

mailed 1/13/11

New Mexico Energy, Minerals and Natural Resources Department

Susana Martinez

Governor

Harrison H. Schmitt

Cabinet Secretary-Designate

Daniel Sanchez

Acting Division Director

Oil Conservation Division



Response Required – Deadline Enclosed

Underground Injection Control Program

"Protecting Our Underground Sources of Drinking Water"

12-Jan-11

YATES PETROLEUM CORPORATION

105 S 4TH ST

ARTESIA NM 88210

LOVNO. 02-09-189

**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

FEDERAL HJ No.001

Active Salt Water Disposal Well

30-005-60412-00-00

A-31-6S-26E

Test Date: 1/11/2011

Permitted Injection PSI:

Actual PSI: 525

Test Reason: 5-year Test

Test Result: F

Repair Due: 4/16/2011

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Well would not pressure-up. Pumped about 30bbls of fluid into casing. Pressure finally caught, but as soon as quit pumping, pressure dropped back to zero.

HANDICAPPER AWI STATE No.001

Active Salt Water Disposal Well

30-005-63307-00-00

B-3-10S-26E

Test Date: 1/11/2011

Permitted Injection PSI:

Actual PSI: 0

Test Reason: Annual IMIT

Test Result: F

Repair Due: 4/16/2011

Test Type: Bradenhead Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Operator reported they got 30 bbls of fluid when they blew down the casing previously and pressure never stopped. There was 175 psi on casing after being shut-in for 24 hours.

Oil Conservation Division

1301 W. Grand Avenue • Artesia, New Mexico 88210

Phone (575)748-1283 • Fax (575) 748-9720 • www.emnrd.state.nm.us/OCD

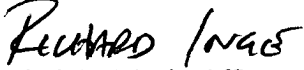


January 12, 2011

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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. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,

A handwritten signature in black ink, appearing to read "Ricardo Inas". The signature is written in a cursive, somewhat stylized font.

Artesia OCD District Office