



New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

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Cabinet Secretary

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Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



CEASE & DESIST PRODUCTION OF THE SQUARE LAKE 12 UNIT #100 **(30-015-04092)**

April 5, 2010

Tandem Energy Corporation
11490 Westheimer Rd., Suite 1000
Houston, TX 77077

Certified Mail: 7008 3230 0000 2319 8822

Tandem Energy Corporation
200 North Lorraine Street
Midland, TX 79701

Certified Mail: 7008 3230 0000 2319 8839

Tandem Energy Corporation
25 Phillips Parkway
Montvale, NJ 07645

Certified Mail: 7008 3230 0000 2319 8846

Tandem Energy Corporation
c/o Corporation Service Company
125 Lincoln Avenue, Suite 223
Santa Fe, NM 87501

Certified Mail: 7008 3230 0000 2319 8853

Re: Illegal Production of Square Lake 12 Unit #100 (30-015-04092) (6-6-17S-30E)



Dear Operator,

Oil Conservation Division (OCD) Rule 19.15.7.15 NMAC states:

REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT OIL AND GAS (Form C-104): An operator shall file with the division a complete form C-104 to request the division assign an allowable to a newly completed or re-completed well or a well completed in an additional pool or issue an operator authorization to transport oil or gas from the well.

OCD Rule 19.15.16.19(A) NMAC states:

ALLOWABLES AND AUTHORIZATION TO TRANSPORT OIL AND GAS:

A. The division may assign an allowable to a newly completed or re-completed well or a well completed in an additional pool or issue an operator authorization to transport oil or gas from the well if the operator:

- (1) has filed a complete form C-104;
- (2) has provided a sworn and notarized tabulation of all deviation tests the operator has run on the well, and directional surveys with calculated bottom hole location, in accordance with the requirements of 19.15.16.14 NMAC;
- (3) has dedicated a standard unit for the pool in which the well is completed, a standard unit has been communitized or pooled and dedicated to the well or the division has approved a non-standard unit; and
- (4) is in compliance with Subsection A of 19.15.5.9 NMAC.

A review of OCD records indicates that Tandem Energy Corporation (Tandem) has been producing the Square Lake 12 Unit #100 (30-015-04092) (6-6-17S-30E) since August 2006, without an approved C-104. **Tandem must immediately shut-in the well.**

A review of OCD records also indicates that Tandem has not submitted the reports that require OCD review and approval of the conversion, and which document the conversion.

On November 19, 2008, the OCD sent Tandem a letter which informed Tandem that it could not produce the Square Lake 12 Unit #100 until it had an approved C-104. (A copy of the letter is enclosed.) The letter advised Tandem that there might be a problem with the C-104 due to Tandem's failure to comply with Rule 40 [19.15.1.40 NMAC] (re-numbered 19.15.5.9 NMAC). The letter advised Tandem that it also needed to file the reports for the well's conversion to a producer. The letter instructed Tandem to contact OCD Enforcement and Compliance Manager Daniel Sanchez within 10 days to schedule an administrative conference to discuss the matter. Tandem did not contact me, and Tandem did not submit the reports that it needed to submit.

On December 17, 2008, OCD Assistant General Counsel Sonny Swazo and I called Tandem employee Tammy Adair. We told Ms. Adair that Tandem could not operate the Square Lake 12 Unit #100 until it had an approved C-104. We told Ms. Adair that the OCD had not approved the C-104 that Tandem had submitted for the Square Lake 12 Unit #100 due to Tandem being out of compliance with Rule 40 due to inactive wells. We explained what Tandem's options were, including entering into a possible inactive well agreed compliance order (ACOI) with the OCD. Mr. Swazo sent Ms. Adair a sample ACOI and information sheet explaining the ACOI program (I have attached the email). We never heard from Tandem.

Please **contact me at (505) 476-3493 by April 16, 2010** to schedule an administrative conference to discuss the matter. OCD legal counsel may be present for the conference, and you may bring legal counsel if you wish.

If this matter cannot be resolved and Tandem continues to produce the Square Lake 12 Unit #100 without OCD approval, the OCD will take enforcement action against Tandem, which may include an enforcement hearing before an OCD hearing examiner seeking an order requiring that the Square Lake 12 Unit #100 to be plugged and abandoned pursuant to NMSA 1978, § 70-2-14(B). That statute provides:

If any of the requirements of the Oil and Gas Act 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. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited.

Additional enforcement action may include a civil suit brought under NMSA 1978, § 70-2-28, by the New Mexico Attorney General for penalties and/or injunctive relief to prevent Tandem from violating the Oil and Gas Act or any rule, regulation or order made pursuant to the Act, or a civil suit brought under NMSA 1978, § 70-2-31, by the New Mexico Attorney General for civil penalties against Tandem for knowing and willful violations of the Oil and Gas Act or any provision of any rule issued pursuant to that act. Section 70-2-31 authorizes civil penalties of one thousand dollars (\$1,000) for each violation. Section 70-2-31 provides that in the case of a continuing violation, each day of violation shall constitute a separate violation.

Note: Tandem is currently out of compliance with Rule 19.15.5.9 in two ways—inactive wells and financial assurance. An operator of 101 to 500 wells may not have more than 5 wells on the inactive well list to be in compliance with Rule 19.15.5.9. Tandem operates 341 wells and has 20 wells on the inactive well list. (A copy of the list is enclosed.) The financial assurance report for Tandem shows the State 175 #001 (30-025-03445) (I-11-21S-35E) as being out of compliance with financial assurance. Please contact Dorothy Phillips at (505) 476-3461 or dorothy.phillips@state.nm.us to post the required financial assurance. As indicated above, if an operator is out of compliance with Rule 19.15.5.9 NMAC, the OCD must deny the operator's C-104. I have attached an information sheet that describes Rule 19.15.5.9.

April 5, 2010

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Your prompt response would be appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read 'Daniel Sanchez', with a long horizontal flourish extending to the right.

Daniel Sanchez
OCD Enforcement and Compliance Manager

Ec: Darold Gray; OCD District II
Randy Dade, OCD District II
Sonny Swazo, OCD Assistant General Counsel
John Bramhall, BLM
Peggy Diezi (Tandem), at pdiezi@platenergy.com and facsimile 281-649-4594
Rumaldo Hinojosa (Tandem), at rumaldohinojosa@yahoo.com and facsimile
575-308-0716
Tadair@tandem-energy.com



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Oil Conservation Division



November 19, 2008

Tandem Energy Corp.
PO Box 1559
Midland, Texas 79702

RE: Square Lake 12 Unit #100; API No. 30-015-04092

Dear Operator;

A well file review has indicated the above well is reporting production without approval of a Request for Allowable and Authorization to Transport (C-104). This is in violation of NMOCD Rule 19.15.13.1104 (Rule 1104).

This well was converted from injection to an oil producer in September 2006, however the required subsequent reports (Forms C-103 (Rule 1103), C-105 (Rule 1105) and C-104) were not received by OCD. Your well files should be reviewed to determine if additional wells fall under the provisions of this rule. If so, C-104s must be submitted prior to any sales of product. Prior to Division approval of these C-104s all sales from wells without an approved C-104 must be suspended.

OCD rules require an approved C-104 prior to the sale of, or handling of any product. Your attention is drawn to NMOCD Rule 19.15.10.801 which states "The sale or purchase or acquisition, or the transporting, refining, processing or handling in any other way, of crude petroleum oil or of any crude petroleum produced in excess of the amount allowed by any statute of this state, or by any rule, regulation or order of the division made thereunder, is prohibited."

Submission of the required documentation as required by Rule 1104 may be hindered by your company's failure to comply with Rule 40 (Inactive Wells and Financial Assurance).

Please contact Daniel Sanchez (505)476-3493 within ten (10) days of the date of this letter to schedule an administrative conference to discuss this matter. OCD legal counsel may be present for this conference, and you may bring legal counsel if you wish. The purpose of the administrative conference is to discuss the facts surrounding this letter of



November 19, 2008

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violation, and to determine if the matter can be resolved administratively through an agreed compliance order.

Failure to comply with this request will require further enforcement action which may include penalties authorized by NMSA Section 70-2-31(A) of up to One Thousand Dollars (\$1,000.00) per day per violation for any knowing and willful violation of any provision of the Oil and Gas Act or any rule adopted pursuant to the Act.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerry Guye", with a long horizontal flourish extending to the right.

Gerry Guye
Compliance Officer

From: Swazo, Sonny, EMNRD
Sent: Wednesday, December 17, 2008 9:56 AM
To: 'tadair@tandem-energy.com'
Cc: Sanchez, Daniel J., EMNRD; Guye, Gerry, EMNRD
Subject: ACOI
Attachments: 2008 2-7 Sample ACOI 6-month periods.doc; 2008 8-29 Info sheet for inactive well program.doc

Ms. Adair:

Thank you for taking the time to speak with Daniel Sanchez and I about Tandem Energy Corporation's current C-104/Rule 40 issues.

I am attaching a sample Inactive Well Agreed Compliance Order, or "ACOI," and an ACOI information sheet for Tandem's review.

Please contact me at 505-476-3463 or sonny.swazo@state.nm.us if Tandem is interested in doing an ACOI. Of course, before OCD will do an ACOI with Tandem, OCD will have to determine if Tandem is eligible for an ACOI.

As we explained to you, wells that do not have an approved C-104 must be shut-in until they have an approved C-104. OCD has not acted upon Tandem's C-104's due to Tandem being out of compliance with Rule 40. Tandem will face further enforcement action if it produces its wells without having an approved C-104. Also, Tandem should review its well files to make sure that it has filed the proper paperwork with OCD.

Thank you,

Sonny Swazo
Assistant General Counsel

Inactive Well List

Total Well Count: 341 Inactive Well Count: 20 Since: 1/6/2009

Printed On: Thursday, April 01 2010

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
2	30-015-23584	AMOCO STATE #001	O-16-18S-29E	O	236183	TANDEM ENERGY CORPORATION	S	O	06/2008			
2	30-015-21835	BALLARD GRAYBURG SAN ANDRES UNIT #003F	J-6 -18S-29E	J	236183	TANDEM ENERGY CORPORATION	F	I	03/2008			
2	30-015-03325	BALLARD GRAYBURG SAN ANDRES UNIT #003G	M-8 -18S-29E	M	236183	TANDEM ENERGY CORPORATION	F	O	10/1998		T	6/26/2002
2	30-015-25291	BALLARD GRAYBURG SAN ANDRES UNIT #004	M-4 -18S-29E	M	236183	TANDEM ENERGY CORPORATION	P	I	07/2008			
2	30-015-20983	BALLARD GRAYBURG SAN ANDRES UNIT #005A	B-5 -18S-29E	B	236183	TANDEM ENERGY CORPORATION	F	I	07/2008			
2	30-015-01289	EAST RED LAKE UNIT #002Q	L-36-16S-28E	L	236183	TANDEM ENERGY CORPORATION	S	O	12/1992		T	3/29/2005
2	30-015-01299	EAST RED LAKE UNIT #002X	F-1 -17S-28E	F	236183	TANDEM ENERGY CORPORATION	S	O	12/1992		T	3/29/2005
2	30-015-01290	EAST RED LAKE UNIT #003	N-36-16S-28E	N	236183	TANDEM ENERGY CORPORATION	S	O	12/1992		T	3/29/2005
2	30-015-21003	EXXON STATE #001	M-16-16S-31E	M	236183	TANDEM ENERGY CORPORATION	S	G	12/2004			
1	30-005-20403	FEDERAL 21 #001	O-21-14S-30E	O	236183	TANDEM ENERGY CORPORATION	F	O	10/2008			
2	30-015-01496	GULF STATE #001	B-22-17S-28E	B	236183	TANDEM ENERGY CORPORATION	S	O	09/2008			
2	30-015-01497	GULF STATE #002	C-22-17S-28E	C	236183	TANDEM ENERGY CORPORATION	S	O	09/2008			
2	30-015-01282	LOWE ST #001	H-35-16S-28E	H	236183	TANDEM ENERGY CORPORATION	S	O	06/2008			
2	30-015-01349	READ ST #001	H-11-17S-28E	H	236183	TANDEM ENERGY CORPORATION	S	O	09/2006			
2	30-005-60213	SOUTH LUCKY LAKE QUEEN UNIT #001B	F-22-15S-29E	F	236183	TANDEM ENERGY CORPORATION	F	I	10/2007			
2	30-015-20227	SOUTHERN UNION #001	3-30-19S-31E	L	236183	TANDEM ENERGY CORPORATION	F	O	03/2005			
2	30-015-20248	SOUTHERN UNION #002Y	H-30-19S-31E	H	236183	TANDEM ENERGY CORPORATION	F	O	03/2006			
1	30-025-03445	STATE 175 #001	I-11-21S-35E	I	236183	TANDEM ENERGY CORPORATION	S	O	12/2006			
2	30-015-05794	TENNECO FEDERAL #001	D-28-19S-31E	D	236183	TANDEM ENERGY CORPORATION	F	O	06/2007			
1	30-025-20189	TEXACO FEDERAL #002	1-1 -20S-34E	A	236183	TANDEM ENERGY CORPORATION	F	O	11/2006	QUEEN 09/29/09 INT TO PA BLM		

WHERE Ogrid:236183, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes Wells Under ACOI, Excludes Wells in Approved TA Period

INFORMATION SHEET FOR PART 5.9

Oil Conservation Division (OCD) Rule 19.15.5.9 NMAC, commonly known as “Part 5.9,” requires operators to meet certain minimum compliance standards for the wells they already operate before they can drill, acquire, produce or inject into additional wells. If an operator is out of compliance as defined by Part 5.9, the OCD:

- May deny registration by the operator or certain related entities. See 19.15.9.8(B) NMAC.
- May deny applications for change of operator that would transfer wells to the operator. See 19.15.9.9(C) NMAC.
- Must deny injection permits. See 19.15.26.8(A) NMAC.
- May deny APDs. See 19.15.14.10(A) NMAC.
- Must deny allowable and authorizations to transport. See 19.15.16.19(A) NMAC.

In addition, the OCD may, after notice and hearing, revoke previously issued injection permits if the operator is out of compliance with Part 5.9. See 19.15.26.8(A) NMAC.

To stay in compliance with Part 5.9, an operator must:

- Keep current with the financial assurance requirements for well plugging. See 19.15.5.9(A)(1) NMAC.
- Comply with orders requiring corrective action. See 19.15.5.9(A)(2) NMAC.
- Pay properly assessed penalties. See 19.15.5.9(A)(3) NMAC.
- Have no more than a certain number of wells out of compliance with the inactive well rule. See 19.15.5.9(A)(4) NMAC.

FINANCIAL ASSURANCE REQUIREMENTS: The OCD’s financial assurance requirements for well plugging are set out in 19.15.8.9 NMAC. The OCD requires all state or fee wells to be covered by a financial assurance. The OCD does not require financial assurances for Federal or Indian wells.

The operator must either post a blanket financial assurance in the amount of \$50,000 to cover its state or fee wells, or post single-well financial assurances for each state or fee well in the amount set by the rule.

If the operator chooses to post a blanket financial assurance, it must also post single-well financial assurances for each state or fee well that has been inactive for more than two years that has not been plugged and released. Note that a single-well financial assurance is required even if the well is on approved temporary abandonment status, and even if the wellbore of the well has been plugged. To check compliance with this requirement, go to www.emnrd.state.nm.us/OCD, OCD Online, E-Permitting, Financial Assurance. Insert the operator name or OGRID, and hit “Get Report.” The report will list all the wells for that operator that have not been plugged and released. Wells currently in violation of the single-well financial assurance requirement will have a “Y” in the far right column, titled “In Violation.”

For information on how to post financial assurances, please contact OCD Financial Assurance Administrator Dorothy Phillips, (505) 476-3461, Dorothy.phillips@state.nm.us.

CORRECTIVE ACTION REQUIREMENTS: If an operator fails to take an action required by a hearing order or an agreed compliance order, the OCD may go to hearing to obtain a formal order finding the operator “in violation of an order requiring corrective action.” Once such an order is issued and becomes final, the operator will be out of compliance with Part 5.9 until that order is lifted. To lift the order, the operator must

complete the corrective action required, and file a motion to declare the order satisfied. The Oil Conservation Division or the Oil Conservation Commission, as appropriate, may grant the motion without hearing or may set the matter for hearing.

UNPAID PENALTIES: An operator with a penalty assessment unpaid more than 70 days after issuance of the order assessing the penalty will be in violation of Part 5.9 until that penalty is paid. Penalties may be assessed by the district court, or may be agreed to by the operator under an agreed compliance order entered into to resolve a compliance action.

INACTIVE WELLS: The inactive well rule, 19.15.25.8 NMAC, requires any well that has been inactive for a period of more than 15 months to be plugged and abandoned, placed on approved temporary abandonment status, or returned to production or other beneficial use. An operator will be out of compliance with Part 5.9 if it has too many wells in violation of the inactive well rule; the number of non-compliant wells allowed depends on the size of the operator. Under Part 5.9, if an operator operates:

- 1 well, it may have no wells out of compliance;
- 2 or 3 wells, it may have no more than 1 well out of compliance;
- 4 to 100 wells, it may have no more than 2 wells out of compliance;
- 101 to 500 wells, it may have no more than 5 wells out of compliance;
- 501 to 1000 wells, it may have no more than 7 wells out of compliance; and
- 1000 or more wells, it may have no more than 10 wells out of compliance.

To check compliance with 5.9 as to inactive wells, go to www.emnrd.state.nm.us/OCD, OCD Online, E-Permitting, Inactive Well List. Do not change the default search terms. Insert the operator name or OGRID, and hit "Get Report." The report will identify the wells that -- according to OCD records -- have been inactive for 15 months, are not on approved temporary abandonment status, do not have a plugged wellbore, and are not subject to an inactive well agreed compliance order. For purposes of Part 5.9, if a well appears on this list, there is a rebuttable presumption that the well is in violation of the inactive well rule. The heading of the list will also identify the total well count for the operator, and the total number of non-compliant inactive wells, so you can determine if the operator is in compliance with Part 5.9.

If your company has more non-compliant wells than allowed under Part 5.9, you will need to return wells to compliance by returning them to production or other beneficial use, placing them on approved temporary abandonment status, or plugging the wellbore. In some limited circumstances, the OCD may be willing to enter into an inactive well agreed compliance order setting a schedule for returning the wells to compliance and imposing sanctions if that schedule is not met. Wells covered by an inactive well agreed compliance order are not included when calculating Part 5.9 compliance. For information on inactive well agreed compliance orders, contact OCD Attorney Sonny Swazo at (505) 476-3463, Sonny.swazo@state.nm.us.