

OIL CONSERVATION DIVISION

CASE NO.
14294

EXHIBIT
12



NEW MEXICO ENERGY, N. NEP ALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

November 20, 2006

Gene Lee
Yeso Energy Inc.
P.O. Box 8280
Roswell, NM 88202

Certified Mail Number 7002 3150 0004 4924 0649

e-mail: LeeConInc@aol.com

Re: Cancellation of Authority to Transport from or Inject into Wells Operated by Yeso Energy, Inc., OGRID 221710

Dear Operator,

Effective immediately, the Oil Conservation Division (OCD) cancels the authority of Yeso Energy, Inc., OGRID 221710 (Yeso) to transport from or inject into all wells it operates. This cancellation is issued pursuant to OCD Rule 1115.C [19.15.13.1115.C NMAC].

Rule 1115.C provides:

If an operator fails to file a form C-115 that the division accepts, the division shall, within 60 days of the appropriate filing date, notify the operator by electronic mail or letter, of its intent to revoke the operator's authorization to transport or inject if the operator does not submit an acceptable and complete form C-115. If the operator does not file an acceptable and complete form C-115 or request a hearing on the proposed cancellation within 120 days of the original due date of the form C-115, the division may cancel the operator's authority to transport from or inject into all wells it operates.

By e-mail dated September 7, 2006, the OCD notified Yeso that it had not received a C-115 report for May 2006, and that it intended to revoke Yeso's authorization to transport or inject if it did not receive an acceptable and complete C-115 for May 2006 within 120 days of the original due date for that report. The notice further stated that Yeso may request a hearing on this proposed cancellation within 120 days of the original due date for the May 2006 report. A copy of the OCD's September 7, 2006 e-mail is attached.

To date, Yeso has not submitted a C-115 report for May 2006, and has not requested a hearing on the proposed cancellation. More than 120 days have passed from the original due date for the May 2006 report. Yeso's authority to transport from or inject into its wells is cancelled. When Yeso has filed an acceptable and complete C-115 for May 2006 it may apply for reinstatement of its authority to transport from or inject into the wells it operates. If Yeso transports from or injects into wells it operates while the cancellation is in effect, it will be in violation of OCD Rules 1104 [19.15.13.1104 NMAC], 804.A [19.15.10.804.A NMAC] and/or 701 [19.15.9.701 NMAC]. A knowing and willful violation of an OCD rule may subject the violator to penalties of up to \$1,000 per day. NMISA 1978, Section 70-2-31(A).

Oil Conservation Division, 1220 South St. Francis Drive, Santa Fe, NM 87505
Phone (505) 476-3440 Fax (505) 476-3462 <http://www.oilconservation.nm.gov>

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Yeso Energy, Inc.
OCD Exhibit 12

Please note that although this cancellation of authority to transport from or inject into wells operated by Yeso relates to its failure to file a report for May 2006, Yeso is delinquent in filing C-115 reports for other periods as well. Yeso has been notified of OCD's intent to cancel Yeso's authority to transport from or inject into its wells because of its failure to file reports for June, July, and August 2006. Yeso can expect to receive additional notices of cancellation of authority to transport from or inject into its wells in connection with these more recent failures. In addition, if Yeso fails to act promptly to correct its reporting failures, the OCD will take additional enforcement action against it. The enforcement actions may include seeking penalties under NMSA 1978, Section 70-2-51(A) and/or an order requiring the operator to plug and abandon its wells pursuant to NMSA 1978, Section 70-2-14(B).

Sincerely,

Daniel Sanchez
Enforcement and Compliance Manager
Oil Conservation Division

cc: Chris Williams, District I
Tim Gum, District II
Charlie Perrin, District III
Theresa Duran-Saenz, Legal Assistant

Bradshaw, David, EMNRD

To: LeeConInc@aol.com

Subject: C-115 Electronic Reporting Compliance

Attachments: Rule 19.15 13 1115.doc

From: Lee

Lee Energy Inc. - 221710

Rule 1115 of the Oil Conservation Division requires C-115s (Monthly Production Reports) be filed electronically on or before the 15th day of the second month following the month of production (see attached copy of Rule 1115). As of today, September 7, 2006 we have not received your electronically submitted C-115s for the following period(s): 05/2006. If you do not believe you are required to file C-115 Production Reports, please contact me immediately.

Otherwise, you are being notified that the OCD intends to revoke your authorization to transport from or inject into all wells you operate if an acceptable and complete C-115 for all outstanding periods listed above is not received electronically within 120 days of the original due date. You may choose to request a hearing on this proposed cancellation within 120 days of the original due date.

Please contact me if you have any questions or if I may help you regarding this matter.

David Bradshaw

(505) 476-3484

Oil Conservation Division

South St Francis Drive

Albuquerque, NM 87505

E-Mail: david.bradshaw@state.nm.us

Web Site: www.state.nm.us/oil

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Gene Lee
Yaso Energy Inc.
P.O. Box 9280
Roswell, NM 88202

COMPLETE THIS SECTION ON DELIVERY

A. Signature Gene Lee ☒ Agent ☐ Addressee

B. Received by (Printed Name) Gene Lee C. Date of Delivery 11-24-00

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type

- ☒ Certified Mail ☐ Express Mail
- ☐ Registered ☒ Return Receipt for Merchandise
- ☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

2. Article Number

(Transfer from service label)

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