

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

2006 JUL 3 PM 3 08

NMOCD-129

IN THE MATTER OF MOUNTAIN STATES PETROLEUM CORP.

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended (hereinafter, "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 MOUNTAIN STATES PETROLEUM CORP. (hereinafter "MSP") directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD Rules.

I. FINDINGS

- 1) The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
- 2) MSP is a domestic for Profit Corporation doing business in New Mexico, registered with the Public Regulatory Commission Secretary of the State, under number 0626556. MSP is an active entity with a principal address at 8101 W 34th Street, Amarillo, Texas 79121. Its registered agent for service of process in New Mexico is CT Corporation System, 123 E. Marcy Street, Santa Fe, New Mexico 87501. Mountain States Petroleum Corp.'s business address is 3001 Knox St., Suite 403, Dallas, Texas 75025-7304. MSP's OGRID is 15346.
- 3) MSP operates the Santa Fe RR Battery Area Flow Line Leak, originating in Unit Letter C, Section 07, Township 17 North, Range 08 West, McKinley County, New Mexico.
- 4) On March 1, 2006, OCD Deputy Oil and Gas Inspector Denny Foust, while touring the Hospah Field area with MSP representatives, discovered a flow line release near the Santa Fe RR Battery; the release had entered an arroyo. The oil and water flowed in the arroyo 300 feet northeast to a roadway, entered a culvert and flowed another 400 feet. Oil and water was pooled in the arroyo in various spots. According to MSP's contractors, the flow line had been dug out on February 27, 2006.
- 5) A subsequent OCD investigation found the following:
 - a. The OCD had received no verbal notification of the release.

- b. Rule 116.B(1) requires that:
 - (a) A Major Release shall be reported by giving both immediate verbal notice and timely written notice pursuant to Subsection C, Paragraphs (1) and (2) of 19.15.3.116 NMAC. A Major Release is: an unauthorized release of a volume, excluding natural gases, in excess of 25 barrels;
 - (b) an unauthorized release of any volume which:
 - ...
 - (ii) will reach a watercourse;
 - (iii) may with reasonable probability endanger public health; or
 - (iv) results in substantial damage to property or the environment.
 - c. Rule 116.C requires that the “immediate verbal notice” be given to the OCD District Office “within twenty-four (24) hours of discovery” of the release.
 - d. MSP violated OCD Rule 116.B(1)(b)(ii) and C(1) by failing to provide immediate verbal notification of the release within 24 hours; the violation continued until March 1, 2006.
 - e. On March 1, 2006, MSP received verbal direction from Deputy Inspector Foust to immediately remove fluids from the arroyo.
 - f. On March 7, 2006, OCD personnel returned to the SFRR release site. There had been no cleanup of the freestanding oil and water from the arroyo. No MSP personnel were at the site.
 - g. OCD Rule 13.B provides that “operators ... shall at all times conduct their operations in or related to the drilling, equipping, operating, producing, plugging and abandonment of oil, gas, injection, disposal, and storage wells or other facilities in a manner that will prevent waste of oil and gas, the contamination of fresh waters....”
 - h. MSP’s release of oil into an unnamed tributary of the Sandoval Arroyo violated Rule 13.B by allowing visible oil and other fluids to pool in a watercourse.
 - i. As a result of its investigation, the OCD issued Notice of Violation (3-06-18) to MSP, alleging violation of Rule 13.B and Rule 116.B.
- 6) At the Administrative Conference on this matter, MSP presented the following:
- a. In response to the Notice of Violation sent to MSP, the company does not wish to contest the fine that was assessed for Civil Penalties in the amount of **Three Thousand Dollars (\$3,000.00)**. This penalty is based on one violation of OCD Rule 116.B (failure to give immediate verbal notice) and two violations of OCD Rule 13.B (failure to operate so as to prevent the waste of oil and gas and the contamination of fresh waters).

- b. MSP's violations were due to problems with internal communications.
- c. MSP has changed the internal structure of its personnel to facilitate communication and oversight of field operations.

II. CONCLUSION

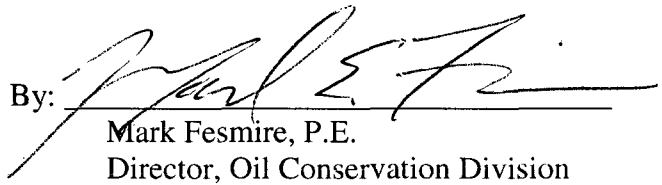
- 1) The OCD has jurisdiction over the parties and subject matter in this proceeding.
- 2) MSP is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
- 3) MSP is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Santa Fe RR Battery Area Flow Line Leak, originating in Unit Letter C, Section 07, Township 17 North, Range 08 West knowing and willful violations of OCD Rule 13.B and 116.B.

III. ORDER AND CIVIL PENALTY

- 1) Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against MSP totaling **Three Thousand Dollars (\$3,000.00)** for one violation of Rule 13.B and two violations of Rule 116.B.
- 2) The civil penalty shall be paid at the time MSP executes this Order. 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) MSP has submitted a release report and is taking action to recover oil and remediate the site.
- 4) By signing this Order, MSP expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with Ordering paragraphs 1, 2 and 3;
 - 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 Order or to an appeal from this Order;
 - d. 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;

- 5) Nothing in this Order relieves MSP of its liability should its operations fail to adequately investigate and remediate contamination that poses a threat to ground water, surface water, human health or the environment. In addition, nothing in this Order relieves MSP of its responsibility for compliance with any other federal, state or local laws and/or regulations.

Done at Santa Fe, New Mexico, this 6th day of July ~~June~~ 2006.

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

ACCEPTANCE

MOUNTAIN STATES PETROLEUM CORP. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in the Order.

**MOUNTAIN STATES PETROLEUM
CORP.**

By: Wayne McPherson

Title: C.O.O.

Date: 6-23-06