

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

NMOCD-06 149

**IN THE MATTER OF BURLINGTON RESOURCES
OIL & GAS COMPANY LP,**

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, §§ 70-2-1 through 70-2-38, as amended (hereinafter, "Act"), and the rules 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 and Burlington Resources Oil & Gas Company LP (hereinafter, "Burlington") enter into this Order to resolve the violations alleged in the Notice of Violation dated February 24, 2006.

I. FINDINGS

1. The Oil Conservation Division (hereinafter "OCD") is the state division charged with administration and enforcement of the Act and OCD rules.
2. Burlington is a foreign limited partnership doing business in New Mexico, registered with the Secretary of State under number LPF2001020702. Burlington is an active entity with a principal address at 717 Texas Avenue, Suite 2100, Houston, Texas 77002. Its registered agent for service of process in New Mexico is C. T. Corporation System, 123 E. Marcy, Santa Fe, New Mexico 87501. Burlington's local business address is P.O. Box 4289, Farmington, New Mexico 87499-4289. Burlington's OGRID number is 14538.
3. Burlington is the operator of record for the Lambe #3, Unit Letter H, Section 11, Township 31 North, Range 10 West, API #30-045-33678, San Juan County, New Mexico.
4. On June 9, 2006, OCD Deputy Oil and Gas Inspector Karen Sharp received a spud notice for the above referenced Burlington well, but could find no OCD records for the well.
5. An OCD investigation found the following:
 - a. Burlington commenced drilling operations on Lambe #3B well on June 1, 2006.
 - b. The OCD had not received nor approved an application for a permit to drill the well.
 - c. It was not until June 7, 2006 that the OCD received the application for the permit to drill.

- d. The referenced well is on Federal land, subject to OCD Rule 1128 [19. 15.3.1128 NMAC], Rule 14 [19.15.1.14], and OCD Director's Memorandum dated January 2, 1985.
6. As a result of its investigation, the OCD issued Notice of Violation (3-06-35) to Burlington alleging a knowing and willful violation of OCD Rule 102.A. [19 15.3.102.A NMAC]
7. OCD Rule 102.A [19 15.3.102.A NMAC] requires that "the operator shall obtain a permit prior to commencing drilling"
8. OCD Rule 102.B [19 15.3.102.B NMAC] requires that an applicant for a permit to drill a well complete forms C-101 (application for a permit to drill a well) and C-102 (applicant must provide to the OCD a "well location and acreage dedication plat").
9. OCD Rule 1128 provides that "[f]ederal forms shall be used in lieu of state forms when filing application for permit to drill ... and sundry notices and reports on wells and well completion or recompletion report and log for wells on federal lands in New Mexico. ... [I]t shall be the duty of the operator to submit two extra copies of each of such forms to the BLM, which, upon approval, will transmit same to the division."
10. OCD Rule 14 makes it the operator's responsibility to ensure that the "Operator shall file or cause to be filed with the division copies of "application for permit to drill"
11. OCD Director's memorandum titled "Operations on Federal and Indian Lands" and issued on January 2, 1985, instructs operators to file "two copies of the forms and permits ... following their approval by the BLM" with the appropriate OCD district office.
12. Burlington knowingly and willfully violated OCD Rule 102A by failing to obtain a permit prior to commencing drilling.
13. NMSA §70-2-31(A) provides in relevant part, "[a]ny 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 (\$1,000) for each violation. For purposes of this subsection, in the case of a continuing violation, each day of violation shall constitute a separate violation." NMSA 1978, §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."
14. At the Administrative Conference held on July 25, 2006, Burlington presented the following:
 - a. In accordance with OCD Rule 1128, Burlington filed the appropriate federal permit forms, in the requisite number of copies, for the Lambe #3B well with the BLM.
 - b. After being informed by the OCD that it had no permit to drill records for the Lambe #3B, Burlington discovered that the approved federal permit forms for the Lambe #3B well, which the BLM intended for delivery to the NMOC, had inadvertently been delivered to Burlington (along with Burlington's own copies of the approved

federal permit forms). All of the documents were subsequently filed into Burlington's well file (the documents are identical except for a notation near the page bottom indicating "Operator" copy and "NMOCD" copy).

- c. The BLM did not intend to deliver OCD's copies of the federal forms to Burlington, and Burlington had absolutely no intent whatsoever to keep the OCD's copy of the approved permit forms.
- d. Under these facts, Burlington did not knowingly and willfully violate (which requires a deliberate act) OCD Rule 1128, Rule 102.A. or any other NMOCD rule or procedure concerning proper approval to drill the Lambe #3B well.
- e. To insure these types of violations do not occur again, Burlington has instituted the following mitigation efforts:
 - (1) An additional process check on its current rig schedule, which provides for an OCD code that indicates the appropriate permit has been approved. This will allow Burlington operations personnel to recognize when all of the appropriate documentation has been received and that drilling operations can be commenced.
 - (2) Beginning in September when the Burlington wells are integrated into the existing ConocoPhillips Data Storage Schedule Manager, or DSM, all wells will be required to have a specific subtask, or gate, checked that indicates that the OCD approved permit to drill has been received. Projects within this automated system are unable to move forward to release for drilling operations without these subtasks being completed.
 - (3) Finally, Burlington performed an audit on all outstanding projects on federal lands currently approved by the BLM to ensure that (i) copies of the requisite federal permitting forms have been sent to the OCD via the aforementioned Rule 1128 process, and (ii) that the OCD permits have been approved.

II. CONCLUSIONS

- 1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
- 2. Burlington 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. Burlington is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Lambe #3 for one knowing and willful violation of OCD Rule 102.A.

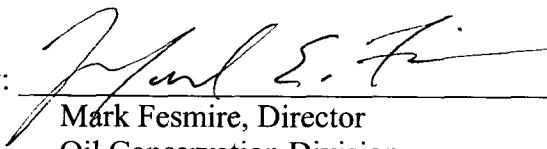
III. ORDER AND CIVIL PENALTY

- 1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against Burlington totaling **One Thousand Dollars (\$1,000.00)** for one

knowing and willful violation of Rule 102.A. Burlington does not agree that it knowingly and willfully violated OCD Rule 102.A.

2. The civil penalty shall be paid at the time Burlington executes this Order. Payment shall be made by check 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 signing this Order, Burlington expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with Ordering paragraph 2 and to follow its procedures as set out in Section I, paragraph 14 (e) above;
 - 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; and
 - e. agrees that if it fails to pay penalties assessed pursuant to this Order, upon application by the OCD, the district court may enter judgment against Burlington in the amount of the penalties assessed and, in the discretion of the court, may impose additional penalties for Burlington's violation of the penalty provisions of this Order.
4. Nothing in this Order relieves Burlington 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 Burlington of its responsibility for compliance with any other federal, state or local laws and/or regulations.

Done at Santa Fe, New Mexico, this 27th day of September 2006.

By: 
Mark Fesmire, Director
Oil Conservation Division

ACCEPTANCE

Burlington Resources Oil & Gas Company LP hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in the order.

**Burlington Resources Oil & Gas Company LP,
By: BROG GP, Inc., its sole General Partner**

By: John F. Zent

Title: Projects Development Manager

Date September 25, 2006