

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

ACO No. 224

RECEIVED
2008 MAR 10 PM 2 16

IN THE MATTER OF MELROSE OPERATING COMPANY,

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 Melrose Operating Company (hereinafter "Operator") directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD rules.

I. FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. Operator is a foreign for-profit corporation registered to do business in New Mexico under SCC Number 1781228.
3. Operator operates wells within New Mexico under OGRID 184860.
4. According to the Public Regulation Commission website, Operator's principal business address is 5813 NW Grand Blvd, Suite B, Oklahoma City, OK 73118. Operator's address of record with OCD is 1000 W. Wilshire, Suite 223, Oklahoma City, OK 73116.
5. Operator is Operator of Record of the following wells:
 - Artesia Unit No. 046; 30-015-02541; F-3-18S-28E
 - Guajalote State No. 002; 30-015-24930; O-5-19S-29E
6. On July 12, 2007, OCD Deputy Oil and Gas Inspector Richard Inge tested the mechanical integrity of the Artesia Unit No. 046 and Guajalote State No. 002. Gary Newton, Operator's pumper, witnessed both tests. Both wells passed their tests.
7. During the tests Deputy Inspector Inge observed the Artesia Unit No. 046 to be injecting over its permitted limit. The maximum injection pressure for the Artesia Unit No. 046 under OCD Order R-1120-A is 425 psig. The Artesia Unit No. 046 was injecting at a pressure rate of 500 psig. Deputy Inspector Inge told Mr. Newton

at the test site that the Artesia Unit No. 046 had to be shut in until the injection pressure was below the OCD approved limit or Operator had OCD approval to inject at the higher pressure rate.

8. Deputy Inspector Inge also told Mr. Newton at the test site that he believed that Operator's authority to inject for the Guajalote State No. 002 had terminated due to the well's non-use for over a year. Deputy Inspector Inge told Mr. Newton that he would contact him after he confirmed the termination.
9. On July 13, 2007, Deputy Inspector Inge told Mr. Newton that Operator had indeed lost its authority to inject for the Guajalote State No. 002 due to the well being idle for over a year. Deputy Inspector Inge told Mr. Newton that Operator had to re-apply to the Santa Fe OCD district office for reinstatement of Operator's authority to inject into the Guajalote State No. 002. Deputy Inspector Inge told Mr. Newton that the Guajalote State No. 002 had to remain shut in until Operator submitted a Form C-108 to the Santa Fe OCD office requesting re-instatement of Operator's injection authority for the well.
10. On that same date, Deputy Inspector Inge sent Operator a letter of violation for the Artesia Unit No. 046 (LOV No. 0216807) and the Guajalote State No. 002 (LOV No. 0276907). In both letters Deputy Inspector Inge advised Operator of the violations for each well. Deputy Inspector Inge asked Operator to remedy the violations for each well by October 15, 2007.
11. On October 17, 2007, Mr. Newton called Deputy Inspector Inge about the open compliance issues. Mr. Newton told Deputy Inspector Inge that a step-rate test was done on the Artesia Unit No. 046 but he was not sure if the test had been submitted to the Santa Fe OCD district office for approval. Mr. Newton also told Deputy Inspector Inge that he believed that a permit for the Guajalote State No. 002 had been submitted to the Santa Fe OCD district office for approval. Deputy Inspector Inge allowed Mr. Newton to have until November 9, 2007, to prove that the step-rate test and permit had been submitted to the Santa Fe OCD district office for approval.
12. On October 23, 2007, Operator's Regulatory Agent Ann Ritchie sent Deputy Inspector Inge an email of an Operator publication notice in which Operator stated that it "will file the New Mexico Oil Conservation Division Form C-108, Application for Authorization to Inject, with the NMOCD seeking administrative approval for water injection into their Guajalote State, well #2."
13. On December 7, 2007, Deputy Inspector Inge called the Santa Fe OCD district office to see if Operator had applied for an injection pressure increase for the Artesia Unit No. 046 and submitted a Form C-108 for the Guajalote State No. 002. Santa Fe OCD employee Will Jones told Deputy Inspector Inge that the Santa Fe OCD had not received an application for an injection pressure increase for the Artesia Unit No. 046 or a Form C-108 for the Guajalote State No. 002.

14. OCD Rule 19.15.9.705(C)(1) NMAC ("Rule 705") states:

Whenever there is a continuous one year period of non-injection into any injection project, storage project, salt water disposal well, or special purpose injection well, such project or well shall be considered abandoned, and the authority for injection shall automatically terminate ipso facto.

15. The last injection report for the Guajalote State No. 002 was April 1, 2005. Under OCD Rule 705(C)(1), Operator's injection authority for the Guajalote State No. 002 terminated in April 2006. According to OCD records, Operator reported injection for the well for July 2007.
16. On January 3, 2008, OCD issued Notice of Violation No. 02-07-32, alleging violations of OCD rules and order.
17. On February 12, 2008, an administrative conference was held on the notice of violation. Operator's employee Michael Corjay participated in the conference by telephone.
18. According to Mr. Corjay, Operator spent a significant amount of money to bring the Guajalote State No. 002 into viability. They injected into the Guajalote State No. 002 prior to them knowing they had lost their injection authority. They injected into the Guajalote State No. 002 only one time, and that was in July. They shut in the well when they found out about the compliance issue. They performed a step-rate test on the Artesia Unit No. 046, around January 14, 2008. Mr. Corjay believed the Artesia Unit No. 046 passed the step-rate test requirements. He said the step-rate test was sent to the OCD Artesia office.
19. Deputy Inspector Inge told Mr. Corjay that he did not receive the step-rate test. He told Mr. Corjay that he had directed Operator in his letters to send the step-rate test information to the Santa Fe OCD office.
20. Mr. Corjay said he did not receive Deputy Inspector Inge's letters that instructed him to send the step-rate test information to the Santa Fe OCD office. Mr. Corjay said Operator was moving during that time, and their mail went everywhere. Mr. Corjay did not know why the step-rate test was not sent to the Santa Fe OCD office. Operator's regulatory staff thought they could just re-apply for injection authority; they did not know they had lost all authority and would have to start all over.

III. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Operator 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. NMSA 1978, Section 70-2-31(A) states, "Any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars for each violation. For purposes of this subsection, in the case of a continuing violation, each day of violation shall constitute a separate offense."
4. Operator is subject to civil penalties under NMSA 1978, § 70-2-31(A) for knowing and willful violations of OCD Rule 704.

IV. ORDER & CIVIL PENALTY ASSESSMENT

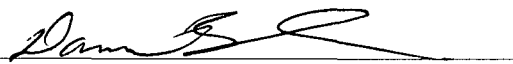
1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against Operator totaling **Two Thousand Dollars (\$2,000.00)**. The \$2,000.00 civil penalty is based on one violation of OCD Rule 705 and one violation of OCD Order R-1120-A.
2. The **Two Thousand Dollars (\$2,000.00)** civil penalty shall be paid upon execution 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 Thursday, March 13, 2008**, Operator shall submit to the Santa Fe OCD office:
 - a. a step-rate test for the Artesia Unit No. 046;
 - b. a Form C-108 Application for Authorization to Inject Guajalote State No. 002.
4. Within 15 days of OCD approval of the step-rate test increase, Operator shall have the Artesia Unit No. 046 undergo and pass a mechanical integrity test, and returned to production.
5. Within 15 days of OCD approval of the Form C-108, Operator shall have the Guajalote State No. 002 undergo and pass a mechanical integrity test, and returned to production.
6. By signing this Order, Operator expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with the Order;
 - 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;

- 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;
7. For good cause shown, Operator may request an extension to complete the requirements as set out in Ordering Paragraphs 3-5. Such notification ("notice") shall reasonably describe the circumstances encountered by Operator that prohibits it from meeting the deadlines set out herein.

Within ten (10) days of receipt of this notice, the OCD shall either approve the extended time requested by Operator by executing a written amendment to this Order, or notify Operator that it will not extend the deadline. The OCD's approval of a time extension shall not be unreasonably withheld.

8. Nothing in this Order relieves Operator of its liability should its operations fail to adequately investigate and remediate contamination that poses a threat to ground water, surface water, human health or the environment. In addition, nothing in this Order relieves Operator of its responsibility for compliance with any other federal, state or local laws and/or regulations.

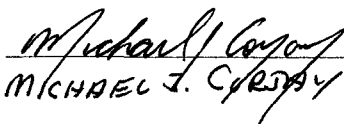
Done at Santa Fe, New Mexico this 12th day of March 2008.

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 as set forth in the Order.

Melrose Operating Company

By: 
MICHAEL J. CORBOY
Title: VICE PRESIDENT

Date: 3-4-08