

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

NMOCD – ACO- 270

IN THE MATTER OF EOR OPERATING COMPANY,

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 EOR Operating Company ("EOR" or "Operator") enter into this Agreed Compliance Order ("Order" or "ACO") under which Operator agrees to bring the wells identified herein into compliance with the Act and OCD Rule 19.15.25.8 NMAC as provided by the terms and conditions of this Order, and understands that the OCD may decide not to enter into any further agreed compliance orders with Operator if Operator 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 is a corporation operating wells in New Mexico under OGRID 257420.
3. Operator's business plans in the next **six months** include:
 - a. Either converting the Crossroads #106 (API 30-025-24143) or the Crossroads #302 (API 30-025-03608) from a producing oil well to an injector or re-entering the UD Sawyer #10 (API 30-025-24285) in order to complete the well as an injector.
 - b. Converting the UD Sawyer #1 (API 30-025-03629) from an injector to a Devonian production well.
 - c. Converting the MSU #197 (API 30-041-00140) from an oil producer to an injector.
 - d. Converting the MSU #123 (API 30-041-00030) from an oil producer to an injector.
 - e. Re-entry of the Milnesand Unit #523 (API 30-041-20648) and the Milnesand Unit #525 (API 30-041-20650) in order to re-drill and complete the well as a lateral.
4. Operator would like to obtain permits to inject for its injectors and would like to obtain allowables for its producers. Operator represents to the OCD that this

ACO

EOR Operating Company OGRID 257420

Page 1 of 6

would allow Operator to raise more cash which in turn would allow it to bring more wells into compliance.

5. If an operator is out of compliance with 19.15.5.9 NMAC, the OCD must deny applications for permits to inject, 19.15.26.8A NMAC, and must deny applications for allowables, 19.15.16.20A NMAC.
6. Operator is currently out of compliance with 19.15.5.9.A(4) NMAC because it has too many wells out of compliance with 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 19.15.5.9.A(4) NMAC.
7. As an operator of 84 wells, to be in compliance with 19.15.5.9.A(4) NMAC, Operator may have no more than 2 wells out of compliance with the inactive well rule. According to the inactive well list kept pursuant to 19.15.5.9(F) NMAC, Operator has 17 wells out of compliance with the inactive well rule.
8. Operator is the operator of the wells in Exhibit "A." Seven of the oldest inactive wells identified in Exhibit "A" have been inactive since 1992 (1992-wells).
9. The OCD would like Operator to focus on restoring the wells to oil or gas production, injection or other OCD-approved beneficial use, or plug them, rather than continuing to remain idle.
10. Operator represents that it can bring the following wells into compliance with 19.15.25.8 NMAC, and that it wants to plug or reactivate the wells.
 - a. MSU #311 (API 30-041-10060)
 - b. MSU #26 (API 30-041-10149)

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 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 so that Operator may obtain injection permits and allowables for its wells, in exchange for Operator bringing 2 of the wells identified above in paragraph 10 into compliance with 19.15.25.8 NMAC in accordance with the terms of this Order.

ORDER

1. Operator agrees to plug the wellbore of the Milnesand Unit #311, in accordance with OCD Rule 19.15.25, **and file a C-103 describing the completed work**, by November 20, 2013.
2. Operator agrees to bring the MSU #26 into compliance with 19.15.25.8 NMAC by November 20, 2013 by
 - (a) restoring the well to oil or gas 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.
3. Swabbing is not "production" or "beneficial use" for purposes of this Order.
4. 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 if applicable, plugged wellbore, or approved temporary abandonment status if applicable). The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager so that it is **received by** the compliance deadline of November 20, 2013.
5. This Order shall be considered an "Inactive Well Agreed Compliance Order" under 19.15.5.9(F)(1)(c) NMAC for the limited purpose of removing the wells identified in Exhibit "A" from consideration in determining compliance with 19.15.5.9(A)(4) NMAC for:
 - Applications for injection permits for Operator's injection wells;
 - Requests for allowables for Operator's wells.
6. This Order shall not be considered an "Inactive Well Agreed Compliance Order" under 19.15.5.9(F)(1)(c) NMAC for any other purpose, and the wells identified in Exhibit "A" shall not be removed from the inactive well list kept pursuant to 19.15.5.9(F) NMAC.
7. This Order shall expire November 20, 2013.
8. Operator may negotiate with the OCD for an agreed compliance order to take effect when this Order expires. It will be within the OCD's discretion whether to

ACO

EOR Operating Company OGRID 257420

Page 3 of 6

enter into an agreed compliance order with Operator. Factors in the OCD's determination shall include:

- Operator's compliance with OCD financial assurance requirements;
 - Operator's compliance with the terms of this Agreed Compliance Order, including whether Operator successfully returned the wells identified in Ordering Paragraph #1 and Ordering Paragraph #2 to compliance by November 20, 2013, filed the necessary paperwork to document that compliance, and filed a timely compliance report;
 - Whether Operator returned additional wells to compliance beyond those required under the terms of this Order;
 - Whether Operator prevented wells from falling out of compliance with the inactive well rule during the time period covered by this Order; and
 - Whether Operator proposes an acceptable plan for returning its inactive wells to compliance.
9. Operator understands that if it fails to meet the terms of this Order it is unlikely that the OCD will enter into further agreed compliance orders with Operator for inactive wells.
10. By signing this Order, Operator expressly:
- (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees that by November 20, 2013, it will
 - plug the wellbore of the (1) MSU #311 in accordance with OCD Rule 19.15.25.10(B) NMAC and file a C-103 describing the completed work;
 - bring MSU #26 into compliance by November 20, 2013 as defined by this Order;
 - File the appropriate paperwork to document the compliance; and
 - Submit a written compliance report; and
 - (c) 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.
12. 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 23rd day of May, 2013

By: Jami Bailey
Jami Bailey
Director, Oil Conservation Division

ACCEPTANCE

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

EOR Operating Company

By: Mark Peavy
(Please print name) MARK PEAVY
Title: VP CO₂ projects
Date: 5/17/13

Exhibit A to Agreed Compliance Order for EOR Operating Company

Total Well Count: 84 Inactive Well Count: 17

Printed On: Friday, May 17 2013

| District | API | Well | ULSTR | OCD Unit | OGRID | Operator | Lease Type | Well Type | Last Production | Formation/Notes | Status | TA Exp Date |
|----------|--------------|---------------------------------------|--------------|----------|--------|-----------------------|------------|-----------|-----------------|--------------------------------------|--------|-------------|
| 1 | 30-025-24188 | CROSSROADS SILURO DEVONIAN UNIT #202Y | F-27-09S-36E | F | 257420 | EOR OPERATING COMPANY | P | O | 06/2009 | | | |
| 1 | 30-025-24144 | CROSSROADS SILURO DEVONIAN UNIT #203 | C-27-09S-36E | C | 257420 | EOR OPERATING COMPANY | P | O | 12/2008 | 10/09/08 RET TO PROD | | |
| 1 | 30-041-10104 | HORTON FEDERAL #004 | F-30-08S-35E | F | 257420 | EOR OPERATING COMPANY | F | I | 02/2009 | | | |
| 1 | 30-041-10119 | HORTON FEDERAL #025 | F-29-08S-35E | F | 257420 | EOR OPERATING COMPANY | F | I | 03/2009 | | | |
| 1 | 30-041-20756 | HORTON FEDERAL #032 | H-30-08S-35E | H | 257420 | EOR OPERATING COMPANY | F | I | 02/2009 | SAN ANDRES | T | 7/9/2004 |
| 1 | 30-041-20821 | HORTON FEDERAL #038 | H-30-08S-35E | H | 257420 | EOR OPERATING COMPANY | F | I | 05/2011 | INT RWTP 08/29/2011 | | |
| 1 | 30-041-10148 | MILNESAND UNIT #025 | O-19-08S-35E | O | 257420 | EOR OPERATING COMPANY | F | O | 05/2000 | INT TO RUN MIT BY 01/04/2010 BLM | T | 6/30/1994 |
| 1 | 30-041-10149 | MILNESAND UNIT #026 | P-19-08S-35E | P | 257420 | EOR OPERATING COMPANY | F | I | 12/1992 | INT TO RUN MIT BY 01/04/2010 BLM | T | 4/15/2009 |
| 1 | 30-041-00028 | MILNESAND UNIT #121 | 4-7 -08S-35E | M | 257420 | EOR OPERATING COMPANY | P | O | 06/2011 | | | |
| 1 | 30-041-10044 | MILNESAND UNIT #134 | J-7 -08S-35E | J | 257420 | EOR OPERATING COMPANY | P | O | 02/1993 | SAN ANDRES | T | 6/30/1994 |
| 1 | 30-041-00245 | MILNESAND UNIT #164 | I-12-08S-34E | I | 257420 | EOR OPERATING COMPANY | P | O | 12/1992 | | T | 6/30/1994 |
| 1 | 30-041-00083 | MILNESAND UNIT #191 | I-13-08S-34E | I | 257420 | EOR OPERATING COMPANY | P | O | 12/2007 | | | |
| 1 | 30-041-00084 | MILNESAND UNIT #193 | O-13-08S-34E | O | 257420 | EOR OPERATING COMPANY | P | O | 07/2003 | SAN ANDRES | | |
| 1 | 30-041-10181 | MILNESAND UNIT #202 | A-25-08S-34E | A | 257420 | EOR OPERATING COMPANY | P | O | 01/2003 | | | |
| 1 | 30-041-10059 | MILNESAND UNIT #310 | F-19-08S-35E | F | 257420 | EOR OPERATING COMPANY | F | I | 05/2000 | SAN ANDRES TA EXP 06/02/2010 PER BLM | T | 6/2/2010 |
| 1 | 30-041-10060 | MILNESAND UNIT #311 | B-19-08S-35E | B | 257420 | EOR OPERATING COMPANY | F | I | 02/2009 | INT TO RWTP BY 12/4/2012 BLM | T | 6/2/2010 |
| 1 | 30-041-00262 | MILNESAND UNIT #515 | I-24-08S-34E | I | 257420 | EOR OPERATING COMPANY | F | O | 05/2000 | INT OT RUN MIT BY 01/04/10 BLM | | |

WHERE Ogrid:257420, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

EOR Operating Company

By: Mark Peavy

Title: VP CO₂ projects