

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

NMOCD – ACO 197

IN THE MATTER OF MELROSE OPERATING COMPANY,

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") and OCD Rule 1227.E [19.15.14.1227(E) NMAC], the Director of the Oil Conservation Division ("OCD") and Melrose Operating Company ("Operator" or "Melrose") enter into this Agreed Compliance Order ("Order") under which Operator acknowledges the violation described below, agrees to a penalty of \$1,000.00, and agrees to take the corrective action required.

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. Melrose is a corporation operating wells in New Mexico under OGRID 184860.
3. Melrose is the operator of record of the Jalmat Field Yates Sand Unit #102 injection well, API 30-025-08569, P-3-22S-35E, in Lea County, New Mexico.
4. On October 18, 2005, Deputy Oil and Gas Inspector Gonzales inspected Melrose's Jalmat Field Yates Sand Unit #102. The well failed the Bradenhead test.
5. Rule 19.15.9.703 NMAC (Rule 703) 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 through vertical channels adjacent to the well bore."
6. Rule 19.15.9.704.A(5) NMAC (Rule 704(A)(5)) provides that, "[t]he injection well operator shall advise the division of the date and time any initial, five-year or special tests are to be commenced in order that such tests may be witnessed."

7. By letter dated October 27, 2005, the Oil Conservation Division (OCD) notified Melrose that the well had failed the Bradenhead test. The letter instructed Operator to repair the failure by January 21, 2006 so the well could be re-tested.
8. By letter dated July 5, 2006, the OCD notified Melrose a second time that the well needed to be repaired.
9. The OCD issued Notice of Violation (1-07-1) to Operator alleging a knowing and willful violation of Rule 703 based on Operator's failure to repair and retest the well despite repeated notification by the OCD, and requiring Operator to contact the OCD within 10 days to schedule a compliance conference to determine if the matter could be resolved administratively. The Notice of Violation was sent by certified mail on March 7, 2007, and the OCD received a green return receipt card signed by Michael Corjay indicating it was delivered on March 12, 2007.
10. Operator did not contact the OCD in response to the Notice of Violation.
11. By letter dated May 11, 2007, OCD Compliance and Enforcement Manager Daniel Sanchez informed Operator that it had not received a response to the Notice of Violation, and made the following demand:

Please contact me by May 30 to arrange an administrative conference. If I do not hear from you by that time the matter will be set for hearing before an OCD hearing examiner. If the matter proceeds to hearing the OCD may seek penalties greater than the \$1,000 proposed in the notice. (Emphasis in the original.)
12. Operator did not respond to the May 11, 2007 letter.
13. On May 24, 2007, the OCD received an unsigned, undated sundry notice from operator reporting remedial work done on the Jalmat Field Yates Sand Unit #102 in August and September of 2006, including a pressure test. The test had not been witnessed by the OCD.
14. Mr. Sanchez contacted Operator by telephone and scheduled a compliance conference for September 6, 2007.
15. 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 and willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
16. NMSA 1978, Section 70-2-33(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. Operator knowingly and willfully violated Rule 703 by failing to repair and retest the Jalmat Field Yates Sand Unit #102 injection well after being informed of the inspection failure.
3. Operator is a “person” as defined by NMSA 1978, Section 70-2-33(A) and is subject to civil penalties for the knowing and willful violation of Rule 703.

ORDER

1. The OCD assesses, and Operator agrees to pay, a penalty of \$1,000 for the knowing and willful violation of Rule 703.
2. The \$1,000 penalty shall be paid at the time Operator executes this Order. Payment shall be made by check payable to the “New Mexico Oil Conservation Division,” mailed or hand-delivered to the EMNRD-OCD, Attn: Director, 1220 South St. Francis Drive, Santa Fe, NM 87505.
3. Within 30 days of the execution of this Order, Operator shall retest the Jalmat Field Yates Sand Unit #102 well. Operator shall provide the Hobbs District Office of the OCD with no less than 48 hours notice of the test, so the OCD can witness the test.
4. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to pay the \$1,000.00 penalty assessed in the Order at the time the Order is executed;
 - (c) agrees that within within 30 days of the execution of this Order, Operator shall retest the Jalmat Field Yates Sand Unit #102 well, and agrees that it shall provide the Hobbs District Office of the OCD with no less than 48 hours notice of the test, so the OCD can witness the test;
 - (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.

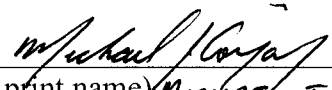
Done at Santa Fe, New Mexico this 25th day of September 2007

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

ACCEPTANCE

Melrose Operating Company hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Melrose Operating Company

By: 
(Please print name) MICHAEL J. CORSEY
Title: VICE PRESIDENT
Date: 9-17-07