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

NMOCID – ACO ____

IN THE MATTER OF MARBOB ENERGY CORPORATION,
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") and 19.15.14.1227.E NMAC, the Director of the Oil Conservation Division ("OCD") and Marbob Energy Corporation ("Marbob") enter into this Agreed Compliance Order ("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. Marbob is a corporation operating wells in the state of New Mexico under OGRID 14049.

Grayburg-Jackson West Cooperative Unit Wells:

3. The Grayburg-Jackson West Cooperative Unit (GJWC Unit) includes state and fee lands in Township 17 South, Range 29 East, Eddy County, New Mexico.

4. The OCD approved the GJWC Unit in Case No. 3468, Order No. R-3127, dated October 4, 1966.

5. Marbob became operator of record for the GJWC Unit on October 1, 1984. Marbob operated the GJWC Unit until August 1, 1992 when Mack Energy Corporation ("Mack") split off from Marbob and became operator of record for the GJWC Unit. On March 1, 2006, COG Operating LLC ("COG") became operator of record for the GJWC Unit. Although Mack is no longer operator of

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record, Mack continues to operate the GJWC Unit pursuant to a contract with COG.

6. The original GJWC Unit Agreement designated the unitized formation to be that portion of the Grayburg-San Andres formation encountered between the depths of 2220 feet and 3600 feet, underlying certain specified state and fee lands.

7. The unitized formation was included within the Grayburg-Jackson (Seven Rivers-Queen-Grayburg-San Andres) Pool.

8. By Order No. R-3127-A in Case No. 3728, dated March 4, 1968, the OCD approved the expansion of the Unit to include 400 additional acres of state lands. The description of the unitized formation did not change.

9. On November 15, 2005, several months before COG became operator of record, Mack filed two applications for hearing regarding the Unit. In Case No. 13609, Mack sought an amendment to Order No. R-3127-A extending the vertical limits of the unitized formation to include all formations from the top of the Seven Rivers formation to the base of the Glorieta-Yeso (Paddock) formation, being those depths from 1,116 feet to 4,636 feet. In Case No. 13608, Mack sought an order extending the vertical limits of the Grayburg-Jackson (Seven Rivers-Queen-Grayburg-San Andres) Pool to include the Glorieta-Yeso (Paddock) formation underlying the Unit. The two cases were consolidated for hearing.

10. On June 13, 2006, the OCD granted Mack’s applications. Order No. R-3127-B, issued in Case No. 13609, approved the amendment to the Unit Agreement to extend the vertical limits of the unitized formation to include all formations from the top of the Seven Rivers formation to the base of the Glorieta-Yeso (Paddock) formation. Order No. R-12567, issued in Case No. 13608, extended the vertical limits of the Grayburg-Jackson (Seven Rivers-Queen-Grayburg-San Andres) Pool to include the Glorieta-Yeso (Paddock) formation underlying the Unit area.

11. In September 2006 COG notified the OCD that it had discovered discrepancies in the regulatory filings for 72 wells in the GJWC Unit.

12. According to COG, 70 wells in the GJWC Unit were producing from the Yeso (Paddock) formation before the expansion of the unitized formation and the expansion of the pool. Nine of the 70 wells were producing from the Yeso (Blinebry) formation, which was not included in the expanded unitized formation. COG found some evidence of discrepancies in the regulatory filings for two additional wells in the Unit, but was not able to verify its findings in the well files. Those two wells are now plugged and abandoned.

13. Production reports for the 70 wells incorrectly reported commingled production from the non-unitized intervals as Unit production; an underpayment of royalties attributable to state lands occurred as a result.
14. Well completion reports and sundry notices for the 70 wells listed the incorrect pool(s) and incomplete or incorrect perforations. In some instances, wells were re-completed to different zones without giving required notice to OCD or obtaining OCD approval.

15. According to COG’s review of the well files, the wells were either drilled to or re-completed to zones outside the Unitized Area and the reported pool as early as December 1984. This practice continued through March 1997.

16. Thirty-three of the wells were drilled to or re-completed to the unauthorized zones during the time period when Marbob was GJWC Unit operator; thirty-seven were drilled to or re-completed to the unauthorized zones during the time period when Mack was GJWC Unit operator.

17. Exhibit A is a spreadsheet prepared by COG summarizing its findings. It identifies each well, the total depth, the original completion date, the location of the perforations, the date the Yeso perforations were added, the producing formation(s), the initial production date, and the current status of each well.

18. At OCD’s request, COG provided well files for five sample wells. Documents in the well files corroborated COG’s findings regarding those wells.

19. On November 2, 2006, Mack agreed to pay $615,444.30 to the State Land Office as settlement for underpayment of royalties.

20. Mack/COG voluntarily filed corrected C-103, C-104, and C-105 reports with the OCD for the 70 wells identified in Exhibit A.


**Dodd Federal Unit Wells:**

22. The Dodd Federal Unit, created in 2004, contains 2400 acres of federal lands located in Township 17 South, Range 29, East, Eddy County, New Mexico. The Dodd Federal Unit is adjacent to and directly northeast of the GJWC Unit.

23. Marbob acquired certain oil and gas leases in the area now included within the Dodd Federal Unit area from Sun Oil Company in October 1982. Marbob acquired one additional lease in this area from Amoco Production Company between 1986 and 1993. This tract was acquired through a Farmout Agreement.
with a continuous drilling provision. Certain acreage was earned after 1986, and the balance of the acreage was purchased in 1993. Wells on leases later included in the Dodd Federal Unit will be referred to as the “Dodd wells.”

24. In 2004 Marbob applied for statutory unitization of the Dodd Federal Unit for the purpose of conducting secondary recovery operations within the Grayburg-Jackson and East Empire-Yeso Pools. The OCD approved the Dodd Federal Unit by Order No. R-12228 in Case No. 13350, dated November 1, 2004. The unitized interval within the Unit Area comprises that interval from the top of the Seven Rivers formation to the base of the Yeso-Paddock formation.

25. Marbob also applied for, and obtained, an order contracting the East Empire-Yeso Pool and extending the horizontal boundaries and the vertical limits of a portion of the Grayburg-Jackson Pool. By Order No. R-12256 in Case No. 13386, dated January 3, 2005, the OCD extended the vertical limits of the Grayburg-Jackson pool within the Dodd Federal Unit Area to include the Glorieta and Yeso/Paddock intervals. The order also provided that within the Dodd Federal Unit Area, the Grayburg-Jackson Pool shall be renamed the Grayburg-Jackson-Yeso Pool.

26. Between October 6, 2006 and March 13, 2007, Marbob filed sundry notices on forty-four Dodd Federal Unit wells reporting perforations in the Grayburg-San Andres, Glorieta, and Yeso/Paddock intervals. The sundry notices did not provide dates for the perforations.

27. In December 2006, Marbob filed an application for approval of a water-flood project in the Dodd Federal Unit. Marbob included in its application wellbore diagrams for wells in the area of review, showing the perforations. The wellbore diagrams for 23 of those wells also identified dates for the perforations. The dates provided by Marbob for those 23 wells indicated that Marbob perforated the Glorieta and Yeso/Paddock intervals prior to the 2004 creation of the Dodd Federal Unit and prior to the January 2005 extension of the vertical limits of the Grayburg-Jackson Pool to include the Glorieta and Yeso/Paddock intervals.

28. A review of the OCD well files for the 23 wells showed that Marbob’s filings for those 23 wells did not report perforations in the Glorieta and Yeso/Paddock intervals, as well as a number of additional perforations in the Grayburg-San Andres interval, prior to the 2004 creation of the Dodd Federal Unit and the January 2005 extension of the vertical limits of the Grayburg-Jackson Pool to include the Glorieta and Yeso/Paddock intervals. Further review revealed that a number of the perforations reported for the Grayburg-San Andres Interval were non-existent. The sundry notices filed between October 6, 2006 and March 13, 2007 listed perforation depths for some, but not all, of the previously unreported perforations, and did not correct past filings that reported non-existent perforations.
29. In June 2007, the OCD advised Marbob that it was investigating Marbob’s filing and reporting and contemplating initiation of enforcement actions against Marbob for failing to correctly report information as required by the Act and OCD Rules.

30. Marbob provided some information on its filings for wells in the Dodd Federal Unit, and the OCD used that information to prepare the spreadsheet attached as Exhibit B. That spreadsheet identifies 44 wells in the Dodd Federal Unit (by current and former name and API number). For each well, the spreadsheet identifies the following information:

- the location of the perforations as originally reported by Marbob and the corresponding dates of those reports,
- the location of the actual perforations made and corresponding dates for said perforations,
- the date of submission/receipt by the BLM of the recently-submitted sundry notice for each site, and perforation depths recorded on those sundries.

31. Prior to the creation of the Dodd Federal Unit in 2004, Marbob’s filings for the Dodd wells, identified in Exhibit B (including, where applicable, federal applications for permits to drill and sundry notices, and OCD requests for allowables and production reports), stated that the wells were producing from the Grayburg-Jackson (Seven Rivers Queen Grayburg San Andres) Pool (“Grayburg-Jackson Pool”), and Marbob’s filings reported perforations at depths consistent with the Grayburg-Jackson Pool. Prior to 2004, the vertical limits of the Grayburg-Jackson Pool did not extend to the Glorieta and Yeso/Paddock formations, which were at that time included in the East Empire-Yeso Pool.

32. Marbob produced the wells identified in Exhibit B from the Glorieta and/or Yeso/Paddock intervals prior to the creation of the Dodd Federal Unit and prior to the extension of the vertical limits of the Grayburg-Jackson Pool to include the Glorieta and the Yeso/Paddock formations.

33. Marbob’s production reports for the wells identified in Exhibit B prior to the creation of the Dodd Federal Unit and prior to the extension of the vertical limits of the Grayburg-Jackson Pool incorrectly reported commingled production from the Yeso/Paddock formation as production from the Grayburg-Jackson Pool.

34. Well completion reports and sundry notices for the wells identified in Exhibit B listed the incorrect pool(s) and incomplete or incorrect perforation dates and locations. In some instances, the initial completion data that was reported for the wells inaccurately indicated perforations at levels where no such perforations were actually made and/or omitted report of perforations that were, in fact, made, both within and outside of the Grayburg-Jackson Pool zone. In some instances, wells were later re-completed to different zones without giving the required notice to the OCD or obtaining required OCD approval.

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35. Marbob operates wells in the Foster Eddy Federal Lease, in Section 17, Township 31 East, Eddy County, New Mexico.

36. In a letter to the OCD dated June 2, 2008, Marbob identified seven of its Foster Eddy Federal wells as out of compliance with OCD filing requirements.

37. At OCD’s request, Marbob provided its well files for the seven identified Foster Eddy Federal wells.

38. A comparison of the information provided in Marbob’s well files and OCD’s well files for the seven identified wells shows that between July 1989 and January 1997, Marbob filed well completion reports and sundry notices for the seven wells listing the incorrect pool(s) and incomplete or incorrect perforations. In some instances, the initial completion data that was reported for the wells inaccurately indicated perforations at levels where no such perforations were actually made and/or omitted report of perforations that were, in fact, made, both within and outside of the Grayburg-Jackson Pool. Marbob’s production reports for the wells identified on Exhibit C incorrectly reported commingled production from the Yeso/Paddock formation as production from the Grayburg-Jackson Pool. Exhibit C summarizes these findings.

39. A report prepared in 1989 by Marbob’s consulting geologist of the observed oil and gas indications during the drilling of one of the Foster Eddy Federal wells, the Foster Eddy No. 8, shows that Marbob was aware of the location of formation tops in the area and the depths of “significant shows of oil or gas” in the area.

40. Marbob filed sundry notices for the seven wells indicating production from perforations located in the Grayburg-Jackson Pool. However, Marbob had also perforated and was producing from lower zones.

41. Well history and completion reports in Marbob’s well files for the seven wells document the accurate perforation depths and the dates of those perforations. Also present, however, are handwritten notations that cross out references to perforations that would be in zones lower than the Grayburg-Jackson Pool, and write in non-existing perforations that would be in the Grayburg-Jackson Pool. The sundry notices filed by Marbob with the BLM and the OCD report the edited, inaccurate version of the perforation locations.

42. On September 17, 1996, Marbob applied to the OCD for administrative approval of an unorthodox location for the Foster Eddy Federal No. 13, notifying the OCD and an offset operator producing from the Grayburg-San Andres formation that it proposed to drill the Foster Eddy Federal No. 13 “to the San Andres Formation at an unorthodox location based on geologic/reservoir considerations.” Marbob did not identify and provide notification to any offset operators that may have been
producing from other formations. Marbob received the requested approval. Marbob’s well completion report for the Foster Eddy Federal No. 13, dated January 16, 1997, reported perforations at 3509’ to 3855’, which would put the perforations within the San Andres. Those perforations did not exist. Marbob actually perforated the well below the San Andres, at 4726’ to 5027’.

**Relevant Statutes And Rules:**

43. At all times relevant to this matter, Rule 19.15.5.303 NMAC has required each pool to be produced as a single source of supply, with each well within a pool completed, maintained, and operated so as to prevent communication within the wellbore with any other pool. Production from each pool and each lease must be segregated, and the commingling of production before marketing, of production from separate pools or separate leases is prohibited. Exceptions for surface commingling, downhole commingling, and off-lease storage and/or measurement may be obtained only through procedures outlined in the rule.

44. At all times relevant to this matter, OCD rules have required operators to obtain a permit prior to commencing drilling, deepening, or re-entry operations, or before plugging a well back to a different pool or completing or re-completing a well in an additional pool. The applicant must file a complete Form C-101 and Form C-102. See Rule 19.15.3.102.A and B NMAC, and Rule 19.15.13.1101.A NMAC. For federal wells, the applicant must file the appropriate Bureau of Land Management (BLM) form in lieu of a Form C-102. 19.15.13.1128 NMAC.

45. At all times relevant to this matter, OCD rules have required operators to file a well completion report on Form C-105 within 20 days after the completion of a well, or the re-completion of a well into a different common source of supply. See Rule 19.15.3.117 NMAC. See also Rule 19.15.13.1103.H NMAC. For federal wells, the operator must file the appropriate BLM form in lieu of Form C-105. Rule 19.15.13.1128 NMAC.

46. At all times relevant to this matter, OCD rules have required operators to file a Form C-103 report on remedial work within 30 days following completion of such work, including “a detailed account of the work done and the manner in which such work was performed; the daily production of oil, gas and water both prior to and after the remedial operation; the size and depth of shots; the quantity of and [sic], crude, chemical or other materials employed in the operation, and any other pertinent information.” See Rule 19.15.13.1103.G NMAC. For federal wells, the operator must file the appropriate BLM form in lieu of Form C-103. 19.15.13.1128 NMAC.

47. At all times relevant to this matter, OCD rules have required operators to file a Form C-104 if a well is re-completed to a different pool. See Rule 19.15.13.1103.H NMAC. Federal forms may not be substituted for the Form C-104. Rule 19.15.13.1128 NMAC.
48. At all times relevant to this matter, OCD rules have required operators to file a Form C-104, Request for Allowable and Authorization to Transport Oil and Natural Gas, for each newly completed or recompleted well or well completed in an additional pool. Rule 19.15.13.1104 NMAC. Federal forms may not be substituted for the Form C-104. Rule 19.15.13.1128.C NMAC.

49. At all times relevant to this matter, OCD rules have required operators to file a monthly production report on Form C-115. Rule 19.15.13.1115.A NMAC. Federal forms may not be substituted for the Form C-115. Rule 19.15.13.1128 NMAC.

50. At all times relevant to this matter, OCD rules have required operators proposing to drill a well at an unorthodox location to seek approval, providing information evidencing the need for the exception to the location rules. Rule 19.15.3.104.F(3) NMAC.

51. NMSA 1978, §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.

52. NMSA 1978, §70-2-31(B) makes it unlawful for any person to knowingly and willfully:

(2) do any of the following for the purpose of evading or violating the Oil and Gas Act or any rule, regulation or order of the commission or the division issued pursuant to that act:

   (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.

53. Each day of violation of NMSA 1978, §70-2-31(B) constitutes a separate offense. NMSA 1978, §70-2-31(C).

54. Any person who knowingly and willfully procures, counsels, aids, or abets the commission of the knowing and willful violation of any provision of the Oil and

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Gas Act or any provision of any rule or order issued pursuant to that Act is subject to penalties. NMSA 1978, §70-2-31(D).

55. NMSA 1978, §70-2-33(A) and Rule 19.15.1.7(P)(2) NMAC define “person” in relevant part as including a “corporation.”

CONCLUSIONS

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

2. Marbob is a “person” as defined by NMSA 1978, §70-2-3(A) and Rule 19.15.1.7(P)(2) NMAC.

3. Regarding the GJWC Unit wells identified in Exhibit A, Marbob is subject to civil penalties pursuant to NMSA 1978, §70-2-31(A) as to the following rules and statutes: 19.15.5.303 NMAC; 19.15.3.102.A and B NMAC; 19.15.13.1101.A NMAC; 19.15.3.117 NMAC; 19.15.13.1103 NMAC; 19.15.13.1104 NMAC; 19.15.13.1128.C NMAC; 19.15.13.1115.A NMAC; NMSA 1978, §70-2-31(B); and NMSA 1978, §70-2-31(D).

4. Regarding the Dodd Federal Unit wells identified in Exhibit B, Marbob is subject to civil penalties pursuant to NMSA 1978, §70-2-31(A) as to the following rules and statutes: 19.15.5.303 NMAC; 19.15.3.102.A and B NMAC; 19.15.13.1101.A NMAC; 19.15.3.117 NMAC; 19.15.13.1103 NMAC; 19.15.13.1104 NMAC; 19.15.13.1128.C NMAC; 19.15.13.1115.A NMAC; and NMSA 1978, §70-2-31(B).

5. Regarding the Foster Eddy Federal wells identified in Exhibit C, Marbob is subject to civil penalties pursuant to NMSA 1978, §70-2-31(A) as to the following rules and statutes: 19.15.5.303 NMAC; 19.15.3.102.A and B NMAC; 19.15.13.1101.A NMAC; 19.15.3.117 NMAC; 19.15.13.1103 NMAC; 19.15.13.1104 NMAC; 19.15.13.1128.C NMAC; 19.15.13.1115.A NMAC; 19.15.3.104.F(3) NMAC; and NMSA 1978, §70-2-31(B).

6. Regarding the Foster Eddy Federal #13, Marbob is subject to civil penalties pursuant to NMSA 1978, §70-2-31(A) as to 19.15.3.104.F(3) NMAC.

ORDER

1. Marbob agrees to pay a penalty of $500,000.00 (five hundred thousand dollars) pursuant to NMSA 1978, §70-2-31(A) as to the following rules and statutes: 19.15.5.303 NMAC; 19.15.3.102.A and B NMAC; 19.15.13.1101.A NMAC; 19.15.3.117 NMAC; 19.15.13.1103 NMAC; 19.15.13.1104 NMAC; 19.15.13.1128.C NMAC; 19.15.13.1115.A NMAC; 19.15.3.104.F(3) NMAC; NMSA 1978, §70-2-31(B); and NMSA 1978, §70-2-31(D).
2. Marbob agrees that for a period of one (1) year following the execution of this Agreement, upon reasonable notice by the OCD, it will provide full and complete access to all of its well files for examination and review by the OCD or its designee(s). Well files will be made available in the form in which they are normally maintained by Marbob, and without redaction or alteration.

3. Marbob agrees to file within 90 days of execution of this Order for each of the 44 wells identified in Exhibit B and each of the seven wells identified in Exhibit C, the following corrected forms with the OCD or the BLM, as applicable, and provide copies of BLM forms to the OCD:
   i. Well Completion or Recompletion Reports (BLM Form 3160-4) for each well completion incorrectly reported and for each re-completion that was incorrectly reported or unreported, including accurate producing interval information and a complete perforation record;
   ii. Sundry Notices (BLM Form 3160-5) for each completion and recompletion including the perforations and the dates of those perforations, and a sundry notice identifying all perforations and the dates of those perforations, and identifying as false any previously reported perforations that do not exist;
   iii. Request for Allowable and Authorization to Transport (OCD Form C-104) for each completion and recompletion, including accurate perforation data.

4. As to the seven wells identified in Exhibit C Marbob agrees that it will either accomplish the following by January 30, 2009, or will shut in each well for which the following has not been accomplished by January 30, 2009, with such wells to remain shut-in until the below-listed tasks have been completed:
   i. file amended production reports for the Foster Eddy property for the months from July 1989 to present, allocating production to the appropriate pools under an allocation formula acceptable to the OCD; and
   ii. submits a complete application to obtain approval to commingle production from the producing zones of each well or plugs the well back so that it produces only from an approved zone or zones; and
   iii. submits a complete application to obtain approval for non-standard location for Foster Eddy Federal No. 13 based on true and accurate information regarding the geology and the reservoir.

5. The OCD reserves the right to pursue additional enforcement actions as to violations discovered by the review of Marbob’s files by the OCD or its designee(s) or that become apparent through any other means and are not addressed in this agreed compliance order.

6. OCD may issue the press release approved by both the parties at the time of signing this Order. This Order and all documents in the well files and case files held by OCD related to the wells addressed in this Order are public documents.
7. By signing this Order, Marbob expressly:

(a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
(b) agrees to pay the $500,000.00 (five hundred thousand dollar) penalty at the time this Order is executed;
(c) agrees to make its well files available to the OCD or its designee(s), as described in Ordering Paragraph 2, above;
(d) agrees to file corrected forms, as described in Ordering Paragraph 3, above, for each of the 44 wells identified in Exhibit B and each of the seven wells identified in Exhibit C within 90 days of execution of this Order;
(e) agrees to file amended production reports for the seven wells identified in Ordering Paragraph 3, above, within three months of execution of this Order, and to meet the requirements of Ordering Paragraph 4, above, or shut in the wells as described in Ordering Paragraph 4, above;
(f) agrees to file within 90 days of the execution of the Order, corrected forms as described in Ordering Paragraph 3, above, to correct filing errors and discrepancies identified by the OCD in any review of Marbob’s files it may do that were not addressed in the corrected filings made pursuant to Ordering Paragraphs 3 and 4;
(g) acknowledges that the OCD reserves the right to pursue additional enforcement actions as to violations discovered in the course of the review of Marbob’s files by the OCD or its designee(s) or that become apparent via other means and that are not the subject of this agreed compliance order;
(h) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing challenging the entry of this Order (either prior to or subsequent to the entry of this Order) or to an appeal from the entry of this Order; and
(i) agrees that 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, Oil Conservation Commission, or District Court entered after notice and hearing or trial in accordance with all relevant statutes and rules.

Oil Conservation Division
By: 
Title: Director, Oil Conservation Division
Date: 

By: 
Title: 
Date: 12-17-08

Marbob Energy Corporation
By: 
Title: 
Date: 

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