

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

NMOCD - ACO-271

IN THE MATTER OF CHAPARRAL RESOURCES, L.L.C. [OGRID 271999],

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 Chaparral Resources, L.L.C. ("Chaparral Resources") enter into this Agreed Compliance Order ("Order" or "ACO") under which Operator agrees to the specific terms and obligations outlined herein relating to the transfer of the well identified as the Houston A#1, API 30-025-07202 from operator Purvis Operating Company, OGRID 131559 ("Purvis"), and agrees that failure to meet the terms and obligations set out in this Order constitutes a violation of an order requiring corrective action for purposes of Subpart A of OCD Rule 19.15.5.9 NMAC, on which basis the OCD will seek to revoke Operator's authority to inject pursuant to OCD Rule 19.15.26.8.A. **Chaparral Resources understands and agrees that in return for Chaparral Resources entering into this ACO, the OCD will agree to approve the requested well transfer from Purvis to Chaparral Resources (given that all other statutory and regulatory requirements have been met for such transfer).**

I. STATUTORY & REGULATORY AUTHORITY OF THE OCD;
LEGAL & REGULATORY REFERENCES APPLICABLE
TO THIS AGREED COMPLIANCE ORDER

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. The OCD is the state division responsible for tracking operators of record for all oil and gas wells and facilities in New Mexico, and for reviewing for approval all applications for transfer of operator for such wells or facilities. OCD Rules 19.15.9.8-19.15.9.9 NMAC.
3. Chaparral Resources is a limited liability company, registered to do business in the state of New Mexico.
4. The OCD has jurisdiction over the parties and subject matter in this proceeding.

5. An operator seeking to become the new operator of record for a well or facility "shall not commence operations until the division approves the application for transfer of operator." OCD Rule 19.15.9.9.B NMAC.
6. OCD Rule 19.15.29.11 NMAC provides that the person responsible for a release site "...shall complete division-approved corrective action for releases that endanger public health or the environment. The responsible person shall address releases in accordance with a remediation plan submitted to and approved by the division or with an abatement plan submitted in accordance with 19.15.30 NMAC."
7. Subsection A of Rule 19.15.5.9 NMAC provides that if (after notice and hearing) the Division or Commission issues an order finding an operator in violation of an Order requiring corrective action, that operator is not in compliance with Subsection A of Rule 19.15.5.9 NMAC.
8. OCD Rule 19.15.26.8.A NMAC provides that the Division may revoke an operator's authority to inject (after notice and hearing) if the operator is not in compliance with Subsection A of Rule 19.15.5.9 NMAC.

II. THE OCD AND OPERATOR
STIPULATE AND AGREE
TO THE FOLLOWING FINDINGS & CONCLUSIONS:

1. Chaparral Resources wishes to become the operator of record under OGRID 271999 for the well identified as the ***Houston A#1, API 30-025-07202***.
2. The current operator of record for the ***Houston A#1*** is Purvis Operating Company, OGRID 131559 ("Purvis"). The subject well is located at L-19-12S-38E, 2310 FSL, 330 FWL (Lat/Long: 33.2632323844417 / -103.144194335249) and is currently tied to the Gladiola Injection Pipeline System/Gladiola Saltwater Disposal System ("Pipeline").
3. As of February 2010, there were two operational production (oil) wells connected to the Pipeline and using the Pipeline for disposal purposes. These two wells were and currently are operated by Chaparral Energy, L.L.C., OGRID 4115 ("CELLC"), a limited liability company affiliated with Chaparral Resources and registered to do business in the state of New Mexico, and are identified as: the ***Brownfield #1-A, API 30-025-05031***, located at Unit B, Section 24-T12S-R37E, and the ***John Shults # 1-13, API 30-025-05019***, located at Unit O, Section 13-T12S-R37E, both in Lea County, New Mexico (between .8 and 1.2 miles NW{approx} of the ***Houston #1A***, respectively). CELLC was approved by the OCD as operator of the ***Brownfield #1-A*** and the ***John Shults # 1-13*** on August 1, 2008.
4. At some point after assuming operations, the current operator of record of both the ***Houston #1A SWD*** and of the Pipeline, Purvis Operating Company, created a

ACO

Chaparral Resources, LLC - OGRID 271999

Page 2 of 14

separate and distinct PVC disposal line southwest of the Pipeline (“PVC Line”). The PVC Line, which also disposed into the Houston #1A, had at least four operational production (oil) wells connected to it. These wells, all but one of which are still “active” per OCD records(+), are identified in the table below:

| Operator | Location | Well Name | API # |
|------------------|----------------------|---------------|--------------|
| Moss Petroleum | Unit L of 26-12S-37E | DP Peck #003 | 30-025-05053 |
| Moss Petroleum | Unit N of 26-12S-37E | DP Peck #004 | 30-025-05054 |
| Purvis Operating | Unit A of 34-12S-37E | Lowe #001(+) | 30-025-20724 |
| Ingram | Unit D of 35-12S-37E | Midhurst #001 | 30-025-05067 |
| Aspen Operating | Unit N of 27-12S-37E | Turner D#001 | 30-025-05057 |

5. If permitted to assume the operation of the *Houston #1A SWD* well, Chaparral Resources and its affiliate CELLC will be the only remaining operators with functional (producibile/injectable) wells tied into the Pipeline.
6. Both the *John Shults #1-13* and the *Brownfield #1-A* ceased use of the disposal system pipeline in February 2010; however, CELLC has continued to operate them without using the Pipeline or the *Houston #1A* for disposal of produced water.
7. Since the *John Shults #1-13* and the *Brownfield #1-A* ceased use of the Pipeline in February 2010 for disposal, in order to allow the two wells to continue operating, CELLC has had to dispose of the produced water resulting from their operation by using trucks to haul it away for disposal off-site.
8. Chaparral Resources has indicated that upon assumption of operation of the *Houston #1A*, in collaboration with its affiliate CELLC, it intends to connect the two CELLC production wells to the *Houston #1A SWD* for disposal of water produced as a result of the operation of those two wells. CELLC intends to connect these two producing wells to the *Houston #1A* by installing a new line that, aside from ancillary easements and right-of-ways,* is completely separate from and independent of the existing Gladiola pipeline system.
9. Neither Chaparral Resources nor its affiliate CELLC intends to use the currently out-of-service Gladiola Pipeline System for its future operations except such ancillary easements and right-of-ways* that belong to the Gladiola Pipeline System.
10. Representatives for Chaparral Resources have stated and agree that if at any point their intentions change, and any portion of the Pipeline is to be placed back in service, return to service will be effected only by either replacing the applicable portion of the line prior to placing it in service (and conducting all necessary and required testing associated with the installation of new line), or by conducting

* This Order does not intend to address or impact surface rights or the relationships between surface right owners and oil and gas operators.

comprehensive testing and then completing all necessary repairs prior to placing the Pipeline back in service, such that pipeline integrity and protection of human health and the environment are ensured.

11. The Pipeline is roughly located in Lea County, New Mexico, between 3 and 7 miles Northeast of Tatum. Utilizing Public Land Survey descriptor terms, the pipeline extends through the following areas:

- Township 11S, Range 38:
 - Section 29, southern portion
 - Section 31, eastern portion
 - Section 32, western portion
 - Section 34, southeast quadrant
- Township 12S, Range 38E:
 - Section 4, northern portion
 - Section 5
 - Section 6
- Section 7
- Section 8
- Section 17, western portion
- Section 18
- Section 19
- Section 30, northeast quadrant
- Township 12S, Range 37E:
 - Section 13, eastern portion
 - Section 24, northeast quadrant

12. The PVC Line, referenced in Paragraph No. 4, above and located southwest of the Pipeline, extends through the following areas:

- Township 12S, Range 37E:
 - Section 25, northern portion
 - Section 26, eastern portion
 - Section 27, southwest quadrant
 - Section 34, northern portion,
 - Section 35, northwest quadrant

13. Upon information and belief, Purvis shut down both the Pipeline and the separate and distinct PVC Line in early February 2010, and as of the date of this Order, neither has been returned to service.

14. Purvis Operating Company, the operator of both the Pipeline and the separate and distinct PVC Line, issued a formal statement “resigning” as operator of the Pipeline on January 26, 2010, with its resignation becoming “final” thirty (30) days thereafter (on or about February 25, 2010).

15. At this time, the following releases have been identified as having occurred in relation to the Pipeline and as not yet having been adequately addressed or remediated:

KINSOLVING NORTH RELEASE SITES:

- Dates: 3/11/2008 & 3/13/2008: OCD Designation **1RP-498 - T 12S R38E Section 18 Unit O**, (previously referred to as the “Gladiola NE Release Site”). This is a large saltwater-impacted site. Records for this site reflect

that the two March 2008 releases impacted approximately .54 acres, and appear to have occurred within a larger, 1.4 acre, previously impacted area. It has been suggested that the pre-2008 release occurred at this site sometime between 1968 and 1997; however, there is no documentation available relating to this previous release. This release site is approximately 1.1 miles NE of the Houston #1A.

16. The Kinsolving North Release site is within two miles of the *Houston #1A*. Chaparral Resources has acknowledged the existence of this release site, has agreed that the site is subject to an OCD corrective action/remediation plan, and has agreed to complete the surveying, testing and remediation determined by the OCD to be reasonably necessary pursuant to the Oil and Gas Act and OCD Rules (and as will be set out in corrective action/remediation plans eventually submitted for OCD approval by Chaparral Resources for the site). The Kinsolving North Release site has been assigned the following OCD designation: **OCD No. 1RP-498**
17. In addition to the Kinsolving North Release site, at least two releases are known to have occurred at the *Houston #1A* site that have never been properly investigated and/or remediated or abated by the current operator of record as required by OCD Rules:

HOUSTON #1A SWD WELL RELEASES (2):

- Date: 6/14/2007: **No OCD Remediation Plan Number Assigned** - API 30-025-07202. Unreported release(s) was(were) discovered to have occurred at this site when the OCD conducted a site inspection on this date. As a result of the discovery, the OCD issued a Letter of Violation to the operator of record, Purvis, advising that a report providing details of the release(s) was required. Because no proper report has been filed regarding this(these) release(s) to date, specific details regarding the size, nature and full extent of the release(s), or whether there was more than one release, are not yet known.
 - Date: 5/21/2008: **No OCD Remediation Plan Number Assigned** - API 30-025-07202. This release was the result of a tank running over at the site. The current operator of record did not timely report the release, and has not done so to date despite the fact that the OCD issued a Letter of Violation to the operator of record, Purvis, in May of 2008 advising that a report was required. Because no proper report has been filed regarding this release to date, specific details regarding the size, nature and full extent of this release are not yet known.
18. Because Purvis did not provide the information specifically requested by the OCD on 6/14/07 and 5/21/08 regarding the releases (and required by OCD Rules

19.15.29.6-19.15.29.10 NMAC), the OCD was not able to evaluate the releases and was not able to proceed to the abatement/remediation plan stage for this site.

19. Had Purvis complied with its obligations under OCD Rules and properly reported the release information, the *Houston #1A* site would have been (and likely still would be) subject to a remediation plan pursuant to Rule 19.15.29.11 or an abatement plan under Rule 19.15.29.30 NMAC to address the 6/14/07 and 5/21/2008 releases. The OCD is still in need of the information requested on 6/14/2007 and 5/21/2008 so that it can make a determination regarding what corrective action is required at this site for the remediation and/or abatement of the contamination resulting from the May, 2008 release and resulting from the releases discovered on 6/14/2007.
20. Chaparral Resources understands and agrees that it is required to complete the surveying, testing and remediation determined by the OCD to be reasonably necessary for the Houston #1A to address the 5/21/2008 release and the release(s) discovered on 6/14/2007 pursuant to the Oil and Gas Act and OCD Rules (and as will be set out in corrective action/remediation plans eventually submitted for OCD approval by Chaparral Resources for this site/these releases).
21. In addition to the one identified pipeline release site and two identified *Houston #1A* releases, the following site has been identified as a site at which releases are suspected to have occurred in relation to the Gladiola Pipeline System, and which may require further investigation, remediation and/or abatement:

GLADIOLA NO. 2 RELEASE SITE:

- *T 12S R38E Section 30 Unit Letter D.* This is a location of possible past release/contamination that requires further investigation and surveying to confirm and, if confirmed, to delineate. No OCD designation has been assigned to date. Previous documentation submitted by Purvis for this site indicates this was the result of a release from one of the Pipeline valve-boxes. This site is approximately .3 miles South of the Houston #1A.
22. Chaparral Resources has acknowledged that this suspected release site along the Pipeline System within one mile of the *Houston #1A*, is a site of possible or suspected unreported and as-yet unaddressed releases. Chaparral Resources has agreed to complete the surveying and testing necessary to determine whether this is an actual release site (under the direction of the OCD and pursuant to the Oil and Gas Act and OCD Rules). If the OCD determines that the data obtained indicates that a release has occurred, Chaparral Resources has agreed to complete the surveying, testing and remediation or abatement determined by the OCD to be reasonably necessary pursuant to the Oil and Gas Act and OCD Rules (and as will be set out in corrective action/remediation plans eventually submitted for OCD approval by Chaparral Resources for the site).

ACO

Chaparral Resources, LLC - OGRID 271999

Page 6 of 14

23. Chaparral Resources and the OCD agree that this ACO is intended to address the remediation of releases or potential releases located along the Pipeline, and does not attempt to address the remediation of releases or potential releases located along the separate PVC line as described in Paragraph Nos. 4 and 12, above.
24. Chaparral Resources and the OCD agree that in return for Chaparral Resources entering into this ACO, and as long as Chaparral Resources has met all other statutory and regulatory requirements, the OCD will agree to approve the transfer of operator request (form C-145) of the *Houston #1A, API 30-025-07202* from Purvis (OGRID 131559) to Operator Chaparral Resources (OGRID 271999).
25. This Agreed Compliance Order, or "ACO," constitutes an "order requiring corrective action" for purposes of Subsection A of OCD Rule 19.15.5.9 NMAC. If Chaparral Resources fails to comply with this ACO, the OCD will seek entry of an order confirming Chaparral Resources to be in violation of an "order requiring corrective action," confirming that therefore Chaparral Resources is in violation of Subsection A of OCD Rule 19.15.5.9, and the OCD will further seek to have Chaparral Resources' authority to inject revoked pursuant to Rule 19.15.26.8.A NMAC on the basis that it is not in compliance with OCD Rule 19.15.5.9.
26. Nothing in this ACO is intended to relieve the previous operator of record, Purvis, of its duties, obligations and liabilities incurred prior to the date of execution of the ACO. Furthermore, nothing in this ACO is intended to relieve the previous operator of record, Purvis, of its duties, obligations and liabilities in relation to releases along the PVC Line.

III. ORDER

1. Regarding the Pipeline release sites identified as Kinsolving North Sites (located at T 12S R38E Section 18 Unit O) and which have been given the OCD designation 1RP-498, Chaparral Resources shall:
 - a. Conduct any investigation, surveying, sampling, delineation and the like as approved by the OCD Environmental Bureau and/or the appropriate OCD District Office pursuant to its authority under the Oil and Gas Act and OCD Rules;
 - b. Submit any remediation plan proposals, corrective action plan proposals and/or abatement plan proposals as required by OCD Rules by the deadlines specified pursuant to the OCD's authority under the Oil and Gas Act and OCD Rules;
 - c. Perform any remediation, corrective action and/or abatement ordered by the OCD as embodied by an approved remediation plan, corrective action plan or abatement plan pursuant to the Oil

and Gas Act and OCD Rules, and do so by the applicable deadlines outlined within the referenced plan;

- d. Abide by any amendments to the remediation plan, corrective action plan and/or abatement plan that may be made, and any deadlines associated with such amendments; and
 - e. Submit any and all reports and sundries to the OCD Environmental Bureau and/or the appropriate OCD District Office as required by OCD Rules or as specifically requested by the OCD pursuant to its authority under the Oil and Gas Act and OCD Rules (including but not limited to, as applicable, C-103 notice of intent, C-103 subsequent report, etc.).
2. Regarding the release(s) discovered on 6/14/2007 and the release occurring on or about 5/21/2008 at the **Houston #1A SWD Site**, API No. 30-025-07202 (located at T 12S R37E Section 25 Unit L) for which no OCD designations have yet been assigned, **Chaparral Resources shall:**
- a. Conduct any investigation, surveying, sampling, delineation and the like as approved by the OCD Environmental Bureau and/or the appropriate OCD District Office pursuant to its authority under the Oil and Gas Act and OCD Rules;
 - b. Submit a form C-141, any remediation plan proposals, corrective action plan proposals and/or abatement plan proposals as required by OCD Rules by the deadlines specified pursuant to the OCD's authority under the Oil and Gas Act and OCD Rules;
 - c. Perform any remediation, corrective action and/or abatement ordered by the OCD as embodied by an approved remediation plan, corrective action plan or abatement plan pursuant to the Oil and Gas Act and OCD Rules, and do so by the applicable deadlines outlined within the referenced plan;
 - d. Abide by any amendments to the remediation plan, corrective action plan and/or abatement plan that may be made, and any deadlines associated with such amendments; and
 - e. Submit any and all reports and sundries to the OCD Environmental Bureau and/or the appropriate OCD District Office as required by OCD Rules or as specifically requested by the OCD pursuant to its authority under the Oil and Gas Act and OCD Rules (including but not limited to, as applicable, C-103 notice of intent, C-103 subsequent report, etc.).

3. Regarding the suspected/potential Pipeline release site identified as the **Gladiola No. 2 Site** (located at T 12S R38E Section 30 Unit D) for which no OCD designation has yet been assigned, **Chaparral Resources shall:**
 - a. Conduct any investigation, surveying, sampling, delineation and the like as approved by the OCD Environmental Bureau and/or the appropriate OCD District Office pursuant to its authority under the Oil and Gas Act and OCD Rules;
 - b. If initial investigation, surveying and sampling confirms this to be a release site (as determined by the OCD), submit a form C-141, any remediation plan proposals, corrective action plan proposals and/or abatement plan proposals as required by OCD Rules by the deadlines specified pursuant to its authority under the Oil and Gas Act and OCD Rules;
 - c. Perform any remediation, corrective action and/or abatement ordered by the OCD as embodied by an approved remediation plan, corrective action plan or abatement plan pursuant to the Oil and Gas Act and OCD Rules, and do so by the applicable deadlines outlined within the referenced plan;
 - d. Abide by any amendments to the remediation plan, corrective action plan and/or abatement plan that may be made, and any deadlines associated with such amendments; and
 - e. Submit any and all reports and sundries to the OCD Environmental Bureau and/or the appropriate OCD District Office as required by OCD Rules or as specifically requested by the OCD pursuant to its authority under the Oil and Gas Act and OCD Rules (including but not limited to, as applicable, C-103 notice of intent, C-103 subsequent report, etc.).
4. Upon assumption of operation of the **Houston #1A** SWD well, if Chaparral Resources proceeds with its plan to connect the two existing CELLC production wells to the **Houston #1A** SWD well, Operator:
 - a. Shall do so by installing a new line that is completely separate from and independent of the existing Gladiola Pipeline SWD system;
 - b. Shall test the pipeline to demonstrate mechanical integrity **prior** to placing it in service **and** then at least once every five (5) years to demonstrate its mechanical integrity;
 - c. Shall provide the appropriate OCD district office with reasonable notice of the date and time of the tests in order that such tests may be witnessed by OCD compliance officer;

- d. Shall record all pipeline pressure tests using a strip chart recorder or other similar device that is generally accepted in industry as appropriate for such purposes;
 - e. If a pressure-rated pipeline is installed, integrity testing shall include testing the pipeline to 150% of the normal operating pressure, if possible, not to exceed the manufacturer's pressure rating, or for atmospheric drain systems, to 3 pounds per square inch greater than normal operating pressure, and pressure held for a minimum total testing time of one-hour and with no more than a 3% reduction in pressure during the first 30-minute period of testing, and no loss of pressure during the second 30-minute period of the one-hour test. In the event greater than a 3% reduction in pressure is recorded during the first 30-minutes of the test, or in the event that any loss of pressure is recorded during the second 30-minute portion of the test, the test shall be considered a failure and the pipeline section shall not be used until the leak is found and repaired and another test is successfully performed. The Operator may propose other test methods for the OCD Environmental Bureau's review and approval;
 - f. Shall notify the OCD Environmental Bureau within 72 hours if the pipeline fails an integrity test, and shall then propose methods to either repair or replace the defective pipeline and submit a Remediation Plan to the appropriate OCD District Office to investigate and remediate any contamination pursuant to 19.15.29 NMAC; and
 - g. Shall maintain all test results for inspection by the OCD.
5. Chaparral Resources shall not place any portion of the existing Gladiola Salt Water Disposal Pipeline System (as more specifically described at Paragraph No. 11 in Part I, above) back into service unless the desired portions of the Pipeline are first tested, repaired and/or replaced (as dictated by integrity testing), as follows:
- a. Where it is desired to reactivate existing line, Chaparral Resources shall, prior to placing it back in service:
 - i. Test the pipeline to demonstrate mechanical integrity;
 - ii. Provide the appropriate OCD district office with reasonable notice of the date and time of the tests in order that such tests may be witnessed by OCD compliance officer;
 - iii. Record all pipeline pressure tests using a strip chart recorder or other similar device that is generally accepted in industry as appropriate for such purposes;

- iv. If a pressure-rated pipeline, test the pipeline to 150% of the normal operating pressure, if possible, not to exceed the manufacturer's pressure rating, or for atmospheric drain systems, to 3 pounds per square inch greater than normal operating pressure, and pressure held for a minimum total testing time of one-hour and with no more than a 3% reduction in pressure during the first 30-minute period of testing, and no loss of pressure during the second 30-minute period of the one-hour test. In the event greater than a 3% reduction in pressure is recorded during the first 30-minutes of the test, or in the event that any loss of pressure is recorded during the second 30-minute portion of the test, the test shall be considered a failure and the pipeline section shall not be used until the leak is found and repaired and another test is successfully performed. The Operator may propose other test methods for the OCD Environmental Bureau's review and approval; and
 - v. Conduct any and all repairs necessary such that mechanical integrity can be demonstrated, and the line passes the above-described pressure test prior to being placed back into service.
- b. Where it is desired to replace the existing line with new line, Chaparral Resources shall, prior to placing the new line in service:
- i. Test the pipeline to demonstrate mechanical integrity;
 - ii. Provide the appropriate OCD district office with reasonable notice of the date and time of the tests in order that such tests may be witnessed by OCD compliance officer;
 - iii. Record all pipeline pressure tests using a strip chart recorder or other similar device that is generally accepted in industry as appropriate for such purposes; and
 - iv. If a pressure-rated pipeline, test the pipeline to 150% of the normal operating pressure, if possible, not to exceed the manufacturer's pressure rating, or for atmospheric drain systems, to 3 pounds per square inch greater than normal operating pressure, and pressure held for a minimum total testing time of one-hour and with no more than a 3% reduction in

pressure during the first 30-minute period of testing, and no loss of pressure during the second 30-minute period of the one-hour test. In the event greater than a 3% reduction in pressure is recorded during the first 30-minutes of the test, or in the event that any loss of pressure is recorded during the second 30-minute portion of the test, the test shall be considered a failure and the pipeline section shall not be used until the leak is found and repaired and another test is successfully performed. The Operator may propose other test methods for the OCD Environmental Bureau's review and approval.

- c. Whether it is desired to reactivate old line or to replace the existing line, in addition to the required testing prior to placement in service, operator shall:
- i. Conduct additional testing at least once every five (5) years to demonstrate the pipeline's mechanical integrity;
 - ii. Provide the appropriate OCD district office with reasonable notice of the date and time of any testing in order that such tests may be witnessed by OCD compliance officer;
 - iii. Record all pipeline pressure tests using a strip chart recorder or other similar device that is generally accepted in industry as appropriate for such purposes;
 - iv. Notify the OCD Environmental Bureau within 72 hours if the pipeline fails an integrity test, and shall then propose methods to either repair or replace the defective pipeline **and** submit a Remediation Plan to the appropriate OCD District Office to investigate and remediate any contamination pursuant to 19.15.29 NMAC; and
 - v. Shall maintain all test results for inspection by the OCD.
- d. None of the above restrictions shall limit in anyway the right of Chaparral Resources or CELLC from the using those ancillary rights owned by the Pipeline including, but not limited to, easements and right-of-ways. *

- e. Chaparral Resources shall disconnect the PVC Line from the *Houston #1A* and the Pipeline in such a manner as to cease disposal operations via the PVC Line into the *Houston #1A*.
6. By signing this Order, Chaparral Resources expressly:
- a. Acknowledges the accuracy and applicability of the Paragraphs setting out the “*Statutory and Regulatory Authority of the OCD*” in **Section I**, above;
 - b. Acknowledges that it Stipulates and Agrees to Paragraphs 1 through 25 in **Section II**;
 - c. Understands and Agrees that any violation of the terms of this ACO (**Section III: Ordering Paragraphs 1 through 11, inclusive of subparts**):
 - i. constitutes a violation of an order requiring corrective action for purposes of Subpart A of OCD Rule 19.15.5.9 NMAC for which the OCD will seek issuance of a confirming order by the Division, and
 - ii. on which basis the OCD will seek to revoke Operator’s authority to inject pursuant to OCD Rule 19.15.26.8.A and Subsection A of Rule 19.15.5.9 NMAC.
 - 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; 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. Nothing in this Order is intended to relieve the previous operator of record, Purvis, of its duties, obligations and liabilities incurred prior to date of the Order.

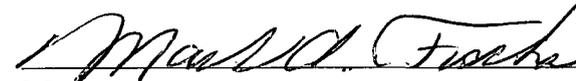
Done at Santa Fe, New Mexico this 12th day of January, 2010

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

ACCEPTANCE

CHAPARRAL RESOURCES, L.L.C. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

CHAPARRAL RESOURCES, L.L.C.

By: 
Mark A. Fischer
Manager

Date: 1/9/11