

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

2006 MAY 9 PM 3 25

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR AN ORDER REQUIRING PLATINUM EXPLORATION INC. TO PROPERLY PLUG ONE WELL, ASSESSING A CIVIL PENALTY, AUTHORIZING THE DIVISION TO PLUG SAID WELL AND ORDERING A FORFEITURE OF APPLICABLE FINANCIAL ASSURANCE; LEA COUNTY, NEW MEXICO.

CASE NO. 13728

**APPLICATION FOR COMPLIANCE ORDER AGAINST PLATINUM
EXPLORATION INC.**

1. Platinum Exploration Inc. (hereinafter, "Operator") is a corporation operating wells in New Mexico under OGRID 227103.
2. Operator has posted a \$50,000 letter of credit, No. 06-2004, through the West Texas State Bank in Odessa, Texas to secure its obligation to properly plug and abandon its wells in the State of New Mexico.
3. Operator is the operator of record for the Huber State #1, API #30-025-27290, located at Lot 1, Section 5, Township 16 South, Range 38 East, in Lea County, New Mexico.
4. The records of the Oil Conservation Division indicate that a prior operator drilled the Huber State #1 in 1999.
5. The records of the Oil Conservation Division show no reported production or other use of the Huber State #1 since it was drilled.
6. Operator acquired the Huber State #1 in 2004 from EnergyPro. Inc.

7. At the time Operator acquired the Huber State #1, the well was the subject of Case No. 13165. The application in that case sought an order against EnergyPro. Inc. requiring it to plug the Huber State #1 by a date certain, and authorizing the OCD to plug the well and forfeit the applicable financial assurance if EnergyPro. Inc. failed to meet the deadline set by the order.

8. While Case No. 13165 was pending, Operator and EnergyPro. Inc. reached an agreement under which the Huber State #1 would be transferred to Operator, who intended to use the well for an injection well.

9. Operator entered into a letter agreement with the OCD on February 10, 2004, under which it agreed that it would purchase the well from Energy Pro, Inc. and become operator of record of the Huber State #1; file an administratively complete application with the OCD to use the well for salt water disposal; if the OCD denied its application to use the Huber State #1 for salt water disposal, Operator would plug the well within 60 days of the date of the denial and if it failed to meet that deadline, the OCD could apply for an order requiring Operator to plug the well and impose penalties. In particular, Operator agreed that it would pay a penalty of \$1,000 for a failure to comply with the plugging deadline set by the agreement (60 days after denial of the application), and that the hearing examiner may impose additional penalties for any delay in plugging the well after that deadline. A copy of the letter agreement is attached as Exhibit 1.

10. The OCD approved a change of operator from EnergyPro, Inc. to Operator on April 26, 2004, with an effective date of February 5, 2004.

11. The OCD received an application on May 19, 2004 from Operator to convert the Huber State #1 to a salt water disposal well.

12. On May 20, 2004, the OCD filed a motion to dismiss Case No. 13165 against EnergyPro Inc.

13. Yates Petroleum Corporation filed an objection to Operator's application to convert the Huber State #1 to a salt water disposal well.

14. Operator's application was set for hearing in Case No. 13292.

15. On August 4, 2004, at Operator's request, Case No. 13292 was dismissed by order R-12184.

16. Operator never obtained a permit to convert the Huber State #1 to a salt water disposal well.

17. OCD Rule 19.15.4.201 NMAC requires that a well shall be either properly plugged and abandoned or placed on approved temporary abandonment within 90 days after a period of one year in which a well has been continuously inactive.

18. NMSA 1978, § 70-2-14(B) provides that if any of the requirements of an OCD rule is not complied with, the OCD, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules, and if the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.


19. NMSA 1978, § 70-2-31(A) authorizes the assessment of a civil penalty of not more than \$1,000 against any "person" for the knowing and willful violation of an OCD rule, and that in the case of a continuing violation, each day of violation shall constitute a separate violation.

20. NMSA 1978, § 70-2-33(A) defines "person" for purposes of the Oil and Gas Act to include corporations.

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

- A. Determining that Platinum Exploration Inc. knowingly and willfully violated 19.15.4.201 NMAC by failing to return the Huber State #1 to compliance after it failed to obtain a permit to use the well for salt water disposal;
- B. Assessing a civil penalty of not less than \$5000 for the continued violation of 19.15.4.201 NMAC for the period after the dismissal of Case 13292 on August 4, 2004 to the present;
- C. Ordering Platinum Exploration Inc. to plug the Huber State #1 well within 30 days of the date the order is issued;
- D. Authorizing the Oil Conservation Division to forfeit the applicable financial assurance if Platinum Exploration Inc. fails to plug the Huber State #1 well by the deadline set in the order; and
- E. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
May 9, 2006 by



Gail MacQuesten

Assistant General Counsel
Energy, Minerals and Natural
Resources Department of the State of
New Mexico
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505)-476-3451

Attorney for The New Mexico Oil
Conservation Division

Case No. _____. **Application of the New Mexico Oil Conservation Division for an Order Requiring Platinum Exploration Inc. to Properly Plug One Well, Imposing Civil Penalties, Authorizing the Division to Plug Said Well in Default of Compliance by Operator, and Ordering a Forfeiture of the Applicable Financial Assurance, Lea County, New Mexico.** The Applicant seeks an order requiring Platinum Exploration Inc. to properly plug and abandon one inactive well in Lea County, New Mexico, imposing civil penalties, authorizing the Division to plug said well if the operator fails to do so, forfeiting Operator's plugging security, if any, and providing for such other relief as the Director deems appropriate. The affected well is: Huber State #1, API #30-025-27290, Lot 1, Section 5, Township 16 South, Range 38 East. The well is located 10-15 miles east of Lovington, in Lea County, New Mexico.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

February 9, 2004

Mr. Hal J. Rasmussen
President, Platinum Exploration, Inc.
550 West Texas Avenue, Suite 200
Midland, TX 79701

Dear Mr. Rasmussen:

This letter memorializes the agreement between Platinum Exploration, Inc. ("Platinum") and the New Mexico Oil Conservation Division ("OCD") regarding the well Huber State #1, API #30-025-27290, located at Lot 1, Section 5, Township 16 South, Range 38 East, in Lea County, New Mexico ("well").

Platinum and the OCD agree to the following:

1. The Huber State #1 is the subject of OCD case number 13165: "Application of the New Mexico Oil Conservation Division, Through the Supervisor of District I, for an Order Requiring EnergyPro, Inc. to Properly Plug One Well, Assessing an Appropriate Civil Penalty in Event of Operator's Failure to Comply, Authorizing the Division to Plug Said Well and Ordering a Forfeiture of Applicable Plugging Bond; Lea County, New Mexico."
2. After the OCD filed the application in case number 13165, EnergyPro, Inc. and the OCD entered into a letter agreement, dated December 15, 2003, under which EnergyPro, Inc. agreed to plug the well according to OCD Rule 202 and District I specifications by April 1, 2004. The agreement further provides that case number 13165 be continued to the first available docket after April 1, 2004. (According to the calendar for division hearings, the next division hearing docket would be April 15, 2004.)
3. Platinum intends to purchase the well from EnergyPro, Inc. and use the well for salt water disposal.
4. Platinum agrees that it will take the following actions by April 8, 2004:
 - a) Platinum will complete the purchase of the well from EnergyPro, Inc.;

Exhibit 1

b) Platinum will complete all the necessary steps to become the operator of record for the well, including registering with the New Mexico Corporation Commission to do business in this state, posting a \$50,000 blanket financial assurance under OCD Rule 101, and filing an administratively complete change of operator form; and

c) Platinum will file an administratively complete application with the OCD to use the well for salt water disposal.

5. The OCD agrees that if Platinum completes the acts set out in Paragraph 4, above, by April 8, 2004, and becomes the operator of record for the well, the OCD will dismiss case number 13165 and release EnergyPro, Inc. from the December 15, 2003 letter agreement.

6. Platinum agrees that if the OCD denies its application to use the well for salt water disposal, Platinum will plug the well according to OCD Rule 201 and District I specifications within 60 days of the date the OCD denies the application. Specifically, Platinum agrees to:

a) file with the OCD a notice of intention to plug the well using Form C-103, Sundry Notices and Reports on Wells, prior to commencing plugging operations, containing all of the information required by Rule 1103 including operator and well identification, proposed procedures for plugging the subject well and a well-bore diagram showing the proposed plugging procedure, as required by Rule 202.A(1);

b) notify the District I office forty-eight hours notice prior to commencing any plugging operations;

c) plug the well according to District I guidelines;

d) remove all trash from the site of the well and any related tank battery sites;

e) remove all surface equipment at the site of the well including tanks, production equipment and flow lines;

f) remediate all spills, leaks and tank battery sites at the location of the well in accordance with Rule 202.B(3) and District I guidelines; and

g) contact the District I office to arrange for an inspection of the subject well and location pursuant to Rule 202.B(4) to take place prior to the sixty-day deadline.

7. Platinum agrees that if it becomes the operator of record for the well and fails to meet the 60-day plugging deadline set out in Paragraph 6, above, the OCD may apply for an order requiring Platinum to plug the well and imposing penalties. Platinum agrees that

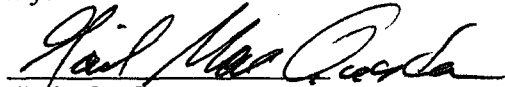
the OCD may introduce a copy of this agreement into evidence at a hearing on the application as evidence of the following:

- a) Platinum acknowledges that it is the operator of the Huber State #1;
- b) Platinum acknowledges that the Huber State #1 is out of compliance with OCD Rule 203 because it has neither produced any hydrocarbon or carbon dioxide substance nor been used for injection for more than one year, and the OCD has not approved temporary abandonment of the well pursuant to Division Rule 203; and
- c) Platinum agrees that it will pay a civil penalty of \$1000 for its failure to comply with OCD Rule 201.B by the deadline set out in this agreement, and that the hearing examiner may impose additional penalties for any delay in plugging the well after the deadline set out in this agreement.

Agreed to this 10th day of February, 2004 by

Oil Conservation Division
New Mexico Energy, Minerals and Natural
Resources Department
1220 S. St. Francis Drive
Santa Fe, NM 87505

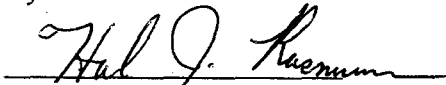
By:



Gail MacQuesten
Assistant General Counsel
Oil Conservation Division
(505) 476-3451

Platinum Exploration, Inc.
550 West Texas Avenue, Suite 200
Midland, TX 79701

By:



Hal J. Rasmussen
President, Platinum Exploration, Inc.

cc: Don Pfieter, President
EnergyPro, Inc.
500 South Hanger Drive
Georgetown, TX 78628

ec: Chris Williams, Hobbs District Supervisor
Billy Prichard