



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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October 16, 2006

Americo Energy Resources LLC
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[address of record]

Mr. Oscar Nosrati
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Re: Inactive Well Agreed Compliance Order 70-A (ACOI-70-A)

Dear Operator:

When Americo Energy Resources LLC (Americo) executed ACOI 70-A it agreed to return at least three of the wells identified in the Order to compliance with Rule 201 by September 25, 2006 and file a compliance report by that date. "Compliance" is defined in the Order to include the filing of the appropriate paperwork to document the compliance action taken. The Order provided that if Americo met its three-well goal, the Oil Conservation Division (OCD) would amend the Order to extend its terms for six months and require Americo to return to compliance three additional wells by that new deadline. But if Americo failed to return at least three of the wells identified in the Order by September 25, 2006, penalties would be imposed and the OCD would have discretion whether to amend the Order to extend its terms.

Americo failed to file a timely compliance report. This requirement is set out in Ordering Paragraph 3 of ACOI 70-A. It is further explained in the cover letter dated April 3, 2006, which was sent to Americo with the fully executed ACOI 70-A. Specific instructions on how to comply with this requirement were set out in a reminder letter sent to Americo on July 28, 2006. Americo's failure to comply with the requirement that it file a timely compliance report is especially disturbing because this is Americo's second failure to file compliance reports required by an agreed compliance order. Americo's failure to file the monthly compliance reports required by its original agreed compliance order, ACOI 70, is discussed in Findings Paragraph 5 of ACOI 70-A.

Americo's compliance report, filed one day after the September 25, 2006 deadline, reported that it had not been able to meet its three-well goal. Americo explained that it was unable to secure a rig until mid-September. Once it acquired the rig, it conducted mechanical integrity tests on two wells and hopes to conduct tests on a third well in several weeks. Americo stated that it had not yet filed requests to place the wells on temporary abandonment status, but that it intended to do so soon. Americo requested a waiver of penalties, and asked the OCD to issue an amendment to the Order.

Americo's explanation for its failure to meet its three-well goal is inadequate. Americo states in its compliance report that it was not able to obtain a rig until mid-September 2006. Yet when Americo negotiated this order in March of 2006, it represented that it had a rig available.

Case 14189

Americo Energy Resources, LLC

OCD Exhibit No. 13

Oil Conservation Division * 1220 South St. Francis Drive * Santa Fe, NM 87505
Phone: (505) 476-3440 * Fax (505) 476-3462 * <http://www.oilconservation.nm.gov>

Americo has had more than adequate time to return its wells to compliance. Its current inactive well agreed compliance order, ACOI 70-A, replaced an earlier order, ACOI 70. Americo signed ACOI 70 on May 27, 2005. ACOI 70 covered nine wells and required Americo to return them to compliance with Rule 201 at a rate of one well per month, starting in May 2005, and finishing by the end of January 2006. Americo returned only two of those wells to compliance. Based on Americo's representation that its past failure was caused by circumstances beyond its control, but that it now had access to a rig, the OCD entered into the current order, ACOI 70-A. The current order gave Americo additional time to return to compliance the seven wells it had failed to return to compliance under the original order. Instead of imposing penalties at the rate set out in the original order, the OCD agreed to a reduced penalty of \$2,000 for Americo's failure to comply with the original order. Americo has now had over 16 months to bring its nine inactive wells into compliance, and still has only returned two wells to compliance.

Further, Americo does not appear to understand what is required to return a well to compliance under the terms of the order or OCD rules. The order requires Americo to return the wells to compliance by

- a. restoring the well to 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 202.B(2) and filing a C-103 describing the completed work; of
- c. placing the well on approved temporary abandonment status pursuant to OCD Rule 203.

From Americo's compliance report it appears that it simply conducted MIT tests on two of the wells. For a well to be placed on approved temporary abandonment status, the well must meet the requirements of Rule 203. Those requirements include, but are not limited to the successful completion of an MIT test. As explained in Rule 203, the operator must demonstrate both internal casing integrity (which includes the setting of a bridge plug for wells completed 5 years ago or more) and external casing integrity, and submission of a request for approval.

Based on Americo's failure to comply with the reporting and compliance provisions of two agreed compliance orders, its poor record of compliance efforts during the 16 months covered by the orders, and its lack of understanding regarding OCD's rule requirements, the OCD had determined not to issue an amendment extending the terms of ACOI 70-A for an additional six month period. On October 26, 2006, all non-compliant wells covered by ACOI 70-A will re-appear on the Rule 40 inactive well list.

The OCD also declines to waiver of the \$3,000 penalty due under the terms of ACOI 70-A. Pursuant to Ordering Paragraph 5 of ACOI 70-A, Americo's request for a waiver of penalty will be set for hearing. If Americo does not wish to contest the penalty, it may remit the \$3,000 penalty and the OCD will request that the hearing be dismissed. You will receive notice of the hearing date and time by separate correspondence.

Sincerely,


Daniel Sanchez
OCD Enforcement and Compliance Manager

Cc: Gail MacQuesten, OCD Attorney
Chris Williams, OCD District I
Tim Gum, OCD District II
Charlie Perrin, OCD District III
Theresa Duran-Saenz, OCD Legal Assistant