

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

NMOCD-07-118

IN THE MATTER OF COG OPERATING 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 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 **COG OPERATING LLC ("COG")** 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. COG is a limited liability corporation, with a principal and mailing address at 550 W. Texas, Suite 1300, Midland, Texas 79701. COG is assigned OGRID # 229137.
3. COG is the operator of the VS Unit No. 107 in Unit Letter G, Section 17, Township 18S, Range 31E, API # 30-015-22618, Eddy County, New Mexico.
4. During the relevant time period and prior to COG becoming the operator of the VS Unit No. 107, there were two other operators. Our records show that on August 17, 2005, the operator of record was Vintage Drilling LLC. On September 16, 2005, the OCD approved a change of Operator to Mack Energy Corporation. On April 25, 2006, the OCD approved another change of operator to COG Operating, LLC.
5. On August 17, 2005, OCD Deputy Oil and Gas Inspector Gerry Guye performed a mechanical integrity test (hereinafter, "MIT") on the above listed well.
6. By letter dated August 18, 2005, Vintage Drilling LLC was notified of the failed MIT test. Vintage was instructed to repair the failure by November 20, 2005.
7. As the OCD was not notified of any repairs, nor was it contacted to reschedule the MIT test, a second Letter of Violation, No. 020610, dated June 21, 2006 was sent to COG, advising it of the August 17, 2005 failed MIT. COG was required to repair the well by July 21, 2006.

8. On August 7, 2006, the OCD issued **Notice of Violation (2-06-20)** to COG alleging one violation of OCD Rule 703. As of that date, COG had failed to notify the OCD of repairs made or to reschedule the MIT.
9. OCD Rule 703 [19.15.9.703 NMAC] requires injection wells to be "equipped, operated, monitored, and maintained to facilitate periodic testing and to assure continued mechanical integrity which will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement though vertical channels adjacent to the well bore."
10. COG or its predecessors did knowingly and willfully violate Rule 703 by failing to have timely repaired the well so that it could be MIT tested even after being notified of the inspection failure.
11. COG did, however, provide documentation that on July 26, 2006, a pulling unit had rigged up on VS Unit No. 107 and pulled the tubing. COG had not advised the OCD of the corrective action nor requested an extension until July 21, 2006 to do the corrective action. COG was then waiting for a plugger to plug the well and bring it into compliance. It was unable to provide an estimated time as to when the well could be plugged.
12. Due to the circumstances, COG did not believe that the One Thousand Dollar penalty was fair.

II. CONCLUSIONS

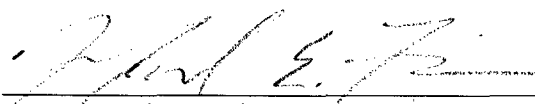
1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. COG is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
3. COG is subject to civil penalties under NMSA 1978, § 70-2-31(A) for one knowing and willful violation of OCD Rule 703.

III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **One Thousand Dollars (\$1,000.00)** against COG for one violation of OCD Rule 703 (failed mechanical integrity test).
2. The OCD acknowledges that the One Thousand Dollar civil penalty has previously been paid by COG. The penalty was 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. COG states that it has completed plugging operations on VS Unit No. 107 and shall submit the required paperwork to the OCD on the well by March 1, 2007.
4. By signing this Order, COG expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with Ordering paragraphs 2 and 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; 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).

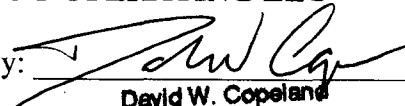
Done at Santa Fe, New Mexico this 17th day of January 2007.

By: 
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

COG OPERATING LLC hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth therein.

COG OPERATING LLC

By: 
David W. Copeland
Vice President
Title: _____
Date: _____