

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

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST YESO ENERGY, INC. FINDING THAT THE OPERATOR IS IN VIOLATION OF 19.15.7.24 NMAC, 19.15.8.9 NMAC AND 19.15.25.8 NMAC, REQUIRING OPERATOR TO PROPERLY PLUG AND ABANDON ALL ITS WELLS BY A DATE CERTAIN, AND IN THE EVENT OF NON-COMPLIANCE AUTHORIZING THE DIVISION PLUG AND ABANDON THE WELLS AND FORFEIT THE APPLICABLE FINANCIAL ASSURANCE, EDDY, LEA AND CHAVES COUNTIES, NEW MEXICO.

CASE NO. 14294

**APPLICATION FOR COMPLIANCE ORDER
AGAINST YESO ENERGY, INC.**

1. Yeso Energy, Inc. is a corporation operating the following wells in New Mexico under OGRID 221710:

Connie C State #001, 30-015-25366, G-25-19S-28E
Connie C State #002, 30-015-02301, H-25-19S-28E
Connie C State #003, 30-015-25587, K-25-19S-28E
Connie C State #004, 30-015-25648, B-25-19S-28E
Connie C State #017, 30-015-02302, D-25-19S-28E
Dalton Federal #001, 30-015-25259, H-29-17S-29E
Dow B 28 Federal #001, 30-015-28676, P-28-17S-31E (pool 74605)
Dow B 28 Federal #001, 30-015-28676, P-28-17S-31E (pool 96591)
Gulf McKay Federal #001, 30-025-25471, N-34-18S-32E
Laguna Grande #001, 30-015-21636, I-28-23S-29E
Lambchop 20 #1, 30-015-27220, B-20-24S-25E
Morgan Federal #001, 30-005-20667, 3-6-10S-30E
Shirley Kay State #001, 30-015-25855, B-32-19S-31E

RECEIVED
2009 FEB 23 PM 1 39

2. According to information posted on the website of the New Mexico Public Regulation Commission, Yeso Energy, Inc. is a domestic profit corporation in good standing, with the following registered agent: Corporation Service Company, 125

Lincoln Avenue, Suite 223, Santa Fe, NM 87501. Its corporate officers are H.E. Lee and Sandra L. Lee; its director is H.E. Lee.

3. The records of the Oil Conservation Division (“OCD”) identify the following financial assurances posted by Yeso Energy, Inc., through U.S. Specialty Insurance Company, 13403 Northwest Freeway, Houston, Texas 77040, to secure the plugging and abandonment of its wells:

- a. Blanket surety bond No. B001414, \$50,000;
- b. Single well surety bond No. B001614, \$5,000 for the Shirley K State #001;
- c. Single well surety bond No. B001616, \$5,000 for the Connie C State #004; and
- d. Single well surety bond No. B001615, \$5,000 for the Connie C State #003.

4. NMSA 1978, Section 70-2-14(B) provides, in relevant part, “If any of the requirements of the Oil and Gas Act [70-2-1 NMSA 1978] or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules.”

Violation of 19.15.7.24 NMAC (failure to file production reports):

5. Rule 19.15.7.24 NMAC requires operators to file a monthly production report for each non-plugged well completion for which the division has approved a form C-104.

6. Yeso Energy Inc. has not filed monthly production reports for the production months of May, June, July or August of 2006, and has filed no monthly production reports after May 2007.

7. During the relevant time periods, Yeso Energy Inc. had wells with approved C-104s.

Violation of 19.15.8.9 NMAC (financial assurance requirements):

8. Rule 19.15.8.9 NMAC requires operators to post financial assurances for wells on privately owned or state owned lands in New Mexico that have not been plugged and released, conditioned that the well will be plugged and abandoned and the location restored and remediated in compliance with OCD rules.

9. Effective January 1, 2008, the operator of a state or fee well that has been inactive for a period of more than two years must post a one-well financial assurance for the well, even if the well is also covered by a blanket financial assurance. See Rule 19.15.8.9.C NMAC.

10. Effective January 1, 2008, the amounts required under Rule 19.15.8.9.D NMAC for single well financial assurances increased. The current amount required for a well in Eddy County is \$5,000 plus \$1 per foot of measured depth. See 19.15.8.9.D(2) NMAC.

10. Yeso Energy, Inc. operates five wells that require single well financial assurances under 19.15.8.9 NMAC. All are state wells located in Eddy County. The five wells either do not have single well financial assurances, or the amount of the single well financial assurance is inadequate:

- a. The Connie C State #001, 30-015-25366, has a measured depth of 3,500 feet, and requires a single well financial assurance in the amount of \$8,500. Yeso Energy Inc. has not posted a single well financial assurance for this well.
- b. The Connie C State #002, 30-015-02301, has a measured depth of 3,500 feet, and requires a single well financial assurance in the amount of \$8,500. Yeso Energy Inc. has not posted a single well financial assurance for this well.

- c. The Connie C State #003, 30-015-25587, has a measured depth of 3,525 feet, and requires a single well financial assurance in the amount of \$8,525. Yeso Energy, Inc. has posted a financial assurance in the amount of \$5,000; it needs \$3,525 in additional financial assurance for this well.
- d. The Connie C State #004, 30-015-25648, has a measured depth of 3494 feet, and requires a single well financial assurance in the amount of \$8,494. Yeso Energy, Inc. has posted a financial assurance in the amount of \$5,000; it needs \$3,494 in additional financial assurance for this well.
- e. The Connie C State #017, 30-015-02302, has a measured depth of 2037 feet, and requires a single well financial assurance in the amount of \$7,037. Yeso Energy Inc. has not posted a single well financial assurance for this well.

Violation of 19.15.25 NMAC (inactive well requirements):

11. Rule 19.15.25.8 NMAC requires an operator to plug and abandon or temporarily abandon a well in accordance with Division rules within 90 days after a period of one year of continuous inactivity.

12. Rule 19.15.25.10.D NMAC provides that, as soon as practical, but not later than one year after the completion of plugging operations, the operator shall level the location, remove deadmen and other junk, and take other measures necessary or required by the OCD to restore the location to a safe and clean condition. In addition, the operator is required to close all pits and below-grade tanks. See 19.15.25.10.E NMAC.

13. Rule 19.15.25.11 NMAC provides that within 30 days after completing all restoration work the operator shall file with the OCD a record of the work done. The OCD shall not approve the record of plugging or release a bond until the operator has filed the necessary reports and the OCD has inspected and approved the location.

14. All of the wells operated by Yeso Energy, Inc. have been inactive for a continuous period in excess of one year plus 90 days, and are neither plugged and

abandoned in accord with 19.15.25.10 NMAC nor on approved temporary abandonment status in accord with 19.15.25.13 NMAC.

15. Rule 19.15.8.13 NMAC authorizes the Director to order the operator to plug and abandon any well not in compliance with 19.15.25.8 NMAC and restore and remediate the location by a date certain.

16. NMSA 1978, Section 70-2-12(B)(18) and NMSA 1978, Section 70-2-38 authorize the OCD to plug and abandon wells, and restore and remediate the location of abandoned wells.

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

- A. Determining that Yeso Energy, Inc. is in violation of 19.15.7.24 NMAC, 19.15.8.9 NMAC, and 19.15.25 NMAC;
- B. Requiring Yeso Energy, Inc. to properly plug and abandon all its wells by a date certain, pursuant to NMSA 1978, Section 70-2-14(B);
- C. Authorizing the OCD to properly plug and abandon all wells operated by Yeso Energy, Inc. and forfeit the applicable financial assurances if Yeso Energy, Inc. fails to meet the deadline for compliance set in the order; and
- D. For such other and further relief as the Director deems just and proper under the circumstances.

RESPECTFULLY SUBMITTED,
this 23rd day of February 2009 by


Gail MacQuesten
Assistant General Counsel

Energy, Minerals and Natural
Resources Department of the State of
New Mexico
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505) 476-3451

Attorney for The New Mexico Oil
Conservation Division

Case No. 14294. Application of the New Mexico Oil Conservation Division for a Compliance Order against Yeso Energy, Inc. The Applicant seeks an order finding that the operator is in violation of 19.15.7.24 NMAC, 19.15.8.9 NMAC, and 19.15.25 NMAC, requiring operator to properly plug and abandon all the wells it operates in New Mexico by a date certain, and in the event of non-compliance authorizing the division to plug and abandon the wells and forfeit the applicable financial assurance. The affected wells are: Connie C State #001, 30-015-25366, G-25-19S-28E; Connie C State #002, 30-015-02301, H-25-19S-28E; Connie C State #003, 30-015-25587, K-25-19S-28E; Connie C State #004, 30-015-25648, B-25-19S-28E; Connie C State #017, 30-015-02302, D-25-19S-28E (the Connie C State wells are located approximately 15 miles northeast of Carlsbad in Eddy County); 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); Laguna Grande #001, 30-015-21636, I-28-23S-29E (located approximately 5 miles southeast of Loving in Eddy County); Lambchop 20 #1, 30-015-27220, B-20-24S-25E (located approximately 5 miles northwest of Whites City in Eddy County); Morgan Federal #001, 30-005-20667, 3-6-10S-30E (located approximately 15 miles northwest of Caprock in Chaves County); and Shirley Kay State #001, 30-015-25855, B-32-19S-31E (located approximately 15 miles south of Maljamar in Lea County).