



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

September 21, 2006

Merit Energy Co.
PO Box 69
Loco Hills, New Mexico 88255

Certified Mail No.: 7001 1940 00001 9971 5031

NOTICE OF VIOLATION (2-06-23)

Re: Facility: H E West A No. 13, API No. 30-015-10374
H E West B No. 32, API No. 30-015-25954

Violations: OCD Rule 703 [19.15.9.703 NMAC]

Dear Operator:

On April 11, 2006, Oil Conservation Division ("OCD") Deputy Oil and Gas Inspector Gerry Guye performed a mechanical integrity test on the Merit Energy Company ("Merit") injection wells identified above. These wells failed the requirements of this test.

By letter dated May 1, 2006, the OCD notified Merit that the wells had failed the inspection and identified the nature of the failure. The letter instructed Merit to repair the failures by July 15, 2006, so the well could be re-tested.

To date, Merit has not made the necessary repairs.

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."

Merit knowingly and willfully violated Rule 703 by failing to repair the well identified above, even after being notified of the inspection failure.

Merit's misconduct warrants issuance of this Notice of Violation and assessment of civil penalties pursuant to NMSA 1978, §70-2-31(A) for violations of the OCD rules described above. Section 70-2-31(A) authorizes penalties of up to **one thousand dollars (\$1,000.00)** per day per violation for

Merit Energy Company
August 22, 2006
Page 2

any knowing and willful violation of any provision of the Oil and Gas Act or any rule adopted pursuant to the Act.

Because the rule violation at issue is serious and occurred over a period of time, the OCD Artesia District Office believes at this time a **Two Thousand Dollar (\$2,000.00)** civil penalty and a definite commitment to future corrective action are essential. This penalty is based on one violation of OCD Rule 703 for each well.

Please contact Tim Gum within ten (10) days from the date of this letter at (505) 748-1283, ext. 102, to schedule an administrative conference to discuss this matter. OCD legal counsel may be present by telephone for this conference, and you may bring legal counsel if you wish. The purpose of the administrative conference is to discuss the facts surrounding this notice of violation, and to determine if the matter can be resolved administratively through an agreed compliance order.

If this matter cannot be resolved administratively, the OCD may take further enforcement action, which may include an enforcement hearing before an OCD hearing examiner seeking an order requiring that the wells be plugged and abandoned pursuant to NMSA 1978, § 70-2-14(B). That statute provides:

"If any of the requirements of the Oil and Gas Act 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. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited."

Thank you for your assistance in this matter. If you have any questions, please do not hesitate to call.

Sincerely yours,



Tim Gum
District II Supervisor

cc: Bureau of Land Management
Daniel Sanchez, OCD Compliance Manager
Gail MacQuesten, OCD Assistant General Counsel
Cheryl O'Connor, OCD Assistant General Counsel