

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

ACO No. 251

IN THE MATTER OF MOREXCO INC.,

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 Morexco Inc. (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 an active domestic for-profit corporation doing business in New Mexico under SCC No. 1221746.
3. Operator operates wells within New Mexico under OGRID 15262.
4. Operator's address of record with the OCD is P.O. Box 51208; Midland, Texas 79710.
5. Operator is operator of record of the following wells:

•	Burmah State No. 001	30-015-25062	J-18-18S-28E
•	Lackawanna State No. 001	30-015-02143	I-30-18S-28E
•	Sun State No. 001	30-015-24774	A-7-18S-28E
•	Superior State No. 001	30-015-24621	D-24-18S-27E
6. During a routine inspection of the Burmah State No. 001 on April 2, 2008, OCD Deputy Oil and Gas Inspector Richard Inge observed an unauthorized production pit behind the tank battery. The sides of the pit had soil staining indicating possible hydrocarbon contamination.

7. OCD Rule 19.15.2.50.F.1 NMAC ("Rule 50") states:

Except as otherwise specified in Section 50 of 19.15.2 NMAC, a pit or below-grade tank shall be properly closed within six months after cessation of use. As a condition of a permit, the division may require the operator to file a detailed closure plan before closure may commence. The division for good cause shown may grant a six-month extension of time to accomplish closure. Upon completion of closure a closure report (form C-144), or sundry notices and reports on wells shall be submitted to the division. Where the pit's contents will likely migrate and cause ground water or surface water to exceed water quality control commission standards, the pit's contents and the liner shall be removed and disposed of in a manner approved by the division.

8. On April 14, 2008, Deputy Inspector Inge sent Operator a letter of violation (LOV No. 02-08-062) which informed Operator of the rule violation and instructed Operator to submit a C-144 pit closure plan by April 29, 2008. The letter informed Operator that the pit closure plan had to include the taking of soil samples that had to be witnessed by the OCD. The letter further informed Operator that the pit had to be closed within 30 days of the OCD's approval of the pit closure plan.
9. On April 21, 2008, OCD received a C-144 pit closure plan from Morexco for the pit. The closure plan was approved on April 24, 2008 with the following stipulations:
 1. Notify NMOCD 24 hours prior to commencement of closure activities.
 2. Notify NMOCD 24 hours prior to obtaining samples where analyses of samples obtained are to be submitted to NMOCD.
 3. Representative samples are to be obtained from pit sidewalls and bottom.
 4. Laboratory analyses of samples obtained are to be submitted to NMOCD, and, approval granted for closure prior to backfilling pit.
 5. Clean, native material to be used for backfilling.
 6. Pit to be closed and closure report submitted to NMOCD not later than May 26, 2008.
10. Operator failed to comply with the pit closure stipulations.
11. As a result, on July 7, 2008 the OCD issued Operator a notice of violation (NOV No. 02-08-16) which alleged that Operator knowingly and willfully violated OCD Rule 50. In the notice of violation Operator was notified that the Lackawanna State No. 001, Sun State No. 001, and Superior State No. 001 were also in violation of OCD Rule 50.

12. An administrative conference was held on the notice of violation on July 22, 2008. Donald "Deeg" Becker personally appeared for Operator at the conference.
13. At the conference Mr. Becker said he did not think the pits were registered in 2004. He said the Lackawanna State No. 001 is closed, the Sun State No. 001 would be closed by the next day, and that the Superior State No. 001 would have been closed a month earlier but recent rain prevented it from being closed.

II. 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.

III. ORDER & CIVIL PENALTY ASSESSMENT

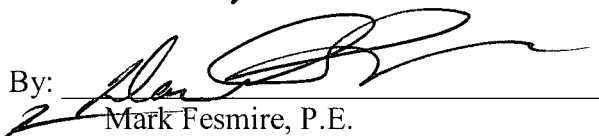
1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty against Operator totaling **One Thousand Dollars (\$1,000.00)**.
2. The **One Thousand Dollars (\$1,000.00)** civil penalty shall be paid upon execution of this Order. Payment shall be made by **certified 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 pits for all wells identified in Findings Paragraph No. 5 **by August 29, 2008**. Operator must submit all appropriate paperwork and the final C-144 to the Artesia District Office by August 29, 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 Paragraph 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.

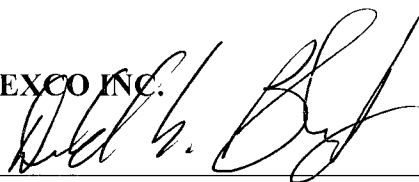
6. Nothing in this Order relieves Operator of its liability should its operations fail to adequately investigate and remediate contamination that poses a threat to ground water, surface water, human health or the environment. In addition, nothing in this Order relieves Operator of its responsibility for compliance with any other federal, state or local laws and/or regulations.

Done at Santa Fe, New Mexico this 19th day of August 2008.

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

ACCEPTANCE

Morexco Inc. hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth in the Order.

MOREXCO INC.
By: 
Title: Fres
Date: 8/11/08