

State of New Mexico
Energy, Minerals and Natural Resources Department

Michelle Lujan Grisham
Governor

Sarah Cottrell Propst
Cabinet Secretary

Todd E. Leahy, JD, PhD
Deputy Secretary

Adrienne Sandoval, Director
Oil Conservation Division



July 23, 2019

Southwest Royalties, Inc.
Attn: Todd Yocham
P.O. Box 53570
Midland, TX 79710

Re: ACOI No. 378
Operator: Southwest Royalties, Inc.; OGRID No. 21355

Dear Operator:

Thank you for returning the signed agreed compliance order regarding inactive wells operated by Southwest Royalties, Inc. (Southwest). Enclosed is a copy of the fully executed order.

The Order requires Southwest to bring 7 of the wells identified in the Order into compliance with Rule 19.15.25.8 NMAC by **January 15, 2020**. Please remember that to bring a well into compliance under the order, Southwest must not only plug the wellbore, place the well on approved temporary abandonment, or return it to production or other beneficial use, Southwest must also file the appropriate paperwork. For example, if Southwest 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.

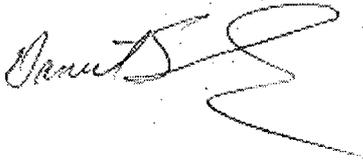
The Order also requires Southwest to file a compliance report with the Oil Conservation Division (OCD) Compliance and Enforcement Manager, Daniel Sanchez, by **January 15, 2020**. This means **the compliance report must be received by the OCD by January 15, 2020**. I will review the report to determine 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 Southwest 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.

The OCD appreciates Southwest'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.

July 23, 2019
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Sincerely yours,

A handwritten signature in black ink, appearing to read "Daniel Sanchez", with a large, stylized flourish extending from the bottom right.

Daniel Sanchez
NMOCD Compliance & Enforcement Manager

Encl. ACOI No. 378

CC: Leslie Rickman, OCD District I Supervisor
Michael Bratcher, OCD District II Supervisor
Brandon Powell, OCD District III Supervisor
Will Jones, OCD District IV Supervisor

Southwest Royalties Inc.

June 28, 2019

State of New Mexico
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505
Attn: Daniel Sanchez, NMOCD Compliance & Enforcement Manager

Re: ACOI Extension Request (ACOI No. 337) or New ACOI Request
Operator: Southwest Royalties, Inc.; OGRID No. 21355

Dear Mr. Sanchez:

Southwest Royalties, Inc. (SWR) currently has a Total Well Count of 357 and Inactive Well Count of 16. Under current rules, we need to have the Inactive Well Count at 5 wells or less. SWR is committed to bringing its Inactive Well Count into compliance.

SWR was under an agreed compliance order (ACOI No. 337) regarding inactive wells operated by SWR. This ACOI has expired. At this time, SWR under new management, respectfully requests a 6 month extension be granted to December 31, 2019 or a new ACOI established. At this time, SWR has identified and have begun the work to accomplish the compliance within the next 6 months.

I have attached supporting documentation regarding this request and work plan.

If you have any questions, please do not hesitate to call.

My email address is tyocham @swrpermian.com

Thank you for your consideration in this matter and we look forward to working with you in the future.

Sincerely yours,



Todd M. Yocham

Vice President – Engineering

NM Inactive Well Notes & Plan

Number	Well Name	API	Status	Production	Plan	WI	NRI	Est Cost (8/9)
1	BRITT B 18 #3	3002506154	Inactive Producer	DI_2017; 0 bopd - 1 mscfd - 0 bwpd; 0 bo -2,474,922 mscf	Repair Motor - RTP			\$ 5,000
2	Flying M SA Unit #16 - B3	3002534232	Inactive Producer	DI_2019; 0 bopd - 0 mscfd - 14 bwpd; 120,471 bo -50,702 mscf	Repair - RTP	0.95860294	0.74870555	\$ -
3	Flying M SA Unit #153 - B3	3002524702	Inactive WIW	DI_1972; 11 bopd - 2 mscfd - 62 bwpd; 8,506 bo -849 mscf	Fix tight spot, lower packer; RTI	0.95860294	0.74870555	\$ -
4	Flying M SA Unit #255 - B3	3002521938	Inactive Producer	DI_2015; 2 bopd - 2 mscfd - 34 bwpd; 80,041 bo -34,900 mscf	Fix Leak - RTP	0.95860294	0.74870555	\$ 40,000
5	Flying M SA Unit 258 (#8) - B2	3002534232	Inactive Producer	DI_2015; 1 bopd - 2 mscfd - 17 bwpd; 11,670 bo -25,880 mscf	Repair - RTP	0.95860294	0.74870555	\$ 20,000
6	McGuffin #3	3002524694	TA'd Producer	DI_2015; 2 bopd - 16 mscfd - 1 bwpd; 170,461 bo -206,998 mscf	Convert to Inj.	0.95511275	0.81241780	\$ 80,000
7	Gonzales 31 Federal #2	3002524004	TA'd Producer	DI_2015; 1 bopd - 4 mscfd - 2 bwpd; 57,125 bo -72,681 mscf	Convert to Inj.	0.95000000	0.76209375	\$ 80,000
8	NORTH HACKBERRY YATES UNIT #113W	3001504627	Inactive Inj.	DI ; 0 bopd - 0 mscfd - 0 bwpd; 0 bo -0 mscf	RTI	0.90689450	0.75434086	\$ 20,000
9	MCINTYRE G FEDERAL #2	3001520647	Inactive Producer	DI_2015; 0.5 bopd - 3 mscfd - 0 bwpd; 51,315 bo - 952,614 mscf	Repair - RTP	1.00000000	0.87500000	\$ 20,000
10	WILDERSPIN FEDERAL #3	3001525501	Inactive Producer	DI_2016; 3 bopd - 1 mscfd - 93 bwpd; 50,258 bo -87,205 mscf	CONFIRM ACREAGE; RTP	1.00000000	0.78710937	\$ 20,000
11	THOMAS LONG A #3	3002534035	Inactive Producer	DI_2015; 3 bopd - 66 mscfd - 2 bwpd; 27,327 bo -1,106,277 mscf	P&A	0.81200000	0.68156000	\$ 40,000
12	ARCO FEDERAL #2	3001520632	Inactive Producer	DI_2015; 0 bopd - 3 mscfd - 17 bwpd; 46,005 bo -161,353 mscf	P&A	1.00000000	0.87500000	\$ 40,000
13	CONOCO 29 STATE #1	3002532679	Inactive Producer	DI_2017; 0 bopd - 3 mscfd - 87 bwpd; 11,149 bo -57,880 mscf	P&A	0.96000000	0.72000000	\$ 40,000
14	DAGGER DRAW A #1	3001527159	Inactive Producer	DI_2009; 0 bopd - 2 mscfd - 0 bwpd; 213,345 bo -416,117 mscf	P&A/Release	0.70500000	0.56400000	\$ 60,000
15	CONTINENTAL FEDERAL #1	3002524110	Inactive Producer	DI_2016; 0 bopd - 0 mscfd - 0 bwpd; 81,733 bo -131,734 mscf	P&A/Release	0.95000000	0.76000000	\$ 80,000
16	ELLIAMS #14	3002533479	Inactive Producer	DI_2013; 1 bopd - 7 mscfd - 73 bwpd; 11,979 bo -33,221 mscf	Convert to Inj.	1.00000000	0.76617250	\$ 80,000
								\$ 625,000

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

NMOCD – ACOI- 378

IN THE MATTER OF SOUTHWEST ROYALTIES, INC.

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 Southwest Royalties, Inc. ("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 **21355** 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."

ACOI

5. The wells identified in Exhibit "A"
 - (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 357 wells, to be in compliance with OCD Rule 19.15.5.9.A(4) NMAC, Operator may have no more than 5 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 17 wells out of compliance as of July 2, 2019. A copy of Operator's inactive well list, as of July 2, 2019, is attached as Exhibit "A." Operator could face sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC, if more wells fall onto the inactive well list due to the delay in reporting.
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.

ACOI

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

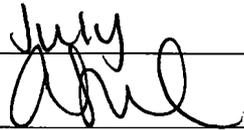
1. Operator agrees to bring 7 wells identified in Exhibit "A" into compliance with OCD Rule 19.15.25.8 NMAC by January 15, 2020 via
 - (a) restoring the well to production or other OCD-approved beneficial use **and filing a C-115 documenting such production or use;**
 - (b) causing the wellbore to be 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** 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 written compliance reports must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager with

ACOI

a Final Report to be filed and **received by** the compliance deadline of January 15, 2020. The total length of this Agreed Compliance Order is six 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, this ACOI may terminate, at the sole discretion of the Division.**
5. This Order shall expire on February 15, 2020. 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 7 wells identified in Exhibit "A" by January 15, 2020;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 3 by the January 15, 2020 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.

Done at Santa Fe, New Mexico this 23 day of July, 2019

By: 
Adrienne Sandoval
Director, Oil Conservation Division

ACCEPTANCE

Southwest Royalties, Inc. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

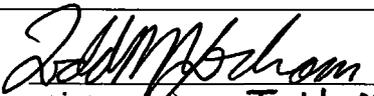
By: 
(Please print name): Todd M. Yocham
Title: Exec. V.P. - Engineering
Date: 7/8/19

Exhibit "A" to Agreed Compliance Order for Southwest Royalties, Inc.

**Total Well Count: 357 Inactive Well Count: 17
Printed On: Tuesday, July 02 2019**

District	API	Well	ULSTR	OCD Unit	Ogrid	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
2	30-015-20632	ARCO FEDERAL #002	L-17-17S-30E	L	21355	SOUTHWEST ROYALTIES INC		O	07/2015			
1	30-025-06154	BRITT B 18 #003	J-18-20S-37E	J	21355	SOUTHWEST ROYALTIES INC		G	05/2017			
1	30-025-32679	CONOCO 29 STATE #001	J-29-18S-37E	J	21355	SOUTHWEST ROYALTIES INC		O	03/2017	GRAYBURG SAN ANDRES		
1	30-025-24110	CONTINENTAL FEDERAL #001	F-15-26S-33E	F	21355	SOUTHWEST ROYALTIES INC		O	04/2016	DELAWARE		
2	30-015-27159	DAGGER DRAW A #001	G-17-19S-25E	G	21355	SOUTHWEST ROYALTIES INC		O	07/2009			
1	30-025-33479	EILLIAMS #014	G-34-17S-33E	G	21355	SOUTHWEST ROYALTIES INC		O	04/2013	GRAYBURG-SAN ANDRES		
1	30-025-34232	FLYING M SA UNIT #008	K-28-09S-33E	K	21355	SOUTHWEST ROYALTIES INC		O	07/2015	SAN ANDRES		
1	30-025-24702	FLYING M SA UNIT #016	G-29-09S-33E	G	21355	SOUTHWEST ROYALTIES INC		O	03/2017	SAN ANDRES		
1	30-025-21938	FLYING M SA UNIT #153	P-21-09S-33E	P	21355	SOUTHWEST ROYALTIES INC		I	07/2017	SAN ANDRES		
1	30-025-24758	FLYING M SA UNIT #255	E-28-09S-33E	E	21355	SOUTHWEST ROYALTIES INC		O	07/2015	SAN ANDRES		
1	30-025-24004	GONSALES 31 FEDERAL #002	H-31-09S-33E	H	21355	SOUTHWEST ROYALTIES INC		O	07/2015			
1	30-025-27299	GONSALES 31 FEDERAL #006Y	I-31-09S-33E	I	21355	SOUTHWEST ROYALTIES INC		O	03/2018			
1	30-025-24694	MCGUFFIN #003	C-29-09S-33E	C	21355	SOUTHWEST ROYALTIES INC		O	07/2015			
2	30-015-20647	MCINTYRE G FEDERAL #002	G-21-17S-30E	G	21355	SOUTHWEST ROYALTIES INC		O	07/2015			
2	30-015-04627	NORTH HACKBERRY YATES UNIT #113	N-24-19S-30E	N	21355	SOUTHWEST ROYALTIES INC		I	07/2017			
1	30-025-34035	THOMAS LONG A #003	M-11-22S-37E	M	21355	SOUTHWEST ROYALTIES INC		G	09/2017	BLINEBRY / RECLASS OIL TO GAS 3-1-99	T	11/2/2018
2	30-015-25501	WILDERSPIN FEDERAL #003	H-11-21S-27E	H	21355	SOUTHWEST ROYALTIES INC		O	09/2016			

WHERE Operator:21355, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

ACOI - 201843

p JDS 1920450565

By: *J. M. Yalman*
Title: Exec. V.G. - Engineering