

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

NMOCD – ACOI- 216

IN THE MATTER OF CELERO ENERGY II, LP,

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 Celero Energy II, LP ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI") under which Operator agrees to plug, place on approved temporary abandonment status or restore to production or other beneficial use the wells identified herein pursuant to the Act and OCD Rule 19.15.25.8 NMAC in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it 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 limited partnership doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 247128 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"
 - (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. 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.
7. NMSA 1978, Section 70-2-33(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 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. Operator is a "person" as defined by NMSA 1978, Section 70-2-33(A) 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 agrees to bring at least 8 of the wells identified in Exhibit "A" into compliance with OCD Rule 19.15.25.8 NMAC by September 1, 2010 by
 - (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. Operator agrees that at least 4 of the 8 wells that it brings into compliance with OCD Rule 19.15.25.8 NMAC by September 1, 2010 shall be wells that are identified in Exhibit "A" as having a date of last production of 1990 or older.
3. Oil and gas produced during swabbing does not count as production for purposes of this Order.
4. 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, 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 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 September 1, 2010.
5. When the OCD receives a timely compliance report indicating that Operator has returned at least 8 wells to compliance, with at least 4 of the 8 wells being wells identified in Exhibit "A" as having a date of last production of 1990 or older, and verifies the accuracy of that report, and verifies that Operator is in compliance with OCD's financial assurance requirements, the OCD shall issue an amendment to this Order extending its terms for an additional six-month period, requiring Operator to bring into compliance an additional 8 wells identified in Exhibit "A," with at least 4 of the 8 wells being wells identified in Exhibit "A" as having a date of last production of 1990 or older, and to file a compliance report by the compliance deadline. OCD shall provide a copy of that amendment to Operator at Operator's address of record provided pursuant to OCD Rule 19.15.9.8(C) NMAC.
6. If, in any six-month period, Operator returns more wells to compliance than the number required under this Order for that six-month period, the wells in excess of the number required will count towards the Operator's requirements for the next six-month period. However, none of the excess wells shall count towards Operator's requirements for bringing at least 4 wells identified in Exhibit "A" with a date of last production of 1990 or older to compliance in a six-month period unless the excess wells are wells identified in Exhibit "A" as having a date of last production of 1990 or older.
7. If Operator returns at least 8 wells to compliance in the second six-month period with at least 4 of the 8 wells being wells identified in Exhibit "A" as having a date of last production of 1990 or older, files a timely compliance report, and is in compliance with OCD's financial assurance requirements, OCD shall issue an

amendment to this Order extending its term for a third six-month period, requiring Operator to bring into compliance an additional 8 wells identified in Exhibit “A,” with at least 4 of the 8 wells being wells identified in Exhibit “A” as having a date of last production of 1990 or older, and to file a compliance report by the compliance deadline. If Operator returns at least 8 wells to compliance in the third six-month period, with at least 4 of the 8 wells being wells identified in Exhibit “A” as having a date of last production of 1990 or older, files a timely compliance report and is in compliance with the OCD’s financial assurance requirements, OCD shall issue an amendment to this Order extending its term for a fourth six-month period, requiring Operator to bring into compliance an additional 8 wells identified in Exhibit “A,” with at least 4 of the 8 wells being wells identified in Exhibit “A” as having a date of last production of 1990 or older, and to file a compliance report by the compliance deadline. The total length of this Agreed Compliance Order, including the initial six-month period and any amendments, shall not exceed two years.

8. If Operator fails to bring the number of wells into compliance required in a six-month period covered by this Order or amendments issued 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 six month period, subject to the terms of this Order. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its goal within any six-month period covered by this Order or amendments issued to this Order, Operator may apply for a waiver or reduction of the penalty by making the request in writing to the OCD’s Enforcement and Compliance Manager. If the Enforcement and Compliance Manager concurs with the Operator’s request, the request for waiver or reduction of penalties may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator’s request or fails to respond within 10 days, the Operator may file an application for hearing on the request. Any application for hearing on a request for waiver or reduction of penalty must be filed within 30 days of the date the compliance report is due. Once Operator pays the penalty or applies for a waiver or reduction of the penalty, the OCD may, in its discretion, issue an amendment to this Order extending its terms for an additional six-month period.

Example A: Operator Z enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in each six-month period. Operator Z agrees that of the 10 wells it agrees to bring into compliance in each six-month period, at least 5 of the 10 wells shall be wells that have a date of last production of 1990 or older. At the end of the first six-month period Operator Z brings 10 wells into compliance but only 3 of the 10 wells have a date of last production of 1990 or older. Although Operator Z brought 10 wells into compliance, it did not bring into compliance the required number of wells (5 in this example) having a date of last production of 1990 or older, falling short of its compliance goal by 2 wells. As a result, Operator Z is subject to a \$2000 penalty. The OCD exercises

its discretion and declines to issue an amendment to extend the terms of the agreed compliance order for a second six-month period.

Example B: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in each six-month period. At the end of the first 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 a second six-month period, again requiring Operator X to bring at least 5 wells into compliance. During the second 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 a third six-month period.

Example C: Operator Y enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in each 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 applies for a waiver of the \$7000 penalty. The Enforcement and Compliance Manager does not agree to waive the full amount of the penalty, and the Operator files an application for hearing on the request for waiver of penalty. While the application is pending, the OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for a second six-month period.

9. Thirty days after the compliance deadline set by this Order or any amendments to this Order, 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.
10. 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 by September 1, 2010 at least 8 of the wells identified in Exhibit "A," with at least 4 of the wells being wells identified in Exhibit "A" as having a date of last production of 1990 or older, and agrees to comply with the compliance deadlines set by any amendments to this Order;
 - (c) agrees that at least 4 of the 8 wells it brings into compliance in each six-month period will be wells identified in Exhibit "A" as having a date of last production of 1990 or older;
 - (d) agrees to submit a compliance report as required in Ordering Paragraph 4 by the compliance deadline set by any amendments to this Order;

- (e) agrees to pay penalties as set out in and limited by Ordering Paragraph 8 if it fails to return the required number of wells to compliance under the deadlines set by this Order or any amendments to this Order;
 - (f) 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 or reduction of penalties; and
 - (g) 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.
11. 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 Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules.
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 1st day of March, 2010

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

ACCEPTANCE

Celero Energy II, LP hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

CELERO ENERGY II, LP
 By: Celero Energy Holdings II, LLC, its General Partner

By: 
 John E. Lodge
 Vice-President - Land
 Date: 2/25/2010

Exhibit A to Agreed Compliance Order for Celero Energy II, LP

<u>API</u>	<u>WELL</u>	<u>LAST PRODUCTION</u>
30-025-07136	ANGEL #002	11/2006
30-025-05125	BUCKLEY B #002	08/1990
30-025-27493	BYARS #001	10/2006
30-025-31882	CONE #004	01/1996
30-005-00922	DRICKEY QUEEN SAND UNIT #003	03/1999
30-005-00903	DRICKEY QUEEN SAND UNIT #006	02/1981
30-005-00902	DRICKEY QUEEN SAND UNIT #007	12/1992
30-005-00901	DRICKEY QUEEN SAND UNIT #008	02/1999
30-005-00900	DRICKEY QUEEN SAND UNIT #009	02/1984
30-005-00898	DRICKEY QUEEN SAND UNIT #011	12/1992
30-005-00894	DRICKEY QUEEN SAND UNIT #012	03/1999
30-005-00895	DRICKEY QUEEN SAND UNIT #013	12/1992
30-005-00897	DRICKEY QUEEN SAND UNIT #014	02/1999
30-005-00896	DRICKEY QUEEN SAND UNIT #015	03/2000
30-005-00973	DRICKEY QUEEN SAND UNIT #016	03/2000
30-005-00971	DRICKEY QUEEN SAND UNIT #017	03/1999
30-005-00977	DRICKEY QUEEN SAND UNIT #018	12/1992
30-005-00976	DRICKEY QUEEN SAND UNIT #019	03/2000
30-005-00970	DRICKEY QUEEN SAND UNIT #020	12/1992
30-005-00969	DRICKEY QUEEN SAND UNIT #022	03/1984
30-005-00963	DRICKEY QUEEN SAND UNIT #025	03/1999
30-005-01024	DRICKEY QUEEN SAND UNIT #026	03/1999
30-005-01025	DRICKEY QUEEN SAND UNIT #033	12/1992
30-005-01070	DRICKEY QUEEN SAND UNIT #040	12/1992
30-005-01074	DRICKEY QUEEN SAND UNIT #041	12/1992
30-005-01076	DRICKEY QUEEN SAND UNIT #042	06/1998
30-005-01063	DRICKEY QUEEN SAND UNIT #044	06/1998
30-005-01064	DRICKEY QUEEN SAND UNIT #046	12/1992
30-005-01059	DRICKEY QUEEN SAND UNIT #048	04/1995
30-005-01129	DRICKEY QUEEN SAND UNIT #049	03/1986
30-005-01133	DRICKEY QUEEN SAND UNIT #050	08/1996
30-005-01122	DRICKEY QUEEN SAND UNIT #051	12/1992

30-005-01121	DRICKEY QUEEN SAND UNIT #052	08/1996
30-005-01127	DRICKEY QUEEN SAND UNIT #053	12/1992
30-005-21133	DRICKEY QUEEN SAND UNIT #145	03/1999
30-005-21135	DRICKEY QUEEN SAND UNIT #147	03/1999
30-005-00910	FEDERAL V #001	08/2000
30-005-00911	FEDERAL V #002	04/1996
30-005-00912	FEDERAL V #003	02/1998
30-005-00913	FEDERAL V #004	04/2000
30-025-32737	LAWRENCE #001	09/2003
30-025-00287	ROCK QUEEN UNIT #001	03/1999
30-025-00286	ROCK QUEEN UNIT #002	12/1992
30-025-00291	ROCK QUEEN UNIT #004	02/1999
30-025-00292	ROCK QUEEN UNIT #005	08/1996
30-005-00839	ROCK QUEEN UNIT #009	12/1992
30-005-00841	ROCK QUEEN UNIT #010	03/1999
30-005-00828	ROCK QUEEN UNIT #012	12/1992
30-005-00832	ROCK QUEEN UNIT #013	10/1986
30-005-00835	ROCK QUEEN UNIT #015	10/1986
30-005-00827	ROCK QUEEN UNIT #016	12/1992
30-005-00831	ROCK QUEEN UNIT #017	10/1986
30-005-00821	ROCK QUEEN UNIT #018	06/1984
30-005-00820	ROCK QUEEN UNIT #019	12/1992
30-005-00830	ROCK QUEEN UNIT #020	11/1986
30-005-00825	ROCK QUEEN UNIT #021	08/2002
30-005-00834	ROCK QUEEN UNIT #022	11/1984
30-005-00813	ROCK QUEEN UNIT #023	05/1985
30-005-00809	ROCK QUEEN UNIT #024	02/1986
30-005-00816	ROCK QUEEN UNIT #025	08/1986
30-005-00808	ROCK QUEEN UNIT #026	06/1985
30-005-00812	ROCK QUEEN UNIT #027	09/1986
30-005-00883	ROCK QUEEN UNIT #029	08/1986
30-005-00891	ROCK QUEEN UNIT #030	12/1992
30-005-00886	ROCK QUEEN UNIT #031	01/2002
30-005-00888	ROCK QUEEN UNIT #032	04/2001
30-005-00890	ROCK QUEEN UNIT #033	05/2002

30-005-00863	ROCK QUEEN UNIT #054	09/2002
30-005-00943	ROCK QUEEN UNIT #089	04/2001
30-005-00909	ROCK QUEEN UNIT #099	04/1996
30-005-00907	ROCK QUEEN UNIT #101	12/1992
30-005-00906	ROCK QUEEN UNIT #102	03/1999
30-005-00905	ROCK QUEEN UNIT #103	12/1992
30-005-00824	ROCK QUEEN UNIT #114	12/1992
30-025-05243	STATE H #002	09/2007
30-025-05146	T D POPE 26 #012	10/1973
30-005-00978	TRIGG FEDERAL #005	08/2000
30-005-01013	TRIGG FEDERAL #012	12/1992
30-005-00984	TRIGG FEDERAL #015	05/1996
30-005-00985	TRIGG FEDERAL #016	02/1999
30-005-00986	TRIGG FEDERAL #021	12/1992
30-005-00987	TRIGG FEDERAL #022	09/1998
30-005-00988	TRIGG FEDERAL #023	12/1992
30-005-01021	TRIGG FEDERAL #028	07/1998
30-005-00990	TRIGG FEDERAL #029	07/1998
30-005-00991	TRIGG FEDERAL #030	12/1992
30-005-00992	TRIGG FEDERAL #031	06/1996
30-005-00993	TRIGG FEDERAL #032	06/1994
30-005-00994	TRIGG FEDERAL #033	12/1992
30-005-00996	TRIGG FEDERAL #035	05/1979
30-005-10158	TRIGG FEDERAL #037	07/1998
30-005-01093	WEST CAP QUEEN SAND UNIT #001	03/2005
30-005-01096	WEST CAP QUEEN SAND UNIT #002	03/2005
30-005-01092	WEST CAP QUEEN SAND UNIT #004	03/2005
30-005-01095	WEST CAP QUEEN SAND UNIT #009	03/2005
30-005-01105	WEST CAP QUEEN SAND UNIT #014	12/1992
30-005-01116	WEST CAP QUEEN SAND UNIT #017	08/1996
30-005-01114	WEST CAP QUEEN SAND UNIT #019	08/1985
30-005-01117	WEST CAP QUEEN SAND UNIT #020	12/1992
30-005-10104	WEST CAP QUEEN SAND UNIT #022	12/1982
30-005-01120	WEST CAP QUEEN SAND UNIT #023	12/1992
30-005-01119	WEST CAP QUEEN SAND UNIT #024	12/1992

30-005-01118	WEST CAP QUEEN SAND UNIT #025	12/1992
30-005-01102	ZIMMERMAN #002	03/2005
30-005-01110	ZIMMERMAN A #001	03/2005
30-005-01112	ZIMMERMAN A #003	03/2005
30-005-01113	ZIMMERMAN A #004	03/2005

CELERO ENERGY II, LP

By: Celero Energy Holdings II, LLC, its General Partner

By: 
John E. Lodge

Vice-President - Land

Date: 2/25/2010