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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
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APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST STAR ACQUISITIONS VII, LCC. FINDING THAT OPERATOR KNOWINGLY AND WILLFULLY VIOLATED RULE 50.A [19.15.2.50.A NMAC] AS TO ONE WELL AND ASSESSING MONETARY PENALTIES FOR THOSE VIOLATIONS PURSUANT TO NMSA §70-2-14(B), AND ORDERING OPERATOR TO PLUG AND ABANDON ALL WELLS IT OPERATES IN NEW MEXICO BY A DATE CERTAIN.

CASE NO. 14117

APPLICATION FOR COMPLIANCE ORDER & ASSESSMENT
OF MONETARY PENALTY

1) Star Acquisition VII, LLC. ("Operator") is a corporation operating wells in New Mexico under OGRID 221710. Star is a foreign limited liability Corporation doing business in New Mexico, registered with the New Mexico Public Regulatory Commission under SCC number 2596294. Star is an active entity whose address of record with the OCD is 1099 18th Street, Suite 600, Denver, CO 80202. Tom Stover is the listed company representative with the OCD. Star's OGRID is #238619.

2) Star is the Operator of Record for the Jicarilla 71 #25, Unit Letter A, Section 9, Township 23 North, Range 4 West, API # 30-039-23416, Rio Arriba County, New Mexico.

3) On Thursday, April 19, 2007, the OCD Deputy Oil and Gas Inspector Brandon Powell visited the Jicarilla 71 #25 well, operated by Star. At the site, Inspector Powell found an open workover pit.

4) On April 20, 2007, Inspector Powell reviewed the corresponding well file and determined that Star had not applied for or obtained a pit permit from the OCD, for a workover pit at the Jicarilla 71 #25. His review of the file revealed the following facts and history for this site:

- a. On March 21, 2007, Inspector Powell had previously spoken with Star's field representative, after having received a report from the Jicarilla Tribe/BLM of an unlined pit being constructed at the location. At that time, Inspector Powell explained to the field representative that if Star intended to construct a pit, it would also be required to obtain approval for a pit permit from the OCD, and that the pit would be required to be lined and fenced according to OCD Rules. At that time, Inspector Powell further explained that if Star needed to immediately construct a pit, the representative could call and receive verbal authorization to construct the pit and then follow up by sending in the pit permit paperwork to the OCD.

b. On April 5, 2007 Inspector Powell met with Mr. Tom Stover and the field representative for Star regarding field compliance issues relating to this site. Once again, Inspector Powell advised that per OCD Rules, all pits are required to be permitted, lined, and fenced. He further reiterated that if Star needed the pit immediately, they had the option of calling him (Inspector Powell) for a verbal authorization, and then submitting the required paperwork to the OCD afterward.

5) OCD Rule 50.A [19.15.2.50.A NMAC] prohibits the discharge into or construction of any pit or below-grade tank absent possession of a permit issued by the OCD.

6) Despite **twice** being specifically advised by the OCD (March 21, 2007 and April 5, 2007) of the requirement for an OCD-issued permit for the construction or use of a pit at this location, Star still proceeded to construct and discharge into a drilling pit **at this site** without first obtaining a permit. Star thus knowingly and willfully violated OCD Rule 50.A.

7) As a result of its investigation, the OCD issued Notice of Violation (3-07-13) to Star, alleging knowing and willful violations of OCD Rule 50.A.

8) On June 22, 2007 an administrative conference was conducted with the Operator, at which time the Operator agreed to enter into an Agreed

Compliance Order with the OCD, the terms of which would require that the Operator file the missing forms relating to the subject pit by a date certain, as well as pay a penalty assessment.

9) Pursuant to the discussion between the OCD and the Operator occurring on June 22, 2007, an Agreed Compliance Order was prepared by the OCD and was sent to the Operator for execution on September 14, 2007. Subsequently, Operator (Stover) engaged in several conversations with the Division with both the Santa Fe office and the District office, via both email and telephone.

10) On November 15, 2007, Operator (Stover) specifically, verbally assured counsel for the Division that payment of the penalty assessment and the executed copy of the ACO were being sent immediately, which counsel confirmed with Stover via email. However, neither was ever received by the OCD from the Operator.

11) On February 12, 2008 the Division contacted the Operator by certified letter sent to the Operator's address of record with the OCD, requesting that Operator either execute and return the ACO with payment of the penalty assessment as agreed, or advise the OCD that it no longer wished to enter into the agreement with the Division, if that was the case. The Letter further advised the Operator that if a response was not received by February 29, 2008, the

Division's offer of an Agreed Compliance Order would be withdrawn, and an Application for Compliance and Penalty Assessment would be filed.

12) Operator refused to accept delivery of the February 12th letter, and the letter was subsequently returned to the OCD as "unclaimed" on March 10, 2008. To date, Operator has failed and refused to either follow through with the commitments it made at the time of the administrative conference and in later conversations with the OCD, or, conversely, to advise the Division that it no longer wishes to participate in the Agreed Compliance Order as previously negotiated at the administrative conference. The Division has therefore filed the present Application seeking an Order of compliance and appropriate penalties based upon a violation of Rule 50.A [19.15.2.50.A NMAC] and pursuant to NMSA 1978, §70-2-31(A).

13) NMSA 1978, §70-2-31(A) provides that "[a]ny 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 (\$1,000) for each violation. For purposes of this subsection, in the case of a continuing violation, each day of violation shall constitute a separate violation."

14) NMSA 1978, §70-2-33(A) defines a "person" as "any individual estate, trust receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity."

15) NMSA 1978, Section 70-2-14(B) provides:

If any of the requirements of the Oil and Gas Act [70-2-1 NMSA 1978] or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, *may order any well plugged and abandoned by the operator or surety or both in accordance with division rules.*

Emphasis added.

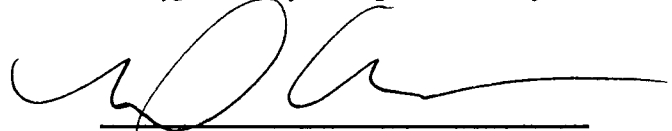
WHEREFORE, the Enforcement and Compliance Manager of the Division hereby applies to the Director to enter an order:

- A. Determining that Operator Star's actions in constructing and discharging into this pit without a proper permit constituted a knowing and willful violation of Rule 50.A [19.15.2.50.A NMAC].
- B. Assessing penalties pursuant to NMSA 1978, Section 70-2-31(A) for the Operator's knowing and willful violation of Rule 50.A [19.15.2.50.A NMAC] as to the subject well in an amount consistent with the degree of Operator Star's violation and disregard for the Division's Rules and Regulations;
- C. Designating a date certain by which the assessed penalties shall be paid by Operator;
- D. Ordering Operator Star to file any required supplemental and/or corrected documentation necessary (e.g. all forms and documentation relating to the construction, maintenance, usage

and closure of pit) by a date certain to render the OCD records for the subject well accurate and up to date.

- E. Pursuant to NMSA 1978, Section 70-2-14(B), Ordering Star to plug and abandon all of its wells in this state by a date certain
- F. Ordering that if Star fails to comply with any of the deadlines established by the Order, it be required to remit payment of a penalty to the OCD of not less than \$1,000.00 for each full week of non-compliance with the Order until such time as all obligations imposed by the Order have been fulfilled; and
- G. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 2nd day of April, 2008 by



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- **CASE NO. 14117**. Application of the New Mexico Oil Conservation Division, Through the Enforcement and Compliance Manager, for a Compliance Order against STAR ACQUISITION VII, LCC. Finding that Operator knowingly and Willfully violated Rule 50.A [19.15.2.50.A NMAC] as to one well and Assessing Monetary Penalties for Those Violations Pursuant to NMSA §70-2-14(B), and ordering that Operator Plug and Abandon All Wells that it Operates in New Mexico by a date certain. The well at issue in this Application is identified as follows:
 - **Jicarilla 71 #25**: API # 30-039-23416 - Unit Letter A, Section 9, Township 23 North, Range 4 West, Rio Arriba County, NM

The subject well is located approximately 8 miles northeast of Counselor, NM, about 2 miles north of the Sandoval County line in Rio Arriba County, New Mexico.