

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna
Cabinet Secretary

Mark E. Fesmire,
Director
Oil Conservation

*Field Inspection Program
"Preserving the Integrity of Our Environment"*

06-Sep-06

PRESTON EXPLORATION, LLC
P.O. BOX 7520
THE WOODLANDS TX 77387

LETTER OF VIOLATION - Inspection

LOV NO. 020652

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

PALMS 20 FEDERAL COM No.001

F-20-19S-27E

30-015-33582-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
09/06/2006	Routine/Periodic	Phil Hawkins	Yes	No	10/6/2006	iPCH0624943929
Comments on Inspection: Drilling Pit Open, Liner Down. Violation Rule 50.F.(1). Pit Closure and Rule 202.B.(3). Plugging and Permanent Abandonment						

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,



Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.

*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.

Oil Conservation Division * 1301 W. Grand * Artesia, New Mexico 88210
Phone: 505-748-1283 * Fax: 505-748-9720 * <http://www.enmr.state.nm.us>