

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

NMOCD – ACOI- 221

IN THE MATTER OF LEGACY RESERVES OPERATING, LP,

Respondent.

**INACTIVE WELL
AGREED COMPLIANCE ORDER**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act") and OCD Rule 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and Legacy Reserves Operating, LP ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI") under which Operator agrees to plug, place on approved temporary abandonment status or restore to production or other beneficial use the wells identified herein pursuant to the Act and OCD Rule 19.15.25.8 NMAC in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a limited partnership operating wells 1-16 identified in Exhibit "A" under OGRID 240974.
3. Operator plans to acquire wells 17-20 identified in Exhibit "A" from Fairway Resources Operating, LLC (OGRID 241598).
4. OCD Rule 19.15.25.8 NMAC states, in relevant part:

"A. The operator of wells drilled for oil or gas or services wells including seismic, core, exploration or injection wells, whether cased or uncased, shall plug the wells as Subsection B of 19.15.25.8 NMAC requires.

B. The operator shall either properly plug and abandon a well or place the well in approved temporary abandonment in accordance with 19.15.25 NMAC within 90 days after:

....

....

(3) a period of one year in which a well has been continuously inactive.”

5. The wells identified in Exhibit “A”
 - (a) have been continuously inactive for a period of one year plus 90 days (or within the next five months will become continuously inactive for a period of one year plus 90 days if no action is taken on the wells);
 - (b) are not plugged or abandoned in accordance with OCD Rule 19.15.25.9 NMAC through 19.15.25.11 NMAC;
 - (c) are not on approved temporary abandonment status in accordance with OCD Rule 19.15.25.12 NMAC through 19.15.25.14 NMAC (or, for wells 3-6 identified in Exhibit “A,” approved temporary abandonment status will expire in September 2010).
6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly and willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-33(A) defines “person” in relevant part as
“any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity...”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit “A” are either out of compliance with OCD Rule 19.15.25.8 NMAC; will fall out of compliance with OCD Rule 19.15.25.8 NMAC in the next six months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status; or, for wells 3-6 identified in Exhibit “A,” approved temporary abandonment status will expire in September 2010.
3. As operator of wells 1-16 identified in Exhibit “A,” Operator is responsible for bringing those wells into compliance with OCD Rule 19.15.25.8 NMAC. Operator is responsible for bringing wells 17-20 identified in Exhibit “A” into compliance with OCD Rule 19.15.25.8 NMAC once it becomes operator of those wells.

4. Operator is a "person" as defined by NMSA 1978, Section 70-2-33(A) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring at least 5 of the wells identified in Exhibit "A" into compliance with OCD Rule 19.15.25.8 NMAC by December 15, 2010 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 19.15.25.10(B) NMAC **and filing a C-103 describing the completed work;** or
 - (c) placing the well on approved temporary abandonment status in accordance with OCD Rule 19.15.25.12 NMAC through 19.15.25.14 NMAC.
2. If Operator does not become operator of wells 17-20 identified in Exhibit "A," Operator will not be responsible for bringing those wells into compliance with 19.15.25.8 NMAC. Operator, nevertheless, will still be responsible for bringing PTT at least ⁵ of the ~~7~~ wells identified in Exhibit "A" to compliance with 19.15.25.8 NMAC.
3. Oil and gas produced during swabbing does not count as production for purposes of this Order.
4. Operator shall file a compliance report identifying each well returned to compliance, stating the date it was returned to compliance and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status.) Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return wells to compliance under the terms of this Order, but does reduce the total number of wells for which Operator is responsible under the terms of this Order. The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager and to the OCD attorney in charge of inactive well agreed compliance orders so that it is received by the compliance deadline of December 15, 2010. The total length of this Agreed Compliance Order is six months. Operator may negotiate a new ACOI at the completion of this ACOI.
5. If Operator fails to either bring 5 wells into compliance or file a compliance report by December 15, 2010, Operator agrees to pay a penalty of \$1000 times the number of wells it failed to bring into compliance or report as having been brought to compliance, subject to the terms of this Order. In the event the Operator encounters unanticipated circumstances that prevent it from bringing 5 wells into compliance by December 15, 2010, Operator may apply for a waiver or

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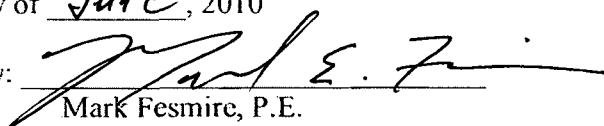
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reduction of the penalty by making the request in writing to the OCD's Enforcement and Compliance Manager. If the Enforcement and Compliance Manager concurs with the Operator's request, the request for waiver or reduction of penalties may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request or fails to respond within 10 days, the Operator may file an application for hearing on the request. Any application for hearing on a request for waiver or reduction of penalty must be filed within 30 days of the date the compliance report is due.

6. Thirty days after the compliance deadline set by this Order, any wells on Exhibit "A" not in compliance with OCD Rule 19.15.25.8 NMAC will appear on the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC.
7. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance at least 5 of the wells identified in Exhibit "A" by December 15, 2010;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 4 by the December 15, 2010 compliance deadline set by this Order;
 - (d) agrees to pay penalties as set out in and limited by Ordering Paragraph 5 if it fails to either return 5 wells to compliance or file a compliance report by the December 15, 2010 compliance deadline set out in the Order;
 - (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to an appeal from this Order, or to a hearing either prior to or subsequent to the entry of this Order other than a hearing on a request for waiver or reduction of penalties; and
 - (f) agrees that the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
8. This Order applies only to the enforcement of OCD Rule 19.15.25.8 NMAC against those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with OCD Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules. Wells identified in Exhibit "A" that are out of compliance with the Oil and Gas Act or OCD Rules other than OCD Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules.
9. The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this 16th day of June, 2010

By:


Mark Fesmire, P.E.

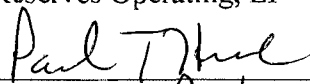
Director, Oil Conservation Division

ACCEPTANCE

Legacy Reserves Operating, LP hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Legacy Reserves Operating, LP

By:


(Please print name) Paul T. Horne

Title:

EVP - Operations

Date:

June 14, 2010

Exhibit A to Agreed Compliance Order for Legacy Reserves Operating, LP

- 1) 30-025-11722 IDA WIMBERLEY #013
- 2) 30-025-05275 J M DENTON #001
- 3) 30-025-05279 J M DENTON #005
- 4) 30-025-05284 J M DENTON #010
- 5) 30-025-05285 J M DENTON #011
- 6) 30-025-05287 J M DENTON #013
- 7) 30-025-37858 JAMMER #001
- 8) 30-025-23961 NEW MEXICO AE STATE #024
- 9) 30-025-33114 NEW MEXICO AE STATE #027
- 10) 30-025-32342 SOUTH JUSTIS UNIT #014
- 11) 30-025-11750 SOUTH JUSTIS UNIT #019
- 12) 30-025-12431 SOUTH JUSTIS UNIT #025
- 13) 30-025-11768 SOUTH JUSTIS UNIT #025K
- 14) 30-025-11751 SOUTH JUSTIS UNIT #201
- 15) 30-025-32070 SOUTH JUSTIS UNIT #251
- 16) 30-015-25399 TAMANO (BSSC) UNIT #403
- 17) 30-015-00621 MIDNIGHT MATADOR #010
- 18) 30-015-00664 SOUTH RED LAKE II UNIT #009
- 19) 30-015-00660 SOUTH RED LAKE II UNIT #012

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20)30-015-23913 SOUTH RED LAKE II UNIT #043

Legacy Reserves Operating, LP

By: Paul T. Hill

Title: EVP - Operations

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