

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

NMOCD-OGA-04- 69

IN THE MATTER OF WILLIAMS PRODUCTION COMPANY, LLC

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 **WILLIAMS PRODUCTION COMPANY, LLC** ("Williams") 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) Williams is a foreign limited liability company doing business in New Mexico, registered with the Public Regulation Commission under SCC number 2152643. Williams is an active entity with a principal address at One Williams Center, Tulsa, Oklahoma 74172. Its registered agent for service of process in New Mexico is CT Corporation System, 123 East Marcy, Santa Fe, New Mexico, 87501. Williams' OGRID is #120782.
- 3) Williams is the operator of record for the Rosa Unit #209 well, API #30-039-24864, located at Unit Letter M, Section 24, Township 31 North, Range 06 West in Rio Arriba county, New Mexico ("well").
- 4) On November 24, 2004, Deputy Oil and Gas Inspector William Martin, while doing well site inspections, discovered water standing in the vent/flare section of the drilling pit at the Rosa Unit #209.
- 5) A follow-up investigation revealed the following:
 - a. A visit to the well site on December 17, 2004 by Deputy Oil and Gas Inspector Denny Foust showed water still remained in the vent/flare portion of the drilling pit.

- b. OCD Rule 19.15.2.50.C.(2)(b)(i) NMAC ["Rule 50.C.(2)(b)(i)"] states in pertinent part, "Each drilling pit or workover pit shall contain, at a minimum, a single liner appropriate for conditions at the site. . . . Pits used to vent or flare gas during drilling or workover operations that are designed to allow liquids to drain to a separate pit do not require a liner".
- c. The design of the drilling pit used to vent gas at the Rosa Unit #209 did not allow all liquids to drain into the lined drilling pit, violating Rule 50.C.(2)(b)(i).
- d. The referenced well was permitted for cavitation by BLM May 20, 2004. Operations were initiated on the cavitation on May 17, 2004. The rig was released on June 15, 2004.
- e. OCD Rule 19.15.2.50.B.(3)(a) NMAC ["Rule 50.B.(3)(a)"] says in pertinent part, ". . . After April 15, 2004, operators shall obtain a permit before constructing a pit or below grade tank. . . ."
- f. Williams does not have a permit for the workover pit at the referenced well as required by Rule 50.B.(3)(a).
- g. Williams transported produced water to the drilling pit at the Rosa Unit #209.
- h. The Rosa Unit #209 is located approximately 200 feet from a Laguna Seca Draw tributary.
- i. OCD Rule 19.15.2.710.A NMAC ["Rule 710.A".] states in pertinent part, "No person, including any transporter, may dispose of produced water on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which will constitute a hazard to any fresh water supplies."
- j. Williams disposed of produced water in a pit, in violation of OCD Rule 710. A, by allowing drilling fluids containing produced water to stand in the unlined portion of the drilling pit.
- k. OCD Rule 19.15.2.50.F.(1) NMAC ["Rule 50.F.(1)"] states "Closure. Except as otherwise specified in Section 50 of 19.15.2 NMAC, a pit or below grade tank shall be properly closed within six months after cessation of use."
- l. Although use of the pit ceased on June 15, 2004 when cavitation operations were completed, the pit remained open for more than six months after that date, in violation of OCD Rule 50.F.(1).

- 6) 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." NMSA 1978, section 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..."
- 7) As a result of its investigation, the OCD issued Notice of Violation (3-04-25) to Williams.
- 8) After OCD's investigation, Williams:
 - a. immediately had its field personnel empty the vent/flare section of the drilling pit;
 - b. modified locations that had been built and revised pit construction design to comply Rule 50;
 - c. is reviewing closure status for drilling and workover pits under Rule 50. Williams will utilize the last casing string set date for drilling pits and the date the last tubing was set for workover pits to start the 180 days until required closure; and
 - d. began training employees to recognize and correct problems related to the operation of drilling and workover pits.
- 9) Williams takes the position that it is not subject to penalties because the violation was not knowing and willful.
- 10) Although Williams does not believe it is subject to penalties for the conduct described in this order, it acknowledges that if this case went to hearing the OCD would likely prove that it is subject to penalties, and therefore has determined that it is in its economic interest to pay the penalty rather than litigate the issues.

CONCLUSIONS

- 1) The OCD has jurisdiction over the parties and subject matter in this proceeding.
- 2) Williams is a person as defined by NMSA 1978, Section 70-2-33(A) subject to civil penalties under NMSA 1978, Section 70-2-31(A) for knowing and willful violations of the Oil and Gas Act or OCD Rules.
- 3) Williams is subject to civil penalties under NMSA 1978, Section 70-2-31(A) for building and operating a workover pit without a permit in violation of OCD Rule 50.B.(3)(a).

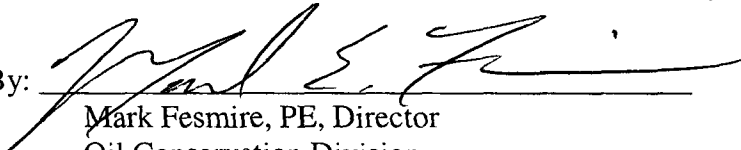
- 4) Williams is subject to civil penalties under NMSA 1978, Section 70-2-31(A) for using an unlined pit to vent or flare gas during drilling operations that was not designed to allow liquids to drain into a separate pit, in violation of OCD Rule 50.C.(2)(b)(i).
- 5) Williams is subject to civil penalties under NMSA 1978, Section 70-2-31(A) for disposing of produced water in a pit by allowing drilling fluids containing produced water to stand in the unlined portion of the drilling pit, in violation of OCD Rule 710.A.
- 6) Williams is subject to civil penalties under NMSA 1978, Section 70-2-31(A) for failing to close the pit within six months after cessation of use, as required by OCD Rule 50.F(1).

ORDER AND CIVIL PENALTY

- 1) Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling three thousand dollars (\$3,000) against Williams. No penalty is assessed at this time for Williams' violation of OCD Rule 50.F(1), although Williams is advised to develop a method of monitoring required closure dates for pits under Rule 50.
- 2) Williams is directed to close the drilling pit under an OCD-approved plan.
- 3) The civil penalty shall be paid within sixty days of receipt 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.
- 4) By signing this order, Williams expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this order;
 - b. agrees to comply with ordering paragraph 2 & 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;
 - 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;

- 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 Williams in the amount of the penalties assessed and, in the discretion of the court, may impose additional penalties for Williams' violation of the penalty provisions of this order.

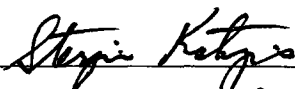
Done at Santa Fe, New Mexico, this 8th day of May, 2005.

By: 
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

Williams Production Company, LLC. hereby accepts the foregoing order, and agrees to all of the terms and provisions set forth in the order.

Williams Production Company, LLC.

By: 
Title: Manager, Production Operations
Date 5/3/05