

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

RECEIVED OCD

NMOCD – ACO-272

2011 FEB 11 P 2: 04

IN THE MATTER OF ELM RIDGE EXPLORATION COMPANY 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 Acting Director of the Oil Conservation Division ("OCD") and Elm Ridge Exploration Company LLC ("Operator") enter into this Agreed Compliance Order ("Order" or "ACO") under which the OCD agrees to allow Operator, for a period of sixty days (60 days) following the OCD's execution of this Order, to obtain an approved form C-104 Request for Allowable and Authorization to Transport ("form C-104") for the gas associated with the oil production at the Bisti Gallup 18 #2, Bisti Gallup 18 #6, and South Bisti 21H #2, despite Operator's non-compliance with OCD Rule 19.15.5.9 NMAC.

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 limited liability company (#2215507) that operates wells in the state of New Mexico under OGRID 149052.
3. Operator is operator of record of the following three wells:
 - Bisti Gallup 18 #2 (API #30-045-33802)
 - Bisti Gallup 18 #6 (API #30-045-33803)
 - South Bisti 21H #2 (API #30-045-34131)
4. The three wells are oil producers. The three wells also produce gas as a result of the oil production.
5. OCD rules require an operator to have an approved form C-104 for oil and gas produced and transported from a well. See OCD Rule 19.15.7.15 NMAC; OCD Rule 19.15.16.19 NMAC.
6. Operator has an approved form C-104 for the oil produced at the three wells but does not have an approved form C-104 for the gas produced at the three wells.

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7. Operator is seeking approval of a form C-104 for the gas associated with the oil production at each well. Without an approved form C-104, Operator's options would be to shut-in well or vent the gas to the atmosphere. Shutting in the well would result in waste. Venting the gas would result in waste and environmental harm. It is in the interest of both the Operator and the State of New Mexico that the Operator be allowed to produce and transport the gas.
8. Operator is currently out of compliance with OCD Rule 19.15.5.9A(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 19.15.5.9A(4) NMAC.
9. As an operator of **820** 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 the inactive well rule. See OCD Rule 19.15.5.9A(4)(c) NMAC. According to the inactive well list kept pursuant to 19.15.5.9F NMAC, Operator has **24** wells out of compliance with the inactive well rule. A copy of Operator's inactive well list as of January 31, 2011 is attached as Exhibit "A."
10. If an operator is out of compliance with OCD Rule 19.15.5.9 NMAC, the OCD **must** deny requests for allowables and authorization to transport oil and gas. See OCD Rule 19.15.16.19A NMAC.
11. OCD 19.15.5.9 NMAC was meant to make operators deal with their outstanding compliance issues before taking on additional wells. OCD 19.15.5.9 NMAC did not contemplate this situation: an operator seeking approval of a form C-104 for gas associated with oil production at an existing, productive oil well.
12. On December 21, 2010, the OCD denied Operator's form C-104s for the gas associated with the oil production at each well due to Operator being out of compliance with OCD Rule 19.15.5.9 NMAC due to inactive wells. See OCD Rule 19.15.5.9A(4)(c) NMAC. On that date Operator had 32 wells on the inactive well list.
13. Since December 21, 2010, Operator has reduced the number of wells on its inactive well list to 24. Operator has since informed OCD that it is working on bringing the wells on its inactive well list into compliance with OCD Rule 19.15.25.8 NMAC and OCD Rule 19.15.5.9 NMAC, but that it is unable to bring some of the wells on its inactive well list into immediate compliance due to seasonal and weather restrictions associated with the well locations.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.

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2. The three wells are active oil producers and each has an approved form C-104 for the oil produced at the wells. Operator does not have an approved form C-104 for the gas associated with the oil production at each well. Operator needs an approved form C-104 in order to transport the gas.
3. If an operator is out of compliance with OCD Rule 19.15.5.9 NMAC, the OCD **must** deny form C-104 requests for allowables and authorization to transport oil and gas. See OCD Rule 19.15.16.19A NMAC.
4. Operator is out of compliance with OCD Rule 19.15.5.9 NMAC because it has too many wells out of compliance with OCD Rule 19.15.25.8 NMAC 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.
5. Denying Operator's request for an allowable and authorization to transport in this case would result in waste and would be environmentally harmful.
6. In consideration of Operator's actions to return its inactive wells to compliance, and recognizing that approving C-104s for the three wells in this case would benefit both the Operator and the State of New Mexico, the OCD and Operator enter into this Order so that Operator may obtain, within a sixty day (60 day) period following the OCD's execution of this Order, an approved form C-104 for the gas at each of the three wells despite Operator's non-compliance with OCD Rule 19.15.5.9 NMAC. **At the end of the sixty day (60 day) period, this Order will be of no effect.**

ORDER

1. Within sixty days (60 days) following the OCD's execution of this Order, the OCD may approve form C-104s for the Bisti Gallup 18 #2, Bisti Gallup 18 #6, and South Bisti 21H #2, despite Operator's non-compliance with OCD Rule 19.15.5.9 NMAC.
2. **This Order shall apply only to form C-104s for the Bisti Gallup 18 #2, Bisti Gallup 18 #6, and South Bisti 21H #2. This Order does not apply to any form C-104s submitted for any other wells.**
3. It is the Operator's responsibility to submit the form C-104s to the OCD for approval in time for the OCD to review and approve them within the sixty day (60 day) period provided for in this Order.
4. After the sixty day (60 day) period following execution of this Order, this Order shall have no force and effect.

5. By signing this Order, Operator expressly:
- (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) acknowledges that it is the Operator's responsibility to submit the form C-104s for the Bisti Gallup 18 #2, Bisti Gallup 18 #6, and South Bisti 21H #2 to the OCD for approval in time for the OCD to review and approve them within the sixty day (60 day) period provided for in this Order;
 - (c) acknowledges that this Order shall have no effect after the sixty day (60 day) period following its execution; and;
 - (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.
6. 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 15th day of February 2011

By: _____

Daniel Sanchez
Acting Division Director

ACCEPTANCE

Elm Ridge Exploration Co. LLC hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Elm Ridge Exploration Co. LLC

By: _____

(Please print name) Terry Liberman

Title: Dist. Superintendent

Date: 2-9-11

Exhibit A to Agreed Compliance Order for Elm Ridge Exploration Co. LLC

Inactive Well List

Total Well Count: 820 Inactive Well Count: 24

Printed On: Monday, January 31 2011

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
3	30-039-05211	AXI APACHE C #003	M-34-24N-05W	M	149052	ELM RIDGE EXPLORATION COMPANY LLC	J	G	06/2009			
3	30-039-05212	AXI APACHE C	P-33-24N-05W	P	149052	ELM RIDGE	J	G	12/2008			

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		#004				EXPLORATION COMPANY LLC							
3	30-039-22907	AXI H #016	3-6 -23N-05W	C	149052	ELM RIDGE EXPLORATION COMPANY LLC	J	G	08/2008				
3	30-045-27629	BISTI COAL 4 #001	G-4 -25N-12W	G	149052	ELM RIDGE EXPLORATION COMPANY LLC	F	G	11/2007				
3	30-043-20521	BONANZA #006	O-12-22N-03W	O	149052	ELM RIDGE EXPLORATION COMPANY LLC	J	O	10/2009				
3	30-045-28950	BUENA SUERTE 28 M #001	M-28-26N-11W	M	149052	ELM RIDGE EXPLORATION COMPANY LLC	N	G	08/2009			BASIN FRT COAL	
3	30-045-32007	BUENA SUERTE 4 COM #001T	E-4 -25N-11W	E	149052	ELM RIDGE EXPLORATION COMPANY LLC	N	G	07/2009			BASIN FRUITLAND COAL	
3	30-039-21168	BURRO CANYON #002	H-21-24N-04W	H	149052	ELM RIDGE EXPLORATION COMPANY LLC	J	G	04/2009			INT TO P&A/BLM APVD 12-6-10	
3	30-045-05369	CENTRAL BISTI UNIT #048	I-17-25N-12W	I	149052	ELM RIDGE EXPLORATION COMPANY LLC	F	O	01/2008				
3	30-045-25908	CENTRAL BISTI UNIT #094	B-17-25N-12W	B	149052	ELM RIDGE EXPLORATION COMPANY LLC	F	O	01/2008				
3	30-045-25937	CENTRAL BISTI UNIT #095	L-4 -25N-12W	L	149052	ELM RIDGE EXPLORATION COMPANY LLC	N	O	01/2008				
3	30-045-29426	FARFELU #001	I-19-25N-11W	I	149052	ELM RIDGE EXPLORATION COMPANY LLC	F	O	03/2009			BASIN DAKOTA (POOL CHGE FR ENTRA)	
3	30-045-27101	GINNY CORBETT #002	I-31-25N-11W	I	149052	ELM RIDGE EXPLORATION COMPANY LLC	F	O	08/2009				
3	30-045-27493	JACK BINGHAM #001	O-32-25N-11W	O	149052	ELM RIDGE EXPLORATION COMPANY LLC	S	O	02/2009				
3	30-045-27167	JAKE JOHNSON #001	L-32-25N-11W	L	149052	ELM RIDGE EXPLORATION COMPANY LLC	S	O	07/2009				
3	30-045-31012	JAKE PAPA #001	M-32-25N-11W	M	149052	ELM RIDGE EXPLORATION COMPANY LLC	S	O	02/2009			BISTI LOWER GALLUP	
3	30-039-08079	JICARILLA FLORANCE D #002	C-6 -23N-04W	C	149052	ELM RIDGE EXPLORATION COMPANY LLC	J	G	08/2008			INT TO P&A APPVD 2-19-10 / BLM	
3	30-039-08147	JICARILLA L 160 #001	B-15-23N-02W	B	149052	ELM RIDGE EXPLORATION COMPANY LLC	J	G	07/2009			S BLANCO PC	
3	30-045-26810	KAREN HIXON #001	A-36-25N-12W	A	149052	ELM RIDGE EXPLORATION COMPANY LLC	S	O	05/2009			BISTI LOWER GALLUP	
3	30-043-20769	MARTIN WHITTAKER #072	Z00-20-23N-04	G	149052	ELM RIDGE EXPLORATION COMPANY LLC	J	O	03/2009			INTENT TO P&A/BLM APPVD 8- 10-10	
3	30-045-31042	SOUTH BISTI F #001	F-32-26N-13W	F	149052	ELM RIDGE EXPLORATION COMPANY LLC	F	O	04/2009			BISTI LOWER GALLUP	
3	30-045-25281	STATE OF NEW MEXICO 16 #043	I-16-23N-08W	I	149052	ELM RIDGE EXPLORATION COMPANY LLC	S	O	04/2009			NAGEEZI GALLUP	
3	30-045-25273	STATE OF NEW MEXICO 36 #014	M-36-24N-08W	M	149052	ELM RIDGE EXPLORATION COMPANY LLC	S	O	01/2009			LYBROOK GALLUP	
3	30-045-32384	WEST BISTI COAL 12 #001T	O-12-25N-13W	O	149052	ELM RIDGE EXPLORATION COMPANY LLC	F	G	08/2009			BASIN FRUITLAND COAL	

WHERE Ogrid:149052, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

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By: T. J. Lindgren

Title: Dist. Superintendent