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

APR 13 2007

NMOCD - ACOI- 163

Oil Conservation Division
1220 S. St. Francis
Santa Fe, NM

IN THE MATTER OF GP II ENERGY, INC.,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, §§ 70-2-1 through 70-2-38, as amended ("Act"), the Director of the Oil Conservation Division ("OCD") and GP II Energy, Inc. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to: 1) bring the wells identified herein into compliance with the Act and OCD Rules 201 [19.15.4.201 NMAC] and 703 [19.15.9.703 NMAC] in accordance with the following agreed schedule and procedures; and 2) pay penalties as set out below if it fails to meet the compliance schedule set out in this Order.

FINDINGS

Parties

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 operating wells in New Mexico under OGRID 8359.

Applicable Rules

3. 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:

- (1) a 60 day period following suspension of drilling operations;
- (2) a determination that a well is no longer usable for beneficial purposes; or
- (3) a period of one year in which a well has been continuously inactive."

4. OCD Rule 701 [19.15.9.701 NMAC] requires operators to hold a permit for the injection of gas, liquefied petroleum gas, air, water or any other medium into any reservoir for the purpose of maintaining reservoir pressure or for the purpose of secondary or other enhanced recovery or for storage of the injection of water into any formation for the purpose of water disposal.
5. OCD Rule 703 [19.15.9.703 NMAC] provides in relevant part:
 - A. Injection wells shall be equipped, operated, monitored, and maintained to facilitate periodic testing and to assure continued mechanical integrity which will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement through vertical channels adjacent to the well bore.
 - B. Injection project, including injection wells and producing wells and all related surface facilities shall be operated and maintained at all times in such a manner as will confine the injected fluids to the interval or intervals approved and prevent surface damage or pollution resulting from leaks, breaks, or spills.
 - C. Failure of any injection well, producing well or surface facility, which failure may endanger underground sources of drinking water, shall be reported under the “immediate notification” procedure of Rule 116.
 - D. Injection well or producing well failures requiring casing repair or cementing are to be reported to the division prior to commencement of workover operations.
 - E. Injection wells or projects which have exhibited failure to confine injected fluids to the authorized injection zone or zones may be subject to restriction of injection volume and pressure, or shut-in, until the failure has been identified and corrected.
6. OCD Rule 704.A [19.15.9.704.A NMAC] provides in relevant part:
 - (1) Prior to commencement of injection and any time tubing is pulled or the packer is resealed, wells shall be tested to assure the integrity of the casing and the tubing and packer, if used, including pressure testing of the casing-tubing annulus to a minimum of 300 psi for 30 minutes or such other pressure and/or time as may be approved by the appropriate district supervisor. A pressure recorder shall be used and copies of the chart shall be submitted to the appropriate division district office within 30 days following the test date.
 - (2) At least once every five years thereafter, injection wells shall be tested to assure their continued mechanical integrity. Tests demonstrating continued mechanical integrity shall include the following:
 - (a) measurement of annular pressures in wells injecting at positive pressure under a packer or a balanced fluid seal; or,

- (b) pressure testing of the casing-tubing annulus for wells injecting under vacuum conditions; or,
- (c) such other tests which are demonstrably effective and which may be approved for use by the division.

(3) Notwithstanding the test procedures outlined above, the division may require more comprehensive testing of the injection wells when deemed advisable, including the use of tracer surveys, noise logs, temperature logs, or other test procedures or devices.

7. 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 and willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.

8. 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...”

Injection Wells

9. Operator holds permits under Rule 701 to operate the following wells as injection wells in New Mexico (hereinafter, “injection wells”):

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production
	1 30-025-10506	NEW MEXICO M STATE #015	N-29-22S-37E	N	8359	GP II ENERGY INC	S	I	Dec-92
	1 30-025-10512	NEW MEXICO M STATE #022	B-29-22S-37E	B	8359	GP II ENERGY INC	S	I	Dec-92
	1 30-025-10515	NEW MEXICO M STATE #025	L-29-22S-37E	L	8359	GP II ENERGY INC	S	I	Oct-95
	1 30-025-10516	NEW MEXICO M STATE #026	E-29-22S-37E	E	8359	GP II ENERGY INC	S	I	Dec-92
	1 30-025-10520	NEW MEXICO M STATE #027	H-30-22S-37E	H	8359	GP II ENERGY INC	S	I	Dec-92
	1 30-025-10521	NEW MEXICO M STATE #028	I-30-22S-37E	I	8359	GP II ENERGY INC	S	I	Apr-02
	1 30-025-10366	NEW MEXICO M STATE #032	4-19-22S-37E	M	8359	GP II ENERGY INC	S	I	Dec-92
	1 30-025-10525	NEW MEXICO M STATE #038	G-30-22S-37E	G	8359	GP II ENERGY INC	S	I	Dec-92
	1 30-025-10371	NEW MEXICO M STATE #044	I-19-22S-37E	I	8359	GP II ENERGY INC	S	I	Dec-92
	1 30-025-10528	NEW MEXICO M STATE #045	C-30-22S-37E	C	8359	GP II ENERGY INC	S	I	Dec-92
	1 30-025-21273	NEW MEXICO M STATE #046	G-19-22S-37E	G	8359	GP II ENERGY INC	S	I	Feb-92

10. The injection wells identified above have been inactive for a continuous period in excess of one year plus ninety days, are not plugged, and are not on approved

temporary abandonment status. Before they can be returned to injection they must meet the requirements of Rule 703 and 704.A.

Production Wells

11. Operator operates the following production wells in New Mexico (hereinafter, “production wells”):

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production
	1 30-025-10373	NEW MEXICO M STATE #013	K-20-22S-37E	K	8359	GP II ENERGY INC	S	O	Aug-96
	1 30-025-10508	NEW MEXICO M STATE #017	M-29-22S-37E	M	8359	GP II ENERGY INC	S	O	Dec-93
	1 30-025-10364	NEW MEXICO M STATE #029	N-19-22S-37E	N	8359	GP II ENERGY INC	S	O	Nov-89
	1 30-025-10365	NEW MEXICO M STATE #030	P-19-22S-37E	P	8359	GP II ENERGY INC	S	O	Apr-86
	1 30-025-10523	NEW MEXICO M STATE #035	B-30-22S-37E	B	8359	GP II ENERGY INC	S	O	Jan-87
	1 30-025-10524	NEW MEXICO M STATE #036	P-30-22S-37E	P	8359	GP II ENERGY INC	S	O	Sep-98
	1 30-025-10526	NEW MEXICO M STATE #039	J-30-22S-37E	J	8359	GP II ENERGY INC	S	O	Feb-87
	1 30-025-10368	NEW MEXICO M STATE #040	3-19-22S-37E	L	8359	GP II ENERGY INC	S	O	Aug-96
	1 30-025-10370	NEW MEXICO M STATE #043	F-19-22S-37E	F	8359	GP II ENERGY INC	S	O	Dec-73
	1 30-025-24511	NEW MEXICO M STATE #057	A-30-22S-37E	A	8359	GP II ENERGY INC	S	O	Jul-91
	1 30-025-23495	NEW MEXICO M STATE #059	B-30-22S-37E	B	8359	GP II ENERGY INC	S	O	Aug-96
	1 30-025-24139	NEW MEXICO M STATE #062	C-29-22S-37E	C	8359	GP II ENERGY INC	S	O	Aug-88
	1 30-025-24160	NEW MEXICO M STATE #064	L-29-22S-37E	L	8359	GP II ENERGY INC	S	O	Jul-93
	1 30-025-24299	NEW MEXICO M STATE #068	I-30-22S-37E	I	8359	GP II ENERGY INC	S	O	Dec-96
	1 30-025-23810	NEW MEXICO M STATE #070	O-20-22S-37E	O	8359	GP II ENERGY INC	S	O	Aug-93
	1 30-025-24138	NEW MEXICO M STATE #071	B-29-22S-37E	B	8359	GP II ENERGY INC	S	G	Mar-02
	1 30-025-24458	NEW MEXICO M STATE #073	O-19-22S-37E	O	8359	GP II ENERGY INC	S	O	May-99

12. The production wells identified above have been inactive for a continuous period in excess of one year plus ninety days, are not plugged, and are not on approved temporary abandonment status.

13. Operator has begun work to return 5 of the production wells to compliance.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.

2. Both the injection wells and the production wells are out of compliance with OCD Rule 201 because they have been inactive for a continuous period in excess of one year plus ninety days and have not been properly plugged and abandoned or placed on approved temporary abandonment status.
3. The injection wells must meet the requirements of Rules 703 and 704.A before they can be returned to injection.
4. As operator of the production and injection wells identified in this Order, Operator is responsible for bringing those wells into compliance with OCD rules.
5. 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. By October 20, 2007, Operator shall return at least 5 of the production wells and 2 of the injector wells to compliance, and file a written compliance report. The compliance report must be received by October 20, 2007.
2. To return a production well to compliance, the Operator must take one of the following actions with regard to the well:
 - a) return the well to production or other OCD-approved beneficial use, and file a C-115 reporting that use;
 - b) plug the wellbore in accordance with 19.15.4.202.B(1) and (2) NMAC and file a sundry notice with the OCD reporting the plugging of the wellbore; or
 - c) place the well on approved temporary abandonment status in accordance with 19.15.4.203 NMAC.
3. To return an injection well to compliance, the Operator must take one of the following actions with regard to the well:
 - a) repair the well so that it passes the mechanical integrity tests required under Rules 703 and 704.A, return the well to injection and file a C-115 reporting injection;
 - b) plug the wellbore in accordance with 19.15.4.202.B(1) and (2) NMAC and file a sundry notice with the OCD reporting the plugging of the wellbore; or
 - c) place the well on approved temporary abandonment status in accordance with 19.15.4.203 NMAC.

4. To file a compliance report, Operator must submit a written report by mail or e-mail to the OCD's Compliance and Enforcement Manager, identifying each well returned to compliance by well name and API number, stating how the well was returned to compliance (returned to production/injection, wellbore plugged, placed on approved temporary abandonment status), and state the approximate date the paperwork was filed showing the return to compliance.
5. When the OCD receives a timely compliance report indicating that Operator has returned at least five production wells and two injection wells to compliance by October 20, 2007, 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 and requiring Operator to return to compliance at least seven additional injection wells and file a compliance report by April 20, 2008.
6. When the OCD receives a timely compliance report indicating that Operator has returned to compliance by April 20, 2008 at least seven additional injection wells 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 and requiring Operator to return to compliance two additional injection wells and five additional production wells and file a compliance report by October 20, 2008.
7. When the OCD receives a timely compliance report indicating that Operator has returned to compliance by October 20, 2008 two additional injection wells and five additional production wells 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 and requiring Operator to return to compliance the remaining production wells and file a compliance report by April 20, 2009.
8. The OCD shall provide a copy of any amendment issued pursuant to this Order to Operator at Operator's address of record provided pursuant to OCD Rule 100.C.
9. If Operator fails to bring the required number of wells into compliance by the compliance deadline set by this Order or an amendment issued pursuant 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 time period. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its goal, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty. Operator shall 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 denies the Operator's request, the Operator may, within ten days of that denial, apply for a hearing before an OCD hearing examiner. An application for hearing requesting a waiver or reduction of penalties under this Order must be filed within 30 days after the end of the

applicable six-month period. 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 as provided above. Wells not completed in the prior six-month period will be added to the next six-month period.

Example A: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in each of four six-month periods. At the end of the first 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, and requires Operator X to bring at least 7 wells into compliance (five wells plus the two wells not completed in the first period). During the second six-month period, Operator brings only one well into compliance. Operator X pays a \$6000 penalty. Although Operator X pays the \$6000 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 each of four six-month periods. 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 in the first period. 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, and the Operator requests a hearing on its request for a waiver of the penalty. The OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for an additional six-month period, requiring Operator to return 17 wells to compliance in the second period.

10. While this Order remains in effect, the wells identified in the Order shall be removed from the inactive well list kept pursuant to OCD Rule 40.F [19.15.1.40.F NMAC] for the Operator. Thirty days after the compliance date set by this Order or any amendment to this Order, any wells identified in this Order that are still operated by Operator and are not in compliance with OCD Rule 201 will appear on the inactive well list for the Operator kept pursuant to OCD Rule 40.F.
11. 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 the wells identified in this Order under the schedule set out by this Order and any amendment issued to this order;
- (c) agrees to submit a compliance report as required by this Order or any amendment issued to this Order;
- (d) agrees to pay penalties as set out above if it fails to return wells to compliance under the deadline set by this Order or any amendment to this Order;
- (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to an appeal from this Order or to a hearing either prior to or subsequent to the entry of this Order, other than a hearing on a request to waive or reduce the penalty, as provided above; 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.

- 12. This Order applies only to those wells identified in the Order. Other wells operated by Operator out of compliance with Rules 201, 703 or 704.A may be subject to immediate enforcement action under the Oil and Gas Act.
- 13. This Order does not affect Operator's obligations to provide financial assurances pursuant to OCD Rule 101 [19.15.3.101 NMAC].
- 14. The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in this Order and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

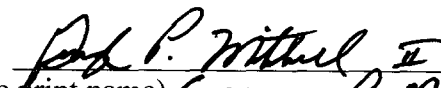
Done at Santa Fe, New Mexico this 17th day of April, 2007

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

ACCEPTANCE

GP II Energy Inc. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

GP II Energy Inc.

By: 
 (Please print name) George P. Mitchell II
 Title: President
 Date: 4-12-07