

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

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST SOUTHWESTERN, INC. FINDING THAT THE OPERATOR IS IN VIOLATION OF 19.15.3.100.D NMAC, FINDING THAT THE OPERATOR IS IN VIOLATION OF 19.15.4.201 NMAC, 19.15.1.13.B NMAC, 19.15.3.116.D AS TO ONE WELL, DETERMINING THAT THE VIOLATIONS ARE KNOWING AND WILLFUL AND IMPOSING A PENALTY, REQUIRING OPERATOR TO BRING THE WELL INTO COMPLIANCE AND PROVIDE REQUIRED CONTACT INFORMATION BY A DATE CERTAIN, AND IN THE EVENT OF NON-COMPLIANCE AUTHORIZING THE DIVISION TO PLUG THE WELL, REMEDIATE THE LOCATION AND FORFEIT THE APPLICABLE FINANCIAL ASSURANCE, LEA COUNTY, NEW MEXICO.

CASE NO. 14007

Affidavit of Dorothy Phillips

STATE OF NEW MEXICO)
) SS.
COUNTY OF SANTA FE)

Dorothy Phillips, being first duly sworn on oath, states as follows:

1. I have been employed as the bond administrator at the Santa Fe, New Mexico office of the Oil Conservation Division ("OCD") since 1997.

2. My duties include maintaining records of financial assurance documents filed by operators pursuant to NMSA 1978, Section 70-2-14.

3. I have reviewed OCD's financial assurance records to determine if financial assurance documents are on file for the following well:

- State VC #001 30-025-03035

4. ONGARD (oil and natural gas administration and revenue data base) maintains data on the financial assurances posted by operators. Attachment "A" to this affidavit consists of a printout of the ONGARD screen showing that Southwestern, Inc. posted the following financial assurance pursuant to NMSA 1978, Section 70-2-14 to secure the plugging of the State VC #001: Single Well Cash Plugging Bond A-E-71331-57, in the amount of \$7,500, deposited with American Employers' Insurance Company.

5. Attachment "B" to this affidavit is a copy of Single Well Cash Plugging Bond A-E-71331-57.

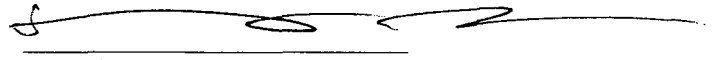
6. According to OCD records, the Single Well Cash Plugging Bond A-E-71331-57 remains in effect.

7. I called American Employers' Insurance Company at (781) 332-7000 and was given a number for a Mr. Marty Cohen at (781) 956-5040.

8. I spoke with Mr. Cohen, and he informed me that OneBeacon Insurance Company has taken over American Employers' Insurance Company, and that if the Oil Conservation Division was going to make a claim on a bond written by American Employers' Insurance Company it should be sent to the following address:

Martin B. Cohen c/o Harvey Green
OneBeacon Insurance Company
One Beacon Lane
Canton, MA 02021-1030

THIS CONCLUDES MY AFFIDAVIT.


Dorothy Phillips

SUBSCRIBED AND SWORN before me this 5th day of October, 2007.


Notary Public

My Commission Expires:

3-24-2010

CMD :
OG6CWBD

ONGARD
CAPTURE SINGLE WELL BOND

10/03/07 15:32:56
OGODLP -TQ77

OGRID Identifier : 21386 API Well No : 30 25 3035
Operator Name, Address : SOUTHWESTERN INC
PO BOX 1116
LOVINGTON, NM BADADDR

Bond Idn : 247769 Bond Status : A Prop Idn : 10677
Prop Name : STATE VC Well No : 001
U/L Sec Township Range North/South East/West Lot Idn
--- ---
Surface Locn : L 36 17S 35E FTG 2051 F S FTG 589 F E
API County : 25
Bond Details : Type (Cash/Surety - C/S) : S Bond Co Idn : 12 Amt : 7500
Company OGRID Identifier : 26132
Company Name, Address : AMERICAN EMPLOYERS' INSURANCE
ONE BEACON ST
BOSTON, MA 02108
Effective Date : 01-01-1900 Cancellation Date : 12-31-9999
Issuer Bond No : AE7133157

E0005: Enter data to modify or PF keys to scroll

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06 CONFIRM
PF07	PF08	PF09 COMMENT	PF10 NXTBOND	PF11	PF12

Affidavit of Dorothy Phillips

*Case 14007
OCD Exhibit A*

STATE OF NEW MEXICO
ONE-Well PLUGGING BOND

FOR CHAVES, EDDY, LEA, McKINLEY, RIO ARRIBA, ROOSEVELT,
SANDOVAL, AND SAN JUAN COUNTIES ONLY.

BOND NO. A-E-71331-57
(For Use of Surety Company)

AMOUNT OF BOND \$7,500

COUNTY Lea

NOTE: For wells less than 5,000 feet deep, the minimum bond is \$5,000.00*
For wells 5,000 feet to 10,000 feet deep, the minimum bond is \$7,500.00*
For wells more than 10,000 feet deep, the minimum bond is \$10,000.00

*Under certain conditions, a well being drilled under a \$5,000.00 or \$7,500.00 bond may be permitted to be drilled as much as 500 feet deeper than the normal maximum depth, i.e., a well being drilled under a \$5,000.00 bond may be permitted to go to 5,499 feet, and a well being drilled under a \$7,500.00 bond may be permitted to go to 10,500 feet.

File with Oil Conservation Commission, P. O. Box 2088, Santa Fe 87501

KNOW ALL MEN BY THESE PRESENTS:

That Southwestern, Inc. ~~XXXXXXXXXXXXXXXXXXXX~~
(a corporation organized in the State of Texas, with its principal office in the city of Lovington, State of New Mexico, and authorized to do business in the State of New Mexico), as PRINCIPAL, and AMERICAN EMPLOYERS' INSURANCE COMPANY, a corporation organized and existing under the laws of the State of Massachusetts and authorized to do business in the State of New Mexico, as SURETY, are held firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Commission of New Mexico pursuant to Section 65-3-11, New Mexico Statutes Annotated, 1953 Compilation, as amended, in the sum of Seven Thousand Five Hundred-- Dollars lawful money of the United States, for the payment of which, well and truly to be made, said PRINCIPAL and SURETY hereby bind themselves, their successors and assigns, jointly and severally, firmly by these presents.

The conditions of this obligation are such that:

WHEREAS, The above principal has heretofore or may hereafter enter into oil and gas leases, or carbon dioxide (CO₂) gas leases, or helium gas leases with the State of New Mexico; and

WHEREAS, The above principal has heretofore or may hereafter enter into oil and gas leases, or carbon dioxide (CO₂) gas leases, or helium gas leases on lands patented by the United States of America to private individuals, and on lands otherwise owned by private individuals; and

WHEREAS, The above principal, individually, or in association with one or more other parties, has commenced or may commence the drilling of one well not to exceed a depth of 10,000 feet, to prospect for and produce oil or gas, or carbon dioxide (CO₂) gas or helium gas, or does own or may acquire, own or operate such well, or such well started by others on land embraced in said State oil and gas leases, or carbon dioxide (CO₂) leases, or helium gas leases, and on land patented by the United States of America to private individuals, and on land otherwise owned by private individuals, the identification and location of said well being 2050.7' ESL and 589.3' FWL

(Here state exact legal subdivision by 40-acre tract or lot)

Section 36, Township 17 ~~XXXX~~ (South), Range 35 (East) ~~XXXX~~ N.M.P.M.
Lea County, New Mexico.

NOW, THEREFORE, If the above bounden principal and surety or either of them or their successors or assigns, or any of them, shall plug said well when dry or when abandoned in accordance with the rules, regulations, and orders of the Oil Conservation Commission of New Mexico in such way as to confine the oil, gas, and water in the strata in which they are found, and to prevent them from escaping into other strata:

THEN, THEREFORE, This obligation shall be null and void; otherwise and in default of complete compliance with any and all of said obligations, the same shall remain in full force and effect.

Affidavit of Dorothy Phillips

**Case 14007
OCD Exhibit B**

SOUTHWESTERN, INC.

Post Office Box 1116

Lovington, New Mexico 88260

Address

AMERICAN EMPLOYERS' INSURANCE CO.

101 South Fourth Street

Artesia, New Mexico 88210

Address

By

Tom R. Cone

Signature

President

Title

By

Charlene M. Ward

Attorney-in-Fact

Charlene M. Ward

(Note: Principal, if corporation, affix corporate seal here.)

(Note: Corporate surety affix corporate seal here.)

ACKNOWLEDGMENT FORM FOR NATURAL PERSONS

STATE OF _____)
COUNTY OF _____) ss.

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person (persons) described in and who executed the foregoing instrument and acknowledged that he (they) executed the same as his (their) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

Notary Public

My Commission expires _____

ACKNOWLEDGMENT FORM FOR CORPORATION

STATE OF *Missouri*)
COUNTY OF *St. Louis*) ss.

On this *30th* day of *October*, 19*77*, before me personally appeared *Tom R. Cone*, to me personally known who, being by me duly sworn, did say that he is *President* of *Southwestern, Inc.* and that the foregoing instrument was signed and sealed on behalf of said corporation by authority of its board of directors, and acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

Notary Public

My Commission expires *March 29, 1979*

ACKNOWLEDGMENT FORM FOR CORPORATE SURETY

STATE OF *New Mexico*)
COUNTY OF *Eddy*) ss.

On this *2nd* day of *November*, 19*77*, before me appeared *Charlene M. Ward*, to me personally known, who, being by me duly sworn, did say that he is *Attorney-in-Fact* of *American Employers' Insurance Co.* and that the foregoing instrument was signed and sealed on behalf of said corporation by authority of its board of directors, and acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

Notary Public

9-18-80

My Commission expires

(Note: Corporate surety attach power of attorney.)

APPROVED BY:

OIL CONSERVATION COMMISSION OF NEW MEXICO

By

Date

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the AMERICAN EMPLOYERS' INSURANCE COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts, and having its principal office in the City of Boston, Mass., hath made, constituted and appointed, and does by these presents make and constitute and appoint J. S. Ward, John C. Knight and Charlene M. Ward all of Artesia, New Mexico.

and each of them its true and lawful Attorney-in-Fact, to make, execute, seal and deliver for and on its behalf as surety any and all bonds or undertakings

and the execution of such bonds or undertakings in pursuance of these presents, shall be binding upon said Company as fully and amply, to all intents and purposes, as if such bonds were signed by the President, sealed with the corporate seal of the Company, and duly attested by its Secretary, hereby ratifying and confirming all the acts of said Attorney-in-Fact pursuant to the power herein given. This Power of Attorney is made and executed pursuant to and by authority of the following resolutions adopted by the Board of Directors of the AMERICAN EMPLOYERS' INSURANCE COMPANY at a meeting duly called and held on the Twenty-seventh day of July, 1972:

Resolved: That the President, or any Vice-President, or any Assistant Vice-President, may execute for and in behalf of the company any and all bonds, recognizances, contracts of indemnity, and all other writings obligatory in the nature thereof, the same to be attested when necessary and the seal of the company affixed thereto by the Secretary, or any Assistant Secretary; and that the President, or any Vice-President, or Assistant Vice-President, may appoint and authorize an Attorney-in-Fact to execute on behalf of the company any and all such instruments and affix the seal of the company thereto; and that the President, or any Vice-President, or any Assistant Vice-President, may at any time remove, any such Attorney-in-Fact and revoke all power and authority given to any such Attorney-in-Fact.

Resolved: That Attorneys-in-Fact may be given full power and authority to execute for and in the name and on behalf of the company any and all bonds, recognizances, contracts of indemnity, and all other writings obligatory in the nature thereof, and any such instrument executed by any such Attorney-in-Fact shall be as binding upon the company as if signed by the President and sealed and attested by the Secretary, and, further, Attorneys-in-Fact are hereby authorized to verify any affidavit required to be attached to bonds, recognizances, contracts of indemnity, and all other writings obligatory in the nature thereof, and are also authorized and empowered to certify to a copy of any of the by-laws of the company as well as any resolution of the Directors having to do with the execution of bonds, recognizances, contracts of indemnity, and all other writings obligatory in the nature thereof, and to certify copies of the Power of Attorney or with regard to the powers of any of the officers of the company or of Attorneys-in-Fact.

This power of attorney is signed and sealed by facsimile under the authority of the following Resolution adopted by the Directors of the AMERICAN EMPLOYERS' INSURANCE COMPANY at a meeting duly called and held on the Twenty-seventh day of July, 1972:

"Resolved: That the signature of the President, or any Vice-President, or any Assistant Vice-President, and the signature of the Secretary or any Assistant Secretary and the Company Seal may be affixed by facsimile to any power of attorney or to any certificate relating thereto appointing Attorneys-in-Fact for purposes only of executing and attesting any bond, undertaking, recognition or other written obligation in the nature thereof, and any such signature and seal where so used, being hereby adopted by the company as the original signature of such officer and the original seal of the company, to be valid and binding upon the company with the same force and effect as though manually affixed."

IN WITNESS WHEREOF, the AMERICAN EMPLOYERS' INSURANCE COMPANY, has caused these presents to be signed by its Assistant Vice-President and its corporate seal to be hereto affixed, duly attested by its Secretary this 15th day of Sept. 19 77



Attest:

Raymond M. Defossez

Raymond M. Defossez — Secretary

By

AMERICAN EMPLOYERS' INSURANCE COMPANY

Robert J. Spencer
Robert J. Spencer — Assistant Vice-President

COMMONWEALTH OF MASSACHUSETTS
COUNTY OF SUFFOLK SS.

On this 15th day of September 19 77, before me personally came Robert J. Spencer, Assistant Vice-President, and Raymond M. Defossez, Secretary of the AMERICAN EMPLOYERS' INSURANCE COMPANY, to me personally known to be the individuals and officers described in and who executed the preceding instrument, and they acknowledge the execution of the same, and being by me duly sworn, severally and each for himself depose and sayeth, that they are the said officers of the Company aforesaid, and that the seal affixed to the preceding instrument is the corporate seal of said Company and that the said corporate seal and their signatures as such officers were duly affixed and subscribed to the said instrument by the authority and direction of the said Company.



Julius Szentendrey
Julius Szentendrey — Notary Public
(My Commission expires February 27, 1981)

CERTIFICATE

I, the undersigned Assistant Secretary of the AMERICAN EMPLOYERS' INSURANCE COMPANY, a Massachusetts Corporation, do hereby certify that the foregoing power of attorney is in full force and has not been revoked; and furthermore, that the Resolutions of the Board of Directors set forth in the power of attorney are now in force.

Signed and sealed at the City of Boston. Dated this 2nd day of November 19 77



Handwritten signature