

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

NMOCD – ACOI- **276**

IN THE MATTER OF LRE OPERATING, LLC

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 LRE Operating, LLC ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI"). Operator agrees to plug, place on approved temporary abandonment status, or restore to production or other beneficial use the wells identified herein in accordance with the following agreed schedule and procedures, or face the possibility of no further agreed compliance orders. See 19.15.25.8 NMAC

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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 corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 281994 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."

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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. An operator faces sanctions if it is out of compliance with OCD Rule 19.15.5.9 NMAC. Sanctions include possible denial of registration by operator or certain related entities (OCD Rule 19.15.9.8B NMAC), possible denial of change of operator that would transfer wells to the noncompliant operator (OCD Rule 19.15.9.9C.1 NMAC), mandatory denial of injection permits (OCD Rule 19.15.26.8A NMAC), possible revocation of injection permits after notice and hearing (OCD Rule 19.15.26.8A NMAC), possible denial of applications for a drilling permit (OCD Rule 19.15.14.10A NMAC), and mandatory denial of allowable and authorization to transport (OCD Rule 19.15.16.19A NMAC).
7. Operator is currently out of compliance with OCD Rule 19.15.5.9.A(4) NMAC because it has too many wells out of compliance with OCD Rule 19.15.25.8 NMAC (the inactive well rule) that are not subject to an agreed compliance order setting a schedule for bringing the wells into compliance with the inactive well rule and imposing sanctions if the schedule is not met. See OCD Rule 19.15.5.9(A)(4) NMAC.
8. As the operator of record of 727 wells, to be in compliance with OCD Rule 19.15.5.9.A(4) NMAC, Operator may have no more than 7 wells out of compliance with OCD Rule 19.15.25.8 NMAC (inactive well rule). See OCD Rule 19.15.5.9A(4)(b) NMAC. According to the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC, Operator will have 75 wells out of compliance with the inactive well rule by October of 2013, due to circumstances out of its control. These wells are also listed in Attachment A. A copy of Operator's inactive well list as of August 1, 2013 (including those wells that will fall onto the list three (3) months from this date) is attached as Exhibit "A." Operator faces sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC.
9. Operator intends to seek privileges from the OCD that would be subject to sanction due to Operator being out of compliance with OCD Rule 19.15.5.9 NMAC. By placing the wells identified in Exhibit "A" under this Order, Operator will not face sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC.

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 or will be 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. The OCD and Operator enter into this Order to remove the wells identified in Exhibit "A" from the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC and consideration of Operator's compliance with the inactive well rule for purposes of Operator's compliance with OCD Rule 19.15.5.9 NMAC. Operator remains subject to sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC *IF* Operator becomes out of compliance with OCD Rule 19.15.5.9 NMAC for any reason other than the inactive wells identified in Exhibit "A."

ORDER

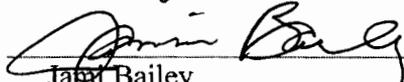
1. Operator agrees to bring 6 wells identified in Exhibit "A" into compliance with OCD Rule 19.15.25.8 NMAC by February 1, 2014 via
 - (a) restoring the well to production or other OCD-approved beneficial use **and filing a C-115 documenting such production or use;**
 - (b) causing the wellbore to be 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. Oil and gas produced during swabbing does not count as production for purposes of this Order.
3. 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

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received by the compliance deadline of February 1, 2014. The total length of this Agreed Compliance Order is six months.

4. Operator understands that if it fails to meet the terms of this Order, the OCD may decide not to enter into any further agreed compliance orders with Operator.
5. This Order shall expire on March 1, 2014. At that time, 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, and will be considered when determining Operator's compliance with OCD Rule 19.15.5.9 NMAC.
6. 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 wells identified in Exhibit "A" by February 1, 2014;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 3 by the February 1, 2014 compliance deadline set by this Order;
 - (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 other than a hearing on a request for waiver; 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.
 - (f) may notify the OCD if the conditions causing the wells in Exhibit "A" to be inactive, continue past the March 1, 2014 and may request an additional 6 months to return the wells to compliance.
7. 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.
8. 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 7th day of August, 2013

By: 
Jamal Bailey
Director, Oil Conservation Division

ACCEPTANCE

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

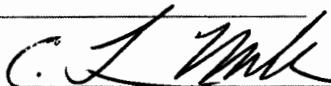
By: 
(Please print name) C.T. Miller
Title: Chief Operating Officer
Date: August 01, 2013

Exhibit A to Agreed Compliance Order for LRE Operating, LLC

**Total Well Count: 727 Inactive Well Count: 75
Printed On: Thursday, August 01 2013**

| District | API | Well | ULSTR | OCD Unit | OGRID | Operator | Lease Type | Well Type | Last Production | Formation/Notes | Status | TA Exp Date |
|----------|--------------|-----------------------------|--------------|----------|--------|--------------------|------------|-----------|-----------------|-----------------|--------|-------------|
| 2 | 30-005-61978 | BAJILLO DRAW WQ STATE #002 | J-28-07S-23E | J | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | | |
| 2 | 30-005-62031 | BAJILLO DRAW WQ STATE #003 | B-28-07S-23E | B | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | | |
| 2 | 30-005-60698 | BARN FEDERAL #001 | I-12-08S-22E | I | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-015-10054 | BIG FREDDY AVQ FEDERAL #002 | F-10-23S-22E | F | 281994 | LRE OPERATING, LLC | F | G | 12/2009 | MORROW | | |
| 2 | 30-005-63028 | BLACKWATER ADF FEDERAL #001 | L-4 -09S-22E | L | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | ABO | | |
| 2 | 30-005-62836 | BLACKWATER AFZ FEDERAL #001 | 1-19-09S-22E | D | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | ABO | | |
| 2 | 30-005-62035 | BLAZER XN STATE #002 | M-16-07S-23E | M | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | | |
| 2 | 30-005-61080 | CAROL FEDERAL #001 | A-13-07S-22E | A | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61656 | CAROL FEDERAL #003 | O-13-07S-22E | O | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61949 | CAROL FEDERAL #005 | F-1 -07S-22E | F | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61950 | CAROL FEDERAL COM #007 | K-1 -07S-22E | K | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61921 | CAROL FEDERAL COM #013 | G-1 -07S-22E | G | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-62105 | CHINA DRAW AEP STATE #001 | J-36-06S-22E | J | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | | |
| 2 | 30-005-62535 | CHINA DRAW AEP STATE #003 | H-36-06S-22E | H | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | | |
| 2 | 30-005-60863 | CHINA FEDERAL #001 | B-18-07S-23E | B | 281994 | LRE OPERATING, LLC | F | G | 04/2012 | | | |
| 2 | 30-005-61085 | CHINA FEDERAL #002 | 2-18-07S-23E | E | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61086 | CHINA FEDERAL #003 | E-17-07S-23E | E | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61605 | CHINA FEDERAL #005 | J-18-07S-23E | J | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61628 | CHINA FEDERAL #007 | K-18-07S-23E | K | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61638 | CHINA FEDERAL #008 | A-19-07S-23E | A | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61657 | CHINA FEDERAL #009 | E-20-07S-23E | E | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61659 | CHINA FEDERAL #012 | 2-19-07S-23E | E | 281994 | LRE OPERATING, LLC | F | G | 04/2012 | | | |
| 2 | 30-005-61688 | CHINA FEDERAL #013 | L-20-07S-23E | L | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61669 | CHINA FEDERAL #014 | I-19-07S-23E | I | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | | |
| 2 | 30-005-61670 | CHINA FEDERAL | K-19-07S-23E | K | 281994 | LRE OPERATING, | F | G | 05/2012 | | | |

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| | #015 | | | | LLC | | | | | | |
|---|--------------|-------------------------------|--------------|---|--------|--------------------|---|---|---------|-------------------|--|
| 2 | 30-005-61063 | CINDY FEDERAL #001 | G-24-08S-22E | G | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61696 | DEBBIE FEDERAL #001 | D-29-07S-23E | D | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-62005 | DEBBIE FEDERAL #002 | C-30-07S-23E | C | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61811 | DEBBIE FEDERAL #003 | A-30-07S-23E | A | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61720 | DEBBIE FEDERAL #006 | A-29-07S-23E | A | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61913 | DEBBIE FEDERAL #007 | K-29-07S-23E | K | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61731 | DEBBIE FEDERAL #008 | I-29-07S-23E | I | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61004 | DORIS FEDERAL #003 | G-14-05S-24E | G | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61691 | HALEY COM #001 | F-7 -07S-23E | F | 281994 | LRE OPERATING, LLC | P | G | 05/2012 | | |
| 2 | 30-005-61901 | HALEY COM #002 | P-1 -07S-22E | P | 281994 | LRE OPERATING, LLC | P | G | 05/2012 | | |
| 2 | 30-005-61930 | HALEY COM #003 | A-12-07S-22E | A | 281994 | LRE OPERATING, LLC | P | G | 05/2012 | | |
| 2 | 30-005-61335 | HORSE CREEK COM #002 | E-11-05S-24E | E | 281994 | LRE OPERATING, LLC | P | G | 07/2012 | | |
| 2 | 30-005-61654 | IRIS STATE #001 | E-21-07S-23E | E | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | |
| 2 | 30-005-61692 | IRIS STATE #002 | M-21-07S-23E | M | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | |
| 2 | 30-005-61733 | IRIS STATE #003 | O-21-07S-23E | O | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | |
| 2 | 30-005-62019 | JAGUAR X O FED #001 | M-9 -08S-23E | M | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-62248 | LEWIS ABN FEDERAL #001 | J-21-08S-23E | J | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61864 | M & M FEDERAL #003 | D-21-06S-23E | D | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61087 | MACHO FEDERAL #003 | O-7 -07S-23E | O | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61994 | MACHO FEDERAL #005 | O-6 -07S-23E | O | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61649 | MACHO FEDERAL #011 | N-7 -07S-23E | N | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61914 | MACHO FEDERAL #013 | 5-6 -07S-23E | E | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-005-61630 | MARLEY FEDERAL #001 | 4-19-09S-23E | M | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | ABO | |
| 2 | 30-005-61684 | MCKNIGHT COM #001 | O-20-07S-23E | O | 281994 | LRE OPERATING, LLC | P | G | 05/2012 | | |
| 2 | 30-005-61836 | MEC COM #001 | 7-6 -07S-23E | M | 281994 | LRE OPERATING, LLC | P | G | 05/2012 | | |
| 2 | 30-005-63501 | MEC COM #002 | 6-6 -07S-23E | | 281994 | LRE OPERATING, LLC | P | G | 05/2012 | DHC ABO & GRYBURG | |
| 2 | 30-005-61984 | MILDRED XD FEDERAL #001 | A-33-07S-23E | A | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | | |
| 2 | 30-015-22249 | MILLMAN H. D. STATE COM. #002 | B-17-19S-28E | B | 281994 | LRE OPERATING, LLC | S | G | 07/2012 | | |
| 2 | 30-005-60849 | NED STATE #001 | K-5 -09S-23E | K | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | |
| 2 | 30-005-60944 | NED STATE #002 | O-5 -09S-23E | O | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | |
| 2 | 30-015-30907 | NO BLUFF STATE COM #001 | D-36-17S-27E | D | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | | |
| 1 | 30-025-29973 | OTIS STATE #001 | A-30-15S-34E | A | 281994 | LRE OPERATING, LLC | S | O | 06/2011 | MORROW | |

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|---|--------------|-----------------------------------|--------------|---|--------|-----------------------|---|---|---------|---------------------------------------|
| 2 | 30-005-62627 | PATHFINDER AFT STATE #002 | G-21-10S-27E | G | 281994 | LRE OPERATING, LLC | S | O | 07/2012 | |
| 2 | 30-005-62801 | PATHFINDER AFT STATE #010 | O-21-10S-27E | O | 281994 | LRE OPERATING, LLC | S | O | 07/2009 | |
| 2 | 30-005-62702 | RAMBLER AGO STATE #001 | A-32-07S-23E | A | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | |
| 2 | 30-005-60687 | ROCK FEDERAL #005 | B-18-08S-23E | B | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | |
| 2 | 30-005-61375 | ROCK HOUSE VF STATE #001 | E-16-08S-22E | | 281994 | LRE OPERATING, LLC | S | G | 05/2012 | ABO |
| 2 | 30-005-60857 | ROUND TOP STATE #001 | E-10-07S-23E | E | 281994 | LRE OPERATING, LLC | S | G | 06/2012 | |
| 2 | 30-005-60998 | ROUND TOP STATE #004 | F-9 -07S-23E | F | 281994 | LRE OPERATING, LLC | S | G | 06/2012 | |
| 2 | 30-005-61541 | ROUND TOP STATE #005 | H-9 -07S-23E | H | 281994 | LRE OPERATING, LLC | S | G | 06/2012 | |
| 2 | 30-005-61542 | ROUND TOP STATE #006 | L-10-07S-23E | L | 281994 | LRE OPERATING, LLC | S | G | 06/2012 | |
| 2 | 30-005-61543 | ROUND TOP STATE #007 | G-10-07S-23E | G | 281994 | LRE OPERATING, LLC | S | G | 06/2012 | |
| 2 | 30-005-62904 | SALT CREEK ACD FEDERAL #001 | D-21-08S-22E | D | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | ABO |
| 2 | 30-005-60757 | SALT FEDERAL #002 | J-8 -08S-23E | J | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | |
| 2 | 30-005-60981 | SALT FEDERAL #004 | L-5 -08S-23E | L | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | |
| 1 | 30-025-12583 | SCHENCK ATP #001 | D-11-16S-35E | D | 281994 | LRE OPERATING, LLC | P | O | 03/2012 | STRAWN |
| 2 | 30-005-62051 | SHIRLEY YA FEDERAL #001 | B-33-04S-24E | B | 281994 | LRE OPERATING, LLC | F | O | 03/2012 | YATES PET CORP /SHIRLEY YA FED |
| 2 | 30-015-39239 | SHRIKE 10 STATE COM #002H | N-10-25S-28E | N | 281994 | LRE OPERATING, LLC | S | O | 02/2012 | IN PROCESS OF PLUGGING 7-30- 13 |
| 2 | 30-005-61399 | TOMMY FEDERAL #001 | P-24-09S-22E | P | 281994 | LRE OPERATING, LLC | F | G | 05/2012 | |
| 2 | 30-015-31916 | WELCH RL STATE #001 | E-28-17S-28E | E | 281994 | LRE OPERATING, LLC | S | O | 05/2012 | ARTESIA GLORIETA YESO |

WHERE Ogrid:281994, County:All, District:All, Township:All, Range:All, Section:All, Production(months):12, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

LRE OPERATING, LLC
 By: C. J. Welch
 Title: Chief Operating Officer

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