

April 26, 2005

Mr. Dale Gandy
Gandy Corporation
P.O. Box 827
Tatum, NM 88267

Dear Dale:

It has been a pleasure working with you on your State T #2 SWD well. I hope that we can be successful in getting the well to take fluid at much lower injection pressures following re-perforating. I know that **Cardinal Surveys** has experience and equipment for running step-rate tests that are acceptable to the Texas Railroad Commission. I assume they are sanctioned by the ODC in New Mexico also.

I will be happy to do whatever I can to assist you regarding the fluid and pressure anomalies that have recently surfaced in the offsetting Energen wells. I pulled completion and production records on these two wells for your review.

The Energen well that offsets your SWD to the east is the Snyder C #1 (API 03730) completed in 3/58 in the Townsend Permo Upper Penn (perf 10585-694'). Current production is 8 Bopd, 66 Mcfd, 7 Bwpd. The San Andres/Glorietta zone was not cemented behind a 5.50" liner. The liner was pressure tested to 2500 psi in 1969. No record of any remedial work on this well since that date.

The Energen well offsetting you to the south is the Snyder A COM #1 (API 34073) completed in 2/98 in the Shoe Bar Strawn Northeast (perf 11452-477'). Current production is 18 Bopd, 30 Mcfd, 25 Bwpd. The San Andres/Glorietta zone was not cemented behind 5.50" casing - top of cement via a cement bond log was 8832'. This is a recently drilled well. It would be hard to believe that there would be a hole in the production casing at this stage in the life of the well.

I would recommend that you take advantage of the flowback/shut-in period you are experiencing in the State T #2 SWD well to talk with Energen about the symptoms they are experiencing in their two wells. It would be helpful in determining your future strategy regarding disposal in the Lovington area.

I have included my Price List for consulting. I look forward to working with you into the future. Please let me know if you need any additional information.

Sincerely,



Terry M. Duffey

Attachment

NMOCD CASE NO. 13686
APRIL 27, 2006
DKD, LLC
EXHIBIT NO. 17