

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

NMOCD – ACO-277

IN THE MATTER OF EOR OPERATING COMPANY,

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 EOR Operating Company ("EOR" or "Operator") enter into this Agreed Compliance Order ("Order" or "ACO") under which Operator agrees to bring the wells identified herein into compliance with the Act and OCD Rule 19.15.25.8 NMAC as provided by the terms and conditions of this Order, and understands that the OCD may decide not to enter into any further agreed compliance orders with Operator if Operator fails to meet the schedule set out in this Order

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 operating wells in New Mexico under OGRID 257420.
3. Operator's business plans in the next six months include:
 - a. Recompleting horizontally the following wells:
 - Milnesand Unit #123 (API #30-041-00030)
 - Milnesand Unit #141 (API #30-041-00050)
 - Milnesand Unit #521 (API #30-041-20466)
 - Milnesand Unit #522 (API #30-041-20647)
 - Milnesand Unit #524 (API #30-041-20649)
 - Plus two additional wells that have yet to be determined.
 - b. Converting the U D Sawyer #001 (formerly named "Crossroads Siluro Devonian Unit #101") (API #30-025-03629) from a producer to an injector.
 - c. Converting the Milnesand Unit #058 (API #30-041-00255) from an injector to a producer.

RECEIVED OCD
2012 JUN - 1

d. Converting the following wells from producers to injectors:

- Milnesand Unit #523 (API #30-041-20648)
- Milnesand Unit #525 (API #30-041-20650)
- Milnesand Unit #603 (API #30-041-20894)

4. Operator would like to obtain permits to inject for its injectors and would like to obtain allowables for its producers. Operator represents to the OCD that this would allow Operator to raise more cash which in turn would allow it to bring more wells into compliance.
5. If an operator is out of compliance with 19.15.5.9 NMAC, the OCD must deny applications for permits to inject, 19.15.26.8A NMAC, and must deny applications for allowables, 19.15.16.20A NMAC.
6. Operator is currently out of compliance with 19.15.5.9.A(4) NMAC because it has too many wells out of compliance with 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 19.15.5.9(A)(4) NMAC.
7. As an operator of 89 wells, to be in compliance with 19.15.5.9.A(4) NMAC, Operator may have no more than 2 wells out of compliance with the inactive well rule. According to the inactive well list kept pursuant to 19.15.5.9(F) NMAC, Operator has 25 wells out of compliance with the inactive well rule.
8. Operator is the operator of the wells in Exhibit "A." Seven of the oldest inactive wells identified in Exhibit "A" have been inactive since 1992 (1992-wells).
9. The OCD would like Operator to focus on restoring the 1992-wells to oil or gas production, injection or other OCD-approved beneficial use, or plug them, rather than continuing to remain idle.
10. Operator represents that it can bring 4 of the 1992-wells into compliance with 19.15.25.8 NMAC, and that it wants to plug the wells. However, Operator wants to see how well the horizontal recompletions go with some of its other wells before committing to the remaining 1992-wells since these wells might be good producers.
11. In exchange to bringing the remaining 1992-wells into compliance immediately, Operator represents that it can bring 3 additional wells identified in Exhibit "A" into compliance with 19.15.25.8 NMAC, in addition to the 4 1992-wells it plans to plug. This would result in Operator bringing a total of 7 wells into compliance under this Order.

ACO

EOR Operating Company OGRID 257420

Page 2 of 6

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 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 so that Operator may obtain injection permits and allowables for its wells, in exchange for Operator bringing 7 of the wells identified in Exhibit "A" into compliance with 19.15.25.8 NMAC in accordance with the terms of this Order.

ORDER

1. Operator agrees to plug the wellbore of the (1) Milnesand Unit #124, (2) Milnesand Unit #511, (3) Milnesand Unit #514, and (4) Milnesand Unit #517, in accordance with OCD Rule 19.15.25.10(B) NMAC, **and file a C-103 describing the completed work**, by November 30, 2012.
2. If Operator places the (1) Milnesand Unit #124, (2) Milnesand Unit #511, (3) Milnesand Unit #514, or (4) Milnesand Unit #517 in OCD-approved temporary abandonment status, **this will not be considered as meeting the terms of this Order**. In order for Operator to meet the terms of this Order, the (1) Milnesand Unit #124, (2) Milnesand Unit #511, (3) Milnesand Unit #514, and (4) Milnesand Unit #517 **must be plugged**.
3. Operator agrees to bring 3 additional wells identified in Exhibit "A" into compliance with 19.15.25.8 NMAC by November 30, 2012 by
 - (a) restoring the well to oil or gas 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.
4. Swabbing is not "production" or "beneficial use" for purposes of this Order.
5. Operator shall file a compliance report 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 **if applicable**, plugged wellbore, or approved temporary

ACO

EOR Operating Company OGRID 257420

Page 3 of 6

abandonment status if applicable). The 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 November 30, 2012.

6. This Order shall be considered an "Inactive Well Agreed Compliance Order" under 19.15.5.9(F)(1)(c) NMAC for the limited purpose of removing the wells identified in Exhibit "A" from consideration in determining compliance with 19.15.5.9(A)(4) NMAC for:
 - Applications for injection permits for Operator's injection wells;
 - Requests for allowables for Operator's wells.
7. This Order shall not be considered an "Inactive Well Agreed Compliance Order" under 19.15.5.9(F)(1)(c) NMAC for any other purpose, and the wells identified in Exhibit "A" shall not be removed from the inactive well list kept pursuant to 19.15.5.9(F) NMAC.
8. This Order shall expire November 30, 2012.
9. Operator may negotiate with the OCD for an agreed compliance order to take effect when this Order expires. It will be within the OCD's discretion whether to enter into an agreed compliance order with Operator. Factors in the OCD's determination shall include:
 - Operator's compliance with OCD financial assurance requirements;
 - Operator's compliance with the terms of this Agreed Compliance Order, including whether Operator successfully returned the wells identified in Ordering Paragraph #1 and Ordering Paragraph #3 to compliance by November 30, 2012, filed the necessary paperwork to document that compliance, and filed a timely compliance report;
 - Whether Operator returned additional wells to compliance beyond those required under the terms of this Order;
 - Whether Operator prevented wells from falling out of compliance with the inactive well rule during the time period covered by this Order; and
 - Whether Operator proposes an acceptable plan for returning its inactive wells to compliance.
10. Operator understands that if it fails to meet the terms of this Order it is unlikely that the OCD will enter into further agreed compliance orders with Operator for inactive wells.
11. By signing this Order, Operator expressly:

- (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
- (b) agrees that by November 30, 2012, it will
 - plug the wellbore of the (1) Milnesand Unit #124, (2) Milnesand Unit #511, (3) Milnesand Unit #514, and (4) Milnesand Unit #517 in accordance with OCD Rule 19.15.25.10(B) NMAC and file a C-103 describing the completed work;
 - bring 3 additional wells identified in Exhibit "A" into compliance by November 30, 2012 as defined by this Order;
 - File the appropriate paperwork to document the compliance; and
 - Submit a written compliance report; and
- (c) 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.

12. 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.

Done at Santa Fe, New Mexico this 7 day of June, 2012

By: Jami Bailey
 Jami Bailey
 Director, Oil Conservation Division

ACCEPTANCE

EOR Operating Company hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

EOR Operating Company

By: Andy Chalkos
 (Please print name) Andy Chalkos
 Title: Operations Manager
 Date: 5/31/12

Exhibit A to Agreed Compliance Order for EOR Operating Company

<u>API Number</u>	<u>Well Name</u>	<u>Last Production/ Injection</u>
1) 30-041-00031	MILNESAND UNIT #124	12/1992
2) 30-041-00257	MILNESAND UNIT #511	12/1992
3) 30-041-00261	MILNESAND UNIT #514	12/1992
4) 30-041-10158	MILNESAND UNIT #517	12/1992
5) 30-025-24188	CROSSROADS SILURO DEVONIAN UNIT #202Y	06/2009
6) 30-025-24144	CROSSROADS SILURO DEVONIAN UNIT #203	12/2008
7) 30-041-10104	HORTON FEDERAL #004	02/2009
8) 30-041-10119	HORTON FEDERAL #025	03/2009
9) 30-041-20756	HORTON FEDERAL #032	02/2009
10) 30-041-10148	MILNESAND UNIT #025	05/2000
11) 30-041-10149	MILNESAND UNIT #026	12/1992
12) 30-041-00142	MILNESAND UNIT #035	12/2007
13) 30-041-00087	MILNESAND UNIT #036	02/2009
14) 30-041-00253	MILNESAND UNIT #056	11/2009
15) 30-041-00029	MILNESAND UNIT #122	11/2007
16) 30-041-10044	MILNESAND UNIT #134	02/1993
17) 30-041-00245	MILNESAND UNIT #164	12/1992
18) 30-041-10056	MILNESAND UNIT #185	12/1992
19) 30-041-00083	MILNESAND UNIT #191	12/2007
20) 30-041-00084	MILNESAND UNIT #193	07/2003
21) 30-041-10181	MILNESAND UNIT #202	01/2003
22) 30-041-10059	MILNESAND UNIT #310	05/2000
23) 30-041-10060	MILNESAND UNIT #311	02/2009
24) 30-041-00262	MILNESAND UNIT #515	05/2000

EOR Operating Company

By: Andy C. Clark

Title: Operations Manager

ACO

EOR Operating Company OGRID 257420

Page 6 of 6