

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

NMOCD – ACOI- 235

IN THE MATTER OF YATES PETROLEUM CORPORATION,

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 Yates Petroleum Corporation ("Operator" or "Yates") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI").

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. Yates is a corporation operating wells in New Mexico under OGRID 25575.
3. Yates is the operator of record of the wells in the NDDUP Unit, a secondary recovery unit located in Eddy County, New Mexico.
4. Yates believes the NDDUP Unit is approaching the end of its economic life for the recovery of oil and gas, and is evaluating the wells in the Unit to determine if they can be productive if recompleted to zones outside the Unit.
5. Yates is actively plugging wells in the NDDUP Unit that it has determined are not good candidates for recompletion. Yates reports that it has plugged or is in the process of plugging 50 of the wells in the NDDUP Unit.
6. Yates is reviewing the remaining wells that it operates in the NDDUP Unit to determine if they are good candidates for recompletion. Most of those wells are identified in Exhibit A, attached to this Order. Yates proposes to recomplete 16 of the wells in Exhibit A, review the production data after recompletion, and determine whether the wells on Exhibit A should be recompleted or plugged.
7. Yates estimates that it will take 18 months for it to recomplete the 16 wells and evaluate the production data from those wells.

8. Currently only one of the wells identified in Exhibit A is out of compliance with 19.15.25.8 NMAC, the inactive well rule.
9. However, Yates anticipates that many of the wells identified in Exhibit A will fall out of compliance with the inactive well rule during the 18 month review period, and that Yates will require additional time after that review is completed to return the wells to production or plug them.
10. 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:
 - (1) a 60 day period following suspension of drilling operations;
 - (2) a determination that a well is no longer usable for beneficial purposes; or
 - (3) a period of one year in which a well has been continuously inactive.”
11. An operator may be in violation of Part 5.9 (19.15.5.9 NMAC) if it operates wells that are in violation of the inactive well rule, and those wells are not subject to an agreed compliance order setting a schedule for returning the wells to compliance with the inactive well rule and imposing sanctions if the schedule is not met. The number of such wells an operator may operate and still be in compliance with Part 5.9 depends on the total number of wells the operator operates. To stay in compliance with Part 5.9 Yates, as an operator of over 1000 wells, may have no more than 10 wells out of compliance with the inactive well rule that are not subject to an inactive well agreed compliance order.
12. If an operator is in violation of Part 5.9, the OCD may deny well transfers to that operator (19.15.9.9 NMAC), may deny applications for permits to drill from that operator (19.15.14.10.A NMAC), must deny requests for allowables and authorizations to transport from that operator (19.15.16.19.A NMAC), and must deny injection permits to that operator (19.15.26.8.A NMAC). The OCD may also revoke a permit for injection after notice and hearing if the operator is not in compliance with Part 5.9. See 19.15.26.8 NMAC.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.

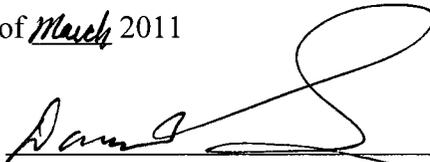
2. As operator of the wells identified in Exhibit A, Operator is responsible for their compliance with OCD Rule 19.15.25.8 NMAC.
3. It is in the best interest of the Operator and the State of New Mexico for the Operator to be able to evaluate the wells in Exhibit A to determine if they can be productive if recompleted to a different zone, and to allow that evaluation to proceed without affecting the Operator's other business activities.
4. The Operator and the OCD agree that the wells on Exhibit A should not be included in the inactive well list while the Operator is conducting that evaluation in accordance with the schedule set out below.

ORDER

1. Operator and the OCD agree to the following schedule:
 - A. The OCD shall remove the wells identified on Exhibit A from the inactive well list until July 1, 2011.
 - B. By **June 15, 2011** the Operator shall begin recompletion work or plugging operations on at least 5 of the wells identified on Exhibit A and submit a written report to the OCD's Compliance and Enforcement Manager identifying the wells and the work that has been done on them.
 - C. If the Operator begins recompletion work or plugging operations on at least 5 of the wells by June 15, 2011 and submits a timely and complete report to the OCD's Compliance and Enforcement Manager, the OCD shall issue an amendment to this order removing the wells identified on Exhibit A until March 1, 2012.
 - D. By **February 1, 2012** the Operator shall begin recompletion work or plugging operations on at least 7 additional wells identified on Exhibit A and submit a written report to the OCD's Compliance and Enforcement Manager identifying the wells and the work that has been done on them.
 - E. If the Operator begins recompletion work or plugging operations on at least 7 additional wells by February 1, 2012 and submits a timely and complete report to the OCD's Compliance and Enforcement Manager, the OCD shall issue an amendment to this order removing the wells identified on Exhibit A until October 1, 2012.
 - F. By **September 1, 2012**, the Operator shall submit a final written report to the OCD's Compliance and Enforcement Manager describing the results of its evaluation of the wells, and proposing a plan for returning the wells identified on Exhibit A to compliance, with a timeline for achieving compliance. It is the intent of the Operator and the OCD to use the time period between September 1, 2012 and October 1, 2012, to enter into good faith negotiations for a new order setting a schedule for returning the wells identified on Exhibit A to compliance.
2. The Operator may submit the written reports to the OCD's Compliance and Enforcement Manager electronically.

3. If Operator fails to meet any of the deadlines set out in this Order, the OCD may choose not to issue an amendment.
4. 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.
5. 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 11th day of March 2011

By: 
 Daniel Sanchez,
 Acting Director, Oil Conservation Division

ACCEPTANCE

Yates Petroleum Corporation hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Yates Petroleum Corporation

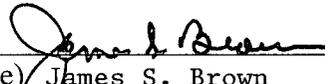
By: 
 (Please print name) James S. Brown
 Title: Attorney-in-Fact
 Date: 3/9/2011

Exhibit A to Agreed Compliance Order for Yates Petroleum Corporation

NDDUP #006	P B-17-19S-25E B 30-015-27047 O 15472	DAGGER DRAW;UPPER PENN, NORTH	11/2009
NDDUP #007	F C-17-19S-25E C 30-015-27165 O 15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #009	P A-18-19S-25E A 30-015-26672 O 15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP	F G-18-19S-25E G 30-015-26292 O 15472	DAGGER DRAW;UPPER	8/2010

#011	PENN, NORTH						
NDDUP #020	S	H-16-19S-25E	H	30-015-28738	O 15472	DAGGER DRAW;UPPER PENN, NORTH	9/2009
NDDUP #021	S	I-16-19S-25E	I	30-015-28542	O 15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #023	S	K-16-19S-25E	K	30-015-28424	O 15472	DAGGER DRAW;UPPER PENN, NORTH	12/2009
NDDUP #027	P	K-17-19S-25E	K	30-015-27417	O 15472	DAGGER DRAW;UPPER PENN, NORTH	3/2010
NDDUP #037	F	M-17-19S-25E	M	30-015-26570	O 15472	DAGGER DRAW;UPPER PENN, NORTH	5/2010
NDDUP #040	P	P-17-19S-25E	P	30-015-27631	O 15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #041	P	M-16-19S-25E	M	30-015-27314	O 15472	DAGGER DRAW;UPPER PENN, NORTH	3/2010
NDDUP #042	S	N-16-19S-25E	N	30-015-28552	O 15472	DAGGER DRAW;UPPER PENN, NORTH	6/2010
NDDUP #043	S	O-16-19S-25E	O	30-015-28541	O 15472	DAGGER DRAW;UPPER PENN, NORTH	10/2009
NDDUP #044	S	P-16-19S-25E	P	30-015-28557	O 15472	DAGGER DRAW;UPPER PENN, NORTH	5/2010
NDDUP #045H	P	A-21-19S-25E	A	30-015-28404	O 15472	DAGGER DRAW;UPPER PENN, NORTH	6/2010
NDDUP #046	F	B-21-19S-25E	B	30-015-28501	O 15472	DAGGER DRAW;UPPER PENN, NORTH	5/2010
NDDUP #049	P	A-20-19S-25E	A	30-015-28374	O 15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #052	F	D-20-19S-25E	D	30-015-25903	O 15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #057	P	2-19-19S-25E	E	30-015-26635	O 15472	DAGGER DRAW;UPPER PENN, NORTH	2/2010
NDDUP #061	F	E-20-19S-25E	E	30-015-26770	O 15472	DAGGER DRAW;UPPER PENN, NORTH	4/2010
NDDUP #063	F	G-20-19S-25E	G	30-015-26997	O 15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #066H	P	F-21-19S-25E	C	30-015-28410	O 15472	DAGGER DRAW;UPPER PENN, NORTH	3/2010
NDDUP #069H	P	I-21-19S-25E	I	30-015-28405	O 15472	DAGGER DRAW;UPPER PENN, NORTH	5/2010
NDDUP #076	F	L-20-19S-25E	L	30-015-26948	O 15472	DAGGER DRAW;UPPER PENN, NORTH	12/2009

NDDUP #081	P	4-19-19S-25E	M	30-015-26662	O	15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #090	P	N-21-19S-25E	N	30-015-28409	O	15472	DAGGER DRAW;UPPER PENN, NORTH	4/2010
NDDUP #092	P	P-21-19S-25E	P	30-015-28397	O	15472	DAGGER DRAW;UPPER PENN, NORTH	3/2010
NDDUP #097H	P	A-29-19S-25E	A	30-015-30881	O	15472	DAGGER DRAW;UPPER PENN, NORTH	6/2010
NDDUP #098	P	B-29-19S-25E	B	30-015-26976	O	15472	DAGGER DRAW;UPPER PENN, NORTH	11/2009
NDDUP #101	S	A-30-19S-25E	A	30-015-27689	I	15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #105	F	2-30-19S-25E	E	30-015-26489	O	15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #106	F	F-30-19S-25E	F	30-015-27179	O	15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #107	P	G-30-19S-25E	G	30-015-27012	O	15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #108	P	H-30-19S-25E	H	30-015-27378	I	15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010
NDDUP #111	P	G-29-19S-25E	G	30-015-28669	O	15472	DAGGER DRAW;UPPER PENN, NORTH	7/2010
NDDUP #117	S	I-28-19S-25E	I	30-015-28150	O	15472	DAGGER DRAW;UPPER PENN, NORTH	12/2009
NDDUP #118	P	J-28-19S-25E	J	30-015-28003	O	15472	DAGGER DRAW;UPPER PENN, NORTH	12/2009
NDDUP #119	S	K-28-19S-25E	K	30-015-28053	O	15472	DAGGER DRAW;UPPER PENN, NORTH	8/2010

NDDUP S K-29-19S-25E K 30-015-27355 O 15472 DAGGER DRAW;UPPER 7/2010
#123 PENN, NORTH

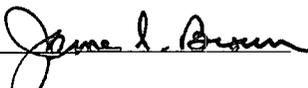
NDDUP P K-30-19S-25E K 30-015-25787 O 15472 DAGGER DRAW;UPPER 2/2010
#127 PENN, NORTH

NDDUP P 4-30-19S-25E M 30-015-26364 O 15472 DAGGER DRAW;UPPER 3/2010
#129 PENN, NORTH

NDDUP F O-30-19S-25E O 30-015-26763 O 15472 DAGGER DRAW;UPPER 6/2010
#131 PENN, NORTH

NDDUP F N-29-19S-25E N 30-015-28346 O 15472 DAGGER DRAW;UPPER 12/2009
#134 PENN, NORTH

Yates Petroleum Corporation

By: 
Title: Attorney-in-Fact

att