

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

**IN THE MATTER OF THE APPLICATION OF THE NEW MEXICO OIL
CONSERVATION DIVISION COMPLIANCE AND ENFORCEMENT BUREAU
FOR A COMPLIANCE ORDER AGAINST CHAPARRAL RESOURCES, LLC,
FOR ITS WELL OPERATED IN LEA COUNTY, NEW MEXICO**

CASE NO. 15541

NMOCD-ACOI-315

**INACTIVE WELL
AGREED COMPLIANCE ORDER**

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 Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department ("Division" or "OCD") and Chaparral Resources, LLC ("Operator" or "Chaparral") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI"). Operator agrees that the Division will plug and abandon the well identified herein and that Operator will reimburse the Division for the costs it incurs for plugging and abandoning the well.

FINDINGS

1. The OCD is the agency charged with administration and enforcement of the Act and rules adopted pursuant to the Act. NMSA 1978, § 70-2-6(A).
2. Operator is an Oklahoma limited liability company, authorized to do business in New Mexico, that is the operator of record of one (1) well in Lea County, New Mexico, under OGRID No. 271999. See *Exhibit 1: Well List*, attached hereto and incorporated by reference as if set forth in its entirety.

3. Operator's address of record with OCD is: 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

4. The New Mexico Secretary of State has Operator registered under Entity Identification Number 4264859 and identifies Mark A. Fischer, Joe Evans, and Robert W. Kelly II as its Managers.

5. Operator has one single well bond filed with the OCD, bond number B005505, from U.S. Specialty Insurance Company, for the amount of \$16,960.

6. Operator is the operator of record of one (1) salt water disposal well in Lea County, the Houston A No. 1, API No. 30-025-07202 ("subject well").

7. Operator reported injection of a volume of 3,730 bbls during the January, 2014 reporting period.

8. Operator reported zero bbls of injected fluid from February 2014 to February 2015. Operator has not submitted any monthly reports since February 2015.

9. Operator has one (1) well out of a total of one (1) well 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. 19.15.25.8 NMAC requires an operator to plug and abandon a well or place the well in approved temporary abandonment in accordance with 19.15.25 NMAC within 90 days after: (1) a 60 day period following 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.

11. 19.15.5.9(A)(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 1,000 wells; and
- (d) 10 wells if the operator operates more than 1,000 wells.

12. Operator currently has one (1) well out of a total of one (1) well 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*.

13. 19.15.26.12(C)(1) NMAC states that “[w]henver there is a continuous one year period of non-injection into all wells in an injection or storage project or into a salt water disposal well or special purpose injection well, the division shall consider the project or well abandoned, and the authority for injection shall automatically terminate ipso facto.”

14. On July 15, 2016, the OCD notified Operator that its injection authority for the subject well had terminated due to a one-year period of non-injection pursuant to 19.15.26.12(C)(1) NMAC.

I. CONCLUSIONS

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

2. Chaparral 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. Chaparral does not dispute the findings in this Order and wishes to resolve this matter with the OCD.

II. ORDER

WHEREFORE, the parties agree to the following:

1. To meet Chaparral's obligation to properly plug and abandon the subject well, Chaparral will reimburse the Division for the costs incurred for plugging and abandoning the subject well. Chaparral agrees to earmark one hundred fifteen thousand five hundred dollars (\$115,500), to be transferred to and held in trust for that purpose by its attorney, Hinkle Shanor LLP. Hinkle Shanor LLP shall tender payment to the Division for the costs of the plugging and abandonment from these funds, and shall not use or apply the funds for any other purpose. If the earmarked funds held by Hinkle Shanor LLP are insufficient to cover the costs of plugging and abandonment, Chaparral will earmark and transfer to Hinkle Shanor LLP such additional funds as are necessary to pay the total cost of plugging and abandonment within 5 days of receiving notice from the OCD. Once the site is plugged and released by the OCD, as noted on the OCD's website or by written confirmation by the OCD's Director or his designee, any remaining funds in the Hinkle Shanor LLP client trust account may be released to Chaparral;

2. The earmarked funds will be transferred to Hinkle Shanor LLP by October 25, 2016. Hinkle Shanor LLP will confirm receipt of the funds by notifying the OCD by electronic mail; and

3. Chaparral authorizes the OCD to complete the task of plugging and abandoning the well pursuant to 19.15.25 NMAC and recoup the associated costs from the funds held in trust. Hinkle Shanor LLP shall, within five business days after receipt of written demand, tender to the OCD such funds held in trust as are necessary to reimburse OCD for any and all of its expenditures made in furtherance of the plugging and abandonment, the nature and amount to be set forth in OCD's demand.

III. OTHER TERMS AND CONDITIONS

1. By signing this Order, Chaparral expressly:
 - a. acknowledges the authority of the Director to render the above Findings, Conclusions, and Order;
 - b. agrees to comply with the Order;
 - c. waives any right, pursuant to the 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 OCD may enforce the Order 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 Order relieves Chaparral of its liability should its operations create waste or pose additional threats to the environment or correlative rights, or commit other violations of the Act or rules promulgated in accordance with the Act.

3. Should Chaparral's financial assurance prove insufficient to cover the costs associated with plugging and abandoning the well subject to this Order, the OCD reserves its rights under the Oil and Gas Act for indemnification and recovery of the costs pursuant to NMSA 1978, § 70-2-14.
4. Chaparral and the OCD have the right to modify or terminate this Order by written instrument signed by both parties. Once Chaparral complies with all the terms of this Order, this Order will terminate.
5. In the event any one or more of the provisions in this Order 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 Order.
6. This Order shall be governed by the laws of the State of New Mexico.
7. Any dispute, legal proceeding, or litigation arising in connection with this Order shall be brought in the First Judicial District Court, Santa Fe County, New Mexico, and the parties consent to the jurisdiction of such court.
8. This Order 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 Order.
9. The effective date of this Order shall be the date of the signature of the last signatory to this Order.
10. The parties represent and warrant that the individuals executing this Order on the parties' behalf are competent and duly authorized to execute this Order.

11. 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.

Done at Santa Fe, New Mexico this 19th day of October, 2016.

OIL CONSERVATION DIVISION

By: David Catanach

David Catanach
Director

ACCEPTANCE

CHAPARRAL RESOURCES, LLC (OGRID No. 271999), operator of record of the well identified in *Exhibit 1*, hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth in the Order.

CHAPARRAL RESOURCES, LLC

By: 

Print Name: K. Earl Reynolds

Title: President and COO

Date: October 18, 2016

HINKLE SHANOR LLP, solely as to Order paragraphs 1-3, hereby acknowledges its obligations under the terms of this Order and agrees that the funds transferred by Chaparral Resources LLC to its trust account are to be used to reimburse the OCD for the costs of plugging and abandoning the subject well under this Order and that it will promptly, upon demand, transfer to the OCD the earmarked funds it holds for the use of the OCD to complete the plugging and abandonment contemplated herein.

HINKLE SHANOR, LLP

By: 

Print Name: Gary W. Larson

Title: Partner

Date: October 18, 2016

Exhibit 1: Inactive Well List

Inactive Well List

Total Well Count: 1 Inactive Well Count: 1

Printed On: Monday, October 17 2016

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-07202	HOUSTON A #001	L-19-12S-36E	L	271999	CHAPARRAL RESOURCES LLC	P	S	01/2014	DEVONIAN INT TO PA 09/25/2011		

WHERE Ogrid:271999, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells
Under ACOI, Excludes Wells in Approved TA Period