

Inactive Well List
Total Well Count: 1 Inactive Well Count: 1
Printed On: Tuesday, January 08 2019

District	API	Well	ULSTR	OCD Unit	Ogrid	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-30912	SHIPP 10 #001	P-10-17S-37E	P	249351	LODESTONE OPERATING, INC.		O	05/2007			

WHERE Operator:249351, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

OCD Case # 20196
 Exhibit 1: Inactive Well List
 Page 1 of 1

Inactive Well Additional Financial Assurance Report

249351 LODESTONE OPERATING, INC.

Total Well Count: 1

Printed On: Tuesday, January 08 2019

Property	Well Name	Lease Type	ULSTR	OCD Unit Letter	API	Well Type	Last Prod/Inj	Inactive Additional Bond Due	Measured Depth	Required Bond Amount	Bond Required Now	Covered By Blanket TA Bond	Bond In Place	In Violation
307108	SHIPP 10 #001	P	P-10-17S-37E	P	30-025-30812	O	05/2007	06/01/2008	11749	16749	Y		16,749	

WHERE Ogrid:249351

OCD Case # 20196
Exhibit 2: Additional Financial Assurance Report
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State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Tony Delfin
Deputy Cabinet Secretary

David R. Catanach, Division Director
Oil Conservation Division



June 16, 2016

Lodestone Operating, Inc.
OGIRD #249351
1605 US Highway 181
PMB #169
Portland, TX 78374

OCD Case # 20196
Exhibit 3: Notice of Violation
Page 1 of 2

Re: 19.15.5.9 NMAC Compliance

Dear Operator:

The Oil Conservation Division (OCD) is conducting ongoing review of all operators' compliance status with Subsection A of 19.15.5.9 NMAC. According to OCD records, your company is not in compliance with Subsection A of 19.15.5.9 NMAC for the following reasons:

 Financial assurance. Your company is in violation of the financial assurance requirements for well plugging set out in 19.15.8.9 NMAC. Specifically, your company has not posted the required financial assurance required for state or fee wells which have been inactive for more than two years. The wells requiring single-well financial assurances are identified in the attached sheet.

 Corrective action. Order , issued on , found your company to be in violation of an order requiring corrective action.

 X Inactive wells. According to the attached inactive well list, your company has too many wells in violation of 19.15.25.8 NMAC (the inactive well rule) that are not subject to an inactive well agreed compliance order. As an operator of 1 well, your company may have no more than 1 well in violation of the inactive well rule. Your company has 1 well in violation of the inactive well rule.

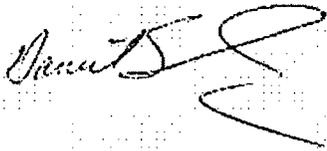
Non-compliance with 19.15.5.9 NMAC will prevent your company from acquiring any new wells, acquiring approval of exploration and development plans, receiving new allowables, and obtaining drilling, injection, and other OCD issued permits, and potentially expose your company to additional compliance actions including an OCD order requiring compliance, and revocation of injection permits. As the operator of a non 19.15.5.9 NMAC compliant company, you will not be permitted to register any additional companies to operate in New Mexico or have any interest exceeding 25 percent in any other companies in New Mexico.

June 22, 2017

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The OCD is requesting that you review the OCD's online database for your specific Oil and Gas Registration Identification (OGRID) number and notify the OCD how your company plans to return to compliance with 19.15.5.9 NMAC. This is an opportunity for your company to work with the OCD toward achieving its goal of maintaining compliance with the rules of the State of New Mexico. Please respond to the OCD within 30 days of receipt of this letter. If no response is received the OCD may begin formal compliance action.

Respectfully yours,



Daniel Sanchez,
Compliance and Enforcement Manager
(505)476-3493
Daniel.sanchez@state.nm.us

OCD Case # 20196
Exhibit 3: Notice of Violation
Page 2 of 2

Ec: David R. Catanach, Division Director
Maxey Brown, District 1 Supervisor
Charlie Perrin, District 3 Supervisor
Randolph Bayliss, District 2 Supervisor
Will Jones, District 4 Supervisor
Keith Herrmann, Attorney, Santa Fe

**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 LODESTONE OPERATING, INC., FOR WELLS OPERATED IN LEA
COUNTY, NEW MEXICO.**

CASE NO. 20196

AFFIDAVIT OF DANIEL SANCHEZ

I, Daniel Sanchez, being first duly sworn on oath, states as follows:

1. I am employed as the Compliance and Enforcement Manager at the Oil Conservation Division ("OCD").

My duties include as the Compliance & Enforcement Manager

- Manage the division's four district offices and Environmental Bureau.
- Program Director for the EPA's Underground Injection Control program.
- Coordinate field inspections between the BLM (Carlsbad, Roswell, and Hobbs District Offices and the OCD (Artesia and Hobbs District Offices).
- Conduct quarterly meetings between the BLM and OCD to coordinate various enforcement actions on co-jurisdictional sites and issues.
- Manage the use of the State Reclamation Fund for the purpose of plugging abandoned wells, remediation of well sites and the remediation of oil and gas related environmental contamination.
- Testify in Hearing Examiner and Commission hearings in support of OCD staff positions on compliance and enforcement issues.
- Conduct operator orientation for operators new to the state.
- Negotiate Agreed Compliance Orders with operators out of compliance with OCD Rule 5.9.
- Simplify and standardize the Oil Conservation Division's business procedures.
- Eliminate outdated practices and address current regulatory issues.
- Oversee the consistent interpretation and enforcement of division rules.
- Ensure compliance with rules and permits on oil and gas facilities and operations.
- Assure that inactive wells are tested and plugged in accordance with division rules.
- Act as a backup for C-115, production reports, review and approvals.
- Act as a backup for data entry of ACOI wells into the divisions Risk Based Data Management System.

2. The OCD's information on production and injection comes from monthly production reports filed by the well operators.

OCD Case # 20196
Exhibit 4: Affidavit of Non-Production
and 5.9 Violations
Page 1 of 2

3. In 1993 the OCD began using the ONGARD (Oil and Natural Gas Administration and Revenue Database) to record oil and gas production and injection by well. Since 1993, production and injection data from the monthly production reports filed by operators has been entered into ONGARD.

4. When the OCD began using the ONGARD system in 1993, it converted existing production and injection data into ONGARD for those wells that were not shown as "plugged" according to the OCD records available at that time. The pre-1993 production and injection information for each such well was totaled and appears in ONGARD under the last month of production or injection for that well.

5. Upon information and belief, Lodestone Operating, Inc. ("Operator") is a Foreign profit corporation and is operating the wells ("subject wells") in Lea County, New Mexico identified in *Exhibit 1, Inactive Well List*.

6. Upon information and belief, the New Mexico Secretary of State has Operator registered under entity number 2759694 and identifies David Reavis, President, as officer of record.

7. Upon information and belief, the subject wells operated by Operator in New Mexico have been inactive for a continuous period exceeding one year plus 90 days, and are neither plugged and abandoned in accord with 19.15.25.9 to -11 NMAC nor on approved temporary abandonment status in accord with 19.15.25.12 NMAC.

8. Upon information and belief, the number of subject wells out of compliance with 19.15.25.8 NMAC (wells to be properly abandoned) exceeds the amount allowed by 19.15.5.9 NMAC. As an operator of 1 well, Operator may not have more than 1 well out of compliance with 19.15.25.8 NMAC

9. Exhibits 1-4 presented in this case are true and accurate reproductions of OCD records and were prepared by me or under my direction.


Daniel Sanchez

SUBSCRIBED AND SWORN before me on this January 9, 2019.


Notary Public

My Commission Expires:

May 29, 2020

**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 LODESTONE OPERATING, INC., FOR WELLS OPERATED IN LEA
COUNTY, NEW MEXICO.**

CASE NO. 20196

AFFIDAVIT OF SERVICE

In accordance with 19.15.4.9 and 19.15.4.12 NMAC, I hereby certify that notice of the January 10, 2019 hearing in the above captioned case was mailed to the following party(ies) by certified mail, return receipt requested, at least 20 days prior to the hearing date, with a copy of the application:

Lodestone Operating Inc.
120 Hawthorne Pl.
Portland, TX 78374

RLI Insurance Co.
8 Greenway Plaza
STE 400
Houston, TX, 77046
Via New Mexico Superintendent of Insurance

Pacific Registered Agents Inc.
3600 Cerillos Dr.
#714C-813
Santa Fe, NM 87507

David M. Reavis
1605 Hwy. 181, PMB 169
Portland, TX 78374

A copy of this notice is attached as *Exhibit 5-A* to this affidavit.



Keith W. Herrmann

SUBSCRIBED AND SWORN before me on this January 9, 2019.



Notary Public

My Commission Expires:

May 29, 2020

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Ken McQueen
Cabinet Secretary

Matthias Sayer
Deputy Cabinet Secretary

Heather Riley, Division Director
Oil Conservation Division



December 13, 2018

Lodestone Operating Inc.
120 Hawthorne Pl.
Portland, TX 78374

VIA CERTIFIED MAIL, RETURN RECEIPT: 7008 3230 0000 2319 2714

RLI Insurance Co.
8 Greenway Plaza
STE 400
Houston, TX, 77046
Via New Mexico Superintendent of Insurance

OCD Case # 20196
Exhibit 5-A: Direct Notice to Operator
Page 1 of 6

Re: OCD Case No. 20196 for a Compliance Order against Lodestone Operating Inc.

Dear Operator:

Pursuant to the notice provisions contained in 19.15.4 NMAC, you are hereby notified that at 8:15 AM on January 10, 2019, the New Mexico Oil Conservation Division ("OCD") will hold a hearing in front of a Division Examiner seeking an order determining that Lodestone Operating Inc. ("Operator") (1) is out of compliance with 19.15.5.9(A)(4), and 19.15.25.8 NMAC and NMSA 1978, § 70-2-14; (2) requiring Operator to return to compliance with 19.15.5.9(A)(4), and 19.15.25.8 NMAC and requiring producing wells shut-in until compliance is achieved; and (3) in the event of non-compliance, declaring the wells abandoned and authorizing the OCD to plug the violating wells in accordance with a Division-approved plugging program and restore and remediate the location, recover costs from the Operator's financial assurance as permitted by 19.15.8.13 NMAC, and seek indemnification and costs as permitted by NMSA 1978, § 70-2-14(E). The hearing will be held in Porter Hall at 1220 South St. Francis Dr., Santa Fe, New Mexico.

Please review 19.15.4 NMAC to see applicable rules for division hearings. A person entitled to notice may enter an appearance at any time by filing a written notice of appearance with the division or the commission clerk, as applicable, or, subject to the provisions in Subsection C of 19.15.4.10 NMAC, by oral appearance on the record at the hearing. A party who has not entered an appearance at least one business day prior to the pre-hearing statement filing date provided in Paragraph (1) of Subsection B of 19.15.4.13 NMAC shall not be allowed to present technical evidence at the hearing unless the Oil Conservation Commission chairman or the OCD examiner, for good cause, otherwise directs.

December 13, 2018

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If you have any questions regarding the hearing process, please contact me at (505) 476-3463 or keith.herrmann@state.nm.us.

Sincerely



Keith Herrmann
Attorney for the New Mexico Oil Conservation Division
Compliance and Enforcement Bureau

Encl: OCD Case No. 20196 Compliance and Enforcement Bureau Application for Hearing

Cc: Pacific Registered Agents Inc.
3600 Cerillos Dr.
#714C-813
Santa Fe, NM 87507
VIA CERTIFIED MAIL, RETURN RECEIPT: 7008 3230 0000 2319 2677

David M. Reavis
1605 Hwy. 181, PMB 169
Portland, TX 78374
VIA CERTIFIED MAIL, RETURN RECEIPT: 7008 3230 0000 2319 2721

OCD Case # 20196
Exhibit 5-A: Direct Notice to Operator
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