

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

NMOCD - ACOI- 130

IN THE MATTER OF K P KAUFFMAN COMPANY INC.,

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 K P Kauffman Company Inc. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring the well 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, and has been assigned OGRID 228296.
3. Operator is the operator of record of one well in New Mexico: Mesa Queen 7 State #001, API 30-025-29200 (hereinafter, "subject well").
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.

B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....

....

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

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5. The subject well has been inactive for a period in excess of one year plus ninety days and has not been plugged and abandoned or placed on approved temporary abandonment status.
6. On April 26, 2006, Operator applied for approval to plug back the subject well from the present Queen perforations and to complete the Seven Rivers/Tansill interval. The OCD approved the application on May 2, 2006.
7. 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.
8. 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 subject well is out of compliance with Rule 201.
3. As operator of the subject well, Operator is responsible for bringing the well 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 the subject well into compliance with OCD Rule 201 by December 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.B(2) and filing a C-103 describing the completed work;
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.

2. If Operator fails to bring the subject well into compliance by December 31, 2006, Operator agrees to pay a penalty of \$1000. In the event the Operator encounters unanticipated circumstances that prevent it from bringing the subject well into compliance by December 31, 2006, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and an amendment extending the terms of the order for a period not to exceed six months. Operator shall serve the OCD's Enforcement and Compliance Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, the application shall be set for hearing.
3. If the subject well is not returned to compliance by the date this Order and any amendment issued to this Order pursuant to Ordering Paragraph 2 expires, it will appear on the inactive well list kept pursuant to OCD Rule 40.F.
4. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return the subject well to compliance by December 31, 2006 or if an amendment is issued pursuant to Ordering Paragraph 2, by the deadline provided in that amendment;
 - (c) agrees to pay penalties as set out in Ordering Paragraph 2 if it fails to return the subject well to compliance by December 31, 2006 or if an amendment is issued pursuant to Ordering Paragraph 2, by the deadline provided in that amendment;
 - (d) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from 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 or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
5. The Oil Conservation Division reserves the right to file an application for hearing to obtain authority to plug the subject well and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this 18th day of May, 2006

By: 

Mark Fesmire, P.E.

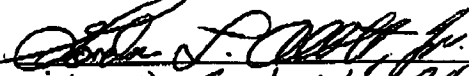
Director, Oil Conservation Division

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ACCEPTANCE

K P Kauffman Company, Inc. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

K P Kauffman Company, Inc.

By: 
(please print name): Gordon L. Alcott, Jr.
Title: Exec. VP
Date: 8/16/06