

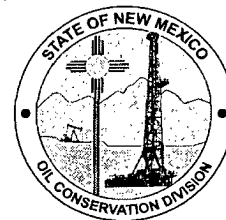


New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



December 11, 2009

DC Energy LLC
105 Oscar Lane
Dallas, GA 30132

Certified Mail No.: 7002 3150 0005 2327 4669

FORMAL NOTICE OF LOSS OF INJECTION AUTHORITY **OPERATOR REQUIRED TO CEASE AND DESIST INJECTION**

Re: DC Energy LLC, OGRID 268370
Gregory A #005, 30-025-11884, Admin. Order SWD-887
Gregory El Paso Federal #004, 30-025-11871, Admin. Order SWD-240

Dear Operator:

This letter gives DC Energy LLC (DC Energy) formal notice that its authority to inject into the two wells identified above has terminated. **DC Energy must immediately cease and desist injecting into the wells identified above.**

19.15.26.12(C)(1) NMAC provides:

"Whenever there is a continuous one year period of non-injection into all wells in an injection or storage project or into a salt water disposal well or special purpose injection well, the division shall consider the project or well abandoned, and the authority for injection shall automatically terminate ipso facto."

19.15.26.12(C)(2) NMAC provides:

"For good cause shown, the director may grant an administrative extension or extensions of injection authority as an exception to Paragraph (1) of Subsection C of 19.15.26.12 NMAC, provided that any such extension may be granted only prior to the end of one year or [sic] continuous non-injection, or during the term of a previously granted extension."



Mr. Dan Johnson of DC Energy was made aware of these provisions during a meeting with the OCD in September 2009, prior to DC Energy becoming operator of record of the identified wells. A copy of the list of operator responsibilities, signed by Mr. Johnson, is attached. The injection well requirements at issue are found in paragraph 8.

The Gregory A #005, 30-025-11884, is a salt water disposal well authorized by Admin. Order SWD-887, issued August 13, 2003. According to OCD records, the Gregory A #005 has not injected since 2005. (It reported a small amount of production in 2009.) A copy of the production/injection reporting summary is attached.

The Gregory El Paso Federal #004, 30-025-11871, is a salt water disposal well authorized by Admin. Order SWD-240, issued October 13, 1981. According to OCD records, the Gregory El Paso Federal #004 did not inject in 2007 or 2008. A copy of the production/injection reporting summary is attached.

Because all injection in these salt water disposal wells ceased for a period in excess of one year, the authority for injection into those wells automatically terminated pursuant to 19.15.26.12(C)(1) NMAC. If you wish to inject into either of these wells you must apply for a new permit under 19.15.26.8 NMAC. Please note that to be eligible for a permit the operator must be in compliance with 19.15.5.9 NMAC.

All injection into these two wells must cease immediately. By copy of this letter, I am notifying the Hobbs District Office that your injection authority for these wells has been terminated. Hobbs District Office inspectors will be checking the wells to determine if they are continuing to inject. If you believe that an emergency exists you may wish to apply for an emergency order allowing you to inject while you apply for a new permit. See 19.15.2.11 NMAC.

If you continue to inject into these wells without authority the OCD intends to take further enforcement action. The OCD may seek an administrative order requiring you to plug the wells under NMSA 1978, Section 70-2-14(B), and authority for the state to plug the wells if you do not do so. Or the OCD may seek an order from District Court pursuant to NMSA 1978, Section 70-2-28 enjoining you from injecting into the identified wells and assessing penalties under NMSA 1978, Section 70-2-31(A) for the knowing and willful violation of 19.15.26.12.C(1) NMAC.

If you disagree with the OCD's conclusion that the authority to inject into these wells has terminated, please provide documentary proof that there has not been a period of one year of non-injection, or that you are operating under an administrative extension of injection authority.

Sincerely,



Daniel Sanchez

Underground Injection Control Director for the State of New Mexico

Ec: Larry "Buddy" Hill, Supervisor, Hobbs District Office
Sylvia Dickey, Hobbs District Office

As the operator of record of wells in New Mexico,

1. I am responsible for ensuring that the wells and related facilities comply with applicable statutes and rules, and am responsible for all regulatory filings with the OCD. I am responsible for knowing all applicable statutes and rules, not just the rules referenced in this list. I understand that the OCD's rules are available on the OCD website under "Rules," and that the Water Quality Control Commission rules are available on the OCD website on the "Publications" page.
2. I understand that if I acquire wells from another operator, the OCD must approve the operator change before I begin operating those wells. See 19.15.9.9.B NMAC. I understand that if I acquire wells or facilities subject to a compliance order addressing inactive wells or environmental cleanup, before the OCD will approve the operator change it may require me to enter into an enforceable agreement to return those wells to compliance. See 19.15.9.9.C(2) NMAC.
3. I must file a monthly C-115 report showing production for each non-plugged well completion for which the OCD has approved an allowable and authorization to transport, and injection for each injection well. See 19.15.7.24 NMAC. I understand that the OCD may cancel my authority to transport from or inject into all the wells I operate if I fail to file C-115 reports. See 19.15.7.24(C) NMAC.
4. I understand that New Mexico requires wells that have been inactive for certain time periods to be plugged or placed on approved temporary abandonment. See 19.15.25.8 NMAC. I have read and understand the requirements for plugging and approved temporary abandonment in 19.15.25 NMAC. I know how to check my compliance with the basic requirements of 19.15.25.8 NMAC by using the "Inactive Well List" on OCD's website.
5. I must keep current with financial assurances for well plugging. I understand that New Mexico requires each state or fee well that has been inactive for more than two years to be covered by a single-well financial assurance, even if the well is also covered by a blanket financial assurance. See 19.15.8.9(C) NMAC. I know how to check my compliance with the single-well financial assurance requirement by using the "Inactive Well Additional Financial Assurance Report" on the OCD's website.
6. I am responsible for reporting releases as defined by 19.15.29 NMAC. I understand the OCD will look to me as the operator of record to take corrective action for releases at my wells and related facilities, including releases that occurred before I became operator of record.
7. I have read 19.15.5.9 NMAC, commonly known as "Part 5.9," and understand that to be in compliance with its requirements I must have the appropriate financial assurances in place, comply with orders requiring corrective action, pay penalties assessed by the courts or agreed to by me in a settlement agreement, and not have too many wells out of compliance with the inactive well rule (19.15.25.8 NMAC). If I am in violation of Part 5.9, I may not be allowed to drill, acquire or produce any additional wells, and will not be able to obtain any new injection permits. See 19.15.16.19 NMAC, 19.15.26.8 NMAC, 19.15.9.9 NMAC and 19.15.14.10 NMAC.
8. For injection wells, I understand that I must report injection on my monthly C-115 report and must operate my wells in compliance with 19.15.26 NMAC and the terms of my injection permit. I understand that I must conduct mechanical integrity tests on my injection wells at least once a year. See 19.15.26.11 NMAC. I understand that when there is a continuous one-year period of non-injection into all wells in an injection or storage project or into a saltwater disposal well or special purpose injection well, authority for that injection automatically terminates. See 19.15.26.12 NMAC.
9. I am responsible for providing the OCD with my current address of record and emergency contact information, and I am responsible for updating that information when it changes. See 19.15.9.8(C) NMAC. I understand that I can update that information on the OCD's website under "Electronic Permitting."
10. If I transfer well operations to another operator, the OCD must approve the change before the new operator can begin operations. See 19.15.9.9.B NMAC. I remain responsible for the wells and related facilities and all related regulatory filings until the OCD approves the operator change. I understand that the transfer will not relieve me of responsibility or liability for any act or omission which occurred while I operated the wells and related facilities.

DC Energy LLC
Operator Company Name

9/30/09
Date


Signature of Individual Signing for Operator

DAN C. JOHNSON
Printed Name and Title of Individual Signing for Operator

30-025-11884 GREGORY A #005 [306784]**General Well Information****Status: Active****History****Comments****Operator**

Company: [268370] DC ENERGY LLC
Address: 105 OSCAR LANE
 DALLAS ,GA 30132
Country: U.S.A.
Main Phone: 770-757-3715

Central Contact Person**Hobbs Contacts****Pits****Casing****Well Completions**

[96117] SWD;QUEEN **Status: Active** **Last Produced: 4/1/2009**

[37240] LANGLEIE MATTIX;7 RVRS-Q-GRAYBURG **Status: Zone Permanently Plugged** **Last Produced: 5/1/2005**

Financial Assurance**Compliance**

Note that Financial Assurance and Inactive Well Compliance are documented in separate reports ([Inactive Well Report](#), [Financial Assurance Report](#)).

Also note that some compliance issues are addressed at the operator level so not listed under each well.

Complaints, Incidents and Spills

No Incidents Found

Please note that incidents that impact ground water are recorded along with "facilities" which may not be wells, so although the initial report may be recorded here as a spill, information related to the abatement plans, remediation plans and ground water impact information are not yet part of this application.

Orders

Salt Water Disposal SWD-0-0

Salt Water Disposal SWD-887-0

Compliance Hearing Order CHO-13005-A

Compliance Hearing Order CHO-13005-0

Production / Injection

[Show All Production](#) [Export to Excel](#)

Earliest Production in OCD Records: 12/1992					Last 4/2009				
Time Frame	Production				Injection				
	Oil(BBLS)	Gas(MCF)	Water (BBLS)	Days P/I	Water (BBLS)	Co2(MCF)	Gas(MCF)	Other	Pressure
1992 Cumulative	55712	991914	57380	99	0	0	0	0	0
1993	210	427	6493	365	0	0	0	0	0
1994	227	877	6914	362	0	0	0	0	0
1995	131	577	6595	365	0	0	0	0	0
1996	149	2993	2046	303	0	0	0	0	0
1997	197	3807	0	250	0	0	0	0	0
1998	400	3969	0	340	0	0	0	0	0
1999	509	3047	0	344	0	0	0	0	0

2000	236	1364	163	258	0	0	0	0	0
2001	0	0	0	0	0	0	0	0	0
2002	0	0	0	0	0	0	0	0	0
2003	0	0	0	0	3430	0	0	0	1200
2004	0	0	0	0	33743	0	0	0	7200
2005	0	0	0	0	21605	0	0	0	6000
2006	0	0	0	0	0	0	0	0	0
2007	0	0	0	0	0	0	0	0	0
2008	0	0	0	0	0	0	0	0	0
2009	3	0	18	30	0	0	0	0	0
Grand Total:	5774	1008975	79609	2716	58778	0	0	0	14400

Transporters

30-025-11871 GREGORY EL PASO FEDERAL #004 [306786]**General Well Information****Status:** Active**History****Comments****Operator**

Company: [268370] DC ENERGY LLC
Address: 105 OSCAR LANE
 DALLAS, GA 30132
Country: U.S.A.
Main Phone: 770-757-3715

Central Contact Person**Hobbs Contacts****Pits****Casing****Well Completions**

[96121] SWD;SAN ANDRES **Status:** Active **Last Produced:** 9/1/2009

[75480] CROSBY;DEVONIAN (GAS) **Status:** Zone Permanently Plugged **Last Produced:**

Financial Assurance**Compliance**

Note that Financial Assurance and Inactive Well Compliance are documented in separate reports ([Inactive Well Report](#), [Financial Assurance Report](#)).

Also note that some compliance issues are addressed at the operator level so not listed under each well.

LWH0436357340 **Date of Violations:** 12/28/2004 **Violations:** Mechanical Integrity

Complaints, Incidents and Spills

No Incidents Found

Please note that incidents that impact ground water are recorded along with "facilities" which may not be wells, so although the initial report may be recorded here as a spill, information related to the abatement plans, remediation plans and ground water impact information are not yet part of this application.

Orders

Salt Water Disposal SWD-240-0

Compliance Hearing Order CHO-13005-A

Compliance Hearing Order CHO-13005-0

Production / Injection[Show All Production](#)[Export to Excel](#)

Earliest Production in OCD Records: 2/2003					Last 9/2009				
Time Frame	Production				Injection				
	Oil(BBLS)	Gas(MCF)	Water (BBLS)	Days P/I	Water (BBLS)	Co2(MCF)	Gas(MCF)	Other	Pressure
2001	0	0	0	0	0	0	0	0	0
2002	0	0	0	0	0	0	0	0	0
2003	0	0	0	92	618328	0	0	0	690
2004	0	0	0	92	1078466	0	0	0	600
2005	0	0	0	365	877747	0	0	0	1350
2006	0	0	0	120	175312	0	0	0	200
2007	0	0	0	0	0	0	0	0	0

2008	0	0	0	0	0	0	0	0	0
2009									
SWD; SAN ANDRES									
Jan	0	0	0	0	0	0	0	0	0
Feb	0	0	0	0	0	0	0	0	0
Mar	0	0	0	0	0	0	0	0	0
Apr	0	0	0	0	0	0	0	0	0
May	0	0	0	0	0	0	0	0	0
Jun	0	0	0	0	0	0	0	0	0
Jul	0	0	0	0	0	0	0	0	0
Aug	0	0	0	0	6000	0	0	0	0
Sep	0	0	0	0	3300	0	0	0	0
Pool Total:	0	0	0	0	9300	0	0	0	0
Annual Total:	0	0	0	0	9300	0	0	0	0
Grand Total:	0	0	0	669	2759153	0	0	0	2840

Transporters
