New Mexico Energy, Minerals and Natural Resources Department

Susana Martinez

Governor

John H. Bemis Cabinet Secretary

Brett F. Woods, Ph.D. Deputy Cabinet Secretary Jami Bailey Division Director Oil Conservation Division



March 7, 2012

Certified Mail: 7002 3150 0005 2327 4737

NMR Energy LLC Attn: Sherman Weaver 800 Bering Drive, Suite 250 Houston, TX 77057

Email: Sherman@aspenpipeline.com

Re: Agreed Compliance Order (ACO) #273

Operator: NMR Energy LLC – OGRID #280401

Wells: Barnhill #1 API #30-025-28198

Post #1 API #30-025-27984 Post #2 API #30-025-28295

Post #3 API #30-025-28576

Dear Operator:

Under Provision 14 of Agreed Compliance Order 273, NMR Energy, LLC (NMR) agreed to:

- remediate the site of the Post #3 according to an Oil Conservation Divisionapproved plan by December 19, 2011;
- install well signs for all four wells; and
- return each well to compliance with the inactive well rule (19.15.25.8 NMAC) by December 19, 2011.

The Division's Hobbs district office has not received a remediation plan from NMR for the Post #3 as of this date.

The Division's Hobbs district office indicates that NMR has not installed a well sign for the Post #1 well as of this date.

Division records indicate that the Post #1, Post #2, and Post #3 have not been brought into compliance with the inactive well rule as of this date.



NMR Energy LLC - OGRID No. 280401 ACO 273 March 1, 2012 Page 2

Provision 18 of ACO 273 allowed NMR the opportunity to extend the terms of the agreement if NMR demonstrated that it was acting in good faith to return the wells to compliance. NMR did not request an extension and ACO 273 has now expired.

Provision 17 of ACO 273 provides that if any of the wells remained out of compliance with any provision of ACO 273 on December 19, 2011, NMR agreed that the Division may plug and abandon the non-compliant well and decree forfeiture of any applicable financial assurance. NMR waived any right to notice and hearing prior to plugging and forfeiture.

Since the Post #1, Post #2, and Post #3 remain out of compliance with Provision 14 of ACO 273, the Division has decided to plug and abandon the wells and decree forfeiture of the applicable financial assurance, in accordance with the terms of AC 273.

If NMR has any questions it may call me at (505) 476-3493.

Sincerely,

Daniel Sanchez

OCD Compliance and Enforcement Manager

Cc: Jami Bailey, OCD Director

E.L. Gonzales, OCD District 1

Ed Martin, OCD, Santa Fe

David Brooks, OCD, Santa Fe

Theresa Duran-Saenz, OCD, Santa Fe

Sonny Swazo, OCD, Santa Fe

Mike Stewart, mstewart@helmsoil.com

Chris Timmons, chris@hplco.com, chris@aspenpipeline.com

Encls: April 29, 2011 Email

ACO 273 Letter

ACO 273

From:

Swazo, Sonny, EMNRD

To:

"sherman@aspenpipeline.com"

Cc:

"Mike Stewart"; "Chris Timmons"; Sanchez, Daniel J., EMNRD

Subject:

Draft Agreed Compliance Order for NMR Energy LLC (OGRID 280401)

Date:

Friday, April 29, 2011 9:13:00 AM

Attachments:

current draft ACO.odf

Mr. Weaver:

Attached for your review and approval is a draft Agreed Compliance Order (ACO) for NMR Energy LLC. Please read the ACO carefully.

Briefly speaking, the ACO allows the four wells to be transferred to NMR (the ACO allows the Post #1 to be transferred to NMR <u>after</u> it has posted the required single-well bond on the Post #1). Under the ACO, NMR has until May 27, 2011 to post the single-well bond for the Post #1 and submit a change of operator for the Post #1. After that, the OCD will no longer hold off on the plugging of the well pursuant to Order R-13190 to allow NMR to become the operator of record.

If NMR becomes the operator of record of the Post #1, the ACO allows NMR to pursue an injection permit for the Post #1.

The ACO requires NMR to bring the wells it acquires under the ACO to compliance by December 19, 2011. The ACO allows NMR to request an extension of the ACO deadlines. However, if NMR does not bring the wells into compliance by the December 19, 2011 deadline, and does not seek and obtain an extension of the deadline prior to December 19, 2011, then the ACO allows the OCD to plug and abandon the wells and forfeit any applicable financial assurance without notice and hearing.

If the ACO is acceptable to NMR, then have someone with authority to sign for the company sign a copy and either email or fax me a signed copy so that we can get it executed today.

My email is <u>sonny.swazo@state.nm.us</u>. My fax number is 505-476-3462. Please keep me posted so that we can get this thing done today.

Call me if any questions. Daniel is out of the office today.

Sonny

505-476-3462

Susana Martinez

Governor

John H. Bemis
Cabinet Secretary-Designate

Brett F. Woods, Ph.D. Deputy Cabinet Secretary

Jami Bailey Division Director Oil Conservation Division



April 29, 2011

NMR Energy LLC Attn: Sherman Weaver 800 Bering Drive, Suite 250 Houston, TX 77057

Email: Sherman@aspenpipeline.com

Agreed Compliance Order (ACO) #273

Operator NMR Energy LLC – OGRID #280401 Wells: Barnhill #001, API #30-025-28198

Post #002, API #30-025-28295 Post #003, API #30-025-28576

Dear Operator:

Re:

Enclosed is your copy of Agreed Compliance Order ("ACO") 273.

ACO 273 allows NMR Energy LLC ("NMR") to become the operator of record of the three wells identified above, and the Post #001 (API #30-025-27984) once NMR has posted the required single-well bond for the Post #001. (Please note that if NMR has not posted the required financial assurance for the Post #001 and submitted a change of operator for the Post #001 by May 27, 2011, the OCD will no longer wait for NMR to become the operator of record of the Post #001 and will proceed with the plugging of the well pursuant to Order R-13190.)

ACO 273 also allows NMR to obtain an injection permit for the Post #001 after it becomes the operator of record of the well.

In a nutshell, ACO 273 requires NMR to:

- Maintain its \$50,000 blanket financial assurance, subject to the terms of the ACO.
- Maintain the single-well financial assurance posted for each well, subject to the terms of the ACO.



- Remediate the site of the Post #003 according to an OCD-approved plan by December 19, 2011.
- Install well signs for all wells acquired from Platinum in accordance with 19.15.16.8 NMAC.
- Return each well to compliance with 19.15.25.8 NMAC by <u>December 19, 2011</u>, subject to the terms of the ACO.

<u>Please remember</u> that ACO 273 allows NMR to request an extension of ACO deadlines. <u>Please make your request prior to the applicable deadline</u>. It is within the Oil Conservation Division's ("OCD's") discretion as to whether an extension is granted or not.

Most importantly, ACO 273 provides that if any of the wells that NMR acquires under the ACO remain out of compliance with any provision of the ACO on December 19, 2011, the OCD may plug and abandon the non-compliant well and forfeit the applicable financial assurance without notice and hearing.

Please contact me at (505) 476-3463 or sonny.swazo@state.nm.us if you have any questions about the ACO.

Sincerely,

Sonny Swazo

OCD Assistant General Counsel

CC: Jami Bailey, OCD Director

Daniel Sanchez, OCD Enforcement & Compliance Manager

Larry "Buddy" Hill, OCD District I Supervisor

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

NMOCD-ACO-273

IN THE MATTER OF NMR ENERGY LLC.

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act") and OCD Rule 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and NMR Energy LLC ("NMR") enter into this Agreed Compliance Order ("Order" or "ACO").

FINDINGS

- The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
- NMR is a Texas limited liability company registered to operate wells in New Mexico under OGRID 280401. NMR has posted a \$50,000 blanket letter of credit (Letter of Credit No. 5384-30).
- 3. NMR seeks to become operator of record of the following wells ("identified wells"):

Barnhill #001	API #30-025-28198
• Post #001	API #30-025-27984
• Post #002	API #30-025-28295
 Post #003 	API #30-025-28576

- 4. The current operator of record of the identified wells is Platinum Exploration Inc., OGRID 227103 ("Platinum").
- 5. The identified wells are the subject of Administrative Hearing Order R-13190, a compliance order issued to Platinum and Devonian Partners, LLC ("Devonian") requiring them to return the wells to compliance or plug the wells by May 1, 2010. The violations at issue for the wells NMR seeks to acquire are as follows:
 - 19.15.25.8 NMAC (the inactive well rule) as to the Barnhill #001, Post #002, Post #003:
 - 19.15.8.9 NMAC (the financial assurance rule) as to all four wells;
 - 19.15.29.11 NMAC (release notification rule) as to the Post #003; and
 - 19.15.16.8 NMAC (well sign rule) as to the Barnhill #001, Post #002, and Post #003.

ACO NMR Energy LLC – OGRID 280401 Page 1 of 4 6. NMR has posted the following single-well bonds for the following wells:

 Barnhill #001 	\$17,745	Letter of Credit No. 5386-30
 Post #002 	\$17,745	Letter of Credit No. 5388-30
Post #003	\$19,000	Letter of Credit No. 5387-30

- 7. As a condition precedent for operating an oil, gas, injection or service well, an operator is required to post financial assurance on any well it is proposing to acquire on state-owned or privately-owned lands within New Mexico. Sec 19.15.8.9 NMAC.
- 8. NMR is working on getting the single-well financial assurance that is required for the Post #001 posted. Once NMR has posted the required single-well financial assurance for the Post #001, the OCD may approve the transfer of the Post #001 to NMR.
- 9. According to NMR, if NMR does not become the operator of record of the Barnhill #001 by May 1, 2011, the lease for the Barnhill #001 will terminate.
- 10. The OCD may deny a change of operator if the new operator is acquiring wells subject to a compliance order requiring remediation or compliance with the inactive well rule, and the new operator has not entered into an agreed compliance order setting a schedule for compliance with the existing order. See 19.15.9.9.C NMAC.
- 11. The Post #001 was previously authorized for injection. However, it did not report injection for a continuous period in excess one year, and the injection authority for the well has terminated automatically pursuant to 19.15.26.12(C) NMAC.
- Once NMR becomes the operator of record of the Post #001, it may seek a new injection permit for the well, which was previously permitted. However, the OCD is barred from granting an injection permit to an operator in violation of 19.15.5.9 ("Part 5.9"). See 19.15.26.8 NMAC. Because all four of the wells NMR seeks to acquire are in violation of the inactive well rule, NMR will be out of compliance with Part 5.9. See 19.15.5.9(4) NMAC.
- 13. Placing the wells under an agreed compliance order setting a schedule for returning the wells to compliance with a sanction for non-compliance with the order will allow the OCD to approve the transfer, and will bring the wells into compliance with Part 5.9, allowing NMR to seek injection permits.

<u>AGREEMENT</u>

- 14. The OCD and NMR agree that NMR will:
 - Maintain its \$50,000 blanket financial assurance. While this agreement is in effect the blanket financial assurance must be in the form of a letter of credit or a cash bond.
 - Post a single-well financial assurance in the form of a cash bond or a letter of credit in the amount required under 19.15.8.9 NMAC for the Post #001 by May 27, 2011, IF NMR intends to become the operator of record of the Post #001. That financial assurance shall remain in place until NMR completes one of the following actions: plugs and abandons the well and obtains its release pursuant to 19.15.25.10 and 19.15.25.11 NMAC; returns

ACO NMR Energy LLC – OGRID 280401 Page 2 of 4 the well to production or injection and reports that production or injection on a C-115; or transfers the well to another operator.

- Maintain the single-well financial assurance posted for each well. While this agreement is in effect the single-well financial assurance must be in the form of a letter of credit or a eash bond. That financial assurance shall remain in place until NMR completes one of the following actions: plugs and abandons the well and obtains its release pursuant to 19.15.25.10 and 19.15.25.11 NMAC; returns the well to production or injection and reports that production or injection on a C-115; or transfers the well to another operator.
- Remediate the site of the Post #003 according to an OCD-approved plan by December
 19, 2011. NMR shall submit a plan for remediation to the Hobbs District Office of the
 OCD for approval, and complete the remediation in accordance with the OCD-approved
 plan.
- Install well signs for all wells acquired from Platinum in accordance with 19.15.16.8
 NMAC.
- Return each well to compliance with 19.15.25.8 NMAC by December 19, 2011 by taking one of the following actions: plugging and abandoning the well and obtaining its release pursuant to 19.15.25.10 and 19.15.25.11 NMAC; returning the well to production or injection and reporting that production or injection on a C-115, or placing the well on approved temporary abandonment pursuant to 19.15.25.13 NMAC.
- 15. For those identified wells that NMR becomes the operator of record of, the OCD agrees to remove those wells from the inactive well list for NMR kept pursuant to Part 5.9 until December 19, 2011. At that time, any of the identified wells operated by NMR that remains out of compliance with the inactive well rule will appear on the inactive well list for NMR.
- 16. If NMR has not posted the single-well financial assurance that is required for the Post #001 and has not submitted a change of operator for the Post #001 by May 27, 2011, the OCD may plug the well pursuant to the terms of Administrative Hearing Order R-13190.
- 17. If any of the wells NMR acquires from Platinum remains out of compliance with <u>any</u> provision of this order on <u>December 19, 2011</u>, NMR agrees that the OCD may plug and abandon the non-compliant well(s) and forfeit the applicable financial assurances. <u>NMR further agrees that it waives any right to notice and hearing prior to that plugging and forfeiture.</u>
- 18. NMR may seek an extension of the terms of this order if it demonstrates to the OCD that it has acted in good faith to return the wells to compliance. It will be exclusively within the discretion of the OCD whether to grant the requested extension.

Done at Santa Fe, New Mexico this 29 day of APRIL 2011

Jami Bailey

Director, Oil Conservation Division

ACO NMR Energy LLC – OGRID 280401 Page 3 of 4

ACCEPTANCE

NMR Energy LLC hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

NMR Energy LLC

By:

(Please print name)

Sherman Weaver

Title:

President

Date:

4/30/2011