



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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November 16, 2004

Reference: Culwin Queen Ut 015 H- 1-19s-30e API: 30-015-04586
Culwin Queen Ut 006 L-31-18s-31e API: 30-015-05653
Culwin Queen Ut 020 P-36-18s-30e API: 30-015-26964

Operator,

This letter is to address the violations on the above referenced wells and to clarify some confusion on paper work submitted to the OCD by your company. An outline of events is as follows:

During a routine inspection of the area on August 23, 2004 the wells referenced were found to be in violation of OCD Rules and or Regulations. A "Notice of Violation" letter dated September 8, 2004 was sent to your company indicating the individual violations. On September 10, 2004 a Form C-141 was received by fax at the District 2 OCD office. The C-141 was submitted by Randall Harris and indicated a release of less than 10 bbls of water at an injection line that is in the pasture West of the Culwin Queen Ut 020. The form stated the cause of the release was a "leak in inj line clamp when found. Replaced joint w/new on 9/10/04". The area affected was indicated to be "area approx 3ft x 20ft" with clean up action being "will add fertilizer & surfactant to affected area".

A letter dated September 13, 2004 was sent from OCD rep, Mike Bratcher to your company indicating receipt of the C-141. A request was made in this letter to determine depth of contamination, obtain soil samples of impacted area, and submit analyticals to this office. A 24 hour notice was required prior to sampling to allow OCD to witness. This letter noted that the injection line went to the Culwin Queen Ut 011 and that a "Final Report" C-141 would be required upon completion of remediation. As of this date, no delineation or sampling has been done.

The original Notice of Violation letter addressed the flow line leak as being in the pasture area West of the Culwin Queen Ut 020. The affected area was estimated to be 50ft x 50ft based on standing fluids observed by myself at the location of the patch in the flow line which was leaking at time of inspection. The Notice of Violation further identified an unlined pit on the Culwin Queen 020 location that contained a visible layer of oil and had not been declared per Rule 50. The location also had burnt and collapsed storage vessels and several stockpiles of contaminated soils. A remediation workplan was requested at this time. Also requested on the original Notice of Violation was for your company to provide information on the method of production reported on the Culwin Queen 006. This information has not yet been provided to the OCD. The original Notice of Violation also requested a correction of the well sign on the Culwin Queen Ut 015 as the sign on the well was for the Culwin Queen Ut 014 which is a different section from the 015 well.

A follow-up inspection was made of the area on October 19, 2004. A letter dated October 20, 2004 was sent to your company outlining the results of that inspection. No action had been taken by your company to correct the well sign on the Culwin Queen 015, and no action had been taken to correct the well sign or provide production information on the Culwin Queen 006. This letter also addressed a letter and document dated September 21, 2004, signed by Randall Harris and received at this office on September 23, 2004. The letter stated "In regards to the Culwin Queen Unit #20 All scraped tanks will be cut up and hauled off. All tank bottoms will be removed and taken to an approved solid waste disposal site". Enclosed with the letter was a "Pit Remediation and Closure Report" listing the pit at the Culwin Queen Ut 020 as an "Emergency Pit" with remedial actions of "Remove all heavy oil saturated dirt, Bioremediate remainder until site specific". My letter informed your company that the "Pit Remediation and Closure Report" form had been superceded by Form C-141 and that this particular pit did not meet the criteria required to be classified as an Emergency Pit.

In the process of this follow-up inspection, the injection flow line referenced in the Notice of Violation, was walked out from the Culwin Queen Ut 020 traveling West across a pasture to a lease road running North and South, across that road, across the next pasture, to a point where a barbed wire fence crosses North and South. The flow line continued on in a West, Northwest direction. The area inspected is estimated to be one half mile. Several sections of this flow line had been recently replaced and numerous areas along this flow line have been impacted with produced water and hydrocarbons from what appears to be a history of leaks in this line. Based on this inspection, the release and impacted area appears to be much more than my original estimate of 50ft x 50ft, and certainly more than your company's estimate of 3ft x 20ft.

The form C-141 received on October 22, 2004 referencing the pit at the Culwin Queen Ut 020 was marked "DENIED" by this office because it listed the pit as an "Emergency Pit".

At this time, the OCD is requesting the following:

Place the correct well sign on the Culwin Queen Ut 015.

Provide corrected production reports or, method of production for production that has been reported on the Culwin Queen Ut 006.

Determine the extent of contamination (vertical and horizontal) with analyticals for Chlorides, TPH, and BTEX levels at impacted areas along injection flowline, along with a remediation workplan. Notify the OCD 24 hours prior to any samples being taken or remediation work being performed.

Provide a workplan for closure of the production pit, removal of tank debris and removal or remediation of contaminated soils stockpiled on the Culwin Queen Ut 020 location.

Please provide requested information upon receipt of this letter with remedial actions to commence by November 30, 2004. If I can be of assistance in this matter, my contact information is listed below.



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