

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

NMOCD – ACOI- 120

IN THE MATTER OF JOHN H. HENDRIX CORP.,

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"), the Director of the Oil Conservation Division ("OCD") and John H. Hendrix Corp. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring wells identified herein into compliance with the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

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. Operator is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 12024 for the wells identified in Exhibit "A," attached.
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.

B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....

....

(3) a period of one year in which a well has been continuously inactive."

5. The wells identified in Exhibit "A" are currently out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if no action is taken on the wells.
6. 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 or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-3(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. The wells identified in Exhibit "A" are either out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with Rule 201.
4. Operator is a "person" as defined by OCD Rule 7.P(2) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring at least 4 of the wells identified in Exhibit "A" into compliance with OCD Rule 201 by September 20, 2006 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202.B(2) and filing a C-103 describing the completed work; or
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.

Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return 4 wells to compliance under the terms of

this Order, but does reduce the total number of wells for which Operator is responsible under the terms of this Order.

2. Operator shall file a compliance report by September 20, 2006 using the OCD's web-based on-line application, identifying each well returned to compliance, stating the date it was returned to compliance, and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status).
3. When the OCD receives a timely compliance report indicating that Operator has returned at least 4 wells to compliance and verifies the accuracy of that report, the OCD shall issue an amendment to this Order extending its terms for an additional six-month period. OCD shall provide a copy of that amendment to Operator at Operator's address of record provided pursuant to OCD Rule 100.C. If, in any six-month period, Operator returns more than 4 wells to compliance, the wells in excess of the number required will count towards the Operator's requirements for the next six-month period.
4. If Operator continues to return wells to compliance at a rate of at least 4 wells each six-month period, OCD shall continue to issue amendments to this Order extending its term for an additional six-month period. The total length of this Agreed Compliance Order, including the initial six-month period and any amendments, shall not exceed two years. At the end of two years, Operator and the OCD may negotiate a new agreed compliance order.
5. If Operator fails to bring at least 4 wells into compliance in any six-month period covered by this Order or amendments issued to this Order, Operator agrees to pay a penalty of \$1000 times the number of wells it failed to bring into compliance under its schedule during the applicable six month period. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its 4-well goal, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and serve the OCD's Enforcement and Compliance Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, the application shall be set for hearing. Once Operator pays the penalty or files an administrative application to request a waiver or reduction of the penalty, the OCD may, in its discretion, issue an amendment to this Order extending its terms for an additional six-month period.

Example A: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in a six-month period. At the end of the six-month period, Operator X has brought only 3 wells into compliance. Operator X pays the \$2000 penalty. The OCD exercises its discretion to issue an amendment extending the term of the agreed compliance order for an additional six-month period, again requiring Operator X to bring at least 5 wells into

compliance. During this additional six-month period, Operator brings only one well into compliance. Operator X pays a \$4000 penalty. Although Operator X pays the \$4000 penalty, the OCD exercises its discretion and declines to issue an amendment to extend the terms of the agreed compliance order for an additional six-month period.

Example B: Operator Y enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in a six-month period. Although Y has made arrangements for plugging the 10 wells, due to adverse weather conditions and mechanical difficulties with the available plugging rig, Y is able to plug only 3 wells. Y files an administrative application for hearing seeking to waive the \$7000 penalty, and serves the Enforcement and Compliance Manager with a copy of the application. The Enforcement and Compliance Manager does not concur with the application's request to waive the full amount of the penalty, so the application is set for hearing. The OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for an additional six-month period.

6. Thirty days after the expiration of the term of this Order and any amendments to this Order, any wells on Exhibit "A" not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
7. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance 4 of the wells identified in Exhibit "A" by September 20, 2006, and agrees to comply with the compliance deadlines set by any amendments to this Order;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 2 and the deadline set by any amendments to this Order;
 - (d) agrees to pay penalties as set out in Ordering Paragraph 5 if it fails to return 4 wells to compliance under the deadlines set by this Order or any amendments to this Order;
 - (e) 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
 - (f) agrees that the Order and amendments to 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.
8. This Order applies only to those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act.

9. The Oil Conservation Division 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 20 day of March, 2006

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

ACCEPTANCE

John H. Hendrix Corp. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

John H. Hendrix Corp.

By: *Ronnie H. Westbrook*
(please print name) Ronnie H. Westbrook
Title: Vice President
Date: March 16, 2006

Exhibit A to Agreed Compliance Order for John H. Hendrix Corp.

<u>WELL NAME</u>	<u>API NO.</u>
1. Britt B 18 #001	30-025-06152
2. Britt B-18 #002	30-025-06153
3. Britt B-18 #005	30-025-06156
4. Britt B-18 #006	30-025-06157
5. Central Drinkard Unit #145	30-025-06968
6. Cooper 8 #008	30-025-04244
7. Cordelia Hardy #002	30-025-06890
8. E. W. Walden #004	30-025-10305
9. Gillully A Federal #001	30-025-06019
10. Grizzell #002	30-025-10071
11. Gulf Mattern #001	30-025-20004
12. Ida A. White #002	30-025-04418
13. Joyce Pruitt #004	30-025-34074
14. Linda Federal #003	30-025-25759
15. Mary E. Wantz #002	30-025-06714
16. Mexico #001	30-025-06163
17. Mexico #002	30-025-06164
18. New Mexico AB State #003	30-025-24573
19. Paddock Unit #083	30-025-10243
20. Stevens B #010	30-025-09331
21. Stevens B #011	30-025-10661
22. Tiffany #003	30-025-30730
23. W. W. Weatherly #004	30-025-06647
24. Will Cary #006	30-025-10411
25. Stevens B #2	30-025-09332
26. Stevens B #6	30-025-10709
27. Stevens B #7	30-025-09328
28. Stevens B #9	30-025-09330
29. S. E. Long #1	30-025-10201
30. La Munyon #2	30-025-10868

John H. Hendrix Corp.

By: Ronni A. Walden

Date: March 16, 2006