

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

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APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST JAY MANAGEMENT COMPANY, LLC FINDING THAT THE OPERATOR IS IN VIOLATION OF 19.15.25.8 NMAC AS TO TWENTY FOUR WELLS, REQUIRING OPERATOR TO RETURN THE WELLS TO COMPLIANCE BY A DATE CERTAIN, AND IN THE EVENT OF NON-COMPLIANCE AUTHORIZING THE DIVISION TO PLUG AND ABANDON THE WELLS AND FORFEIT THE APPLICABLE FINANCIAL ASSURANCE, LEA COUNTY, NEW MEXICO.

CASE NO. 14303

PRE-HEARING STATEMENT OF THE OIL CONSERVATION DIVISION

The Oil Conservation Division (OCD) submits this entry of appearance and pre-hearing statement pursuant to 19.15.4.13.B NMAC.

APPEARANCES

APPLICANT

Oil Conservation Division

APPLICANT'S ATTORNEY

Gail MacQuesten
Oil Conservation Division
Energy, Minerals and Natural
Resources Department
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505) 476-3451
FAX: 476-3462
E-mail: gail.macquesten@state.nm.us

RESPONDENT

Jay Management Company, LLC
c/o CT Corporation System
123 East Marcy
Santa Fe, NM 87501

RESPONDENT'S ATTORNEY

No entry of appearance filed at this time.

STATEMENT OF CASE

The OCD seeks an order against Jay Management Company, LLC (Jay) requiring it to return its inactive wells to compliance with 19.15.25.8 NMAC (the "inactive well rule").

The application lists 24 wells operated by Jay that, at the time the application was filed, had been inactive for a continuous period in excess of one year plus ninety days, were neither plugged and abandoned nor on approved temporary abandonment status, and were therefore in violation of the inactive well rule. After the filing of the application one of the wells named in the application, the Sohio State #001, reported production and is no longer "inactive."

The OCD requests that the hearing order set a schedule for Jay to return its inactive wells to compliance by plugging and abandoning the wells, placing the wells on approved temporary abandonment status, or returning them to production or other beneficial use.

The OCD recommends that the order require Jay to return a certain number of its non-compliant wells to compliance every 6 months (similar to the OCD's standard format for an inactive well agreed compliance order) and require Jay to appear before the examiner at the end of each six month period to demonstrate that it has met its compliance goal for that period. If it fails to meet its goal in any six month period, the OCD will ask the examiner to issue an order requiring Jay to plug and abandon by a date certain the wells that remain non-compliant, and authorize the OCD to plug and abandon the wells and forfeit the applicable financial assurances if Jay fails to meet that deadline.

OCD'S PROPOSED EVIDENCE

WITNESS: Dorothy Phillips, OCD Financial Assurance Administrator

ESTIMATED TIME: Testimony by affidavit

Witness: Daniel Sanchez, OCD Compliance and Enforcement Manager

ESTIMATED TIME: 20 minutes, if pre-filed written testimony is accepted; otherwise 1 and ½ hours

PROCEDURAL MATTERS

1. The OCD intends to offer the testimony of Dorothy Phillips by affidavit. It requests notice if testimony by affidavit will not be allowed, so that Ms. Phillips can be made available for hearing.

2. The OCD will offer the pre-filed written testimony of Daniel Sanchez. A copy of Mr. Sanchez' testimony, and the exhibits referenced in his testimony, are attached to this pre-hearing statement. Mr. Sanchez will appear at the hearing to summarize his testimony, introduce exhibits, and adopt the pre-filed written testimony under oath. He will be available for cross-examination, and the applicant will have the opportunity to object to portions of his testimony, and to the introduction of exhibits referenced in his testimony. If the OCD is not allowed to introduce Mr. Sanchez' pre-filed written testimony, it will proceed with his live testimony. The time estimate for the hearing will need to be adjusted accordingly.

Respectfully submitted
this 3rd day of April 2009 by



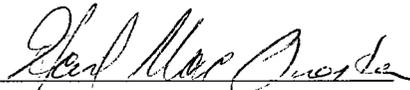
Gail MacQuesten
Oil Conservation Division

Energy, Minerals and Natural
Resources Department
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505) 476-3451

Attorney for the Oil Conservation Division

CERTIFICATE OF SERVICE

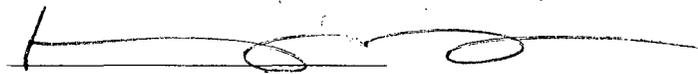
I hereby certify that a copy of the foregoing pleading was mailed by first class mail this 3rd day of April 2009 to Jay Management Company, LLC c/o CT Corporation System at the address listed above.


Gail MacQuesten

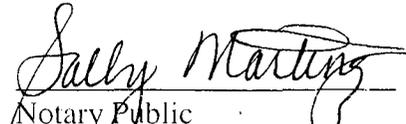
Amerada Com #1	30-025-22378	BOKO8SDP01882	\$15,160
Bess #002	30-025-28545	BOKO8SDP01883	\$15,825
Clark State #001	30-025-21880	BOKO8SDP01884	\$15,150
Eva Com #001	30-025-22412	BOKO8SDP01885	\$15,244
G S State #001	30-025-22811	BOKO8SDP01887	\$15,400
Iva Com. #001	30-025-22437	BOKO8SDP01886	\$15,250
Kelsay #001	30-025-01005	BOKO8SDP01888	\$15,135
Leigh Com #001	30-025-22541	BOKO8SDP01889	\$15,300
NM B State #1	30-025-00035	BOKO8SDP01890	\$14,558
NM B State #3	30-025-00037	BOKO8SDP01891	\$14,495
NM X State #1	30-025-21603	BOKO8SDP01892	\$9,490
Opal #001	30-025-22561	BOKO8SDP01893	\$15,360
Queen Com #001	30-025-22642	BOKO8SDP01894	\$15,350
Rose #001	30-025-22653	BOKO8SDP01895	\$15,350
Shell State Com #1	30-025-22226	BOKO8SDP01896	\$15,300
Sohio B State #1	30-025-22122	BOKO8SDP01898	\$15,510
Sohio State #1	30-025-22043	BOKO8SDP01897	\$15,450
State NBF #1	30-025-20891	BOKO8SDP01899	\$15,100
State NBN #1	30-025-00998	BOKO8SDP01900	\$16,607
Vera #001	30-025-22761	BOKO8SDP01901	\$15,350
Warren A State #1	30-025-23338	BOKO8SDP01914	\$15,200
Warren State #1	30-025-22012	BOKO8SDP01902	\$15,160

6. According to OCD records, the letters of credit identified above remain in full force and effect.

THIS CONCLUDES MY AFFIDAVIT.


Dorothy Phillips

SUBSCRIBED AND SWORN before me this 4th day of March 2009.


Notary Public

My Commission Expires:

3-24-2010

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4

5 APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION,
6 THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A
7 COMPLIANCE ORDER AGAINST JAY MANAGEMENT COMPANY, LLC FINDING
8 THAT THE OPERATOR IS IN VIOLATION OF 19.15.25.8 NMAC AS TO TWENTY
9 FOUR WELLS, REQUIRING OPERATOR TO RETURN THE WELLS TO
10 COMPLIANCE BY A DATE CERTAIN, AND IN THE EVENT OF NON-COMPLIANCE
11 AUTHORIZING THE DIVISION TO PLUG AND ABANDON THE WELLS AND
12 FORFEIT THE APPLICABLE FINANCIAL ASSURANCE, LEA COUNTY, NEW
13 MEXICO.

14
15 CASE NO. 14303
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17 TESTIMONY OF DANIEL SANCHEZ
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19
20 My name is Daniel Sanchez.

21 Since November 22, 2004, I have been the Compliance and Enforcement Manager of the
22 Oil Conservation Division (OCD) of the Energy, Minerals and Natural Resources Department.

23 My duties as Compliance and Enforcement Manager include supervising the four district
24 offices of the OCD and the Environmental Bureau of the OCD, and overseeing the enforcement
25 and compliance actions of the OCD.

26 Summary:

27 I have researched the compliance history of Jay Management Company, LLC (Jay), and
28 the allegations made in the application in Case 14303. To summarize, Jay is a relatively new
29 operator in New Mexico. In 2008 it acquired a large number of inactive wells that were in
30 violation of 19.15.25.8 NMAC. At that time, the OCD provided Jay with information about its
31 inactive well agreed compliance order program, including information on how to obtain an
32 agreed compliance order setting a schedule for returning inactive wells to compliance. Although
33 there was an exchange of e-mails and telephone calls, Jay never requested an inactive well

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*Case 14303
Jay Management
Company, LLC
OCD Exhibit 3*

34 agreed compliance order, and its inactive wells remain out of compliance. The OCD has filed
35 this application to obtain a hearing order setting a schedule for Jay to bring its inactive wells into
36 compliance, and allowing the OCD to plug the wells and forfeit the applicable financial
37 assurances if Jay fails to bring them into compliance.

38 **History of Jay Management Company, LLC:**

39 According to the records of the Public Regulation Commission, Jay was organized in
40 New Mexico on February 19, 2007. **OCD Exhibit 4** is a printout of the “Corporations
41 Information Inquiry” screen for Jay Management Company, LLC, taken from the website of the
42 Public Regulation Commission, showing the date of organization in New Mexico.

43 Jay acquired four wells in New Mexico from Five States Operating Company in March
44 2007. **OCD Exhibit 5** is a copy of the change of operator documentation for that transfer, taken
45 from the OCD’s website.

46 Jay acquired a large number of wells from Phoenix Hydrocarbons Operating Corp.,
47 effective October 1, 2008. **OCD Exhibit 6** is a copy of the change of operator documentation
48 for that transfer, taken from the OCD’s website.

49 **Compliance issues under 19.15.25.8 NMAC, the “inactive well rule:”**

50 19.15.25.8.B NMAC provides that the operator of a well that has been inactive for a
51 continuous period in excess of one year plus ninety days shall either plug the well or place the
52 well on approved temporary abandonment status.

53 **OCD Exhibit 7** is a copy of the Inactive Well List for Jay. The Inactive Well List is
54 posted on the OCD’s website and is used by the OCD and by operators in the normal course of
55 business for tracking compliance with the inactive well rule. The search terms used to generate
56 OCD Exhibit 7 pulled up wells operated by Jay that according to OCD records have been

57 inactive for a period of 15 months, do not have a plugged wellbore, and are not on approved
58 temporary abandonment status. That list, generated on 4-2-09, shows 23 of the 24 wells
59 identified in the application in this case. After the application was filed, one of the 24 wells, the
60 Sohio State #001, reported production and therefore is no longer "inactive."

61 The column titled "Last Production" on the Inactive Well List shows the last date of
62 reported production or injection for each well. It shows that some of the wells have been
63 inactive for a very long period of time – the first well on the list has been inactive since 1979,
64 and nine other wells have been inactive since the 1980's or 1990's.

65 As shown in the affidavit of Dorothy Phillips, Jay has posted \$50,000 letter of credit No.
66 BOK07SDP01655 and single-well letters of credit for all but two of the twenty-four wells, as
67 shown below:

68	• Amerada Com #1	30-025-22378	BOKO8SDP01882	\$15,160
69	• Andover Federal #1	30-025-21904	--	
70	• Bess #002	30-025-28545	BOKO8SDP01883	\$15,825
71	• Clark State #001	30-025-21880	BOKO8SDP01884	\$15,150
72	• Collier #001	30-025-00994	--	
73	• Eva Com #001	30-025-22412	BOKO8SDP01885	\$15,244
74	• G S State #001	30-025-22811	BOKO8SDP01887	\$15,400
75	• Iva Com. #001	30-025-22437	BOKO8SDP01886	\$15,250
76	• Kelsay #001	30-025-01005	BOKO8SDP01888	\$15,135
77	• Leigh Com #001	30-025-22541	BOKO8SDP01889	\$15,300
78	• NM B State #1	30-025-00035	BOKO8SDP01890	\$14,558
79	• NM B State #3	30-025-00037	BOKO8SDP01891	\$14,495
80	• NM X State #1	30-025-21603	BOKO8SDP01892	\$9,490
81	• Opal #001	30-025-22561	BOKO8SDP01893	\$15,360
82	• Queen Com #001	30-025-22642	BOKO8SDP01894	\$15,350
83	• Rose #001	30-025-22653	BOKO8SDP01895	\$15,350
84	• Shell State Com #1	30-025-22226	BOKO8SDP01896	\$15,300
85	• Sohio B State #1	30-025-22122	BOKO8SDP01898	\$15,510
86	• Sohio State #1	30-025-22043	BOKO8SDP01897	\$15,450
87	• State NBF #1	30-025-20891	BOKO8SDP01899	\$15,100
88	• State NBN #1	30-025-00998	BOKO8SDP01900	\$16,607
89	• Vera #001	30-025-22761	BOKO8SDP01901	\$15,350
90	• Warren A State #1	30-025-23338	BOKO8SDP01914	\$15,200

91 • Warren State #1 30-025-22012 BOKO8SDP01902 \$15,160

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19.15.8.13.A NMAC provides:

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Upon the operator's failure to properly plug and abandon and restore and remediate the location of a well or wells a financial assurance covers, the division shall give notice to the operator and surety, if applicable, and hold a hearing as to whether the well or wells should be plugged and abandoned and the location restored and remediated in accordance with a division-approved plugging program. If it is determined at the hearing that the operator has failed to plug and abandon the well and restore and remediate the location as provided for in the financial assurance or division rules, the director shall issue an order directing the well to be plugged or abandoned and the location restored and remediated in a time certain. Such an order may also direct the forfeiture of the financial assurance upon the failure or refusal of the operator, surety or other responsible party to properly plug and abandon the well and restore and remediate the location.

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OCD Efforts to Obtain Compliance:

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On September 30, 2008, the day before Jay acquired the wells from Phoenix Hydrocarbons, OCD Attorney Sonny Swazo contacted Jim Hutchinson of Jay and provided him with information on the OCD's inactive well agreed compliance order program. **OCD Exhibit 8** is a copy of the e-mail sent to Mr. Hutchinson, with the attachments. The OCD attempts to contact operators who are acquiring large numbers of wells out of compliance with the inactive well rule to explain the consequences of acquiring the non-compliant wells, and to offer information on obtaining an inactive well agreed compliance order.

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As explained in the information sheet attached to OCD Exhibit 8, an inactive well agreed compliance order (ACOI) is an order entered into by an operator and the OCD, under which the operator agrees to return wells identified in the order into compliance with the inactive well rule under a negotiated schedule, and pay a penalty if it fails to meet that schedule. The OCD agrees to remove the wells covered by the order from the operator's inactive well list while the ACOI is in effect.

122 An ACOI protects the operator from enforcement action under the inactive well rule and
123 under Rule 40 (now 19.15.5.9 NMAC) as to the wells covered by the ACOI while the ACOI
124 remains in effect.

125 If the operator has a well in violation of the inactive well rule that is not covered by an
126 ACOI, the operator may be subject to enforcement actions: the imposition of penalties under
127 NMSA 1978, Section 70-2-31(A); an order requiring the operator to plug and abandon the well
128 under NMSA 1978, Section 70-2-14(B); or an order authorizing the OCD to plug the well, forfeit
129 the applicable financial assurance, and seek reimbursement from the operator for plugging costs
130 not covered by the financial assurance.

131 In addition, if the operator has more than a certain number of wells out of compliance
132 with the inactive well rule that are not subject to an ACOI, the operator will be in violation of
133 Rule 40 (now 19.15.5.9 NMAC), and the OCD can - and in some circumstances must - deny
134 certain privileges to the operator, including APDs, authorization to transport, injection permits
135 and well transfers. The number of wells an operator may have in violation of the inactive well
136 rule before being in violation of Rule 40 (now 19.15.5.9 NMAC) varies from 0 to 10, depending
137 on the number of wells the operator operates.

138 On October 7, 2008, Mr. Hutchinson e-mailed a response to the OCD's September 30,
139 2008 e-mail, stating that Jay would propose an ACOI plan for the OCD's review and comment.
140 **OCD Exhibit 9** is a copy of Mr. Hutchinson's e-mail. The OCD did not receive an ACOI plan
141 from Jay.

142 On December 19, 2008, OCD attorney Gail MacQuesten sent an e-mail to OCD attorney
143 Sonny Swazo and myself, stating that she had received a voice mail from Jim Hutchinson
144 indicating that his company was taking over wells from Phoenix Hydrocarbons, and that he

145 wanted to talk about an ACOI. She asked us to call him. **OCD Exhibit 10** is a copy of her e-
146 mail. We attempted to call but were not able to reach him. We left a message. We did not
147 receive a response.

148 On December 22, OCD Attorney Sonny Swazo followed up with an e-mail to Mr.
149 Hutchinson stating, "Gail MacQuesten has informed me that you would like to talk to OCD
150 about an ACOI. I will be out of the office this week. Please call me Monday at 505-476-3463 if
151 you would like to speak about the ACOI program." **OCD Exhibit 11** is a copy of his e-mail to
152 Mr. Hutchinson. The OCD did not receive a response to Mr. Swazo's e-mail to Mr. Hutchinson.

153 **Requested Relief:**

154 The OCD requests a hearing order setting a schedule for Jay to return its inactive wells to
155 compliance by plugging and abandoning the wells, placing the wells on approved temporary
156 abandonment status, or returning them to production or other beneficial use.

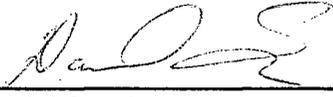
157 The OCD recommends that the order require Jay to return a certain number of its non-
158 compliant wells to compliance every 6 months (similar to the OCD's standard format for an
159 ACOI) and require Jay to appear before the examiner at the end of each six month period to
160 demonstrate that it has met its compliance goal for that period. If it fails to meet its goal in any
161 six month period, the OCD will ask the examiner to issue an order requiring Jay to plug and
162 abandon by a date certain the wells that remain non-compliant, and authorize the OCD to plug
163 and abandon the wells and forfeit the applicable financial assurances if Jay fails to meet that
164 deadline.

165 Such an order will not remove wells from Jay's inactive well list, and Jay will remain
166 subject to Rule 40 (now 19.15.5.9 NMAC) as it works to return its wells to compliance.

167 The OCD seeks this remedy because its attempts to enter into a negotiated ACOI with
168 Jay were unsuccessful.

169 I, Daniel Sanchez, swear that the foregoing is true and correct.

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Daniel Sanchez
Compliance and Enforcement Manager
Oil Conservation Division

Subscribed and sworn to before me this 3rd day of April 2009 by Daniel Sanchez.



Notary Public

My commission expires:
01-09-2012

New Search

JAY MANAGEMENT COMPANY, LLC

(TEXAS Corporation)

SCC Number: **2840023**
Tax & Revenue Number:
Organization Date: **FEBURARY 19, 2007, in NEW MEXICO**
Organization Type: **FOREIGN LIMITED LIABILITY**
Organization Status: **EXEMPT**
Good Standing:
Purpose: **NOT REQUIRED**

ORGANIZATION DATES

Taxable Year End Date:
Filing Date:
Expiration Date:

SUPPLEMENTAL POST MARK DATE

Supplemental:

MAILING ADDRESS

11767 KATY FREEWAY STE. 711 HOUSTON , TEXAS 77079

PRINCIPAL ADDRESS

PRINCIPAL ADDRESS (Outside New Mexico)

11767 KATY FREEWAY STE. 711 HOUSTON TEXAS 77079

REGISTERED AGENT

*Case 14303
Jay Management
Company, LLC
OCD Exhibit 4*

C T CORPORATION SYSTEM

123 EAST MARCY SANTA FE NEW MEXICO 87501

Agent Designated:

Agent Resigned:

COOP LICENSE INFORMATION

Number:

Type:

Expiration Year:

ORGANIZERS

CUTLER, J. MONROE

DIRECTORS

Date of Election of Directors:

C104AReport

District 1
1625 N. French Dr., Hobbs, NM 88240
Phone: (505) 393-6161 Fax: (505) 393-0720

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Form C-145
Permit 47744

Change of Operator

Previous Operator Information

New Operator Information

	Effective Date: <u>3/1/2007</u>
OGRID: <u>153281</u>	OGRID: <u>247692</u>
Name: <u>FIVE STATES OPERATING COMPANY</u>	Name: <u>JAY MANAGEMENT COMPANY, LLC</u>
Address: <u>4925 GREENVILLE AVE., STE 1220</u>	Address: <u>11767 Kay Frwy, Ste 711</u>
Address: _____	Address: _____
City, State, Zip: <u>DALLAS, TX 75206</u>	City, State, Zip: <u>Houston, TX 77079</u>

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the certified list of wells is true to the best of my knowledge and belief.

Previous Operator

New Operator

Signature: *Steve Collins*
Printed Name: Steve Collins
Title: Operations Manager
Date: 3/6/07 Phone: 972/860-1123

Signature: *J. Monroe Cutler*
Printed Name: J MONROE CUTLER
Title: MANAGER
Date: 03/02/07 Phone: 713/621-5946

NMOCD Approval
Electronic Signature: Paul Kautz, District 1
Date: March 13, 2007

Case 14303
Jay Management Company, LLC
OCD Exhibit 5

From Operator FIVE STATES OPERATING COMPANY OGRID 153281
 To Operator JAY MANAGEMENT COMPANY, LLC OGRID 247692
 Wells Selected for Transfer, Permit 47744
 Permit Status: APPROVED

OCD District Hobbs

Property Well	Lease Type	ULSTR	OCD Unit	API	Well Type	Pool ID	Pool Name
303412 MCCALLISTER #001	P	C-7 -22S-38E	C	30-025-22695	O	6660	BLINEBRY OIL AND GAS (OIL)
MCCALLISTER #001	P	C-7 -22S-38E	C	30-025-22695	O	7900	BRUNSON,DRINKARD-ABO, SOUTH
303413 NEW MEXICO DW STATE #001	S	F-6 -22S-35E	F	30-025-29027	G	77690	GRAMA RIDGE:MORROW, EAST (GAS)
303414 TOWNSEND STATE #001	S	10-3 -16S-35E	J	30-025-29110	G	21140	EIDSON:MISSISSIPPIAN, NORTHEAST

District I
1625 N. French Dr., Hobbs, NM 88240
Phone: (505) 393-6101 Fax: (505) 393-0720
District III
1050 Rio Brazos Rd., Aztec, NM 87410
Phone: (505) 334-6178 Fax: (505) 334-6170

Form C-145
Permit 82676

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Change of Operator

<p>Previous Operator Information</p> <p>Effective Date: 10/1/2008</p> <p>OGRUD: 247692</p> <p>Name: JAY MANAGEMENT COMPANY, LLC</p> <p>Address: 4801 WOODWAY AVE. SUITE 711</p> <p>City, State, Zip: HOUSTON, TX 77056</p>		<p>New Operator Information</p> <p>Effective Date: 10/1/2008</p> <p>OGRUD: 247692</p> <p>Name: JAY MANAGEMENT COMPANY, LLC</p> <p>Address: 4801 WOODWAY AVE. SUITE 711</p> <p>City, State, Zip: HOUSTON, TX 77056</p>	
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I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the certified list of wells is true to the best of my knowledge and belief.

<p>Previous Operator</p> <p>Signature: <i>[Signature]</i></p> <p>Printed Name: GREGORY F. BAIANO</p> <p>Title: PRESIDENT</p> <p>Date: 9/29/08</p> <p>Phone: 432-686-9869</p>	<p>New Operator</p> <p>Signature: <i>[Signature]</i></p> <p>Printed Name: JAMES H. HUTCHINSON III</p> <p>Title: VICE PRESIDENT</p> <p>Date: 9-29-08</p> <p>Phone: 713-621-6785</p>
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Case 14303
Jay Management
Company, LLC
OCD Exhibit 6

From Operator PHOENIX HYDROCARBONS OPERATING CORP OGRID 188483
 To Operator JAY MANAGEMENT COMPANY, LLC OGRID 247692
 Wells Selected for Transfer, Permit 82676
 Permit Status: APPROVED

OCD District Hobbs

Property Well	Lease Type	ULSTR	OCD Unit	API	Well Type	Pool ID	Pool Name
306260 AMERADA COM #001	S	J-28-11S-33E	J	30-025-22378	O	3820 BAGLEY:PERMO PENN.	NORTH
306253 ANDOVER FEDERAL #001	F	P-17-11S-33E	P	30-025-21904	O	3820 BAGLEY:PERMO PENN.	NORTH
306243 AUDREY #001	P	P-20-11S-33E	P	30-025-22286	O	3820 BAGLEY:PERMO PENN.	NORTH
306258 BELL #001	P	H-21-11S-33E	H	30-025-21391	O	3820 BAGLEY:PERMO PENN.	NORTH
306252 BELL A #001	P	C-21-11S-33E	C	30-025-21783	O	3820 BAGLEY:PERMO PENN.	NORTH
306277 BESS #002	P	A-20-11S-33E	A	30-025-28545	G	3820 BAGLEY:PERMO PENN.	NORTH
306266 CHANEY FEDERAL #001	F	L-17-11S-33E	L	30-025-22554	O	3820 BAGLEY:PERMO PENN.	NORTH
306270 CHRISTENSEN STATE #001	S	L-16-11S-33E	L	30-025-22017	O	3820 BAGLEY:PERMO PENN.	NORTH
306232 CLARK STATE #001	S	D-27-11S-33E	D	30-025-21880	O	3820 BAGLEY:PERMO PENN.	NORTH
306233 COLLIER #001	P	F-9-11S-33E	F	30-025-00994	O	3820 BAGLEY:PERMO PENN.	NORTH
306244 DOLLY #001	F	J-17-11S-33E	J	30-025-22370	O	3820 BAGLEY:PERMO PENN.	NORTH
306257 ENFIELD #001	S	I-16-11S-33E	I	30-025-21932	O	3820 BAGLEY:PERMO PENN.	NORTH
306250 EVA COM #001	P	J-20-11S-33E	J	30-025-22412	O	3820 BAGLEY:PERMO PENN.	NORTH
306235 FRANCES #001	S	C-29-11S-33E	C	30-025-22411	O	3820 BAGLEY:PERMO PENN.	NORTH
306255 G S STATE #001	S	G-8-11S-33E	G	30-025-22811	O	3820 BAGLEY:PERMO PENN.	NORTH
306275 GAIL #001	P	L-28-11S-33E	L	30-025-22423	O	3820 BAGLEY:PERMO PENN.	NORTH
306247 GULF SOHIO STATE #001	S	H-8-11S-33E	H	30-025-21194	O	3820 BAGLEY:PERMO PENN.	NORTH
306261 HUMBLE B #001	S	E-27-11S-33E	E	30-025-22149	O	3820 BAGLEY:PERMO PENN.	NORTH
306276 IVA COM #001	P	H-20-11S-33E	H	30-025-22437	O	3820 BAGLEY:PERMO PENN.	NORTH
306224 JFG COLLIER #001	P	D-9-11S-33E	D	30-025-22108	O	3820 BAGLEY:PERMO PENN.	NORTH
306262 JULIE #001	S	O-29-11S-33E	O	30-025-22476	O	3820 BAGLEY:PERMO PENN.	NORTH
306259 KAY #001	P	F-20-11S-33E	F	30-025-22477	O	3820 BAGLEY:PERMO PENN.	NORTH
306236 KELSAY #001	P	M-28-11S-33E	M	30-025-01005	O	3820 BAGLEY:PERMO PENN.	NORTH
306229 LEIGH COM #001	P	N-20-11S-33E	N	30-025-22541	O	3820 BAGLEY:PERMO PENN.	NORTH
306234 LULU #001	P	N-4-11S-33E	N	30-025-22256	O	3820 BAGLEY:PERMO PENN.	NORTH
306268 MABEL COM #001	S	A-29-11S-33E	A	30-025-22537	O	3820 BAGLEY:PERMO PENN.	NORTH
306256 NELLIE #001	S	A-32-11S-33E	A	30-025-22562	O	3820 BAGLEY:PERMO PENN.	NORTH
306226 NEW MEXICO B STATE #001	S	B-27-10S-32E	B	30-025-00035	O	45790 MESCALERO:DEVONIAN	
NEW MEXICO B STATE #002	S	A-27-10S-32E	A	30-025-00036	O	45980 MESCALERO:PERMO PENN	
NEW MEXICO B STATE #003	S	B-27-10S-32E	B	30-025-00037	O	45980 MESCALERO:PERMO PENN	
NEW MEXICO B STATE #004	S	G-27-10S-32E	G	30-025-07997	O	45990 MESCALERO:SAN ANDRES	
NEW MEXICO B STATE #006	S	A-27-10S-32E	A	30-025-21359	O	45990 MESCALERO:SAN ANDRES	
NEW MEXICO B STATE #007	S	H-27-10S-32E	H	30-025-21360	O	45990 MESCALERO:SAN ANDRES	
NEW MEXICO B STATE #008	S	B-27-10S-32E	B	30-025-21361	O	45990 MESCALERO:SAN ANDRES	
NEW MEXICO B STATE #009	S	B-27-10S-32E	B	30-025-24481	O	45790 MESCALERO:DEVONIAN	
306237 NEW MEXICO BB STATE #001	S	B-14-10S-32E	B	30-025-20871	O	45990 MESCALERO:SAN ANDRES	
NEW MEXICO BB STATE #002	S	J-14-10S-32E	J	30-025-21475	O	45990 MESCALERO:SAN ANDRES	
NEW MEXICO BB STATE #003	S	G-14-10S-32E	G	30-025-21650	O	45990 MESCALERO:SAN ANDRES	
NEW MEXICO BB STATE #004	S	O-14-10S-32E	O	30-025-21629	O	45990 MESCALERO:SAN ANDRES	
306246 NEW MEXICO X STATE #001	S	P-10-10S-32E	P	30-025-21603	O	45990 MESCALERO:SAN ANDRES	
306263 OPAL #001	P	D-20-11S-33E	D	30-025-22561	G	3820 BAGLEY:PERMO PENN.	NORTH
306264 PEGGY COM #002	S	F-29-11S-33E	F	30-025-25375	O	3820 BAGLEY:PERMO PENN.	NORTH
306239 QUEEN COM #001	P	L-20-11S-33E	L	30-025-22642	G	3820 BAGLEY:PERMO PENN.	NORTH
306242 ROSE #001	S	C-32-11S-33E	C	30-025-22653	G	3820 BAGLEY:PERMO PENN.	NORTH
306221 SHELL STATE COM #001	S	H-17-11S-33E	H	30-025-22226	G	3820 BAGLEY:PERMO PENN.	NORTH
306278 SINCLAIR A STATE #001	S	O-22-11S-33E	O	30-025-21890	O	3820 BAGLEY:PERMO PENN.	NORTH
306227 SINCLAIR STATE #001	S	K-22-11S-33E	K	30-025-21454	O	3820 BAGLEY:PERMO PENN.	NORTH
306223 SOHIO A STATE #001	S	O-4-11S-33E	O	30-025-22206	O	3820 BAGLEY:PERMO PENN.	NORTH
306273 SOHIO B STATE #001	S	P-5-11S-33E	P	30-025-22122	O	3820 BAGLEY:PERMO PENN.	NORTH
306274 SOHIO STATE #001	S	P-4-11S-33E	P	30-025-22043	O	3820 BAGLEY:PERMO PENN.	NORTH
306245 STATE NBF #001	S	F-22-11S-33E	F	30-025-20891	O	3820 BAGLEY:PERMO PENN.	NORTH
306271 STATE NBN #001	S	N-16-11S-33E	N	30-025-00998	O	3820 BAGLEY:PERMO PENN.	NORTH
306222 STATE OG SWD #002	S	L-9-11S-33E	L	30-025-31381	S	96099 SWD:CISCO	
STATE OG SWD #002	S	L-9-11S-33E	L	30-025-31381	S	96188 SWD:STRAWN	
306265 SUE #001	S	M-29-11S-33E	M	30-025-22678	O	3820 BAGLEY:PERMO PENN.	NORTH
306231 SUNRAY B STATE #001	S	K-29-11S-33E	K	30-025-21944	O	3820 BAGLEY:PERMO PENN.	NORTH
306248 TILLY #001	P	P-18-11S-33E	P	30-025-22702	O	3820 BAGLEY:PERMO PENN.	NORTH
306269 TIPPERARY 22 STATE #001	S	C-22-11S-33E	C	30-025-28799	O	3820 BAGLEY:PERMO PENN.	NORTH
306240 UNA #001	S	G-32-11S-33E	G	30-025-22704	O	3820 BAGLEY:PERMO PENN.	NORTH
306254 VERA #001	S	E-32-11S-33E	E	30-025-22761	G	3820 BAGLEY:PERMO PENN.	NORTH
306251 WARREN A STATE #001	S	I-28-11S-33E	I	30-025-23338	O	3820 BAGLEY:PERMO PENN.	NORTH
306241 WARREN STATE #001	S	G-28-11S-33E	G	30-025-22012	O	3820 BAGLEY:PERMO PENN.	NORTH

OCD District: Aztec

Property Well	Lease Type	ULSTR	OCD Unit	API	Well Type	Pool ID	Pool Name
306249 FEDERAL D #001	F	G-22-27N-08W	G	30-045-20561	G	71599	BASIN DAKOTA (PRORATED GAS)
FEDERAL D #001	F	G-22-27N-08W	G	30-045-20561	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL D #001A	F	P-22-27N-08W	P	30-045-29577	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
306228 FEDERAL E #001R	F	L-25-27N-08W	L	30-045-31816	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL E #002A	F	J-23-27N-08W	J	30-045-23465	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL E #002R	F	H-23-27N-08W	H	30-045-30801	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL E #003A	F	K-13-27N-08W	K	30-045-23463	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL E #004	F	D-25-27N-08W	D	30-045-23466	G	82329	OTERO CHACRA (GAS)
FEDERAL E #006	F	K-13-27N-08W	K	30-045-23462	G	82329	OTERO CHACRA (GAS)
306230 FEDERAL I #001	F	N-15-27N-08W	N	30-045-20425	G	71599	BASIN DAKOTA (PRORATED GAS)
FEDERAL I #001	F	N-15-27N-08W	N	30-045-20425	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL I #001A	F	E-15-27N-08W	E	30-045-30802	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
306272 FEDERAL J #001A	F	P-11-27N-08W	P	30-045-23461	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL J #001B	F	O-11-27N-08W	O	30-045-31815	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL J #001C	F	A-11-27N-08W	A	30-045-31818	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL J #001R	F	B-11-27N-08W	B	30-045-29149	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL J #002	F	P-11-27N-08W	P	30-045-23460	G	82329	OTERO CHACRA (GAS)
306238 FEDERAL M #001	F	N-3-27N-08W	N	30-045-20317	G	71599	BASIN DAKOTA (PRORATED GAS)
FEDERAL M #001	F	N-3-27N-08W	N	30-045-20317	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL M #001A	F	F-3-27N-08W	F	30-045-25846	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL M #001B	F	K-3-27N-08W	K	30-045-30807	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL M #002	F	3-3-27N-08W	C	30-045-25855	G	82329	OTERO CHACRA (GAS)
FEDERAL M #003	F	K-3-27N-08W	K	30-045-25888	G	82329	OTERO CHACRA (GAS)
306267 FEDERAL R #001	F	A-15-27N-08W	A	30-045-20362	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL R #001	F	A-15-27N-08W	A	30-045-20362	G	71599	BASIN DAKOTA (PRORATED GAS)
FEDERAL R #001A	F	P-15-27N-08W	P	30-045-25856	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL R #001B	F	A-15-27N-08W	A	30-045-31870	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
FEDERAL R #002	F	P-15-27N-08W	P	30-045-25857	G	82329	OTERO CHACRA (GAS)
FEDERAL R #003	F	G-15-27N-08W	G	30-045-25889	G	82329	OTERO CHACRA (GAS)
306225 LARGO FEDERAL #001A	F	E-11-27N-08W	E	30-045-29150	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
LARGO FEDERAL #001R	F	M-11-27N-08W	M	30-045-29025	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
LARGO FEDERAL #002	F	I-13-27N-08W	I	30-045-20963	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
LARGO FEDERAL #002	F	I-13-27N-08W	I	30-045-20963	G	82329	OTERO CHACRA (GAS)
LARGO FEDERAL #002A	F	H-13-27N-08W	H	30-045-30806	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
LARGO FEDERAL #003	F	A-14-27N-08W	A	30-045-20901	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
LARGO FEDERAL #003	F	A-14-27N-08W	A	30-045-20901	G	82329	OTERO CHACRA (GAS)
LARGO FEDERAL #003A	F	I-14-27N-08W	I	30-045-30804	G	72319	BLANCO-MESAVERDE (PRORATED GAS)
LARGO FEDERAL #003B	F	H-14-27N-08W	H	30-045-30805	G	72319	BLANCO-MESAVERDE (PRORATED GAS)

Inactive Well List

Total Well Count: 96 Inactive Well Count: 23 Since: 1/8/2008

Printed On: Thursday, April 02 2009

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-22378	AMERADA COM #001	J-28-11S-33E	J	247692	JAY MANAGEMENT COMPANY, LLC	S	O	07/1979			
1	30-025-21904	ANDOVER FEDERAL #001	P-17-11S-33E	P	247692	JAY MANAGEMENT COMPANY, LLC	F	O	10/2000			
1	30-025-28545	BESS #002	A-20-11S-33E	A	247692	JAY MANAGEMENT COMPANY, LLC	P	G	10/2000			
1	30-025-21880	CLARK STATE #001	D-27-11S-33E	D	247692	JAY MANAGEMENT COMPANY, LLC	S	O	06/2003			
1	30-025-00994	COLLIER #001	F-9 -11S-33E	F	247692	JAY MANAGEMENT COMPANY, LLC	P	O	03/2007			
1	30-025-22412	EVA COM #001	J-20-11S-33E	J	247692	JAY MANAGEMENT COMPANY, LLC	P	O	05/2002			
1	30-025-22811	G S STATE #001	G-8 -11S-33E	G	247692	JAY MANAGEMENT COMPANY, LLC	S	O	04/1994			
1	30-025-22437	IVA COM #001	H-20-11S-33E	H	247692	JAY MANAGEMENT COMPANY, LLC	P	O	03/1993			
1	30-025-01005	KELSAY #001	M-28-11S-33E	M	247692	JAY MANAGEMENT COMPANY, LLC	P	O	04/1991			
1	30-025-22541	LEIGH COM #001	N-20-11S-33E	N	247692	JAY MANAGEMENT COMPANY, LLC	P	O	01/1991			
1	30-025-00035	NEW MEXICO B STATE #001	B-27-10S-32E	B	247692	JAY MANAGEMENT COMPANY, LLC	S	O	03/2001	DEVONIAN		
1	30-025-00037	NEW MEXICO B STATE #003	B-27-10S-32E	B	247692	JAY MANAGEMENT COMPANY, LLC	S	O	06/2000			
1	30-025-21603	NEW MEXICO X STATE #001	P-10-10S-32E	P	247692	JAY MANAGEMENT COMPANY, LLC	S	O	10/2000			
1	30-025-22561	OPAL #001	D-20-11S-33E	D	247692	JAY MANAGEMENT COMPANY, LLC	P	G	07/1993			
1	30-025-22642	QUEEN COM #001	L-20-11S-33E	L	247692	JAY MANAGEMENT COMPANY, LLC	P	G	12/1997			
1	30-025-22653	ROSE #001	C-32-11S-33E	C	247692	JAY MANAGEMENT COMPANY, LLC	S	G	08/1996			
1	30-025-22226	SHELL STATE COM #001	H-17-11S-33E	H	247692	JAY MANAGEMENT COMPANY, LLC	S	G	06/1988			
1	30-025-22122	SOHIO B STATE #001	P-5 -11S-33E	P	247692	JAY MANAGEMENT COMPANY, LLC	S	O	05/2003			
1	30-025-20891	STATE NBF #001	F-22-11S-33E	F	247692	JAY MANAGEMENT COMPANY, LLC	S	O	12/1994			
1	30-025-00998	STATE NBN #001	N-16-11S-33E	N	247692	JAY MANAGEMENT COMPANY, LLC	S	O	04/2002			
1	30-025-22761	VERA #001	E-32-11S-33E	E	247692	JAY MANAGEMENT COMPANY, LLC	S	G	03/2002			
1	30-025-23338	WARREN A STATE #001	I-28-11S-33E	I	247692	JAY MANAGEMENT COMPANY, LLC	S	O	01/2006			
1	30-025-22012	WARREN STATE #001	G-28-11S-33E	G	247692	JAY MANAGEMENT COMPANY, LLC	S	O	03/2001			

WHERE Ogrid:247692, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

*Case 14303
Jay Management
Company, LLC
OCD Exhibit 7*

Swazo, Sonny, EMNRD

From: Swazo, Sonny, EMNRD
Sent: Tuesday, September 30, 2008 3:37 PM
To: 'jhutchinson@isramco-jay.com'
Subject: ACOI Program and sample ACOI
Attachments: 2008 2-7 Sample ACOI 6-month periods.doc; 2008 8-29 Info sheet for inactive well program.doc

Mr. Hutchinson:

Here is a description of the ACOI program and a sample ACOI.

If you have question you can contact OCD Enforcement & Compliance Manager Daniel Sanchez at 505-476-3493 or daniel.sanchez@state.nm.us or myself at 505-476-3463 or sonny.swazo@state.nm.us.

Sonny Swazo
OCD Assistant General Counsel

*Case 14303
Jay Management
Company, LLC
OCD Exhibit 8*

August 29, 2008

Information Sheet for the Inactive Well Agreed Compliance Order Project

The Oil Conservation Division's (OCD's) inactive well agreed compliance order project is intended to help the operator create and meet a schedule to bring its backlog of inactive wells into compliance with 19.15.4.201 NMAC (Rule 201). The ultimate goal of the project is for operators to make the monitoring of inactive wells and compliance with Rule 201 an integral part of their business plan, so that inactive wells will be addressed in a timely manner, making inactive well agreed compliance orders unnecessary except for unusual circumstances.

The following addresses common questions regarding the inactive well agreed compliance order project.

1. What is an inactive well agreed compliance order?

An inactive well agreed compliance order (ACOI) is a binding order entered into by an operator and the OCD, under which the operator agrees to return wells identified in the order into compliance with Rule 201 under a negotiated schedule, and to pay a penalty if it fails to meet its schedule. The OCD agrees to remove the wells covered by the order from the operator's Rule 40 Inactive Well List while the ACOI is in effect.

2. Why would my company want to enter into an ACOI?

An ACOI protects the operator from enforcement action under Rule 201 and 19.15.1.40 NMAC (Rule 40) as to the wells covered by the ACOI while the operator works to return those wells to compliance.

Rule 201 requires any well that has been inactive for a continuous period of more than 15 months to be plugged and abandoned, placed on approved temporary abandonment status, or returned to production or other beneficial use. If an operator has a well that is out of compliance with Rule 201 the operator may be subject to enforcement actions, including the imposition of penalties under NMSA 1978, Section 70-2-31(A); an order requiring the operator to plug and abandon the well under NMSA 1978, Section 70-2-14(B); or an order authorizing the OCD to plug the well, forfeit the applicable financial assurance, and seek reimbursement from the operator for plugging costs not covered by the financial assurance under 19.15.3.101.H NMAC.

In addition, Rule 40 provides that wells out of compliance with Rule 201 that are not covered by an ACOI will be included in the operator's Rule 40 Inactive Well List. If an operator has more than a certain number of wells on the Rule 40 Inactive Well List the OCD can – and in some circumstances must – deny certain privileges to the operator, including APDs, authorization to transport, injection permits, and well transfers. The

number of wells an operator may have on the Rule 40 Inactive Well List varies from 0 to 10, depending on the number of wells the operator operates.

3. How are ACOIs structured?

If the operator can return all of the wells covered by the order to compliance in a short period of time – less than one year – the ACOI will simply set a deadline and require the operator to return the wells to compliance by that deadline or pay a penalty.

If the operator needs more than one year to return its wells to compliance, the ACOI will provide for a rolling schedule. A sample is attached. The ACOI will apply to a particular list of wells, identified in the ACOI or attached to the ACOI as Exhibit A. The operator agrees to bring a certain number of the identified wells into compliance by a deadline (usually a date approximately 6 months from the execution of the order). At the end of that first period, the operator files a written report identifying the wells returned to compliance. If the operator meets its compliance goal and is in compliance with financial assurance requirements, the ACOI will be extended for a second six-month period. If the operator continues to meet its goals and is in compliance with financial assurance requirements, it will continue to receive six-month extensions until all the identified wells are returned to compliance or the ACOI expires, whichever occurs first. The time period covered by the ACOI (the first period and any extensions) may not exceed two years, however. If the operator still has wells on Exhibit A that are not in compliance at the end of two years, the operator may negotiate a new ACOI for those wells.

If the operator fails to meet its goal in any period, it is subject to a penalty of \$1000 for each well it failed to return to compliance under its schedule for that period. The operator may apply for a reduction or waiver of the penalty on the ground that unanticipated circumstances prevented it from meeting its goal. If the operator either pays the penalty or applies for a reduction or waiver of the penalty, the OCD may, but is not required to, extend the ACOI for an additional six-month period.

Once an ACOI expires, any of the identified wells that are still out of compliance will return to the Rule 40 Inactive Well List. The wells will count towards Rule 40 compliance, and the OCD may take additional enforcement action at that time.

Most ACOIs give the operator the discretion to determine how it will return the wells to compliance, and which wells it will return to compliance first. The ACOI may, however, require the operator to prioritize wells that have failed MITs or are in violation with OCD rules, or that pose special environmental concerns. The ACOI may also require such wells to be plugged, rather than returned to production or injection or placed on approved temporary abandonment status.

4. Does my company qualify for an ACOI?

It is entirely within the discretion of the OCD whether to enter into an ACOI with an operator. The OCD will consider any unresolved compliance issues with the operator,

the operator's history of compliance with past agreed compliance orders and hearing orders, and whether a sufficient incentive exists for the operator to comply with the ACOI. Please note that the OCD will not enter into an ACOI:

- with an operator who is out of compliance with the financial assurance requirements of 19.15.3.101 NMAC;
- with an operator who is not current with the reporting requirements of 19.15.13.1115 NMAC; or
- contradicting an existing hearing order.

5. Which wells can be included under an initial ACOI?

In general, the OCD will agree to include the following categories of wells under an initial ACOI:

- wells appearing on the inactive well list as out of compliance with Rule 201, or that will fall out of compliance with Rule 201 in the next 6 months.
- Wells that were drilled but never produced (and therefore do not currently appear on the inactive well list) that are out of compliance with Rule 201.
- Wells the operator plans to acquire that are out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next 6 months.

In general, the OCD will not agree to include the following wells under an initial ACOI:

- Wells subject to a plugging order issued to the operator after hearing.
- Wells currently on OCD-approved temporary abandonment status whose status is about to expire.

6. How is the compliance schedule determined?

Each ACOI is the result of negotiation between the operator and the OCD. Determine how many wells from the list your company can bring into compliance by the deadline set in the order. To bring a well into compliance the operator must not only take the appropriate action regarding the well, but also complete the appropriate paperwork and receive any necessary approvals from the OCD. For example, to plug and abandon the well the operator must not only plug the wellbore, it must also file a subsequent report on the plugging and obtain approval from the OCD. To return a well to production or injection, the company must file a C-115 reporting the production or injection.

Be realistic. Consider the actions you plan to take to return the wells to compliance, and how much time those actions will take. For example, if you plan to convert an inactive well into an injection well that will take more time than returning a recently re-activated well to compliance by filing a C-115 production report. If the well is a federal well and the paperwork must go to the Bureau of Land Management as well as the OCD, allow sufficient time for processing. Also, consider issues such as the availability of equipment

and personnel. For example, you may wish to research the time it will take you to obtain a drilling rig in the area in which the work is to be performed.

7. Can my company negotiate a new ACOI if it still has non-compliant wells after it completes its initial ACOI?

Some operators may not be able to return all the wells covered by their initial ACOI to compliance in two years. They may negotiate a new ACOI at the conclusion of their initial ACOI. Again, it is within the OCD's discretion whether to enter into the order, and the OCD will pay particular attention to whether the operator acted in good faith in its attempts to comply with the original order.

In general, the OCD will include only the following categories of wells in a subsequent ACOI:

- Wells covered by the initial ACOI that were not returned to compliance during the terms of the order.
- Wells acquired by the operator after entering into the initial ACOI that are out of compliance with Rule 201 or will fall out of compliance with Rule 201 within 6 months.

In general, the OCD will not include the following categories of wells in a subsequent ACOI:

- Wells returned to compliance under the terms of the original order that have since fallen back out of compliance, or that soon will fall out of compliance;
- Wells not covered by the original order that have fallen out of compliance or will soon fall out of compliance.
- Wells currently on OCD-approved temporary abandonment status whose status is about to expire.

The operator must negotiate a new compliance schedule with the OCD for the subsequent ACOI. In negotiating the new compliance schedule, the OCD will consider the operator's performance under the original schedule, and any relevant changes in circumstance.

8. Whom do I contact to negotiate an ACOI?

Please contact OCD attorney Sonny Swazo at (505) 476-3463 or sonny.swazo@state.nm.us. If your company is represented by counsel in this matter, please have counsel contact OCD counsel directly.

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

NMOCD ACOI _____

IN THE MATTER OF ABC COMPANY,

Respondent.

INACTIVE WELL
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 1227.E [19.15.14.1227(E) NMAC], the Director of the Oil Conservation Division ("OCD") and ABC Company ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI") under which Operator agrees to plug, place on approved temporary abandonment status or restore to production or other beneficial use the wells identified herein pursuant to the Act and OCD Rule 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 is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 123456 for the wells identified in Exhibit "A," attached.
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.

B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

.....
.....

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

5. The wells identified in Exhibit "A"
 - (a) have been continuously inactive for a period of one year plus 90 days (or within the next six months will become continuously inactive for a period of one year plus 90 days if no action is taken on the wells);
 - (b) are not plugged or abandoned under OCD Rule 202 [19.15.4.202 NMAC]; and
 - (c) are not on approved temporary abandonment status under OCD Rule 203 [19.15.4.203 NMAC] or are on approved temporary abandonment status but that status will expire within the next six months.
6. 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 and willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-33(A) defines "person" in relevant part as
"any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity..."

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit "A" are either out of compliance with Rule 201 [19.15.4.201 NMAC] or will fall out of compliance with Rule 201 in the next six months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with Rule 201 [19.15.4.201 NMAC].
4. Operator is a "person" as defined by NMSA 1978, Section 70-2-33(A) and may be 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 agrees to bring at least 8 of the wells identified in Exhibit "A" into compliance with OCD Rule 201 [19.15.4.201 NMAC] by December 15, 2008 by

- (a) restoring the well to 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 202.B(2) [19.15.4.202(B)(2) NMAC] **and filing a C-103 describing the completed work;** or
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203 [19.15.4.203 NMAC].
2. 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, plugged wellbore, approved temporary abandonment status.) Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return wells to compliance under the terms of this Order, but does reduce the total number of wells for which Operator is responsible under the terms of this Order. The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager and to the OCD attorney in charge of inactive well agreed compliance orders so that it is **received by** the compliance deadline of December 15, 2008.
3. When the OCD receives a timely compliance report indicating that Operator has returned at least 8 wells to compliance and verifies the accuracy of that report, and verifies that Operator is in compliance with OCD's financial assurance requirements, the OCD shall issue an amendment to this Order extending its terms for an additional six-month period. OCD shall provide a copy of that amendment to Operator at Operator's address of record provided pursuant to OCD Rule 100.C [19.15.3.100(C) NMAC]. If, in any six-month period, Operator returns more wells to compliance than the number required under this Order for that six-month period, the wells in excess of the number required will count towards the Operator's requirements for the next six-month period.
4. If Operator returns at least 8 wells to compliance in the second six-month period, files a timely compliance report and is in compliance with OCD's financial assurance requirements, OCD shall issue an amendment to this Order extending its term for a third six-month period. If Operator returns at least 8 wells to compliance in the third six-month period, files a timely compliance report and is in compliance with the OCD's financial assurance requirements, OCD shall issue an amendment to this Order extending its term for a fourth and final period not to exceed six months. The total length of this Agreed Compliance Order, including the initial six-month period and any amendments, shall not exceed two years. At the end of two years, Operator and the OCD may negotiate a new agreed compliance order.
5. If Operator fails to bring the number of wells into compliance required in a period covered by this Order or amendments issued to this Order, Operator agrees to pay a penalty of \$1000 times the number of wells it failed to bring into compliance

under its schedule during the applicable period, subject to the terms of this Order. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its goal within any period covered by this Order or amendments issued to this Order, Operator may apply for a waiver or reduction of the penalty by making the request in writing to the OCD's Enforcement and Compliance Manager. If the Enforcement and Compliance Manager concurs with the Operator's request, the request for waiver or reduction of penalties may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request or fails to respond within 10 days, the Operator may file an application for hearing on the request. Any application for hearing on a request for waiver or reduction of penalty must be filed within 30 days of the date the compliance report is due. Once Operator pays the penalty or applies for a waiver or reduction of the penalty, the OCD may, in its discretion, issue an amendment to this Order extending its terms for an additional six-month period.

Example A: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in each period. At the end of the first six-month period, Operator X has brought only 3 wells into compliance. Operator X pays the \$2000 penalty. The OCD exercises its discretion to issue an amendment extending the term of the agreed compliance order for a second six-month period, again requiring Operator X to bring at least 5 wells into compliance. During the second six-month period, Operator brings only one well into compliance. Operator X pays a \$4000 penalty. Although Operator X pays the \$4000 penalty, the OCD exercises its discretion and declines to issue an amendment to extend the terms of the agreed compliance order for a third six-month period.

Example B: Operator Y enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in each period. Although Y has made arrangements for plugging the 10 wells, due to adverse weather conditions and mechanical difficulties with the available plugging rig, Y is able to plug only 3 wells. Y applies for a waiver of the \$7000 penalty. The Enforcement and Compliance Manager does not agree to waive the full amount of the penalty, and the Operator files an application for hearing on the request for waiver of penalty. While the application is pending, the OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for a second period.

6. Thirty days after the compliance deadline set by this Order or any amendments to this Order, any wells on Exhibit "A" not in compliance with OCD Rule 201 [19.15.4.201 NMAC] still operated by Operator will appear on the Operator's inactive well list kept pursuant to OCD Rule 40.F [19.15.1.40(F) NMAC].
7. By signing this Order, Operator expressly:

- (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance 8 of the wells identified in Exhibit "A" by December 15, 2008, and agrees to comply with the compliance deadlines set by any amendments to this Order;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 2 by the compliance deadline set by any amendments to this Order;
 - (d) agrees to pay penalties as set out in and limited by Ordering Paragraph 5 if it fails to return the required number of wells to compliance under the deadlines set by this Order or any amendments to this Order;
 - (e) 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 other than a hearing on a request for waiver or reduction of penalties; and
 - (f) agrees that the Order and amendments to the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
8. This Order applies only to the enforcement of OCD Rule 201 [19.15.4.201 NMAC] against those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with OCD Rule 201 [19.15.4.201 NMAC] may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules. Wells identified in Exhibit "A" that are out of compliance with the Oil and Gas Act or OCD Rules other than Rule 201 [19.15.4.201 NMAC] may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules.
9. 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 _____ day of June, 2008

By: _____

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

ACCEPTANCE

ABC Company hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order:

ABC Company

By: _____
(Please print name) _____
Title: _____
Date: _____

Exhibit A to Agreed Compliance Order for ABC Company

30-025-20393	Fictional Well #001
30-025-20134	ABC Federal #032
30-025-28143	ABC Federal #002
30-025-27364	ABC Federal #006
30-025-09205	Fictional Well #005
30-025-03003	Fictional Well #066
30-025-04030	State Well #003
30-025-04442	State Well #005
30-025-04291	State Well #006
30-025-04922	Federal D #003
30-025-26980	White A #001
30-025-02963	State WEE #001
30-025-04340	Federal D #004
30-025-02340	Federal D #006
30-025-04861	Federal D #007
30-025-04214	Smith #002
30-025-09066	Smith #004
30-025-07353	State W E D #001
30-025-04227	Federal D #002
30-025-04338	MaryAnn AC 1 #004
30-025-06395	Smith Federal #002
30-025-03004	State AK #003
30-025-03780	State E 33 #002
30-025-03838	State WEB #005

ABC Company

By: _____

Titel: _____

Swazo, Sonny, EMNRD

From: Jim Hutchinson [JHutchinson@isramco-jay.com]
Sent: Tuesday, October 07, 2008 9:41 AM
To: Sanchez, Daniel J., EMNRD
Cc: sonny.swazo@state.nm.us.
Subject: Jay Management - ACOI Program

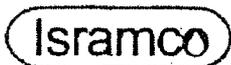
Dear Mr. Sanchez:

Thank you for the information you forwarded last week. As I noted in our telephone discussion, Jay Management does not have the detailed working knowledge of the wells in New Mexico as does the prior operator. Jay Management is meeting with the prior operator and is reviewing the plan which was in place during their period of operations. In addition, our engineer will be travelling to New Mexico to meet with personnel and to review the wells next week. We will propose an ACOI plan for your review and comment as soon as possible.

Please do not hesitate to contact me should you have any questions.

Best regards,

Jim Hutchinson
Office (713) 621-6785 ext. 307
Fax (713) 621-3988
jhutchinson@isramco-jay.com



Isramco – Jay
4801 Woodway Drive
Suite 100E
Houston, Texas 77056

please consider the environment before printing this email

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Case 14303
Jay Management
Company, LLC
OCD Exhibit 9

10/8/2008

Swazo, Sonny, EMNRD

From: Macquesten, Gail, EMNRD
Sent: Friday, December 19, 2008 4:45 PM
To: Swazo, Sonny, EMNRD; Sanchez, Daniel J., EMNRD
Subject: ACOI for J. Management

Hi – I got a voice mail from Jim Hutchinson from J. Management saying that his company was taking over wells from Phoenix Hydrocarbons. He wants to talk about an ACOI. Would one of you please give him a call at 713-621 6785, ext. 307 and talk to him about it? Thanks- Gail

*Case 14303
Jay Management
Company, LLC
OCD Exhibit 10*

Swazo, Sonny, EMNRD

From: Swazo, Sonny, EMNRD
Sent: Monday, December 22, 2008 5:30 PM
To: 'jhutchinson@isramco-jay.com'
Subject: OCD ACOI Program

Mr. Hutchinson:

Gail MacQuesten has informed me that you would like to talk to OCD about an ACOI. I will be out of the office this week. Please call me Monday at 505-476-3463 if you would like to speak about the ACOI program.

Sonny Swazo

*Case 14303
Jay Management
Company, LLC
OCD Exhibit 11*