

EXHIBIT A

State of New Mexico
Energy, Minerals and Natural Resources Department

Michelle Lujan Grisham
Governor

Sarah Cottrell Propst
Cabinet Secretary

Todd E. Leahy, JD, PhD
Deputy Cabinet Secretary

Adrienne Sandoval, Division Director
Oil Conservation Division



**BY CERTIFIED MAIL -RETURN RECEIPT REQUESTED
AND ELECTRONIC MAIL**

March 25, 2021

Joshua Olguin
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NOTICE OF VIOLATION

The Director of the Oil Conservation Division (“OCD”) issues this Notice of Violation (“NOV”) pursuant to 19.15.5.10 NMAC. A process is available to informally discuss and resolve the NOV. OCD will not request a hearing on the NOV until the end of this process, which runs for 30 days from the date of your receipt of this letter. OCD will extend this process if it would facilitate informal resolution of the NOV. To initiate this process, contact the OCD employee identified at the end of this letter.

(1) *Alleged Violator:* Smith & Marrs, Inc., OGRID # 20989 (“Operator”).

(2) *Citation, Nature, and Factual and Legal Basis for Alleged Violation(s):*

19.15.5.9(A) NMAC:

An operator is in compliance with Subsection A of 19.15.5.9 NMAC if the operator...

(4) 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 or final 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 fifty 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.*

Operator is registered as the operator of 11 wells. The 8 wells identified in Table 1 are out of compliance with 19.15.25.8 NMAC and are not subject to an agreed compliance or final order:

Table 1:

<u>API</u>	<u>Well</u>	<u>Last Production Reported</u>
30-015-27893	BRADSHAW #002	Jan-18
30-015-29360	BRADSHAW #003	Jan-18
30-015-29675	BRADSHAW #004	Jan-18
30-025-30175	SANMAL QUEEN UNIT #002	Jan-17
30-025-29851	SANMAL QUEEN UNIT #003	Dec-16
30-025-29818	SANMAL QUEEN UNIT #008	Feb-17
30-025-29977	SANMAL QUEEN UNIT #009	Mar-19
30-025-29997	SANMAL QUEEN UNIT #010	Feb-17

19.15.8.9 NMAC:

C. Active wells. An operator shall provide financial assurance for wells that are covered by Subsection A of 19.15.8.9 NMAC and are not subject to Subsection D of 19.15.8.9 NMAC in one of the following categories:

(1) a one well financial assurance in the amount of \$25,000 plus \$2 per foot of the projected depth of a proposed well or the depth of an existing well; the depth of a well is the true vertical depth for vertical and horizontal wells and the measured depth for deviated and directional wells; or

(2) a blanket plugging financial assurance in the following amounts covering all the wells of the operator subject to Subsection C of 19.15.8.9 NMAC:

- (a) \$50,000 for one to 10 wells;*
- (b) \$75,000 for 11 to 50 wells;*
- (c) \$125,000 for 51 to 100 wells; and*
- (d) \$250,000 for more than 100 wells.*

Operator is registered as the operator of 11 wells, but has a blanket plugging financial assurance of only \$50,000.

D. Inactive wells. An operator shall provide financial assurance for wells that are covered by Subsection A of 19.15.8.9 NMAC that have been in temporarily abandoned status for more than two years or for which the operator is seeking approved temporary abandonment pursuant to 19.15.25.13 NMAC in one of the following categories:

(1) a one well financial assurance in the amount of \$25,000 plus \$2 per foot of the projected depth of a proposed well or the depth of an existing well; the depth of a well is the true vertical depth for vertical and horizontal wells and the measured depth for deviated and directional wells; or

(2) a blanket plugging financial assurance covering all wells of the operator subject to Subsection D of 19.15.8.9 NMAC:

- (a) \$150,000 for one to five wells;
- (b) \$300,000 for six to 10 wells;
- (c) \$500,000 for 11 to 25 wells; and
- (d) \$1,000,000 for more than 25 wells.

Operator has 8 inactive wells for which he has no or inadequate one well financial assurance and no blanket plugging financial assurance, as identified in Table 2:

Table 2:

API	Well	Existing FA	Required FA	Due
30-015-27893	BRADSHAW #002	0	41,400	Jan-18
30-015-29360	BRADSHAW #003	0	41,028	Jan-18
30-015-29675	BRADSHAW #004	0	41,100	Jan-18
30-025-30175	SANMAL QUEEN UNIT #002	0	34,500	Feb-19
30-025-29851	SANMAL QUEEN UNIT #003	0	32,800	Jan-19
30-025-29818	SANMAL QUEEN UNIT #008	0	32,800	Mar-19
30-025-29977	SANMAL QUEEN UNIT #009	9,800	34,600	Mar-19
30-025-29997	SANMAL QUEEN UNIT #010	0	34,600	Mar-19

(3) *Compliance*: No later than thirty (30) days after receipt of this NOV, Operator shall (a) obtain blanket plugging financial assurance for all wells in the amount of \$75,000; (b) plug and abandon at least 6 wells listed in Table 1; and (c) obtain blanket plugging financial assurance or one well financial assurance in the required amounts for the wells listed in Table 2.

(4) *Sanction(s)*: OCD may impose one or more of the following sanctions:

- civil penalty
- modification, suspension, cancellation, or termination of a permit or authorization
- plugging and abandonment of a well
- remediation and restoration of a well location and associated facilities, including the removal of surface and subsurface equipment and other materials
- remediation and restoration of a location affected by a spill or release
- forfeiture of financial assurance
- shutting in a well or wells
- any other remedy authorized by law

For the alleged violations described above, OCD proposes the following sanctions:

- (a) Plug and Abandon Wells: OCD will request an order requiring Operator to plug and abandon 6 wells listed in Table 1, and if Operator does not appear at the

hearing or fails to plug and abandon the wells, an order authorizing OCD to plug and abandon those wells.

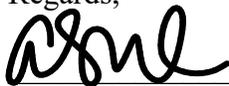
- (b) Financial Assurance: OCD will request an order requiring Operator to provide blanket plugging financial assurance for all wells in the amount of \$75,000 and blanket plugging financial assurance or one well financial assurance in the required amounts for the wells listed in Table 2, and if Operator does not appear at the hearing or fails to obtain the required financial assurance, an order forfeiting financial assurance.
- (c) Termination of Authorization to Transport: OCD will request an order terminating Operator's authority to transport from the 11 registered wells.
- (d) Civil Penalties: OCD proposes to assess civil penalties as specified below. The civil penalty calculations are attached. OCD has taken into consideration the alleged violator's good faith effort to comply with the applicable requirements.

Civil Penalty: 19.15.5.9(A)(4)(a) NMAC:	\$ 1,800
19.15.5.9(C) NMAC:	\$ 300
19.15.5.9(D) NMAC:	\$ 2,400

(5) *Hearing*: If this NOV cannot be resolved informally, OCD will request a hearing on June 3, 2021. Please see 19.15.5.10 NMAC for more information regarding the hearing. Even if OCD schedules a hearing, you can request an informal resolution at any time.

For more information regarding this NOV, contact Daniel Sanchez, OCD Compliance and Enforcement Manager, at (505) 795-4558 or Daniel.Sanchez@state.nm.us.

Regards,



Adrienne Sandoval
Director

cc: OCD Southern District
EMNRD-OGC