

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

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APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST YESO ENERGY, INC. FINDING THAT OPERATOR KNOWINGLY AND WILLFULLY VIOLATED 19.15.13.1115.C NMAC, 19.15.13.1104 NMAC, 19.15.9.701 NMAC AND 19.15.10.804.A NMAC AS TO NINETEEN WELLS, ASSESSING MONETARY PENALTIES FOR THOSE VIOLATIONS AND REQUIRING OPERATOR TO AVAIL ITSELF TO AN AUDIT AND SUBMIT CORRECTED RECORDS OR ALTERNATIVELY ORDERING OPERATOR TO PLUG AND ABANDON ALL REMAINING WELLS FOR WHICH IT REMAINS THE OPERATOR OF RECORD IN THE STATE OF NEW MEXICO, PURSUANT TO NMSA 70-2-14(B).

CASE NO. 14008

**APPLICATION FOR COMPLIANCE ORDER & ASSESSMENT OF
MONETARY PENALTIES, AND FOR ORDER TO SUBMIT TO AUDIT BY OCD
& SUBMIT CORRECTED/MISSING RECORDS, OR ALTERNATIVELY FOR
ORDER REQUIRING OPERATOR TO PLUG AND ABANDON ALL
REMAINING WELLS OPERATED IN NEW MEXICO**

1. Yeso Energy, Inc. ("Operator") is a corporation operating wells in New Mexico under OGRID 221710. Yeso posted a \$50,000 blanket bond, number B001414 through U.S. Specialty Insurance Company to secure its obligation to plug and abandon wells in compliance with Division rules.

2. The following wells ("subject wells") were being operated by Operator in New Mexico during the relevant time period, between November 20, 2006 and June 1, 2007:

CORTLAND MYERS UNIT #001	30-025-11194
CORTLAND MYERS UNIT #002	30-025-11195
CORTLAND MYERS UNIT #003	30-025-11197
CORTLAND MYERS UNIT #004	30-025-11198
CORTLAND MYERS UNIT #005	30-025-11199
JAMISON #001	30-025-11188

JAMISON #002	30-025-11193
JAMISON #003	30-025-11189
KNIGHT #001	30-025-11186
KNIGHT #002	30-025-11191
KNIGHT #003	30-025-11187
KNIGHT #004	30-025-11190
KNIGHT #005	30-025-20356
KNIGHT #009	30-025-20352
KNIGHT #010	30-025-20351
KNIGHT #011	30-025-20350
KNIGHT #014	30-025-27490
LAS CRUCES B #001	30-041-00234
LAS CRUCES B #002	30-041-00235
LAS CRUCES B #003	30-041-00236
LAS CRUCES B #004	30-041-00237
STATE #001	30-041-20600
STATE BPA #001	30-041-00188
STATE BPA #002	30-041-00189

3. On November 20, 2006, the Oil Conservation Division (“OCD”) issued a Notice of Cancellation letter to Operator (via both email and certified mail), advising Operator that, effective immediately, Operator’s authority to transport from or inject into any wells was cancelled by the OCD pursuant to OCD Rule 1115.C [19.15.13.1115.C NMAC]. **Exhibit A.**

4. Rule 1115.C provides:

If an operator fails to file a form C-115 that the division accepts, the division shall, within 60 days of the appropriate filing date, notify the operator by electronic mail or letter of its intent to revoke the operator’s authorization to transport or inject if the operator does not submit an acceptable and complete form C-115. If the operator does not file an acceptable and complete form C-115 or request a hearing on the proposed cancellation within 120 days of the original due date of the form C-115, the division may cancel the operator’s authority to transport from or inject into all wells it operates.

19.15.13.1115.C NMAC.

5. As noted in the Cancellation Letter, attached as **Exhibit A**, the OCD had, pursuant to Rule 1115.C, notified the Operator in September of 2006 that it had not received a C-115 report for May of 2006, and further advised Operator that if it did not receive said report within one-hundred twenty (120) days, the OCD intended to revoke Operator's authority to transport and/or inject.

6. As of the date of the Cancellation Letter, November 20, 2006, the OCD had still not received the requested C-115 report from Operator (and had not received additional C-115s that were due as well, as also noted in the Cancellation Letter). *Id.* At that time, the OCD also advised Operator that if it failed to recognize the cancellation of authority to transport or inject and insisted on continuing operation of the subject wells, it would be "in violation of OCD Rules 1104 [19.15.13.1104 NMAC], 804.A [19.15.10.804A NMAC] and/or 701 [19.15.9.701 NMAC]," and that a "knowing and willful violation of an OCD rule may subject the operator to penalties of up to \$1,000 per day." *Id.*

7. Operator contacted the OCD via email on November 27, 2006 confirming receipt of the November 20, 2006 Cancellation Letter and advising that the requested documentation would be filed by the afternoon of November 29, 2006, two days later.

Exhibit B.

8. As of January 8, 2007, Operator Yeso had still not filed the missing reports. In a letter sent by the OCD on that date in response to an inquiry by Yeso relating to its inactive wells, the OCD once again reminded Yeso of the missing documentation

and of the fact that its authority to transport and inject had been cancelled due to its delinquencies in filing. **Exhibit C.**

9. Effective June 1, 2007, Operator Yeso transferred twenty-four (24) wells, including the nineteen (19) subject wells, to Kerns Petroleum, Inc. (OGRID 250384). **Exhibit D.** As of the date of the transfer, however, Operator Yeso had still not filed the missing C115s for the subject wells, and Operator's authority to transport and inject had not been reinstated.

10. Subsequent to the effective date for the transfer of the subject wells to Operator Kerns, in August of 2007, C-115 Reports were filed for the twenty-four (24) transferred wells for time periods during which Operator Yeso was still the Operator of Record for those wells.

11. The C-115s ultimately filed for the twenty-four (24) transferred wells (all filed at the end of August, 2007) included data for December of 2006 and January, February, March and April of 2007¹. As described above, Operator Yeso's authority to transport and/or inject had been cancelled as of November 20, 2006, and was never reinstated prior to the transfer of wells from Operator Yeso to Operator Kerns. To date, Operator Yeso's authority to transport and/or inject remains cancelled.

12. Despite the fact that Operator Yeso had no authority to transport or inject between November 20, 2006 and June 1, 2006, the date on which it transferred the wells to Kerns, nineteen (19) of the twenty-four (24) transferred wells, (the "subject wells") show activity (either production/transport or injection) at some point during that five (5)

¹ Production Reports/C115 data is only available through reports filed on May 1, 2007 at this point in time, and data for the month of May is therefore not yet available.

month period. The production data derived from the recently-submitted C115s for the subject wells, previously operated by Operator Yeso, and reflecting production by those wells during the time period during which Operator Yeso's authority to transport/inject had been cancelled is summarized, below:

- a. C115 data submitted for Cortland Myers Unit No. 001, API No. 30-025-11194 reflects that this well was producing both oil and gas from December 1, 2006 through May 1, 2007, producing a total of **314 barrels of oil** and **1000 cubic feet of gas** during this period of time.
- b. C115 data submitted for Cortland Myers Unit No. 002, API No. 30-025-11195 reflects that this injection well injected a total of **1036 barrels of water** between December of 2006 and the end of May 2007.
- c. C115 data submitted for Cortland Myers Unit No. 4, API No. 30-025-11197 reflects that this well produced **82 barrels of oil** and **245 cubic feet of gas** during the month of December, 2006.
- d. C115 data submitted for Cortland Myers Unit No. 5, API No. 30-025-11199 reflects that this injection well was used to inject a total of **3401 barrels of water** between December 1, 2006 and May 1, 2007.
- e. C115 data submitted for Jamison Unit No. 1, API No. 30-025-11188 reflects that this well produced a total of **232 barrels of oil**, along with **4225 barrels of produced-water** between December 1, 2006 and May 1, 2007.
- f. C115 data submitted for Jamison Unit No. 3, API No. 30-025-11189 reflects that this well produced a total of **116 barrels of oil**, along with **760 barrels of produced-water** between December 1, 2006 and May 1, 2007.
- g. C115 data submitted for Knight Unit No.1, API No. 30-025-11186 reflects that this well produced a total of **404 barrels of oil** between December 1, 2006 and May 1, 2007.
- h. C115 data submitted for Knight Unit No.3, API No. 30-025-11187 reflects that this well produced a total of **324 barrels of oil** between December 1, 2006 and May 1, 2007.
- i. C115 data submitted for Knight Unit No.2, API No. 30-025-11191 reflects that this well produced a total of **244 barrels of oil** between December 1, 2006 and May 1, 2007.
- j. C115 data submitted for Knight Unit No.4, API No. 30-025-11190 reflects that this well produced a total of **324 barrels of oil** between December 1, 2006 and May 1, 2007.

- k. C115 data submitted for Knight Unit No.9, API No. 30-025-20352 reflects that this injection well was used to inject a total of **156 barrels of water** between December 1, 2006 and May 1, 2007.
- l. C115 data submitted for Knight Unit No.10, API No. 30-025-20351 reflects that this injection well was used to inject a total of **1409 barrels of water** between December 1, 2006 and May 1, 2007.
- m. C115 data submitted for Knight Unit No.11, API No. 30-025-20350 reflects that this injection well was used to inject a total of **14,088 barrels of water** between December 1, 2006 and May 1, 2007.
- n. C115 data submitted for Knight Unit No.14, API No. 30-025-27490 reflects that this well produced a total of **162 barrels of oil** between December 1, 2006 and May 1, 2007.
- o. C115 data submitted for Las Cruces B Unit No.3, API No. 30-041-00236 reflects that this well produced a total of **33 barrels of oil and 63 cubic feet of gas** during the month of December, 2006.
- p. C115 data submitted for Las Cruces B Unit No.4, API No. 30-041-00237 reflects that this well produced a total of **467 barrels of oil** between December 1, 2006 and May 1, 2007 and **177 cubic feet of gas** during December of 2006 and January of 2007.
- q. C115 data submitted for State BPA Unit No. 1, API No. 30-041-00188 reflects that this well produced a total of **375 barrels of oil** between December 1, 2006 and May 1, 2007, and **605 cubic feet of gas** during December of 2006 and January of 2007.
- r. C115 data submitted for State BPA Unit No. 2, API No. 30-041-00189 reflects that this well produced a total of **249 barrels of oil** between December 1, 2006 and May 1, 2007, and **402 cubic feet of gas** during December of 2006 and January of 2007.
- s. C115 data submitted for State Unit No. 1, API No. 30-041-20600 reflects that this well produced a total of **206 barrels of oil** between December 1, 2006 and May 1, 2007, and **335 cubic feet of gas** during December of 2006 and January of 2007.

13. An operator may not produce or transport oil or gas until it has first submitted certain documentation requesting permission to do so from the OCD. Rule 1104 [19.15.13.1104 NMAC]. Likewise, as noted above, when an operator ceases to abide by production reporting requirements, the OCD may cancel a previously-approved authority to produce, transport and/or inject oil and gas, pursuant to Rule 1115 [19.15.13.1115.C].

14. Rule 804.A [19.15.10.804A NMAC] provides that transport of oil and gas can only be performed when a valid C-104 is in place for a given operator.

15. Rule 701 [19.15.9.701 NMAC] requires that an operator obtain a permit from the Division prior to the injection of any fluid or gas. Again, when an operator ceases to abide by production reporting requirements, however, the OCD may cancel a previously-approved injection permit pursuant to Rule 1115 [19.15.13.1115.C].

16. NMSA 1978, Section 70-2-31(A) provides that any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars for each violation, and that in the case of a continuing violation, each day of violation shall constitute a separate violation.

9. NMSA 1978, Section 70-2-33(A) defines “person” to include corporations.

10. NMSA 1978, Section 70-2-14(B) provides:

If any of the requirements of the Oil and Gas Act [70-2-1 NMSA 1978] or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.

WHEREFORE, the Enforcement and Compliance Manager of the Division hereby applies to the Director to enter an order:

A. Determining that Operator Yeso’s authority to transport and inject was properly and appropriately cancelled pursuant to OCD Rule 1115.C [19.15.13.1115.C NMAC] as of November 20, 2006 at the time the OCD issued the Cancellation of Authority Letter to Operator Yeso.

- B. Finding that Operator Yeso was aware of the cancellation of authority, having confirmed (on November 27, 2006) the receipt of the November 20, 2006 Cancellation of Authority Letter.
- C. Determining that Operator Yeso's authority to transport and inject, upon being cancelled on November 20, 2006, was not reinstated prior to the transfer of the subject wells from Operator Yeso to Operator Kerns on June 7, 2007.
- D. Determining that the nineteen (19) wells identified in Paragraph No. 2, above, being operated by Operator Yeso between November 20, 2006 and June 1, 2007, produced oil, gas and/or water, or were used to inject water between December 1, 2006 and May 1, 2007, in direct violation of the Cancellation of Authority issued to Operator Yeso by the OCD on November 20, 2006.
- E. Determining that Operator Yeso's actions in producing and/or injecting these nineteen (19) wells constituted a knowing and willful violation of Rule 1115.C [19.15.13.1115.C NMAC] (Operators required to file monthly reports; OCD empowered to cancel authority upon noncompliance with report-filing requirement), and of the Cancellation of Authority issued by the OCD pursuant to Rule 1115.C as to the subject wells.
- F. Determining that Operator Yeso's actions in producing the subject wells and transporting oil and/or gas from these sites during the specified time period, constituted a knowing and willful violation of both Rules 701 and

804-A [19.15.9.701 and 19.15.10.804.A NMAC], which require a valid permit (approved C-104) from the Division for such production and/or transport.

- G. Determining that Operator Yeso's actions in injecting water into five (5) wells during the specified time period, despite having received the November 20, 2006 Cancellation of Authority letter, constituted a knowing and willful violation of Rule 701 [19.15.9.701 NMAC], which requires a valid permit from the Division for such injection.
- H. Assessing penalties pursuant to NMSA 1978, Section 70-2-31(A) for the Operator's knowing and willful violation of 19.15.13.1115.C NMAC, 19.15.13.1104 NMAC, 19.15.9.701 NMAC and 19.15.10.804.A NMAC as to the subject wells in an amount consistent with the degree of Operator Yeso's violation and disregard for the Division's Rules and Regulations;
- I. Designating a date certain by which the assessed penalties shall be paid by Operator;
- J. Ordering Operator Yeso to make the well files available to OCD legal staff, upon reasonable notice and request, of all wells for which it was the Operator of Record anywhere in the State of New Mexico between the date of issuance of the Cancellation of Authority through the date of reinstatement of Authority² for the purposes of an audit as to the reporting of production for those wells;

² To date, the Operator's authority has not been reinstated.

- K. Ordering Operator Yeso to file any required supplemental and/or corrected documentation necessary (e.g. C-115s) to render the OCD records for wells currently or previously operated by Operator fully accurate as to the reporting of production during the cancellation of authority period;
- L. Alternatively, an Order is sought pursuant to NMSA 1978, Section 70-2-14(B) requiring the Operator to plug and abandon all remaining wells in the State of New Mexico for which it is currently the Operator of Record by a date certain, and providing for the forfeiture of Operator's financial assurance should Operator fail to comply with said Order, and
- M. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 14th day of September 2007 by



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- Case No. 14008. Application of the New Mexico Oil Conservation Division for a Compliance Order. The Applicant seeks an order 1) finding that Yeso Energy, Inc., OGRID 221710, knowingly and willfully violated 19.15.13.1115.C NMAC, 19.15.13.1104 NMAC, 19.15.9.701 NMAC and 19.15.10.804.A NMAC as to nineteen wells and imposing monetary penalties for those violations; and 2) requiring the operator to avail itself to an audit and submit corrected records; or, alternatively, 3) ordering operator to plug and abandon all remaining wells for which it remains the operator of record in the state of New Mexico, pursuant to NMSA 70-2-14(B), and, in the event of non-compliance, authorizing the Division to plug said wells and forfeit the operator's financial assurance. The affected wells are:

CORTLAND MYERS UNIT #001	30-025-11194
CORTLAND MYERS UNIT #002	30-025-11195
CORTLAND MYERS UNIT #004	30-025-11198
CORTLAND MYERS UNIT #005	30-025-11199
JAMISON #001	30-025-11188
JAMISON #003	30-025-11189
KNIGHT #001	30-025-11186
KNIGHT #002	30-025-11191
KNIGHT #003	30-025-11187
KNIGHT #004	30-025-11190
KNIGHT #009	30-025-20352
KNIGHT #010	30-025-20351
KNIGHT #011	30-025-20350
KNIGHT #014	30-025-27490
LAS CRUCES B #003	30-041-00236
LAS CRUCES B #004	30-041-00237
STATE #001	30-041-20600
STATE BPA #001	30-041-00188
STATE BPA #002	30-041-00189

The State, State BPA and Las Cruces B wells are located approximately six miles southeast of Milnesand in Roosevelt County, New Mexico, with the remainder being located approximately twelve miles south of Eunice and approximately six miles northeast of Jal in Lea County, New Mexico.