

State of New Mexico
Energy, Minerals and Natural Resources Department

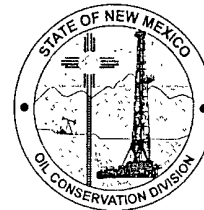
Susana Martinez

Governor

John H. Bemis
Cabinet Secretary

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey
Division Director
Oil Conservation Division



HOBBS OCD

MAR 22 2012

RECEIVED

March 22, 2012

Providence Energy Services, Inc. dba Kelton Operating Corp
PO Box 928
Andrews, Texas 79714-0928

RESPONSE REQUIRED BY APRIL 13, 2012

Subject: Skelly Penrose B Unit and State 731 Lease
Expired T/A Status, T/A'd wells, and Active Wells with no production reported.

Dear Operator:

According to Oil Conversation Division (OCD) records, you are the operator of record of 18 wells with an expired T/A status, 2 wells that have been T/A'd in excess of 19 years, 2 wells showing active status which have not produced in over 15 months (44 and 135), and 1 injection well which you are reporting injection of that is incapable of injecting. (Please note the attached list.)

Your company was issued a letter on December 1, 2010 requesting you bring these wells into compliance. No action has been taken.

OCD rules require wells that have been inactive for more than one year plus ninety days to be plugged and abandoned, placed on approved temporary abandonment status, or returned to active status (19.15.25.8 NMAC). Please return the well(s) to compliance as soon as possible. If you are taking action to return the well(s) to compliance in the immediate future, please contact Daniel Sanchez, OCD Compliance & Enforcement Manager, at 505-476-3493 or Daniel.sanchez@state.nm.us. You may be able to avoid enforcement action.

If the OCD does not hear from you by April 13, 2012, the OCD will file applications for hearing to seek plugging orders for state or fee wells out of compliance with 19.15.25.8 NMAC that have been inactive for excessive periods of time. The OCD will seek an order requiring the operator to plug the well by a certain date, and authorizing the OCD to plug the well and forfeit any available financial assurance if the operator fails to comply.

If the well is not covered by a financial assurance or if the financial assurance is not sufficient to cover the OCD's plugging costs, the OCD may bring suit against the operator for indemnification. See NMSA 1978, Section 70-2-14(E).

Please contact me if you have any questions concerning this issue.

A handwritten signature in black ink, appearing to read "EL Gonzales", is written over the text.

EL Gonzales
District I Supervisor, 575-393-6161 (114)

CC: OCD Santa Fe

MAR 22 2012

API #	LEASE	WELL	UL-SEC-T-R	MONTHS	WELL
				INACTIVE	STATUS
30-025-10550	Skelly Penrose B Unit	1	UL-B, Sec 32, T22S, R37E	231	E
30-025-10546	Skelly Penrose B Unit	3	UL-D, Sec 32, T22S, R37E	231	E
30-025-10543	Skelly Penrose B Unit	5	UL-F, Sec 32, T22S, R37E	231	E
30-025-10542	Skelly Penrose B Unit	6	UL-G, Sec 32, T22S, R37E	286	E
30-025-10538	Skelly Penrose B Unit	8	UL-J, Sec 32, T22S, R37E	231	E
30-025-10535	Skelly Penrose B Unit	10	UL-L, Sec 32, T22S, R37E	231	E
30-025-10539	Skelly Penrose B Unit	14	UL-N, Sec 32, T22S, R37E	231	E
30-025-10537	Skelly Penrose B Unit	16	UL-P, Sec 32, T22S, R37E	231	E
30-025-10633	Skelly Penrose B Unit	21	UL-D, Sec 5, T23S, R37E	231	T
30-025-10648	Skelly Penrose B Unit	22	UL-A, Sec 6, T23S, R37E	284	E
30-025-10652	Skelly Penrose B Unit	24	UL-G, Sec 6, T23S, R37E	407	E
30-025-10650	Skelly Penrose B Unit	25	UL-H, Sec 6, T23S, R37E	231	E
30-025-10656	Skelly Penrose B Unit	36	UL-P, Sec 6, T23S, R37E	229	E
30-025-10685	Skelly Penrose B Unit	42	UL-D, Sec 9, T23S, R37E	231	T
30-025-10668	Skelly Penrose B Unit	45	UL-D, Sec 8, T23S, T37E	**	E
30-025-10669	Skelly Penrose B Unit	48	UL-E, Sec 8, T23S, R37E	425	E
30-025-10671	Skelly Penrose B Unit	49	UL-G, Sec 8, T23S, R37E	285	E
30-025-10687	Skelly Penrose B Unit	54	UL-L, Sec 9, T23S, R37E	231	E
30-025-10673	Skelly Penrose B Unit	56	UL-L, Sec 8, T23S, R37E	250	E
30-025-10690	Skelly Penrose B Unit	60	UL-M, Sec 9, T23S, R37E	211	E
30-025-10689	Skelly Penrose B Unit	61	UL-N, Sec 9, T23S, R37E	303	E
30-025-27648	State 731	3	UL-H, Sec 26, T22S, R35E	135	A
30-025-27647	State 731	4	UL-M, Sec 25, T22S, R35E	44	A

**NOTE: Operator falsely reporting injection on this well. Not capable of injection. See attached picture.

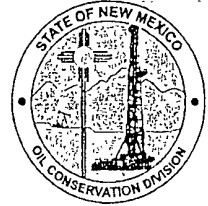


New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Jim Noel
Cabinet Secretary
Karen W. Garcia
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



December 1, 2010

Providence Energy Services, Inc. dba Kelton Operating Corp
PO Box 928
Andrews, Texas 79714

RE: Skelly Penrose B Unit - Expired T/A'd Wells

Gentlemen:

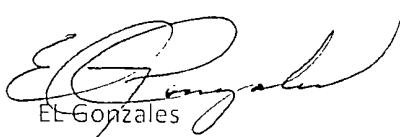
A recent review of Oil Conservation Division well files finds that the T/A status of the well on the attached list have expired.

The subject wells should be returned to injection/production, tested for T/A status, or plugged & abandoned.

Please contact the Hobbs district office prior to December 31, 2010 to schedule testing.

If you have any questions on this matter, please call the Hobbs office (575)393-6161 and speak to EL Gonzales at ext. 114.

Respectfully
OIL CONSERVATION DIVISION

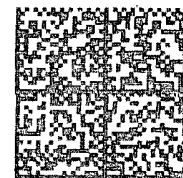


EL Gonzales
District I Staff Manager

CC: OCD Hobbs
OCD Santa Fe



EMNRD
OIL CONSERVATION DIVISION
1625 N FRENCH DRIVE
HOBBS NM 88240



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