

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

NMOCD – ACOI- 160

IN THE MATTER OF LEGACY RESERVES OPERATING LP,

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"), the Director of the Oil Conservation Division ("OCD") and Legacy Reserves Operating LP ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to: 1) bring the wells identified herein into compliance with the Act and OCD Rules 201 [19.15.4.201 NMAC] and 703 [19.15.9.703 NMAC] in accordance with the following agreed schedule and procedures; and 2) pay penalties as set out below if it fails to meet the compliance schedule set out in this Order.

FINDINGS

Parties

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 limited partnership operating the production wells and injection wells identified in Exhibit A in New Mexico under OGRID 240974.

Inactive Well Issues

3. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:
 - "A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.
 - B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....
....

(3) a period of one year in which a well has been continuously inactive.”

4. The production and injection wells identified in Exhibit A are wells operated by Operator in New Mexico that are not been properly plugged and abandoned or on approved temporary abandonment status. The wells have been or soon will be continuously inactive for a period in excess of one year plus ninety days.

Injection Well Issues

5. OCD Rule 703 [19.15.9.703 NMAC] provides in relevant part:
- A. Injection wells shall be equipped, operated, monitored, and maintained to facilitate periodic testing and to assure continued mechanical integrity which will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement through vertical channels adjacent to the well bore.
 - B. Injection project, including injection wells and producing wells and all related surface facilities shall be operated and maintained at all times in such a manner as will confine the injected fluids to the interval or intervals approved and prevent surface damage or pollution resulting from leaks, breaks, or spills.
 - C.
 - D.
 - E. Injection wells or projects which have exhibited failure to confine injected fluids to the authorized injection zone or zones may be subject to restriction of injection volume and pressure, or shut-in, until the failure has been identified and corrected.
6. OCD Rule 704.A [19.15.9.704.A NMAC] provides in relevant part:
- (1) Prior to commencement of injection and any time tubing is pulled or the packer is resealed, wells shall be tested to assure the integrity of the casing and the tubing and packer, if used, including pressure testing of the casing-tubing annulus to a minimum of 300 psi for 30 minutes or such other pressure and/or time as may be approved by the appropriate district supervisor. A pressure recorder shall be used and copies of the chart shall be submitted to the appropriate division district office within 30 days following the test date.
 - (2) At least once every five years thereafter, injection wells shall be tested to assure their continued mechanical integrity. Tests demonstrating continued mechanical integrity shall include the following:
 - (a) measurement of annular pressures in wells injecting at positive pressure under a packer or a balanced fluid seal; or,

(b) pressure testing of the casing-tubing annulus for wells injecting under vacuum conditions; or,

(c) such other tests which are demonstrably effective and which may be approved for use by the division.

(3) Notwithstanding the test procedures outlined above, the division may require more comprehensive testing of the injection wells when deemed advisable, including the use of tracer surveys, noise logs, temperature logs, or other test procedures or devices.

7. The injection wells identified in Exhibit A either failed a mechanical integrity test, or are due for mechanical integrity testing.

Penalty Provisions:

8. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly and willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.

9. NMSA 1978, Section 70-2-3(A) defines “person” in relevant part as

“any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity...”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The production and injection wells identified in Exhibit A are out of compliance with Rule 201 or will soon fall out of compliance with Rule 201 because they will be inactive for a continuous period of time in excess of one year plus 90 days and are not properly plugged and abandoned or on approved temporary abandonment statutes.
3. The injection wells identified in Exhibit A are out of compliance with OCD Rule 703 because they failed mechanical integrity tests or they will soon require mechanical integrity tests under Rule 704.
4. As operator of the wells identified in Exhibit A Operator is responsible for bringing those wells into compliance with OCD rules.
5. Operator is a “person” as defined by OCD Rule 7.P(2) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator shall return the wells identified in Exhibit A to compliance with Rule 201 and 703 under the schedule set out below, by performing one of the following actions with regard to each well:
 - a) return the well to production, injection or other OCD-approved beneficial use and file the appropriate paperwork. If a well is returned to production or injection, the appropriate paperwork is a C-115 reporting the production or injection. If the well is an injection well, the well must pass a mechanical integrity test under Rule 704 before it is returned to injection;
 - b) plug the wellbore in accordance with 19.15.4.202.B(1) and (2) NMAC and file a sundry notice with the OCD reporting the plugging of the wellbore; or
 - c) place the well on approved temporary abandonment status in accordance with 19.15.4.203 NMAC.

2. Operator shall return the following wells identified in Exhibit A to compliance by September 30, 2007:

Langlie Mattix Penrose Sand Unit #104	30-025-23262	Injection
Langlie Mattix Penrose Sand Unit #135	30-025-10481	Injection
Langlie Mattix Penrose Sand Unit #171	30-025-23213	Injection
State Y #010	30-025-25376	Injection
Lea Unit #008	30-025-02431	Injection
Lea Unit SWD #002	30-025-28528	Injection

Operator shall also file a written compliance report identifying the action taken to return the well to compliance (i.e., returned to injection/production, wellbore plugged, or placed on temporary abandonment status) and the date the well was returned to compliance. The written report shall be mailed, e-mailed or faxed to the OCD's Compliance and Enforcement Manager so that it is received by September 30, 2007.

3. When the OCD receives a timely compliance report indicating that Operator has returned at least 6 of the injection wells identified in Exhibit A to compliance by September 30, 2007 and verifies the accuracy of that report, the OCD shall issue an amendment to this Order extending its terms for an additional six-month period and requiring Operator to return to compliance by March 30, 2008 the Langlie Mattix Penrose Sand Unit #331, API 30-025-10552 and 5 other wells identified in Exhibit A.
4. If an amendment is issued pursuant to Ordering Paragraph 3, Operator shall file a compliance report identifying the wells returned to compliance, the action taken

to return the well to compliance (i.e., returned to injection/production, wellbore plugged, or placed on temporary abandonment status) and the date the well was returned to compliance. The written report shall be mailed, e-mailed or faxed to the OCD's Compliance and Enforcement Manager so that it is received by March 30, 2008.

5. When the OCD receives a timely compliance report indicating that Operator has returned to compliance by March 30, 2008 the Langlie Mattix Penrose Sand Unit #331, API 30-025-10552 and 5 other wells identified in Exhibit A, and verifies the accuracy of that report, the OCD shall issue an amendment to this Order extending its terms for an additional six-month period and requiring Operator to return to compliance by September 30, 2008 6 additional wells identified in Exhibit A.
6. If an amendment is issued pursuant to Ordering Paragraph 5, Operator shall file a compliance report identifying the wells returned to compliance, the action taken to return the well to compliance (i.e., returned to injection/production, wellbore plugged, or placed on temporary abandonment status) and the date the well was returned to compliance. The written report shall be mailed, e-mailed or faxed to the OCD's Compliance and Enforcement Manager so that it is received by September 30, 2008.
7. When the OCD receives a timely compliance report indicating that Operator has returned to compliance by September 30, 2008 6 additional production wells identified in Exhibit A and verifies the accuracy of that report, the OCD shall issue an amendment to this Order extending its terms for an additional six-month period and requiring Operator to return to compliance by March 30, 2009 at least 6 additional wells from Exhibit A, so that the total number of wells identified in Exhibit A returned to compliance by March 30, 2009 is at least 24.
8. If an amendment is issued pursuant to Ordering Paragraph 7, Operator shall file a compliance report identifying the wells returned to compliance, the action taken to return the well to compliance (i.e., returned to injection/production, wellbore plugged, or placed on temporary abandonment status) and the date the well was returned to compliance. The written report shall be mailed, e-mailed or faxed to the OCD's Compliance and Enforcement Manager so that it is received by March 30, 2009.
9. Transfer of a well identified in Exhibit A to another operator does not count towards Operator's obligation to return a certain number of wells to compliance by the deadlines set in this Order or in amendments to this Order, but does reduce the total number of wells for which Operator is responsible under the terms of this Order.

10. If, in any six-month period, Operator returns to compliance more than the required number of wells from Exhibit A, the excess wells will count towards the Operator's goal for the subsequent period.
11. The OCD shall provide a copy of any amendment issued pursuant to this Order to Operator at Operator's address of record provided pursuant to OCD Rule 100.C.
12. If Operator fails to bring the required number of wells into compliance by the compliance deadline set by this Order or an amendment issued pursuant to this Order, Operator agrees to pay a penalty of \$1000 times the number of wells it failed to bring into compliance under its schedule during the applicable time period. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its goal, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty. Operator shall serve the OCD's Compliance and Enforcement Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager denies the Operator's request, the Operator may, within ten days of that denial, apply for a hearing before an OCD hearing examiner. Once Operator pays the penalty or files an administrative application to request a waiver or reduction of the penalty, the OCD may, in its discretion, issue an amendment to this Order as provided in Ordering Paragraphs 3, 5 and 7.

Example A: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in a six-month period. At the end of the six-month period, Operator X has brought only 3 wells into compliance. Operator X pays the \$2000 penalty. The OCD exercises its discretion to issue an amendment extending the term of the agreed compliance order for an additional six-month period, again requiring Operator X to bring at least 5 wells into compliance. During this additional six-month period, Operator brings only one well into compliance. Operator X pays a \$4000 penalty. Although Operator X pays the \$4000 penalty, the OCD exercises its discretion and declines to issue an amendment to extend the terms of the agreed compliance order for an additional six-month period.

Example B: Operator Y enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in a six-month period. Although Y has made arrangements for plugging the 10 wells, due to adverse weather conditions and mechanical difficulties with the available plugging rig, Y is able to plug only 3 wells. Y files an administrative application for hearing seeking to waive the \$7000 penalty, and serves the Enforcement and Compliance Manager with a copy of the application. The Enforcement and Compliance Manager does not concur with the application's request to waive the full amount of the penalty, and the Operator requests a hearing on its request for a waiver of the penalty. The OCD

exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for an additional six-month period.

13. While this Order remains in effect, the wells identified in Exhibit A shall be removed from the inactive well list kept pursuant to OCD Rule 40.F [19.15.1.40.F NMAC]. Thirty days after the compliance date set by this Order or any amendment to this Order issued pursuant to Ordering Paragraphs 3, 5 and 7, any wells identified in Exhibit A not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
14. 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 6 of the injection wells identified in Exhibit A by September 30, 2007, and agrees to comply with the compliance deadline and schedule set by any amendment to this Order issued pursuant to Ordering Paragraphs 3, 5 and 7;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 2 and the deadline set by any amendment to this Order issued pursuant to Ordering Paragraphs 3, 5 and 7;
 - (d) agrees to pay penalties as set out in Ordering Paragraph 12 if it fails to return wells to compliance under the deadline set by this Order or any amendment to this Order issued pursuant to Ordering Paragraphs 3, 5 and 7;
 - (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from this Order; and
 - (f) agrees that the Order and amendments to 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.
15. This Order applies only to those wells identified in Exhibit A. Other wells operated by Operator out of compliance with Rules 201 or 703 may be subject to immediate enforcement action under the Oil and Gas Act.
16. This Order does not affect Operator's obligations to provide financial assurances pursuant to OCD Rule 101 [19.15.3.101 NMAC].
17. 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 22nd day of March, 2007

By: 
Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

Legacy Reserves Operating LP hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Legacy Reserves Operating LP

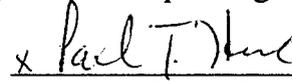
By: x 
(Please print name) Paul T. Horne
Title: Vice President - Operation
Date: 3/21/07

Exhibit A

1. Andrew Arnquist Estate #002	30-015-21942	Producer
2. Andrew Arnquist Estate #003	30-015-22041	Producer
3. Andrew Arnquist Estate #004	30-015-22040	Producer
4. Denton #001	30-025-25495	Producer
5. J M Denton #002	30-025-05276	Producer
6. J M Denton #006	30-025-05280	Producer
7. Johnson A Federal #003	30-015-05517	Producer
8. L R Chamberlin #002	30-025-05312	Producer
9. Langlie Mattix Penrose Sand Unit #104	30-025-23262	Injection
10. Langlie Mattix Penrose Sand Unit #135	30-025-10481	Injection
11. Langlie Mattix Penrose Sand Unit #171	30-025-23213	Injection
12. Langlie Mattix Penrose Sand Unit #322	30-025-01567	Injection
13. Langlie Mattix Penrose Sand Unit #331	30-025-10552	Injection
14. Langlie Mattix Penrose Sand Unit #353	30-025-10566	Injection
15. Lea G State #003	30-025-05240	Producer
16. Lea G State #005	30-025-05234	Producer
17. Lea Unit #014	30-025-30138	Producer
18. Shugart State Com #002	30-015-32438	Producer
19. South Justis Unit #022	30-025-11720	Producer
20. South Justis Unit #023	30-025-11775	Producer
21. South Justis Unit #190	30-025-31825	Injection
22. Tamano (BSSC) Unit #301	30-015-26421	Producer
23. Tamano (BSSC) Unit #303	30-015-26513	Producer

24. Wimbery JH Federal Com #001	30-025-11714	Producer
25. Lea Unit #008	30-025-02431	Injection
26. Lea Unit SWD #002	30-025-28528	Injection
27. State Y #010	30-025-25376	Injection

Legacy Reserves Operating LP

By: x Paul T. Threl
Date: 3/21/07