

OIL CONSERVATION DIVISION

CASE NO.
14294

EXHIBIT
15

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



August 26, 2008

Ernest Padilla, Esq.
Padilla Law Firm, P.A.
P.O. Box 2523
Santa Fe, NM 87504-2523

-Deadline Enclosed-

Re: **Yeso Energy, Inc. [OGRID - 221710]**
OCD Case No. 14008; Order No. R-12930

Dear Mr. Padilla:

I am writing to follow up regarding *OCD Case No. 14008*, filed by the OCD against your client, Yeso Energy, Inc. ("Yeso"), for which a hearing was conducted on November 29, 2007 and out of which *Order No. R-12930* was issued on April 7, 2008. You will recall that the Application filed in that matter alleged violations of a number of Division Rules, including 1104, 804.A, 701 and 1115 for your client's failure to timely file production reports and production/injection/operation of wells subsequent to and in spite of having had its authority to produce or inject suspended by the Division. The Division sought and was granted an Order assessing civil penalties against Yeso, with said Order being formally issued on April 7, 2008.

Pursuant to Order No. R-12930 ("Order"), Yeso was required to pay a total penalty of **\$33,000** by way of certified or cashier's check or money order, payable to the New Mexico Oil Conservation Division, which was to be delivered to the Division to the attention of Daniel Sanchez, Compliance and Enforcement Manager at 1220 St. Francis Drive in Santa Fe, no later than 5:00 p.m. local time on "the thirtieth day after the issuance of this order...." Order at p. 8, Ordering ¶(4). The Order having been issued April 7, 2008, the deadline for remittance of the penalty assessment by Yeso was **May 7, 2008**. Yeso failed to meet this deadline and, in fact, to date has not paid the penalty assessed by the Order.

In addition, while we note that your client has apparently transferred operatorship of a number of wells, and now only operates a total of 12 wells in New Mexico, Yeso is still grossly out of compliance with OCD Rules. Out of the 12 wells currently operated by Yeso, 10 wells are listed as inactive in violation of Rule 201, and 5 wells (all of the Yeso wells on state land) require additional financial assurances pursuant to Rule 101 that have not yet

been posted. The new financial assurance requirements went into full effect as of the first of this year, and yet Yeso has not posted any of the required additional financial assurance for its wells. Yeso therefore continues to be in blatant violation of Rule 40 on two different bases, as well as numerous other OCD Rules.

Moreover, your client has long been aware of the significant concerns that the OCD has regarding Yeso's production reporting practices, and that Yeso has been and continues to be in violation of Rule 1115 regarding reporting of production. Despite the fact that your client was informed of these issues and concerns both prior to the hearing, as well as at the hearing during which lengthy discussions took place regarding these very topics, Yeso has not filed a single production report since the date of the hearing to either report recent production or to correct/amend the record to address data it now knows to be missing and/or inaccurate. In fact, the last production report filed by your client with the OCD was back in August of 2007, one year ago. Thus, not only has Yeso failed and refused to remit payment of the \$33,000 penalty that was due by May 7, 2008, but it has continued to operate in knowing and willful disregard of OCD Rules, with the very same violations that gave rise to Case No. 14008 and the resultant Order persisting to the present.

Pursuant to Ordering Paragraph (5) of the Order, because Yeso has failed to pay the assessment as ordered, the OCD has the option of reopening the case pursuant to Rule 40 to secure an order finding Yeso in default and/or of filing an action in District Court for recovery of the penalty assessed. If the OCD does not receive payment of the penalty assessed in full (by the means specified in the Order), by 5:00 p.m. local time on **Friday September 12, 2008**, the OCD will exercise its right to take further action to collect the penalty from Yeso as assessed by Order No. R-12930.

Please Note: This letter is being sent to you as counsel for Yeso Energy because you represented Yeso at the hearing on November 29, 2007. If you no longer represent Yeso, please forward this letter to the appropriate person or entity for review and response.

We would appreciate it if you would advise us regarding when we can expect to receive the payment of the penalty assessment from Yeso, which is now well in excess of sixty (60) days overdue.

Very truly-yours,



Mikal Altomare
Assistant General Counsel

Ec:

Daniel Sanchez, Compliance and Enforcement Manager
Gail MacQuesten, Assistant General Counsel
Sonny Swazo, Assistant General Counsel