



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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Director
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*Field Inspection Program
"Preserving the Integrity of Our Environment"*

30-Dec-05

LOTHIAN OIL TEXAS I, INC.
405 NORTH MARIENFELD SUITE 300
MIDLAND TX 79701

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

LUSK 22 FEDERAL No.002

E-22-19S-31E

30-015-25507-00-00

| Inspection Date | Type Inspection | Inspector | Violation? | *Significant Non-Compliance? | Corrective Action Due By: | Inspection No. |
|-----------------|------------------|--------------|------------|------------------------------|---------------------------|----------------|
| 12/29/2005 | Routine/Periodic | Chris Beadle | Yes | No | 1/20/2006 | iCLB0536336081 |

Violations: Surface Leaks/Spills

Comments on Inspection: Tank battery on this location has heavily contaminated and saturated soils inside of berm. Standing oil pooled inside berm on southwest, northwest and northeast corners. Clean soils have been placed inside berm over some contaminated soils. Impacted area appears to be over 300 cubic feet of impacted and saturated soils. Several areas of soils inside the berm were turned over by OCD Inspector and found to be saturated to a depth of six or more inches along the west and south sides and four to six inches along the east side. Size and nature of impacted area is indicative of a release of more than 5 barrels of produced fluids.

Remediation is required. Submit C-141 (Release Notification and Corrective Action). Submit a remediation work plan to OCD District 2 Office. OCD Rule 19.15.3.116.D [NMAC] requires that the responsible person for a release must complete division approved corrective action and that releases will be addressed in accordance with a remediation work plan submitted to and approved by the division. To provide you with approval for corrective actions the OCD District 2 Office must first receive a remediation work plan that addresses, at a minimum, the following:

1. Site characterization including site ranking, layout and remediation action levels;
2. Release characterization including source, cause, area and volumetric estimations of impacted area(s) and contaminant specific

concerns;

3. On site method of remediation including specific procedures you will follow for moisture/nutrients/additives to enhance biodegradation of the contaminants (or other specific procedures for other remediation technologies). Please ensure that the remediation technology you propose for this release is applicable to Highly Contaminated/Saturated Soils and Unsaturated Contaminated Soils and appropriate for the contaminant (for instance, MicroBlaze® is not proven to be appropriate for chloride remediation);
4. Off site remediation including sampling procedures for removed material, disposition of materials and documentation required;
5. Notification to NMOCD of work/sampling and sampling procedures (for TPH, B-TEX, Chlorides or any other contaminants of concern and as applicable) to be used for site characterization (vertical and horizontal delineation) and final closure;
6. General schedule of work to be performed including periodicity of repeated work such as tilling/moisture, etc; and,
7. Site closure procedures (closure of excavations, reseeding, grading, etc, as applicable).

Provide NMOCD District 2 Office with the remediation work plan prior to January 20, 2006. Please use the "Guidelines For Remediation of Leaks, Spills, and Releases" as your guide. This document may be found on the NMOCD web site: www.emnrd.state.nm.us/ocd, under Publications> Environmental Handbook> Miscellaneous Guidelines> Remediation of Leaks, Spills and Releases.

OCD approved remediation must begin on this release no later than January 27, 2006. Until a remediation work plan is received, the NMOCD District 2 Office must be notified 48 hours prior to any remediation work or prior to taking samples where results of the samples may be submitted to the OCD.

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,



Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.

*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.