

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

NMOCD – ACO- 273

IN THE MATTER OF NMR ENERGY LLC,

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 NMR Energy LLC ("NMR") enter into this Agreed Compliance Order ("Order" or "ACO").

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. NMR is a Texas limited liability company registered to operate wells in New Mexico under OGRID 280401. NMR has posted a \$50,000 blanket letter of credit (Letter of Credit No. 5384-30).
3. NMR seeks to become operator of record of the following wells ("identified wells"):
 - Barnhill #001 API #30-025-28198
 - Post #001 API #30-025-27984
 - Post #002 API #30-025-28295
 - Post #003 API #30-025-28576
4. The current operator of record of the identified wells is Platinum Exploration Inc., OGRID 227103 ("Platinum").
5. The identified wells are the subject of Administrative Hearing Order R-13190, a compliance order issued to Platinum and Devonian Partners, LLC ("Devonian") requiring them to return the wells to compliance or plug the wells by May 1, 2010. The violations at issue for the wells NMR seeks to acquire are as follows:
 - 19.15.25.8 NMAC (the inactive well rule) as to the Barnhill #001, Post #002, Post #003;
 - 19.15.8.9 NMAC (the financial assurance rule) as to all four wells;
 - 19.15.29.11 NMAC (release notification rule) as to the Post #003; and
 - 19.15.16.8 NMAC (well sign rule) as to the Barnhill #001, Post #002, and Post #003.

6. NMR has posted the following single-well bonds for the following wells:
- | | | |
|-----------------|----------|------------------------------|
| • Barnhill #001 | \$17,745 | Letter of Credit No. 5386-30 |
| • Post #002 | \$17,745 | Letter of Credit No. 5388-30 |
| • Post #003 | \$19,000 | Letter of Credit No. 5387-30 |
7. As a condition precedent for operating an oil, gas, injection or service well, an operator is required to post financial assurance on any well it is proposing to acquire on state-owned or privately-owned lands within New Mexico. See 19.15.8.9 NMAC.
8. NMR is working on getting the single-well financial assurance that is required for the Post #001 posted. Once NMR has posted the required single-well financial assurance for the Post #001, the OCD may approve the transfer of the Post #001 to NMR.
9. According to NMR, if NMR does not become the operator of record of the Barnhill #001 by May 1, 2011, the lease for the Barnhill #001 will terminate.
10. The OCD may deny a change of operator if the new operator is acquiring wells subject to a compliance order requiring remediation or compliance with the inactive well rule, and the new operator has not entered into an agreed compliance order setting a schedule for compliance with the existing order. See 19.15.9.9.C NMAC.
11. The Post #001 was previously authorized for injection. However, it did not report injection for a continuous period in excess one year, and the injection authority for the well has terminated automatically pursuant to 19.15.26.12(C) NMAC.
12. Once NMR becomes the operator of record of the Post #001, it may seek a new injection permit for the well, which was previously permitted. However, the OCD is barred from granting an injection permit to an operator in violation of 19.15.5.9 (“Part 5.9”). See 19.15.26.8 NMAC. Because all four of the wells NMR seeks to acquire are in violation of the inactive well rule, NMR will be out of compliance with Part 5.9. See 19.15.5.9(4) NMAC.
13. Placing the wells under an agreed compliance order setting a schedule for returning the wells to compliance with a sanction for non-compliance with the order will allow the OCD to approve the transfer, and will bring the wells into compliance with Part 5.9, allowing NMR to seek injection permits.

AGREEMENT

14. The OCD and NMR agree that NMR will:
- Maintain its \$50,000 blanket financial assurance. While this agreement is in effect the blanket financial assurance must be in the form of a letter of credit or a cash bond.
 - Post a single-well financial assurance in the form of a cash bond or a letter of credit in the amount required under 19.15.8.9 NMAC for the Post #001 by May 27, 2011, IF NMR intends to become the operator of record of the Post #001. That financial assurance shall remain in place until NMR completes one of the following actions: plugs and abandons the well and obtains its release pursuant to 19.15.25.10 and 19.15.25.11 NMAC; returns

the well to production or injection and reports that production or injection on a C-115; or transfers the well to another operator.

- Maintain the single-well financial assurance posted for each well. While this agreement is in effect the single-well financial assurance must be in the form of a letter of credit or a cash bond. That financial assurance shall remain in place until NMR completes one of the following actions: plugs and abandons the well and obtains its release pursuant to 19.15.25.10 and 19.15.25.11 NMAC; returns the well to production or injection and reports that production or injection on a C-115; or transfers the well to another operator.
 - Remediate the site of the Post #003 according to an OCD-approved plan by December 19, 2011. NMR shall submit a plan for remediation to the Hobbs District Office of the OCD for approval, and complete the remediation in accordance with the OCD-approved plan.
 - Install well signs for all wells acquired from Platinum in accordance with 19.15.16.8 NMAC.
 - Return each well to compliance with 19.15.25.8 NMAC by December 19, 2011 by taking one of the following actions: plugging and abandoning the well and obtaining its release pursuant to 19.15.25.10 and 19.15.25.11 NMAC; returning the well to production or injection and reporting that production or injection on a C-115, or placing the well on approved temporary abandonment pursuant to 19.15.25.13 NMAC.
15. For those identified wells that NMR becomes the operator of record of, the OCD agrees to remove those wells from the inactive well list for NMR kept pursuant to Part 5.9 until **December 19, 2011**. At that time, any of the identified wells operated by NMR that remains out of compliance with the inactive well rule will appear on the inactive well list for NMR.
16. If NMR has not posted the single-well financial assurance that is required for the Post #001 and has not submitted a change of operator for the Post #001 **by May 27, 2011**, the OCD may plug the well pursuant to the terms of Administrative Hearing Order R-13190.
17. If any of the wells NMR acquires from Platinum remains out of compliance with **any** provision of this order on **December 19, 2011**, NMR agrees that the OCD may plug and abandon the non-compliant well(s) and forfeit the applicable financial assurances. **NMR further agrees that it waives any right to notice and hearing prior to that plugging and forfeiture.**
18. NMR may seek an extension of the terms of this order if it demonstrates to the OCD that it has acted in good faith to return the wells to compliance. It will be exclusively within the discretion of the OCD whether to grant the requested extension.

Done at Santa Fe, New Mexico this 29 day of APRIL 2011

By: 
Jami Bailey
Director, Oil Conservation Division

ACCEPTANCE

NMR Energy LLC hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

NMR Energy LLC

By: Sherman Weaver
(Please print name) Sherman Weaver
Title: President
Date: 4/30/2011