: Director, 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505.
3. By signing this Order, Chaparral 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; and
 - 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 (NMSA 1978, Sections 70-2-1 through 70-2-38, as amended).

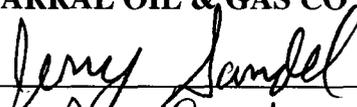
Done at Santa Fe, New Mexico, this 22th day of March 2007.

By: 
for Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

Chaparral Oil and Gas Co. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in the Order.

CHAPARRAL OIL & GAS CO

By: 
Title: President
Date March 26, 2007