

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

NMOCD-- 178

IN THE MATTER OF ELM RIDGE EXPLORATION, LLC.

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 rules 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 (hereinafter "OCD") issues this Order to ELM RIDGE EXPLORATION LLC. ("Elm Ridge") 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. Elm Ridge is a Domestic Limited Liability corporation authorized to do business in the State of New Mexico under Public Regulation Commission ("PRC") SCC number 2215507 with a mailing address of 1223 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 is the operator of the South Bisti F #1, Letter F, Section 32, Township 26 North, Range 13 West, API #30-045-31042, San Juan County, New Mexico.
4. On March 2, 2007, New Mexico Oil Conservation (hereinafter "OCD") Deputy Oil and Gas Inspector Shelly Cowden conducted an inspection on the Elm Ridge Exploration Co. LLC (hereinafter, "Elm Ridge") South Bisti F #1. Inspector Cowden found an open drilling pit on location.
5. Upon conducting further investigation it was determined:
 - a. The well was spud March 25, 2005.
 - b. A sundry received on April 29, 2005 shows that TD was reached April 7, 2005, and that casing was run and cemented in the well.
 - c. The OCD received no application for a pit permit on this location, nor has it approved one.

- d. The South Bisti F #1 pit has been left open for more than 22 months after drilling operations on location ceased.
 - e. OCD Rule 50.A forbids “[d]ischarge into, or construction of, any pit or below-grade tank is prohibited ... absent possession of a permit issued by the division
 - f. Elm Ridge twice violated OCD Rule 50.A by constructing a pit and discharging into it without a permit.
 - g. OCD Rule 50.F(1) [19.15.2.50.F(1) NMAC] requires that a “pit or below-grade tank shall be properly closed within six months after cessation of use. As a condition of the permit, the division may require the operator to file a detailed closure plan before closure may commence. The division for good cause shown may grant a six-month extension of time to accomplish closure. Upon completion of closure, a closure report (form C-144), or sundry notices and reports on wells shall be submitted to the division.”
 - h. Elm Ridge violated OCD Rule 50.F.1 by failing to properly close a drilling pit within six months after cessation of use.
6. Elm Ridge presented the following information during or after the Administrative Conference:
- a. The APD was submitted to BLM in March of 2002, before OCD Rule 50.
 - b. Elm Ridge spud the well March 25, 2005, with an approved APD.
 - c. Elm Ridge was not aware this location did not have an OCD approved pit permit.
 - d. BLM had restrictions in place due to the extremely wet weather conditions.

II. CONCLUSIONS

The OCD has jurisdiction over the parties and subject matter in this proceeding.

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).

Elm Ridge is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the South Bisti F #1, for two violations of OCD Rule 50.A, and one violation of OCD Rule 50.F.1

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 this penalty is based on two violations of OCD Rule 50.A (constructing and discharging into a pit without a permit) and one violation of OCD Rule 50.F.1 (failing to close the pit within six months of cessation of use).

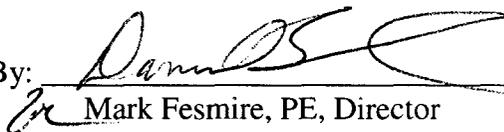
2. The civil penalty shall be paid within sixty days of receipt of this order. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the New Mexico Oil Conservation Division, Attention: Director, 1220 South Saint Francis Drive, Santa Fe, New Mexico, 87505.

3. Elm Ridge must submit a C-103 pit permit to the OCD district office and close the drilling pit according to OCD guidelines by June 1, 2007, and then submit a C-144 pit closure form by July 1, 2007.

By signing this order, Elm Ridge expressly:

1. acknowledges the correctness of the Findings and Conclusions set forth in this order;
2. agrees to comply with ordering paragraph 2 and 3;
3. 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
4. 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 30th day of April 2007.

By: 
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

ELM RIDGE EXPLORATION, LLC. hereby accepts the foregoing order, and agrees to all of the terms and provisions set forth in the order.

ELM RIDGE EXPLORATION, LLC.

By: 

Title: Dist. Super.

Date 4/25/07