

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

ACO NO. 222

IN THE MATTER OF STEPHENS & JOHNSON OP CO,

Respondent.

**AGREED ORDER DIRECTING COMPLIANCE
AND ASSESSING CIVIL PENALTY**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), and the regulations 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 ("OCD") issues this Order to Stephens & Johnson Op Co (hereinafter "Operator") directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD rules.

I. FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. Operator is a foreign for-profit corporation doing business in New Mexico, registered with the New Mexico Public Regulatory Commission under SCC number 2738847. Operator's business address is 811 Sixth St., Suite 300, Wichita Falls, TX 76301. Operator's mailing address is P.O. Box 2249, Wichita Falls, TX 76307. Operator's OGRID number is 19958.
3. Operator is Operator of Record of the following subject wells:
 - East Millman Pool Unit No. 002, 30-015-02235, E-13-19S-38E
 - East Millman Pool Unit No. 004, 30-015-02231, L-13-19S-38E
4. On September 5, 2007, OCD Deputy Oil and Gas Inspector Richard Inge conducted a Bradenhead test on the East Millman Pool Unit No. 002 well and the East Millman Pool Unit No. 004 well. The wells were injecting at a pressure rate above the limit set forth in OCD Administrative Order No. WFX-824. As a result, the wells failed the Bradenhead test.
5. OCD Administrative Order No. WFX-824 states that the maximum surface injection pressure allowed for each well is 347 psi. Each well was injecting at 650 psi.

6. Deputy Inspector Inge told the Operator representative that was present for the tests, that the wells failed the Bradenhead test because their injection pressure was above the permitted injection pressure limit. Deputy Inspector Inge told Operator's representative that the wells had to be shut-in until either the injection pressure was below the permitted injection pressure limit or Operator had OCD approval to inject at the higher pressure rate.

7. OCD Administrative Order No. WFX-824 states:

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said wells that such higher pressure will not result in migration of the injected fluid from the Queen-Grayburg formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

8. On September 5, 2007, Deputy Inspector Inge sent Operator a Letter of Violation and Shut-In Directive (LOV No. 0218507) for the wells. In the letter Deputy Inspector Inge advised Operator that it was in violation of its injection permit because the wells were injecting over their permitted injection pressure limit. Deputy Inspector Inge advised Operator to "submit step-rate test to Santa Fe to have injection limit raised." Deputy Inspector Inge told Operator that it had to take corrective action by December 9, 2007.

9. On September 7, 2007, Operator filed an application with OCD requesting a 900 psi standardized maximum surface injection pressure increase.

10. On September 13, 2007, OCD Director Mark Fesmire informed Operator in writing that OCD was denying Operator's application based on the project's history, the lack of data presented in the past, and the lack of data presented in the application. OCD Director Fesmire advised Operator to gather additional data (which OCD Director Fesmire specified in the letter) and apply for an administrative hearing on the application.

11. On January 3, 2008, OCD issued Notice of Violation No. 02-08-01, which alleged that Operator knowingly and willfully violated OCD Administrative Order No. WFX-824 when Operator injected into the East Millman Pool Unit No. 002 well and the East Millman Pool Unit No. 004 well at a pressure rate higher than that set forth in OCD Administrative Order No. WFX-824.

12. On January 22, 2008, an administrative conference was held on the notice of violation. Mike Kincaid, a Consulting Petroleum Engineer for Operator, appeared for Operator.

13. Mr. Kincaid said he assumed that the pressure rate for the East Millman Pool Unit No. 002 well and the East Millman Pool Unit No. 004 well was 900 psi because all of the other wells in the East Millman Units are approved for 900 psi. Operator had acquired the East Millman Pool Unit No. 002 well and the East Millman Pool Unit No. 004 well from Sun Oil Company. Mr. Kincaid said Operator plans to do a step-

rate test on the two wells. Mr. Kincaid estimated 3 to 6 months to get the step-rate increase done. Mr. Kincaid said the wells have been shut-in since the date of inspection.

III. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Operator 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. NMSA 1978, Section 70-2-31(A) states, "Any 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 for each violation. For purposes of this subsection, in the case of a continuing violation, each day of violation shall constitute a separate offense."
4. Operator is subject to civil penalties under NMSA 1978, § 70-2-31(A) for violations of OCD Administrative Order No. WFX-824 occurring at each subject well.
5. OCD Administrative Order No. WFX-824 sets the maximum surface injection pressure rate for the East Millman Pool Unit No. 002 well and the East Millman Pool Unit No. 004 well at 347 psi.
6. OCD Administrative Order No. WFX-824 states:

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said wells that such higher pressure will not result in migration of the injected fluid from the Queen-Grayburg formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

IV. ORDER & CIVIL PENALTY ASSESSMENT

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against Operator totaling **Two Thousand Dollars (\$2,000.00)**. The \$2,000.00 civil penalty is for one violation of OCD Administrative Order No. WFX-824 that occurred at each well.
2. Operator shall pay the Two Thousand Dollars (\$2,000.00) civil penalty at the time it executes this Order. Payment shall be made by certified or cashier's 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. Operator shall have a step-rate test performed within 3 months, **by no later than April 28, 2008.**

4. By signing this Order, Operator expressly:
- a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with the Order;
 - 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;
5. For good cause shown, Operator may request an extension to complete the requirements as set out in Ordering Paragraph 3. Such notification ("notice") shall reasonably describe the circumstances encountered by Operator that prohibits it from meeting the deadlines set out herein.

Within ten (10) days of receipt of this notice, the OCD shall either approve the extended time requested by Operator by executing a written amendment to this Order, or notify Operator that it will not extend the deadline. The OCD's approval of a time extension shall not be unreasonably withheld.

Done at Santa Fe, New Mexico this 25th day of February 2008.

By: _____


Mark Fesmire, P.E.

Director, Oil Conservation Division

ACCEPTANCE

Stephens & Johnson Op Co hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth in the Order.

Stephens & Johnson Op Co

By: Fred Stephens

Title: Fred Stephens
President

Date: February 4, 2008