

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

RECEIVED
2007 SEP 4 AM 11:43

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE COMPLIANCE AND ENFORCEMENT MANAGER, FOR A COMPLIANCE ORDER AGAINST POGO PRODUCING COMPANY FINDING THAT IT KNOWINGLY AND WILFULLY VIOLATED 19.15.3.104 NMAC, ORDER R-12366, 19.15.13.1115 NMAC, AND NMSA 1978, SECTION 70-2-31(B)(2) and (D), IMPOSING PENALTIES, REQUIRING THE OPERATOR TO FILE CORRECTED REPORTS, AND REQUIRING OPERATOR TO PLUG AND ABANDON THE WELL; LEA COUNTY, NEW MEXICO.

CASE NO. 13990

APPLICATION FOR COMPLIANCE ORDER AGAINST
POGO PRODUCING COMPANY

1. The Pogo Producing Company ("Pogo") operates wells in New Mexico under OGRID 17891. Pogo posted a \$50,000 blanket bond, Number RLB0005459, through RLI Insurance Company, to secure its obligation to plug its inactive wells in New Mexico.

2. Arch Petroleum, Inc. ("Arch") formerly operated wells in New Mexico under OGRID 962.

3. Arch is a wholly-owned subsidiary of Pogo. According to the records of the Public Regulation Commission, Arch ceased doing business in New Mexico on December 31, 2005. Effective January 1, 2006 all Arch wells were placed under the Pogo name and OGRID.

4. On February 11, 2004, Arch filed an application for permit to drill the Resler B #001, 30-025-36573, in the southeast quarter of Section 20, Township 23S,

Range 37E, in Lea County, New Mexico. Arch's application identified the proposed pool for the Resler B #001 as the Jalmat-Tansil-Yates-Seven-Rivers (oil) Pool. The C-102 Acreage Dedication Plan filed with the application showed that 40 acres located in the NW/4 SE/4 of Section 20 was dedicated to the well. The Oil Conservation Division (OCD) approved the application on February 17, 2004.

5. Arch drilled the Resler B #001 well on or about March 23, 2004. Arch cased but did not complete the well at that time.

6. On April 23, 2004, Arch submitted an Application for Administrative Approval of a 160-acre non-standard gas spacing and proration unit for the Resler "B" Well No. 1 in the Jalmat Gas Pool in the SE/4 of Section 20.

7. All of Section 20, Township 23S, Range 37E is within the Jalmat Gas Pool and is subject to the "Special Pool Rules for the Jalmat Gas Pool" promulgated by Division Order No. R-8170-P.

8. At the time Arch drilled the Resler B #001 well, Westbrook Oil Corporation ("Westbrook") operated the 320-acre Jalmat gas spacing unit comprising the south half of Section 20, Township 23S, Range 37E.

9. At the time Arch drilled the Resler B #001 well, OCD rules did not allow multiple operators in a spacing unit.

10. On April 28, 2004, an application for administrative approval of a 160-acre non-standard gas spacing and proration unit consisting of the SW/4 of Section 20, to be dedicated to the Westbrook Oil Corporation's existing Steeler "A" Well No. 1 was submitted on Westbrook Oil Corporation's behalf. (The president of Westbrook later

wrote to the OCD, notifying the OCD that Westbrook had not filed the application and did not agree to a 160-acre non-standard gas spacing and proration unit.)

11. The OCD set the two applications for hearing. Arch's application was heard in case 13274, and the application of Westbrook Oil Corporation was heard in case 13,275. The matters were heard together on May 27, 2004. On June 13, 2005 the OCD entered Order No. R-12366 denying both applications.

12. On July 11, 2005 Arch filed for de novo review of case 13,274 by the Oil Conservation Commission ("OCC").

13. Pogo became operator of record for the Resler B #001 well effective January 1, 2006.

14. On February 12, 2007, the OCD received a well completion form C-105 dated July 14, 2005, indicating that the Resler B #1 was completed on July 9, 2005.

15. On February 12, 2007, the OCD received a sundry notice dated July 14, 2005 reporting that drilling operations had commenced on the Resler B #1 well, and that production began on July 10, 2005.

16. On February 12, 2007, the OCD received a request for allowable and authorization to transport for the Resler B #1 well dated July 14, 2005, indicating that the well was producing.

17. The OCC heard Case 13,274 de novo on April 19, 2007. Pogo presented the case as Arch's successor in interest.

18. At the hearing before the OCC, the senior geologist for Pogo, who had been the senior geologist for Arch, testified that:

a) Arch completed the Resler B No. 1 in the Jalmat on July 9, 2005, after Arch learned that its application had been denied;

b) Arch completed the Resler B No. 1 in the Jalmat to preserve its term assignment;

c) Arch could have preserved its term assignment by drilling other 40-acre oil well locations, but Arch believed those wells would not be economic;

d) Arch did not report its production from the Resler B No. 1 to the OCD.

19. Pogo presented a Monthly Allocation Summary for the Resler B #001 well at the OCC hearing, showing production from July 2005 through December 2005, and March 2006 through January 2007.

20. After the hearing, on April 25, 2007, Pogo filed C-115s showing production for the Resler B #001 well for July 2005 through December 2005. To date, Pogo has not reported production for the Resler B #001 well for March 2006 through January 2007 or subsequent periods.

21. OCD Rule 19.15.3.104.B(2) NMAC provides, and at all relevant times provided, that if a well drilled as an oil well is completed as a gas well but does not conform to the applicable gas well locations rules, the operator must apply for administrative approval for a non-standard location before the well can produce.

22. Order R-12366 denied Arch's application for non-standard location for the Resler B #001.

23. OCD Rule 1115.A [19.15.13.1115.A NMAC] provides and at all relevant times provided that operators shall file a monthly report of production on a form C-115.

24. NMSA 1978, Section 70-2-31(A) provides, in relevant part,

“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 (\$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.”

25. NMSA 1978, Section 70-2-31(B) prohibits any person from knowingly and willfully doing any of the following for the purpose of evading or violating the Oil and Gas Act or any rule or order of the OCC or the OCD:

(a) make any false entry or statement in a report required by the Oil and Gas Act or by any rule, regulation or order of the commission or division issued pursuant to that act;

(b) make or cause to be made any false entry in any record, account or memorandum required by the Oil and Gas Act or by any rule, regulation or order of the commission or division issued pursuant to that act;

(c) omit or cause to be omitted from any such record, account or memorandum full, true and correct entries; or

(d) remove from this state or destroy, mutilate, alter or falsify any such record, account or memorandum.

26. NMSA 1978, Section 70-2-31(D) provides that “[a]ny person who knowingly and willfully procures, counsels, aids or abets the commission of any act described in Subsection A or B of this section shall be subject to the same penalties as are prescribed therein.”

27. NMSA 1978, Section 70-2-14(B) provides:

If any of the requirements of the Oil and Gas Act [70-2-1 NMSA 1978] or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.

WHEREFORE, the Compliance and Enforcement Manager hereby applies to the Director to enter an order:

- A. Determining that Pogo knowingly and willfully violated Rule 104 by operating the Resler B #001 well as a gas well without obtaining approval for a non-standard location;
- B. Determining that Pogo knowingly and willfully violated Order R-12366 by operating the Resler B #001 well as a gas well after the application for non-standard location had been denied;
- C. Determining that Pogo knowingly and willfully violated Rule 1115.A by failing to file production reports for the Resler B #001;
- D. Determining that Pogo knowingly and willfully violated NMSA 1978, Section 70-2-31(B) by failing to file timely completion reports, sundry notices, requests for allowables and authorizations to transport, and production reports for the Resler B #001 in order to evade Rule 104 and Order R-12366;
- E. Determining that Pogo knowingly and willfully violated NMSA 1978, Section 70-2-31(D) by aiding and abetting Arch in violating Rule 104, Order R-12366, Rule 1115.A, and NMSA 1978, Section 70-2-31(B);
- F. Imposing civil penalties for the knowing and willful violation of Rule 104, Order R-12366, Rule 1115.A, NMSA 1978, Section 70-2-31(B) and NMSA 1978, Section 70-2-31(D);
- G. Requiring Pogo to file corrected production reports for the Resler B #1 by a date certain;

- H. Requiring Pogo to plug and abandon the Resler B #1 by a date certain;
- I. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 4th day of Sept., 2007 by



Gail MacQuesten
Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505) 476-3451
Fax: 505 476-3462
e-mail: gail.macquesten@state.nm.us

Attorney for the New Mexico Oil
Conservation Division

Case No. 13990. Application of the New Mexico Oil Conservation Division for a Compliance Order. The Applicant seeks an order finding that Pogo Producing Company knowingly and willfully violated Rule 104, Order R-12366, Rule 1115.A, NMSA 1978, Section 70-2-31(B) and NMSA 1978, Section 70-2-31(D) and imposing penalties for those violations, requiring the operator to file corrected reports, requiring operator to plug and abandon a well, and for such other relief as the Director deems appropriate. The affected well is the Resler B #001, 30-025-36573, Unit Letter J, Section 20, Township 23 South, Range 37 East, in Lea County, New Mexico. The well is located less than five miles north of Teague.