

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

NMOCD – ACO- 285

IN THE MATTER OF DOMINION PRODUCTION COMPANY LLC,

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended, and the Water Quality Act, NMSA 1978, Sections 74-6-1 through 74-6-17 as amended, the Director of the Oil Conservation Division ("OCD") and Dominion Production Company LLC ("Operator") enter into this Agreed Compliance Order ("Order" or "ACO") under which Operator agrees to perform maintenance on the subject injection wells as established in this order, and pay a monetary fine pursuant to Section 74-6-10 of the Water Quality Act. Operator agrees to perform the requirements established in this order in accordance with OCD rules, the following agreed schedule and procedures, and understands that the OCD will seek further sanctions if Operator fails to meet the schedule set out in this ACO.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the New Mexico Oil and Gas Act and the Water Quality Act, and rules and orders adopted pursuant to each Act.
2. Operator is a limited liability company doing business in the State of New Mexico and is registered with the Division under Oil and Gas Reporting Identification ("OGRID") No. 291567.
3. On October 2, 2013, the OCD met with Operator to discuss ACOI-266-0. During that meeting several other compliance issues were discussed including twenty two injection wells which were out of compliance.
4. The OCD contends that Operator did not comply with ACOI-266-0. This ACOI expired on April 18, 2013 and at that time the operator had not complied with all conditions. The Operator had also allowed additional wells to also be placed on the inactive well list. This ACO deals specifically with the violations detailed herein and does not affect ACOI-260-0.
5. OCD Rule 19.15.16.11 NMAC (Defective Casing Or Cementing) states in relevant part: If a well appears to have a defective casing program or faultily cemented or corroded casing that will permit or may create underground waste or contamination of fresh waters, the operator shall give written notice to the division within five working days and proceed with diligence to use the appropriate method and means to eliminate the hazard. If the hazard of waste or

contamination of fresh water cannot be eliminated, the operator shall properly plug and abandon the well.

6. Operator violated OCD Rule 19.15.16.11 NMAC by not proceeding with diligence to identify the cause of the Mechanical Integrity Test (“MIT”) failures and proceed with diligence to repair any issues identified and properly report them to the OCD for the two wells below.
 - a. South Hospah Unit #39- Failed MIT on October 21, 2008.
 - b. South Hospah Unit #17- Failed MITs on November 21, 2013, and on January 8, 2014.
7. OCD Rule 19.15.5.11 NMAC (Enforceability Of Permits And Administrative Orders) states in relevant part: A person who conducts an activity pursuant to a permit, administrative order or other written authorization or approval from the division shall comply with every term, condition and provision of the permit, administrative order, authorization or approval.
8. Operator violated OCD Rule 19.15.5.11 NMAC by not complying with all of the OCD’s conditions of approval on the following wells:
 - a. South Hospah Unit #36- An OCD inspection on August 14, 2013, identified this well as producing. To date Dominion has not complied with the conditions of their approval.
 - b. South Hospah Unit #39- Dominion has not complied with the 30 day MIT requirement for this well as required on August 21, 2013.
9. OCD Rule 19.15.26.11(A)(2) NMAC (Testing, Monitoring, Step-Rate Tests, Notice to the Division, Requests for Pressure Increases) states in relevant part: At least once every five years thereafter, the operator shall test an injection well to assure its continued mechanical integrity...
10. Operator violated OCD Rule 19.15.26.11(A)(2) NMAC by not proceeding with diligence to perform an MIT as required by rule on the following wells from the time it assumed operations:
 - a. Hospah Sand Unit #61- Last MIT performed 9-27-06
 - b. Hospah Sand Unit #66- Last MIT performed 8-27-04
 - c. Hospah Sand Unit #100- Last MIT performed 4-27-06
 - d. Hospah Sand Unit #58- Last MIT performed 4-19-06
 - e. Santa Fe Rail Road #23- Last MIT performed 9-27-06
 - f. Santa Fe Rail Road #87- Last MIT performed 9-15-00
 - g. Santa Fe Rail Road #97- Last MIT performed 9-15-00
 - h. Santa Fe Rail Road #83- Last MIT performed 9-15-00
 - i. South Hospah Unit #51- Last MIT performed 10-20-08 (A pretest was performed on 7-21-14 and the casing would not hold pressure.)
 - j. South Hospah Unit #39- Last MIT performed 10-21-08
 - k. South Hospah Unit #52- Last MIT performed 9-14-00
 - l. South Hospah Unit #36- Last MIT performed 9-14-00

- m. South Hospah Unit #60- Last MIT performed 7-31-01
- n. Lone Pine Dakota D Unit #14- Last MIT performed 7-23-02

11. OCD Rule 19.15.7.14 (Sundry Notices And Reports On Wells) (Form C-103): Form C-103 is a dual purpose form the operator files with the appropriate division district office to obtain division approval prior to commencing certain operations and to report various completed operations, including:

OCD Rule 19.15.7.14(A)(1)(a) NMAC effecting a change of plans from those the division previously approved on form C-101 or form C-103;

OCD Rule 19.15.7.14(B)(2)(h) NMAC installation of artificial lifting equipment;

12. Operator violated OCD Rule 19.15.7.14(A)(1)(a) NMAC by placing the South Hospah Unit #36 on production prior to having OCD's approval of a Notice of Intent.
13. Operator violated OCD Rule 19.15.7.14(B)(2)(h) NMAC by installing artificial lifting equipment on the South Hospah Unit #36 without filing a subsequent report with OCD. An OCD inspection on August 14th, 2013, identified lifting equipment.
14. OCD Rule 19.15.7.14.G(4) report of installation of pumping equipment or gas lift facilities.
15. Operator violated OCD Rule 19.15.7.14(G)(4) NMAC by not filing subsequent reports of installation of pumping equipment within 30 days on the South Hospah Unit #36. An OCD inspection on August 14th, 2013, identified this well had a pump install and was producing. It has been over 10 months since this well was identified as producing and a subsequent report has not been received.
16. OCD Rule 19.15.16.8 (Sign On Wells) states in relevant part:
- A. An operator shall identify wells and related facilities the division regulates by a sign, which shall remain in place until the operator plugs and abandons the well and closes the related facilities...
 - C. The sign shall be of durable construction and the lettering shall be legible and large enough to be read under normal conditions at a distance of 50 feet...
 - E. An operator shall have 90 days from the effective date of an operator name change to change the operator name on the well sign unless the division grants an extension of time, for good cause shown along with a schedule for making the changes...
17. Operator violated OCD Rule 19.15.16.8 NMAC by not having a sign in compliance with the rule on the following locations:

- a. Santa Fe Rail Road #23- Current operator not listed and sign is illegible.
 - b. Hospah Sand Unit #61- Current operator not listed and incorrect API number.
 - c. Hospah Sand Unit #66- No well sign.
 - d. Lone Pine Dakota D Unit #14- No well sign.
 - e. Hospah Sand Unit #58- No well sign.
 - f. Santa Fe Rail Road #87- No well sign.
 - g. Santa Fe Rail Road #97- Current operator not listed.
 - h. South Hospah Unit #54- Current operator not listed.
18. OCD Rule 19.15.26.10(E) states that the division may restrict the injected volume and pressure for, or shut-in, injection wells or projects that have exhibited failure to confine injected fluids to the authorized injection zone or zones, until the operator has identified and corrected the failure.
 19. Operator violated OCD Rule 19.15.26.10(E) NMAC by injecting into the South Hospah Unit #17 after it failed MITs on November 21st, 2013 and January 8th, 2014, and was required to be shut-in. This violation is also considered a Significant Non-Compliance (SNC) violation in accordance with United States Environmental Protection Agency (“USEPA”). A SNC violation requires the OCD to directly notify the USEPA.
 20. NMSA 1978, § 74-6-5 states that the Water Quality Control Commission may require a person to obtain from a constituent agency designated by the commission a permit for the discharge of any water contaminant.
 21. NMSA 1978, § 74-6-2(K)(4) identifies the oil conservation commission as a constituent agency of the Water Quality Control Commission.
 22. The South Hospah Unit #17 was shut in and therefore Operator lacked authority to inject into the South Hospah Unit #17 well. The OCD considers this a discharge of a water contaminant without a permit in violation of NMSA 1978, § 74-6-5.

**OPERATOR INFORMATION SUBMITTED SUBSEQUENT TO THE
ADMINISTRATIVE CONFERENCE**

1. The 16 injection wells identified in Exhibit “A”, below, were not in compliance with certain of the OCD’s rules when Operator acquired them in 2012. Authorization to assume operations and accrual of Operator’s responsibility to correct incidents of non-compliance and prevent future violations commenced when OCD approved the C-145 Change of Operator forms on October 12, 2012.
2. The Operator disputes that it had not complied with ACOI-266-0 and noted that by correspondence dated April 11, 2013 it provided OCD with documentation of compliance.

3. Operator has corrected earlier incidents of non-compliance with OCD Rule 19.15.16.8 NMAC by placing new well signs on the following locations:
 - a. Santa Fe Rail Road #23
 - b. Hospah Sand Unit #61
 - c. Hospah Sand Unit #66
 - d. Lone Pine Dakota D Unit #14
 - e. Hospah Sand Unit #58
 - f. Santa Fe Rail Road #87
 - g. Santa Fe Rail Road #97
 - h. South Hospah Unit #54
4. Operator had obtained BLM approval of sundry notices for the work on the following wells:
 - a. South Hospah Unit #36
 - b. South Hospah Unit #39
5. Operator had obtained BLM approval of a sundry notice for the work on the South Hospah Unit #36 on production prior to having OCD's approval of a Notice of Intent.
6. Operator has subsequently corrected the violation of OCD Rule 19.15.7.14(G)(4) NMAC on the South Hospah Unit #36.
7. Operator has subsequently plugged and abandoned the following wells in accordance with the terms agreed upon at the September 3, 2014 administrative conference with the OCD:
 - a. Hospah Sand Unit #61, API 30-031-07025, UL E, Sec. 1, Township 17N, Range 9W
 - b. Hospah Sand Unit #66, API 30-031-05577, UL A, Sec. 1, Township 17N, Range 9W
 - c. Santa Fe Rail Road #23, API 30-031-20150, UL C, Sec. 7, Township 17N, Range 8W
 - d. Santa Fe Rail Road #83, API 30-031-20147, UL I, Sec. 1, Township 17N, Range 9W

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The OCD and Operator are entering into this agreed compliance order which sets a schedule for Operator to return the wells identified in Exhibit "A" to compliance with OCD rules.
3. Some of the violations existed prior to Dominion assuming responsibility of the wells and some of the violations occurred after Dominion acquired the wells. However, Dominion acquired the wells on October 12, 2012 and as the current

operator Dominion is responsible to ensure compliance with the rules and regulations.

ORDER

1. Pursuant to the Water Quality Act, Section 74-6-10 NMSA 1978, Operator agrees to pay a fine of \$10,000 for violation of the Water Quality Act, Section 74-6-5 NMSA 1978 to be paid to the State of New Mexico general fund. This violation is determined to be Significant Non-Compliance by injecting into the South Hospah Unit #017, API No. 30-031-20057, a shut-in well that failed MIT Testing.
2. Operator agrees to plug and abandon four of the following injection wells by October 31, 2014, and the remaining five injection wells by March 1, 2015:
 - a. Hospah Sand Unit #61, API 30-031-07025, UL E, Sec. 1, Township 17N, Range 9W
 - b. Hospah Sand Unit #66, API 30-031-05577, UL A, Sec. 1, Township 17N, Range 9W
 - c. Hospah Sand Unit #100, API 30-031-20831, UL H, Sec. 36, Township 18N, Range 9W
 - d. Santa Fe Rail Road #23, API 30-031-20150, UL C, Sec. 7, Township 17N, Range 8W
 - e. Santa Fe Rail Road #87, API 30-031-20413, UL P, Sec. 1, Township 17N, Range 9W
 - f. Santa Fe Rail Road #97, API 30-031-20855, UL O, Sec. 1, Township 17N, Range 9W
 - g. Santa Fe Rail Road #83, API 30-031-20147, UL I, Sec. 1, Township 17N, Range 9W
 - h. South Hospah Unit #52, API 30-031-20243, UL C, Sec. 12, Township 17N, Range 9W
 - i. South Hospah Unit #60, API 30-031-20411, UL H, Sec. 12, Township 17N, Range 9W
3. Operator will place a well sign on the South Hospah Unit #54 by November 3, 2014.
4. Operator will perform MIT and in the event of an unsuccessful test shall run a liner or otherwise repair the South Hospah Unit #36 with work to be completed on or before by January 31, 2015.
5. Well work will be performed on the South Hospah Unit #17 and South Hospah Unit #39 to run liners, subject to approval of the OCD, to repair the wells and perform MITs by January 15, 2015 or immediately after the rig work at South Hospah 10.

6. MIT's will be performed on the South Hospah Unit #51, Hospah Sand Unit #58 and Lone Pine Dakota D Unit #14 by January 31, 2015.
7. Operator shall file a compliance report identifying each well returned to compliance, stating the date it was returned to compliance, and describing the work performed to return the well to compliance, in addition to any other forms or documentation required by OCD rules for the work performed. The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager and to the OCD attorney in charge of agreed compliance orders so that it is **received within 10 (ten) business days** after each of the above stated deadlines.
8. Operator understands that if it fails to meet the terms of this Order, the OCD may seek additional penalties pursuant to the New Mexico Oil and Gas and Water Quality Acts.
9. Operator shall complete the work on or before those dates referenced in paragraphs 2, 3, 4, 5, and 6 hereof, or as soon as reasonably practicable thereafter if prevented from doing so by the occurrence of force majeure events, including inclement weather, or inaccessibility of locations. Operator will promptly provide OCD with e-mail notification of the occurrence of such events before the respective deadline has expired. OCD may extend the time for completion of the work for good cause shown.
10. 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 fine of \$10,000 within 30 (thirty) days of the execution of this order by check, made payable to the State of New Mexico.
 - c. agrees to meet the compliance deadlines established in this order;
 - d. agrees to submit a compliance report as required in Ordering Paragraph 7;
 - e. waives any right, pursuant to the Oil and Gas Act, Water Quality Act, or otherwise, to an appeal from this Order, or to a hearing either prior to or subsequent to the entry of this Order regarding the matters resolved hereby; and
 - f. 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.

11. The OCD 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 21st day of January, 2015

By: David Catanach
David Catanach
Director, Oil Conservation Division

ACCEPTANCE

Dominion Production Company LLC hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Dominion Production Company LLC

By: David Ruess
(Please print name) DAVID RUESS
Title: PRESIDENT
Date: 1/17/2015

Exhibit A to Agreed Compliance Order for Dominion Production Company LLC

Dominion Production Company LLC, Injection Wells in McKinley County:

1. Hospah Sand Unit #61, API 30-031-07025, UL E, Sec. 1, Township 17N, Range 9W
2. Hospah Sand Unit #66, API 30-031-05577, UL A, Sec. 1, Township 17N, Range 9W
3. Hospah Sand Unit #100, API 30-031-20831, UL H, Sec. 36, Township 18N, Range 9W
4. Hospah Sand Unit #58, API 30-031-20115, UL O, Sec. 36, Township 18N, Range 9W
5. Santa Fe Rail Road #23, API 30-031-20150, UL C, Sec. 7, Township 17N, Range 8W
6. Santa Fe Rail Road #87, API 30-031-20413, UL P, Sec. 1, Township 17N, Range 9W
7. Santa Fe Rail Road #97, API 30-031-20855, UL O, Sec. 1, Township 17N, Range 9W
8. Santa Fe Rail Road #83, API 30-031-20147, UL I, Sec. 1, Township 17N, Range 9W
9. South Hospah Unit #17, API 30-031-20057, UL G, Sec. 12, Township 17N, Range 9W
10. South Hospah Unit #51, API 30-031-20242, UL E, Sec. 12, Township 17N, Range 9W

ACO

Dominion Production Company LLC, OGRID 291567

Page 9 of 10

11. South Hospah Unit #39, API 30-031-20152, UL H, Sec. 3, Township 17N, Range 9W
12. South Hospah Unit #52, API 30-031-20243, UL C, Sec. 12, Township 17N, Range 9W
13. South Hospah Unit #36, API 30-031-20118, UL B, Sec. 12, Township 17N, Range 9W
14. South Hospah Unit #60, API 30-031-20411, UL H, Sec. 12, Township 17N, Range 9W
15. Lone Pine Dakota D Unit #14, API 30-031-20174, UL H, Sec. 13, Township 17N, Range 9W
16. South Hospah Unit #54, API 30-031-20407, UL A, Sec. 12, Township 17N, Range 9W

Dominion Production Company LLC

By: _____

Title: President