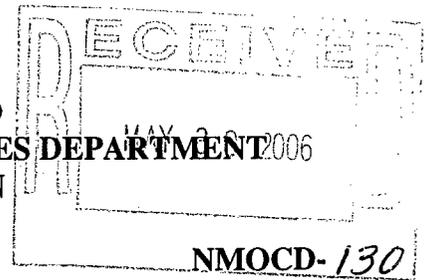


**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**



IN THE MATTER OF MOUNTAIN STATES PETROLEUM CORP.,

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 (hereinafter, "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 (hereinafter, "OCD") issues this Order to MOUNTAIN STATES PETROLEUM CORP. (hereinafter "MSP") 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) MSP is a domestic for Profit Corporation doing business in New Mexico, registered with the Public Regulatory Commission Secretary of the State, under number 0626556. MSP is an active entity with a principal address at 8101 W 34th Street, Amarillo, Texas 79121. Its registered agent for service of process in New Mexico is CT Corporation System, 123 E. Marcy Street, Santa Fe, New Mexico 87501. Mountain States Petroleum Corp.'s business address is 3001 Knox St., Suite 403, Dallas, Texas 75025-7304. MSP's OGRID is 15346.
- 3) MSP operates the Hanson Tank Battery, Unit Letter "L", Section 06, Township 17 North, Range 08 West, McKinley County, New Mexico.
- 4) On Tuesday February 14, 2006, OCD Deputy Oil and Gas Inspector Kelly Roberts visited the MSP Hanson Tank Battery. While performing a routine inspection, Mr. Roberts found a pool of standing oil within the berm. The release is located in the southeast corner of the containment berm. The release extends as far as 75 feet east and 50 feet south from the southeast tank. There also was a containment dike that had been constructed against the southeast side of the tank. This dike appeared to be containing a leak in the tank; however, oil is seeping through the dike in two places. Mr. Roberts also noted that the drain valve on the south side of the tank is leaking water for Juniper West Com 12 #32, and noted that no pit permit was in the file.
- 5) A subsequent OCD investigation found the following:

- a. The OCD had received no notification of the release(s).
 - b. On February 15, 2006, OCD Deputy Oil and Gas Inspector Denny Foust conducted a telephone interview with MSP's Denny Migl. Mr. Migl stated he had become aware of the release while visiting the Hospah field with a contractor, Jay Miller, on February 9, 2006. Mr. Migl stated the contamination was being remediated.
 - c. OCD Rule 13.B states in pertinent part, "All operators ... shall at all times conduct their operations in or related to the drilling, equipping, operating, producing, plugging and abandonment of oil, gas, injection, disposal, and storage wells or other facilities in a manner that will prevent waste of oil and gas, the contamination of fresh waters and shall not wastefully utilize oil or gas, or allow either to leak or escape from ... wells, tanks, containers, pipe or other storage, conduit or operating equipment."
 - d. Deputy Inspector Roberts found pooled oil at the battery during his initial inspection. MSP's release of oil that pooled within the tank berms at the Hanson Battery and MSP's failure to take any steps to recover or remediate the release either through an approved plan or best management practices violated Rule 13.B.
 - e. As a result of its investigation, the OCD issued Notice of Violation (3-06-21) to MSP, alleging violation of Rule 13.B.
- 6) At the Administrative Conference on this matter, MSP presented the following:
- a. In response to the Notice of Violation sent to MSP, the company does not wish to contest the fine that was assessed for Civil Penalties in the amount of One Thousand Dollars (\$1,000.00).
 - b. MSP does not believe the release is of economic hydrocarbons but material that would be treated as waste.
 - c. The confusion as to the remediation at the site resulted from a break down in MSP's internal communications.
 - d. MSP has changed their internal personnel hierarchy to improve communications and achieve compliance.

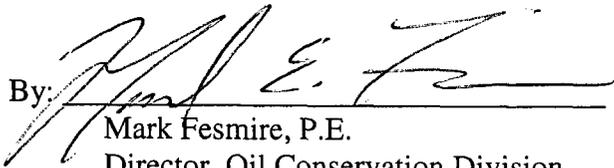
II. CONCLUSION

- 1) The OCD has jurisdiction over the parties and subject matter in this proceeding.
- 2) MSP 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) MSP is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Hanson Tank Battery for one knowing and willful violation of OCD Rule 13.B.

III. ORDER AND CIVIL PENALTY

- 1) Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against MSP totaling **One Thousand Dollars (\$1,000.00)** for one violation of Rule 13.B.
- 2) The civil penalty shall be paid at the time MSP 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) MSP has submitted a release report and is taking action to recover oil and remediate the site.
- 4) By signing this Order, MSP expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with Ordering paragraphs 1, 2, & 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;
- 5) Nothing in this Order relieves MSP 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 MSP of its responsibility for compliance with any other federal, state or local laws and/or regulations.

Done at Santa Fe, New Mexico, this 6th day of July 2006.

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

Signatures Continued on Page 4

ACCEPTANCE

MOUNTAIN STATES PETROLEUM CORP. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in the Order.

MOUNTAIN STATES PETROLEUM CORP.

By: Wayne McPherson

Title: C.O.O.

Date: 10-23-06