

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

**NMOCD - ACOI- 171**

**IN THE MATTER OF MERIT ENERGY COMPANY,**

**Respondent.**

**INACTIVE WELL  
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") and OCD Rule 1227.E [19.15.14.1227(E) NMAC], the Director of the Oil Conservation Division ("OCD") and Merit Energy Company ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order") under which Operator agrees to plug, place on approved temporary abandonment status or restore to production or other beneficial use the wells identified herein pursuant to 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.

This Order replaces Inactive Well Agreed Compliance Order 112.

**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 14591 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:

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- (3) a period of one year in which a well has been continuously inactive.”
5. The wells identified in Exhibit “A”
- (a) have been continuously inactive for a period of one year plus 90 days (or within the next several months will become continuously inactive for a period of one year plus 90 days if no action is taken on the wells);
  - (b) are not plugged or abandoned under OCD Rule 202 [19.15.4.202 NMAC]; and
  - (c) are not on approved temporary abandonment status under OCD Rule 203 [19.15.4.203 NMAC].
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 and willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-33(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...”

### 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 [19.15.4.201 NMAC] 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 [19.15.4.201 NMAC].
4. Operator is a “person” as defined by NMSA 1978, Section 70-2-33(A) 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 nine of the wells identified in Exhibit “A” into compliance with OCD Rule 201 [19.15.4.201 NMAC] by March 20, 2008 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) [19.15.4.202(B)(2) NMAC] and filing a C-103 describing the completed work; or
  - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203 [19.15.4.203 NMAC].
2. Operator shall file a written compliance report 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.) Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return 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. The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager so that it is received by the compliance deadline of March 20, 2008.
3. When the OCD receives a timely compliance report indicating that Operator has returned at least nine 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 [19.15.3.100(C) NMAC]. If, in any six-month period, Operator returns more wells to compliance than the number required under this Order for that six-month period, the wells in excess of the number required will count towards the Operator's requirements for the next six-month period.
4. If Operator returns at least nine wells to compliance in the second six-month period, OCD shall issue an amendment to this Order extending its term for a third six-month period. If Operator returns at least nine wells to compliance in the third six-month period, OCD shall issue an amendment to this Order extending its term for a fourth 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 the number of wells into compliance required in a 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, subject to the terms of this Order. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its goal within any six-month period covered by this Order or amendments issued to this Order, Operator may apply for a waiver or reduction of the penalty by making the request in writing to the

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OCD's Enforcement and Compliance Manager. If the Enforcement and Compliance Manager concurs with the Operator's request, the request for waiver or reduction of penalties may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request or fails to respond within 10 days, the Operator may file an application for hearing on the request. Any application for hearing on a request for waiver or reduction of penalty must be filed within 30 days of the date the compliance report is due. Once Operator pays the penalty or applies for 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 each six-month period. 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 a second six-month period, again requiring Operator X to bring at least 5 wells into compliance. During the second 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 a third 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 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 applies for a waiver of the \$7000 penalty. The Enforcement and Compliance Manager does not agree to waive the full amount of the penalty, and the Operator files an application for hearing on the request for waiver of penalty. While the application is pending, the OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for a second six-month period.

6. Thirty days after the compliance deadline set by this Order or any amendments to this Order, any wells on Exhibit "A" not in compliance with OCD Rule 201 [19.15.4.201 NMAC] will appear on the inactive well list kept pursuant to OCD Rule 40.F [19.15.1.40(F) NMAC].
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 nine of the wells identified in Exhibit "A" by March 20, 2007, 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 by the compliance deadline set by any amendments to this Order;
  - (d) agrees to pay penalties as set out in and limited by Ordering Paragraph 5 if it fails to return the required number of 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 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 for waiver or reduction of penalties; 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 the enforcement of OCD Rule 201 [19.15.4.201 NMAC] against those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with OCD Rule 201 [19.15.4.201 NMAC] may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules. Wells identified in Exhibit "A" that are out of compliance with the Oil and Gas Act or OCD Rules other than Rule 201 [19.15.4.201 NMAC] may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules.
9. 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 19<sup>th</sup> day of September 2007

By: [Signature] for Daniel Sanchez  
Mark Fesmire, P.E.  
Director, Oil Conservation Division

**ACCEPTANCE**

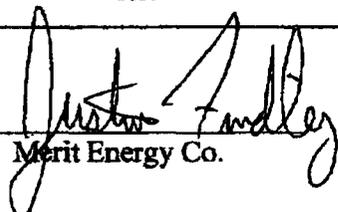
Merit Energy Company hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Merit Energy Company  
By: [Signature]  
(Please print name) Justin Findley  
Title: Operation Engineer  
Date: 9-18-07

Inactive Well Agreed Compliance Order  
 Merit Energy Co.  
 Exhibit A

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
2	30-015-32480	COLLATT #002	2-1 -23S-26E		14591	MERIT ENERGY CO	P	G	05/2006	S CARLSBAD MORROW		
2	30-015-20246	COLLATT ESTATE COM #001	J-1 -23S-26E	J	14591	MERIT ENERGY CO	P	G	08/2004			
2	30-015-05066	H E WEST A #007	1-4 -17S-31E	A	14591	MERIT ENERGY CO	F	I	12/2003			
2	30-015-05068	H E WEST B #003	3-4 -17S-31E	C	14591	MERIT ENERGY CO	F	I	12/1992			
2	30-015-10376	H E WEST B #029	C-9 -17S-31E	C	14591	MERIT ENERGY CO	F	I	06/2005			
2	30-015-28131	H E WEST B #072	P-9 -17S-31E	P	14591	MERIT ENERGY CO	F	O	03/1995	GRAYBURG		
2	30-015-28469	H E WEST B #090	K-9 -17S-31E	K	14591	MERIT ENERGY CO	F	O	10/2004	GRAYBURG JACKSON		
2	30-015-29349	H E WEST B #094	B-10-17S-31E	B	14591	MERIT ENERGY CO	F	I	04/2005	SAN ANDRES		
2	30-015-33742	LOTSA LUCK 29 FEDERAL COM #003	G-29-16S-27E	G	14591	MERIT ENERGY CO	F	G	07/2005	CROW FLATS MORROW 75720 320/E	T	8/3/2007
2	30-015-26656	MAX FRIESS MA #005	A-30-17S-31E	A	14591	MERIT ENERGY CO	F	O	11/2004			
1	30-025-21267	MESCALERO RIDGE UNIT #013	L-35-19S-34E	L	14591	MERIT ENERGY CO	F	O	01/1999	QUEEN		
1	30-025-21613	MESCALERO RIDGE UNIT #014	D-35-19S-34E	D	14591	MERIT ENERGY CO	F	O	01/1995	INT PA APVD 2-02 BLM; 7-1-03 OCD		
1	30-025-21856	MESCALERO RIDGE UNIT #022	C-21-19S-34E	C	14591	MERIT ENERGY CO	F	O	06/2001	BONE SPRINGS		
1	30-025-02391	MESCALERO RIDGE UNIT #211	D-21-19S-34E	D	14591	MERIT ENERGY CO	F	O	09/2002	BONE SPRING REV 10/00		
1	30-025-21798	MESCALERO RIDGE UNIT #262	P-26-19S-34E	P	14591	MERIT ENERGY CO	F	O	02/2006	REV 10/00		
1	30-025-27204	MESCALERO RIDGE UNIT #269	N-26-19S-34E	N	14591	MERIT ENERGY CO	F	O	06/2006	QUEEN		
1	30-025-02399	MESCALERO RIDGE UNIT #282	B-28-19S-34E	B	14591	MERIT ENERGY CO	F	S	09/2004	YATES		
2	30-015-32582	RYAN #002	1-5 -23S-27E		14591	MERIT ENERGY CO	P	G	05/2006	S CARLSBAD MORROW		
2	30-015-32643	STEPHENS COM #002	A-7 -23S-27E	A	14591	MERIT ENERGY CO	P	G	05/2006	S CARLSBAD MORROW (N)		
2	30-015-05275	TURNER A #024	C-19-17S-31E	C	14591	MERIT ENERGY CO	F	O	12/1992		T	7/25/2007

2	30-015-05230	TURNER A #032	J-18-17S-31E	J	14591	MERIT ENERGY CO	F	O	12/1992		T	7/28/2007
2	30-015-05231	TURNER A #033	K-18-17S-31E	K	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-05232	TURNER A #034	3-18-17S-31E	L	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-28890	TURNER A #045	C-19-17S-31E	C	14591	MERIT ENERGY CO	F	O	10/2004	GRAYBURG JACKSON		
2	30-015-28795	TURNER A #052	I-18-17S-31E	I	14591	MERIT ENERGY CO	F	O	09/1999	GRAYBURG-JACKSON	T	1/8/2005
2	30-015-05181	TURNER B #001	P-17-17S-31E	P	14591	MERIT ENERGY CO	F	O	07/2006			
2	30-015-05184	TURNER B #005	L-17-17S-31E	L	14591	MERIT ENERGY CO	F	I	12/1992		T	2/10/2008
2	30-015-05290	TURNER B #018	J-20-17S-31E	J	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-05438	TURNER B #023	D-29-17S-31E	D	14591	MERIT ENERGY CO	F	O	12/1992		T	7/25/2007
2	30-015-05434	TURNER B #025	C-29-17S-31E	C	14591	MERIT ENERGY CO	F	O	12/1992		T	1/7/2008
2	30-015-05190	TURNER B #031	P-17-17S-31E	P	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-05191	TURNER B #032	O-17-17S-31E	O	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-05305	TURNER B #033	A-20-17S-31E	A	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-05306	TURNER B #034	H-20-17S-31E	H	14591	MERIT ENERGY CO	F	O	12/1992		T	7/25/2007
2	30-015-05193	TURNER B #037	M-17-17S-31E	M	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-05308	TURNER B #038	C-20-17S-31E	C	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-05309	TURNER B #039	G-20-17S-31E	G	14591	MERIT ENERGY CO	F	O	12/1992		T	7/25/2007
2	30-015-05194	TURNER B #040	L-17-17S-31E	L	14591	MERIT ENERGY CO	F	O	12/1992		T	1/20/2008
2	30-015-05454	TURNER B #071	M-29-17S-31E	M	14591	MERIT ENERGY CO	F	O	10/2004			
2	30-015-26695	TURNER B #101	D-20-17S-31E	D	14591	MERIT ENERGY CO	F	O	11/2002		T	12/16/2005
2	30-015-05201	V L FOSTER #002	J-17-17S-31E		14591	MERIT ENERGY CO	F	O	09/1997			
2	30-015-05203	V L FOSTER #004	J-17-17S-31E	J	14591	MERIT ENERGY CO	F	O	01/1999			

By:   
 Merit Energy Co.