

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

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APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST SOUTHWEST ROYALTIES, INC., FINDING THAT OPERATOR IS IN VIOLATION OF OIL CONSERVATION DIVISION RULE 19.15.4.201 NMAC AS TO ELEVEN WELLS, REQUIRING OPERATOR TO RETURN SAID WELLS TO COMPLIANCE BY A DATE CERTAIN, AND IN THE EVENT OF NON-COMPLIANCE, DECLARING THE WELLS ABANDONED AND AUTHORIZING THE DIVISION TO PLUG THE WELLS AND FORFEIT THE APPLICABLE FINANCIAL ASSURANCE, EDDY AND LEA COUNTY, NEW MEXICO.

CASE NO. 14077

APPLICATION FOR COMPLIANCE ORDER AGAINST SOUTHWEST ROYALTIES, INC.

1. Southwest Royalties, Inc. (hereinafter, "Operator") is a corporation operating wells in New Mexico under OGRID 21355.

2. Operator is operator of record of the following subject wells:

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| • Barr H State No. 001; | 30-025-29825; | I-7-16S-33E |
| • Bell Ramsay NCT D No. 001; | 30-025-06214; | G-35-20S-37E |
| • Eagle No. 001; | 30-025-27568; | J-36-25S-36E |
| • Humphreys No. 001; | 30-025-09815; | N-25-25S-36E |
| • Maralo Sholes B No. 002; | 30-025-09806; | P-25-25S-36E |
| • Mcmillan No. 001; | 30-025-05511; | N-29-18S-37E |
| • Parke Federal No. 001; | 30-015-20597; | O-10-17S-30E |
| • Parke Federal No. 003; | 30-015-20612; | I-10-17S-30E |
| • Sholes A No. 003; | 30-025-09796; | I-24-25S-36E |
| • Sholes B 25 No. 002; | 30-025-09808; | B-25-25S-36E |
| • Wright Federal Com No. 001; | 30-015-21878; | N-29-18S-29E |

3. Of the above identified subject wells, the following six are federal wells:

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|-------------------------------|---------------|--------------|
| • Maralo Sholes B No. 002; | 30-025-09806; | P-25-25S-36E |
| • Parke Federal No. 001; | 30-015-20597; | O-10-17S-30E |
| • Parke Federal No. 003; | 30-015-20612; | I-10-17S-30E |
| • Sholes A No. 003; | 30-025-09796; | I-24-25S-36E |
| • Sholes B 25 No. 002; | 30-025-09808; | B-25-25S-36E |
| • Wright Federal Com No. 001; | 30-015-21878; | N-29-18S-29E |

4 Operators of federal wells within New Mexico are not required to post financial assurance to secure the plugging of these wells. Therefore, Operator has posted no financial assurance with the State of New Mexico to secure the plugging of the federal wells.

5. On the remaining non-federal wells, Operator has posted a \$50,000.00 blanket bond through Trinity Universal Insurance Company, in Dallas, Texas, pursuant to NMSA 1978, Section 70-2-14, to secure its obligation to plug and abandon these wells in compliance with Oil Conservation Division (“OCD”) rules.

6. OCD Rule 19.15.3.101 NMAC authorizes the Division to direct the forfeiture of the financial assurance upon the failure or refusal of the operator, surety, or other responsible party to plug and abandon the well and restore and remediate the location.

7. OCD Rule 19.15.4.201 NMAC requires the operator of a well which has been continuously inactive for a period of one year and 90 days to plug and abandon the well or place the well on OCD-approved temporary abandonment status.

8. NMSA 1978, Section 70-2-12(B)(18) and NMSA 1978, Section 70-2-38 authorizes the Division to plug and abandon wells, and restore and remediate the location of abandoned wells.

9. OCD Rule 19.15.3.101(H) authorizes the Director to order the Operator to plug and abandon any well not in compliance with OCD Rule 19.15.4.201 NMAC and restore and remediate the location by a date certain.

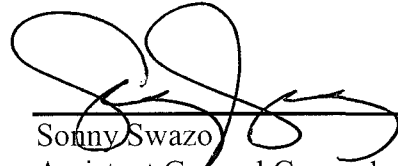
10. The subject wells have had no reported production or injection for a continuous period exceeding one year plus 90 days, and are neither plugged and abandoned in accord with OCD Rule 19.15.4.202 NMAC nor on approved temporary abandonment status in accord with OCD Rule 19.15.4.203 NMAC.

WHEREFORE, the Enforcement and Compliance Manager of the Division hereby applies to the Director to enter an order:

- A. Finding Operator in non-compliance with 19.15.4.201 NMAC;
- B. Requiring Operator to return to compliance with 19.15.4.201 NMAC by a date certain;
- C. Requiring Operator to plug and abandon the subject wells by a date certain if Operator fails to return to compliance with 19.15.4.201 NMAC by a date certain;
- D. In the event of Operator's non-compliance, declaring the wells abandoned and authorizing the Division to forfeit the applicable financial assurance and plug the subject wells in accordance with a Division-approved plugging program and restore and remediate the locations; and
- E. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,

This Fourth day of January 2008 by



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Case No. 14077. Application of the New Mexico Oil Conservation Division for a Compliance Order against Southwest Royalties, Inc. The Applicant seeks an Order finding that operator is in violation of 19.15.4.201 NMAC as to eleven wells, requiring operator to bring the wells into compliance by a date certain, and authorizing the Division to forfeit the applicable financial assurance and plug the wells in the event of operator's non-compliance. The affected wells are:

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| • Barr H State No. 001; | 30-025-29825; | I-7-16S-33E |
| • Bell Ramsay NCT D No. 001; | 30-025-06214; | G-35-20S-37E |
| • Eagle No. 001; | 30-025-27568; | J-36-25S-36E |
| • Humphreys No. 001; | 30-025-09815; | N-25-25S-36E |
| • Maralo Sholes B No. 002; | 30-025-09806; | P-25-25S-36E |
| • Mcmillan No. 001; | 30-025-05511; | N-29-18S-37E |
| • Parke Federal No. 001; | 30-015-20597; | O-10-17S-30E |
| • Parke Federal No. 003; | 30-015-20612; | I-10-17S-30E |
| • Sholes A No. 003; | 30-025-09796; | I-24-25S-36E |
| • Sholes B 25 No. 002; | 30-025-09808; | B-25-25S-36E |
| • Wright Federal Com No. 001; | 30-015-21878; | N-29-18S-29E |

The Barr H State No. 001 is located approximately 8 miles northeast of Maljamar, in Lea County, New Mexico.

The Bell Ramsay NCT D No. 001 is located approximately 9 miles southwest of Hobbs, in Lea County, New Mexico.

The Eagle No. 001 is located approximately 3 miles west of Jal, in Lea County, New Mexico.

The Humphreys No. 001 is located approximately 4 miles southwest of Jal, in Lea County, New Mexico.

The Maralo Sholes B No. 002 is located approximately 2 miles southwest of Jal, in Lea County, New Mexico.

The Mcmillan No. 001 is located approximately 8 miles west of Hobbs, in Lea County, New Mexico.

The Parke Federal No. 001 and Parke Federal No. 003 are located approximately 4 miles southeast of Loco Hills, in Eddy County, New Mexico.

The Sholes A No. 003 is located approximately 1 mile west of Jal, in Lea County, New Mexico.

The Sholes B 25 No. 002 is located approximately 3 miles Northwest of Jal, in Lea County, New Mexico.

The Wright Federal Com No. 001 is located approximately 8 miles southwest of Loco Hills, in Eddy County, New Mexico.