

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

NMOCD – ACOI- 100

IN THE MATTER OF GRUY PETROLEUM MANAGEMENT, Co.,

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"), the Director of the Oil Conservation Division ("OCD") and Gruy Petroleum Management Co. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring wells identified herein into compliance with the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 162683 for the wells identified in Exhibit "A," attached.
4. The wells identified in Exhibit "A":
 - a. have been continuously inactive for a period of several months;
 - b. are not properly plugged and abandoned under OCD Rule 202 [19.15.4.202 NMAC]; and
 - c. have not been placed on approved temporary abandonment status under OCD Rule 203 [19.15.4.203 NMAC].
5. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any well drilled for oil, gas or injection; for seismic, core or other exploration, or for a service well, whether cased or uncased, shall be responsible for the plugging thereof.

B. A well shall be either properly plugged and abandoned or temporarily abandoned in accordance with these rules within ninety (90) days after:

....

....

(3) a period of one (1) year in which a well has been continuously inactive.”

6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-3(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...”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit “A” are either out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next few months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status.
3. As operator of the wells identified in Exhibit “A,” Operator is responsible for bringing those wells into compliance with Rule 201.
4. Operator is a “person” as defined by OCD Rule 7.P(2) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring at least 6 of the wells identified in Exhibit “A” into compliance with OCD Rule 201 by July 31, 2006 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202 and filing a C-103 describing the completed work;
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.

Transfer of a well identified on Exhibit “A” to another operator does not constitute bringing the well into compliance.

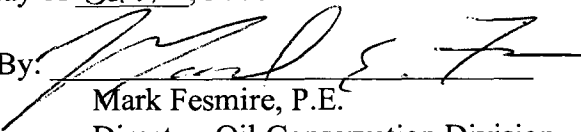
2. Operator shall file a compliance report by July 31, 2006 using the OCD's web-based on-line application, identifying each well returned to compliance, stating the date it was returned to compliance, and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status).
3. When the OCD receives a timely compliance report indicating that Operator has returned at least 6 wells to compliance and verifies the accuracy of that report, the OCD shall issue an amendment to this Order extending its terms for an additional six-month period. OCD shall provide a copy of that amendment to Operator at Operator's address of record provided pursuant to OCD Rule 100.C. If, in any six-month period, Operator returns more than 6 wells to compliance, the wells in excess of the number required will count towards the Operator's requirements for the next six-month period.
4. If Operator continues to return wells to compliance at a rate of at least 6 wells each six-month period, OCD shall continue to issue amendments to this Order extending its term for an additional six-month period. The total length of this Agreed Compliance Order, including the initial six-month period and any amendments, shall not exceed two years. At the end of two years, Operator and the OCD may negotiate a new agreed compliance order.
5. If Operator fails to bring at least 6 wells into compliance in any six-month period covered by this Order or amendments issued to this Order, Operator agrees to pay a penalty of \$1000 times the number of wells it failed to bring into compliance under its schedule during the applicable six month period. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its 6 well goal, Operator may file an application for hearing with the division examiner and seek a waiver or reduction of the penalty. Once Operator pays the penalty or files an application for hearing to waive or reduce the penalty, the OCD may, in its discretion, issue an amendment to this Order extending its terms for an additional six-month period.

Example A: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in a six-month period. At the end of the six-month period, Operator X has brought only 3 wells into compliance. Operator X pays the \$2000 penalty. The OCD exercises its discretion to issue an amendment extending the term of the agreed compliance order for an additional six-month period, again requiring Operator X to bring at least 5 wells into compliance. During this additional six-month period, Operator brings only one well into compliance. Operator X pays a \$4000 penalty. Although Operator X pays the \$4000 penalty, the OCD exercises its discretion and declines to issue an amendment to extend the terms of the agreed compliance order for an additional six-month period.

Example B: Operator Y enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in a six-month period. Although Y has made arrangements for plugging the 10 wells, due to adverse weather conditions and mechanical difficulties with the available plugging rig, Y is able to plug only 3 wells. Y files an application for hearing seeking a waiver or reduction of the \$7000 penalty. The OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for an additional six-month period.


6. Thirty days after the expiration of the term of this Order and any amendments to this Order, any wells on Exhibit "A" not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
7. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance 6 of the wells identified in Exhibit "A" by July 31, 2006, and agrees to comply with the compliance deadlines set by any amendments to this Order;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 2 and the deadline set by any amendments to this Order;
 - (d) agrees to pay penalties as set out in Ordering Paragraphs 5 if it fails to return 6 wells to compliance under the deadlines set by this Order or any amendments to this Order;
 - (e) 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
 - (f) agrees that the Order and amendments to the Order may be enforced by Division or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the Division or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
8. This Order applies only to those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act.
9. The Oil Conservation Division reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.
10. This Order is effective February 1, 2006.

Done at Santa Fe, New Mexico this 24th day of Jan, 2006

By: 
Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

Gruy Petroleum Management Co. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

By: 
Stephen P. Bell
Title: Sr. Vice President President,
Business Development and Land

Date: 1/23/2006

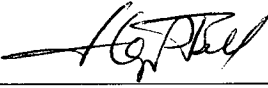
EXHIBIT "A"
AGREED COMPLIANCE ORDER
GRUY PETROLEUM MANAGEMENT CO.

District	API	Well Name	ULSTR	OGRID
2	30-015-25718	BENSON 3 FED 1	2-3-19S-30E	162683
1	30-025-31218	BONDURANT FEDERAL #003	A-1 -19S-32E	162683
1	30-025-05966	BRITT A #001	N-6 -20S-37E	162683
1	30-025-31324	CAGLE C 4	L-3-26S-37E	162683
2	30-015-23505	CALLAWAY FED 3	K-6-16S-28E	162683
2	30-015-31601	CANADIAN 6 FEDERAL COM 1	K-6-18S-31E	162683
1	30-025-11790	CARLSON #002	H-26-25S-37E	162683
1	30-025-11692	CARLSON HARRISON FED COM 1	L-22-25S-37E	162683
1	30-025-25399	CITGO LM STATE 1	M-36-23S-36E	162683
1	30-025-25667	CITIES LAUGHLIN 1	J-5-20S-37E	162683
1	30-025-08716	COLEMAN 1	J-17-21S-36E	162683
1	30-025-11006	COURTLAND MYERS 2	M-5-24S-37E	162683
1	30-025-31614	• CW SHEPHERD A FED 2	H-6-26S-37E	162683
1	30-025-25600	DB BOREN 3	B-20-22S-36E	162683
1	30-025-24469	ELLEN SIMS A 1	H-3-23S-37E	162683
2	30-015-23464	EMPIRE 20 FED 1	H-20-18S-29E	162683
2	30-015-23102	• EMPIRE FED COM 1	K-27-18S-29E	162683
1	30-025-11944	FARNSWORTH 4 #009	C-4 -26S-37E	162683
2	30-015-25751	FEDERAL 3	P-5-18S-31E	162683
2	30-015-25784	FEDERAL 4	O-5-18S-31E	162683
2	30-015-25840	FEDERAL 9 1	D-9-18S-31E	162683
2	30-015-20931	FELMONT ATOKA COM # 001	D-12-18S-26E	162683
1	30-025-25967	HIGHLAND ST COM 1	J-16-23S-36E	162683
1	30-025-22366	HUDSON BROWN 29 FEDERAL #001	B-29-18S-33E	162683
1	30-025-24098	HUMBLE A ST 1	E-16-16S-35E	162683
1	30-025-09251	JF JANDA NCT-J 1	I-4-23S-36E	162683
1	30-025-09552	JW COOPER A 3	N-12-24S-36E	162683
1	30-025-36524	KAREN 1 STATE 2	K-1-20S037E	162683
1	30-025-35682	LAURA 13 STATE COM 1	B-13-21S-34E	162683
1	30-025-02774	LEA A ST 1	D-10-16S-35E	162683
1	30-025-02775	LEA A ST 2	C-10-16S-35E	162683
1	30-025-02777	LEA A ST 4	F-10-16S-35E	162683
1	30-025-34045	LEA AP ST 3	J-30-19S-35	162683
1	30-025-28165	LEA AQ ST 1	A-32-19S-35E	162683
1	30-025-34031	LUSK WEST DELAWARE UNIT #016	P-20-19S-32E	162683
2	30-015-29473	MALLON 10 FED 1	E-10-24S-26E	162683
2	30-015-29775	MALLON 10 FED 4	B-10-24S-26E	162683
1	30-025-34448	MALLON 30 FEDERAL #043	I-30-19S-34E	162683
1	30-025-33589	MALLON 34 FED 15	M-34-19S-34E	162683
1	30-025-32782	• MALLON 34 FEDERAL #007	H-34-19S-34E	162683
1	30-025-32785	• MALLON 34 FEDERAL #010	P-34-19S-34E	162683
2	30-015-29371	MALLON PECOS RIVER 28 FEDERAL #01	H-28-26S-29E	162683
1	30-025-23503	MESCALERO RIDGE UNIT 3	P-35-19S-34E	162683
1	30-025-30985	MITCHELL 16 STATE #003	G-16-18S-32E	162683
1	30-025-12024	MOBERLY C #003	E-21-26S-37E	162683
1	30-025-12025	MOBERLY RHODES WF PROJECT #007	L-21-26S-37E	162683
1	30-025-12026	MOBERLY RHODES WF PROJECT #008	N-21-26S-37E	162683
1	30-025-12027	MOBERLY RHODES WF PROJECT #009	M-21-26S-37E	162683
2	30-015-05664	MONTEREY B STATE #003	C-32-18S-31E	162683
2	30-015-10177	• MONTEREY ST 4	K-32-18S-31E	162683
2	30-015-05659	• MONTEREY STATE #001	J-32-18S-31E	162683
2	30-015-10195	MONTEREY STATE #005	O-32-18S-31E	162683
1	30-025-27661	NEW MEXICO DA STATE # 002	G-31-21S-35E	162683
1	30-025-24257	NEW MEXICO L 61 ST 1	2-6-10S-33E	162683
2	30-015-10492	NEW MEXICO Y STATE #004	M-32-18S-31E	162683
2	30-015-26374	NORTH SHUGART FED 1	H-17-18S-31E	162683
2	30-015-22309	PALMILLO ST COM 1	G-32-18S-29E	162683
2	30-015-23818	• PARKWAY C STATE COM #001	F-15-19S-29E	162683
2	30-015-25376	PECOS FED 2	G-27-26S-29E	162683
2	30-015-25435	PECOS FED 3	O-27-26S-29E	162683
2	30-015-22326	PENNZOIL 10 FEDERAL #002	L-10-24S-26E	162683
1	30-025-25913	PIPELINE DEEP UNIT FEDERAL #004	N-6 -19S-34E	162683
1	30-025-34168	RHODES 23 FED COM 1	M-23-26S-37E	162683
1	30-025-12031	RHODES FED UNIT 211	A-21-26S-37E	162683
1	30-025-12034	RHODES FED UNIT 222	J-22-26S-37E	162683
1	30-025-33205	RHODES FED UNIT 265	M-26-26S-37E	162683
1	30-025-33248	RHODES FED UNIT 271	I-27-26S-37E	162683
1	30-025-11948	• RHODES FED UNIT 42	K-4-26S-37E	162683
1	30-025-28114	• RHODES FED UNIT 52	B-5-26S-37E	162683
1	30-025-24521	• RHODES FED UNIT 82	G-8-26S-37E	162683
1	30-025-11967	• RHODES FED UNIT 91	K-9-26S-37E	162683
1	30-025-34454	• RHODES FEDERAL UNIT #267	H-26-26S-37E	162683
1	30-025-22261	ROCK ISLAND B ST 1	I-4-17S-34E	162683
2	30-015-24822	ROY RENFRO #001	I-4-1 -21S-27E	162683
1	30-025-06315	SHELL ST 6	I-32-20S-37E	162683
2	30-015-05630	SHUGART (APCO) A #003	H-29-18S-31E	162683
1	30-025-10616	SKELLY PENROSE A UNIT #032	L-4 -23S-37E	162683
1	30-025-10623	SKELLY PENROSE A UNIT #033	M-4 -23S-37E	162683
1	30-025-10596	SKELLY PENROSE A UNIT #038	N-3 -23S-37E	162683

EXHIBIT "A"
AGREED COMPLIANCE ORDER
GRUY PETROLEUM MANAGEMENT CO.

District	API	Well Name	ULSTR	OGRID
1	30-025-10599	SKELLY PENROSE A UNIT #040	P-3 -23S-37E	162683
1	30-025-10701	SKELLY PENROSE A UNIT #055	L-10-23S-37E	162683
1	30-025-10694	•SKELLY PENROSE A UNIT 41	A-10-23S-37E	162683
1	30-025-10698	•SKELLY PENROSE A UNIT 53	J-10-23S-37E	162683
1	30-025-10559	•SKELLY PENROSE A UNIT 7	M-33-22S-37E	162683
2	30-015-23041	• STATE 14 A COM 1	G-14-19S-29E	162683
1	30-025-30095	STATE 2 1	L-2-17S-37E	162683
1	30-025-06192	STATE A20 2	J-20-20S-37E	162683
1	30-025-32024	STATE A20 3	P-20-20S-37E	162683
2	30-005-62662	STATE ET 2	L-36-15S-27E	162683
1	30-025-28174	STATE LF 32 1	D-32-16S-34E	162683
1	30-025-01276	STATE LG 26 1	A-26-16S-33E	162683
1	30-025-22004	STATE WE K 1	F-15-21S-35E	162683
2	30-015-22395	SUPERIOR FED 4	I-5-20S-29E	162683
1	30-025-11034	TOBY 2	K-7-24S-37E	162683
1	30-025-34522	TOPACIO FED 28 COM 1	G-28-19S-33E	162683
2	30-015-29818	WADI 9 FEDERAL #002	K-9 -24S-26E	162683
2	30-015-29764	• WADI 15 FEDERAL # 001	C-15-24S-26E	162683
2	30-015-30870	WEST SHUGART 29 FED 4	N-29-18S-31E	162683

Gruy Petroleum Management, Co.

By: 

Stephen P. Bell

Title: Sr. Vice President, Business Development and Land

Date: 1/23/2006