

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 14294
ORDER NO. R-12930-A

APPLICATION OF THE NEW MEXICO OIL
CONSERVATION DIVISION FOR A
COMPLIANCE ORDER AGAINST YESO
ENERGY, INC., EDDY, LEA, AND CHAVES
COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 31, 2009, at Santa Fe, New Mexico, before Examiners William V. Jones and David K. Brooks.

NOW, on this 17th day of June, 2009, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

(1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.

(2) The Division seeks an order finding Yeso Energy, Inc. [OGRID 221710] ("Yeso" or "Operator") in violation of Division Rules 7.24 (failure to timely file production reports) and 25.8 (inactive wells). The Division further seeks an order pursuant to NMSA 1978, Section 70-2-14(B) requiring Yeso to plug and abandon all its wells by a date certain, and if it does not do so, allowing the Division to plug the wells and forfeit applicable financial assurance.

(3) NMSA 1978, Section 70-2-14(B) provides:

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 of surety or both in accordance with division rules. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.

(4) Yeso was not represented by counsel and did not appear at the hearing or file any response. No other party entered an appearance in this case or otherwise opposed this application.

(5) The Division submitted this case as the culmination of a series of compliance issues with Yeso, including the following:

a. On July 10, 2006, Mr. H. E. (Gene) Lee as President of Yeso Energy, Inc. signed an Agreed Compliance Order (ACOI-137) involving some of the wells Yeso operated, agreeing to return those wells to compliance by December 31, 2006.

b. On November 20, 2006, due to Yeso's failure to comply with then Division Rule 1115.C (lack of reporting production, failure to file form C-115), the Division cancelled the authority of Yeso to transport from or inject into any of its wells.

c. On January 8, 2007 the Division in writing refused a requested 45-day extension of ACOI-137 and re-iterated a demand for production reports.

d. On August 20, 2007, the Division heard a compliance case involving six wells operated by Yeso (including at least two of the wells that were the subject of ACOI-137) and issued Order No. R-12801 requiring those six wells to be returned to compliance with then Division Rule 201 (concerning inactive wells) and allowing the Division to plug those wells in the event of non-compliance.

e. On November 29, 2007, the Division heard an additional compliance case involving wells operated by Yeso and issued Order No. R-12930. That order found that the Division properly terminated Yeso's authority to transport for a time period between November 2006 and June 2007 and ordered Yeso to make any requested oil field records available to the Division.

(6) In addition, the Division presented testimony and exhibits as follows:

a. As of February 17, 2009, Yeso Energy, Inc. was the operator of record of the following 12 wells (the subject wells):

Connie C State No. 1	30-015-25366
Connie C State No. 2	30-015-02301
Connie C State No. 3	30-015-25587
Connie C State No. 4	30-015-25648

Connie C State No. 17	30-015-02302
Dalton Federal No. 1	30-015-25259
✓Dow B 28 Federal No. 1	30-015-28676
Gulf McKay Federal No. 1	30-025-25471
Laguna Grande No. 1	30-015-21636
Lambchop 20 No. 1	30-015-27220
Morgan Federal No. 1	30-005-20667
Shirley Kay State No. 1	30-015-25855

- b. Yeso has failed to file production reports (required by Rule 7.24) for wells with approved form C-104. The Division presented Exhibit 16 showing approved C-104's for selected Yeso operated wells.
- c. Yeso failed, until the day of the hearing, to comply with financial assurance requirements for inactive wells (Rule 8.9).
- d. Yeso has failed to comply with the rule governing inactive wells (Rule 25.8).
- e. Yeso has ignored or failed to fully comply with ACOI-137 and Orders No. R-12801 and R-12930. The Division therefore seeks relief under NMSA 1978, Section 70-2-14(B).
- f. None of Yeso's inactive wells is considered to be an immediate threat to the environment.

(7) The morning of this hearing, Yeso posted the required individual well bonds. Accordingly, Yeso is not currently in violation of Rule 8.9.

(8) At the hearing, the Division presented evidence pertaining to Findings (5) and (6), but then, because Yeso had complied with Rule 8.9 and made some gestures towards compliance with Rule 7.24, requested that Yeso be given at least 90 additional days to return to compliance, and that Yeso be ordered to appear, at that time, before the Division to explain or refute its record of non-compliance.

(9) As of this date, the Division records show that Yeso does not need to post additional financial assurance. However, Division records indicate all 12 of the Yeso operated wells are inactive; 10 last reported production in 2006 and 2 have no "last reported production" date. This is a violation of Rule 25.8.

(10) Because Yeso's last minute filing of required financial assurance on the day of the hearing suggests an intention to comply with Division rules, the Division's request for additional time for Yeso to return to compliance should be granted, and Yeso should be ordered to appear in August of 2009 to present evidence as to why its wells should not be plugged or transferred to a responsible operator.

IT IS THEREFORE ORDERED THAT:

(1) Yeso Energy, Inc. (OGRID 221710) is hereby ordered to appear at the examiner hearing on August 20, 2009, or later date agreed upon by the Division, and ordered to present evidence of compliance with Division Rules 7.24, 8.9, and 25.8.

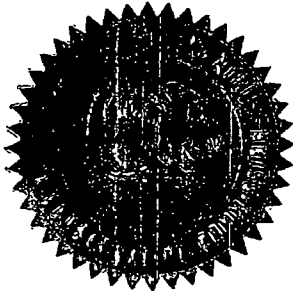
(2) After the conclusion of this hearing scheduled for August 20, 2009, all evidence will be considered, and the Division director will issue an order as to whether all of Yeso's wells should or should not be plugged and abandoned with applicable financial assurance forfeited.

(3) If Yeso fails to appear on August 20 as hereby ordered, and Division records then demonstrate that Yeso is in violation of one or more Division rules applicable to any well it then operates, the Division Director may then issue an order directing Yeso to plug all of the wells that it operates by a date certain, and further directing that if Yeso fails to comply with that order, the Division is authorized to plug and abandon the subject wells and forfeit all applicable financial assurance.

(4) The Division shall not plug any of the subject wells pursuant to an order issued pursuant to Ordering paragraphs (2) or (3) until at least six months after such order is issued, in order to allow Yeso time to transfer its wells to a Division approved operator.

(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 dark ink, appearing to read "Mark E. Fesmire", written over a horizontal line.

MARK E. FESMIRE, P.E.
Director