

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

ACO No. 195

**IN THE MATTER OF KIMLAR OIL COMPANY,**

**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"), 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 (hereinafter, "OCD") issues this Order to **Kimlar Oil Company** (hereinafter, "Kimlar"), 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. Kimlar is a sole proprietorship doing business in New Mexico, with a mailing address at P.O. Box 1217, Kermit, Texas 79745. Kimlar is assigned OGRID No. 152098.
3. Kimlar is the operator of record for the Gourley Federal No. 004, API 30-015-22661, Unit Letter J, Section 31, Township 22S, Range 28E, located in Eddy County, New Mexico.
4. On October 23, 2006, OCD Deputy Oil and Gas Inspector Gerry Guye attempted to perform a mechanical integrity test on the Kimlar injection well identified above. Inspector Guye was unable to perform the mechanical integrity test because no company representative appeared to witness the test. This comprised a failure of the test.
5. By letter dated October 24, 2006, OCD notified Kimlar that the well had to be shut-in until Kimlar rescheduled the mechanical integrity test. The letter gave Kimlar until November 23, 2007 to correct the problem. The 2007 date was a typographical error. On April 20, 2007, OCD sent Kimlar a "corrected copy" letter that gave Kimlar until May 18, 2007 to correct the problem. Despite OCD's directive that the well be immediately shut-in until Kimlar rescheduled the mechanical integrity test, Kimlar continued to inject until February 2007.
6. OCD Rule 703 [19.15.9.703 NMAC] requires injection wells to be "equipped, operated, monitored, and maintained to facilitate periodic testing and to assure continued mechanical integrity which will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement through vertical channels adjacent to the well bore."

7. Kimlar knowingly and willfully violated OCD Rule 703 by failing to shut-in the well until a mechanical integrity test could be performed, even after notification of the shut-in instruction.
8. On July 31, 2007, the OCD issued Notice of Violation (02-07-13) to Kimlar for one violation of OCD Rule 703 for each month that Kimlar continued to inject after being directed to shut-in the well until Kimlar had the mechanical integrity test rescheduled.
9. On August 14, 2007, an administrative conference was held at the OCD's district office in Artesia. Mrs. Becky Hill appeared telephonically for Kimlar. Mr. Daniel Sanchez, Mr. Gerry Guye, Mr. Sonny Swazo, and Mr. Mike Bratcher appeared on behalf of OCD.
10. At the conference Mrs. Hill indicated that she probably did receive the letter of violation but did not read it word for word. Mrs. Hill also indicated that she had a change of address around September. Mrs. Hill agreed to contact Inspector Guye to reschedule the mechanical integrity test.

## II. CONCLUSIONS

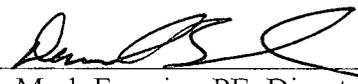
1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Kimlar is a "person" as defined by NMSA 1978, § 70-2-33(A) (defining "person" as any "individual" or "company") that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
3. Kimlar is subject to civil penalties under NMSA 1978, § 70-2-31(A) for a knowing and willful violation of OCD Rule 703.

## III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **Four Thousand Dollars (\$4,000.00)** against Kimlar for four separate violations of OCD Rule 703 (one violation for each month that Kimlar continued to inject after being told to shut-in the well until a mechanical integrity test could be rescheduled).
2. The assessed **Four Thousand Dollars (\$4,000.00)** penalty shall be paid upon 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. Kimlar shall contact Inspector Guye by no later than **August 31, 2007**, to reschedule the mechanical integrity test. In the event that Kimlar fails to contact Inspector Guye by September 4 to reschedule a mechanical integrity test, Kimlar shall be subject to additional enforcement action.
4. By signing this Order, Kimlar expressly:

- a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
- b. agrees to comply with Ordering Paragraphs 2 to 3;
- 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).

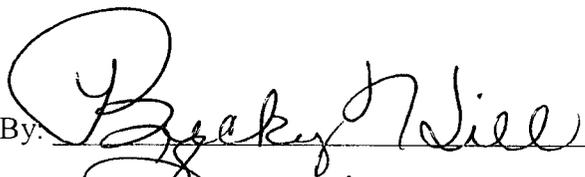
Done at Santa Fe, New Mexico this 24<sup>th</sup> day of September 2007.

By:   
Mark Fesmire, PE, Director  
Oil Conservation Division

**ACCEPTANCE**

**Kimlar Oil Company** hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth therein.

**KIMLAR OIL COMPANY**

By:   
Title: Secretary  
Date 9/14/07