

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Jon Goldstein
Cabinet Secretary

Jim Noel
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



April 29, 2010

Mr. Andy Chalker
Operations Manager, Permian Basin
EOR Operating Company
200 N. Loraine, Suite 1440
Midland, TX 79701

e-mail: andy.chalker @att.net

RECEIVED
JUN 03 2010
HOBBSDOCD

30-025-03629
#101

Re: EOR Operating Company, OGRID 25742
Crossroads Siluro Devonian Unit #340, API 30-025-03610
Agreed Compliance Order for Inactive Wells
Ridgeway Arizona Oil Corp., OGRID 164557

Dear Mr. Chalker,

I want to thank you and the other representatives of EOR Operating Company (EOR) and Ridgeway Arizona Oil Corp. (Ridgeway) for meeting with Oil Conservation Division (OCD) representatives on April 27, 2010 to discuss outstanding compliance issues.

EOR Operating Company

I understand from our discussion that EOR intends to repair the Crossroads Siluro Devonian Unit #304 injection well so that it can return to injection under the terms of its current injection permit, Order R-11641. If EOR cannot repair the well to meet the terms of its current injection permit, EOR intends to apply for an amendment to its existing order or a new order. EOR is also considering applying for an injection permit for another well, the Crossroads Siluro Devonian Unit #101.



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EOR's immediate business plans also may include seeking approval for applications to drill infill wells in the Milnesand Unit.

As we discussed, EOR is currently out of compliance with 19.15.5.9 NMAC (Part 5.9) because it has too many wells out of compliance with the inactive well rule, and because it has wells out of compliance with OCD financial assurance requirements. While EOR is out of compliance with Part 5.9, the OCD must deny EOR injection permits and may deny EOR applications for permits to drill. The OCD must also deny requests for allowable and authorizations to transport.

EOR has agreed to return its wells to compliance with financial assurance requirements. Once it is in compliance with the financial assurance requirements, the OCD will be willing to enter into a short-term agreed compliance order regarding EOR's inactive wells. A draft order is attached. Under the terms of the draft order, EOR agrees to return a total of four inactive wells to compliance in the next six months. One of those four wells must be the Milnesand Unit #114 well- a well that has been inactive since 1974. EOR must file a compliance report at the end of the six month period, identifying the wells returned to compliance and describing what was done to return the wells to compliance. Please e-mail the report to me at gail.macquesten@state.nm.us and to Compliance and Enforcement Manager Daniel Sanchez at Daniel.sanchez@state.nm.us. If you prefer, you may mail hard copies of the report to our attention at the address listed below.

During the six months the order is in effect, the inactive wells identified in the order will not count against EOR when determining whether EOR is in compliance with Part 5.9 for purposes of applying for injection permits for the two identified wells, and for applications for permits to drill infill wells in the Milnesand Unit. The inactive wells will not be removed from the inactive well list, however. EOR should provide a copy of the order with its application for injection permit or application for permit to drill, so the person evaluating the permit application will know not to count the covered wells when determining Part 5.9 compliance. Please note that the order does not affect EOR's standing under Part 5.9 for other issues. In particular, the order does not remove the inactive wells from consideration when determining whether to grant requests for allowable and authorization to transport.

Please note that this is a short-term order that will be in effect for only six months. If EOR needs a new order when this order expires, it may negotiate with the OCD for a new order. The OCD will consider EOR's good faith in determining whether to enter into any additional orders, and in determining what the terms of those orders will be. If EOR does not use this opportunity to demonstrate its good faith in addressing its outstanding compliance issues, it is extremely unlikely the OCD will be willing to enter into additional agreed compliance orders. I also note that according to the Public Regulation Commission website, EOR Operating Company is not in good standing. EOR will need to address this issue prior to negotiating any new order.

If the draft order is acceptable, please sign the "Acceptance" section, and please sign at the end of Exhibit "A." Return a signed original to me for execution by the OCD. If you have any questions or concerns, please call or e-mail me.

Ridgeway Arizona Oil Corp.

The OCD is not willing to negotiate an agreed compliance order with Ridgeway Arizona at this time. Ridgeway is seriously out of compliance with OCD requirements. As an operator of 359 wells, Ridgeway may have no more than 5 wells out of compliance with the inactive well rule and still be in compliance with Part 5.9. Ridgeway has 290 wells out of compliance with the inactive well rule. Several of those wells have been inactive since the 1980s. In addition, Ridgeway has 111 wells out of compliance with the OCD's single-well financial assurance

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requirements. I also note that according to the Public Regulation Commission website, Ridgeway's corporate status is in the process of revocation.

Because EOR and Ridgeway are so closely related, sharing a CEO and President, the OCD may consider Ridgeway's good faith in addressing its compliance issues when determining whether to enter into additional agreed compliance orders with EOR.

Sincerely,

Gail MacQuesten
OCD Attorney

Ec: Daniel Sanchez, Compliance and Enforcement Manager
Sonny Swazo, OCD Attorney
Buddy Hill, Supervisor, OCD District 1
E.L. Gonzalez, Inspection Supervisor, OCD District 1
Barry Lasker, CEO Enhanced Oil Resources, Inc. and President, Ridgeway
Arizona Oil Corp.

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

NMOCD – ACO- _____

IN THE MATTER OF EOR OPERATING COMPANY,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act") and OCD Rule 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and EOR Operating Company ("EOR" or "Operator") enter into this Agreed Compliance Order ("Order" or "ACO") under which Operator agrees to plug, place on approved temporary abandonment status or restore to production or other beneficial use four wells pursuant to the Act and OCD Rule 19.15.25.8 NMAC in accordance with the following agreed schedule and procedures.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation operating wells in the state of New Mexico under OGRID 257420.
3. Operator's business plans include drilling infill wells in the Milnesand Unit. Operator may also seek an injection permit for the Crossroads Siluro Devonian Unit #101, and may seek to amend the existing injection order for the Crossroads Siluro Devonian Unit #304.
4. If an operator is out of compliance with 19.15.5.9 NMAC, the OCD may deny applications for permits to drill, 19.15.14.10 NMAC, and must deny applications for permits to inject. 19.15.26.8 NMAC.
5. Operator is currently out of compliance with 19.15.5.9.A(4) NMAC because it has too many wells out of compliance with 19.15.25.8 NMAC (the inactive well rule) that are not subject to an agreed compliance order setting a schedule for bringing the wells into compliance with the inactive well rule and imposing sanctions if the schedule is not met. See 19.15.5.9(A)(4) NMAC.
6. As an operator of 104 wells, to be in compliance with 19.15.5.9.A(4) NMAC, Operator may have no more than 5 wells out of compliance with the inactive well rule. According to the inactive well list kept pursuant to 19.15.5.9(F) NMAC,

ACO

EOR Operating Company

Operator has 35 wells out of compliance with the inactive well rule. A copy of Operator's inactive well list as of April 27, 2010 is attached as Exhibit "A."

7. According to Exhibit "A," Operator operates 12 wells that have been inactive for over 20 years. The well with the longest period of inactivity is the Milnesand Unit #114, 30-041-10157, which last reported production in 1974.
8. Operator has represented to the OCD that it needs a viable injection well in the Crossroads Siluro Devonian Unit in order to produce wells in that Unit, and that production in that Unit and infill drilling in the Milnesand Unit is necessary to maintain adequate cash flow to allow it to address its compliance issues.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit "A" are out of compliance with OCD Rule 19.15.25.8 NMAC.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with OCD Rule 19.15.25.8 NMAC.
4. The OCD and the Operator enter into this Order so that Operator may obtain injection permits for the two identified Crossroads Siluro Devonian wells and permits to drill infill wells in the Milnesand Unit while working to return its inactive wells to compliance.

ORDER

1. Operator agrees to bring **the Milnesand Unit #114, 30-041-10157, and three additional wells from Exhibit "A"** into compliance with OCD Rule 19.15.25.8 NMAC by **November 30, 2010** by
 - (a) restoring the well to oil or gas production or other OCD-approved beneficial use **and filing a C-115 documenting such production or use;**
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 19.15.25.10(B) NMAC **and filing a C-103 describing the completed work;** or
 - (c) placing the well on approved temporary abandonment status in accordance with OCD Rule 19.15.25.12 NMAC through 19.15.25.14 NMAC.
2. Swabbing is not "production" or "beneficial use" for purposes of this Order.
3. Operator shall file a compliance report identifying each well returned to compliance, stating the date it was returned to compliance and describing how the well was returned to compliance (restored to production or other approved

beneficial use, plugged wellbore, or approved temporary abandonment status). The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager and to the OCD attorney in charge of inactive well agreed compliance orders so that it is **received by** the compliance deadline of **November 30, 2010**.

4. This Order shall be considered an "Inactive Well Agreed Compliance Order" under 19.15.5.9(F)(1)(c) NMAC for the limited purpose of removing the wells identified in Exhibit "A" from consideration in determining compliance with 19.15.5.9(A)(4) NMAC for:
 - Applications for permits to drill infill wells in the Milnesand Unit; and
 - Applications for permits to inject into the Crossroads Siluro Devonian Unit #101, 30-025-03629 or the Crossroads Siluro Devonian Unit #304, 30-025-03610.
5. This Order shall not be considered an "Inactive Well Agreed Compliance Order" under 19.15.5.9(F)(1)(c) NMAC for any other purpose, and the wells identified in Exhibit "A" shall not be removed from the inactive well list kept pursuant to 19.15.5.9(F) NMAC.
6. This Order shall expire December 1, 2010.
7. Operator may negotiate with the OCD for an agreed compliance order to take effect when this Order expires. It will be within the OCD's discretion whether to enter into an agreed compliance order with Operator. Factors in the OCD's determination shall include:
 - Operator's compliance with OCD financial assurance requirements;
 - Operator's compliance with the terms of this Agreed Compliance Order, including whether Operator successfully returned the Milnesand Unit #114 and three additional wells from Exhibit "A" to compliance by November 30, 2010, filed the necessary paperwork to document that compliance, and filed a timely compliance report;
 - Whether Operator returned additional wells to compliance beyond those required under the terms of this Order;
 - Whether Operator prevented wells from falling out of compliance with the inactive well rule during the time period covered by this Order; and
 - Whether Operator proposes an acceptable plan for returning its inactive wells to compliance.
8. Operator understands that if it fails to meet the terms of this Order it is unlikely that the OCD will enter into further agreed compliance orders with Operator for inactive wells.
9. By signing this Order, Operator expressly:

- (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
- (b) agrees that by November 30, 2010, it will
- Return the Milnesand Unit #114 to compliance as defined in this Order;
 - Return three additional wells identified in Exhibit "A" to compliance as defined in this Order;
 - File the appropriate paperwork to document the compliance; and
 - Submit a written compliance report; and
- (c) waives any right, pursuant to the Oil and Gas Act or otherwise, to an appeal from this Order, or to a hearing either prior to or subsequent to the entry of this Order.
10. The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this _____ day of May 2010

By: _____
Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

EOR Operating Company hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

EOR Operating Company

By: Andy Chalke
(Please print name) Andy Chalke
Title: Operations Manager
Date: May 4, 2010

Exhibit A to Agreed Compliance Order for EOR Operating Company

Total Well Count: 104 Inactive Well Count: 35 Since: 2/1/2009

Printed On: Tuesday, April 27 2010

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
1	30-025-03629	CROSSROADS SILURO DEVONIAN UNIT #101	A-34-09S-36E	A	257420	EOR OPERATING COMPANY	P	O	01/1990		T	12/12/2007
1	30-025-24144	CROSSROADS SILURO DEVONIAN UNIT #203	C-27-09S-36E	C	257420	EOR OPERATING COMPANY	P	O	12/2008	10/09/08 RET TO PROD		
1	30-041-10103	HORTON FEDERAL #003	2-30-08S-35E	E	257420	EOR OPERATING COMPANY	F	O	10/2007	SAN ANDRES CHG OF OPR TO EOR 12/11/08		
1	30-041-10109	HORTON FEDERAL #013	O-30-08S-35E	O	257420	EOR OPERATING COMPANY	F	O	04/1986	SAN ANDRES CHG OF OPR TO EOR 12/11/08	T	7/9/2004
1	30-041-20753	HORTON FEDERAL #035	C-30-08S-35E	C	257420	EOR OPERATING COMPANY	F	O	01/1996	SAN ANDRES CHG OF OPR TO EOR 12/11/08		
1	30-041-20754	HORTON FEDERAL #036	B-30-08S-35E	B	257420	EOR OPERATING COMPANY	F	O	11/2008	SAN ANDRES CHG OF OPR 12/11/08		
1	30-041-20755	HORTON FEDERAL #037	A-30-08S-35E	A	257420	EOR OPERATING COMPANY	F	O	11/2008	SAN ANDRES CHG OF OPR TO EOR 12/11/08		
1	30-041-10148	MILNESAND UNIT #025	O-19-08S-35E	O	257420	EOR OPERATING COMPANY	F	O	05/2000	INT TO RUN MIT BY 01/04/2010 BLM	T	6/30/1994
1	30-041-10149	MILNESAND UNIT #026	P-19-08S-35E	P	257420	EOR OPERATING COMPANY	F	I	12/1992	INT TO RUN MIT BY 01/04/2010 BLM	T	4/15/2009
1	30-041-10034	MILNESAND UNIT #062	D-8 -08S-35E	D	257420	EOR OPERATING COMPANY	F	O	07/1987			
1	30-041-10036	MILNESAND UNIT #063	C-8 -08S-35E	C	257420	EOR OPERATING COMPANY	F	O	03/1989			
1	30-041-10207	MILNESAND UNIT #113	A-12-08S-34E	A	257420	EOR OPERATING COMPANY	P	O	09/1986			
1	30-041-10157	MILNESAND UNIT #114	B-12-08S-34E	B	257420	EOR OPERATING COMPANY	P	O	07/1974			
1	30-041-00029	MILNESAND UNIT #122	N-7 -08S-35E	N	257420	EOR OPERATING COMPANY	P	I	11/2007			
1	30-041-00031	MILNESAND UNIT #124	K-7 -08S-35E	K	257420	EOR OPERATING COMPANY	P	O	12/1992		T	6/30/1994
1	30-041-10041	MILNESAND UNIT #131	B-7 -08S-35E	B	257420	EOR OPERATING COMPANY	P	O	12/1992			
1	30-041-10044	MILNESAND UNIT #134	J-7 -08S-35E	J	257420	EOR OPERATING COMPANY	P	O	02/1993	SAN ANDRES	T	6/30/1994
1	30-041-10008	MILNESAND UNIT #142	L-12-08S-34E	L	257420	EOR OPERATING COMPANY	P	O	01/1987			
1	30-041-00010	MILNESAND UNIT #152	K-12-08S-34E	K	257420	EOR OPERATING COMPANY	P	O	09/1988			
1	30-041-00244	MILNESAND UNIT #163	J-12-08S-34E	J	257420	EOR OPERATING COMPANY	P	O	01/1990			
1	30-041-00245	MILNESAND UNIT #164	I-12-08S-34E	I	257420	EOR OPERATING COMPANY	P	O	12/1992		T	6/30/1994
1	30-041-00119	MILNESAND UNIT #172	G-14-08S-34E	G	257420	EOR OPERATING COMPANY	P	O	12/1992		T	6/30/1994
1	30-041-10056	MILNESAND UNIT #185	C-18-08S-35E	C	257420	EOR OPERATING COMPANY	P	O	12/1992			

1	30-041-00083	MILNESAND UNIT #191	I-13-08S-34E	I	257420	EOR OPERATING COMPANY	P	O	12/2007			
1	30-041-00084	MILNESAND UNIT #193	O-13-08S-34E	O	257420	EOR OPERATING COMPANY	P	O	07/2003	SAN ANDRES		
1	30-041-00140	MILNESAND UNIT #197	L-13-08S-34E	L	257420	EOR OPERATING COMPANY	P	O	06/1988		T	6/30/1994
1	30-041-10180	MILNESAND UNIT #201	B-25-08S-34E	B	257420	EOR OPERATING COMPANY	P	O	02/1993			
1	30-041-10181	MILNESAND UNIT #202	A-25-08S-34E	A	257420	EOR OPERATING COMPANY	P	O	01/2003			
1	30-041-10062	MILNESAND UNIT #313	3-19-08S-35E	L	257420	EOR OPERATING COMPANY	F	O	06/2008	SAN ANDRES INT TO RUN MIT BY 01/04/2010		
1	30-041-00259	MILNESAND UNIT #510	C-13-08S-34E	C	257420	EOR OPERATING COMPANY	F	O	04/1983	INT TO RUN MIT BEFORE 04/04/10 BLM	T	6/30/1994
1	30-041-00257	MILNESAND UNIT #511	D-13-08S-34E	D	257420	EOR OPERATING COMPANY	F	O	12/1992	INT TO RUN MIT BEFORE 01/4/2010 BLM		
1	30-041-00261	MILNESAND UNIT #514	J-24-08S-34E	J	257420	EOR OPERATING COMPANY	F	O	12/1992	INT TO RUN MIT BEFORE 01/04/2010 BLM	T	6/30/1994
1	30-041-00262	MILNESAND UNIT #515	I-24-08S-34E	I	257420	EOR OPERATING COMPANY	F	O	05/2000	INT OT RUN MIT BY 01/04/10 BLM		
1	30-041-10208	MILNESAND UNIT #516	O-24-08S-34E	O	257420	EOR OPERATING COMPANY	F	O	06/1977	INT TO RUN MIT BEFORE 01/04/2010 BLM		
1	30-041-10158	MILNESAND UNIT #517	P-24-08S-34E	P	257420	EOR OPERATING COMPANY	F	I	12/1992	SAN ANDRES INT TO RUN MIT BY 01/04/10 BL	T	12/10/1997

WHERE Ogrid:257420, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

EOR Operating Company

By: Andy Chalk

Title: Operations Manager