

State of New Mexico  
Energy, Minerals and Natural Resources Department

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Susana Martinez  
Governor

Ken McQueen  
Cabinet Secretary

Matthias Sayer  
Deputy Cabinet Secretary

Heather Riley, Division Director  
Oil Conservation Division



October 1, 2018

MorningStar Partners, L.P.  
400 West 7<sup>th</sup> Street  
Fort Worth, TX 76102

**Re: ACOI No. 359**  
Southland Royalty Company, LLC; OGRID No. 370292

Dear Operator:

Thank you for returning the signed agreed compliance order regarding inactive wells operated by Southland Royalty Company, LLC (Southland). Enclosed is a copy of the fully executed order.

The Order requires Southland to bring **8** of the wells identified in the Order into compliance with Rule 19.15.25.8 NMAC by **December 31, 2018**. Please remember that to bring a well into compliance under the order, Southland must not only plug the wellbore, place the well on approved temporary abandonment, or return it to production or other beneficial use, Southland must also file the appropriate paperwork. For example, if Southland plugs the wellbore of a well, it must also file a C-103 subsequent report on the plugging. You may wish to confirm the status of each well on the list with the appropriate district office prior to the expiration of the Order.

The Order also requires Southland to file a compliance report with the Oil Conservation Division (OCD) Compliance and Enforcement Manager, Daniel Sanchez, by **December 31, 2018**. This means **the compliance report must be received by the OCD by December 31, 2018**. I will review the report to determine whether the wells have been returned to compliance. If you have questions about how to file a compliance report, please contact me at (505) 476-3493.

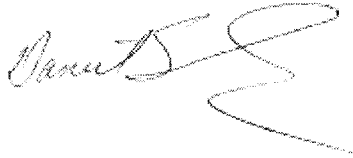
**As Southland works to fulfill its obligations under the order, it should also monitor the status of its other wells to ensure that wells do not remain inactive for a period exceeding 15 months.** Remember that you can search the OCD's Inactive Well List for wells that are inactive, but not yet out of compliance.

October 1, 2018

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The OCD appreciates Southland's commitment to bringing its inactive wells into compliance. If you have any questions, or if I can help you in any way, please do not hesitate to call. My email address is [daniel.sanchez@state.nm.us](mailto:daniel.sanchez@state.nm.us).

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Daniel Sanchez", with a long, sweeping horizontal line extending from the end of the signature.

Daniel Sanchez  
NMOCD Compliance & Enforcement Manager

Encl. ACOI No. 359

CC: Maxey Brown, OCD District I Supervisor  
Michael Bratcher, OCD District II Supervisor  
Charlie Perrin, OCD District III Supervisor  
Will Jones, OCD District IV Supervisor

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

**NMOCD – ACOI- 359**

**IN THE MATTER OF SOUTHLAND ROYALTY COMPANY, LLC**

**Respondent.**

**INACTIVE WELL  
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 **Southland Royalty Company, LLC** ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI"). Operator agrees to plug, place on approved temporary abandonment status, or restore to production or other beneficial use the wells identified herein in accordance with the following agreed schedule and procedures, or face the possibility of no further agreed compliance orders. See 19.15.25.8 NMAC

**FINDINGS**

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a Corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID **370292** for the wells identified in Exhibit "A," attached.
4. OCD Rule 19.15.25.8 NMAC states, in relevant part:

"A. The operator of wells drilled for oil or gas or services wells including seismic, core, exploration or injection wells, whether cased or uncased, shall plug the wells as Subsection B of 19.15.25.8 NMAC requires.  
B. The operator shall either properly plug and abandon a well or place the well in approved temporary abandonment in accordance with 19.15.25 NMAC within 90 days after:  
....  
....  
(3) a period of one year in which a well has been continuously inactive."
5. The wells identified in Exhibit "A"

ACOI

- (a) have been continuously inactive for a period of one year plus 90 days;
  - (b) are not plugged or abandoned in accordance with OCD Rule 19.15.25.9 NMAC through 19.15.25.11 NMAC; and
  - (c) are not on approved temporary abandonment status in accordance with OCD Rule 19.15.25.12 NMAC through 19.15.25.14 NMAC.
6. An operator faces sanctions if it is out of compliance with OCD Rule 19.15.5.9 NMAC. Sanctions include possible denial of registration by operator or certain related entities (OCD Rule 19.15.9.8B NMAC), possible denial of change of operator that would transfer wells to the noncompliant operator (OCD Rule 19.15.9.9C.1 NMAC), mandatory denial of injection permits (OCD Rule 19.15.26.8A NMAC), possible revocation of injection permits after notice and hearing (OCD Rule 19.15.26.8A NMAC), possible denial of applications for a drilling permit (OCD Rule 19.15.14.10A NMAC), and mandatory denial of allowable and authorization to transport (OCD Rule 19.15.16.19A NMAC).
7. Operator is currently out of compliance with OCD Rule 19.15.5.9.A(4) NMAC because it has too many wells out of compliance with OCD Rule 19.15.25.8 NMAC (the inactive well rule) that are not subject to an agreed compliance order setting a schedule for bringing the wells into compliance with the inactive well rule and imposing sanctions if the schedule is not met. See OCD Rule 19.15.5.9(A)(4) NMAC.
8. As the operator of record of 1003 wells, to be in compliance with OCD Rule 19.15.5.9.A(4) NMAC, Operator may have no more than 10 wells out of compliance with OCD Rule 19.15.25.8 NMAC (inactive well rule). See OCD Rule 19.15.5.9A(4)(b) NMAC. According to the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC, Operator has 18 wells out of compliance as of **September 28, 2018**. The Operator's inactive well list, dated **September 28, 2018** is attached as Exhibit "A." Operator faces sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC.
9. Operator intends to seek privileges from the OCD that would be subject to sanction due to Operator being out of compliance with OCD Rule 19.15.5.9 NMAC. By placing the wells identified in Exhibit "A" under this Order, Operator will not face sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC.

### **CONCLUSIONS**

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.

2. The wells identified in Exhibit "A" are out of compliance or will be out of compliance with OCD Rule 19.15.25.8 NMAC.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with OCD Rule 19.15.25.8 NMAC.
4. The OCD and Operator enter into this Order to remove the wells identified in Exhibit "A" from the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC and consideration of Operator's compliance with the inactive well rule for purposes of Operator's compliance with OCD Rule 19.15.5.9 NMAC. Operator remains subject to sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC IF Operator becomes out of compliance with OCD Rule 19.15.5.9 NMAC for any reason other than the inactive wells identified in Exhibit "A."

### **ORDER**

1. Operator agrees to bring **8** wells identified in Exhibit "A" into compliance with OCD Rule 19.15.25.8 NMAC by **December 31, 2018** via
  - (a) restoring the well to production or other OCD-approved beneficial use **and filing a C-115 documenting such production or use;**
  - (b) causing the wellbore to be plugged in accordance with OCD Rule 19.15.25.10(B) NMAC **and filing a C-103 describing the completed work;** or
  - (c) placing the well on approved temporary abandonment status in accordance with OCD Rule 19.15.25.12 NMAC through 19.15.25.14 NMAC.
2. **Prior to completing the term of this agreement, the operator agrees to provide a comprehensive plan, acceptable to the division, as to how it will address the remaining inactive wells on Exhibit "A". Failure to provide such a plan may result in the division denying future amendments to this agreement.** Oil and gas produced during swabbing does not count as production for purposes of this Order.
3. Operator shall file a **monthly** compliance report, **due on the last day of each month**, identifying each well returned to compliance, stating the date it was returned to compliance and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status.) Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return wells to compliance under the terms of this Order, but does reduce the total number of wells for which Operator is responsible under the terms of this Order. The final written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager and to the OCD attorney in charge of inactive well agreed

compliance orders so that it is **received by** the compliance deadline of **December 31, 2018**. The total length of this Agreed Compliance Order is three months.

4. Operator understands that if it fails to meet the terms of this Order, the OCD may decide not to enter into any further agreed compliance orders with Operator. **If any more wells become inactive during the duration of this ACOI or the operator is in any other way in violation of OCD Rule 19.15.5.9 NMAC, this ACOI may terminate, at the sole discretion of the Division.**
5. This Order shall expire on **January 31, 2019**. At that time, any wells on Exhibit "A" not in compliance with OCD Rule 19.15.25.8 NMAC will appear on the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC, and will be considered when determining Operator's compliance with OCD Rule 19.15.5.9 NMAC.
6. By signing this Order, Operator expressly:
  - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
  - (b) agrees to return to compliance **8** wells identified in Exhibit "A" by **December 31, 2018**;
  - (c) agrees to submit a compliance report as required in Ordering Paragraph 3 by the **December 31, 2018** compliance deadline set by this Order;
  - (d) waives any right, pursuant to the Oil and Gas Act or otherwise, to an appeal from this Order, or to a hearing either prior to or subsequent to the entry of this Order other than a hearing on a request for waiver; and
  - (e) agrees that the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
7. This Order applies only to the enforcement of OCD Rule 19.15.25.8 NMAC against those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with OCD Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules. Wells identified in Exhibit "A" that are out of compliance with the Oil and Gas Act or OCD Rules other than OCD Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules.
8. The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

ACOI

Done at Santa Fe, New Mexico this 1 day of October, 2018  
By: Heather Riley  
Heather Riley  
Director, Oil Conservation Division

**ACCEPTANCE**

**Southland Royalty Company, LLC** hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

By: Bill Frey  
(Please print name) Bill Frey  
Title: Operations Manager  
Date: 9/28/18

# Exhibit "A" to Agreed Compliance Order for Southland Royalty Company, LLC

Total Well Count: 1003 Inactive Well Count: 18  
Printed On: Friday, September 28 2018

District	API	Well	ULSTR	OCD Unit	Ogrid	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
3	30-039-24649	CARRACAS 13B #011	K-13-32N-04W	K	370292	SOUTHLAND ROYALTY COMPANY LLC		G	05/2017			
3	30-039-30962	CARRACAS 14B #002H	G-15-32N-04W	G	370292	SOUTHLAND ROYALTY COMPANY LLC		G	01/2014	FC/CHG IN STAT/HD C104 FOR DS/PLAT		
3	30-039-24279	CARRACAS 27A #014	N-27-32N-05W	N	370292	SOUTHLAND ROYALTY COMPANY LLC		G	02/2017			
3	30-039-27557	CARSON #013A	L-32-30N-04W	L	370292	SOUTHLAND ROYALTY COMPANY LLC		G	06/2014	MV		
3	30-045-24830	EATON FEDERAL #001E	D-15-28N-11W	D	370292	SOUTHLAND ROYALTY COMPANY LLC		G	04/2017			
3	30-045-28738	FEDERAL 29 9 12 #002	A-12-29N-09W	A	370292	SOUTHLAND ROYALTY COMPANY LLC	F	G	04/2016	BASIN FRUITLAND COAL/NOI TP P&A		
3	30-045-06826	HARMON A #001	K-02-27N-12W	K	370292	SOUTHLAND ROYALTY COMPANY LLC		G	04/2017	BASIN FRT COAL*		
3	30-045-32205	HARMON A #001S	I-02-27N-12W	I	370292	SOUTHLAND ROYALTY COMPANY LLC		G	05/2017	BASIN FC		
3	30-039-06394	JICARILLA 108 #005	H-24-26N-05W	H	370292	SOUTHLAND ROYALTY COMPANY LLC	J	G	12/2014	S BLANCO PC/NOI TO P&A		
3	30-039-06476	JICARILLA 110 #012	K-17-26N-05W	K	370292	SOUTHLAND ROYALTY COMPANY LLC		G	07/2016			
3	30-043-20258	JICARILLA 15 #001	Z00-20-23N-03	H	370292	SOUTHLAND ROYALTY COMPANY LLC		G	04/2016	INT TO P&A/ BLM 11-12-14		
3	30-039-05614	JICARILLA H #003	Z00-05-24N-04	P	370292	SOUTHLAND ROYALTY COMPANY LLC		G	12/2016			
3	30-039-05540	JICARILLA H #015	K-08-24N-04W	K	370292	SOUTHLAND ROYALTY COMPANY LLC		G	03/2017			
3	30-039-21266	LINDRITH UNIT #090	J-28-24N-02W	J	370292	SOUTHLAND ROYALTY COMPANY LLC	P	G	03/2015	S BLANCO PC/NOI TO P&A		
3	30-039-23817	LINDRITH UNIT NP #114	O-07-24N-02W	O	370292	SOUTHLAND ROYALTY COMPANY LLC		G	04/2016	SO BLANCO PC		
3	30-045-21567	RIDDLE B #009	I-27-30N-10W	A	370292	SOUTHLAND ROYALTY COMPANY LLC		G	04/2017			
3	30-039-30158	SAN JUAN 30 4 UNIT #105	O-18-30N-04W	O	370292	SOUTHLAND ROYALTY COMPANY LLC		G	12/2015	FC/HOLD 104 FOR DIR SUR/SUB PLAT		
3	30-039-07992	SAN JUAN 32 5 UNIT #007	C-26-32N-06W	C	370292	SOUTHLAND ROYALTY COMPANY LLC	F	G	05/2016	BLANCO MV/PC/NOI TO P&A		

WHERE Operator:370292, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Well Under ACOI, Excludes Wells in Approved TA Period

*Bill Frey*  
By: Bill Frey  
Title: Operations Manager  
ACOI