

State of New Mexico
Energy, Minerals and Natural Resources Department

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Oil Conservation Division



May 30, 2013

Vanguard Permian, LLC
P.O. Box 1570
Eunice, NM 88231
[Address of record]

Vanguard Permian, LLC
P.O. Box 1570
Eunice, NM 88231
[Address on C-101]

**NON-DENIAL OF APD(S) DESPITE NON-COMPLIANCE WITH
INACTIVE WELL REQUIREMENTS**

Re: Vanguard Permian, LLC, OGRID No. 258350

- Cole State #8, G-16-T22S-R37E, 2240' FNL & 2310' FEL, Lea County, New Mexico
- Cole State #15, C-16-T22S-R37E, 660' FNL & 1780' FWL, Lea County, New Mexico

Dear Operator:

You have requested a permit to drill, deepen or plug back for the well/s identified above. Unfortunately, according to the attached inactive well list, your company is out of compliance with 19.15.5.9(A) NMAC [Part 5.9(A)] due to having too many wells in violation of 19.15.25.8 NMAC [Part 25.8] (inactive well rule) that are not subject to an inactive well agreed compliance order ("ACOI"). See Part 5.9(A)(4) NMAC. As an operator of 257 wells, your company may have no more than 5 wells in violation of Part 25.8. Your company has 6 wells in violation.¹

The Director of the Oil Conservation Division ("OCD") or her designee **may deny a permit to drill, deepen or plug back** if the applicant is not in compliance with Part 5.9(A). See 19.15.14.10(A) NMAC.

¹ To check an operator's compliance with the inactive well rule, go to the OCD's website at www.emnrd.state.nm.us/ocd. On the left-hand side of the main window, click on "OCD Online"; select "E-Permitting"; click on "Compliance"; click on "Inactive Well List." Leave the search terms as "Exclude Wells Under ACOI," "Exclude Wells in Approved TA Period," and "15" months from last production or injection. Enter the operator's name or OGRID and select "Get Report." The report will list wells operated by that operator that are presumed to be out of compliance with the division's inactive well rule, and that will be considered in determining if the operator is out of compliance with Part 5.9(A).

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An Operator is not in compliance with Part 5.9(A) if the Operator:

- does not meet the financial assurance requirements of 19.15.8 NMAC;
- is subject to a division or commission order finding the operator to be in violation of an order requiring corrective action;
- has a penalty assessment that has been unpaid for more than 70 days since the issuance of the order assessing the penalty; or
- has more than the allowed number of wells out of compliance with 19.15.25.8 NMAC (inactive well rule).

As the Director's designee, I have decided **not to deny** your APD application on the basis of 5.9. However, **my decision not to deny your APD on the basis of Part 5.9 does not constitute approval of your APD by the OCD District Office, which may impose specific requirements.**

Please note, however, that the OCD cannot assign an allowable to a well or issue authorization to transport oil or natural gas from a well if the operator is out of compliance with Part 5.9. See 19.15.16.19(A) NMAC. Therefore, if your company is not in compliance with Part 5.9(A) at the time it requests an allowable and authorization to transport, its request will be denied.

To come into compliance with Part 5.9(A) as to inactive wells you must reduce the number of wells on your inactive well list or otherwise demonstrate that you have no more than the tolerated number of wells out of compliance with the inactive well rule. A well will be removed from the inactive well list when you take one of the following actions:

1. plug the wellbore and file an approved C-103 reporting the plugging;
2. place the well on approved temporary abandonment status;
3. return the well to production or other beneficial use and file a C-115 reporting production or use; or
4. enter into an ACOI with the OCD covering the well.

An ACOI sets a schedule for returning the operator's inactive wells to compliance and imposes sanctions if the schedule is not met. If you would like to discuss entering into an ACOI for your non-compliant inactive wells, please contact OCD attorney Gabrielle Gerholt at (505) 476-3451 or gabrielle.gerholt@state.nm.us.² Attached is an information sheet explaining Part 5.9.

This non-denial of your APD(s) for the above identified well(s) despite non-compliance with inactive well requirements automatically expires six months from today's date unless an APD for the above well(s) is approved within that time by the OCD District Office.

Respectfully yours,

Daniel Sanchez

² Please note that Agreed Compliance Orders are offered at the discretion of the OCD, and that not all Operators are eligible to enter into such agreements.

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Division Enforcement & Compliance Manager

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