

STATE OF NEW MEXICO
RECEIVED
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
2007 OCT 11 PM 3:29

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION, THROUGH THE ENFORCEMENT AND COMPLIANCE MANAGER, FOR A COMPLIANCE ORDER AGAINST YESO ENERGY, INC. FINDING THAT OPERATOR KNOWINGLY AND WILLFULLY VIOLATED 19.15.13.1115.C NMAC, 19.15.13.1104 NMAC, 19.15.9.701 NMAC AND 19.15.10.804.A NMAC AS TO NINETEEN WELLS, ASSESSING MONETARY PENALTIES FOR THOSE VIOLATIONS AND REQUIRING OPERATOR TO AVAIL ITSELF TO AN AUDIT AND SUBMIT CORRECTED RECORDS OR ALTERNATIVELY ORDERING OPERATOR TO PLUG AND ABANDON ALL REMAINING WELLS FOR WHICH IT REMAINS THE OPERATOR OF RECORD IN THE STATE OF NEW MEXICO, PURSUANT TO NMSA 70-2-14(B).

CASE NO. 14008

ENTRY OF APPEARANCE AND
PRE-HEARING STATEMENT

The Oil Conservation Division submits this entry of appearance and pre-hearing statement pursuant to OCD Rule 1211 [19.15.14.1211 NMAC].

APPEARANCES

APPLICANT

Oil Conservation Division

APPLICANT'S ATTORNEY

Mikal Altomare
Oil Conservation Division
Energy, Minerals and Natural
Resources Department
1220 S. St. Francis Drive
Santa Fe, NM 87505

(505) 476-3451
FAX: 476-3480
Mikal.Altomare@state.nm.us

RESPONDENT

Yeso Energy, Inc.

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

(505)622-7355
leeconinc@aol.com

DENIED
NOV 27 11 11 AM 2006
STATEMENT OF THE CASE

The Oil Conservation Division (OCD) seeks a compliance order against Yeso Energy, Inc. Yeso was the Operator of Record for the nineteen (19) wells identified and referenced by the Application between November 20, 2006 and June 1, 2007. As of November 20, 2006, Yeso's authority to transport or inject was cancelled by the OCD due to the fact that Yeso had failed and refused to submit C-115 production reports as required by the OCD Rules, and had been requested by the OCD. At that time, Yeso was informed that it would be in violation of OCD Rules 1104, 804.A and/or 701 if it continued to operate its wells despite the cancellation order. The Operator contacted the OCD by email on November 27, 2006, verifying receipt of the cancellation letter.

Effective June 1, 2005, Yeso transferred a total of twenty-four (24) wells, including the nineteen (19) subject wells, to Operator Kerns. As of that date, Yeso had still not filed the delinquent C-115 production reports for the subject wells, and its authority to transport and inject had not yet been reinstated.

Subsequent to the transfer of the wells to Kerns, C-115 production reports were filed for the subject wells, revealing production during the period of time during which Yeso was still the Operator of the subject wells but its authority to inject or transport had been cancelled.

The OCD seeks an Order stating the following in this case:

- A. Determining that Operator Yeso's authority to transport and inject was properly and appropriately cancelled pursuant to OCD Rule 1115.C [19.15.13.1115.C NMAC] as of November 20, 2006 at the time the OCD issued the Cancellation of Authority Letter to Operator Yeso.
- B. Finding that Operator Yeso was aware of the cancellation of authority, having confirmed (on November 27, 2006) the receipt of the November 20, 2006 Cancellation of Authority Letter.
- C. Determining that Operator Yeso's authority to transport and inject, upon being cancelled on November 20, 2006, was not reinstated prior to the transfer of the subject wells from Operator Yeso to Operator Kerns on June 7, 2007.
- D. Determining that the nineteen (19) wells identified in the Application, being operated by Operator Yeso between November 20, 2006 and June 1, 2007, produced oil, gas and/or water, or were used to inject water between December 1, 2006 and May 1, 2007, in direct violation of the Cancellation of Authority issued to Operator Yeso by the OCD on November 20, 2006.
- E. Determining that Operator Yeso's actions in producing and/or injecting these nineteen (19) wells constituted a knowing and willful violation of Rule 1115.C [19.15.13.1115.C NMAC] (Operators required to file monthly reports; OCD empowered to cancel authority upon noncompliance with report-filing

requirement), and of the Cancellation of Authority issued by the OCD pursuant to Rule 1115.C as to the subject wells.

- F. Determining that Operator Yeso's actions in producing the subject wells and transporting oil and/or gas from these sites during the specified time period, constituted a knowing and willful violation of both Rules 701 and 804-A [19.15.9.701 and 19.15.10.804.A NMAC], which require a valid permit (approved C-104) from the Division for such production and/or transport.
- G. Determining that Operator Yeso's actions in injecting water into five (5) wells during the specified time period, despite having received the November 20, 2006 Cancellation of Authority letter, constituted a knowing and willful violation of Rule 701 [19.15.9.701 NMAC], which requires a valid permit from the Division for such injection.
- H. Assessing penalties pursuant to NMSA 1978, Section 70-2-31(A) for the Operator's knowing and willful violation of 19.15.13.1115.C NMAC, 19.15.13.1104 NMAC, 19.15.9.701 NMAC and 19.15.10.804.A NMAC as to the subject wells in an amount consistent with the degree of Operator Yeso's violation and disregard for the Division's Rules and Regulations;
- I. Designating a date certain by which the assessed penalties shall be paid by Operator;
- J. Ordering Operator Yeso to make the well files available to OCD legal staff, upon reasonable notice and request, of all wells for which it was the Operator of Record anywhere in the State of New Mexico between the date of issuance of the Cancellation of Authority through the date of reinstatement of Authority¹ for the purposes of an audit as to the reporting of production for those wells;
- K. Ordering Operator Yeso to file any required supplemental and/or corrected documentation necessary (e.g. C-115s) to render the OCD records for wells currently or previously operated by Operator fully accurate as to the reporting of production during the cancellation of authority period;
- L. Alternatively, an Order is sought pursuant to NMSA 1978, Section 70-2-14(B) requiring the Operator to plug and abandon all remaining wells in the State of New Mexico for which it is currently the Operator of Record by a date certain, and providing for the forfeiture of Operator's financial assurance should Operator fail to comply with said Order, and

APPLICANT'S PROPOSED EVIDENCE

WITNESS:

ESTIMATED TIME:

Daniel Sanchez, Enforcement & Compliance Manager

25 minutes

PROCEDURAL MATTERS

None.

Respectfully submitted

this 11th day of October 2007 by

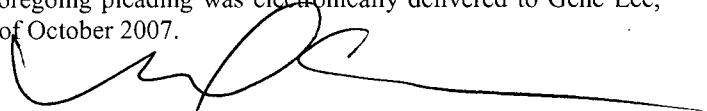


Mikal Altomare
Oil Conservation Division
Energy, Minerals and Natural
Resources Department
1220 S. St. Francis Drive
Santa Fe, NM 87505
(505) 476-3480

Attorney for the Oil Conservation Division

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was electronically delivered to Gene Lee, Principal for Yeso Energy, Inc., this 11th day of October 2007.



Mikal Altomare