



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

August 11, 2006

LETTER OF VIOLATION (2-06-29)

Morexco, Inc.
P.O. Box 1591
Roswell, New Mexico 88202-1591

Re: *Facility:* Pardue Farms "29" No. 1, API No. 30-015-33537, Sec 29-24S-28E
Violations: OCD Rule 50 [19.15.2.50 NMAC]

Dear Operator:

On July 28, 2006, Oil Conservation Division ("OCD") Deputy Oil and Gas Inspector Gerry Guye inspected the Morexco, Inc. ("Morexco") well identified above. The well failed to meet the standards outlined in OCD Rule 50 [19.15.2.50 NMAC].

OCD Rule 50.F requires that, except as otherwise specified in Section 50 of 19.15.2 NMAC, "a pit or below-grade tank shall be properly closed within six months after cessation of use."

OCD Rule 50.C(1) requires that pits, sumps and below-grade tanks "shall be designed, constructed and operated so as to contain liquids and solids to prevent contamination of fresh water and protect public health and the environment." Subparagraph C(2)(b) of Rule 50 requires that the liner of a 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." (Emphasis added.)

On July 28, 2006, Inspector Gerry Guye noted the pit at the well site violated OCD Rule 50.C(2)(b) in that the liner had been breached and was allowing contamination outside of the lined area.

There was a second violation in that the pit was not closed; the last date to close it in compliance with OCD Rule 50.F was November 29, 2005. The date for closure of a pit is derived from the date of the setting of the final string (production) of pipe. Further, because the pit is located in a water sensitive area, a detailed plan for closure must be submitted to the OCD prior to closing the pit. Upon completing closure, a closure report (form C-144) must be submitted to the Division. Prior to

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submitting a detailed closure plan, you may schedule a meeting with me, at the District II office, where other water data can be reviewed.

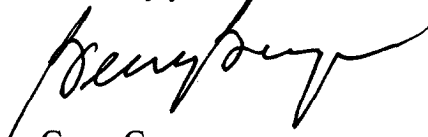
However, closure of the pit **must be completed within thirty (30) days of the date of this letter.**

If this matter cannot be resolved administratively, the OCD may take further enforcement action, which may include an enforcement hearing before an OCD hearing examiner seeking an Order requiring that the wells be plugged and abandoned pursuant to NMSA 1978, § 70-2-14(B). That statute provides:

“If any of the requirements of the Oil and Gas Act or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.”

Thank you for your assistance in this matter. If you have any questions please do not hesitate to call.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Gerry Guye', written over a horizontal line.

Gerry Guye
Deputy Field Inspector
District II - Artesia

cc: Daniel Sanchez, OCD Compliance Manager
Gail MacQuesten, OCD Assistant General Counsel
Cheryl O'Connor, OCD Assistant General Counsel
Tim Gum, District II Supervisor