

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

DEC 19 AM 11 33

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE COMPLIANCE AND ENFORCEMENT MANAGER, FOR AN ORDER IMPOSING CIVIL PENALTIES AGAINST HEC PETROLEUM, INC. FOR THE KNOWING AND WILLFUL VIOLATION OF 19.15.2.50.C(2)(b)(i) NMAC, AND IN THE ALTERNATIVE, SEEKING AN ORDER REQUIRING HEC PETROLEUM, INC. OR RLI INSURANCE COMPANY, OR BOTH, TO PLUG AND ABANDON THE YAGER #9, API 30-045-32344, LOCATED IN SAN JUAN COUNTY, NEW MEXICO, AND IN THE EVENT OF NON-COMPLIANCE, AUTHORIZING THE OIL CONSERVATION DIVISION TO PLUG THE WELL AND FORFEIT THE APPLICABLE FINANCIAL ASSURANCE.

CASE NO. 13626

APPLICATION FOR COMPLIANCE ORDER

1. HEC Petroleum, Inc. ("HEC"), OGRID #9812, is the operator of record of the Yager #9, API #30-045-32344, Unit Letter P, Section 20, Township 32 North, Range 06 West, San Juan County, New Mexico ("Yager #9").
2. HEC's obligation to plug and abandon the Yager #9 pursuant to the rules of the Oil Conservation Division (Division) is secured with a \$50,000 plugging bond, number RLB0003746, RLI Insurance Company, surety.
3. On May 13, 2004, the Oil Conservation Division (Division) approved HEC's application for a permit to drill the Yager #9 and construct a lined drilling pit according to OCD guidelines.
4. HEC spudded the Yager #9 on April 26, 2005.
5. An OCD inspection of the drilling pit at the Yager #9 on May 2, 2005, revealed the following:
 - a. The liner was torn on the Northeast side of the pit next to the drilling rig.

- b. The tear was approximately thirty-five (35) feet in length, running horizontally approximately 26" above the fluid standing in the pit.
- c. The lower lip of the tear had dropped down into the fluid standing in the pit, exposing fluid-stained soil under the liner and a watermark on the soil approximately 18" above the standing fluid in the pit and approximately 8" below the upper lip of the tear.
- d. Drill cuttings were present on top of the lower lip of the tear.
- e. HEC personnel and/or agents were present at the site.

Photos taken at the May 2, 2005 inspection are attached as Exhibits 1, 2, 3 and 4.

6. Rule 19.15.2.50.C.(2)(b)(i) NMAC states, in relevant part, "Each drilling pit or workover pit shall contain, at a minimum, a single liner appropriate for conditions at the site. The liner shall be designed, constructed, and maintained so as to prevent the contamination of fresh water, and protect public health and the environment."

7. 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." Section 70-2-31(A) further provides that in the case of a continuing violation, each day of violation shall constitute a separate violation.

8. The Oil and Gas Act defines "person" as "any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity...." NMSA 1978, § 70-2-33(A)(1).

9. NMSA 1978, § 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. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.

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

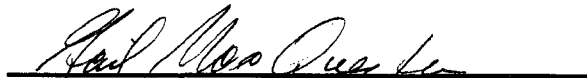
A. Determining that HEC knowing and willfully violated 19.15.2.50.C.(2)(b)(i) NMAC because it failed to properly maintain the liner at the Yager #9 drilling pit, imposing a \$1000 penalty for each day HEC violated 19.15.2.50.C.(2)(b)(i) NMAC, and requiring payment of the penalty within 30 days of the entry of the order assessing the penalty;

B. Providing that if HEC fails to pay the penalty assessed for the violation of 19.15.2.50.C.(2)(b)(i) NMAC within 30 days of entry of the order assessing the penalty

- 1) ordering the Yager #9 to be plugged and abandoned in accordance with OCD rules by HEC or RLI Insurance Company or both within 90 days of the entry of the order, and
- 2) authorizing the Division to plug the Yager #9 and forfeit the applicable financial assurance if that deadline is not met; and

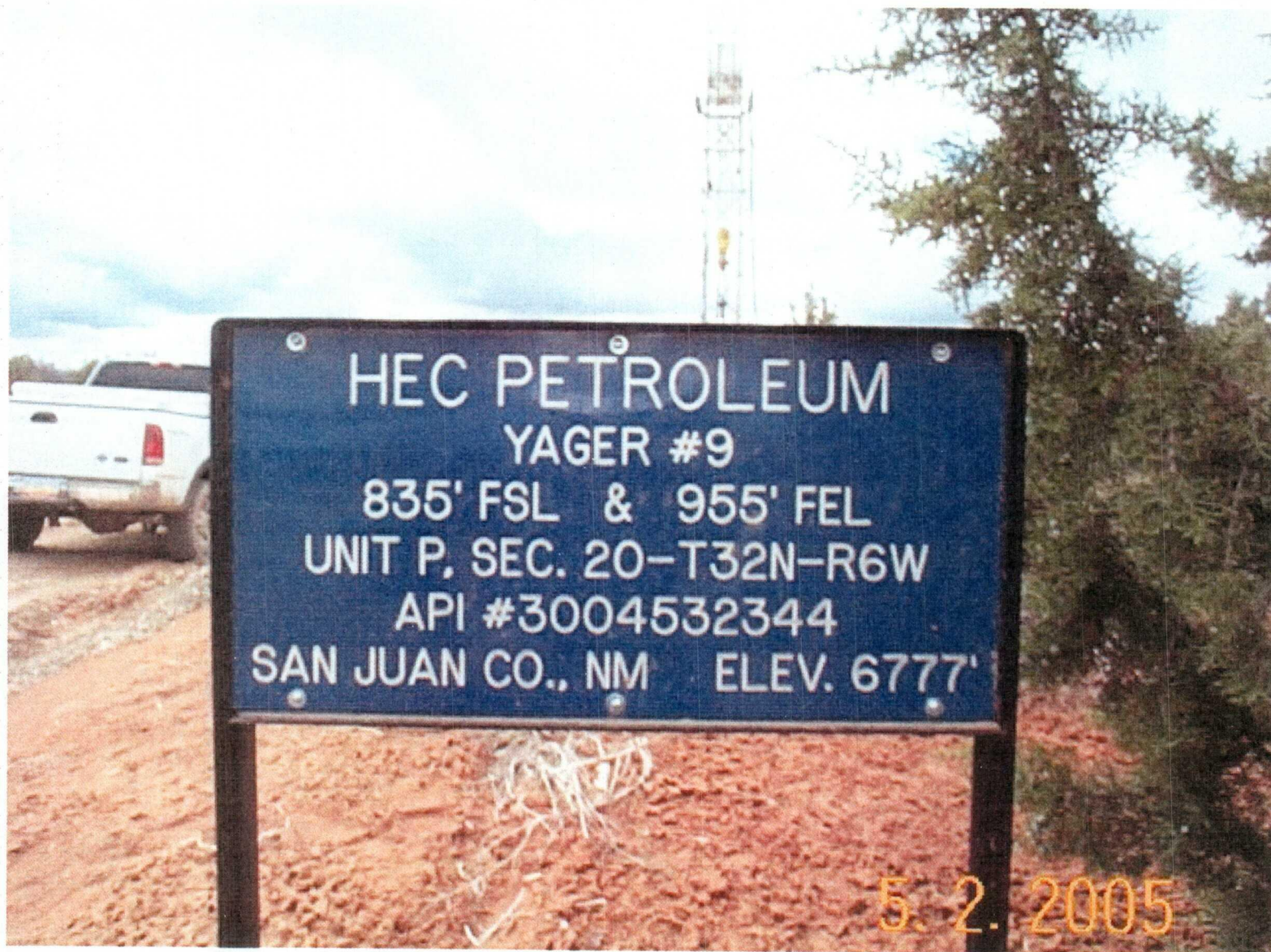
C. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED this 19th
day of December, 2005 by



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Case No. 13626. Application of the New Mexico Oil Conservation Division for a Compliance Order against HEC Petroleum, Inc. imposing civil penalties for the knowing and willful violation of 19.15.2.50.C(2)(b)(i) NMAC, and in the alternative, seeking an order requiring HEC Petroleum, Inc. or RLI Insurance, or both, to plug and abandon the Yager #9, API 30-045-32344, Unit P, Section 20, Township 32 North, Range 6 West, and in the event of non-compliance, authorizing the Oil Conservation Division to plug the well and forfeit the applicable financial assurance. The well is located in San Juan County, New Mexico, approximately 30 miles east/northeast of Aztec, and approximately 3 miles south of the Colorado border.



OCD Exhibit 1



OCD Exhibit 2



OCD Exhibit 3



OCD Exhibit 4