

10504 2019-01-23.12

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

**SETTLEMENT AGREEMENT BETWEEN THE OIL CONSERVATION
DIVISION AND REMNANT OIL OPERATING, LLC**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, §§ 70-2-1 through 70-2-38, as amended (“Act”), and the rules promulgated in accordance with the Act, the Director of the Oil Conservation Division (“Division” or “OCD”), and Remnant Oil Operating LLC (“Operator” or “Remnant”) enter into this Settlement Agreement (“Agreement”). Remnant agrees to comply with the following settlement for the specified violations of the Act and the rules promulgated in accordance with the Act, and in the event of non-compliance, the remedies detailed herein.

I. FINDINGS

1. The Oil Conservation Division is charged with the authority to enforce the Act and the rules promulgated in accordance with the Act. NMSA 1978, Section 70-2-6(A).
2. The New Mexico Attorney General is charged with collecting penalties issued pursuant to NMSA 1978, Section 70-2-31.
3. Remnant is the operator of record of four hundred ninety-two (492) wells in New Mexico, under OGRID No. 370922.
4. Operator’s address of record with the New Mexico Secretary of State is: 5309 Bella Pl., Midland, TX 79707.

5. The New Mexico Secretary of State has Operator registered under business number 5127483. It identifies Everett Willard Gray II, Manager, as the officer of record.

6. Operator has one surety bond filed with the OCD, bond no. 1118419, from Lexon Insurance Company, for the amount of \$50,000.

Inactive Well and Financial Assurance Violations

7. 19.15.25.8 NMAC requires an operator to plug and abandon or temporarily abandon a well within 90 days after: (1) a 60-day period following the suspension of drilling operations; (2) a determination that a well is no longer usable for beneficial purposes; or (3) a period of one year in which a well has been continuously inactive.

8. 19.15.5.9A(4) NMAC states that an operator is compliant with 19.15.5.9 NMAC if it has no more than the following number of wells out of compliance with 19.15.25.8 NMAC that are not subject to an agreed compliance order setting a schedule for bringing the wells into compliance with 19.15.25.8 NMAC and imposing sanctions if the schedule is not met:

- (a) two wells or 50 percent of the wells the operator operates, whichever is less, if the operator operates 100 wells or less;
- (b) five wells if the operator operates between 101 and 500 wells;
- (c) seven wells if the operator operates between 501 and 1000 wells; and
- (d) 10 wells if the operator operates more than 1000 wells.

9. Operator currently has fifty-two (52) wells out of a total four hundred ninety-two (492) wells out of compliance with 19.15.25.8 NMAC, exceeding the amount allowed under 19.15.5.9(A)(4) NMAC. See *Exhibit 1: Inactive Well List*.

10. 19.15.8.9.C NMAC requires that an operator cover a well that has been in temporary abandonment status for more than two years with a one-well financial assurance or a blanket plugging financial assurance for wells in temporary abandoned status.

II. CONCLUSIONS

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

2. Operator is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, § 70-2-31(A).

3. Operator does not dispute it is responsible for correcting the matters of non-compliance and wishes to settle this matter with the OCD.

III. SETTLEMENT AGREEMENT

WHEREFORE, the parties agree to the following:

1. Compliance Schedule

- a. Operator will continue to file Monthly Production Reports as required by 19.15.7.24 NMAC. If no production occurs, Operator must still report zero production to the OCD;
- b. Operator will return to production, plug and abandon, or temporarily forty (40) wells in accordance with 19.15.25.10 NMAC, at a minimum

rate of 3 per month over 7 months between the signing of this Agreement and July 31, 2019.

- c. Operator shall file a monthly compliance report, due on the last day of each month, 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 Agreement, but does reduce the total number of wells for which Operator is responsible under the terms of this Agreement. The final written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager and to the New Mexico Special Assistant Attorney General in charge of inactive well agreed compliance Agreements so that it is received by the compliance deadline of July 31, 2019.
- d. Unless the OCD grants an extension, in writing, prior to the expiration of the deadline, should Operator miss any deadlines identified in paragraphs III.1.c above, the OCD may plug and abandon the well for which the deadline was missed and recoup the associated costs from Operator's financial assurance. Notwithstanding the foregoing, Operator shall be responsible for any and all costs of plugging its wells. Thus, pursuant to 70-2-14(E) NMSA, the Division may bring suit

against Operator for all costs associated with plugging any of Operator's wells, should Operator's financial assurance prove insufficient;

- e. The OCD will notify Operator and Operator's surety, pursuant to 19.15.8.13 NMAC, if OCD intends to plug and abandon a well that has missed the compliance deadline as established by this Agreement. Operator expressly waives its right to oppose any application of the Division for an order authorizing the Division to plug a well that has not been plugged pursuant to this Agreement;
- f. Once any portion of Operator's financial assurance is used to fulfill a term of this Agreement, the OCD will review Operator's financial assurance and, if found inadequate, Operator will be out of compliance with 19.15.5.9 and 19.15.8.9 NMAC and will be subject to additional compliance actions. Operator does not waive its right to notice and hearing for adjudication regarding additional compliance actions except as expressly waived herein;
- g. OCD will not withhold approval of reasonable extensions, for good cause shown, provided Operator requests extensions prior to the expiration of the deadlines and remains in compliance with the other terms of the Agreement, the Act, and the rules promulgated in accordance with the Act;
- h. Operator shall bear the costs to comply with the terms of this Agreement;

- i. OCD will refrain from filing formal compliance action for the violations of , the Act, and the rules promulgated in accordance with the Act detailed in this document, provided Operator complies with this Agreement.
- j. For purposes of determining compliance with 19.15.5.9.A NMAC, this Agreement will also serve as an Agreed Compliance Order covering the wells identified in *Exhibit 1*, so long as Operator remains in compliance with the terms of this Agreement, the Act, and the rules promulgated in accordance with the Act.

2. Civil Penalties

- a. Should Operator fail to place acceptable financial assurance on file with the OCD as provided by Paragraph III.1.b, Operator shall pay a civil penalty of \$50 per day until compliance is achieved, unless the OCD grants an extension in writing prior to the expiration of the deadline. OCD will not withhold approval of reasonable extensions for good cause shown, provided Operator requests extensions prior to the expiration of the deadlines, and remains in compliance with the other terms of the Agreement, the Act, and the rules promulgated in accordance with the Act. For purposes of this Section, lack of financial resources does not constitute good cause;
- b. Should Operator fail to comply with any provision of this Agreement other than financial assurance, Operator shall pay a civil penalty of \$200 per day until compliance is achieved, unless the OCD grants an

extension in writing prior to the expiration of the deadline. OCD will not withhold approval of reasonable extensions for good cause shown, provided Operator requests extensions prior to the expiration of the deadlines, and remains in compliance with the other terms of the Agreement, the Act, and the rules promulgated in accordance with the Act.

- c. Operator shall pay any civil penalty in Paragraphs III.2.a. or III.2.b. within 45 days of Operator receiving a demand from the OCD. OCD shall make demand to Operator for penalties to the following address:

5309 Bella Pl.
Midland, TX, 79707

- d. Payment shall be made to the State of New Mexico General Fund by certified or corporate check and sent to the following address:

Director, Oil Conservation Division
New Mexico Energy, Minerals & Natural Resources Department
1220 South St. Francis Drive Santa Fe, NM 87505
Re: Remnant Oil Operating, LLC, Settlement Agreement Penalties

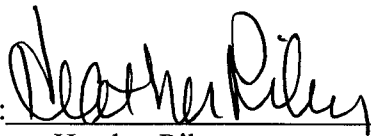
IV. OTHER TERMS AND CONDITIONS

- 1. By signing this Agreement, Operator expressly:
 - a. acknowledges the authority of the Director to render the above Findings, Conclusions, and Agreement;
 - b. agrees to comply with the Agreement;
 - c. as to the Agreement, waives any right, pursuant to the Act or otherwise, to a hearing either prior or subsequent to the entry of this Agreement or to an appeal from this Agreement; and

- d. agrees that if it fails to comply with this Agreement, OCD may enforce the Agreement by suit or otherwise to the same extent and with the same effect as a final OCD Order entered after notice and hearing or civil suit in accordance with all terms and provisions of the Oil and Gas Act.
2. Nothing in this Agreement relieves Operator of its liability should its operations create waste and/or pose additional threats to the environment or correlative rights, or commits other violations of the Act or rules promulgated in accordance with the Act.
3. Should Operator's financial assurance prove insufficient to cover the costs associated with plugging and abandoning the wells subject to this Agreement, the OCD reserves its rights under the Oil and Gas Act for indemnification and costs pursuant to NMSA 1978, § 70-2-14.
4. In the event any one or more of the provisions in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement.
5. This Agreement shall be governed by the laws of the State of New Mexico.
6. Any dispute, legal proceeding, or litigation arising in connection with this Agreement shall be brought in Santa Fe County, New Mexico, and the parties consent to the jurisdiction of such court.
7. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same Agreement.

8. The effective date of this Agreement shall be the date of the signature of the last signatory to this Agreement.
9. The parties represent and warrant that the individuals executing this Agreement on the parties' behalf are competent and duly authorized to execute this Agreement and further agree that this representation shall be legally sufficient evidence of actual or apparent authority to bind their respective entities to all the terms and conditions of this Agreement.
10. The parties agree that this Agreement may be electronically signed. The parties further agree that electronic signatures, signatures provided by facsimile transmission, or in Portable Document Format (PDF) sent by electronic mail, shall be deemed to be original signatures and are the same as handwritten signatures for the purposes of validity, enforceability, and admissibility.
11. This Agreement contains all of the terms of the Settlement Agreement between the parties, there being no oral agreements not contained herein.
12. Operator and the OCD have the right to modify this Agreement by written instrument signed by both parties. Once Operator complies with all the terms of this Agreement, this Agreement will terminate.

Done at Santa Fe, New Mexico this 31st day of December, 2018.

By: 
Heather Riley
Director, Oil Conservation Division

ACCEPTANCE

REMNANT OIL OPERATING (OGRID No. 370922), operator of record of the wells identified in *Exhibit 1*, hereby accepts the foregoing Agreement, and agrees to all of the terms and provisions as set forth in the Agreement.

By: E. Will Gray II

Print Name: E. Will Gray II

Title: C.F.O.

Date: 12-20-2018.

NEW MEXICO SPECIAL ASSISTANT ATTORNEY GENERAL, representing the Oil Conservation Division of the Energy, Minerals and Natural Resources Department, hereby accepts the foregoing Agreement, and agrees to all of the terms and provisions as set forth in the Agreement, and retains jurisdiction to enforce this Agreement should the provisions not be complied with.

**NEW MEXICO SPECIAL
ASSISTANT ATTORNEY GENERAL**

By: [Signature]

Print Name: Keith Herrmann

Title: Special Assistant Attorney General

Date: 12/31/2018

Exhibit 1: Inactive Well List

Inactive Well List

Total Well Count: 492 Inactive Well Count: 52
Printed On: Thursday, December 06 2018

District	API	Well	ULSTR	OCD Unit	Ogrid	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
2	30-015-25081	AMOCO FEDERAL #006	D-21-19S-31E	D	370922	REMNANT OIL OPERATING, LLC		O	06/2017	YATES-7R		
2	30-015-23712	AURORA #001	1-03-19S-29E	A	370922	REMNANT OIL OPERATING, LLC		O	06/2017			
1	30-025-21759	BARNES FEDERAL #001	B-24-09S-35E	B	370922	REMNANT OIL OPERATING, LLC		G	05/2016	SAN ANDRES RTTP 08/08/2013		
1	30-025-02664	BARNES FEDERAL #002	D-24-09S-35E	D	370922	REMNANT OIL OPERATING, LLC		O	11/2015	MAGNOLIA PETROLEUM /CAPPS FEDERAL		
2	30-015-10453	BRAINARD #008	2-34-18S-29E	O	370922	REMNANT OIL OPERATING, LLC		I	08/2017			
2	30-015-24087	BRAINARD FEDERAL #012	1-34-18S-29E	P	370922	REMNANT OIL OPERATING, LLC		O	05/2017			
1	30-025-22965	BRENDA #001	I-19-11S-33E	I	370922	REMNANT OIL OPERATING, LLC		O	08/2016			
1	30-025-37524	BRIGHT 2 STATE COM #001	H-02-10S-33E	H	370922	REMNANT OIL OPERATING, LLC		G	02/2016	Mississippi Limestone		
2	30-015-02726	DAVIS FEDERAL #002	E-15-16S-29E	E	370922	REMNANT OIL OPERATING, LLC		O	04/2017	LAST PROD. 05/2010		
2	30-015-02732	DAVIS FEDERAL #005	F-15-16S-29E	F	370922	REMNANT OIL OPERATING, LLC		O	04/2017			
1	30-005-00894	DRICKEY QUEEN SAND UNIT #012	I-33-13S-31E	I	370922	REMNANT OIL OPERATING, LLC		O	05/2017	WELL RET TO PROD 05/16/2013		
1	30-005-00897	DRICKEY QUEEN SAND UNIT #014	O-33-13S-31E	O	370922	REMNANT OIL OPERATING, LLC	F	O	02/1999		T	2/17/2018
1	30-005-01035	DRICKEY QUEEN SAND UNIT #035	K-10-14S-31E	K	370922	REMNANT OIL OPERATING, LLC	P	O	01/2016	03/28/08 RET WELL TO PROD	T	2/12/2017
1	30-005-01074	DRICKEY QUEEN SAND UNIT #041	G-16-14S-31E	G	370922	REMNANT OIL OPERATING, LLC		O	12/1992			
1	30-005-01129	DRICKEY QUEEN SAND UNIT #049	B-22-14S-31E	B	370922	REMNANT OIL OPERATING, LLC		O	08/2011		T	10/24/2017
1	30-005-01127	DRICKEY QUEEN SAND UNIT #053	H-22-14S-31E	H	370922	REMNANT OIL OPERATING, LLC		I	12/1992			
1	30-005-01009	DRICKEY QUEEN SAND UNIT #804	A-09-14S-31E	A	370922	REMNANT OIL OPERATING, LLC		O	05/2017			
1	30-005-00978	DRICKEY QUEEN SAND UNIT #805	P-04-14S-31E	P	370922	REMNANT OIL OPERATING, LLC		I	08/2000		T	1/12/2018
1	30-005-00989	DRICKEY QUEEN SAND UNIT #824	3-04-14S-31E	C	370922	REMNANT OIL OPERATING, LLC		O	05/2015	QUEEN	T	7/14/2018
1	30-025-34940	GUS STATE #001	I-27-12S-34E	I	370922	REMNANT OIL OPERATING, LLC		G	10/2016	ATOKA		
1	30-025-28775	HIGGINS TRUST INC #002	M-21-16S-37E	M	370922	REMNANT OIL OPERATING, LLC		O	02/2017			
2	30-015-24863	HILL FEDERAL #001	H-21-19S-31E	H	370922	REMNANT OIL OPERATING, LLC		O	07/2017	YATESO-7R		
2	30-015-25082	HILL FEDERAL #002	A-21-19S-31E	A	370922	REMNANT OIL OPERATING, LLC		O	07/2017			
1	30-025-34154	HOOD STATE #001	F-25-10S-37E	F	370922	REMNANT OIL OPERATING, LLC		O	05/2002		T	3/30/2018
2	30-015-23708	JACKSON FEDERAL #002	P-34-17S-29E	P	370922	REMNANT OIL OPERATING, LLC		O	01/2017			
1	30-025-00975	LANE B #003	3-01-10S-33E	C	370922	REMNANT OIL OPERATING, LLC		O	08/2017	SAN ANDRES		
1	30-025-27718	LANGLEY A FEDERAL #001	K-09-19S-33E	K	370922	REMNANT OIL OPERATING, LLC		O	05/2015			
2	30-005-62523	LONG ARROYO #002	K-33-12S-28E	K	370922	REMNANT OIL OPERATING, LLC		S	07/2017	DEVONIAN		
1	30-025-31622	NEW MEXICO STATE #001	G-32-14S-34E	G	370922	REMNANT OIL OPERATING, LLC		O	07/2016	PENN		
1	30-025-32021	NEWMAN 32 STATE #001	F-32-23S-38E	F	370922	REMNANT OIL OPERATING, LLC		O	10/2015	ELLENBURGER	T	7/25/2016
1	30-025-37170	NEWMAN 32 STATE #002	B-32-23S-38E	B	370922	REMNANT OIL OPERATING, LLC		O	04/2015	ELLENBURGER NSL 5180	T	7/17/2016
1	30-025-00207	NORTH CAPROCK CELERO QUEEN UNIT #022	E-32-12S-32E	E	370922	REMNANT OIL OPERATING, LLC		O	05/2015			
1	30-025-00201	NORTH CAPROCK CELERO QUEEN UNIT #026	K-32-12S-32E	K	370922	REMNANT OIL OPERATING, LLC		O	12/2014			
1	30-025-00200	NORTH CAPROCK CELERO QUEEN UNIT #028	M-32-12S-32E	M	370922	REMNANT OIL OPERATING, LLC		O	11/2014			
2	30-015-10322	NORTH SQUARE	L-20-16S-31E	L	370922	REMNANT OIL		I	04/2017			

12/6/2018

OCD Permitting

LAKE UNIT #005			OPERATING, LLC					
2	30-015-04864	NORTH SQUARE LAKE UNIT #008	I-20-16S-31E	I	370922	REMNANT OIL OPERATING, LLC	I	04/2017
2	30-015-04933	NORTH SQUARE LAKE UNIT #039	H-30-16S-31E	H	370922	REMNANT OIL OPERATING, LLC	O	04/2017
2	30-015-10752	NORTH SQUARE LAKE UNIT #100	B-31-16S-31E	B	370922	REMNANT OIL OPERATING, LLC	I	04/2017
2	30-015-25219	PARLSEY FEDERAL #001	A-20-19S-31E	A	370922	REMNANT OIL OPERATING, LLC	O	07/2017 YATES-7R
1	30-005-00891	ROCK QUEEN UNIT #030	C-27-13S-31E	C	370922	REMNANT OIL OPERATING, LLC	I	12/1992 T 1/12/2018
1	30-005-00906	ROCK QUEEN UNIT #102	G-34-13S-31E	G	370922	REMNANT OIL OPERATING, LLC	I	05/2016 CONVERT TO INJ 08/11/11 WFX 892
1	30-005-29155	ROCK QUEEN UNIT #310	N-24-13S-31E	N	370922	REMNANT OIL OPERATING, LLC	I	03/2017 QUEEN SPUD 12/07/10
1	30-005-29161	ROCK QUEEN UNIT #703	D-36-13S-31E	D	370922	REMNANT OIL OPERATING, LLC	I	03/2017 QUEEN SPUD 01/27/11
1	30-005-29162	ROCK QUEEN UNIT #704	C-36-13S-31E	C	370922	REMNANT OIL OPERATING, LLC	I	04/2017 QUEEN SPUD 01/15/2011
1	30-025-38171	SHELL 26 STATE #003	G-26-10S-32E	G	370922	REMNANT OIL OPERATING, LLC	O	07/2016 STRAWN 07/24/10 RWTP
1	30-041-20619	TAYLOR #001	G-29-04S-33E	G	370922	REMNANT OIL OPERATING, LLC	O	05/2015
2	30-015-25245	TEXAS CRUDE #001	J-21-19S-31E	J	370922	REMNANT OIL OPERATING, LLC	O	06/2017 PLACED BACK ON PROD 6/25/14
1	30-025-37466	TWITTY BHF STATE #001	J-36-09S-33E	J	370922	REMNANT OIL OPERATING, LLC	G	08/2006 WLDCT STRAWN TA 09/22/09 TA EXP 11/9/201 T 9/9/2017
1	30-005-01116	WEST CAP QUEEN SAND UNIT #017	C-21-14S-31E	C	370922	REMNANT OIL OPERATING, LLC	O	08/1996
1	30-005-01115	WEST CAP QUEEN SAND UNIT #018	D-21-14S-31E	D	370922	REMNANT OIL OPERATING, LLC	I	08/2014
1	30-005-01117	WEST CAP QUEEN SAND UNIT #020	F-21-14S-31E	F	370922	REMNANT OIL OPERATING, LLC	I	12/1992
2	30-015-24994	WILSON ST #001	L-36-18S-29E	L	370922	REMNANT OIL OPERATING, LLC	O	07/2017

WHERE Operator:370922, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

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