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

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

NMOCD - 06- 138

IN THE MATTER OF HALLADOR PETROLEUM, LLP,

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 **HALLADOR PETROLEUM, L.L.P. ("Hallador")** directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD rules.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. Hallador is a foreign, for profit Colorado corporation authorized to do business in the State of New Mexico under Public Regulation Commission ("PRC") SCC number 1410711. Hallador is an active entity with a registered New Mexico agent, C.T. Corporation System, 123 E. Marcy Street, Santa Fe, New Mexico 87501, and a principal address outside of New Mexico at 1660 Lincoln Street, Suite 2700, Denver, Colorado 80264.
3. Hallador is the operator of the Horton # 3, Unit Letter G, Section 13, Township 32 N, Range 12 E, API # 30-045-11448, San Juan County, New Mexico.
4. OCD Oil and Gas Inspector Brandon Powell visited the Hallador Horton #3 on May 17, 2006. At that time, Inspector Powell found standing oil in a sub-grade production pit. Required bird netting was in place, but it was poorly maintained. The pit had heavy staining around all sides due to the venting gas blowing oil out of the pit.
5. The OCD had received no reports of a release at the site. Accumulated hydrocarbon contamination is deemed to be a danger that may, with reasonable probability, contaminate ground water, endanger public health and result in substantial damage to the environment.
6. OCD Rule 116.A(1) [19.15.3.116.A(1) NMAC] requires that the OCD "shall be notified of any unauthorized release occurring during the drilling, producing, storing, disposing, injecting,

transporting, servicing or processing of crude oil, natural gases, produced water, condensate or oil field waste”

7. Pursuant to OCD Rule 116.B(1), an operator must give both immediate oral and timely written notice of:

(b) an unauthorized release of any volume which:

(iii) may with reasonable probability endanger public health;

(iv) results in substantial damage to property or the environment;

(d) a release of any volume which may with reasonable probability be detrimental to water....

8. Immediate verbal notification is defined to be within twenty-four (24) hours of discovery, and timely written notification is within fifteen (15) days. OCD Rule 116.C(1).
9. Hallador violated Rule 116.B by failing to give either immediate verbal or timely written notification of an unauthorized release of oil.
10. OCD Rule 50.C(2)(e) [19.50.2.50 NMAC] prohibits any visible layer of oil to accumulate or remain anywhere on the surface of any pit.
11. Hallador violated Rule 50.C(2)(e) by letting oil accumulate in the sub-grade tank production pit.
12. As a result of these violations, on June 23, 2006, the OCD issued to Hallador a Notice of Violation. The OCD alleged one violation of OCD Rule 116 and one violation of OCD Rule 50.C(2)(e). It recommended a Two Thousand Dollar penalty.
13. At the Administrative Conference held on July 20, 2006 on this matter, Tim Lovseth, Hallador, agreed Hallador was in violation of OCD Rules 116.B and 50.C(2)(e). Hallador has corrected these violations by draining all accumulated oil from the pits. Oil stained soil was excavated and taken to an approved site for remediation.
14. To prevent these problems from reoccurring, Hallador has changed its procedures. Upon removal of produced water from pits, no oil shall be left behind to accumulate. Previously, the water was extracted from the bottom of the pit, leaving a few inches of liquid after each visit. Over time, oil accumulated because it tended to float to the surface. By extracting the liquid at the surface of the pit, any oil will be removed, even if some produced liquids remain.
15. Hallador has also reviewed OCD spill reporting requirements with field personnel.
16. Hallador also will increase the frequency of field inspections.

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Hallador 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. Hallador is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Horton #3 for one violation of each of OCD Rules 116.B and 50.C(2)(e).

III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **Two Thousand Dollars (\$2,000.00)** against Hallador for one violation of each of OCD Rules 116.B and 50.C(2)(e).
2. The civil penalty shall be paid at the time this Order is executed. 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. To prevent the problems from reoccurring which is the basis for this Order, Hallador shall change its procedures so that: (a) when it removes produced salt water from pits, no oil shall be left behind to accumulate; (b) Hallador shall review OCD spill reporting requirements with field personnel; and (c) it shall increase the frequency of field inspections.
4. By signing this Order, Hallador expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with Ordering paragraphs 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; and
 - 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 (NMSA 1978, Sections 70-2-1 through 70-2-38, as amended).

Done at Santa Fe, New Mexico this 14th day of July 2006.

By: 
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

Hallador Petroleum, L.L.P. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth therein.

HALLADOR PETROLEUM, L.L.P.

By: Timothy L. [Signature]

Title: Exploration Manager

Date 7-21-06