

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

NMOCD ACO 214

IN THE MATTER OF POGO PRODUCING COMPANY LLC,

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 OCD Rule 1227.E [19.15.14.1227(E) NMAC], the Director of the Oil Conservation Division ("OCD") and Pogo Producing Company LLC, formerly known as Pogo Producing Company ("Operator"), enter into this Agreed Compliance Order ("Order" or "ACO") under which Operator admits to the knowing and willful violation of Order R-12366 and Rule 19.15.3.104.B(2) NMAC; agrees to a civil penalty of \$280,000; agrees to file corrected C-115 production reports within 30 days after it is notified in writing by the NMOCD that it will accept the filing of such reports; and agrees to not produce the Resler B #001 until an order is entered into that allows for such production.

FINDINGS

1. Pogo Producing Company LLC ("Pogo") operates wells in New Mexico under OGRID 17891.
2. Arch Petroleum, Inc. ("Arch") formerly operated wells in New Mexico under OGRID 962.

3. Arch became a wholly owned subsidiary of Pogo thru Pogo's acquisition of all of the stock of Arch, with Arch then merging with Pogo, and Pogo being the successor entity. Effective January 1, 2006, all Arch operated wells in the State of New Mexico were placed under the Pogo name and OGRID number.

4. On February 11, 2004, Arch filed an application for permit to drill the Resler B #001, 30-025-36573, in the SE/4 of Section 20, Township 23S, Range 37E, in Lea County, New Mexico. Arch's application identified the proposed pool for the Resler B #001 as the Jalmat-Tansil-Yates-Seven-Rivers (oil) Pool. The C-102 Acreage Dedication Plan filed with the application showed 40 acres located in the NW/4SE/4 of Section 20 dedicated to the well. The Oil Conservation Division (OCD) approved the application on February 17, 2004. After such filing, Pogo realized that it had mistakenly identified the proposed pool and subsequently filed a Sundry Notice on October 18, 2005 to correct such mistake.

5. Arch drilled the Resler B #001 well on or about March 23, 2004. Arch cased but did not complete the well at that time, with the intent to not produce such well until it had received an order from the OCD allowing it to be produce gas from the Jalmat Gas Pool.

6. On April 23, 2004, Arch submitted an Application for Administrative Approval of a 160-acre non-standard gas spacing and proration unit for the Resler B Well 001 in the Jalmat Gas Pool in the SE/4 of Section 20.

7. All of Section 20, Township 23S, Range 37E is within the Jalmat Gas Pool and is subject to the "Special Pool Rules for the Jalmat Gas Pool" promulgated by Division Order No. R-8170-P.

8. At the time Arch drilled the Resler B #001 well, Westbrook Oil Corporation (“Westbrook”) operated the 320-acre Jalmat Gas Pool spacing unit comprising the S/2 of Section 20, Township 23S, Range 37E. However, prior to the drilling of such well, Pogo acquired all of the leasehold interest covering the SE/4 and the NE/4SW/4 of said Section 20, which included all of the leasehold rights lying within the Jalmat Gas Pool, pursuant to a two (2) year Term Assignment, dated August 15, 2003.

9. At the time Arch drilled the Resler B #001 well and filed for a non-standard proration unit, OCD rules did not allow multiple operators in a spacing unit.

10. On June 13, 2005 the OCD denied Arch’s application in Order No. R-12366, but Arch was told that in light of the recent rule change that allowed more than one operator in a proration unit (Rule 104.E), that they could make application under such rule for the subject well.

11. On June 28, 2005, Arch commenced completion operations on the Resler B #001, and on July 10, 2005, Arch began producing the Resler B #001 from the Jalmat Gas Pool to maintain its leasehold position.

12. On April 11, 2007 Arch filed for de novo review of case 13274 by the Oil Conservation Commission (“OCC”), which was heard on May 19, 2007. Pogo presented the case as Arch’s successor in interest. Pogo’s application was again denied under Order R-12366-A, and Pogo then applied for a re-hearing on June 6, 2007, which was denied ten days later due to the Commission’s failure to act. At such de novo review of the case, Resler & Sheldon, successor in interest to Westbrook, objected to Pogo’s application.

13. At the hearing before the OCC, the senior geologist for Pogo, testified that

Arch completed the Resler B #001 in the Jalmat on July 9, 2005, after Arch learned that its application had been denied, to preserve its term assignment.

14. Arch attempted to file monthly production reports as to the Resler B #001 to the OCD, but the NMOCD would not accept same due to Pogo not having an order to produce.

15. Pogo presented a Monthly Allocation Summary for the Resler B #001 well at the OCC hearing, showing production from July 2005 through December 2005, and March 2006 through January 2007.

16. After the hearing, Pogo provided the OCD with a simplified gauge sheet denoting production attributable to the Resler B #001.

17. Combining the information from the Monthly Allocation Summary and the simplified gauge sheet indicates that the Resler B #001 produced on the following dates, for a total of 280 days for the time period of July 2005 until February 7, 2007 being the time such well was shut-in and has been shut in since:

- 7-9-05 to 7-20-05
- 8-1-05 to 12-31-05
- 3-14-06 to 3-25-06
- 5-1-06 to 5-13-06
- 6-14-06 to 6-26-06
- 7-28-06 to 8-9-06
- 9-10-06 to 9-22-06
- 10-24-06 to 11-05-06
- 12-7-06 to 12-19-06
- 1-24-07 to 2-5-07

18. Pogo intends to file an application for approval of two 160 acre units, and place the Resler B #001 back on production.

19. OCD Rule 19.15.3.104.B(2) NMAC provides, and at all relevant times provided, that if a well drilled as an oil well is completed as a gas well but does not conform to the applicable gas well locations rules, the operator must apply for administrative approval for a non-standard location before the well can produce.

20. Order R-12366 denied Arch's application for non-standard unit for the Resler B #001.

21. NMSA 1978, Section 70-2-31(A) provides, in relevant part,

“Any 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.”

22. NMSA 1978, Section 70-2-14(B) provides:

“If any of the requirements of the Oil and Gas Act [70-2-1 NMSA 1978] or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.

2. Pogo is a “person” as defined by NMSA 1978, §70-2-3(A) and Rule 19.15.1.7(P)(2) NMAC.

3. Pogo knowingly and willfully violated Rule 104 by operating the Resler B #001 well as a gas well without obtaining approval for a non-standard unit.

4. Pogo knowingly and willfully violated Order R-12366 by operating the Resler B #001 well as a gas well after the application for non-standard unit had been denied.

ORDER

1. Pogo shall pay a penalty of \$280,000 pursuant to NMSA 1978, §70-2-31(A) for the knowing and willful violation of the following order and rules: Rule 19.15.3.104.B(2) NMAC and Order R-12366.

2. The penalty shall be paid by cashier's check at the time this Order is executed.

3. Pogo shall file corrected production reports for the Resler B #001 within 30 days after it is notified in writing by the NMOCD that it will accept the filing of such reports; and agrees to not produce the Resler B #001 until an order is entered into that allows for such production.

4. By signing this Order, Pogo expressly:

- (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
- (b) agrees to pay the \$280,000 penalty at the time this Order is executed;
- (c) agrees to file within 30 days after it is notified in writing by the NMOCD that it will accept the filing of such corrected C-115 production reports for the Resler B #001 well;
- (d) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing challenging the entry of this Order (either prior to or subsequent to the entry of this Order) or to an appeal from the entry of this Order; and
- (e) agrees that the Order 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, Oil Conservation Commission or

District Court entered after notice and hearing or trial in accordance with all relevant statutes and rules.

Oil Conservation Division

By:  for MARK FESMIRE
Title: DIVISION DIRECTOR
Date: 12-21-2007

Pogo Producing Company LLC

By: 
Title: Vice President
Date: 12/17/07