



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



October 9, 2008

Craig DeArmond
Master Energy Resources LLC
1901 E. 37th, Suite 206
Odessa, TX 79762

RE: CASE NO. 14137, APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST CALVIN F. TENNISON PURSUANT TO NMSA 1978, SECTION 70-2-14(B) ORDERING CALVIN F. TENNISON TO RETURN TO COMPLIANCE OR PLUG AND ABANDON ALL WELLS IT OPERATES IN NEW MEXICO BY A DATE CERTAIN AND AUTHORIZING THE DIVISION TO PLUG SAID WELLS AND FORFEIT THE APPLICABLE FINANCIAL ASSURANCE IN THE EVENT OF NON-COMPLIANCE; EDDY COUNTY, NEW MEXICO.

Dear Mr. DeArmond,

Enclosed is a copy of Order R-13003 issued in Case No. 14137.

According to information provided by Sisters LLC, Master Energy Resources LLC is the current interest owner in the wells at issue in Case No. 14137. According to the records of the Oil Conservation Division (OCD), however, the operator of record for the wells remains "Calvin F. Tennison."

If Master Energy Resources LLC intends to operate the wells, it must become the operator of record. Please see 19.15.3.100 NMAC for the process. It must also address the compliance issues outlined in Order R-13003. The order authorizes the OCD to plug the wells if the compliance issues are not resolved by January 1, 2009. The OCD attorney who handles the



Case No. 14137

October 9, 2008

Page 2

plugging of wells is Mr. David Brooks. Please contact him if you have any questions about the OCD's actions to plug the wells pursuant to the order.

Sincerely,



Gail MacQuesten

OCD Attorney

Cc: David Brooks, OCD Attorney

Ec: Tim Gum, OCD District 2
Gerry Guye, OCD District 2

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

CASE NO. 14137
ORDER NO. R-13003

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION FOR A COMPLIANCE ORDER AGAINST CALVIN F. TENNISON PURSUANT TO NMSA 1978, SECTION 70-2-14(B) ORDERING CALVIN F. TENNISON TO RETURN TO COMPLIANCE OR PLUG AND ABANDON ALL WELLS IT OPERATES IN NEW MEXICO BY A DATE CERTAIN AND AUTHORIZING THE DIVISION TO PLUG SAID WELLS AND FORFEIT THE APPLICABLE FINANCIAL ASSURANCE IN THE EVENT OF NON-COMPLIANCE; EDDY COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 12, 2008 and again on August 21, 2008, at Santa Fe, New Mexico, before Examiner William V. Jones assisted by Carol Leach, David K. Brooks, and Terry G. Warnell.

NOW, on this 8th day of October, 2008, the Oil Conservation Division ("Division") Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.
- (2) The Division seeks an order:
 - (a) Finding Calvin F. Tennison ("operator" or "Tennison") in violation of one or more of Division Rules 101, 1115; 201, and 50;
 - (b) If the operator does not come into compliance with all of these four Division rules within 30 days, requiring the operator to plug and abandon all wells operated by Calvin F. Tennison as of the date of this hearing; by a date certain, and if not plugged;
 - (i) Authorizing the Division to plug the wells; and

(ii) Authorizing the Division to forfeit applicable financial assurance.

(3) The following nine (9) wells are currently all inactive wells operated by Calvin F. Tennison (OGRID 3604) as a "sole proprietor" and are the subject of this case:

Gulf Federal #3	C-13-26S-29E	30-015-25265
Hanagan State #1	G-8-25S-30E	30-015-04746
Malaga Unit #1	F-7-24S-29E	30-015-03701
Malaga Unit #2	4-7-24S-29E	30-015-03702
Malaga Unit #2	G-7-24S-29E	30-015-03699
Malaga Unit #3	K-7-24S-29E	30-015-03695
R and B Fed #1Y	D-17-25S-30E	30-015-04753
Superior State #1	H-8-25S-30E	30-015-04745
Superior State #2	I-8-25S-30E	30-015-10181

(4) Notice of the June 12, 2008, hearing and of this case was sent to the operator and to the surety on operator's financial assurance bond. The notice to Mr. Tennison came back marked "deceased". No return receipt was received from the surety. No other party entered an appearance for the June 12, 2008 hearing.

(5) This case was heard on June 12, 2008, and continued until August 21, 2008 when Exhibit No. 10 was accepted into evidence. Exhibit 10 provided proof of additional notice to Bill and Patsy Rich and also to Sisters, LLC. Exhibit 10 contains a copy of written correspondence from Sisters, LLC, stating that Mr. Tennison has been deceased since 2001 and that Master Energy Resources, Inc. is the current owner of the subject wells. Documentation of transfer of ownership is included in that correspondence.

(6) Prior to the August 21, 2008, hearing, the Division telephoned personnel with Master Energy Resources, Inc. and provided Master Energy Resources, Inc. notice of this Division hearing and of the pending August 21, 2008, hearing date.

(7) Master Energy Resources (Inc. or LLC) has not appeared on the Public Regulation Commission web site. Neither entity has posted financial assurance bonds or taken over as "operator of record" for the subject wells.

(8) Tennison's Malaga Unit straddles the Pecos River in Township 24 South near Malaga, New Mexico. Division records indicate the nine subject wells are all located southeast of Loving, New Mexico, and were drilled to either the Brushy Draw; Delaware Pool, the Corral Canyon; Delaware Pool, or the Malaga; Delaware Pool. Most wells were drilled in the 1950's and have been marginal oil producers from the Delaware formation. The typical well has surface pipe set to 600 feet and was drilled through 2000 feet of Salado (Salt) formation and into the Delaware formation where production pipe was run and cemented; but only across the bottom of the casing. The wells with the least reported cement were the Malaga Unit Well No. 1 and the two Superior State wells. The

Hanagan State Well No. 1 was plugged once, then re-entered with another attempt at commercial production.

(9) The Division presented evidence showing that:

(a) The subject State or Fee wells are no longer covered with a blanket bond -- in violation of Division Rule 101. The previously posted blanket bond has been cancelled, effective December 9, 2001, and the bonding company, Far West Insurance Company, has been placed under receivership. In addition, the Division presented evidence that at least three of these wells have been inactive for more than two years and single well bonds are therefore required but have not been posted;

(b) In violation of Division Rule 1115, the operator has not filed C-115 reports since April of 2007;

(c) The four Malaga Unit wells [shown above] are in violation of the Division Rule 201. These four wells are old production or injection wells which have been continuously inactive for more than one year plus 90 days and have not been placed on approved temporary abandonment status or plugged and abandoned.

(d) The Hanagan State #1 well [shown above] has two unregistered pits on location with hydrocarbon contamination. These pits were observed by Division inspectors in December of 2007 and the last reported work done on this well was in 2002. This is a violation of Division Rule 50.

(10) The Director finds the operator of the subject wells in violation of Division Rules 101, 1115, 201, and 50 as detailed in the application to this case. The nine subject wells have effectively been orphaned with no valid operator or bonding. In addition, the Director finds ALL nine subject wells out of compliance with Rule 201 -- the last reported production or injection was in April of 2007.

(11) Each of the nine subject wells should be returned to compliance with Rule 201 by January 1, 2009, or any applicable bond forfeited and each well remaining out of compliance with Rule 201 should be plugged and abandoned and the sites reclaimed in order to prevent vertical migration of fluids in these wellbores and to protect groundwater and the environment.

(12) The operator should return the Hanagan State Well No. 1 wellsite to compliance with Division Rule 50 by a date certain. If not returned to compliance, the Division should be authorized to forfeit any applicable bond from the operator of the Hanagan State Well No. 1 and use the bond monies or reclamation funds to cleanup the open pits near that well site.

IT IS THEREFORE ORDERED THAT:

(1) Calvin F. Tennison or current operator is hereby directed to bring the following ("subject") wells into compliance with 19.15.4.201 NMAC on or before January 1, 2009:

Gulf Federal #3	C-13-26S-29E	30-015-25265
Hanagan State #1	G-8-25S-30E	30-015-04746
Malaga Unit #1	F-7-24S-29E	30-015-03701
Malaga Unit #2	4-7-24S-29E	30-015-03702
Malaga Unit #2	G-7-24S-29E	30-015-03699
Malaga Unit #3	K-7-24S-29E	30-015-03695
R and B Fed #1Y	D-17-25S-30E	30-015-04753
Superior State #1	H-8-25S-30E	30-015-04745
Superior State #2	I-8-25S-30E	30-015-10181

(2) In the event the operator fails to bring all subject wells into compliance with Rule 201 as directed above or obtain, prior to January 1, 2009 from the Division Director, approval of a schedule to bring the wells into compliance, then:

(a) the Division shall be authorized to plug and abandon any out-of-compliance subject well and reclaim the well location;

(b) the Division shall be authorized to forfeit any applicable financial assurance for plugging and abandonment, cleanup and reclamation costs; and

(c) the Division shall be authorized to take necessary and appropriate measures to recover from the operator any costs of plugging the well and cleanup of the well site in excess of the amount of any applicable financial assurance.

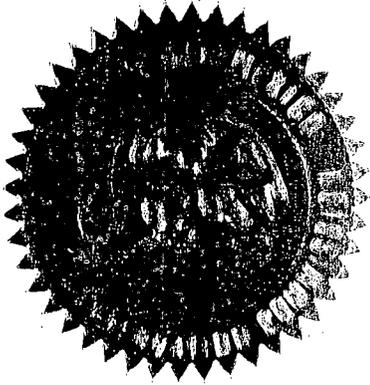
(3) Calvin F. Tennison or current operator is hereby directed to bring the following well into compliance with 19.15.17 NMAC, on or before January 1, 2009, working under direction of the Division's Santa Fe Environmental Bureau:

Hanagan State #1	G-8-25S-30E	30-015-04746
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(4) In the event the operator fails to bring the Hanagan State Well No. 1 into compliance with 19.15.17 NMAC as directed above or obtain, prior to January 1, 2009 from the Division Director, approval of a schedule to bring the well into compliance, then the Division shall be authorized to forfeit any applicable bond from the operator of the Hanagan State Well No. 1 and use the bond monies or reclamation funds to cleanup the open pits near that well site.

(5) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director