

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

NMOCD – ACOI- 228

IN THE MATTER OF SUNDOWN ENERGY L.P.,

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 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and Sundown Energy L.P. ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI") under which Operator agrees to transfer, return to production, plug or file an application for injection for the wells identified herein pursuant to the Act and OCD rules in accordance with the following agreed schedule and procedures, and agrees to sanctions 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 doing business in the state of New Mexico.
3. Operator currently operates 47 wells in New Mexico under OGRID 232611.
4. OCD Rule 19.15.25.8 NMAC (the inactive well rule) 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."

- The following six wells operated by Operator are out of compliance with the inactive well rule because they have been continuously inactive for a period of one year plus 90 days, are not plugged and abandoned in accordance with 19.15.25.9 NMAC through 19.15.25.11 NMAC, and are not on approved temporary abandonment status in accordance with 19.15.25.12 NMAC through 19.15.25.14 NMAC:

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-28783	JACKSON 5 #002	G-5 -19S-35E	G	232611	SUNDOWN ENERGY LP	P	O	05/1988	TA EXPIRES 8-10-10	T	8/10/2010
1	30-025-28905	KOCHIA AAM STATE #001	O-35-15S-36E	O	232611	SUNDOWN ENERGY LP	S	O	02/2008	SEE PF9 INT TO TA 05/04/2010		
1	30-025-03718	LEA 396 STATE #002	F-35-15S-36E	F	232611	SUNDOWN ENERGY LP	S	O	01/1993	07/27/2010 REMEDIAL WORK	T	1/16/2009
1	30-025-23592	SHIPP #001	K-11-17S-37E	K	232611	SUNDOWN ENERGY LP	P	O	05/1980	TA EXPIRES 9-2-2010	T	9/2/2010
1	30-025-24162	SHIPP #004	I-11-17S-37E	I	232611	SUNDOWN ENERGY LP	P	O	05/2004	TA EXP 10/21/2010	T	10/21/2010
2	30-015-22724	STATE CB COM #001	O-29-19S-28E	O	232611	SUNDOWN ENERGY LP	S	G	10/1994		T	3/14/2010

- Two of the non-compliant wells are state or fee wells that have been inactive more than 20 years. The Jackson 5 #002 last reported production in 1988; the Shipp #001 last reported production in 1980. The OCD recently initiated a compliance program asking operators to return such wells to compliance; the OCD intends to file applications for hearing seeking plugging orders on those wells if the operator fails to respond.
- Under OCD rules, the OCD may or must deny certain privileges to an operator who has too many wells in violation of the inactive well rule. 19.15.5.9 NMAC (Part 5.9) sets out how many wells an operator may have out of compliance before OCD rules provide that privileges may or must be denied. As an operator of 47 wells, Operator may have no more than two wells out of compliance with the inactive well rule. See 19.15.5.9.A(4)(a) NMAC. In calculating the number of wells in violation of the inactive well rule, Part 5.9 does not include wells that are subject to an agreed compliance order setting a schedule for returning the well to compliance and imposing sanctions if that schedule is not met.
- Because Operator has too many wells out of compliance with the inactive well rule as defined by Part 5.9, the OCD may deny well transfers to the operator (see 19.15.5.9 NMAC and 19.15.9.9 NMAC); the OCD may deny applications for permits to drill (see 19.15.5.9 NMAC and 19.15.14.10 NMAC); the OCD must deny requests for allowable and authorizations to transport (see 19.15.5.9 NMAC and 19.15.16.19 NMAC); and the OCD must deny injection permits. See 19.15.5.9 NMAC and 19.15.26.8 NMAC.
- Operator intends to apply to become operator of record of three wells currently operated by Westbrook Oil Corporation (State of New Mexico #1, 30-025-03978; State of New Mexico #2, 30-025-27032; and State of New Mexico W #2, 30-025-26605) and one well currently operated by Three Rivers Operating Co., L.L.C.

(Bobbi #5, 30-025-27641). Because Operator is currently out of compliance with the inactive well rule as defined by Part 5.9, the OCD may deny those transfers.

10. Operator intends to seek approval to convert the Kochia AAM State #001 well to a salt water disposal well, and may convert the State of New Mexico W #2 well to a salt water disposal well if it cannot return the well to production. Because Operator is currently out of compliance with the inactive well rule as defined by Part 5.9, the OCD must deny those injection permits.
11. Operator's plan to convert the Kochia AAM State #001 well will require Operator to apply for a permit to drill allowing it to deepen the well. Because Operator is currently out of compliance with the inactive well rule as defined by Part 5.9, the OCD may deny that application to drill.
12. By e-mail dated October 22, 2010 Operator proposed a plan for returning 5 of the the 6 non-compliant wells identified above to compliance. A copy of the e-mail is attached as Exhibit A to this agreed compliance order. The following summarizes the actions Operator proposes to take:
 - State CB Com #001: Operator will plug and abandon the well or transfer operations to one of its joint venture partners.
 - Shipp #001: Operator will plug and abandon the well or transfer operations to one of its joint venture partners.
 - Jackson 5 #002: Operator will restore the well to production or plug and abandon the well.
 - Lea 396 State #002: Operator will apply for an order allowing the downhole commingling of the Permo-Penn reservoir (Pool Code #16720) and the Devonian (Pool Code #16530). Operator will then commence operations to restore the well to production by installing a downhole pump and surface equipment. Maximum production from this well is tied to obtaining a salt water disposal permit for the Kochia AAM State #001.
 - Kochia AAM State #001: Operator will apply for a drilling permit to sidetrack the well above the current "junk in the hole," deepen the well into the deeper, non-productive (below the water contact) Devonian and apply for a permit to use the well for salt water disposal.
13. In addition, Operator has verbally agreed to plug and abandon the Shipp #004 or transfer operations of the well to one of its joint venture partners.
14. Three of the four wells Operator seeks to acquire are currently producing. The fourth well- the State of New Mexico #2 -- is not currently producing. Operator intends to restore the well to production; if that is not feasible Operator intends to convert the well into a salt water disposal well.

CONCLUSIONS

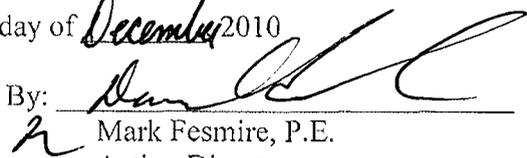
1. The wells identified in Findings Paragraph 5, above, are out of compliance with OCD Rule 19.15.25.8 NMAC.
2. As operator of the wells identified in Findings Paragraph 5, above, Operator is responsible for bringing those wells into compliance with OCD Rule 19.15.25.8 NMAC.
3. Operator has proposed an acceptable plan for returning the six wells identified in Findings Paragraph 5, above, to compliance.
4. The OCD agrees to enter into an agreed compliance order consistent with Operator's proposed plan, so that while the order remains in effect the wells identified in Findings Paragraph 5 will not be considered when determining Operator's compliance with Part 5.9.

ORDER

1. Operator agrees that by May 1, 2011 it will take one of the following actions as to each of the 6 wells identified in Findings Paragraph 5:
 - (a) restore the well to production of oil and/or gas **and file a C-115 documenting such production.** Oil and gas produced during swabbing is not considered production for purposes of this Order;
 - (b) file an application for a permit to use the well as a salt water disposal well under 19.15.26 NMAC;
 - (c) cause the wellbore to be plugged in accordance with OCD Rule 19.15.25.10(B) NMAC **and file a C-103 describing the completed work;**
or
 - (d) transfer the well to another operator of record.
2. Placing a well on approved temporary abandonment status is not an action that will satisfy the terms of this Order.
3. Operator may request an amendment to this Order extending the May 1, 2011 deadline for good cause. Operator must submit the request in writing to the Compliance and Enforcement Manager prior to the May 1, 2011 deadline, provide documentary evidence of the actions it has taken to comply with the terms of the Order, and explain why it will not meet the May 1, 2011 deadline. It is within the discretion of the OCD whether to issue an amendment extending the deadline. In no event will the OCD extend the deadline more than 6 months.
4. Until May 2, 2011 or such deadline granted by amendment, the OCD will remove the wells identified in Findings Paragraph 5 from the inactive well list for Operator kept pursuant to Part 5.9, and those wells will not be considered in determining whether Operator is in compliance with the inactive well rule for purposes of Part 5.9 compliance.

5. After May 2, 2011 or such deadline granted by amendment, any wells identified in Findings Paragraph 5 not in compliance with OCD Rule 19.15.25.8 NMAC will appear on the inactive well list kept pursuant to Part 5.9 and the OCD shall file an application for hearing seeking the plugging of those wells and the forfeiture of any applicable financial assurance.
6. This Order applies only to the enforcement of OCD Rule 19.15.25.8 NMAC against those wells identified in Findings Paragraph 5. 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 Findings Paragraph 5 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.
7. The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in Findings Paragraph 5 and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this 2nd day of December 2010

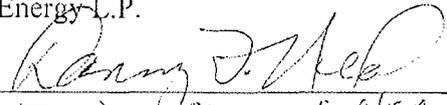
By: 

Mark Fesmire, P.E.
Acting Director,
Oil Conservation Division

ACCEPTANCE

Sundown Energy L.P. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Sundown Energy L.P.

By: 

(Please print name) Randy F. Neal

Title: Operations Manager

Date: 12/2/10



October 22, 2010

Via E-Mail: gail.macquesten@state.nm.us

Gail MacQuesten

Re: Proposed Agreed Compliance Order

Dear Ms. MacQuesten:

As per our discussion, Sundown Energy LP submits the following as part of an Agreed Compliance Order:

1. State CB Com #001 (API No. 30-015-22724): Sundown has transmitted to its joint venture partners an AFE to plug and abandon the State CB Com #001. Unless one of the partners elects to take over operations of the well under the applicable Joint Operating Agreement, Sundown will commence plugging and abandonment operations on the State CB Com #001 (API No. 30-015-22724) on or before December 20, 2010 and will conclude said plugging and abandonment on or before January 15, 2011.
2. Shipp #001 (API No. 30-025-23592): Sundown plans to transmit to its joint venture partners an AFE to plug and abandon this well. Unless one of the partners elects to assume operations of the well under the applicable Joint Operating Agreement, Sundown will plug and abandon the Shipp #001 on or before January 31, 2011.
3. Jackson 5 #002 (API No. 30-025-28783): Sundown will restore the Jackson 5 #002 to production or plug and abandon same on or before February 28, 2011.
4. Lea 396 State #002 (API No. 30-25-03718): Maximum production from this well is tied to Sundown obtaining a salt water disposal permit for the Kochia AAM State #001 discussed at item 5 below. Initially, Sundown will apply for a downhole commingling order form C-107A, to downhole commingle the Permo-Penn reservoir (Pool Code #16720) with Devonian (Pool code #16530). Within 45 days of approval of the commingling order, Sundown will commence operations to restore this well to production by installing a downhole pump and surface equipment. Upon obtaining the salt water disposal permit for the Kochia AAM State #001 discussed at item 5 below, Sundown plans to increase the size of the downhole pump to maximize the production rate and recovery from the Lea 396 State #002.
5. Kochia AAM State #001 (API No. 30-025-28905): Sundown is obtaining a single well bond for this well and will provide the OCD proof of same as soon as it is

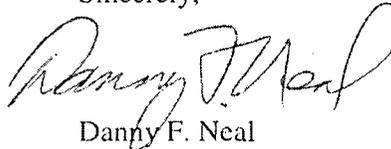
obtained but not later than November 15, 2010. Additionally, Sundown will apply for a drilling permit to sidetrack the Kochia State AAM above the current "junk in the hole" and deepen the well into the deeper, non-productive (below the water contact) Devonian and will begin said operations within 45 days of its receipt of the permit. Once these operations are completed, Sundown will apply for a permit to dispose of salt water in the non-productive (below the water contact) Devonian.

6. State of New Mexico #1 (API No. 30-025-03978), State of New Mexico #2 (API No. 30-025-27032), and State of New Mexico W #2 (API No. 30-025-26605): Sundown seeks approval to assume operatorship of these wells from Westbrook Oil Corporation. The State of New Mexico #1, State of New Mexico #2 are currently producing. However, the State of New Mexico W #2 is not currently producing. Within 60 days of the approval of Sundown as operator of these three wells, Sundown will commence operations on the State of New Mexico W #2 to restore same to production. If production is not restored from this well as a result of these efforts, Sundown will immediately apply for a permit to convert the well to a salt water disposal well. If applicable and within 45 days of obtaining the salt water disposal permit, Sundown will commence operations to convert this well to a salt water disposal well.

7. Bobbi #5 (API No. 30-025-27641): Sundown seeks approval to assume operatorship of this well from Three Rivers Operating Co., L.L.C. The Bobbi #5 is currently producing.

If you have any questions concerning the forgoing, please call me.

Sincerely,

A handwritten signature in black ink, appearing to read "Danny F. Neal". The signature is written in a cursive, flowing style.

Danny F. Neal
Operations Manager