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

NMOCD - ACO- 263

IN THE MATTER OF CARTER COUNTY OPERATING, 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 Carter County Operating, LLC ("Carter County" or "Operator") enter into this Agreed Compliance Order ("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. Carter County is a limited liability company doing business in the state of New Mexico. Carter County currently is operator of record of one well in New Mexico: the Giant Superior State #001, 30-015-37077.
3. Carter County seeks to become operator of record of the following wells ("Wells"), all of which are located in Eddy County, New Mexico:

| Property | Well Name | Lease Type | ULSTR | OCD UL | API | Well Type | Last Prod/Inj | Oil POD | Gas POD | In Add. Bond |
|----------|--------------------|------------|--------------|--------|--------------|-----------|---------------|---------|---------|--------------|
| 17186 | GULF FEDERAL #003 | F | C-13-26S-29E | C | 30-015-25265 | O | 3/2007 | 982510 | 982530 | |
| 10875 | HANAGAN STATE #001 | S | G-8 -25S-30E | G | 30-015-04746 | O | 3/2007 | 2461710 | 2461730 | 4/1/2009 |
| 10876 | MALAGA UNIT #001 | P | F-7 -24S-29E | F | 30-015-03701 | O | 10/2005 | 2461610 | 2461630 | 11/1/2007 |
| | MALAGA UNIT #002 | P | 4-7 -24S-29E | M | 30-015-03702 | I | 10/2005 | | | 11/1/2007 |

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|-------|-----------------------------|---|--------------|---|--------------|---|---------|---------|---------|-----------|
| | MALAGA UNIT #002 | F | G-7 -24S-29E | G | 30-015-03699 | O | 10/2005 | 2461610 | 2461630 | |
| | MALAGA UNIT #003 | P | K-7 -24S-29E | K | 30-015-03695 | O | 10/2005 | 2461610 | 2461630 | 11/1/2007 |
| 10874 | R AND B FEDERAL #001Y | F | D-17-25S-30E | D | 30-015-04753 | O | 3/2007 | 2461510 | 2461530 | |
| 10882 | SUPERIOR STATE #001 | S | H-8 -25S-30E | H | 30-015-04745 | O | 3/2007 | 2461810 | 2461830 | 4/1/2009 |
| | SUPERIOR STATE #002 | S | I-8 -25S-30E | I | 30-015-10181 | O | 3/2007 | 2461810 | 2461830 | 4/1/2009 |

4. The operator of record for the Wells is Calvin F. Tennison, OGRID 3604.
5. The Wells are subject to compliance Order R-13003, issued in Case No. 14137 on October 8, 2008. The order found Mr. Tennison to be in violation of OCD rules on financial assurances, production reporting, and well inactivity, and found two unregistered pits on the location of the Hanagan State #1 well with hydrocarbon contamination, in violation of the pit rule. Order R-13003 required Mr. Tennison to return the Wells to compliance by January 1, 2009, and authorized the OCD to plug the wells if Mr. Tennison failed to meet that deadline.
6. The January 1, 2009 deadline has passed, and OCD records show the Wells remain out of compliance. Currently,
 - The wells are not covered by the required financial assurance. There is no blanket financial assurance in place, and there are no single well financial assurances in place for the six state or fee wells that have been inactive for more than 2 years.
 - No production/injection reports have been filed for the wells since the hearing in Case No. 14137. The Malaga Unit #002, 30-015-03702, a salt water disposal well, has not reported injection for a period in excess of one year, and its authority to inject has terminated pursuant to 19.15.26.12 NMAC.
 - All of the wells are in violation of the inactive well rule.
 - The Hanagan State #1 well has not been remediated according to an OCD-approved plan.
7. Because Mr. Tennison did not return the Wells to compliance by January 1, 2009, the OCD has authority to plug the Wells under the terms of Order R-13003.
8. 19.15.9.9.C(2) NMAC provides that the OCD may deny a change of operator if the new operator is acquiring wells subject to a compliance order requiring remediation or abatement of contamination, 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.

9. Carter County has been operating the Wells since the fall of 2008, prior to the issuance of Order R-13003, without becoming operator of record for the Wells. James C. DeArmond, President of Carter County, was notified of Order R-13003 by letter dated October 9, 2008, and was instructed that a new operator would need to become operator of record in order to operate the wells, and the new operator would have to address the compliance issues outlined in Order R-13003.
10. 19.15.9.9.B NMAC provides that "The new operator shall not commence operations until the division approves the application for change of operator."
11. Carter County represents that it has returned some of the wells to production, and has commenced cleanup of the Hanagan State #1 well pits. It has posted a \$50,000 blanket letter of credit, and has posted single well letters of credit for 3 of the 6 wells that require a single well financial assurance.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Under 19.15.9.9.C(2) NMAC the OCD may require an operator seeking to become operator of record for wells subject to an order addressing inactive wells or remediation to enter into an agreed compliance order setting a schedule for complying with the order.
3. Order R-13003 is an order requiring remediation as to the Hanagan State #1 well, and compliance with the inactive well rule as to all the Wells.
4. The OCD and Carter County enter into this Order to set a schedule for compliance with Order R-13003 and to address other outstanding compliance issues for Carter County, so that Carter County may become operator of record of the Wells.

ORDER

1. **Financial Assurances:** Prior to becoming operator of record for the Wells, Carter County agrees to
 - post single well financial assurances for all the state or fee Wells in the form of cash bonds or letters of credit; and
 - maintain the single well financial assurances for all the state or fee Wells until released under the terms of this Order.
2. **Regulatory Reporting:** After becoming operator of record for the Wells, Carter County agrees to
 - File C-115 reports of all production or injection for the period during which Carter County operated the wells without become operator of record;
 - Keep current with all C-115 filings; and

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- Make all required regulatory filings for work performed on the Wells and on the Giant Superior State #001. Carter County should consult with the Artesia District Office to ensure that all regulatory filings are current.
3. **Inactive Wells:** For each of the Wells, Carter County agrees to: 1) return the Well to production or injection, as appropriate; 2) plug the wellbore of the Well; or 3) place the well on approved temporary abandonment status. To satisfy the terms of this Order,
 - A well returned to production must produce oil or gas; production of water does not constitute production.
 - To return the Malaga Unit #002 to injection, Carter County must first obtain an injection permit for the well, and the well must pass a mechanical integrity test. If Carter County cannot obtain an injection permit for the well or if the well does not pass a mechanical integrity test, Carter County must plug the well.
 - For the OCD to recognize a well as returned to production or injection, Carter County must report that production or injection on its C-115.
 4. **Remediation:** Carter County agrees to return the Hanagan State #1 to compliance by remediating the pit sites in accordance with an OCD-approved plan. Carter County is to work with the Artesia District Office to obtain an approved plan.
 5. **One year- review:** On October 1, 2010, the OCD will review Carter County's compliance with the terms of this Order. Carter County may request a compliance conference with the OCD any time prior to October 1, 2010 to review its compliance status with the Order. For Carter County to be in compliance with the terms of this Order,
 - All state or fee Wells must have a single-well financial assurance in the form of a cash bond or a letter of credit;
 - Each of the Wells must either: 1) have reported injection or production of oil or gas within the past year; 2) have its wellbore plugged; or 3) be on approved temporary abandonment status;
 - Carter County must be current in its C-115 reporting;
 - Carter County must be current in its regulatory filings; and
 - Carter County must have remediated the pits at the Hanagan State #1 to the satisfaction of the Artesia District Office.
 6. **Consequences of violation:** If Carter County is in violation of the terms of this Order on October 1, 2010, the OCD will provide written notice to Carter County of the violation. Thirty days after mailing of the written notice, the OCD will be authorized to plug any or all of the Wells, remediate the surface(s) and forfeit the applicable financial assurance(s). The OCD may then seek reimbursement from Carter County for the expenses of plugging and remediation not covered by the applicable financial assurance(s). Carter County specifically waives the right to hearing prior to the plugging and forfeiture of the financial assurances.

7. **Consequences of compliance:** If Carter County is in compliance with the terms of this Order on October 1, 2010, it may request release of the single-well financial assurances posted pursuant to this Order for those wells that have reported injection or production of oil or gas, and for those wells that have been plugged and released.
8. **Part 5.9:** This Order is not an inactive well agreed compliance order, and entry of this Order will not remove inactive wells from the inactive well list kept pursuant to 19.15.5.9 NMAC.
9. **By signing this Order, Operator expressly:**
- (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order; and
 - (b) 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.
10. The OCD reserves the right to file an application for hearing to obtain authority to plug any well and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

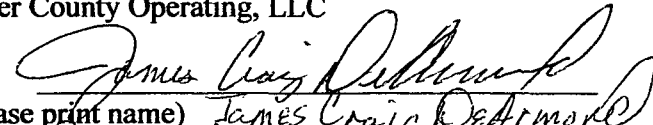
Done at Santa Fe, New Mexico this 28th day of September 2009

By: 
Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

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

Carter County Operating, LLC

By: 
(Please print name) James Craig DeArmond
Title: President
Date: 9-22-09

