

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

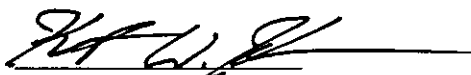
**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION
COMPLIANCE AND ENFORCEMENT BUREAU FOR A COMPLIANCE ORDER
AGAINST LANEXCO, INC. FOR WELLS OPERATED IN CHAVES, EDDY, AND
LEA COUNTIES, NEW MEXICO.**

CASE NO. 15446

MOTION FOR DISMISSAL

Applicant Oil Conservation Division Compliance and Enforcement Bureau ("OCD" or "Bureau") has reached a mutually agreed upon settlement (*see Exhibit A*) for the violations in the above referenced case. Wherefore, the Bureau hereby moves to dismiss this compliance action.

Respectfully submitted
this 8 day of June, 2016 by



Keith W. Herrmann
Energy, Minerals and Natural
Resources Department
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505) 476-3463
(505) 476-3462 (fax)
Email: Keith.Herrmann@state.nm.us
*Attorney for the Oil Conservation Division
Compliance and Enforcement Bureau*

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was sent electronically to the following party on June 8, 2016:

Ernie Padilla
Padilla Law Firm
1512 S. St. Francis Dr.
Santa Fe, NM 87505

A handwritten signature in black ink, appearing to read 'Keith W. Herrmann', is written over a horizontal line.

Keith W. Herrmann

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

**IN THE MATTER OF THE OIL CONSERVATION DIVISION, COMPLIANCE
AND ENFORCEMENT BUREAU'S APPLICATION FOR A COMPLIANCE
ORDER AGAINST LANEXCO, INC. FOR WELLS OPERATED IN CHAVES,
EDDY, AND LEA COUNTIES, NEW MEXICO.**

OCD CASE NO. 15446

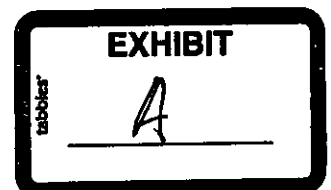
SETTLEMENT AGREEMENT

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, §§ 70-2-1 through 70-2-38, as amended ("Act"), and the rules promulgated in accordance with the Act, the Director of the Oil Conservation Division ("Division" or "OCD"), and Lanexco, Inc. ("Operator" or "Lanexco") enter into this Settlement Agreement ("Agreement").

Lanexco agrees to comply with the following settlement for violations of the Act, and in the event of non-compliance, the OCD may seek additional penalties.

I. FINDINGS

1. The Oil Conservation Division is charged with the authority to enforce Act and the rules promulgated in accordance with the Act. NMSA 1978, Section 70-2-6(A).
2. The New Mexico Attorney General is charged with collecting penalties issued pursuant to NMSA 1978, Section 70-2-31.
3. Lanexco is a Texas corporation that operates fifty-one total wells in Chaves, Eddy, and Lea Counties, New Mexico, under OGRID No. 13046. See *Exhibit 1: Well List*, attached hereto and incorporated by reference as if set forth in its entirety.



4. Lanexco's foreign registered office address and corporate mailing address of record with the OCD are: PO Box 2730, Midland, TX 79702. Operator's principal place of business outside of New Mexico of record with the OCD is: 310 W. Wall, STE 910, Midland, TX 79701. Operator's principal place of business in New Mexico of record with the OCD is: 1105 W. Kansas, Jal, New Mexico 88252.

5. The New Mexico Secretary of State has Operator registered under corporation number 1025550, and identifies Enrique Flores (Secretary and Treasurer) and Rae Ham (President) as the Organizers and Gloria Lansford as the Director.

6. Lanexco has a blanket plugging bond filed with the OCD in the amount of \$50,000.00. The bond is on deposit with RLI Insurance Co. "Bank", bond no. RLB0006277.

7. At the time this hearing was applied for, the OCD had not received Monthly Production Reports, OCD form C-115, from Lanexco since June 2014.

8. 19.15.7.24 NMAC requires that operators file their C-115(s) (Monthly Production Reports) electronically on or before the 15th day of the second month following the month of production. If an operator fails to file an acceptable Monthly Production Report, the OCD may cancel the operator's authority to transport from or inject into all wells that they operate. 19.15.7.24.C NMAC.

9. Currently Lanexco has since filed monthly production reports for October, 2014, however subsequent months are still required.

10. Because Lanexco failed to file required Monthly Production Reports, OCD issued notice to Operator in **October 2014** and **January 2016**. The notices

informed Lanexco that its authorization to transport from or inject into all wells it operates is now revoked pursuant to 19.15.7.24.C NMAC.

11. Lanexco has been transporting in violation of the October 2014, and January 2016 directives. This transportation was unauthorized and contrary to the Act and the rules promulgated pursuant to it.

12. Lanexco's wells are identified in *Exhibit 1: Well List*. Lanexco currently has **50** wells out of a total of **51** wells on OCD's inactive well list because they have shown no production in excess of one year plus 90 days and are not properly plugged and abandoned, in violation of 19.15.25.8 NMAC.

13. 19.15.25.8.B NMAC requires an operator to plug and abandon or temporarily abandon a well within 90 days after: (1) a 60 day period following the suspension of drilling activities; (2) a determination that a well is no longer usable for a beneficial purpose; or (3) a period of one year of continuous inactivity.

14. 19.15.5.9.A(4) NMAC states that an operator is compliant with Subsection A of 19.15.5.9 NMAC if no more than the following number of wells it operates are out of compliance with 19.15.25.8 NMAC (Wells to be Properly Abandoned): two wells or 50 percent of the wells the operator operates, whichever is less, if the operator operates 100 wells or less; five wells if the operator operates between 101 and 500 wells; seven wells if the operator operates between 501 and 1000 wells; and 10 wells if the operator operates more than 1000 wells.

15. Because Lanexco currently has **50** wells out of a total of **51** wells on OCD's inactive well list because they have shown no production in excess of one year

plus 90 days and are not properly plugged and abandoned, Lanexco is in violation of 19.15.5.9.A(4) NMAC.

16. 19.15.8.9.C NMAC states that an operator shall cover a well that has been in temporary abandonment for more than two years by either a one-well financial assurance or a blanket plugging financial assurance for wells in temporarily abandoned status.

17. Operator currently has 3 wells out of a total of 51 wells in violation of 19.15.8.9.C NMAC.

18. Currently, additional financial assurance for Operator's 34 remaining state and private wells will be required on September 1, 2016.

19. Lanexco's wells have been shut-in since April 11, 2016.

20. Lanexco's current ownership is currently unable to operate its wells in accordance with applicable federal and state laws, rules, and regulations, and desires to cease operations in the state.

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.

2. Lanexco is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, § 70-2-31(A).

3. Lanexco does not dispute the above violations of the Act and the rules promulgated pursuant to it, and wishes to settle this matter with the OCD.

III. SETTLEMENT AGREEMENT

WHEREFORE, the parties agree to the following:

1. Compliance Schedule

- a. Lanexco will file all required Monthly Production Reports, in accordance with 19.15.7.24 NMAC, within 45 days of this order.
- b. Lanexco will continue to file Monthly Production Reports as required by 19.15.7.24 NMAC. If no production occurs, Lanexco will still be required to report zero production to the OCD.
- c. Lanexco will keep all its wells shut-in until authority to transport from or inject to all wells it operates is reinstated by the OCD.
- d. Lanexco agrees to sell its operating interest in all wells it operates or the majority ownership interest in the company to a person who meets the requirements of 19.15.9.8 NMAC by September 1, 2016.
- e. Within seven days of sale of its operating interest in all wells it operates, Lanexco will submit a written request to the OCD to withdraw as a registered operator in the State of New Mexico, and will not seek to drill or acquire any new wells. This will not apply if ownership of the company is transferred to a new person.
- f. The OCD will reinstate Lanexco's authority to transport from or inject to all wells upon Lanexco:
 - i. filing all missing Monthly Production Reports;
 - ii. maintaining compliance with 19.15.7.24 NMAC;
 - iii. submitting a written request to have authority reinstated;
 - iv. meeting the financial assurance requirements of 19.15.8 NMAC; and

v. maintaining compliance with all the provisions of 19.15.5.9 NMAC and this Agreement.

g. If Lanexco is unable to sell its wells, it will notify the OCD prior to September 1, 2016 to reevaluate its compliance status. Lanexco also agrees to post all required financial assurance pursuant to 19.15.8 NMAC.

2. Civil Penalties

a. Unless an extension is granted by the OCD, should Lanexco not file its missing C-115 monthly production reports within 45 days of this Agreement, Lanexco agrees to pay a fine of \$100 per day pursuant to NMSA 1978, §70-2-31, until the reports are filed.

b. Should Lanexco violate any other of the terms of this Agreement, Lanexco will be subject to penalties to the fullest extent available pursuant to NMSA 1978, §70-2-31 and §70-2-32.

c. Payment shall be made to the State of New Mexico General Fund by certified or corporate check and sent to the following address:

Director, Oil Conservation Division
New Mexico Energy, Minerals & Natural Resources Department
1220 South St. Francis Drive Santa Fe,
NM 87505
Re: SE 2016-002

IV. OTHER TERMS AND CONDITIONS

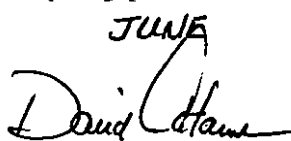
1. By signing this Order, Lanexco expressly:

a. acknowledges the authority of the Director to render the above Findings & Determinations, Conclusions and Settlement Agreement;

b. agrees to comply with the Agreement;

- c. waives any right, pursuant to the Act or otherwise, to a hearing either prior or subsequent to the entry of this Agreement or to an appeal from this Agreement; and
 - d. agrees that if it fails to comply with this Agreement, the Agreement may be enforced by suit or otherwise to the same extent and with the same effect as a final OCD Order entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act or an order of the district court.
2. Nothing in this Agreement relieves Lanexco of its liability should its operations create waste and/or pose additional threats to the environment or correlative rights.
3. Lanexco and the OCD have the right to modify or terminate this Agreement by written instrument signed by both parties. Once Lanexco complies with all terms of this Agreement, the Agreement will terminate.

Done at Santa Fe, New Mexico this 9th day of ~~April~~, 2016.

By: 
David Catanach
Director, Oil Conservation Division

ACCEPTANCE

LANEXCO, INC. (OGRID No. 13046), operator of record of the wells identified in *Exhibit 1*, hereby accepts the foregoing Agreement, and agrees to all of the terms and provisions as set forth in the Agreement.

LANEXCO, INC.

By: Rae Ham
Title: President
Date: 5-23-16

NEW MEXICO SPECIAL ASSISTANT ATTORNEY GENERAL, representing the Oil Conservation Division of the Energy, Minerals and Natural Resources Department, hereby accepts the foregoing Agreement, and agrees to all of the terms and provisions as set forth in the Agreement, and retains jurisdiction to enforce this Agreement should the provisions not be complied with.

NEW MEXICO SPECIAL
ASSISTANT ATTORNEY GENERAL

By: [Signature]
Title: Special Assistant Attorney General
Date: 6/8/16

Exhibit 1: Well List – Page 1 of 3

Well API No.	Name	Lease Type	Last Production	Well in violation of 19.15.8.9 NMAC?	Single Well Bond Amount	Bond in Place
30-025-06662	ALVES #002	P	Oct-14		\$8,828	
30-025-24180	ALVES #003	P	Oct-14		\$9,250	
30-025-36383	ALVES #004	P	Oct-14		\$9,300	
30-025-06430	ALVES A #001	P	Oct-14		\$8,602	
30-005-60586	BLAKEMORE FEDERAL #001	F	Oct-14			
30-015-22372	BRC MADERA #001	P	Oct-14		\$16,842	
30-025-27023	BUCKSKIN FED. #001	F	Oct-14			
30-025-27024	BUCKSKIN FED. #002	F	Feb-12			
30-025-27206	BUCKSKIN FED. #006	F	Oct-14			
30-015-22626	CERRO COM #001	P	Nov-11	Y	Unknown*	\$0
30-025-21473	CRAWFORD STATE #003	S	Oct-14		\$17,250	
30-025-28087	DORITY #001	S	Oct-14		\$8,855	
30-025-26426	EL PASO PLANT #001	S	Oct-14		\$8,300	
30-025-26667	EL PASO RUBY FEDERAL #001	F	Oct-14			
30-025-26664	EL PASO SMITH #001	P	Aug-07	Y	\$8,300	\$0
30-025-26346	EL PASO STATE #001	S	Oct-14		\$8,610	
30-025-26919	EL PASO TOM FEDERAL #004	F	Jul-04			
30-025-28508	EL PASO TOM FEDERAL #005	F	Oct-14			
30-025-10781	FARNEY A 17 #002	F	Oct-14			
30-025-27354	GLORIA FEDERAL #001	F	Oct-14		\$8,828	

*The bond amount in Lea County is \$5,000.00, plus \$1.00 per foot of depth. There is no entry for well depth on these wells.

Exhibit 1: Well List – Page 2 of 3

Well API No.	Name	Lease Type	Last Production	Well in violation of 19.15.8.9 NMAC?	Single Well Bond Amount	Bond in Place
30-025-11993	H G MOBERLY C FEDERAL #001	F	Oct-14			
30-025-28085	JO #001	S	Oct-14		\$8,950	
30-025-26688	JUSTIS A FEDERAL #002	F	Oct-14			
30-025-27355	JUSTIS B FEDERAL #001	F	Oct-14			
30-025-27357	JUSTIS B FEDERAL #003	F	Oct-14			
30-025-26483	JUSTIS C FEDERAL #001	F	Oct-14			
30-025-26700	JUSTIS C FEDERAL #002	F	Oct-14			
30-025-27211	LANSFORD #001	P	Oct-14		\$9,300	
30-025-27271	LANSFORD #002	P	Oct-14		\$9,250	
30-025-27396	LANSFORD #003	P	Oct-14		\$9,250	
30-025-26812	LANSFORD #004	P	Oct-14		\$9,250	
30-025-27866	LANSFORD #005	P	Oct-14		\$9,285	
30-025-27879	LANSFORD #006	P	Oct-14		\$9,250	
30-025-28661	MIKE #001	P	Oct-14		\$9,436	
30-025-05523	MIKE #002	P	Oct-14		\$9,200	
30-025-28841	MIKE #003	P	Oct-14		\$9,236	
30-025-29139	MIKE #004	P	Oct-14		\$9,245	
30-015-22552	MILLER COM #001	P	Dec-12	Y	Unknown*	\$0
30-025-05522	NEW MEXICO AK STATE #001	S	Oct-14		\$9,195	
30-025-26479	NEW MEXICO AK STATE #002	S	Oct-14		\$9,200	

*The bond amount in Lea County is \$5,000.00, plus \$1.00 per foot of depth. There is no entry for well depth on these wells.

Exhibit 1: Well List – Page 3 of 3

Well API No.	Name	Lease Type	Last Production	Well in violation of 19.15.8.9 NMAC?	Single Well Bond Amount	Bond in Place
30-025-06927	PRUITT #001	P	Oct-14		\$8,771	
30-025-28664	ROBERT #001	P	Oct-14		\$9,275	
30-025-36826	ROBERT #002	P	Oct-14		\$9,250	
30-025-29226	SHELL STATE #001	S	Sept-14		\$9,750	
30-025-21872	STATE A-36 #002	S	Oct-14		\$7,800	
30-025-03500	STATE C #001Y	S	Oct-14		\$8,940	
30-025-03507	STATE C #002Y	S	Oct-14		\$8,952	
30-025-03498	STATE C #003	S	Oct-14		\$8,950	
30-025-03499	STATE C #004	S	Oct-14		\$8,965	
30-025-03497	STATE C COM #002	S	Oct-14		\$8,926	
30-025-24153	STATE J D COM. #001	S	Oct-14		\$17,640	

*The bond amount in Lea County is \$5,000.00, plus \$1.00 per foot of depth. There is no entry for well depth on these wells.