

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

ACO No. 244

IN THE MATTER OF MELROSE OPERATING COMPANY,

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 Melrose Operating Company (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 an active foreign for-profit corporation registered to do business in New Mexico under SCC Number 1781228.
3. Operator operates wells within New Mexico under OGRID 184860.
4. According to the Public Regulation Commission website, Operator's principal business address is 5813 NW Grand Blvd, Suite B, Oklahoma City, OK 73118. Operator's address of record with OCD is 1000 W. Wilshire, Suite 223, Oklahoma City, OK 73116.
5. Operator is Operator of Record of the following well:
 - Rotary State No. 004; 30-015-01963; G-20-18S-28E
6. During a routine inspection of the well on April 2, 2008, OCD Deputy Oil and Gas Inspector Richard Inge observed evidence of a hydrocarbon release. The soil on the east end of the location was stained. The stain extended across the road and into the pasture on the north side of the location.
7. On April 14, 2008, Deputy Inspector Inge sent Operator a letter of violation (LOV No. 02-08-059) which informed Operator of the release and the violation of OCD rules. The letter instructed Operator to submit an initial report form C-141 by April

29, 2008. The letter was signed for by Mary Eschberger on April 17, 2008, at Operator's office in Midland, Texas.

8. OCD Rule 19.15.3.116 NMAC ("Rule 116") requires OCD to be notified of any unauthorized release and for such release to be remediated in accord with OCD requirements and standards.
9. OCD received no response from Operator to the April 14 letter.
10. As a result, on May 15, 2008, OCD issued Notice of Violation No. 02-08-12, which alleged that Operator was in knowing and willful violation of OCD Rule 116.
11. On June 10, 2008, an administrative conference was held on the Notice of Violation. Operator's employee Michael Corjay participated in the conference by telephone.
12. The following facts were presented at the conference:
 - The Artesia District Office received Operator's C-141 on May 21, 2008.
 - The Artesia District Office sent a letter to Operator informing it that its C-141 was incomplete and insufficient. The letter instructed Operator to submit a correct C-141 by June 13, 2008.

II. 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 knowing and willful violations of OCD Rule 116.

III. ORDER & CIVIL PENALTY ASSESSMENT

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against Operator totaling **One Thousand Dollars**

(\$1,000.00). The \$1,000.00 civil penalty is based on one violation of OCD Rule 116.

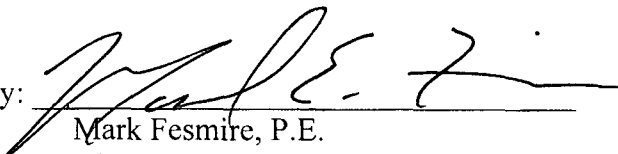
2. The **One Thousand Dollars (\$1,000.00)** civil penalty shall be paid upon execution of this Order. Payment shall be made by **certified or cashier's check** made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the New Mexico Oil Conservation Division, Attention: Director, 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505.
3. Operator shall complete the following requirements:
 - a. Operator shall submit a complete and accurate C-141 by July 11, 2008.
 - b. By July 18, 2008, Operator shall take soil samples and have the samples analyzed (Operator shall notify the OCD Artesia District Office at least 48 hours in advance of the sampling so that a representative from the Artesia District Office can observe the sampling);
 - c. By August 15, 2008, Operator shall present to the Artesia District Office the analyticals from the samples and a work plan for the remediation;
 - d. Operator shall complete remediation procedures with 30 days of OCD's approval of the work plan .
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.

6. Nothing in this Order relieves Operator of its liability should its operations fail to adequately investigate and remediate contamination that poses a threat to ground water, surface water, human health or the environment. In addition, nothing in this Order relieves Operator of its responsibility for compliance with any other federal, state or local laws and/or regulations.

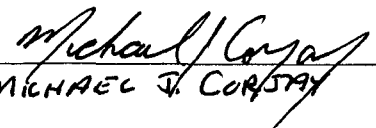
Done at Santa Fe, New Mexico this 10th day of July 2008.

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

ACCEPTANCE

Melrose Operating Company hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth in the Order.

Melrose Operating Company

By: 
MICHAEL J. CORSTAY
Title: VICIE PRESIDENT

Date: 7-1-08