

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

NMOCD-06-ACD-121

**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 Lybrook Yard WDW #1, Unit Letter B, Section 14, Township 23 North, Range 7 West, API #30-039-27533, Rio Arriba County, New Mexico.
- 4) On Tuesday, March 28, 2006, OCD Deputy Oil & Gas Inspector, Monica Kuehling, during routine well inspections, arrived on the site of Elm Ridge Lybrook Yard WDW #1. The well was drilled. On site was a divided drilling pit; one section of the pit had oil on it. Inspector Kuehling left a telephone message for Terry Lindeman advising that Elm Ridge must remove the oil from the pit.
- 5) An OCD investigation found the following:
 - a. The OCD approved an APD for the Lybrook Yard WDW #1 well on January 15, 2003.
 - b. The well was spudded May 7, 2005.

- c. The last casing string was set May 17, 2005.
- d. The OCD has no record of a pit permit being requested or approved for this site.
- 6) OCD Rule 50.A forbids “[d]ischarge into, or construction of, any pit or below-grade tank ... absent possession of a permit issued by the division”
- 7) Elm Ridge knowingly and willfully violated OCD Rule 50.A by constructing a pit without a permit.
- 8) OCD Rule 50.C(2)(f) exempts “[d]rilling and workover pits ... from the netting requirement. Immediately after cessation of these operations such pits shall have any visible or measurable layer of oil removed from the surface.”
- 9) Elm Ridge knowingly and willfully violated OCD Rule 50.C(2)(f) by allowing oil to remain on the surface of the drilling pit after cessation of operations.
- 10) OCD Rule 50.F(1) requires that, unless there is a specific exemption, “a pit or below grade tank shall be properly closed within six months after cessation of use. ... The division for good cause shown may grant a six-month extension of time to accomplish closure. ”
- 11) Elm Ridge knowingly and willfully violated Rule 50.F(1) by failing to close the drilling pit at the Lybrook Yard WDW #1 within six months of setting the last casing string.
- 12) 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.”
- 13) 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.”
- 14) As a result of its investigation, the OCD issued a Notice of Violation to Elm Ridge, alleging violation of OCD Rules 50.A, 50.C(2)(b)(i) and 50.F(1).
- 15) Elm Ridge waived the Administrative Conference on this matter.
- 16) Further, Elm Ridge does not wish to contest the Three Thousand Dollars (\$3,000.00) civil penalty assessed against it for violation of OCD Rule 50.A, 50.C(2)(b)(i) and 50.F(1).

II. CONCLUSION

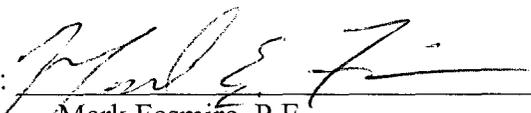
- 1) The OCD has jurisdiction over the parties and subject matter in this proceeding.
- 2) Elm Ridge is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
- 3) Elm Ridge is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Farfelu #1 for one knowing and willful violation of OCD Rules 50.A, C(2)(f) and F(1). (constructing a pit without a permit; allowing oil to remain on the surface of a drilling pit after cessation of operations; and failing to close the drilling pit within six months).

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 **Three Thousand Dollars (\$3,000.00)** for one violation of OCD Rule 50.A, one violation of Rule 50.C(2)(f) and one violation of Rule 50.F(1).
- 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 will close the pit by June 15, 2006. and file C-144.
- 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 1, 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.

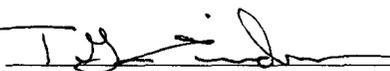
Done at Santa Fe, New Mexico this 25th day of May 2006.

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

ACCEPTANCE

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

ELM RIDGE RESOURCES, INC.

By: 

Title: Dist Super.

Date: 5-23-05