

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Jim Noel
Cabinet Secretary

Karen W. Garcia
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



August 19, 2010

Mark Fesmire, Division Director
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Hand delivered

Re: Request for hearing before the Oil Conservation Commission, and
Request for consolidation of cases

Dear Mr. Fesmire,

The Oil Conservation Division (OCD) recently received a request for a change of operator to transfer wells from Yeso Energy, Inc. (OGRID 221710) to Judah Oil LLC (OGRID 245872). Because the issue of whether Yeso has authority to operate the wells is the subject of pending Case No. 14,472 before the Oil Conservation Commission on *de novo* review, and because multiple operators have expressed interest in becoming the operator of record of some or all of Yeso's wells, the OCD Compliance and Enforcement Manager filed an application for hearing. The application seeks a hearing on the issue of how operator change requests for Yeso wells should be handled, including the pending application for operator change filed by Judah Oil LLC. The OCD requests that you exercise your discretion under 19.15.4.20 NMAC to set the case for hearing before the Oil Conservation Commission (OCC), and to consolidate the matter with Case No. 14,472. For your convenience, I have attached a proposed order.

Yeso Energy, Inc. (Yeso) is the operator of record of four federal wells. Yeso's wells are subject to a number of OCD compliance orders. The most recent compliance order is Order R-12930-B. That Order found Yeso to be out of compliance with 19.15.25.8 NMAC (the inactive well rule) as to 12 wells, including the four wells for which Yeso remains operator of record. The Order required Yeso to plug and abandon each of the wells "or transfer each of said wells to another operator, not affiliated with Yeso and approved by the Division, not later than March 15, 2010." The Order further authorized the OCD to plug any non-compliant wells after the March 15, 2010 deadline.

Several operators have expressed interest in becoming operator of record of some or all of Yeso's wells:

- COG Operating, LLC (COG) has expressed an interest in the Dow "B" 28 Federal Well No. 1, and filed Case No. 14,472 seeking an order cancelling Yeso's authority and



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terminating spacing units related to that well. Case No. 14,472 is now before the OCC for *de novo* review. COG has not yet filed an application for change of operator for the well.

- Chica Energy LLC (Chica) filed an application for change of operator to become operator of record for all the Yeso wells. That request was later withdrawn, however Chica expressed an intent to file a request to become operator of record of just Yeso's federal wells (which would include the Dow "B" 28 Federal Well No. 1.). Chica's new application is in "draft" status and has not been submitted to the OCD for approval.
- Judah Oil LLC (Judah) is the only operator that has a pending request for operator change. It seeks three Yeso wells, including the Dow "B" 28 Federal No. 1, which is the well at issue in Case No. 14,472.

Rather than decide these issues piecemeal, it would be fairer to the interested parties and more efficient to decide the issues in one proceeding. Because Case No. 14,472 is already before the OCC and affects Yeso's authority and the ability of COG to become operator of record of one of the wells at issue, the OCD requests that the new case be heard with that existing case.

Sincerely,


Gail MacQuesten,
OCD Attorney

Cc:

Yeso Energy, Inc.
P.O. Box 2248
Roswell, NM 88202-00248

Chica Energy LLC
3003 McPherson Road
Roswell, NM 88201

Judah Oil LLC
P.O. Box 568
Artesia, NM 88210

Scott Hall
Montgomery & Andrews, P.A
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Santa Fe, NM 87504
Attorney for COG

James Bruce
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Attorney for Yeso and Chica

BLM Carlsbad Field Office
Attn: Jim Stovall
620 E. Greene St.
Carlsbad, NM 88220

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

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH
THE COMPLIANCE AND ENFORCEMENT MANAGER, FOR AN
ORDER AUTHORIZING THE DIVISION TO RECOGNIZE AN OPERATOR
OF RECORD FOR WELLS CURRENTLY OPERATED BY YESO ENERGY, INC.; LEA, EDDY
AND CHAVES COUNTIES, NEW MEXICO.

CASE NO. 14548⁷

ORDER DIRECTING THE OIL CONSERVATION COMMISSION TO HEAR CASE,
AND CONSOLIDATING AND SETTING CASES


This matter came before the Acting Division Director upon the written request of the Compliance and Enforcement Manager, filed August 19, 2010.

The Acting Division Director finds that the application in Case No. ____ and Case No. 14,472, which is currently before the Oil Conservation Commission on *de novo* review, arise from common facts, and the resolution of the issues in one case will likely affect the resolution of the other case. The Acting Division Director further finds that hearing the matters together will promote administrative efficiency. The Acting Division Director therefore exercises his discretion pursuant to 19.15.4.20.B NMAC to direct the Oil Conservation Commission to hear Case No. _____. Case No. ____ shall be heard with Case No. 14,472.

To allow sufficient time for publication of notice, the hearing in these matters shall be set for _____.

DONE at Santa Fe, New Mexico, on August 19th, 2010.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


MARK FESMIRE, P.E.
Acting Director

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

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE COMPLIANCE AND ENFORCEMENT MANAGER, FOR AN ORDER AUTHORIZING THE DIVISION TO RECOGNIZE AN OPERATOR OF RECORD FOR WELLS CURRENTLY OPERATED BY YESO ENERGY, INC.; LEA, EDDY AND CHAVES COUNTIES, NEW MEXICO.

CASE NO.

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APPLICATION FOR HEARING

1. Yeso Energy, Inc. (Yeso) is a corporation operating wells in New Mexico under OGRID 221710.
2. According to the records of the Oil Conservation Division (OCD), Yeso is the operator of record of the following wells:

221710 YESO ENERGY, INC.
TOTAL WELL COUNT:4
PRINTED ON:TUESDAY, AUGUST 17, 2010

Property	Well Name	Lease Type	ULSTR	OCD UL	API	Well Type	Pool	Last Prod/Inj	In Add. Bond
32902	DALTON FEDERAL #001	F	H-29-17S-29E	H	30-015-25259	O	28509 GRAYBURG JACKSON;SR-Q-G-SA	4/2006	
32758	DOW B 28 FEDERAL #001	F	P-28-17S-31E	P	30-015-28676	O	74605 CEDAR LAKE;MORROW, EAST (GAS)	4/2006	
	DOW B 28 FEDERAL #001	F	P-28-17S-31E	P	30-015-28676	O	96591 WILDCAT CEDAR LAKE; MISSISSIPPIAN	4/2006	
32913	GULF MCKAY FEDERAL #001	F	N-34-18S-32E	N	30-025-25471	O	50490 QUERECHO PLAINS;DELAWARE	4/2006	
32912	MORGAN FEDERAL #001	F	3-6 -10S-30E	C	30-005-20667	G	80980 MANY GATES;MORROW (GAS)	4/2006	

3. The Gulf McKay Federal #001 is located in Lea County; the Morgan Federal #001 is located in Chaves County; the Dalton Federal #001 and the Dow "B" 28 Federal #001 are located in Eddy County.
4. The wells for which Yeso is operator of record are subject to multiple OCD compliance orders, the most recent being Order R-12930-B. That Order found Yeso to be out of compliance with 19.15.25.8 NMAC (the inactive well rule) as to 12 wells, including the four wells for which Yeso remains operator of record. The Order required Yeso to plug and abandon each of the wells "or transfer each of said wells to another operator, not affiliated with Yeso and approved by the Division, not later than March 15, 2010." (Emphasis added.) The Order further authorized the OCD to plug any non-compliant wells after the March 15, 2010 deadline.

5. When a well is subject to an order requiring or compliance with 19.15.25.8 NMAC (the inactive well rule) the OCD may deny a change of operator if the new operator has not entered into an agreed compliance orders setting a schedule for compliance with the existing order. 19.15.9.9.C NMAC.

6. Several operators have expressed interest in becoming operator of record of some or all of the Yeso wells:

- COG Operating, LLC (COG), OGRID 229137, has expressed an interest in the Dow "B" 28 Federal Well No. 1. COG filed Case No. 14,472 seeking an order cancelling Yeso's authority and terminating spacing units related to that well. Order R-13294 terminated the authority of Yeso to act as operator of the Dow "B" 28 Federal Well No. 1, and provided that COG shall file an application with the OCD "to use the well for disposal operations without the necessity of a change of operator that would be ordinarily required." Case No. 14,472 is now before the Oil Conservation Commission for *de novo* review. To date, COG has not filed an application to become operator of record for the well.
- Chica Energy LLC (Chica), OGRID 271866, filed an application for change of operator to become operator of record for all the Yeso wells, which at the time of the request included several state or fee wells that have since been plugged by the OCD. The OCD expressed concern that Chica was affiliated with Yeso, and did not approve the transfer. The initial request to transfer wells from Chica to Yeso was withdrawn and the financial assurances posted by Chica released. However, Chica has expressed an intent to file a request to become operator of record of just Yeso's federal wells (which would include the Dow "B" 28 Federal Well No. 1). Chica's new application for the federal wells remains in "draft" status and has not been submitted to the OCD for approval.
- Judah Oil LLC (Judah), OGRID 245872, is the only operator that has a pending request for operator change. It seeks three Yeso wells, including the Dow "B" 28 Federal No. 1.

7. All wells for which Yeso is operator of record are federal wells.

8. The OCD asks that this matter be set for hearing to afford all interested parties the opportunity to present arguments as to how operator change requests for the Yeso wells should be handled, and that an order be issued providing the OCD with guidance on how to proceed.

9. By separate letter, the OCD is requesting Division Director Fesmire to set this matter for hearing before the Oil Conservation Commission, and have the case heard with Case No. 14,472 -- COG's application to cancel Yeso's authority as to the Dow "B" 28 Federal Well No. 1.

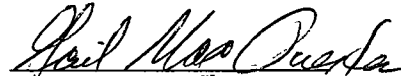
WHEREFORE, the Compliance and Enforcement Manager of the Oil Conservation Division hereby applies to the Director to enter an order:

A. setting for hearing the issue of how operator change requests for Yeso be handled, including the pending application for operator change filed by Judah Oil LLC;

B. directing the OCD how to proceed with operator change requests for the Yeso wells;
and

C. for such other and further relief as the Director deems just and proper under the circumstances.

Respectfully Submitted,
This 19th day of August 2010 by



Gail MacQuesten
Assistant General Counsel
Energy, Minerals and Natural Resources Dept.
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505) 476-3451

Certificate of Service

I hereby certify that I mailed a copy of this pleading by first class mail to the following:

Yeso Energy, Inc.
P.O. Box 2248
Roswell, NM 88202-00248

Santa Fe, NM 87504
Attorney for COG

Chica Energy LLC
3003 McPherson Road
Roswell, NM 88201

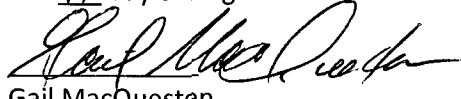
James Bruce
P.O. Box 1056
Santa Fe, NM 87504
Attorney for Yeso and Chica

Judah Oil LLC
P.O. Box 568
Artesia, NM 88210

BLM Carlsbad Field Office
Attn: Jim Stovall, Field Manager
620 E. Greene St.
Carlsbad, NM 88220

Scott Hall
Montgomery & Andrews, P.A
P.O. Box 2307

this 19th day of August 2010.



Gail MacQuesten

Case No. 14547. Application of the New Mexico Oil Conservation Division. The Applicant seeks an order authorizing the Oil Conservation Division to recognize an operator of record for wells currently operated by Yeso Energy, Inc., OGRID 221710. The affected wells are: Dalton Federal #001, 30-015-25259, H-29-17S-29E (located near Loco Hills in Eddy County); Dow B 28 Federal #001, 30-015-28676, P-28-17S-31E (located approximately 5 miles southeast of Maljamar in Lea County); Gulf McKay Federal #001, 30-025-25471, N-34-18S-32E (located approximately 12 miles southeast of Maljamar in Lea County); and Morgan Federal #001, 30-005-20667, 3-6-10S-30E (located approximately 15 miles northwest of Caprock in Chaves County).