



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

June 25, 1997

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Kevin Hanratty, Esq.
P.O. Box 1330
Artesia, NM 88211

Hanson Energy
R. 342 S. Haldeman Rd.
Artesia, NM 88210

RE: Plugging of 17 wells in Eddy County, New Mexico
OCD Case No. 11811 set for hearing on July 10, 1997

Dear Sir/Madam:

By now you should have received notice of the above-referenced case to be heard before the New Mexico Oil Conservation Division on July 10, 1997. Enclosed is a copy of the application and notice letter. This case has been continued to August 7, 1997 at the request of counsel for Hanson.

Our Artesia District office has indicated Hanson Energy has failed to work with them the past two years regarding these wells and that Hanson has also performed at an unsatisfactory level regarding its dealings with the BLM. Our records indicate that Hanson currently operates 89 wells with 22 wells producing at 226 BOPM and 2109 MCFPM (12 state and 10 federal wells). 20 state and 47 federal wells are shut-in.

At the August 7, 1997 hearing, the Division will request that Hanson be ordered to plug the shut-in state wells and, if Hanson fails to do so, that the Division be authorized to (i) plug the wells, (ii) foreclose on Hanson's \$50,000 blanket bond; and (iii) pursue Hanson through all available legal means for any costs of plugging in excess of the \$50,000 bond. The Division will also request that it be allowed to assess fines on Hanson for noncompliance with the order issued for every month that Hanson is in noncompliance.

Please note that if the Division is forced to plug these wells and foreclose on the \$50,000 blanket bond, Hanson will no longer have a valid bond in place for its producing wells and they will not be allowed to produce. In addition, the bonding company will undoubtedly pursue Hanson for the \$50,000 it will have paid over to the Division.

At this point, Hanson has the following options:

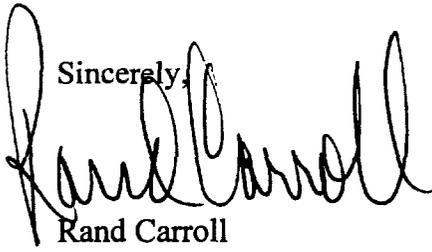
1. Work with the Artesia District Office regarding a plan for bringing all its wells into

compliance with OCD rules. Upon your request, with the Artesia Office's concurrence, we will then continue the hearing date until the wells are brought into compliance at which time we will dismiss the case; or

2. Proceed to the hearing on August 7, 1997, and attempt to prove to the hearing examiner that these wells are not in need of plugging at this time. You can also show the examiner what Hanson is doing about these wells and why Hanson should not be fined.

Please let me know what your intentions are or we will proceed to the hearing on August 7, 1997. If you have any questions, please feel free to call me at 505/827-8156 or Tim Gum or Ray Smith of our Artesia office at 505/748-1283.

Sincerely,

A handwritten signature in black ink that reads "Rand Carroll". The signature is written in a cursive style with a large initial "R" and "C".

Rand Carroll
Legal Counsel

cc: Tim Gum, OCD Artesia
Ray Smith, OCD Artesia