



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

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Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

March 8, 2006

Yeso Energy, Inc.
C/o Corporation Service Company
125 Lincoln Avenue Suite 223
Santa Fe, NM 87501

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

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

H.E. Gene Lee
3103 Yeso
Roswell, NM 88201

Re: Request of H.E. Gene Lee to register as a well operator pursuant to 19.15.13.100 NMAC
OCD demand for information pursuant to 19.15.13.100.D NMAC

Dear Mr. Lee,

The Oil Conservation Division (OCD) is reviewing your request to register as a well operator in New Mexico. The OCD adopted a new rule regarding operator registration, effective December 15, 2005.

New rule 19.15.3.100.A NMAC requires every operator of a well or wells in New Mexico to register with the OCD as an operator prior to commencing operations. Pursuant to 19.15.3.100.B(3) NMAC the OCD may deny registration as a well operator if the applicant "is or was within the past five years an officer, director, partner or person with an interest exceeding 25 percent in another entity that is not currently in compliance with Subsection A of 19.15.1.40 NMAC" (commonly known as Rule 40). In order to administer this provision, 19.15.3.100.D NMAC authorizes the OCD to require an operator or an applicant to identify its current and past officers, directors and partners, and its current and past ownership interest in other operators.

In 2005 you signed financial assurance documents for Yeso Energy, Inc. identifying yourself as the president of that entity. In addition, OCD records identify you as the contact person for Yeso Energy, Inc. The financial assurance documents provided by J.S. Ward & Son, Inc. to support your application were captioned "Yeso Energy, Inc.," and the letter was copied to Yeso Energy, Inc.

According to OCD records, Yeso Energy, Inc. operates 14 wells, and 6 of those wells appear on the Rule 40 inactive well list as inactive for 15 months or more. Yeso Energy, Inc. is therefore currently out of compliance with Rule 40.

Pursuant to 19.15.3.100.D NMAC, the OCD hereby requires that Yeso Energy, Inc. provide corporate documents identifying its current and past officers and directors. In addition, pursuant to 19.15.3.100.D NMAC, the OCD hereby requires that H.E. Gene Lee provide documentation identifying his current and past ownership interest in Yeso Energy, Inc.

The OCD recently adopted other rule changes that may affect Yeso Energy, Inc. Please take note of the following:

1. Rule 19.15.1.40.A NMAC (Rule 40) provides, in part, that an operator who operates from 4 to 100 wells may have no more than 2 wells out of compliance with 19.15.4.201 NMAC (the inactive well rule) that are not subject to an agreed compliance order. If an operator is out of compliance with Rule 40, the OCD may deny applications for permits to drill (19.15.3.102.C NMAC), may deny transfers of wells to the operator (19.15.3.100E(3)(a) NMAC), must deny injection permits (19.15.9.701A NMAC), and must deny allowables and authorization to transport (19.15.13.1104.A(4) NMAC). **Yeso Energy, Inc. is currently out of compliance with Rule 40. Yeso should take action to bring its inactive wells into compliance with 19.15.4.201 NMAC by plugging the wellbores, returning the wells to production or other OCD-approved beneficial use, or placing the wells on approved temporary abandonment status. If Yeso fails to do so, the OCD may file an application for hearing seeking authority to plug the wells, forfeit the applicable financial assurances, and impose penalties against Yeso.**

2. Rule 19.15.3.100.C NMAC requires operators to keep the OCD informed of their current address of record and emergency contact names and telephone numbers. According to OCD records, the address for Yeso Energy, Inc. is: Yeso Energy, Inc., P.O. Box 2248, Roswell, NM 88202-2248. The OCD has no emergency contact information from Yeso Energy, Inc. **Please update the address of record, if necessary, and please provide emergency contact information within the next ten days.** Registration information may be submitted electronically at the OCD website, or may be submitted in writing to Dorothy Phillips, Oil Conservation Division, 1220 S. St. Francis Drive, Santa Fe, NM, 87505.

3. According to OCD records, the most recent production reports filed by Yeso Energy Inc. for any of its wells was for May 2005 production. Rule 19.15.13.1115 NMAC requires the operator to file reports on or before the 15th day of the second month following the month of production. An amendment to Rule 19.15.13.1115 NMAC effective December 15, 2005 provides a procedure for canceling the operator's authority to transport from or inject into all wells it operates if the operator fails to file production reports. **Please file the required production reports immediately. Failure to do so will result in the OCD taking action to cancel Yeso Energy, Inc.'s authority to transport.**

If you have any questions, please call me at (505) 476-3451. I will not be in the office March 13-17. If you need assistance while I am out of the office, please call Daniel Sanchez, Compliance and Enforcement Manager, (505) 476-3493; or Cheryl O'Connor, OCD Attorney, (505) 476-3480.

Sincerely,



Gail MacQuesten
OCD Attorney

Cc: Cheryl O'Connor
Daniel Sanchez
Jane Prouty
Dorothy Phillips