

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

AMENDED APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE SUPERVISOR OF DISTRICT I, FOR AN ORDER UNDER NMSA 1978, SECTION 70-2-14(B) DETERMINING THAT MGM OIL & GAS CO. VIOLATED NMSA 1978, SECTION 70-2-31(B)(2), 19.15.13.115.A NMAC AND 19.15.4.201 NMAC; REQUIRING MGM OIL & GAS CO. TO PLUG AND ABANDON SIX WELLS BY A DATE CERTAIN; AND IN THE EVENT OF NON-COMPLIANCE, AUTHORIZING THE DIVISION TO FORFEIT THE APPLICABLE FINANCIAL ASSURANCE AND PLUG THE WELLS; LEA COUNTY, NEW MEXICO.

2009 DEC 14 AM 10 35

CASE NO. 13374

**AMENDED
APPLICATION FOR COMPLIANCE ORDER**

1. The records of the Oil Conservation Division ("Division") identify "MGM Oil & Gas Co." ("MGM") as the operator of record under OGRID 14771 for the following wells located in Lea County, New Mexico (hereinafter the "subject wells"):

Kemnitz Wolfcamp Unit #9, API 30-025-01921, M-20-16S-34E

Kemnitz Wolfcamp Unit #6, API 30-025-01918, M-19-16S-34E

Kemnitz Wolfcamp Unit #19, API 30-025-01272, C-25-16S-33E

Kemnitz Wolfcamp Unit #21, API 30-025-01274, E-25-16S-33E

Kemnitz Wolfcamp Unit #22, API 30-025-01273, G-25-16S-33E

Kemnitz Wolfcamp Unit #28, API 30-025-01944, K-30-16S-34E

2. The records of the Division indicate that MGM's obligation to plug and abandon the subject wells in compliance with Division rules is secured with a \$50,000 blanket bond, number RLB0001523, issued by RLI Insurance Company ("Surety").

3. Division rule 19.15.4.201 NMAC (rule 201) requires an operator to plug and abandon or temporarily abandon a well in accordance with Division rules within 90 days after a period of one year of continuous inactivity.

4. Operator is reporting production for the subject wells and reporting the status of each well as “flowing” or “pumping.”

5. Division inspections show, however, that the subject wells have been shut in since at least September 26, 2000. The wells have not been plugged and abandoned pursuant to 19.15.4.202 NMAC (rule 202) or temporarily abandoned pursuant to 19.15.4.203 NMAC (rule 203). One of the subject wells, the Kemnitz Wolfcamp Unit #9, may have recently been returned to production.

6. NMSA 1978, Section 70-2-31(B) prohibits any person from knowingly and willfully making any false entry or statement in a report required by the Oil and Gas Act or by any rule, regulation or order of the commission or division issued pursuant to that act for the purpose of evading or violating the Oil and Gas Act.

7. 19.15.13.1115.A NMAC (rule 1115.A) provides in relevant part:

“Operator’s monthly report, form C-115 or form C-115-EDP, shall be filed on each producing lease and each secondary or other enhanced recovery project or pressure maintenance project injection well within the state of New Mexico for each calendar month, setting forth complete information and data indicated on said forms in the order, format and style prescribed by the division director. Oil production from wells which are producing into common storage shall be estimated as accurately as possible on the basis of periodic tests.”

8. Form C-115 requires the operator to report the amount of production by well, and to indicate the status of each well, i.e., “flowing,” “pumping,” “gas lift,” “shut-in,” “temporarily abandoned,” “injection well for enhanced recovery,” “salt water disposal,” or “plugged and abandoned.”

9. NMSA 1978, Section 70-2-14(B) provides:

If any of the requirements of the Oil and Gas Act [Chapter 70, Article 2 NMSA 1978] or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.

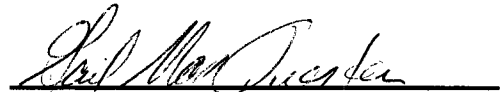
WHEREFORE, the Supervisor of District I of the Division hereby applies to the Director to enter an order:

- A. Determining that MGM violated NMSA 1978, Section 70-2-31(B)(2) and rule 1115.A by knowingly and willfully filing false reports of production on the subject wells and indicating that the wells were “flowing” or “pumping” when in fact the wells were shut-in, for the purpose of evading or violating the Oil and Gas Act;
- B. Determining that MGM violated Division rule 201 by allowing the subject wells to remain inactive for a period of time exceeding one year plus ninety days without plugging and abandoning the wells in accordance with Division rules or placing the wells on temporary abandonment status in accordance with Division rules;
- C. Requiring MGM to plug and abandon each of the subject wells by February 5, 2005, and in the event MGM fails to plug and abandon each of the subject wells in accordance with a Division-approved plugging program by February 5, 2005,
 - a) authorizing the Division to forfeit immediately the financial assurance posted by MGM for the wells, and

b) authorizing the Division to plug and abandon each of the subject wells in accordance with a Division-approved plugging program; and

D. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 14th day of December, 2004 by



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Case No. 13374. Amended Application of the New Mexico Oil Conservation Division for a Compliance Order Against MGM Oil & Gas Co. The Applicant seeks an order under NMSA 1978, Section 70-2-14(B) determining that MGM Oil & Gas Co. violated NMSA 1978, Section 70-2-31(B)(2), 19.15.13.115.A NMAC and 19.15.4.201 NMAC; requiring MGM Oil & Gas Co. to plug and abandon six wells and, in the event of non-compliance, authorizing the Division to forfeit the applicable financial assurance and plug the wells. The affected wells are: Kemnitz Wolfcamp Unit #9, API 30-025-01921, M-20-16S-34E; Kemnitz Wolfcamp Unit #6, API 30-025-01918, M-19-16S-34E; Kemnitz Wolfcamp Unit #19, API 30-025-01272, C-25-16S-33E; Kemnitz Wolfcamp Unit #21, API 30-025-01274, E-25-16S-33E; Kemnitz Wolfcamp Unit #22, API 30-025-01273, G-25-16S-33E; and the Kemnitz Wolfcamp Unit #28, API 30-025-01944, K-30-16S-34E. The affected wells are located on a lease approximately 14 miles West and 4 miles South of Lovington in Lea County, New Mexico.