

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

ACO No. 198

IN THE MATTER OF SOUTHWEST ROYALTIES, INC.,

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 ("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 (hereinafter, "OCD") issues this Order to **Southwest Royalties, Inc.** (hereinafter, "Operator"), 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. Operator is a wholly owned subsidiary of Clayton Williams Energy, Inc. Operator operates wells in New Mexico under OGRID 21355. Operator's address is 6 Desta Drive, Suite 2100; Midland, Texas 79705.
3. Operator is the operator of record for the North Hackberry Yates Unit No. 108, API No. 30-015-04622, Unit Letter L, Section 24, Township 19S, Range 30E, located in Eddy County, New Mexico.
4. On February 17, 2007, OCD Inspector Mike Bratcher observed a pit just north of the North Hackberry Yates Unit No. 108 well. OCD records showed that Operator had not submitted a written request to operate the pit.
5. OCD Rule 19.15.2.50(B)(3)(a) NMAC states, "After April 15, 2004, operators shall obtain a permit before constructing a pit." OCD Rule 19.15.2.50(B)(3)(b) states, "For each pit . . . in existence on April 15, 2004 that has not received an exemption after hearing as allowed by OCC Order R-3221 through R-3221D inclusive, the operator shall submit a notice not later than April 15, 2004 indicating either that use of the pit . . . will continue or that such pit . . . will be closed." OCD Rule 19.15.2.50(B)(3)(b) further states, "If use of a pit . . . will continue, the operator shall file a permit application not later than September 30, 2004."
6. On February 22, 2007, Inspector Bratcher sent Operator a letter informing it of the OCD Rule 50 violation. Inspector Bratcher informed Operator that the pit needed to be brought

into compliance with OCD Rule 50 by March 17, 2007.

7. On March 6, 2007, Inspector Bratcher told Operator's representative Al Perry that a C-144 form had to be filed to register the pit.
8. On March 7, 2007, Inspector Bratcher called Operator and spoke with Dawn Howard about the pit. Dawn said she was going to review Operator's records to see if they had any records of the pit being registered.
9. On August 28, 2007, OCD issued Notice of Violation 02-07-21 to Operator for violating OCD Rule 50.
10. An administrative conference was held between OCD and Operator on September 13, 2007. At the conference Operator said that only Al Perry knew of the pit. Operator said Dawn Howard spoke with someone at OCD and thought OCD was looking at its files to determine if the pit was registered. Operator said it was going to close the pit, and would be filing a C-144 Form within the week.

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Operator is a "person" as defined by NMSA 1978, § 70-2-33(A) (defining "person" to include "any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity") that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
3. Operator is subject to civil penalties under NMSA 1978, § 70-2-31(A) for a knowing and willful violation of OCD Rule 50.
4. Operator knowingly and willfully violated OCD Rule 50 by failing to file a C-144 Form to register the pit.

III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **Five Thousand Dollars (\$5,000.00)** against Operator for one violation of OCD Rule 50 for each month that Operator failed to file a C-144 Form for the pit after being told to do so.
2. The **Five Thousand Dollars (\$5,000.00)** civil penalty shall be paid by Operator at the time it executes 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.
3. **Operator shall submit a C-144 Form for the pit by Friday September 21, 2007.**
4. **Operator shall close the pit within 60 days of September 21, 2007.**


5. By signing this Order, Operator expressly:

- a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
- b. agrees to comply with Ordering Paragraphs 2, 3 and 4;
- 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, Operator 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 Operator 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 Operator by executing a written amendment to this Order, or notify Operator that it will not extend the deadline. The OCD's approval of a time extension shall not be unreasonably withheld.

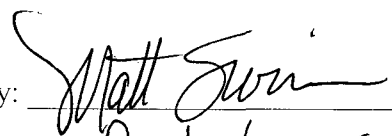
Done at Santa Fe, New Mexico this 26th day of September 2007.

By: 
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

Southwest Royalties, Inc., hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth therein.

SOUTHWEST ROYALTIES, INC.

By: 
Title: Production Supt.
Date: 9/21/07