

OIL CONSERVATION DIVISION

CASE NO.
14294

EXHIBIT
11



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

January 8, 2007

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

e-mail: LeeConInc@aol.com

**Re: Yeso Energy Inc., OGRID 221710
Inactive well agreed compliance order 137 (ACOI 137)
Letter dated December 27, 2006**

Dear Mr. Lee,

I am writing in response to your letter dated December 27, 2006, in which you requested a 45-day extension on inactive well agreed compliance order 137 (ACOI 137) and a waiver of penalties due under that order.

ACOI 137 expired, and three of the wells covered by that order re-appeared on the inactive well list on January 1, 2007. (The fourth well, the Yates State #1, was transferred to another operator.) Under the terms of the order, Yeso Energy Inc. owes a penalty of \$3,000, unless the Oil Conservation Division (OCD) waives the penalty.

The OCD is not willing to waive penalties or enter into a new agreed compliance order at this time.

By letter dated March 8, 2006, the OCD notified Yeso Energy Inc. (Yeso) that it was out of compliance with Rule 40 [19.15.140.A NMAC] and that it needed to return its inactive wells to compliance. The March 8, 2006 letter also notified Yeso that it had failed to file timely production reports, and was therefore out of compliance with Rule 1115 [19.15.13.1115 NMAC]. The letter went on to warn Yeso that if it did not file its production reports immediately, the OCD would take action cancelling Yeso's authority to transport.

By letter dated June 21, 2006, the OCD denied Mr. Gene Lee's request to register as a well operator pursuant to Rule 100.B [19.15.3.100.B NMAC], which allows the OCD to deny registration to an applicant who is or was within the past 5 years an officer, director, partner or person with an interest exceeding 25% in another entity that is not currently in compliance with Rule 40. Mr. Lee is the president of Yeso, and Yeso was still out of compliance with Rule 40 based on its high number of non-compliant inactive wells.

Yeso entered into ACOI 137 on July 7, 2006, removing its inactive wells from the inactive list until December 31, 2006, and temporarily coming into compliance with Rule 40. (Mr. Lee was allowed to register as an operator during this period.) Yeso did not, however, return to compliance with Rule 1115.

By letter dated November 20, 2006, the OCD cancelled the authority of Yeso to transport from or inject into any of the wells it operates in New Mexico, based on its failure to file production reports for May 2006. Yeso has still not filed its production reports for May 2006 and is still subject to the cancellation of authority to transport or inject. 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]. Knowing and willful violations of OCD rules may subject the operator to penalties of up to \$1,000 per day. See NMSA 1978, Section 70-2-31(A). OCD inspectors will inspect Yeso wells to determine if Yeso is transporting or injecting in violation of the rules.

Yeso needs to become current in its reporting before the OCD will consider entering into a new inactive well agreed compliance order.

Although Yeso's December 27, 2006 letter states that it has had difficulty obtaining rigs and cement equipment, the letter does not explain when Yeso first took action to obtain rigs and cement equipment. Yeso has been on notice of the need to return its inactive wells to compliance since March 2006. The OCD is not willing to waive the \$3,000 penalty due under ACOI 137.

ACOI 137 provides that if the operator's request for waiver of penalties is denied, the matter will be set for hearing. If Yeso does not pay the \$3,000 due under the terms of the order by January 25, 2007, the OCD will file an application for hearing on the penalty issue.

Sincerely,



Daniel Sanchez
Enforcement and Compliance Manager
Oil Conservation Division

cc: Chris Williams, OCD District I
Tim Gum, OCD District II
Charlie Perrin, OCD District III
David Bradshaw, OCD Automation and Records Bureau
Theresa Duran-Saenz, OCD Legal Assistant
Gail MacQuesten, OCD Attorney