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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Response Required – Deadline Enclosed

Field Inspection Program

"Preserving the Integrity of Our Environment"

07-Oct-08

MCKAY OIL CORP

One McKay Place P. O. Box 2014

Roswell NM 88202

LOV NO. 2.08-158

LETTER OF VIOLATION - Inspection

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

SOUTH FOUR MILE DRAW C FEDERAL No.001H

D-22-6S-22E

30-005-63766-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/02/2008	Routine/Periodic	Mike Bratcher	Yes	No	10/21/2008	iMLB0827649786

Comments on Inspection: Drilling pit open. Liner breached in several areas. Well drilled in 2006. Debris (50 gallon drum, 5 gallon bucket, etc.) in pit. Some fluids in pit at time of this inspection. Large amount of fluid including oil were observed in this pit in June 2008. A closure proposal has been submitted and approved by OCD. Closure proposal is for onsite trench burial. Samples are to be obtained of pit contents (to determine if trench burial will be allowed) and submitted for analyses per 19.15.17 [NMAC] not later than 10/21/08. Analyses are to be submitted to NMOCD for review immediately upon completion by lab. At this time, this pit is in violation of previous pit Rule 50 and current pit rule 19.15.17[NMAC]. NMOCD District 2 office is to be notified 48 hours prior to obtaining samples.

S FOUR MILE DRAW FED No.014C

A-21-6S-22E

30-005-63795-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/02/2008	Routine/Periodic	Mike Bratcher	Yes	No	10/21/2008	iMLB0827649079

Comments on Inspection: APD expired. Location and drilling pit constructed. Pit is to be closed per 19.15.17[NMAC]. Samples will be required to be obtained to verify pit has not been used. Please submit closure plan not later than 10/21/08.

LOOKOUT B FEDERAL No.005E

P-9-6S-22E

30-005-63868-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/02/2008	Routine/Periodic	Mike Bratcher	Yes	No	10/21/2008	iMLB0827647616

Violations
Emergency/Temporary Pits

Comments on Inspection: APD has expired for this well. Location was built, what appears to be conductor pipe set, and drilling pit constructed. Liner has blown into pit. Pit is to be closed per 19.15.17[NMAC]. Samples will be required to be taken to insure pit has not been used. Closure plan is to be submitted to NMOCD District 2 office not later than October 21, 2008.

FOUR MILE DRAW C FEDERAL No.007

M-15-6S-22E

30-005-63967-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/02/2008	Routine/Periodic	Mike Bratcher	Yes	No	10/21/2008	iMLB0828142275

Comments on Inspection: Inspected site with BLM rep, Brian Novasak. Well shares location with the Four Mile Draw B Fed 7Y (30-005-63900). Drilling pit open at this site is in violation of 19.15.17[NMAC]. Closure plan for this pit is to be submitted to NMOCD District 2 office not later than 10/21/08.

CHAROLETTE B FEE No.002

E-17-6S-23E

30-005-63986-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/02/2008	Routine/Periodic	Mike Bratcher	Yes	No	10/21/2008	iMLB0827642333

Violations
Emergency/Temporary Pits

Comments on Inspection: Met on site with Brian Novasak w/BLM. Pulling unit and reverse unit on site preoaring to drill out cmt plugs. Just ran back in hole-tagged @ 2012'. Preparing to resume drilling ops. Drilling pit has layer of oil covering over 50% of pit area. Violation 19.15.17[NMAC] (Pit Rule). Oil is to be removed immediately. Advised Carol Shanks w/McKay Oil via phone conversation 10/6/08. No oil absorbent boom was located on location. Violation 19.15.17[NMAC] (Pit Rule). Oil absorbent boom is to remain on lpcation until pit is closed. Please notify NMOCD District 2 office when violations are corrected, but not later than 10/21/08.

LOOKOUT C FEDERAL No.008

H-9-6S-22E

30-005-64041-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/02/2008	Drill / Deepen / Re-Entry	Mike Bratcher	Yes	No	10/21/2008	iMLB0827644774

Comments on Inspection: Inspected site with BLM rep, Brian Novasak. Drilling rig on well. Currently RIH to resume drilling. Drilling pit liner has been breached in numerous areas. Large patches have been done on liner on inside walls. Violation 19.15.17[NMAC] (Pit Rule). Pits are to be constructed and maintained in such a manner as to prevent damage to liner. In the event a liner is breached, the NMOCD is to be notified immediately. No oil absorbent boom on site. A release has occurred outside the pit on the discharge side, not reported to OCD. Pit area was not properly prepared prior to lining as rocks have protruded through lining in several areas. Pit is to be brought into compliance with 19.15.17 [NMAC] not later than 10/21/08.

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 Divison 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.