

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

NMOCD # 78

**IN THE MATTER OF SLAYTON RESOURCES
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"), the Director of the Oil Conservation Division ("OCD") and SLAYTON RESOURCES ("Operator"), enter into this Order under which Operator agrees that the wells identified herein shall be brought into compliance with the Act and OCD Rules 103 [19.15.3.103 NMAC] and 201 [19.15.4.201 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 does business in the state of New Mexico under OGRID 196015.
3. Operator is the operator of record for the wells identified in Exhibits "A" and "B," attached.
4. The wells identified in Exhibit "A":
 - a. have been continuously inactive for a period of one year plus ninety days;
 - b. are not properly plugged and abandoned under OCD Rule 202 [19.15.4.202 NMAC]; and
 - c. have not been placed on temporary abandonment status under OCD Rule 203 [19.15.4.203 NMAC].
5. OCD Rule 201 states, in relevant part:
 - "A. The operator of any well drilled for oil, gas or injection; for seismic, core or other exploration, or for a service well, whether cased or uncased, shall be responsible for the plugging thereof.
 - B. A well shall be either properly plugged and abandoned or temporarily abandoned in accordance with these rules within ninety (90) days after:

....
....
(3) a period of one (1) year in which a well has been continuously inactive.”

6. The wells identified in Exhibit “B”:

- a. With the exception of Diablo State #2 (API 30-005-60020), do not have well signs The Diablo State #2 has a well sign, but it misidentifies the well as the Diablo State #3; and
- b. Were acquired and have been operated by Slayton Resources since August 27, 2001.

7. OCD Rule 103 states, in relevant part:

“A. All wells and related facilities regulated by the division shall be identified by a sign, which sign shall remain in place until the well is plugged and abandoned and the related facilities are closed.

....
....

E. An operator will have 90 days from the effective date of an operator name change to change the operator name on the well sign unless an extension of time, for good cause shown along with a schedule for making the changes, is granted.

F. Each sign shall show the:

- (1) number of well;
- (2) name of property;
- (3) name of operator;
- (4) location by footage, quarter-quarter section, township and range (or Unit Letter can be substituted for the quarter-quarter section); and
- (5) API number.”

8. 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 or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.

9. OCD Rule 7.P (2) [19.15.1.7.P (2) NMAC] defines “person” as

“an individual or any other entity including partnerships, corporation, associations, responsible business or association agents or officers, the state or a political subdivision of the state or any agency, department or instrumentality of the United States and any of its officers, agents or employees.”

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" and Exhibit "B," Operator is responsible for bringing those wells into compliance with Rules 201 and 103.
3. Operator is a "person" as defined by OCD Rule 7.P(2) 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 is hereby directed to bring each of the wells identified in Exhibit "A" into compliance with OCD Rule 201 by either:
 - (a) restoring such well to production or other OCD-approved beneficial use by August 31, 2006;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202 by August 31, 2006, and causing the site to be remediated in accordance with OCD Rule 202 within one year of plugging the wellbore; or
 - (c) securing OCD approval for temporary abandonment of the well in accordance with OCD Rule 203 by August 31, 2006.
2. Operator shall, beginning with the month of July 2005, plug, temporarily abandon or restore to production or other approved beneficial use a minimum of two (2) of the wells identified in Exhibit "A" per calendar month. If more than two (2) wells are plugged, temporarily abandoned or restored to production or other approved beneficial use during any month, the wells in excess of the number agreed to herein shall be credited to Operator's obligation hereunder for succeeding months, provided that all of the wells identified in Exhibit "A" shall be plugged, temporarily abandoned or restored to production or other approved beneficial use by August 31, 2006, according to the following schedule (hereinafter "schedule"):

<u>Date:</u>	<u>Number of Wells from Exhibit "A"</u>	
<u>last day of July 2005</u>	<u>2</u>	2 total
<u>last day of August, 2005</u>	<u>2</u>	4 total
<u>last day of September, 2005</u>	<u>2</u>	6 total
<u>last day of October, 2005</u>	<u>2</u>	8 total
<u>last day of November, 2005</u>	<u>2</u>	10 total
<u>last day of December, 2005</u>	<u>2</u>	12 total
<u>last day of January, 2006</u>	<u>2</u>	14 total
<u>last day of February, 2006</u>	<u>2</u>	16 total
<u>last day of March, 2006</u>	<u>2</u>	18 total
<u>last day of April, 2006</u>	<u>2</u>	20 total

<u>last day of May, 2006</u>	<u>2</u>	22 total
<u>last day of June, 2006</u>	<u>2</u>	24 total
<u>last day of July, 2006</u>	<u>2</u>	26 total
<u>last day of August, 2006</u>	<u>2</u>	28 total

3. If the Division approves a form C-108, in conjunction with one or more wells identified in Exhibit "A", and the subsequent order requires work on wells not identified in Exhibit "A", within ten (10) days of the entry of the order the Operator may request that this agreed compliance order be amended to add these wells to "Exhibit A" and adjust the compliance schedule by extending the final date of August 31, 2006 by one (1) calendar month per two (2) wells added to the schedule. It is the responsibility of the Operator to request such amendment.
4. A well shall be considered "plugged" for purposes of the schedule set out in paragraph 2, above, when the Operator has plugged the wellbore in accordance with Rule 202.A and B (1) and (2), and filed a sundry notice with the appropriate district office notifying them that the wellbore has been plugged. The wellsite must be remediated in accordance with Rule 202.B(3) within one year of plugging the wellbore. Upon completion of the remediation, the Operator must contact the appropriate district office to arrange for an inspection of the well and location.
5. A well shall be considered "temporarily abandoned" for purposes of the schedule set out in paragraph 2, above, when the well has successfully passed the mechanical integrity test required by Rule 203 and the Operator has filed the request for temporary abandonment with the appropriate district office.
6. A well shall be considered "restored to production or other approved beneficial use" for purposes of the schedule set out in Paragraph 2, above, when actual production or other approved beneficial use has commenced.
7. Operator shall file a written compliance report with the appropriate district office, and send a copy to the OCD's attorney, by the 10th day of each month starting with July 2005, listing the wells identified in Exhibit "A" that it has plugged, temporarily abandoned or restored to production or other approved beneficial use. For each well listed, the Operator shall provide a copy of the C-103 or federal sundry form identifying the work done on the well to bring it into compliance with Rule 201, and the date that work was completed. Operator shall file monthly compliance reports until all wells identified in Exhibit "A" have been plugged, temporarily abandoned or restored to production or other approved beneficial use. If, at any time, the OCD determines that a well identified in the Operator's compliance report is not plugged, temporarily abandoned or restored to production or other approved beneficial use according to the definitions set out in this agreement, the OCD shall promptly notify the Operator, and those wells shall not be credited toward the Operator's obligations under this Order until they are

plugged, temporarily abandoned or restored to production or other approved beneficial use as defined in this agreement.

8. If, at the end of any month, the total number of wells the Operator has plugged, temporarily abandoned or restored to production or other beneficial use is less than the number required under the schedule, Operator shall have a one-month grace period in which to become current. If, at the end of that one-month grace period, Operator has not become current under the schedule, Operator shall pay a penalty of \$1000 times the number of wells it is short of the total required for the current month. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the appropriate district office with the next month's report. Penalties are calculated, and payable, each month.

Example A: ABC Company's agreed compliance order requires it to plug, temporarily abandon or restore to production or other approved beneficial use a minimum of 6 wells each month. ABC Company meets or exceeds its obligations in months 1-4. The agreed schedule calls for a total of 30 wells to be plugged, temporarily abandoned or restored to production or other approved beneficial use by the end of month 5. But at the end of month 5, ABC Company is two wells behind schedule. ABC Company will have a one-month grace period in which to become current. At the end of month 6, however, ABC Company has plugged, temporarily abandoned or restored to production or other approved beneficial use a total of 35 wells: one well short of the 36 required by the schedule. ABC Company must pay a penalty of \$1000 when it files its report for month 6. At the end of month 7, ABC Company is 4 wells short of the 42 required by the schedule. ABC Company must pay a penalty of \$4000 when it files its report for month 7.

Example B: XYZ Company's agreed compliance order requires it to plug, temporarily abandon or restore to production or other approved beneficial use a minimum of 5 wells each month. XYZ Company files compliance reports each month indicating that it is meeting its agreed schedule. In month 3, the OCD inspects the site of one of the wells listed as "plugged" in XYZ Company's compliance report for month 1, and determines that the wellbore has not been properly plugged under Rule 202.B(2) because the marker has not been placed on the site. Because the well has not been properly "plugged" as defined by this agreement, it will not count towards fulfilling XYZ Company's obligations under the schedule. XYZ Company will be responsible for calculating, and paying, any additional penalties that apply.

9. If Operator fails to plug, temporarily abandon or restore to production or other approved beneficial use all the wells identified in Exhibit "A" by August 31, 2006, Operator shall pay a penalty of \$2000 per well for each full month the well remains out of compliance with this order after that date. No grace period applies. Payment shall be made by certified or cashier's check made payable to the "New

Mexico Oil Conservation Division,” and mailed or hand-delivered to the appropriate district office with the next month’s report. Penalties are calculated, and payable, each month.

10. In the event Operator encounters unanticipated circumstances which, in the reasonable opinion of the Operator, are likely to significantly disrupt or suspend the schedule of operations set forth in Ordering Paragraph (2) above, then Operator shall have the right to notify the OCD in writing of such circumstances and request an amendment to this Order. Such notification (“notice”) shall:
 - (a) reasonably describe the unanticipated circumstances encountered by Operator;
 - (b) identify those wells on Exhibit “A” affected or expected to be affected by such unanticipated circumstances; and
 - (c) set forth a revised schedule, which, in the reasonable and prudent opinion of the Operator, is necessary to plug, temporarily abandon or restore to production or other approved use those wells on Exhibit “A” affected or expected to be affected by such unanticipated circumstances.

Within ten (10) days of receipt of this notice, the OCD shall either (A) approve a written amendment to this Order incorporating the revised schedule submitted by Operator, or (B) notify Operator that the revised schedule is not acceptable, but in such event promptly agree to meet with Operator at the OCD district office and negotiate in good faith in an attempt to reach a reasonable resolution of the situation. If the Operator and the OCD are unable to agree to amend this Order, the Operator may apply for a hearing before an OCD examiner and request an amendment to the Order revising the schedule. The Operator may also request that the examiner waive penalties accrued pursuant to this Order after the filing of the Notice as to those wells identified in the Notice.

Operator and the OCD each recognize that the purpose of this provision is to address unanticipated circumstances which the Operator, acting in good faith and as a reasonably prudent operator, could not reasonably expect to remedy under the thirty (30) day grace provision described in Ordering Paragraph (7) above.

11. For each plugged well, if the Operator fails to remediate the site and request inspection by the appropriate district office within one year of plugging the wellbore, the Operator shall pay a penalty of \$1000 for each full month that the well remains out of compliance with the remediation requirements of Rule 202.B(3). No grace period applies. Payment shall be made by certified or cashier’s check made payable to the “New Mexico Oil Conservation Division,” and mailed or hand-delivered to the appropriate district office. Penalties are calculated, and payable, each month.

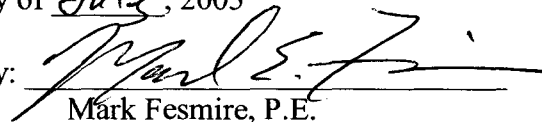
12. Operator is hereby directed to bring each of the wells identified in Exhibit "B" into compliance with OCD Rule 103 by the last day of July 2005.
13. If Operator fails to bring all the wells identified in Exhibit "B" into compliance with Rule 103 by July 31, 2005, Operator shall pay a penalty of \$2000 per month until all wells in Exhibit "B" are in compliance with Rule 103. No grace period applies. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the appropriate district office with the next month's report. Penalties are calculated, and payable, each month.
14. Operator shall file a written compliance report with the appropriate district office, and send a copy to the OCD's attorney, by the 10th day of each month starting with July 2005, listing the wells identified in Exhibit "B" that have been brought into compliance with Rule 103. For each well listed, the Operator shall provide a form C-103 identifying the work done on the well to bring it into compliance. Operator shall file monthly compliance reports until all wells identified in Exhibit "B" have been brought into compliance. If, at any time, the OCD determines that a well identified in the Operator's compliance report does not meet the requirements of Rule 103, the OCD shall promptly notify the Operator, and those wells shall not be credited toward the Operator's obligations under this Order until they are brought into compliance.
15. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to plug, temporarily abandon or restore to production or other approved beneficial use the wells identified in Exhibit "A" under the schedule set out in Ordering Paragraph (2) or an amended schedule issued pursuant to Ordering Paragraph (3) or (9) above, and remediate plugged wells within one year of plugging the wellbore as set out in Ordering Paragraph (4);
 - (c) agrees to file monthly compliance reports and supply C-103s or federal sundry forms as required in Ordering Paragraph (7);
 - (d) agrees to pay penalties as set out in Ordering Paragraphs (8), (9), (10), (11) and (13) if it fails to meet the schedules set out in Ordering Paragraphs (2), (4) and (12) or an amended schedule issued pursuant to Ordering Paragraphs (3) or (9) above.;
 - (e) waives, subject to the provisions of Ordering Paragraph (10) above, any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior or subsequent to the entry of this Order or to an appeal from this Order; and
 - (f) agrees that the Order and amendments to the Order issued pursuant to Paragraphs (3) or (9) above may be enforced by Division or Oil Conservation Commission Order, by suit or otherwise to the same extent

and with the same effect as a final Order of the Division or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.

16. If the Operator complies with the terms of this Order and any amendments to the Order issued pursuant to Paragraphs (3) or (9) above, the Division will not seek penalties beyond those applicable under the terms of this Order or any amendments to this Order for Operator's failure to bring the wells identified in Exhibit "A" into compliance with Rule 201 and the wells identified in Exhibit "B" into compliance with Rule 103 prior to the deadlines set by this Order.
17. This Order applies only to those wells identified in Exhibits "A" and "B." Wells operated by the Operator not identified in Exhibit "A," or included in Exhibit "A" by amendment pursuant to Paragraphs (3) or (9) above, that are out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act. Wells operated by the Operator not identified in Exhibit "B" that are out of compliance with Rule 103 may be subject to immediate enforcement action under the Oil and Gas Act.

Done at Santa Fe, New Mexico this 30th day of July, 2005

By:



Mark Fesmire, P.E.

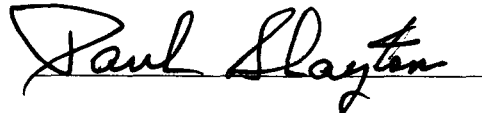
Director, Oil Conservation Division

ACCEPTANCE

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

SLAYTON RESOURCES

By:



Title:

Date:

6-25-05

RECEIVED

JUL 20 2005

OCD-ARTESIA

EXHIBIT "A"

Well nm	Well No	API WELL NO	Last Prod	WELL TYP
DIABLO STATE	002	30005600200	12/1/1996	O
DIABLO STATE	003	30005603480	12/1/1996	O
FEDERAL 14	001	30005604910	8/1/1995	G
FEDERAL 14	002	30005602580	6/1/1995	G
HANLAD	001	30005604000	9/1/1986	G
HANLAD	002	30005604490	9/1/1986	G
HONOLULU STATE	001	30005002770	7/1/2001	O
HONOLULU STATE	002	30005002780	1/1/1999	O
HONOLULU STATE	003	30005002790	1/1/1999	O
HONOLULU STATE	005	30005002810	1/1/1999	O
HONOLULU STATE	007	30005002630	4/1/1999	O
HONOLULU STATE	008	30005002640	11/1/2000	O
HOWELL	001	30005619590	NONE	G
LURA FEDERAL	001	30005620810	2/1/1987	G
LURA FEDERAL	002	30005621580	NONE	G
MCALISTER STATE	002	30005105430	5/1/2001	O
MCALISTER STATE	004	30005600110	12/1/2000	O
MCALISTER STATE	005	30005600120	12/1/2000	O
NEW MEXICO A	004	30005002590	2/1/2001	O
SINCLAIR STATE	001	30005100030	7/1/1976	O
STATE E 92	001	30005001340	1/1/2005	O
STATE E 92	006	30005001440	2/1/2004	O
STATE E 92	009	30005001460	2/1/2004	O
STATE E 92	011	30005012240	2/1/2004	O
STATE E 92	013	30005105530	2/1/2004	I
STATE E 92	015	30005105550	2/1/2004	O
STATE E 92	016	30005105560	3/1/2004	O
STATE E 92	019	30005105590	2/1/2004	O

Signature



Paul Slayton

Title

Date

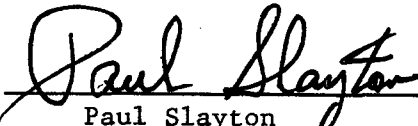
July 19, 2005

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EXHIBIT "B"

Well_nm	Well_No	API_WELLNO		WELL_TYP
DIABLO STATE	002	30005600200000	sign for well # 3	O
HANSON "B" STATE	002	30005002970000	No well sign	O
HONOLULU STATE	007	30005002630000	No well sign	O
HONOLULU STATE	008	30005002640000	No well sign	O
STATE E 92	004	30005001420000	No well sign	O
STATE E 92	012	30005105520000	No well sign	O

Signature


Paul Slayton

Title

Date

July 19, 2005