

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

NMOCD -ACOI 99-A

IN THE MATTER OF MOUNTAIN STATES PETROLEUM CORPORATION

Respondent.

AMENDED AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), the Director of the Oil Conservation Division ("OCD") and Mountain States Petroleum Corporation ("Operator") enter into this amendment to Agreed Compliance Order 99 under which Operator agrees to an assessment of penalties for violating the terms of Agreed Compliance Order 99.

FINDINGS

1. Operator and the OCD entered into Agreed Compliance Order 99 ("ACOI 99" or "Order") on January 19, 2006.
2. ACOI 99 required Operator to bring at least 36 of the wells identified in Exhibit A to the Order into compliance with OCD Rule 201 [19.15.4.201 NMAC] by July 31, 2006.
3. ACOI 99 provided for penalties of \$1,000 times the number of wells Operator failed to return to compliance under its schedule.
4. ACOI 99 provided that if the Operator encountered unanticipated circumstances that prevented it from meeting its 36-well goal, Operator may seek a reduction or waiver of the penalty.
5. Operator returned the following 6 wells identified in Exhibit A to compliance by July 31, 2006:

Santa Fe Railroad A #073	30-031-20019
Santa Fe Railroad A #076	30-031-20073
Santa Fe Railroad A #077	30-031-20100
Santa Fe Railroad A #079	30-031-20099
Santa Fe Railroad A #088	30-031-20440
Santa Fe Railroad A #091	30-031-20714

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6. Under the terms of ACOI 99, Operator is subject to a penalty of \$30,000.
7. Operator requests a reduction or waiver of the penalty on the following grounds:
 - a) Operator acquired the wells identified in Exhibit A from another operator without prior knowledge of the condition of the wells and facilities.
 - b) Well repairs were more extensive than anticipated, and surface repairs were also required.
 - c) The injection system was unable to inject the produced water volumes, and required repairs and replacements. The BLM also required Operator to hydrotest all injection lines prior to use.
 - d) Equipment to be used for refurbishing was stolen.
 - e) Operator experienced high turnover of field labor and supervisors. The field is located 120 miles from the nearest services and labor pools.
 - f) Operator had insufficient financing for the work.
 - g) Operator has spent in excess of one million dollars in refurbishing wells and facilities.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Operator has failed to comply with the schedule set out in ACOI 99, and is subject to \$30,000 in penalties under the terms of that Order.
3. Operator has demonstrated that it acted in good faith in its attempts to comply with ACOI 99, and that unanticipated circumstances contributed to its failure to meet its compliance goals.

ORDER

1. Taking into account Operator's return of 6 wells to compliance, Operator's compliance with the reporting requirements of ACOI 99, and the unanticipated circumstances that contributed to Operator's failure to meet its compliance goals, Operator is hereby assessed a penalty of \$3,000 (three thousand dollars) for failing to meet the compliance schedule set out in ACOI 99.
2. The \$3,000 civil penalty shall be paid at the time Operator executes this amendment to ACOI-99. 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. By signing this amendment to ACO 50, Operator expressly:

- (a) acknowledges the correctness of the Findings and Conclusions set forth in this amendment;
- (b) agrees to the \$3,000 penalty assessed in Ordering Paragraph 1;
- (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 amendment or to an appeal from this amendment; and
- (f) agrees that this amendment may be enforced by Division or Oil Conservation Commission order, 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.

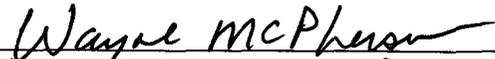
Done at Santa Fe, New Mexico this 31st day of August, 2006

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

ACCEPTANCE

Mountain States Petroleum Corporation hereby accepts the foregoing amendment to ACOI 99, and agrees to all of the terms and provisions set forth in that amendment to ACOI 99.

Mountain States Petroleum Corporation

By: 
(please print name): WAYNE MCPHERSON
Title: CHIEF OPERATING OFFICER
Date: 8-28-06