

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

ACO 08- 239

**IN THE MATTER OF MGM 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 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 ("OCD") issues this Order to MGM Oil & Gas Co. ("MGM") directing compliance with the Act and OCD rules, and assessing a penalty for violations of the Act and OCD rules.

**I. FINDINGS & DETERMINATIONS BY THE OCD**

1. The OCD is the state division charged with administration and enforcement of the Act and OCD rules.
2. MGM is a corporation operating wells in New Mexico under OGRID 14771.
3. On December 14, 2004 the OCD filed the amended application in Case 13374, alleging that MGM had falsely reported production on the following six inactive wells in violation of NMSA 1978, Section 70-2-31(B)(2) and Rule 19.15.13.115.A NMAC [Rule 1115.A], and alleging that the wells were in violation of the inactive well rule, Rule 19.15.4.201 NMAC [Rule 201]:

Kemnitz Wolfcamp Unit #6	30-025-01918
Kemnitz Wolfcamp Unit #9	30-025-01921
Kemnitz Wolfcamp Unit #19	30-025-01272
Kemnitz Wolfcamp Unit #21	30-025-01274
Kemnitz Wolfcamp Unit #22	30-025-01273
Kemnitz Wolfcamp Unit #28	30-025-01944
4. MGM subsequently entered into Agreed Compliance Order 46 ("ACO 46") to resolve the issues in Case 13374, and that case was dismissed.
5. In ACO 46, MGM acknowledged filing false reports of production on five of the six wells identified in Case 13374 in violation of NMSA 1978, Section 70-2-31(B)(2) and Rule 1115.A, and paid a penalty of \$2,500. MGM claimed that it had production in the Kemnitz Wolfcamp Unit #9.

6. Under the terms of ACO 46 MGM also agreed to return the non-producing wells identified in the order to compliance with Rule 201, and agreed to the following:

Within one week of restoring one of the subject wells to production MGM must conduct a 24-hour test to measure oil, gas and water produced from the well, and conduct the test annually thereafter. MGM shall provide at least 24-hour notice to the OCD prior to conducting the tests. Test results must be submitted on a C-104. A well "restored to production" by swabbing must successfully pass the mechanical integrity test required under 19.15.4.203 NMAC.

ACO 46, page 5, paragraph 4 (emphasis added). These terms were also the subject of a December 21, 2004 letter from the OCD to counsel for MGM during negotiations on the agreed compliance order.

7. MGM plugged the Kemnitz Wolfcamp Unit #6, 30-025-01918, filed C-115 reports indicating that the four remaining identified wells were returned to production, and filed initial test results on C-104s. It did not, however, conduct annual tests on the four wells returned to production and submit the test results, as required by ACO 46.
8. NMSA 1978, Section 70-2-31(A) provides that "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."
9. On February 21, 2008, the OCD issued Notice of Violation (1-08-01) to MGM, alleging a violation of the terms of ACO 46 as to the following four wells identified in that order: Kemnitz Wolfcamp Unit #19, Kemnitz Wolfcamp Unit #21, Kemnitz Wolfcamp Unit #22, and Kemnitz Wolfcamp Unit #28.
10. NOV (1-08-01) also alerted MGM that the OCD had conducted well site inspections on the wells identified in Case 13374, and that it appeared that the following five wells reporting production were not active:

Kemnitz Wolfcamp Unit #9	30-025-01921
Kemnitz Wolfcamp Unit #19	30-025-01272
Kemnitz Wolfcamp Unit #21	30-025-01274
Kemnitz Wolfcamp Unit #22	30-025-01273
Kemnitz Wolfcamp Unit #28	30-025-01944

The OCD required MGM to confirm production on these wells.

**II. STATEMENTS & ADDITIONAL INFORMATION  
PROVIDED BY MGM**

11. At a compliance conference conducted on April 9, 2008 and during phone calls following up on the conference, MGM provided the following information:

a. MGM confirmed that it had filed the initial test results for the four wells returned to production, but did not file annual test results, as required by ACO 46.

b. MGM stated that the Kemnitz Wolfcamp Unit #9, #19, #21, #22, and #28 were in fact producing, although some or all of the wells were not producing on the day of the OCD's site inspection because they were temporarily shut-in due to weather conditions.

c. After reviewing its production reports with the OCD at the conference, MGM confirmed that it is averaging gas production among certain wells.

**III. CONCLUSIONS OF THE OCD**

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

13. MGM 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).

14. MGM is subject to civil penalties under NMSA 1978, § 70-2-31(A) for violating ACO 46's requirement that it conduct annual tests and file test results as to the following wells: Kemnitz Wolfcamp Unit #19, Kemnitz Wolfcamp Unit #21, Kemnitz Wolfcamp Unit #22, and Kemnitz Wolfcamp Unit #28.

15. MGM shall conduct 24-hour tests to measure oil, gas and water produced from the following wells, witnessed by the OCD, and submit those test results on a C-104:

- |                             |              |
|-----------------------------|--------------|
| • Kemnitz Wolfcamp Unit #9  | 30-025-01921 |
| • Kemnitz Wolfcamp Unit #19 | 30-025-01272 |
| • Kemnitz Wolfcamp Unit #21 | 30-025-01274 |
| • Kemnitz Wolfcamp Unit #22 | 30-025-01273 |
| • Kemnitz Wolfcamp Unit #28 | 30-025-01944 |

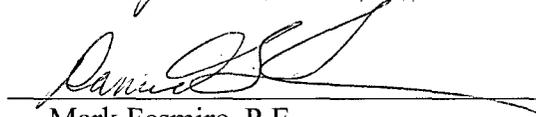
16. MGM shall review the reporting requirements of 19.15.13.1136 NMAC [Rule 1136] and 19.115.6.403 NMAC [Rule 403] and obtain approval for allocation measurement prior to filing reports allocating production among wells.

**IV. ORDER & CIVIL PENALTY ASSESSMENT**



Order relieves MGM of its responsibility for compliance with any other federal, state or local laws and/or regulations.

Done at Santa Fe, New Mexico this 9<sup>th</sup> day of June 2008.

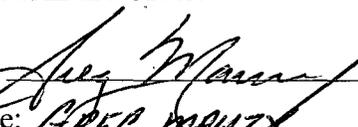
By: 

Mark Fesmire, P.E.

Director, Oil Conservation Division

**ACCEPTANCE**

**MGM OIL & GAS CO.** (OGRID 14771) hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth in the Order.

By: 

Title: GREG MARUZA

Date: 5/30/2008