

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

NMOC D - ACOI- 140

IN THE MATTER OF J. CLEO THOMPSON,

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 J. Cleo Thompson ("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 sole proprietor doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 11181 for the wells identified in Exhibit "A," attached.
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."

5. The wells identified in Exhibit "A" are currently out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if no action is taken on the wells.
6. Operator is currently in active negotiations to transfer the wells identified in Exhibit A to another operator.
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 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 several 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 3 of the wells identified in Exhibit "A" 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; or
  - (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 count towards Operator's obligation to return wells to compliance under the terms of this Order, but does reduce the total number of wells for which Operator is responsible under the terms of this Order.

2. Operator shall file a compliance report by December 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 3 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, requiring Operator to return 4 additional wells to compliance by June 31, 2007. 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 period, Operator returns more than the required number of 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 4 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 the required number of wells into compliance in any 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 period. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its goal, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and 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. Once Operator pays the penalty or files an administrative application to request a waiver or reduction of 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

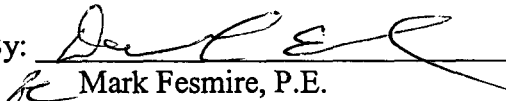
X pays the \$2000 penalty. The OCD exercises its discretion to issue an amendment extending the term of the agreed compliance order for an additional six-month period, again requiring Operator X to bring at least 5 wells into compliance. During this additional six-month period, Operator brings only one 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 administrative application for hearing seeking to waive the \$7000 penalty, and serves the Enforcement and Compliance Manager with a copy of the application. The Enforcement and Compliance Manager does not concur with the application's request to waive the full amount of the penalty, so the application is set for hearing. 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 3 of the wells identified in Exhibit "A" by December 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 Paragraph 5 if it fails to return the required number of 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 to 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 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.

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.

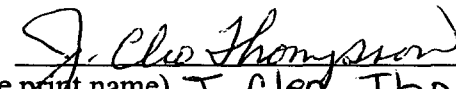
Done at Santa Fe, New Mexico this 24<sup>th</sup> day of August, 2006

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

**ACCEPTANCE**

J. Cleo Thompson hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

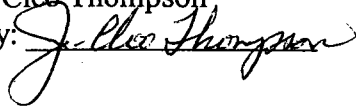
J. Cleo Thompson

By:   
(Please print name) J. Cleo Thompson  
Title: OWNER (President)  
Date: 8-16-06

**Exhibit A to Agreed Compliance Order for J. Cleo Thompson**

1. Milnesand Unit #024	30-041-10147
2. Milnesand Unit #025	30-041-10148
3. Milnesand Unit #027	30-041-10150
4. Milnesand Unit #028	30-041-10151
5. Milnesand Unit #062	30-041-10034
6. Milnesand Unit #063	30-041-10036
7. Milnesand Unit #113	30-041-10207
8. Milnesand Unit #114	30-041-10157
9. Milnesand Unit #124	30-041-00031
10. Milnesand Unit #125	30-041-10015
11. Milnesand Unit #126	30-041-10016
12. Milnesand Unit #131	30-041-10041
13. Milnesand Unit #133	30-041-10043
14. Milnesand Unit #134	30-041-10044
15. Milnesand Unit #135	30-041-10045
16. Milnesand Unit #137	30-041-10050
17. Milnesand Unit #142	30-041-10008
18. Milnesand Unit #152	30-041-00010
19. Milnesand Unit #163	30-041-00244
20. Milnesand Unit #164	30-041-00245
21. Milnesand Unit #172	30-041-00119
22. Milnesand Unit #173	30-041-00120
23. Milnesand Unit #185	30-041-10056
24. Milnesand Unit #186	30-041-10194
25. Milnesand Unit #187	30-041-10057
26. Milnesand Unit #191	30-041-00083
27. Milnesand Unit #193	30-041-00084
28. Milnesand Unit #197	30-041-00140
29. Milnesand Unit #201	30-041-10180
30. Milnesand Unit #202	30-041-10181
31. Milnesand Unit #310	30-041-10059
32. Milnesand Unit #510	30-041-00259
33. Milnesand Unit #511	30-041-00257
34. Milnesand Unit #514	30-041-00261
35. Milnesand Unit #515	30-041-00262
36. Milnesand Unit #516	30-041-10208
37. Milnesand Unit #517	30-041-10158
38. Milnesand Unit #524	30-041-20649
39. Milnesand Unit #525	30-041-20650

J. Cleo Thompson

By: 

ACOI

J. Cleo Thompson

Page 6 of 6