

State of New Mexico

Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Tony Delfin
Deputy Cabinet Secretary

David Catanach, Director
Oil Conservation Division



Response Required - Deadline Enclosed

19-Aug-16

AGUA SUCIA LLC
P.O. BOX 2081
LOVINGTON NM 88260-

LETTER OF VIOLATION - Inactive Well(s)

Dear Operator:

A review of our records and recent inspection(s) indicate that the subject well(s) has been shut-in for an extended period of time. Rule 201 of the Rules and Regulation of the Oil Conservation Division provides that a well may be shut-in no longer than sixty days after suspension of drilling operations, upon determining that the well is no longer usable (e.g., a dry hole), or one year after last production. To comply with guidelines as established in the Rules and Regulations, corrective actions must be taken immediately and the well(s) brought into compliance.

The detail section below indicates preliminary findings and/or probable nature of the violation.

The following options are available:

1. Immediately restore the well(s) to production, injection or disposal as applicable.
2. Request 'Temporary Abandoned' status pursuant to Rule 203, which requires that you set a plug and conduct a mechanical integrity test.
3. Submit a proposal to 'Plug and Abandon' the well(s) pursuant to Rule 202, proceed with plugging procedures on a timely basis after the proposal has been evaluated, amended and/or approved.

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, 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.

IDLE WELL INSPECTION DETAIL SECTION

| | | | |
|------------------------------|--|---|------------------------------|
| EAST SHUGART UNIT 027 | O-34-18S-31E | 30-015-05677-00-00 | Inspection No. iGC1623146781 |
| Inspection Date: | 8/18/2016 12:59:38 PM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8) LAST REPORTED PRODUCTION 10-1-14. RELEASE AT WELL HEAD - OIL IN CELLAR AND AROUND LOCATION | | |
| EAST SHUGART UNIT 024 | N-35-18S-31E | 30-015-05691-00-00 | Inspection No. iGC1623139821 |
| Inspection Date: | 8/18/2016 11:03:40 AM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8) LAST REPORTED 4-1-15 | | |

| | | | |
|------------------------------|---|---|------------------------------|
| EAST SHUGART UNIT 004 | D-35-18S-31E | 30-015-05692-00-00 | Inspection No. iGC1623137599 |
| Inspection Date: | 8/18/2016 10:26:38 AM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8). LAST REPORTED PRODUCTION 5-1-08. NO WELL SIGN | | |
| EAST SHUGART UNIT 011 | F-35-18S-31E | 30-015-05695-00-00 | Inspection No. iGC1623143983 |
| Inspection Date: | 8/18/2016 12:13:01 PM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8) LAST REPORTED PRODUCTION 5-1-08. FRESH OIL AROUND WELL HEAD. NO WELL SIGN | | |
| EAST SHUGART UNIT 007 | B-35-18S-31E | 30-015-05700-00-00 | Inspection No. iGC1623134860 |
| Inspection Date: | 8/18/2016 9:40:59 AM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8). LAST REPORTED PRODUCTION 11-1-13. NO WELL SIGN | | |
| EAST SHUGART UNIT 038 | O-34-18S-31E | 30-015-27429-00-00 | Inspection No. iGC1623147300 |
| Inspection Date: | 8/18/2016 1:08:18 PM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8). LAST REPORTED PRODUCTION 11-1-13 | | |
| EAST SHUGART UNIT 045 | L-35-18S-31E | 30-015-27867-00-00 | Inspection No. iGC1623143398 |
| Inspection Date: | 8/18/2016 12:03:17 PM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8). LAST REPORTED PRODUCTION 5-1-08 | | |
| EAST SHUGART UNIT 058 | K-35-18S-31E | 30-015-27951-00-00 | Inspection No. iGC1623139978 |
| Inspection Date: | 8/18/2016 11:06:17 AM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Well Sign (Rule 103). OPERATOR (AMERICO) IS NOT CORRECT | | |
| EAST SHUGART UNIT 070 | M-35-18S-31E | 30-015-28209-00-00 | Inspection No. iGC1623144525 |
| Inspection Date: | 8/18/2016 12:22:04 PM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8). LAST REPORTED PRODUCTION 11-1-14 | | |
| EAST SHUGART UNIT 079 | E-35-18S-31E | 30-015-28326-00-00 | Inspection No. iGC1623143233 |
| Inspection Date: | 8/18/2016 12:00:31 PM | Corrective Action Due by: 11/21/2016 | |
| Type Inspection | Inspector | Violation? | *Significant Non-Compliance? |
| Routine/Periodic | Gilbert Cordero | Yes | No |
| Comments on Inspection: | Idle Well (Rule 19.15.25.8) LAST REPORTED PRODUCTION 11-1-13 | | |

Thank you for your prompt attention to this matter and your efforts in helping to protect our environment and the infrastructure of the oil and gas industry.

Sincerely,



COMPLIANCE OFFICER

Artesia OCD District Office

* Significant Non-Compliance events are reported directly to the U.S. Environmental Protection Agency, Region VI, Dallas, Texas.