

State of New Mexico  
Energy, Minerals and Natural Resources Department

Susana Martinez  
Governor

David Martin  
Cabinet Secretary-Designate

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

Jami Bailey, Division Director  
Oil Conservation Division



**\*Response Required - Deadline Enclosed\***

*Underground Injection Control Program  
"Protecting Our Underground Sources of Drinking Water"*

26-Dec-13

XOG OPERATING LLC  
1801 W TEXAS  
MIDLAND TX 79701-

HOBBS OCD

DEC 30 2013

RECEIVED

**LETTER OF VIOLATION and SHUT-IN DIRECTIVE  
Failed Mechanical Integrity Test**

Dear Operator:

The following test(s) were performed on the listed dates on the following well(s) shown below in the test detail section.

The test(s) indicates that the well or wells failed to meet mechanical integrity standards of the New Mexico Oil Conservation Division. To comply with guidelines established by the U.S. Environmental Protection Agency, the well(s) must be shut-in immediately until it is successfully repaired. The test detail section which follows indicates preliminary findings and/or probable causes of the failure. This determination is based on a test of your well or facility by an inspector employed by the Oil Conservation Division. Additional testing during the repair operation may be necessary to properly identify the nature of the well failure.

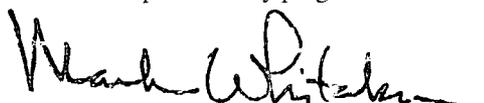
Please notify the proper district office of the Division at least 48 hours prior to the date and time that the well(s) will be retested so the test may be witnessed by a field representative.

***MECHANICAL INTEGRITY TEST DETAIL SECTION***

|                             |  |  |                              |
|-----------------------------|--|--|------------------------------|
| <b>GENESIS STATE No.003</b> |  | <b>30-025-34664-00-00</b>                |                              |
|                             |  | Active Salt Water Disposal Well          | I-18-20S-36E                 |
| <b>Test Date:</b>           | 12/23/2013   | <b>Permitted Injection PSI:</b>          | <b>Actual PSI:</b>           |
| <b>Test Reason:</b>         | 5-year Test  | <b>Test Result:</b> F                    | <b>Repair Due:</b> 3/28/2014 |
| <b>Test Type:</b>           | Std. Annulus Pres. Test  | <b>FAIL TYPE:</b> Other Internal Failure | <b>FAIL CAUSE:</b>           |
| <b>Comments on MIT:</b>     | Attempted to conduct Mechanical Integrity Test on well. Pressures falling more than allowed 10%. Also found 1500 psi on tubing which is 600 psi over permitted pressure. Need to determine cause of pressure leak off and repair. Need to choke back tubing to permitted pressure or conduct step rate test and apply for higher injection pressure. |  |                              |

In the event that a satisfactory response is not received to this letter of direction by the "Repair Due:" date shown above, or if the well(s) are not immediately shut-in, 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.

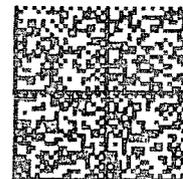
Sincerely,

  
COMPLIANCE OFFICER

Hobbs OCD District Office

Note: Pressure Tests are performed prior to initial injection, after repairs and otherwise, every 5 years; Bradenhead Tests are performed annually. Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data. "Failure Type" and "Failure Cause" and any Comments are not to be interpreted as a diagnosis of the condition of the wellbore. Additional testing should be conducted by the operator to accurately determine the nature of the actual failure. \* Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.

EMNRD  
OIL CONSERVATION DIVISION  
1625 N FRENCH DRIVE  
HOBBS NM 88240



|        |                   |            |
|--------|-------------------|------------|
| HASLER | 015H14150977      | US POSTAGE |
|        | <b>\$0.46</b>     |            |
|        | 12/26/13          |            |
|        | Mailed From 88240 |            |

XOG OPERATING LLC  
1801 W TEXAS  
MIDLAND, TX 79701