

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

NMOCD- AEO-120

IN THE MATTER OF ELM RIDGE RESOURCES, INC.,
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 ELM RIDGE RESOURCES, INC. ("Elm Ridge") 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) Elm Ridge is a foreign corporation authorized to do business in the State of New Mexico under Public Regulation Commission ("PRC") SCC number 1721604 with a mailing address of 12225 Greenville Ave., Ste. 950, Dallas, Texas 75243-9362, and its registering agent being CT Corporation System, 123 E. Marcy St., Santa Fe, New Mexico 87501. Elm Ridge has OGRID number 149052.
- 3) Elm Ridge operates the Pete Morrow #2T, Unit Letter D, Section 01, Township 25 North, Range 12 West, API # 30-045-32463, San Juan County, New Mexico.
- 4) On Thursday, February 16, 2006, OCD Deputy Oil and Gas Inspector Monica Kuehling inspected the Elm Ridge Pete Morrow #2T. The rig and other site equipment had been removed. Deputy Inspector Kuehling found pit fluid overtopping the liner and evidence of fluid having recently run from the pit down the side of the location. Terry Lindeman with Elm Ridge was notified by phone of the situation. Mr. Lindeman advised he would get a water truck to remove the liquid.
- 5) An OCD investigation found the following:
 - a. The OCD has no record of an application for a drilling pit at the Pete Morrow #2T well site.

- b. The federal APD is dated July 9, 2004; it was received from the BLM on May 17, 2005.
 - c. The OCD received spud notice for this well on March 6, 2006.
 - d. OCD Rule 50.A prohibits the discharge into or construction of any pit absent possession of a permit issued by the OCD, unless otherwise provided or unless the OCD grants an exemption.
 - e. Elm Ridge knowingly and willfully violated OCD Rule 50.A by constructing and/or discharging into a drilling pit without obtaining a permit.
 - f. OCD Rule 50.C(2)(b)(i) requires that “[e]ach drilling pit or workover pit shall contain, at a minimum, a single liner appropriate for conditions at the site. The liner shall be designed, constructed, and maintained so as to prevent the contamination of fresh water and protect public health and the environment.”
 - g. Elm Ridge knowingly and willfully violated Rule 50.C(2)(b)(i) by failing to maintain the liner and fluid level in a manner to prevent overtopping the liner.
- 6) NMSA 1978, §70-2-31(A) provides that “[a]ny 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.”
 - 7) NMSA 1978, §70-2-33(A) defines person as “any individual estate, trust receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity.”
 - 8) As a result of its investigation, the OCD issued a Notice of Violation to Elm Ridge, alleging violation of OCD Rules 50.A and 50.C(2)(b)(i).
 - 9) Elm Ridge waived the Administrative Conference on this matter.
 - 10) Further, Elm Ridge does not wish to contest the Two Thousand Dollars (\$2,000.00) civil penalty assessed against it for violations of OCD Rule 50.A and OCD Rule 50.C(2)(b)(i).

II. CONCLUSION

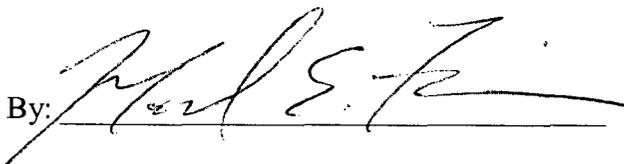
- 1) The OCD has jurisdiction over the parties and subject matter in this proceeding.
- 2) Elm Ridge is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, §70-2-31(A).

- 3) Elm Ridge is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Pete Marrow #1 for knowing and willful violations of OCD Rule 50.A and 50.C(2)(b)(i).

III. ORDER AND CIVIL PENALTY

- 1) Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against Elm Ridge totaling **Two Thousand Dollars (\$2,000.00)** for one violation each of OCD Rule 50.A. and 50.C(2)(b)(i).
- 2) The civil penalty shall be paid at the time Elm Ridge executes this Order. Payment shall be made by 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) Elm Ridge must submit a drilling pit permit for the Pete Marrow #1.
- 4) By signing this Order, Elm Ridge expressly:
- a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with Ordering paragraph 2 and 3;
 - 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) Nothing in this Order relieves Elm Ridge 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 Elm Ridge of its responsibility for compliance with any other federal, state or local laws and/or regulations.

Done at Santa Fe, New Mexico, this 25th day of May 2006.

By: 

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

ACCEPTANCE

ELM RIDGE RESOURCES, INCORPORATED hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in the Order.

ELM RIDGE RESOURCES, INCORPORATED

By: T. G. Sidman

Title: Dist. Super.

Date: 5-23-06