

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

John H. Bemis
Cabinet Secretary

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Deputy Cabinet Secretary

Jami Bailey
Division Director
Oil Conservation Division



April 30, 2012

Celero Energy II, LP
ATTN: Lisa Hunt
400 W. Illinois, Suite 1601
Midland, TX 79701

**DENIAL OF REQUEST FOR ALLOWABLE
AND AUTHORIZATION TO TRANSPORT**

Re: Celero Energy II, LP, OGRID No. 247128

- Drickey Queen Sand Unit #701, API 30-005-29196, Unit N, Sec. 34, T-13S, R-31E, Chaves County, New Mexico
- Drickey Queen Sand Unit #704, API 30-005-29198, Unit H, Sec. 10, T-14S, R-31E, Chaves County, New Mexico

Dear Operator:

The Oil Conservation Division (OCD) **denies** your request for allowable and authorization to transport for the wells identified above because your company is out of compliance with 19.15.5.9(A) NMAC [Part 5.9(A)]. See 19.15.16.19(A)(4) NMAC.

Your company is out of compliance with Part 5.9(A) on the following ground(s):

_____ **Financial assurances.** Your company is in violation of the financial assurance requirements for well plugging set out in 19.15.8.9 NMAC. See 19.15.5.9(A)(1) NMAC. Specifically, your company [has not posted the required blanket financial assurance] [has not posted the single-well financial assurances required for state or fee wells which have been inactive for more than two years. The wells requiring single-well financial assurances are identified in the attached sheet.]

_____ **Corrective action.** Order _____, issued on _____ after notice and hearing, found your company to be in violation of an order requiring corrective action. See 19.15.5.9(A)(2) NMAC.

_____ **Unpaid penalties.** Your company has not paid the penalties assessed against your company in _____, issued on _____. More than 70 days have passed since the issuance of the order assessing the penalty. See 19.15.5.9(A)(3) NMAC.

XX Inactive wells. According to the attached inactive well list, your company has too many wells in violation of the inactive well rule (19.15.25.8 NMAC) that are not subject to an inactive well agreed compliance order. See 19.15.5.9(A)(4) NMAC. As an operator of **308** wells, your company may have no more than **5** wells in violation of the inactive well rule. Your company has **70** wells in violation of the inactive well rule. In addition,

I have enclosed an information sheet explaining the requirements of Part 5.9. You may re-submit your request after your company has returned to compliance with Part 5.9.

Respectfully yours,



Daniel Sanchez
OCD Compliance and Enforcement Manager

Ec: Jami Bailey, OCD Director
E.L. Gonzales, OCD District 1 Acting-Supervisor
Randy Dade, OCD District 2 Supervisor
Charlie Perrin, OCD District 3 Supervisor
Ed Martin, OCD District 4 Supervisor
Donna Mull, OCD District 1, Line Manager
Sonny Swazo, OCD Assistant General Counsel-Santa Fe
Theresa Duran-Saenz, OCD Legal Assistant-Santa Fe

Inactive Well List

Total Well Count: 308 Inactive Well Count: 70

Printed On: Monday, April 30 2012

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-07136	ANGEL #002	N-5 -12S-38E	N	247128	CELERO ENERGY II, LP	P	O	11/2006	WOODFORD		
1	30-025-05125	BUCKLEY B #002	D-25-14S-37E	D	247128	CELERO ENERGY II, LP	P	O	08/1990	INT TO TA 03/21/2012		
1	30-025-27493	BYARS #001	A-8 -12S-38E	A	247128	CELERO ENERGY II, LP	P	O	10/2006	ANADARKO PRODUCTION/BYARS		
1	30-005-00902	DRICKEY QUEEN SAND UNIT #007	L-34-13S-31E	L	247128	CELERO ENERGY II, LP	F	I	12/1992	INT TA TA BLM 04/02/2012		
1	30-005-00901	DRICKEY QUEEN SAND UNIT #008	M-34-13S-31E	M	247128	CELERO ENERGY II, LP	F	O	02/1999	INT TO CONVERT TO INJ 06/17/2011		
1	30-005-00900	DRICKEY QUEEN SAND UNIT #009	N-34-13S-31E	N	247128	CELERO ENERGY II, LP	F	O	02/1984	RWT INJ WFX 79		
1	30-005-00898	DRICKEY QUEEN SAND UNIT #011	H-33-13S-31E	H	247128	CELERO ENERGY II, LP	F	I	12/1992	INT TO TA 04/02/2012 BLM		
1	30-005-00894	DRICKEY QUEEN SAND UNIT #012	I-33-13S-31E	I	247128	CELERO ENERGY II, LP	F	O	03/1999	WELL SHUT IN 07/12/11 BLM		
1	30-005-00895	DRICKEY QUEEN SAND UNIT #013	J-33-13S-31E	J	247128	CELERO ENERGY II, LP	F	I	12/1992	INT TO TA BLM 04/02/2012		
1	30-005-00897	DRICKEY QUEEN SAND UNIT #014	O-33-13S-31E	O	247128	CELERO ENERGY II, LP	F	O	02/1999	REACTIVATE 02/09/2011 SHUT IN 10/07/11		
1	30-005-00896	DRICKEY QUEEN SAND UNIT #015	P-33-13S-31E	P	247128	CELERO ENERGY II, LP	F	I	03/2000	EXT ON TA TIL 08/06/2012 BLM		
1	30-005-00977	DRICKEY QUEEN SAND UNIT #018	4-3 -14S-31E	D	247128	CELERO ENERGY II, LP	F	I	12/1992			
1	30-005-00976	DRICKEY QUEEN SAND UNIT #019	E-3 -14S-31E	E	247128	CELERO ENERGY II, LP	F	O	03/2000	SHUT IN WO BATTERY BLM 10/07/11		
1	30-005-00970	DRICKEY QUEEN SAND UNIT #020	F-3 -14S-31E	F	247128	CELERO ENERGY II, LP	F	I	12/1992	INT TO PA BLM 01/20/2012		
1	30-005-01025	DRICKEY QUEEN SAND UNIT #033	H-10-14S-31E	H	247128	CELERO ENERGY II, LP	F	I	12/1992	RWTI 05/05/2011		
1	30-005-01070	DRICKEY QUEEN SAND UNIT #040	B-16-14S-31E	B	247128	CELERO ENERGY II, LP	S	I	12/1992			
1	30-005-01074	DRICKEY QUEEN SAND UNIT #041	G-16-14S-31E	G	247128	CELERO ENERGY II, LP	S	O	12/1992			
1	30-005-01064	DRICKEY QUEEN SAND UNIT #046	F-15-14S-31E	F	247128	CELERO ENERGY II, LP	P	I	12/1992			
1	30-005-01133	DRICKEY QUEEN SAND UNIT #050	C-22-14S-31E	C	247128	CELERO ENERGY II, LP	F	O	08/1996	EXT ON TA 08/06/2012 BLM		
1	30-005-01122	DRICKEY QUEEN SAND UNIT #051	D-22-14S-31E	D	247128	CELERO ENERGY II, LP	F	I	12/1992	INTENT TO PA BLM 03/29/2012		
1	30-005-01121	DRICKEY QUEEN SAND UNIT #052	F-22-14S-31E	F	247128	CELERO ENERGY II, LP	F	I	08/1996	INT TO TA BLM 1/12/2012		
1	30-005-01127	DRICKEY QUEEN SAND UNIT #053	H-22-14S-31E	H	247128	CELERO ENERGY II, LP	P	I	12/1992			
1	30-005-21133	DRICKEY QUEEN SAND UNIT #145	K-35-13S-31E	K	247128	CELERO ENERGY II, LP	S	O	03/1999	CAPROCK QN PA 03/28/2012 LOC NOT REL	P	
1	30-005-21135	DRICKEY QUEEN SAND UNIT #147	E-11-14S-31E	E	247128	CELERO ENERGY II, LP	S	O	03/1999	CAPROCK QUEEN RWTP 05/20/2011 SHUT IN		
1	30-005-00978	DRICKEY QUEEN SAND UNIT #805	P-4 -14S-31E	P	247128	CELERO ENERGY II, LP	F	I	08/2000	RET TO INJ BLM 05/05/2011		
1	30-005-01013	DRICKEY QUEEN SAND UNIT #812	B-9 -14S-31E	B	247128	CELERO ENERGY II, LP	F	I	12/1992	QUEEN		
1	30-005-00984	DRICKEY QUEEN SAND UNIT #815	G-4 -14S-31E	G	247128	CELERO ENERGY II, LP	F	O	05/1996	QUEEN		
1	30-005-00985	DRICKEY QUEEN SAND UNIT #816	2-4 -14S-31E	B	247128	CELERO ENERGY II, LP	F	I	02/1999	QUEEN RET TO INJ 6/30/11 BLM		
1	30-005-00986	DRICKEY QUEEN SAND UNIT #821	N-4 -14S-31E	N	247128	CELERO ENERGY II, LP	F	I	12/1992	EXT TO ON PA 08/06/2012 BLM		
1	30-005-00987	DRICKEY QUEEN SAND UNIT #822	K-4 -14S-31E	K	247128	CELERO ENERGY II, LP	F	O	09/1998	QUEEN		
1	30-005-00988	DRICKEY QUEEN SAND UNIT #823	F-4 -14S-31E	F	247128	CELERO ENERGY II, LP	F	I	12/1992	QUEEN		
1	30-005-01021	DRICKEY QUEEN	D-9 -14S-31E	D	247128	CELERO ENERGY	F	I	07/1998	QUEEN		

		SAND UNIT #828			II, LP					
1	30-005-00990	DRICKEY QUEEN SAND UNIT #829	M-4 -14S-31E	M	247128	CELERO ENERGY II, LP	F	I	07/1998	
1	30-005-00991	DRICKEY QUEEN SAND UNIT #830	L-4 -14S-31E	L	247128	CELERO ENERGY II, LP	F	I	12/1992	
1	30-005-00992	DRICKEY QUEEN SAND UNIT #831	E-4 -14S-31E	E	247128	CELERO ENERGY II, LP	F	O	06/1996	QUEEN
1	30-005-00993	DRICKEY QUEEN SAND UNIT #832	4-4 -14S-31E	D	247128	CELERO ENERGY II, LP	F	I	06/1994	QUEEN
1	30-005-00994	DRICKEY QUEEN SAND UNIT #833	1-4 -14S-31E	A	247128	CELERO ENERGY II, LP	F	O	12/1992	QUEEN
1	30-005-00996	DRICKEY QUEEN SAND UNIT #835	H-5 -14S-31E	H	247128	CELERO ENERGY II, LP	F	I	05/1979	QUEEN INT TO TA 01/12/2012
1	30-005-10158	DRICKEY QUEEN SAND UNIT #837	2-4 -14S-31E	B	247128	CELERO ENERGY II, LP	F	I	07/1998	QUEEN
1	30-005-00911	DRICKEY QUEEN SAND UNIT #902	O-34-13S-31E	O	247128	CELERO ENERGY II, LP	F	O	04/1996	INT TO P&A APPVD 1-8-04 / BLM
1	30-025-32737	LAWRENCE #001	C-19-17S-39E	C	247128	CELERO ENERGY II, LP	P	O	09/2003	DEVONIAN 05/13/08 INTENT TO DEEPEN
1	30-025-00286	ROCK QUEEN UNIT #002	I-19-13S-32E	I	247128	CELERO ENERGY II, LP	S	O	12/1992	R1541B
1	30-025-00291	ROCK QUEEN UNIT #004	K-19-13S-32E	K	247128	CELERO ENERGY II, LP	S	O	02/1999	TA EXP 08/27/2015 CONV RT MONTR 01/13/2011
1	30-025-00292	ROCK QUEEN UNIT #005	4-19-13S-32E	M	247128	CELERO ENERGY II, LP	S	O	08/1996	TA EXP 08/27/2015 CONV RT MONTR 01/13/201
1	30-005-00839	ROCK QUEEN UNIT #009	K-24-13S-31E	K	247128	CELERO ENERGY II, LP	S	O	12/1992	TA EXP 08/23/2015 CONV RT MONITOR 01/13/1
1	30-005-00841	ROCK QUEEN UNIT #010	M-24-13S-31E	M	247128	CELERO ENERGY II, LP	S	O	03/1999	R1541 B CONV MONTR 01/13/11
1	30-005-00828	ROCK QUEEN UNIT #012	B-23-13S-31E	B	247128	CELERO ENERGY II, LP	S	I	12/1992	
1	30-005-00827	ROCK QUEEN UNIT #016	F-23-13S-31E	F	247128	CELERO ENERGY II, LP	S	I	12/1992	
1	30-005-00820	ROCK QUEEN UNIT #019	J-23-13S-31E	J	247128	CELERO ENERGY II, LP	S	I	12/1992	
1	30-005-00830	ROCK QUEEN UNIT #020	K-23-13S-31E	K	247128	CELERO ENERGY II, LP	S	O	11/1986	TA EXP 08/11/2015 CONV RT MONTR 01/13/11
1	30-005-00834	ROCK QUEEN UNIT #022	O-23-13S-31E	O	247128	CELERO ENERGY II, LP	S	O	11/1984	TA EXP 08/17/2015 CONV RT MONTR 01/13/11
1	30-005-00904	ROCK QUEEN UNIT #098	A-34-13S-31E	A	247128	CELERO ENERGY II, LP	P	I	09/2010	CONVERT TO INJ 07/05/2011
1	30-005-00907	ROCK QUEEN UNIT #101	F-34-13S-31E	F	247128	CELERO ENERGY II, LP	P	I	12/1992	
1	30-005-00906	ROCK QUEEN UNIT #102	G-34-13S-31E	G	247128	CELERO ENERGY II, LP	P	I	03/1999	CONVERT TO INJ 08/11/11 WFX 892
1	30-005-00824	ROCK QUEEN UNIT #114	D-23-13S-31E	D	247128	CELERO ENERGY II, LP	S	I	12/1992	
1	30-025-05243	STATE H #002	H-2 -15S-37E	H	247128	CELERO ENERGY II, LP	S	O	09/2007	09/6/07 INT TO TA
1	30-025-05232	STATE T #007	N-2 -15S-37E	N	247128	CELERO ENERGY II, LP	S	O	10/2009	DEVONIAN RET TO PROD 05/20/09
1	30-025-37032	T D POPE 35 #002	H-35-14S-37E	H	247128	CELERO ENERGY II, LP	P	O	11/2010	REACTIVATE 12/05/08
1	30-025-37175	T D POPE 35 #003	G-35-14S-37E	G	247128	CELERO ENERGY II, LP	P	O	08/2010	DEVONIAN / DIRECTIONAL DRILL
1	30-005-01096	WEST CAP QUEEN SAND UNIT #002	B-17-14S-31E	B	247128	CELERO ENERGY II, LP	F	I	03/2005	EXTENTION ON TA 08/06/2012
1	30-005-01105	WEST CAP QUEEN SAND UNIT #014	H-20-14S-31E	H	247128	CELERO ENERGY II, LP	P	I	12/1992	INT TO PA 12/06/2011
1	30-005-01116	WEST CAP QUEEN SAND UNIT #017	C-21-14S-31E	C	247128	CELERO ENERGY II, LP	P	O	08/1996	
1	30-005-01114	WEST CAP QUEEN	E-21-14S-31E	E	247128	CELERO ENERGY	P	O	08/1985	INT TO PA

		SAND UNIT #019			II, LP				01/10/2012	
1	30-005-01117	WEST CAP QUEEN SAND UNIT #020	F-21-14S-31E	F	247128	CELERO ENERGY II, LP	P	I	12/1992	
1	30-005-10104	WEST CAP QUEEN SAND UNIT #022	H-21-14S-31E	H	247128	CELERO ENERGY II, LP	F	I	12/1982	QUEEN SAND INT TO TA BLM 01/12/2012
1	30-005-01119	WEST CAP QUEEN SAND UNIT #024	J-21-14S-31E	J	247128	CELERO ENERGY II, LP	F	I	12/1992	QUEEN SAND INT TO TA 01/12/2012
1	30-005-01102	ZIMMERMAN #002	P-20-14S-31E	P	247128	CELERO ENERGY II, LP	P	O	03/2005	QUEEN
1	30-005-01110	ZIMMERMAN A #001	N-21-14S-31E	N	247128	CELERO ENERGY II, LP	P	O	03/2005	QUEEN
1	30-005-01112	ZIMMERMAN A #003	M-21-14S-31E	M	247128	CELERO ENERGY II, LP	P	O	03/2005	QUEEN
1	30-005-01113	ZIMMERMAN A #004	L-21-14S-31E	L	247128	CELERO ENERGY II, LP	P	O	03/2005	QUEEN

WHERE Ogrid:247128, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

INFORMATION SHEET FOR PART 5.9

Oil Conservation Division (OCD) Rule 19.15.5.9 NMAC, commonly known as “Part 5.9,” requires operators to meet certain minimum compliance standards for the wells they already operate before they can drill, acquire, produce or inject into additional wells. If an operator is out of compliance as defined by Part 5.9, the OCD:

- May deny registration by the operator or certain related entities. See 19.15.9.8(B) NMAC.
- May deny applications for change of operator that would transfer wells to the operator. See 19.15.9.9(C) NMAC.
- Must deny injection permits. See 19.15.26.8(A) NMAC.
- May deny APDs. See 19.15.14.10(A) NMAC.
- Must deny allowable and authorizations to transport. See 19.15.16.19(A) NMAC.

In addition, the OCD may, after notice and hearing, revoke previously issued injection permits if the operator is out of compliance with Part 5.9. See 19.15.26.8(A) NMAC.

To stay in compliance with Part 5.9, an operator must:

- Keep current with the financial assurance requirements for well plugging. See 19.15.5.9(A)(1) NMAC.
- Comply with orders requiring corrective action. See 19.15.5.9(A)(2) NMAC.
- Pay properly assessed penalties. See 19.15.5.9(A)(3) NMAC.
- Have no more than a certain number of wells out of compliance with the inactive well rule. See 19.15.5.9(A)(4) NMAC.

FINANCIAL ASSURANCE REQUIREMENTS: The OCD’s financial assurance requirements for well plugging are set out in 19.15.8.9 NMAC. The OCD requires all state or fee wells to be covered by a financial assurance. The OCD does not require financial assurances for Federal or Indian wells.

The operator must either post a blanket financial assurance in the amount of \$50,000 to cover its state or fee wells, or post single-well financial assurances for each state or fee well in the amount set by the rule.

If the operator chooses to post a blanket financial assurance, it must also post single-well financial assurances for each state or fee well that has been inactive for more than two years that has not been plugged and released. Note that a single-well financial assurance is required even if the well is on approved temporary abandonment status, and even if the wellbore of the well has been plugged. To check compliance with this requirement, go to www.emnrd.state.nm.us/OCD, OCD Online, E-Permitting, Financial Assurance. Insert the operator name or OGRID, and hit “Get Report.” The report will list all the wells for that operator that have not been plugged and released. Wells currently in violation of the single-well financial assurance requirement will have a “Y” in the far right column, titled “In Violation.”

For information on how to post financial assurances, please contact OCD Financial Assurance Administrator Dorothy Phillips, (505) 476-3461, Dorothy.phillips@state.nm.us.

CORRECTIVE ACTION REQUIREMENTS: If an operator fails to take an action required by a hearing order or an agreed compliance order, the OCD may go to hearing to obtain a formal order finding the operator “in violation of an order requiring corrective action.” Once such an order is issued and becomes final, the

operator will be out of compliance with Part 5.9 until that order is lifted. To lift the order, the operator must complete the corrective action required, and file a motion to declare the order satisfied. The Oil Conservation Division or the Oil Conservation Commission, as appropriate, may grant the motion without hearing or may set the matter for hearing.

UNPAID PENALTIES: An operator with a penalty assessment unpaid more than 70 days after issuance of the order assessing the penalty will be in violation of Part 5.9 until that penalty is paid. Penalties may be assessed by the district court, or may be agreed to by the operator under an agreed compliance order entered into to resolve a compliance action.

INACTIVE WELLS: The inactive well rule, 19.15.25.8 NMAC, requires any well that has been inactive for a 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. An operator will be out of compliance with Part 5.9 if it has too many wells in violation of the inactive well rule; the number of non-compliant wells allowed depends on the size of the operator. Under Part 5.9, if an operator operates:

- 1 well, it may have no wells out of compliance;
- 2 or 3 wells, it may have no more than 1 well out of compliance;
- 4 to 100 wells, it may have no more than 2 wells out of compliance;
- 101 to 500 wells, it may have no more than 5 wells out of compliance;
- 501 to 1000 wells, it may have no more than 7 wells out of compliance; and
- 1000 or more wells, it may have no more than 10 wells out of compliance.

To check compliance with 5.9 as to inactive wells, go to www.emnrd.state.nm.us/OCD, OCD Online, E-Permitting, Inactive Well List. Do not change the default search terms. Insert the operator name or OGRID, and hit "Get Report." The report will identify the wells that -- according to OCD records -- have been inactive for 15 months, are not on approved temporary abandonment status, do not have a plugged wellbore, and are not subject to an inactive well agreed compliance order. For purposes of Part 5.9, if a well appears on this list, there is a rebuttable presumption that the well is in violation of the inactive well rule. The heading of the list will also identify the total well count for the operator, and the total number of non-compliant inactive wells, so you can determine if the operator is in compliance with Part 5.9.

If your company has more non-compliant wells than allowed under Part 5.9, you will need to return wells to compliance by returning them to production or other beneficial use, placing them on approved temporary abandonment status, or plugging the wellbore. In some limited circumstances, the OCD may be willing to enter into an inactive well agreed compliance order setting a schedule for returning the wells to compliance and imposing sanctions if that schedule is not met. Wells covered by an inactive well agreed compliance order are not included when calculating Part 5.9 compliance. For information on inactive well agreed compliance orders, contact OCD Attorney Sonny Swazo at (505) 476-3463, Sonny.swazo@state.nm.us.