

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

NMOCD-06-143

IN THE MATTER OF AMERISTATE 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 regulations 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 ("OCD") issues this Order to **AMERISTATE EXPLORATION, LLC** ("**Ameristate**") 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. Ameristate is a for profit corporation doing business in New Mexico, SCC # 1510668. Ameristate is an active entity, with a principal and mailing address at 111 Congress Avenue, Suite 2700, Austin, Texas 78701. Ameristate is assigned OGRID # 158898.
3. Ameristate is the operator of the State 648 AC 811 No. 64, Unit Letter C, Section 10, Township 19 S, Range 28 E, API # 30-015-02201, and the East Millman Unit No. 145, Unit Letter M, Section 14, Township 19 S, Range 28 E, API # 30-015-02247, both in Eddy County, New Mexico.
4. On August 30, 2005, OCD Deputy Oil and Gas Inspector Gerry Guye performed a mechanical integrity test (hereinafter, "MIT") on the State 648 AC 811 No. 64 and the East Millman Unit No. 145 injection wells. The wells were incapable of holding the required pressure during the MIT.
5. The wells are considered to have failed the requirements of the five-year pressure MIT.
6. By Letter of Violation dated March 14, 2006, the OCD notified Ameristate the subject wells had failed the MITs; Ameristate was advised to repair the wells by April 15, 2006 and to contact the OCD at least twenty-four hours prior to the date and time that the wells would be retested. As of June 29, 2006, Ameristate had not contacted the OCD to reschedule the MITs.

7. OCD Rule 703 [19.15.9.703 NMAC] requires injection wells to be “equipped, operated, monitored, and maintained to facilitate periodic testing and to assure continued mechanical integrity which will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement through vertical channels adjacent to the well bore.”
8. Ameristate knowingly and willfully violated Rule 703 by failing to repair the wells after having been given written notice of the failed MITs.
9. As a result, on June 29, 2006, the OCD issued a **Notice of Violation (2-06-11)** to Ameristate, alleging two violations of OCD Rule 703.
10. Ameristate admits that it failed to bring the wells into compliance within the time frame set out in the March 14, 2006 Letter of Violation.
11. During the Administrative Conference on August 2, 2006, Ameristate reported that repairs to the State 648 AC 811 No. 64 were almost complete and that it would soon be able to work on the East Millman Unit No. 145.

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Ameristate 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. Ameristate is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the State 648 AC 811 No. 64 for one knowing and willful violation of OCD Rule 703.
4. Ameristate is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the East Millman Unit No. 145 for one knowing and willful violation of OCD Rule 703.

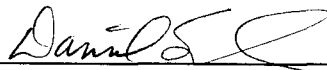
III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **Two Thousand Dollars (\$2,000.00)** against Ameristate for two violations of OCD Rule 703 (failure to repair wells).
2. **One Thousand Dollars (\$1,000.00)** of this fine shall be waived provided Ameristate meets all requirements and deadlines of this Order. If Ameristate fails to meet any requirements of this Order, the **One Thousand Dollars (\$1,000.00)** waived shall be automatically reinstated and due immediately.
3. The civil penalty shall be paid upon execution 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.

4. Ameristate shall have the State 648 AC 811 No. 64 and the East Millman Unit No. 145 repaired and in compliance, with all associated paperwork filed, on or before September 10, 2006.
5. By signing this Order, Ameristate expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with Ordering paragraphs 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; and
 - 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 (NMSA 1978, Sections 70-2-1 through 70-2-38, as amended).
6. For good cause shown, Ameristate may request an extension to complete the requirements as set out in Ordering paragraph 4. Such notification ("notice") shall reasonably describe the circumstances encountered by Ameristate that prohibits it from meeting the deadlines set out herein.

Within ten (10) days of receipt of this notice, the OCD shall either approve the extended time requested by Ameristate by executing a written amendment to this Order, or notify Ameristate that it will not extend the deadline. The OCD's approval of a time extension shall not be unreasonably withheld.

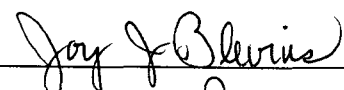
Done at Santa Fe, New Mexico this 22nd day of August 2006.

By: 
for Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

AMERISTATE EXPLORATION, LLC hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth therein.

AMERISTATE EXPLORATION, LLC

By: 
Title: Manager of Production and Completions
Date 8-17-06