

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

RECEIVED
2008 MAR 13 PM 3 38

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION,
THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A
COMPLIANCE ORDER IMPOSING PENALTIES AND CANCELLING OR
SUSPENDING THE AUTHORITY OF QUANNAH, INC. TO TRANSPORT
LIQUID WASTES.**

CASE NO. 14110

APPLICATION FOR COMPLIANCE ORDER
AGAINST QUANNAH, INC.

1. Quannah, Inc. ("Quannah") is a trucking company transporting liquid oilfield wastes in New Mexico under permit C133-174.
2. Quannah's address, as registered with the Oil Conservation Division ("OCD"), is 1009 West Broadway, Hobbs, NM 88260.
3. Quannah is an active corporation, registered with the Public Regulation Commission (PRC). According to the PRC "corporations inquiry" screen, Quannah's address is 909 W. Avenue North Lovington, NM 88260; its registered agent is Louis G. Edgett, 909 W. Ave. N. Lovington, New Mexico 88260; its corporate director is Louis Edgett, and its officers are Dena L. Strickland and Tonja L. Edgett.
4. On February 7, 2008, a Quannah vacuum/transport truck was observed unloading into the water tank at the State "R" lease, while another Quannah vacuum/transport truck waited behind it. The State "R" tank battery is located in Section 27, T14S, R33E, in Lea County, New Mexico.

5. The water tank at the State "R" lease is a tank for a private co-op disposal system for specific wells operated by Energen Resources Corporation, Enerquest Oil & Gas Ltd., Chesapeake Energy Corporation, and Kevin O. Butler & Assoc. The disposal system is operated by Energen Resources Corporation.

6. Quannah has no authority to dispose of liquid wastes into the private co-op disposal system at the State "R" lease.

7. Rule 19.15.2.52 NMAC [Rule 52] provides, in relevant part:

A. Prohibited dispositions. Except as authorized by 19.15.1.19 NMAC, 19.15.2.50 NMAC, 19.15.2.53 NMAC, 19.15.3.116 NMAC or 19.15.9.701 NMAC, no person, including a transporter, shall dispose of produced water or other oil field waste:

(1) on or below the surface of the ground; in a pit; or in a pond, lake depression or watercourse;

(2) in another place or in a manner that may constitute a hazard to fresh water, public health, safety or the environment; or

(3) in a permitted pit or registered or permitted surface waste management facility without the permission of the owner or operator of the pit or facility.

B. Authorized disposition of produced water. The following methods of disposition of produced water are authorized:

(1) in a manner that does not constitute a hazard to fresh water, public health, safety or the environment, delivery to a permitted salt water disposal well or facility, secondary recovery or pressure maintenance injection facility, surface waste management facility or disposal pit permitted pursuant to 19.15.2.50 NMAC or to a drill site for use in drilling fluid; or

(2) use in accordance with a division-issued use permit or other division authorization.

C. Authorized dispositions of other oil field waste. Persons shall dispose of other oil field waste by transfer to an appropriate permitted or registered surface waste management facility or injection facility or applied to a division-authorized beneficial use....

8. Quannah is not operating under an abatement plan authorized by 19.15.1.19 NMAC, was not discharging into a pit or below-grade tank authorized by 19.15.2.50 NMAC, was not operating under a remediation plan authorized by

19.15.3.116 NMAC, and does not hold a permit to inject under 19.15.9.701 NMAC. Rule 19.15.2.53 NMAC, renumbered as 19.15.36 NMAC, relates to surface waste management facilities. If the co-op disposal system is considered a surface waste management facility, Quannah had no authority to inject into that facility.

9. Discharge into a private co-op disposal system without the permission of the owner or operator of that facility constitutes a violation of Rule 52.A(3).

10. Discharge into a private co-op disposal system without permission of the owner or operator of that facility may constitute a hazard to safety or the environment, and constitutes a violation of Rule 52.A(2).

11. Rule 19.15.2.51.E NMAC [Rule 51.E] provides the following grounds for cancelling or suspending a transporter's authorization to move liquid wastes:

Cancellation or suspension of authorization to move liquid wastes. Vehicular movement or disposition of produced water, drilling fluids or other liquid oil field wastes in a manner contrary to division rules...shall be cause, after notice and an opportunity for hearing, for cancellation or suspension of a transporter's authorization to move liquid wastes.

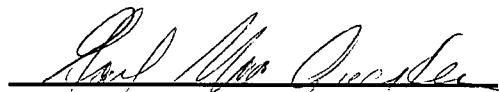
12. NMSA 1978, Section 70-2-31(A) provides that "any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars ((\$1,000) for each violation. For purposes of this subsection, in the case of a continuing violation, each day of violation shall constitute a separate violation."

13. NMSA 1978, Section 70-2-33(A)(1) defines "person" for purposes of the Oil and Gas Act to include corporations.

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

- A. Determining that Quannah violated Rule 52.A(3) by disposing of produced water or other oil field waste in a registered or permitted surface waste management facility without the permission of the owner or operator of that facility;
- B. In the alternative, determining that Quannah violated Rule 52.A(2) by disposing of produced water or other oil field waste in a place or in a manner that may constitute a hazard to safety or the environment;
- C. Determining that Quannah knowingly and willfully violated Rule 52 and imposing a penalty of not less than \$1,000 for that violation;
- D. Cancelling Quannah's authority to transport liquid oil field wastes or, in the alternative, suspending that authority for a period of at least one year;
- E. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 13 day of March 2008 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

Attorney for the New Mexico Oil
Conservation Division

- Case No. 14110. Application of the New Mexico Oil Conservation Division for a Compliance Order against Quannah, Inc. The Applicant seeks an order finding that operator knowingly and willfully violated 19.15.2.52 NMAC by disposing of produced water or other oilfield waste in a registered or permitted surface waste management facility without authority, or in a place or in a manner that may constitute a hazard to safety or the environment, imposing penalties and cancelling or suspending Quannah's authority to transport liquid oilfield wastes. The unauthorized disposal occurred at the State "R" tank battery, Section 27, T14S, R33E. The tank battery is located approximately 15 miles northwest of Lovington in Lea County, New Mexico.