

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

ACO No. 232

IN THE MATTER OF LCX ENERGY, 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 LCX Energy, LLC (hereinafter "Operator") 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. Operator is a foreign limited liability company registered to do business in New Mexico under SCC Number 2291664. Operator's address of record with the New Mexico Public Regulation Commission is 110 N. Marienfeld, Suite 200, Midland, TX 79701.
3. Operator operates wells within New Mexico under OGRID 218885.
4. Operator's current address of record with OCD is 110 N. Marienfeld, Suite 200, Midland, TX 79701.
5. Operator is operator of record of the following well:
 - **Fed-Com 1625 # 261; API No. 30-015-33435; P-26-16S-25E**
6. A review of OCD records shows that the well has not reported production or injection since October 2004, and is not plugged and abandoned or on approved temporary abandonment status.
7. OCD Rule 19.15.4.201 NMAC ("Rule 201") provides that any well that has been inactive for a continuous period in excess of one year plus ninety days must be plugged and abandoned or placed on approved temporary abandonment status.

8. On August 23, 2007, OCD Deputy Oil and Gas Inspector Ron Harvey conducted a routine inspection of the well. He saw an open drilling pit at the site containing solids and miscellaneous junk. The pit liner was breached in the southeast corner. Deputy Inspector Harvey took pictures of the well site, including pictures of the breached pit liner.
9. OCD Rule 19.15.2.50.C(1) NMAC ("Rule 50") provides that pits must be "operated so as to contain liquids and solids to prevent contamination of fresh water and protect public health and the environment."
10. Rule 50.C(2)(b) provides that each drilling or workover pit shall contain a liner "maintained so as to prevent the contamination of fresh water, and protect public health and the environment."
11. On August 23, 2007, the Artesia District Office of the OCD issued a Letter of Violation (LOV No. 0218307) to Operator notifying them of the results of the inspection, stating that Operator was in violation of OCD Rule 50 and directing Operator to take corrective action by September 23, 2007. The Letter of Violation was sent to the address of record for Operator: 110 North Marienfeld, Suite 200, Midland, TX 79701.
12. Subsequent inspections of the well on October 24, 2007 and January 15, 2008 showed that no action had been taken to return the well to compliance.
13. As a result, on February 28, 2008, OCD issued Notice of Violation No. 02-08-05, which alleged that Operator was in violation of OCD Rule 50, OCD Rule 201, and OCD Rule 19.15.3.116.D NMAC.
14. On March 18, 2008, an administrative conference was held on the notice of violation. Alin Richardson, Operator's Environmental Manager, appeared for the conference.
15. At the conference Mr. Richardson told OCD staff that:
 - A. The well is in the process of being plugged. The well was rigged up on last week.
 - B. The pit is in the process of being closed.
 - C. He does not know why there was a delay in Operator's responding to OCD. He was not sure if Operator had received the OCD's letter of August 23, 2007, but he did not get it. Within the past week he was appointed to oversee New Mexico regulatory. He said the address to where OCD sent the August 23, 2007 letter was a valid address for Operator on August 23, 2007.

III. 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) that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
3. NMSA 1978, Section 70-2-31(A) states, "Any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars for each violation. For purposes of this subsection, in the case of a continuing violation, each day of violation shall constitute a separate offense."
4. Operator is subject to civil penalties under NMSA 1978, § 70-2-31(A) for knowing and willful violations of OCD Rule 50.

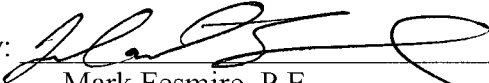
IV. ORDER & CIVIL PENALTY ASSESSMENT

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against Operator totaling **Three Thousand Dollars (\$3,000.00)**.
2. The **Three Thousand Dollars (\$3,000.00)** 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.
3. Operator shall close the pit **by April 30, 2008**.
4. 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 the Order;
 - 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. For good cause shown, Operator may request an extension to complete the requirements as set out in Ordering Paragraphs 3. 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.

6. Nothing in this Order relieves Operator 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 Operator of its responsibility for compliance with any other federal, state or local laws and/or regulations.

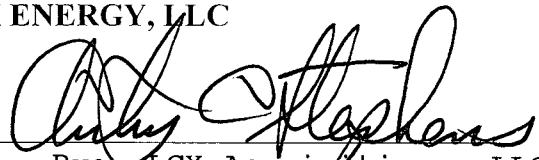
Done at Santa Fe, New Mexico this 14th day of April 2008.

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

ACCEPTANCE

LCX Energy, LLC, hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth in the Order.

LCX ENERGY, LLC

By: 
By: LCX Acquisitions, LLC
Its Sole Member
Title: Autry C. Stephens, Sole Member

Date: 3/31/08