

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

NMOCD- 123

IN THE MATTER OF LONE WOLF NEW MEXICO, LLC

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, §§ 70-2-1 through 70-2-38, as amended ("Act"), and the rules 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 and Lone Wolf New Mexico, LLC (hereinafter "LWNM") enter into this Order to resolve the violations alleged in Notice of Violation (3-05-16).

FINDINGS

1. The Oil Conservation Division (hereinafter "OCD") is the state division charged with administration and enforcement of the Act and OCD rules.
2. LWNM is a corporation doing business in New Mexico, registered with Secretary of State as a domestic limited liability company under number SCC 2535748. LWNM is an active entity with a principal and mailing address at 1125 17th Street, Ste. 2290 Denver, Colorado 80202. Its registered agent for service of process in New Mexico is Corporation Service Company, 125 Lincoln Avenue, Ste. 223 Santa Fe, New Mexico. LWNM has been assigned OGRID # 232512.
3. LWNM is the operator of record for the Celso Gomez #1, Unit Letter N, Section 19, Township 32 North, Range 02 East, API #30-039-29538 Rio Arriba County, New Mexico.
4. On September 13, 2005, OCD Deputy Oil and Gas Inspector Henry Villanueva inspected the LWNM well Celso Gomez #1. Deputy Inspector Villanueva could find no well sign at the site. The drilling pit was open at the site and not lined. The well is within 150 feet of an earthen stock tank holding water.
5. An OCD investigation and review of relevant documents established the following:
 - a) OCD Rule 50(A) prohibits the construction of any pit absent possession of a permit issued by the division.
 - b) OCD Rule 50.C(2)(b)(iii) states, "[t]he division may approve liners that are not constructed in accordance with division guidelines only if the operator demonstrates to the division's satisfaction that the alternative liner protects fresh

water, public health, and the environment as effectively as those prescribed in the division guidelines.”

- c) LWNM applied for a permit to drill the Celso Gomez # 1 and construct a clay-lined pit according to OCD guidelines. The OCD approved the application on August 22, 2005. LWNM did not apply for or receive approval for a pit with an alternative liner.
 - d) The clay-lined pit LWNM constructed at the Celso Gomez #1 was not constructed according to OCD guidelines because it failed to meet the guideline compaction standards.
 - e) OCD Rule 103A states, “[a]ll wells and related facilities regulated by the division shall be identified by a sign, which sign shall remain in place until the well is plugged and abandoned and the related facilities are closed.”
 - f) LWNM violated OCD Rule 103A by failing to display any well sign that could be identified by Deputy Inspector Henry Villanueva.
- 6. NMSA 1978, §70-2-31(A) provides in relevant part, “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 (\$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.” NMSA 1978, §70-2-33(A) defines “person” in relevant part as “any individual estate, trust receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity....
 - 7. As a result of its investigation, the OCD issued Notice of Violation (3-05-16) to LWNM alleging violations of Rule 50 and Rule 103A.
 - 8. After OCD’s investigation, LWNM notified the OCD they were not aware of compaction standards for clay liners and the sign was in place November 29, 2005.
 - 9. LWNM’s letter of December 15, 2005 shows commitment to the following:
 - a. To have a qualified representative visit well sites before submitting permits.
 - b. To have a well sign properly displayed and remain in place until plug and abandonment.
 - c. All pits will be lined with a minimum 12 mil liner in accordance with division guidelines.
 - d. To make every effort to abide by the all the rules and regulations as described on the OCD web page for New Mexico Operations.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. LWNM 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. LWNM is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Celso Gomez #1 for one violation of Rule 50 and one violation of Rule 103A.

ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against LWNM totaling one thousand dollars (\$1,000) for one violation of Rule 50. The penalty for one violation of Rule 103A is waived based on LWNM's written commitment to comply with the rule.
2. The civil penalty shall be paid at the time LWNM executes this Order. Payment shall be made by check 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. LWNM must close the unlined drilling pit by April 1, 2006, collect one five point sample from the bottom of the pit for laboratory analysis for TPH and BTEX to show no contamination is present. Analysis results must be submitted to OCD by April 15, 2006.
4. By signing this order, Lone Wolf New Mexico, LLC 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
 - 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; and
 - e. agrees that if it fails to pay penalties assessed pursuant to this Order, upon application by the OCD the district court may enter judgment against LWNM in the amount of the penalties assessed and, in the discretion of the

court, may impose additional penalties for LWNM's violation of the penalty provisions of this Order.

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

Done at Santa Fe, New Mexico, this 2nd day of July, 2006.

By: _____

Mark Fesmire, P.E.

Director, Oil Conservation Division

ACCEPTANCE

Lone Wolf New Mexico, LLC hereby accepts the foregoing order, and agrees to all of the terms and provisions set forth in the order.

Lone Wolf New Mexico, LLC

By: _____

Title: _____

Date: _____