

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

ACO No. 210

IN THE MATTER OF AMERICO ENERGY RESOURCES, LLC,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), and the regulations promulgated under the Act, the Director of the Oil Conservation Division of the Energy Minerals and Natural Resources Department of the State of New Mexico (hereinafter, "OCD") issues this Order to **Americo Energy Resources, LLC** (hereinafter, "Operator"), directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD rules.

FINDINGS

1. OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. Operator is a foreign limited liability company authorized to do business in New Mexico under SCC No. 2460723. Operator operates wells in New Mexico under OGRID 228051. Operator's address is 7575 San Felipe St., Suite 200; Houston, Texas 77063.
3. Operator is the operator of record for the East Shugart Unit No. 016 well, API No. 30-015-05688, Unit Letter L, Section 34, Township 18S, Range 31E, located in Eddy County, New Mexico.
4. OCD Rule 19.15.9.703(A) states:

Injection wells shall be equipped, operated, monitored, and maintained to facilitate periodic testing and to assure continued mechanical integrity which will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement through vertical channels adjacent to the well bore.
5. On May 10, 2007, OCD Deputy Oil and Gas Inspector Gerry Guye performed a Mechanical Integrity Test on the East Shugart Unit No. 016 well. The well would not hold pressure and thus failed the test. Inspector Guye told Operator's representative who was present for the test that the well had to be shut-in.
6. On May 14, 2007, Inspector Guye sent Operator a Letter of Violation (LOV No. 0213807) which informed Operator of the Mechanical Integrity Test failure and asked Operator to repair the well by August 13, 2007.

7. When Operator failed to repair the well, OCD issued Notice of Violation ("NOV") No. 02-07-24 on September 14, 2007. In NOV No. 02-07-24 OCD alleged that Operator knowingly and willfully violated OCD Rule 19.15.9.703(A) by not repairing the East Shugart Unit No. 016 well as requested by OCD. OCD proposed assessing a \$1,000.00 civil penalty for one knowing and willful violation of OCD Rule 19.15.9.703(A).
8. NMSA 1978, Section 70-2-31(A) provides that any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars for each violation, and that in the case of a continuing violation, each day of violation shall constitute a separate violation.
9. NMSA 1978, Section 70-2-33(A) defines "person" to mean "any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity."
10. On October 23, 2007, an administrative conference was held at OCD's Artesia District Office. Don Gray, Operator's Land Manager, appeared telephonically for Operator. Appearing for OCD was Daniel Sanchez, Tim Gum, Gerry Guye, Mike Bratcher, and Sonny Swazo.
11. At the conference Mr. Gray said Operator intends to plug the East Shugart Unit No. 016 well and that he would be submitting the plugging paperwork for the well within the next 5 business days.
12. At the conference OCD spoke to Mr. Gray about the East Shugart Unit No. 002 well (API No. 30-015-05684) (Unit Letter B, Section 34, Township 18S, Range 31E); the East Shugart Unit No. 003 well (API No. 30-015-05683) (Unit Letter A, Section 34, Township 18S, Range 31E); and the East Shugart Unit No. 022 well (API No. 30-015-05698) (Unit Letter J, Section 35, Township 18S, Range 31E), being out of compliance with OCD Rules. (See Attachment A.) Mr. Gray said Operator will be repairing the wells but he could not give a definite date as to when the wells would be repaired. Mr. Gray said he would have a repair plan and schedule for the wells in place within 90 days. Mr. Gray said the only issue that might delay repair would be rig availability. Mr. Gray said if he experiences any problems with repairing the wells, he would request additional time in advance of the repair deadline.

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Operator is a "person" as defined by Section 70-2-33(A), that may be subject to civil penalties under Section 70-2-31(A).
3. Operator is subject to civil penalties under Section 70-2-31(A) for a knowing and willful violation of OCD Rule 19.15.9.703(A).

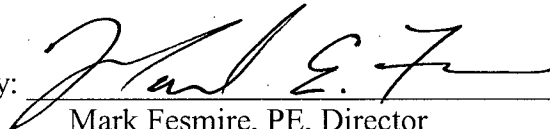
III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **One Thousand Dollars (\$1,000.00)** against Operator for one knowing and willful violation of OCD Rule 19.15.9.703(A).
2. The assessed **One Thousand Dollars (\$1,000.00)** civil penalty shall be paid upon execution of this Order. Payment shall be made by **certified or cashier's check** made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the New Mexico Oil Conservation Division, Attention: Director, 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505.
3. All work on the East Shugart Unit No. 016 well shall be completed within 90 days of OCD approval of Operator's plugging plan. Operator shall submit its plugging plan for the East Shugart Unit No. 016 well by November 5, 2007.
4. Operator shall submit its repair plan and schedule for the East Shugart Unit No. 002 well, the East Shugart Unit No. 003 well, and the East Shugart Unit No. 022 well to the OCD by **January 21, 2008**.
5. For good cause shown, Operator may request an extension from the OCD to complete the requirements as set out in Ordering Paragraph No. 3. Such request shall reasonably describe the circumstances encountered by Operator that prohibits it from meeting the deadlines set out herein. Such request shall be made promptly and not at the last minute. It shall be in the sole discretion of the OCD as to whether to grant that extension.

Within ten (10) days of receipt of this notice, the OCD shall either approve the extended time requested by Operator by executing a written amendment to this Order, or notify Operator that it will not extend the deadline.

6. By signing this Order, Operator expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with the Order;
 - c. waives any right pursuant to the Oil and Gas Act or otherwise to a hearing either prior or subsequent to the entry of this Order, or to an appeal from this Order; and
 - d. agrees that if it fails to comply with this Order, the Order may be enforced by suit or otherwise to the same extent and with the same effect as a final Order of the Division entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act (NMSA 1978, Sections 70-2-1 through 70-2-38, as amended).

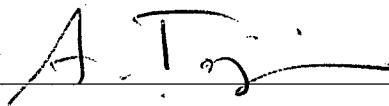
Done at Santa Fe, New Mexico this 6th day of Dec. 2007.

By: 
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

Americo Energy Resources, LLC, hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth therein.

AMERICO ENERGY RESOURCES, LLC

By: 
Title: President
Date 12 / 15 / 07



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

24-Apr-07

AMERICO ENERGY RESOURCES LLC

7575 SAN FELIPE SUITE 200

HOUSTON TX 77063-

LOV NO. 024707

LETTER OF VIOLATION and SHUT-IN DIRECTIVE Failed Mechanical Integrity Test

Dear Operator:

The following test(s) were performed on the listed dates on the following well(s) shown below in the test detail section.

The test(s) indicates that the well or wells failed to meet mechanical integrity standards of the New Mexico Oil Conservation Division. To comply with guidelines established by the U.S. Environmental Protection Agency, the well(s) must be shut-in immediately until it is successfully repaired. The test detail section which follows indicates preliminary findings and/or probable causes of the failure. This determination is based on a test of your well or facility by an inspector employed by the Oil Conservation Division. Additional testing during the repair operation may be necessary to properly identify the nature of the well failure.

Please notify the proper district office of the Division at least 48 hours prior to the date and time that the well(s) will be retested so the test may be witnessed by a field representative.

MECHANICAL INTEGRITY TEST DETAIL SECTION

EAST SHUGART UNIT No.003

30-015-05683-00-00

Active Injection - (All Types)

A-34-18S-31E

Test Date: 4/24/2007

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/28/2007

Test Type: Bradenhead Test

FAIL TYPE: Packer

FAIL CAUSE:

Comments on MIT: Possible packer leak. CP 370psi TP 650psi

EAST SHUGART UNIT No.002

30-015-05684-00-00

Active Injection - (All Types)

B-34-18S-31E

Test Date: 4/24/2007

Permitted Injection PSI:

Actual PSI: 1500

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/28/2007

Test Type: Bradenhead Test

FAIL TYPE: Packer

FAIL CAUSE:

Comments on MIT: Well has 900 psi on casing which indicates a possible packer leak. Well is also overpressured.

EAST SHUGART UNIT No.022

30-015-05698-00-00

Active Injection - (All Types)

J-35-18S-31E

Test Date: 4/24/2007

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/28/2007

Test Type: Bradenhead Test

FAIL TYPE: Packer

FAIL CAUSE:

Comments on MIT: Possible packer leak. Same pressure of 1675 psi on casing and tubing.

EAST SHUGART UNIT No.042**30-015-27670-00-00**

A-34-18S-31E

Test Date:	4/24/2007	Active Injection - (All Types)	Permitted Injection PSI:	Actual PSI:	1800
Test Reason:	Annual IMIT	Test Result:	F	Repair Due:	7/28/2007
Test Type:	Bradenhead Test	FAIL TYPE:	Permit Violation	FAIL CAUSE:	
Comments on MIT:	Injection pressure over limit. Maximum injection pressure 1675 psi.				

EAST SHUGART UNIT No.076**30-015-28201-00-00**

F-35-18S-31E

Test Date:	4/24/2007	Active Injection - (All Types)	Permitted Injection PSI:	Actual PSI:	1560
Test Reason:	Annual IMIT	Test Result:	F	Repair Due:	7/28/2007
Test Type:	Bradenhead Test	FAIL TYPE:	Permit Violation	FAIL CAUSE:	
Comments on MIT:	Injection pressure over limit. Maximum injection pressure is 1445 psi.				

In the event that a satisfactory response is not received to this letter of direction by the "Repair Due:" date shown above, or if the well(s) are not immediately shut-in, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,


Artesia OCD District Office

Note: Pressure Tests are performed prior to initial injection, after repairs and otherwise, every 5 years; Bradenhead Tests are performed annually. Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data. "Failure Type" and "Failure Cause" and any Comments are not to be interpreted as a diagnosis of the condition of the wellbore. Additional testing should be conducted by the operator to accurately determine the nature of the actual failure. * Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.