

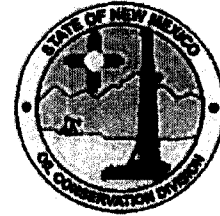
State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Ken McQueen
Cabinet Secretary

Matthias Sayer
Deputy Cabinet Secretary

David Catanach, Division Director
Oil Conservation Division



February 23, 2018

Kevin O. Butler & Associates, Inc.
200 N. Loraine Street
Suite 1515
Midland, TX 79705

VIA CERTIFIED MAIL, RETURN RECEIPT: 7012 0470 0000 0881 9832

Re: OCD Case No. 16047 for a Compliance Order against Kevin O. Butler & Associates, Inc.

Dear Operator:

Pursuant to the notice provisions contained in 19.15.4 NMAC, you are hereby notified that at 8:15 AM on March 22, 2018, the New Mexico Oil Conservation Division ("OCD") will hold a hearing in front of a Division Examiner seeking an order determining that Kevin O. Butler & Associates, Inc. ("Operator") (1) is out of compliance with OCD rule 19.15.5.9(A)(4), and 19.15.25.8 NMAC and NMSA 1978, § 70-2-14; (2) requiring Operator to return to compliance with 19.15.5.9(A)(4), and 19.15.25.8 NMAC and requiring producing wells shut-in until compliance is achieved; and (3) in the event of non-compliance, declaring the wells abandoned and authorizing the OCD to plug the violating wells in accordance with a Division-approved plugging program and restore and remediate the location, recover costs from the Operator's financial assurance as permitted by 19.15.8.13 NMAC, and seek indemnification and costs as permitted by NMSA 1978, § 70-2-14(E). The hearing will be held in Porter Hall at 1220 South St. Francis Dr., Santa Fe, New Mexico.

Please review 19.15.4 NMAC to see applicable rules for division hearings. A person entitled to notice may enter an appearance at any time by filing a written notice of appearance with the division or the commission clerk, as applicable, or, subject to the provisions in Subsection C of 19.15.4.10 NMAC, by oral appearance on the record at the hearing. A party who has not entered an appearance at least one business day prior to the pre-hearing statement filing date provided in Paragraph (1) of Subsection B of 19.15.4.13 NMAC shall not be allowed to present technical evidence at the hearing unless the Oil Conservation Commission chairman or the OCD examiner, for good cause, otherwise directs.

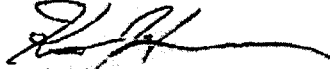
OCD Case No. 16047
Exhibit 5A: Direct Notice to Operator
Page 1 of 4

February 23, 2018

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If you have any questions regarding the hearing process, please contact me at (505) 476-3463 or keith.herrmann@state.nm.us.

Sincerely



Keith Herrmann
Attorney for the New Mexico Oil Conservation Division
Compliance and Enforcement Bureau

Encl: OCD Case No. 16047 Compliance and Enforcement Bureau Application for Hearing

Cc: Mike Hanagan
400 N. Kentucky
Roswell, NM 88201
VIA CERTIFIED MAIL, RETURN RECEIPT: 7012 0470 0000 0881 9849

RLI Insurance Company c/o
Office of Superintendent of Insurance
Attn: Service of Process
P.O.Box 1689
Santa Fe, NM 87504-1689

First State Bank – Socorro
103 Manzanares Ave. E
Socorro, NM 87801
CERTIFIED MAIL, RETURN RECEIPT TO CORP. HQ: 7012 0470 0000 0881 9856

OCD Case No. 16047
Exhibit 5A: Direct Notice to Operator
Page 2 of 4

Inactive Well List
Total Well Count: 25 Inactive Well Count: 3
Printed On: Wednesday, May 16 2018

16047

District	API	Well	ULSTR	OCD Unit	Ogrid	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-00378	STATE LAND 76 #001	10-02-16S-32E	J	12627	KEVIN O BUTLER & ASSOC INC	S	O	11/1995	INT TO TA 04/28/09		
1	30-025-29066	STATE LAND 76 #003	9-02-16S-32E	I	12627	KEVIN O BUTLER & ASSOC INC	S	O	12/1992	INT TO TA 04/28/09		
1	30-025-29869	V E RODDY #001	A-23-16S-38E	A	12627	KEVIN O BUTLER & ASSOC INC	P	O	08/2009		T	11/7/2015

WHERE Operator:12627, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

OCD Case No. 16047
 Exhibit 1: Inactive Well List
 Page 1 of 1

Inactive Well Additional Financial Assurance Report

12627 KEVIN O BUTLER & ASSOC INC

Total Well Count: 24

Printed On: Wednesday, May 16 2018

Property	Well Name	Lease Type	ULSTR	OCD Unit Letter	APJ	Well Type	Last Prod/Inj	Inactive Additional Band Due	Measured Depth	Required Bond Amount	Bond Required New	Covered By Blanket TA Bond	Bond In Place	In Violation
23917	AETNA EAVES #002	P	A-26-16S-38E	A	30-025-27789	S	08/2017	09/01/2019	8500	13500			0	
19041	DELMONT L HATFIELD #001	P	J-23-16S-38E	J	30-025-27487	O	09/2012	10/01/2014	9000	14000	Y		14,000	
2409	LEA L STATE #001	S	G-14-15S-34E	G	30-025-01881	G	12/2017	01/01/2020	14304	19304			0	
25335	NEW MEXICO X STATE #001	S	B-20-17S-36E	B	30-025-03941	O	12/2017	01/01/2020	9311	14311			0	
26951	NM DE STATE #001	S	F-16-17S-37E	F	30-025-21618	O	12/2017	01/01/2020	9040	14040			0	
25336	PEERLESS ET AL COM #001	P	C-22-22S-36E	C	30-025-09007	G	12/2017	01/01/2020	3492	8492			0	
14893	SOUTH CAPROCK QUEEN UNIT #003	P	C-33-14S-31E	C	30-005-01190	O	12/2017	01/01/2020	2986	7986			0	
	SOUTH CAPROCK QUEEN UNIT #005	S	2-30-15S-31E	E	30-005-00670	O	12/2017	01/01/2020	3135	8135			0	
	SOUTH CAPROCK QUEEN UNIT #010	S	J-30-15S-31E	J	30-005-00658	I	12/2017	01/01/2020	3195	8195			0	
	SOUTH CAPROCK QUEEN UNIT #011	S	K-30-15S-31E	K	30-005-00657	O	12/2017	01/01/2020	3181	8181			0	
	SOUTH CAPROCK QUEEN UNIT #012	P	L-33-14S-31E	L	30-005-01180	O	12/2017	01/01/2020	3115	8115			0	
	SOUTH CAPROCK QUEEN UNIT #014X	P	N-33-14S-31E	N	30-005-01193	O	12/2017	01/01/2020	3145	8145			0	
	SOUTH CAPROCK QUEEN UNIT #015	S	O-30-15S-31E	O	30-005-00662	O	12/2017	01/01/2020	3187	8187			8,187	
	SOUTH CAPROCK QUEEN UNIT #015	P	O-28-14S-31E	O	30-005-01161	I	12/2017	01/01/2020	2991	7991			0	
	SOUTH CAPROCK QUEEN UNIT #016	S	P-30-15S-31E	P	30-005-00661	I	12/2017	01/01/2020	3197	8197			0	
	SOUTH CAPROCK QUEEN UNIT #017	S	J-30-15S-31E	J	30-005-21000	O	12/2017	01/01/2020	3300	8300			0	
25103	STATE 32 #001	S	K-32-16S-33E	K	30-025-26065	O	12/2017	01/01/2020	11750	16750			0	
25337	STATE LAND 76 #001	S	10-02-16S-32E	J	30-025-00376	O	11/1995	12/01/1997	13395	18395	Y		18,395	
	STATE LAND 76 #003	S	9-02-16S-32E	I	30-025-29066	O	12/1992	01/01/1995	10625	15625	Y		15,625	
	STATE LAND 76 #004	S	5-01-16S-32E	E	30-025-29067	O	12/2017	01/01/2020	10700	15700			0	
	STATE LAND 76 #005	S	10-02-16S-32E	B	30-025-29208	O	12/2017	01/01/2020	10629	15629			0	
27128	STATE R #001	S	K-27-14S-33E	K	30-025-01155	O	12/2017	01/01/2020	14147	19147			0	
	STATE R #003	S	B-27-14S-33E	B	30-025-01157	O	12/2017	01/01/2020	10000	15000			0	
24084	V E RODDY #001	P	A-23-16S-38E	A	30-025-29869	O	08/2009	09/01/2011	13300	18300	Y		18,300	

WHERE Ogrid:12627

OCD Case No. 16047

Exhibit 2: Additional Financial Assurance Report

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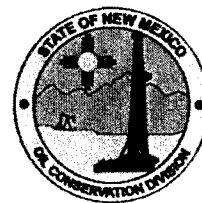
State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Ken McQueen
Cabinet Secretary

Matthias Sayer
Deputy Cabinet Secretary

David R. Catanach, Division Director
Oil Conservation Division



June 20, 2017

KEVIN O BUTLER & ASSOC., INC.
OGRID #12627
200 N. Loraine St., Suite 1515
Midland, TX 79705

Re: 19.15.5.9 NMAC Compliance

Dear Operator:

The Oil Conservation Division (OCD) is conducting ongoing review of all operators' compliance status with Subsection A of 19.15.5.9 NMAC. According to OCD records, your company is not in compliance with Subsection A of 19.15.5.9 NMAC for the following reason:

X Inactive wells. According to the attached inactive well list, your company has too many wells in violation of 19.15.25.8 NMAC (the inactive well rule) that are not subject to an inactive well agreed compliance order. As an operator of 29 wells, your company may have no more than 2 wells in violation of the inactive well rule. Your company has 5 wells in violation of the inactive well rule.

Non-compliance with 19.15.5.9 NMAC will prevent your company from acquiring any new wells, acquiring approval of exploration and development plans, receiving new allowables, and obtaining drilling, injection, and other OCD issued permits, and potentially expose your company to additional compliance actions including an OCD order requiring compliance, and revocation of injection permits. As the operator of a non 19.15.5.9 NMAC compliant company, you will not be permitted to register any additional companies to operate in New Mexico or have any interest exceeding 25 percent in any other companies in New Mexico.

The OCD is requesting that you review the OCD's online database for your specific Oil and Gas Registration Identification (OGRID) number and notify the OCD how your company plans to return to compliance with 19.15.5.9 NMAC. This is an opportunity for your company to work with the OCD toward achieving its goal of maintaining compliance with the rules of the State of New Mexico. Please respond to the OCD within 30 days of receipt of this letter. If no response is received the OCD may begin formal compliance action.

OCD Case No. 16047
Exhibit 3: Notice of Violation
Page 1 of 2

Respectfully yours,

A handwritten signature in black ink, appearing to read "Daniel Sanchez", with a long, sweeping underline.

Daniel Sanchez,
Compliance and Enforcement Manager
(505)476-3493
Daniel.sanchez@state.nm.us

Ec: David R. Catanach, Division Director
Maxey Brown, District 1 Supervisor
Raymond Podany, District 2 Geologist
Charlie Perrin, District 3 Supervisor
Will Jones, District 4 Supervisor
Keith Herrmann, Attorney, Santa Fe

OCD Case No. 16047
Exhibit 3: Notice of Violation
Page 2 of 2

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

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION
COMPLIANCE AND ENFORCEMENT BUREAU FOR A COMPLIANCE ORDER
AGAINST KEVIN O. BUTLER & ASSOCIATES, INC., FOR WELLS OPERATED
IN CHAVES, EDDY, AND LEA COUNTIES, NEW MEXICO.**

CASE NO. 16047

AFFIDAVIT OF DANIEL SANCHEZ

I, Daniel Sanchez, being first duly sworn on oath, states as follows:

1. I am employed as the Compliance and Enforcement Manager at the Oil Conservation Division ("OCD").

My duties include as the Compliance & Enforcement Manager

- Manage the division's four district offices and Environmental Bureau.
- Program Director for the EPA's Underground Injection Control program.
- Coordinate field inspections between the BLM (Carlsbad, Roswell, and Hobbs District Offices and the OCD (Artesia and Hobbs District Offices).
- Conduct quarterly meetings between the BLM and OCD to coordinate various enforcement actions on co-jurisdictional sites and issues.
- Manage the use of the State Reclamation Fund for the purpose of plugging abandoned wells, remediation of well sites and the remediation of oil and gas related environmental contamination.
- Testify in Hearing Examiner and Commission hearings in support of OCD staff positions on compliance and enforcement issues.
- Conduct operator orientation for operators new to the state.
- Negotiate Agreed Compliance Orders with operators out of compliance with OCD Rule 5.9.
- Simplify and standardize the Oil Conservation Division's business procedures.
- Eliminate outdated practices and address current regulatory issues.
- Oversee the consistent interpretation and enforcement of division rules.
- Ensure compliance with rules and permits on oil and gas facilities and operations.
- Assure that inactive wells are tested and plugged in accordance with division rules.
- Act as a backup for C-115, production reports, review and approvals.
- Act as a backup for data entry of ACOI wells into the divisions Risk Based Data Management System.

2. The OCD's information on production and injection comes from monthly production reports filed by the well operators.

Case 16047
Exhibit 4

OCD Case No. 16047
Exhibit 4: Affidavit of Non-Production and 5.9 Violation
Page 1 of 2

3. In 1993 the OCD began using the ONGARD (Oil and Natural Gas Administration and Revenue Database) to record oil and gas production and injection by well. Since 1993, production and injection data from the monthly production reports filed by operators has been entered into ONGARD.

4. When the OCD began using the ONGARD system in 1993, it converted existing production and injection data into ONGARD for those wells that were not shown as "plugged" according to the OCD records available at that time. The pre-1993 production and injection information for each such well was totaled and appears in ONGARD under the last month of production or injection for that well.

5. Upon information and belief, Kevin O. Butler & Associates, Inc., ("Operator") is a Foreign Profit Corporation and is operating the wells ("subject wells") in Chaves, Eddy, and Lea Counties, New Mexico identified in *Exhibit 1: Inactive Well List*.

6. Upon information and belief, the New Mexico Secretary of State has Operator registered under entity number 1563444 and identifies Kevin O. Butler as officer of record.

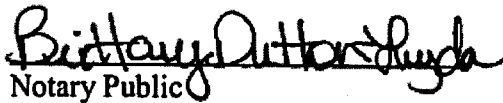
7. Upon information and belief, the subject wells operated by Operator in New Mexico have been inactive for a continuous period exceeding one year plus 90 days and are neither plugged and abandoned in accord with 19.15.25.9 to -11 NMAC nor on approved temporary abandonment status in accord with 19.15.25.12 NMAC.

8. Upon information and belief, the number of subject wells out of compliance with 19.15.25.8 NMAC (wells to be properly abandoned) exceeds the amount allowed by 19.15.5.9 NMAC. As an operator of 24 wells, Operator may not have more than 2 wells out of compliance with 19.15.25.8 NMAC

9. Exhibits 1-4 presented in this case are true and accurate reproductions of OCD records and were prepared by me or under my direction.


Daniel Sanchez

SUBSCRIBED AND SWORN before me on this May 16, 2018.


Notary Public

My Commission Expires:

December 13, 2018

Case 16047
Exhibit 4



OCD Case No. 16047

Exhibit 4: Affidavit of Non-Production and 5.9 Violation

Page 2 of 2

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

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION
COMPLIANCE AND ENFORCEMENT BUREAU FOR A COMPLIANCE ORDER
AGAINST KEVIN O. BUTLER & ASSOCIATES, INC., FOR WELLS OPERATED
IN CHAVES, EDDY, AND LEA COUNTIES, NEW MEXICO.

CASE NO. 16047

AFFIDAVIT OF SERVICE

In accordance with 19.15.4.9 and 19.15.4.12 NMAC, I hereby certify that notice of the May 17, 2018 hearing in the above captioned case was mailed to the following party(ies) by certified mail, return receipt requested, at least 20 days prior to the hearing date, with a copy of the application:

Kevin O. Butler & Associates, Inc.
200 N. Loraine Street
Suite 1515
Midland, TX 79705

Mike Hanagan
400 N. Kentucky
Roswell, NM 88201

RLI Insurance Company c/o
Office of the Superintendent of Insurance
Attn: Service of Process
P.O. Box 1689
Santa Fe, NM 87504-1689

First State Bank - Socorro
103 Manzanaras Ave. E
Socorro, NM 87801

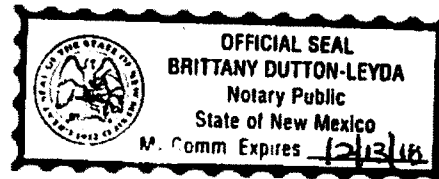

Keith W. Herrmann

SUBSCRIBED AND SWORN before me on this May 16, 2018.


Notary Public

My Commission Expires:

December 13, 2018



Case 16047
Exhibit 5

OCD Case No. 16047
Exhibit 5: Affidavit of Service
Page 1 of 1