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January 29, 2019

Certified Mail # 7016 2070 0000 9841 0654

U. S. Energy Development Corporation
ATTN: Catherine A. Aniello, Regulatory Manager
1521 N. Cooper St., STE 700
Arlington, TX 76011

HOBBS OCD

FEB 01 2019

Re: Issues of Non-compliance on State Oil and Gas Lease VA-1689-0005

On-lease Well:

❖ Kennitz 10 State #001 (30-025-35736)

Dear Ms. Aniello,

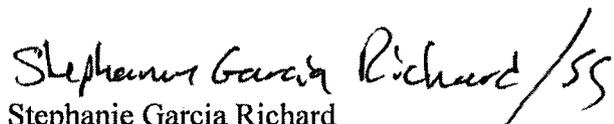
Contest 18-005, was filed in November 2018 regarding the subject lease on behalf of U. S. Energy Development Corporation. Upon the operator's filing of late production reports (C-115) with NM OCD indicating that there was oil production from the well on-lease thru November 2018, the contest was dismissed, with prejudice, on December 6, 2018. Due to the dismissal, the lease has been reinstated. However, a field report conducted on this lease and well on December 10, 2018 calls into question the production reports most recently filed and cites a number of issues, one of which is contamination on lease. Below are the issues cited on said field report:

1. The site is not being maintained. It is not being operated. Birds have begun to nest in the ladders leading up to the storage tanks.
2. Contaminated soil was found around the well head.
3. The well was not in operation during the site visit. An oil stained well head and extra pipe were on the ground next to the well. Google imagery shows the well was worked on in November of 2017.
4. In addition, the remarks noted that the location marker for the subject well was listed under Echo Production Inc. and therefore not in compliance with NM OCD's rule 19.15.16.8 NMAC which requires that the drilling location be conspicuously posted with a sign identifying the operation as to Operator, Lease Name and Location by Section, Township and Range.

In order for the lease to be in a status of "good standing", a lessee must be in compliance with the requirements set forth in rules and statutes. In order to continue the lease past the term date the lease must have production, in paying quantities, of oil or gas. The contamination on site must be remediated within 60 days and maintained according to governing rules and statutes. Please contact Ryan Mann, NMSLO's Remediation Specialist, copied herein, for guidance and see 19.2.100.66 NMAC for general requirements. In addition, a signed and notarized statement from the operator (U. S. Energy Development Corporation) confirming the production reported to NM OCD for the year of 2018 is true and correct, and confirming that the well is currently producing Oil or Gas must be submitted to NM SLO within 30 days. Failure to comply with these requirements by the date of April 1, 2019 will result in the cancellation of State Oil and Gas Lease VA-1689-0005.

Please contact Oil and Gas Lease Manager, Kenda Montoya at kmontoya@slo.state.nm.us or (505) 827-5749 with questions regarding this letter.

Respectfully,


Stephanie Garcia Richard
COMMISSIONER OF PUBLIC LANDS

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- CC: New Mexico Oil Conservation Division
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- CC: OXY USA Inc.
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- CC: Sanders, Bruin, Coll & Worley, P.A.
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