

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

IN THE MATTER OF SUNDOWN ENERGY L.P.,

Respondent.

ACOI- 239

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 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and Sundown Energy L.P. ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI") under which Operator agrees to transfer, return to production, place on injection or plug the wells identified herein pursuant to the Act and OCD rules in accordance with the following agreed schedule and procedures, and agrees to sanctions 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 limited partnership doing business in the state of New Mexico.
3. Operator currently operates 50 wells in New Mexico under OGRID 232611.
4. OCD Rule 19.15.25.8 NMAC (the inactive well rule) states, in relevant part:
  - "A. The operator of wells drilled for oil or gas or services wells including seismic, core, exploration or injection wells, whether cased or uncased, shall plug the wells as Subsection B of 19.15.25.8 NMAC requires.
  - B. The operator shall either properly plug and abandon a well or place the well in approved temporary abandonment in accordance with 19.15.25 NMAC within 90 days after:
    - ....
    - ....
    - (3) a period of one year in which a well has been continuously inactive."
5. Under OCD rules, the OCD may or must deny certain privileges to an operator who has too many wells in violation of the inactive well rule. 19.15.5.9 NMAC (Part 5.9) sets out how many wells an operator may have out of compliance before OCD rules provide that privileges may or must be denied. As an operator

of 50 wells, Operator may have no more than two wells out of compliance with the inactive well rule. See 19.15.5.9.A(4)(a) NMAC. In calculating the number of wells in violation of the inactive well rule, Part 5.9 does not include wells that are subject to an agreed compliance order setting a schedule for returning the well to compliance and imposing sanctions if that schedule is not met.

6. If an Operator has too many wells out of compliance with the inactive well rule as defined by Part 5.9, the OCD may deny well transfers to the operator (see 19.15.5.9 NMAC and 19.15.9.9 NMAC); the OCD may deny applications for permits to drill (see 19.15.5.9 NMAC and 19.15.14.10 NMAC); the OCD must deny requests for allowable and authorizations to transport (see 19.15.5.9 NMAC and 19.15.16.19 NMAC); and the OCD must deny injection permits. See 19.15.5.9 NMAC and 19.15.26.8 NMAC.
7. The Operator and the OCD previously entered into inactive well agreed compliance order 228 (ACOI 228). The intent of ACOI 228 was to provide the Operator with a schedule for returning six wells to compliance, while allowing Operator to take certain actions that otherwise would be subject to Part 5.9 sanctions, including acquiring wells, getting approval for an application to drill and getting approval for injection permits.
8. ACOI 228 required Operator to take one of the following actions as to each of the six wells by May 1, 2011:
  - (a) restore the well to production of oil and/or gas **and file a C-115 documenting such production.** Oil and gas produced during swabbing is not considered production for purposes of this Order;
  - (b) file an application for a permit to use the well as a salt water disposal well under 19.15.26 NMAC;
  - (c) cause the wellbore to be plugged in accordance with OCD Rule 19.15.25.10(B) NMAC **and file a C-103 describing the completed work;**  
or
  - (d) transfer the well to another operator of record.
9. By May 1, 2011, Operator plugged one of the six wells and filed the C-103 describing the work, and filed an application to convert one of the wells to a salt water disposal well. Operator had plugged two other wells subject to the order, but did not file the paperwork on the plugging until after the May 1, 2011 deadline. Operator has since completed workover operations on a fifth well, and started workover operations on a sixth well. ACOI 228 has now expired.
10. Although Operator did not meet the compliance schedule it agreed to in ACOI 228, Operator did substantial work on the wells covered by the order.
11. The following wells covered by ACOI 228 remain on the inactive well list kept pursuant to 19.15.5.9 NMAC, because they have not reported production or

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Sundown Energy L.P.

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injection for a continuous period of one year plus 90 days, are not plugged and abandoned in accordance with 19.15.25.9 NMAC through 19.15.25.11 NMAC, and are not on approved temporary abandonment status in accordance with 19.15.25.12 NMAC through 19.15.25.14 NMAC:

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-28783	JACKSON 5 #002	G-5 -19S-35E	G	232611	SUNDOWN ENERGY LP	P	O	05/1988	TA EXPIRES 8-10-10	T	8/10/2010
1	30-025-28905	KOCHIA AAM STATE #001	O-35-15S-36E	O	232611	SUNDOWN ENERGY LP	S	O	02/2008	SEE PF9 INT TO TA 05/04/2010		
1	30-025-03718	LEA 396 STATE #002	F-35-15S-36E	F	232611	SUNDOWN ENERGY LP	S	O	01/1993	07/27/2010 REMEDIAL WORK	T	1/16/2009

12. Operator's salt water disposal application for the Kochia AAM State #001 is pending. Granting that application will result in the Kochia AAM State #001 being returned to a beneficial use, and will help Operator return other wells to production by providing for cost-effective disposal of produced water.

### CONCLUSIONS

1. Operator acted in good faith to comply with the requirements of ACOI 228.
2. It is in the best interest of the Operator and the OCD that they enter into an agreed compliance order setting a schedule for returning the three wells identified in Paragraph 11, above, to compliance so that these wells will not be considered when determining Operator's compliance status under Part 5.9.

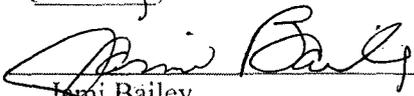
### ORDER

1. Operator agrees that by November 1, 2011 it will take one of the following actions as to each of the three wells identified in Findings Paragraph 11:
  - (a) restore the well to production of oil and/or gas **and file a C-115 documenting such production.** Oil and gas produced during swabbing is not considered production for purposes of this Order;
  - (b) convert the well to injection **and file a C-115 documenting such production;**
  - (c) cause the wellbore to be plugged in accordance with OCD Rule 19.15.25.10(B) NMAC **and file a C-103 describing the completed work;**  
or
  - (d) transfer the well to another operator of record.
2. Placing a well on approved temporary abandonment status is not an action that will satisfy the terms of this Order.
3. Until November 1, 2011 the OCD will remove the wells identified in Findings Paragraph 11 from the inactive well list for Operator kept pursuant to Part 5.9,

and those wells will not be considered in determining whether Operator is in compliance with the inactive well rule for purposes of Part 5.9 compliance.

4. After November 1, 2011 any wells identified in Findings Paragraph 11 not in compliance with OCD Rule 19.15.25.8 NMAC will appear on the inactive well list kept pursuant to Part 5.9 and the OCD shall file an application for hearing seeking the plugging of those wells and the forfeiture of any applicable financial assurance.
5. This Order applies only to the enforcement of OCD Rule 19.15.25.8 NMAC against those wells identified in Findings Paragraph 11. Other wells operated by Operator out of compliance with OCD Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD rules. Wells identified in Findings Paragraph 11 that are out of compliance with the Oil and Gas Act or OCD rules other than OCD Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD rules.
6. The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in Findings Paragraph 11 and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

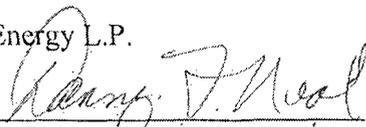
Done at Santa Fe, New Mexico this 19<sup>th</sup> day of May, 2011

By:   
Jami Bailey  
Director, Oil Conservation Division

ACCEPTANCE

Sundown Energy L.P. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Sundown Energy L.P.

By:   
(Please print name) DANNY F. NEAL  
Title: Mgr. of Operations  
Date: 5-18-11