



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joaquín Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

July 7, 2006

H.E. Gene Lee
Yeso Energy, Inc.
P.O. Box 2248
Roswell, NM 88202-2248

e-mail: leeconinc@aol.com

Re: Request of Mr. Gene Lee to register as a well operator pursuant to 19.15.13.100 NMAC
Request for change of operator for well API 30-015-32801 from Unit Petroleum to Yeso Energy Inc.

Dear Mr. Lee,

The Oil Conservation Division (OCD) is holding the above requests pending Yeso Energy Inc.'s compliance with Rule 40. On Friday, June 30 we discussed an agreed compliance order for Yeso's inactive wells, and I e-mailed a draft order to you. I have received no response. I am enclosing with the hard copy of this letter a copy of our e-mail correspondence and a copy of the draft order.

Please let me know how you would like to proceed. If we do not hear from you in 10 days the OCD will deny the above requests. I will be out of the office the week of July 10. If you need assistance during that time period, please contact OCD Enforcement and Compliance Manager Daniel Sanchez, (505) 476-3493 or OCD Attorney Cheryl O'Connor, (505) 476-3480.

Sincerely,

Gail MacQuesten
OCD Attorney

cc: Daniel Sanchez, Enforcement and Compliance Manager
Cheryl O'Connor, OCD Attorney
Dorothy Phillips, Financial Assurance Administrator

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

NMOCD – ACOI- _____

IN THE MATTER OF YESO ENERGY, INC.,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), the Director of the Oil Conservation Division ("OCD") and Yeso Energy, Inc. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring wells identified herein into compliance with the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 221710 for the following wells:
 - Connie C State #003 30-015-25587
 - Connie C State #004 30-015-25648
 - Tracy 29 Federal #001 30-015-28142
 - Yates State #001 30-015-20838
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:
 - A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.
 - B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

.....
.....

- (3) a period of one year in which a well has been continuously inactive.”
5. The wells identified in Findings Paragraph 3 have been inactive for a continuous period of time in excess of one year plus 90 days, and have not been plugged and abandoned or placed on approved temporary abandonment status.
 6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
 7. NMSA 1978, Section 70-2-3(A) defines “person” in relevant part as
“any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity...”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Findings Paragraph 3 are out of compliance with Rule 201.
3. As operator of the wells identified in Findings Paragraph 3, Operator is responsible for bringing those wells into compliance with Rule 201.
4. Operator is a “person” as defined by OCD Rule 7.P(2) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring the wells identified in Findings Paragraph 3 into compliance with OCD Rule 201 by December 31, 2006 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;
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.
2. If Operator fails to bring all of the wells identified in Findings Paragraph 3 into compliance by December 31, 2006, Operator agrees to pay a penalty of \$1000

times the number of wells identified in Findings Paragraph 3 that it failed to bring into compliance by December 31, 2006. In the event the Operator encounters unanticipated circumstances that prevent it from bringing all the wells identified in Findings Paragraph 3 into compliance by December 31, 2006, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and serve the OCD's Enforcement and Compliance Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, the application shall be set for hearing.

3. On January 1, 2007 any wells identified in Findings Paragraph 3 not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
4. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance the wells identified in Findings Paragraph 3 by December 31, 2006;
 - (c) agrees to pay penalties as set out in Ordering Paragraph 2 if it fails to return the wells identified in Findings Paragraph 3 to compliance by December 31, 2006;
 - (d) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from this Order; and
 - (e) agrees that the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
5. This Order applies only to those wells identified in Findings Paragraph 3. Other wells operated by Operator out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act.
6. The Oil Conservation Division reserves the right to file an application for hearing to obtain authority to plug any well identified in Findings Paragraph 3 and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this _____ day of _____, 2006

By: _____

Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

Yeso Energy, Inc. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Yeso Energy, Inc.

By: _____

Title: _____
Date: _____

Macquesten, Gail, EMNRD

From: Macquesten, Gail, EMNRD
Sent: Friday, June 30, 2006 11:41 AM
To: 'LeeConInc@aol.com'
Cc: Prouty, Jane, EMNRD
Subject: RE: Compliance order.

Attachments: information sheet for inactive well ACOs.doc; Sample inactive well ACO 1-31.doc; Draft ACOI Yeso set term 6-30-06.doc

Gene - Thank you for speaking with Jane Prouty and me this morning. I hope you are on your way to getting the well transfer issue resolved. As we discussed, to be in compliance with Rule 40 you will still need to reduce the number of wells that appear on the Rule 40 inactive well list, either by bringing the wells into compliance or by entering into an agreed compliance order for the wells that sets a schedule for bringing the wells into compliance and imposes a penalty if you fail to meet that deadline. I've attached an information sheet regarding the OCD's inactive well program, and a sample order using the rolling 6-month format described in the information sheet. Because you said that you intend to bring the 4 wells on the list into compliance in 6 months, I've also attached a draft agreement for Yeso using that schedule. Please look it over and let me know if you have any questions or concerns, or if you would like to use the rolling 6-month format instead. If you want to use the rolling 6-month format, I would ask that you include these additional non-compliant wells, that don't appear on the Rule 40 list:

- Laguna Grande #001 30-015-21636
- Lambchop 20 #001 30-015-27220
- Morgan Federal #001 30-005-20667
- Shirley Kay State #001 30-015-25855

Once you have had a chance to review all this information please give me a call and we can discuss how to proceed. I will not be in the office on Monday, July 3, and will be in hearings most of Thursday, July 6.

Thanks- Gail MacQuesten, OCD Attorney

From: LeeConInc@aol.com [mailto:LeeConInc@aol.com]
Sent: Friday, June 30, 2006 9:33 AM
To: Macquesten, Gail, EMNRD
Cc: Prouty, Jane, EMNRD; Phillips, Dorothy, EMNRD
Subject: Compliance order.

Gail,

I have gotten all the production data submitted and accepted. Can you please allow approval of the Unit to Yeso Yates State #2 C104? This is the lease that was tied up in litigation for 1.5 yrs and has settled, but part of the agreement is the transfer the Yates State #2 to Yeso. They have the effective date of this transfer as of 6-1-06 and if the C104 is not approved today; then I have to shut in the well and Yeso will not receive the revenue for the Month of June.

I will agree to place the remaining wells on the inactive list back in production or convert the Tracy Fed and Connie C #3 to SWD injection. This will leave the Connie C #4 to be put in production or P&A'd and upon complete consummation of the Unit/Yeso agreement, then a plan will be submitted to the OCD for a recompletion of the Yates St. #1. However nothing can be done to the Yates St. #1 until the agreement with Unit is finalized and this requires approval of the C104.

SO, I am in a catch 22 situation until the transfer of operator can be approved by the OCD on the Yates St. #2. Can you help with this or what else has to be done? Thanks for your help.

7/7/2006