

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

ACO-37
35-SF

NMOCD-UGA-04-__

RECEIVED

IN THE MATTER OF DUGAN PRODUCTION CORPORATION,
Respondent.

OCT 27 2004

AGREED ORDER DIRECTING COMPLIANCE OIL CONSERVATION
AND ASSESSING CIVIL PENALTY DIVISION

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 ("OCD") issues this Order to DUGAN PRODUCTION CORPORATION ("Dugan") 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. Dugan is a corporation authorized to do business in the State of New Mexico under Public Regulation Commission ("PRC") SCC number 0444224 with a mailing address of P.O. Box 420, Farmington, NM 87499, and its registering agent being Thomas A Dugan, 709 E Murray Dr., Farmington, New Mexico 87401.
3. On April 27, 2004, New Mexico Oil Conservation Division (OCD) Deputy Inspector Bruce Martin found that the pressure-limiting device on the Dugan Production Corporation (Dugan) Mary Lou SWD #1 well was set higher than permitted by OCD Administrative Order SWD-884.
4. An OCD investigation established the following facts:
 - a. At approximately 10:00am on Tuesday, April 27, 2004, Deputy Inspector Martin discovered that the pressure-limiting device required for the referenced well by Administrative Order SWD-884 was set at 1100 psi.
 - b. Administrative Order SWD-884 requires that the well shall be equipped with a pressure-limiting device, which will limit the wellhead pressure to no more than 690 psi.
 - c. Deputy Inspector Martin reset the pressure-limiting device to the limit authorized by Administrative order SWD-884 and left a handwritten note to the Dugan operator stating that the limiting device had been reset and directing Dugan not to inject above the authorized pressure. Deputy Inspector Martin signed the note and included a contact phone number
 - d. At approximately 1:15pm on that same day, Deputy Inspector Martin returned to the well and

discovered that the pressure-limiting device had again been set above the limit of SWD-884. It was set to 1340 psi and the well was injecting at 900 psi.

e. Deputy Inspector Martin contacted the Dugan office, and Steve Meador, the Dugan pumper, came to the well site. He stated to Deputy Inspector Martin that he had read the note and still possessed it in his vehicle, but had been directed by his supervisor to disregard the note, reset the pressure-limiting device, and start the injection pump. The supervisor verified that he had instructed the pumper to disregard the note and operate the well at above the authorized pressure.

f. It is a violation of Administrative Order SWD-884 for Dugan to inject above 690 psi.

5. Dugan has corrected the settings on the pressure limiting device so further action will not be required.

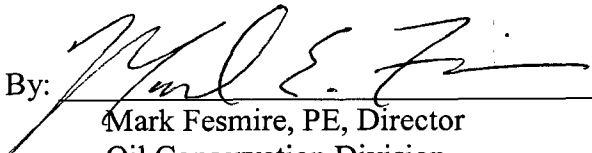
CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Dugan 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 any OCD rule or order issued pursuant to that Act.
3. Dugan is subject to civil penalties under NMSA 1978, Section 70-2-31(A) for violating Administrative Order SWD-884 by setting the pressure limiting device higher than 690 psi and injecting over 690 psi.

ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling one thousand dollars (\$1,000) against Dugan.
2. 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.
3. By signing this order, Dugan expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this order;
 - b. agrees to comply with ordering paragraph 2;
 - 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 31st day of October 2004.

By: 
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

Dugan Production Corporation hereby accepts the foregoing order, and agrees to all of the terms and provisions set forth in the order.

DUGAN PRODUCTION CORPORATION

By: Tom Blain

Title: Vice President

Date 10/13/04