GALLEGOS LAW FIRM

A Professional Corporation

460 St. Michael's Drive Building 300 Santa Fe, New Mexico 87505 Telephone No. 505-983-6686 Telefax No. 505-986-1367 Telefax No. 505-986-0741

August 26, 1998 (Our File No. 93-1.62)

MICHAEL J. CONDON

VIA TELECOPY

William F. Carr Paul R. Owen Campbell, Carr, Berge & Sheridan, P.A. Post Office Box 2208 Santa Fe, New Mexico 875044-2208

Re: Gruy Applications; NMOCD Case Nos. 12015 and 12017

Dear Bill and Paul:

I am writing with respect to the Motion to Quash in Part the subpoenas we had issued in these cases. I am hopeful that we can resolve these issues without the need for a short discovery hearing before the Division prior to the hearing in this matter on September 3, 1998.

There are two categories of documents which we would ask that you produce. First, you have objected to producing well files for the Rhodes Federal Unit Well No. 159, the Rhodes Federal Unit Well No. 103, the Gregory "B" Well No. 2, and the Rhodes State Com Well No. 6. Your stated objection to these requests is that the documents are irrelevant. To the contrary, the evidence that will develop in this case clearly shows that Gruy is involved in a pool-wide attempt to impose an infill drilling program, consistently attempting to drill, operate and get approval for two and sometimes three wells per 160-acre proration unit. This, as you know, is contrary to NMOCD rules for the Rhodes Gas Pool. See letter to all operators from William J. LeMay dated August 3, 1990, as well as the memo dated July 27, 1988, both of which confirm the general rule that only one well will be allowed per 160-acre proration unit in the Rhodes Gas Pool.

It is clear that Gruy is embarked on a drilling program which consistently seeks additional wells on 160-acre proration units in the pool. In fact, Hartman's initial notice of Gruy's program involved the filings by Gruy in March, 1998 on the Nos. 103 and 159. Copies are attached. These proposed wells, in Sections 10 and 15, T-26-S and R-37-E, Lea County, New Mexico, directly offset acreage owned by Hartman. This acreage has already been dedicated to the Gregory "B" Federal No. 2 well, as recognized in the letter from Zeno Farris to Joe Janisa dated April 17, 1988, copy attached.

William F. Carr Paul R. Owen August 26, 1998 Page 2

Gruy has recently given Hartman notice that it intends to proceed with its application for drilling permits for these wells. See letter dated July 17, 1998 from Zeno Farris to Mr. Hartman, copy attached. Thus, the issue of the future development of this acreage is clearly related to the drilling program which Gruy is attempting to implement in the Rhodes Gas Pool. An application by Gruy on these wells, which will be opposed by Hartman, is a certainty. The applications in your cases Nos. 12015 and 12017 are merely the first steps in which Gruy plans as a larger program. The well files for the additional wells are clearly relevant to the program, which will be at issue at the hearing on September 3, and may provide other relevant information related to the issues which will necessarily arise regarding Gruy's ability or inability to present compelling evidence to substantiate additional operating wells on proration units for the Rhodes Gas Pool. There is not reason to delay production of those well files.

Second, we have requested that Gruy produce all documents which describe how the subject wells were staked. You have contended that all relevant documents are available in the public records. This is not true. In each well file, there should be documents that pertain to invoices to Gruy from Merryman Construction Co., and instructions from Gruy to Merryman, which would identify where Gruy asked that the well locations be placed and constructed. Documents related to negotiations with surface owners for surface damages would also describe the well locations Gruy intended to pursue.

This information is particularly relevant with respect to the Rhodes State No. 5 well at issue in your application in Case No. 12017. Gruy contends in that application that the well was erroneously built at an unorthodox location. However, documents which have already been produced in response to the subpoena indicate that six days prior to the spudding of the Rhodes State No. 5 well, a fax memo was sent confirming approval for the orthodox location. Prior to the time Gruy received approval for an orthodox location for the Rhodes State Com No. 5, Gruy had staked an unorthodox location for the No. 5 well. See form attached. Frankly, the evidence indicates that Gruy intentionally placed the No. 5 well at an unorthodox location with full knowledge that the only approval that had been given was for an orthodox location.

These are obviously issues which we intend to raise at the hearing on September 3. We are entitled to all documents in Gruy's possession which relate to the manner and method by which Gruy attempted to stake wells for which it seeks approval for unorthodox locations. This is particularly critical with respect to the Rhodes State Com No. 5 well.

William F. Carr Paul R. Owen August 26, 1998 Page 3

Please let me know if you will reconsider your Motion and produce the documents referenced in this letter. If not, by copy of this letter, I would request that the Division set the matter for a short discovery hearing at the Division's earliest convenience.

Very truly yours,

GALLEGOS LAW FIRM, P.C.

Вγ

ΛΙCHAEL J. ¢ΦNDON

MJC:sa Enclosures

fxc: Doyle Hartman

Rand Carroll (w/enclosures)

ioc: J. E. Gallegos

Gruv Petroleum Management Co.

600 East Las Colinas Bivd. • Suite 1200 • Irving, TX 75039 • (972) 401-3111 • Fax (972) 443-6450 Mailing Address: P.O. Box 140907 • Irving, TX 75014-0907

A wholly-owned subsidiary of Magnum Hunter Resources, Inc., an American Stock Exchange company

Tierra Exploration Inc. 726 East Michigan Suite 188 Hobbs New Mexico 88240 Attn: Mr. Joe Janica Date: April 17,1998

Dear Mr. Janica:

Enclosed are the following:

1. Copies of Lease Responsibility Statements for our three locations in sections 4, 10 and 15.

- 2. Copies of the C-102 for the Gregory "B" Federal No. 2 well, now the Rhodes Federal Unit No. 153. The plat for this well shows a 160 acre non-standard unit comprising the SE/4SE/4 of sec. 10, and the NE/4NE/4 & S/2NE/4 of sec. 15. This is the same dedication that our new Rhodes Federal Unit No. 103 and 159 wells have. I think we need a new plat for our 103 and 159 wells, and may need to file an amended C-102. What do you think?
- 3. Copies of the 3160-3's, and C-102's for the above wells. I've written in the unit agreement name, and the acres assigned to the wells where applicable.
- 4. Statement Accepting Responsibility for Operations for the NW/4 of sec. 8, 26S-37E, and a penciled in 3160-3 for our proposed re entry of the Texaco H. G. Moberly Federal (a) No. 2. Our well will be called the Rhodes Federal Unit No. 86. Also enclosed is a copy of the Texaco C-102. It is my understanding that we can modify the Texaco plat and use their archaeological clearance, and file this well for permitting without to much delay.

Joe, the Rhodes Federal Unit No. 86 is the next well we want to permit. I seem to recall talking to Mike Stogner at the N.M.O.C.C. and he said they may be able to streamline this permit, and get it through quicker than normal. If that's possible, please let me know. Also please let me know when you have filed the permit on the RFU No. 86. We want to send a copy of the permit and a letter to owner of the borehole explaining our intentions.

Sincerely,

Zeno Farris

C. Belle fler.

Date: July 17, 1998



Gruy Petroleum Management Co.
600 East Las Colinas Blvd. • Suite 1200 • Irving, TX 75039 • (972) 401-3111 • Fax (972) 443-6450
Mailing Address; P.O. Box 140907 • Irving, TX 75014-0907

A wholly-awned subsidiary of Magnum Hunter Resources, Inc., an American Stock Exchange company

Doyle Hartman 500 North Main Midland, TX 79702

Re: Sections 10(P), 15(H) T26S, R37E Lea County New Mexico

Rhodes Yates 7Rivers Gas Pool

Dear Mr. Hartman:

This letter shall serve as notice that Gruy Petroleum Management Co. has applied for drilling permits at unorthodox locations, for a second and third well in an existing 160.00 acre unit, on the referenced leasehold. Enclosed, are copies of the C-102's showing these locations.

If you have any questions please feel free to call me at (972-443-6489).

Sincerely,

Zeno Farris

Manager, Operations Administration

JUL 21 1998

-DISTRICT) P.O. Box 1900, Habbe, MM 86241-1960 State of New Mexico

Diero. Macrels and Natural Resources Department

Form C-162 Revised february 10, 1934 Submit to Appropriate District Office State Lease - 4 Copies Fee Lease - 3 Copies

DISTRICT II P.O. Drawer BB, Artonia, NM 66211-0719

DISTRICT III 1000 Rio Brazos Rd., Aztec, NM 57410

DISTRICT IV P.O. BOX 2086, SANTA FE, N.M. 67504-2086 OIL CONSERVATION DIVISION P.O. Box 2088

Santa Fe. New Mexico 87504-2088

X AMENDED REPORT

API Number Pool Code	Pool Ya				
70 - 025 - 34394 83810 RHODES	-YATES-7 RIVER				
30-025-34394 83810 RHODES Property Code Property Name					
⇒£(:)3		
22321 OGRID No. Operator Name		Elevati			
162683 GRUY PETROLEUM MANAGEMEN	T CO.	. 298			
Surface Location					
UL or lot No. Section Township Range Lot Idn Feet from the North/Se	uth line Feet from	the East/West line	County		
P 10 26 S 37 E 550 SO	JTH 760	EAST	<u>j</u> LEA		
Bottom Hole Location If Different Fr	om Surface				
UL or lat No. Section Township Range Lot Idn Feet from the North/So	uth line Feet from	the East/West line	County		
Dedicated Acres Joint or Infill Consolidation Code Order No.					
160					
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OR A NON-STANDARD UNIT HAS BEEN APPROV	ed by the divisi	ON			
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FSTRICT 1. 2. flor 1960, Hubber, NM 88241-1980

State of New Mexico

Energy, Kinerals and Natural Resources Department

Forth C-102
Revised February 10, 1994
Submit to Appropriate District Office
State Lesse - 4 Copies
Fee Lease - 3 Copies

ISTRICT II 0. Drawer BD. Artesia, NA 68311-0719

ISTRICT III 100 Rig Brazos Rd., Aztec, NN 87410

0, 80X 2005, SANTA FE. N.M. 87504-2088

ISTRICT IV

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe. New Mexico 87504-2088

C AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

30-02	Number 5-343	95	1	Pool Code		RHODES - YATES - TRIVERS			
Property 223					Property Nex	"(1)			aber 9
-16168			Operator Name GRUY PETROLEUM MANAGEMENT CO.					Elevation 2981	
					Surface Loc	ation			
UL or lot No.	Seedon 15	Township 26 S	Radge 37 E	lot idn	Feet from the 2110	North/South line NORTH	Feet from the	East/West line	County
			Bottom	Hole Loc	cation If Diffe	rent From Sur	face		
UL or lot No.	Section	Township	Range	lot idn	Feet from the	North/South line	feet from the	East/West line	County
Dedicated Acre	Joint o	r Infill Ce	nsolidation (ode Ore	der No.				

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	OR A NON-SIA	NDARD UNIT HAS BEEN APPROVED BY TH	IE DIVISION
			OPERATOR CERTIFICATION I history certify the the information contained herein is true and complete to the best of my knowledge and belief
		7/17/11/11/11/11/11/11/11/11/11/11/11/11	Zenci Ferris Signature Zeno Farris
			Mgr., Operations Admin. Title July 17, 1998 Date
5		107	SURVEYOR CERTIFICATION I hereby remains that the well location shown on this plat was plotted from rield notes of actual surveys made by me or under my
		RFW BLEECE	march 26. 1998 Date Surveyses
		/ 2979 4 _ 2979 3' /	Strandic & Seat of Professional Europe Elevate Libra 4.21-98
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DISTRICT I P.O. East 1980, Robbs, NM 80241-1900 State of New Mexico

Energy, Minerals and Natural Resources Department

Form (Revised February 10 Submit to Appropriate District

Pool Name

State Lease = 4 Fee Lease = 3

DISTRICT II P.O. Drawer DD, Artesia, NK 58211-0719

DISTRICT III 1000 Rio Brazon Rd., Astec, NM 87410

DISTRICT IV P.O. BOX 2068, SANTA FR. N.M. 87504-2088

API Number

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

☐ AMENDED RE

WELL LOCATION AND ACREAGE DEDICATION PLAT

83810 RHODES-YATES-YRIVERS									
Code	<u> </u>	Property Name					Well Number		
22321 OGRID No. 162683				Operator Name GRUY PETROLEUM MANAGEMENT CO.				Elevation 2984	
	<u></u>			Surface Loc	ation				
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Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	(
3 Joint	or Lafill Co	nsolidation	Code Or	der No.				L_,	
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Pool Code

_	 OR A NON-STANDA	RD UNIT HAS	BEEN APPROVED	BY THE DIVISION
				OPERATOR CERTIFICATION I hereby certify the the information of my branchedge and better. Signature Joe T. Janica Printed Name Agent Title
				O4/07/98 Date SURVEYOR CERTIFICATION I hereby certify that the well location on this plat was plotted from field mactual startegy made by me or we supervisor, and that the same (2 to correct to the best of my belief.
			2985.0°	MARCH 26, 1998 Date Surveyed Signature & Seal Tol. Professional Surveyor OR 11-0498 Certificate No. John Wenest TOLERAN FEDSON

Form 3160-3 (July 1992)

SUBMIT IN TRIPLICATE. (Other-Instructions on

FORM APPROVED OMB NO. 1004-0136 Expires: February 28, 1995

UNITED STATES DEPARTMENT OF THE INTERIOR

DEFARTMENT OF TH		5. LEASE DESIGNATION AND SERIAL ?
BUREAU OF LAND MA	NAGEMENT	NM-90796
APPLICATION FOR PERMIT T	O DRILL OR DEEPEN	6. IF INDIAN, ALLOTTEE OF TRIBE NA
DRILL Y DEEPE	in []	7. UNIT ACREEMENT NAME
DIL GAS X OTHER	SINGLE ZON	S. FARM OR LEASE NAME WOLL NO
2. NAME OF OFFEATOR GRUY PETROLEUM MANAGEMENT COMPANY (ZEI	NO FARRIS) 972-443-64	RHODES FEDERAL UNIT #
3. ADDRESS AND TREPHONENG. P.O. BOX 140907 IRVING, TEXAS 75014 -	0907	10. FIELD AND FOOL, OR WILDCAT
4. LOCATION OF WELL (Report location clearly and in accordance at surface	e with any State requirements.	RHODES-YATES-7 RIVERS
2110' FNL & 460' FEL SEC. 15 T26S-REAT proposed prod. zone SAME	37E LEA CO. NM	SEC. 15 T26S-R37E
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR	POST OFFICE*	12. COUNTY OR PARISH 15, STATE
Approximately 5 miles South of Jal New	Mexico	LÉA CO. NEW MEXI
13. DISTANCE FROM PROPUSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, Ft. (Also to bestert drig. unit line, if any)	16. NO. OF ACEES IN LEASE 320	17. NO. OF ACERS ASSIGNED TO THIS WELL 170
15. DISTANCE FROM PROPOSED LOCATION	19. PHILOSED DEPTH	20. ROTART OF CABLE TOULS

TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR ON THIS LEASE, PT. ROTARY 1980 33801 21. ELEVATIONS (Show whether DF, RT, GR. 22. APPROX, DATE WORK WILL START GŔ.

23.

soon as approved

MAY 04 1998

SIZE OF HOLE	GRADE SIZE OF CASI	E PEIGHT PER FOOT	SETTING DEFTH	GCARTITY OF CEMENT		
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7 7/8"	K-55 43411	11.6	3380 1 37 7 37 ED	00 5x. circulate to surfac		
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- 1. Drill 12%" hole to 750'. Run and set 750' of 8 5/8" J-55 24# ST&C casing. Gement with 400 Sx. of Halco Light + additives, tail in with 200 Sx. of Class "C" + k# flocele/Sx + 2% CaCl, circulate cement to surface.
- 2. Drill 7 7/8" hole to 3380'. Run and set 3380' of $4\frac{1}{2}$ " J-55 11.6# LT&C casing. Cement in two stages. First stage cement with 400 Sx. of Class "C" cement + 3# of salt/Sx. + ½# flocele/Sx. Second stage cement with 600 Sx. of Class "C" Halco Light + 9# salt/Sx + ½# flocele/Sx., circulate cement to surface.

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS 417 W . II.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to desire, give data on prosent productive zone and proposed new productive zone. If proposal is to delil or reinent data on subsurface locations and measured and the vertical depths. Give blowous preventer program. I any

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Application agreement of the property of the state of the	
tonortions of Approval if any:	

ORIG. SGD.) ARMANDO A. LOPEZ

APPROVED BY

LISTRICT I

State of New Mexico

Energy, Minerals and Natural Resources Department

Form C-Revised February 10, 1

Submit to Appropriate District Of State Lease - 4 Con

DISTRICT II P.O. Drawer DD, Artonia, NM 05211-0719

P.O. Box 1980, Nobbe, NM 58241-1980

DISTRICT IV

DISTRICT III 1000 Rio Brazos Rd., Axtec, NM 87410

F.O. BOX 2085, SANTA FE, N.M. 87504-2088

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

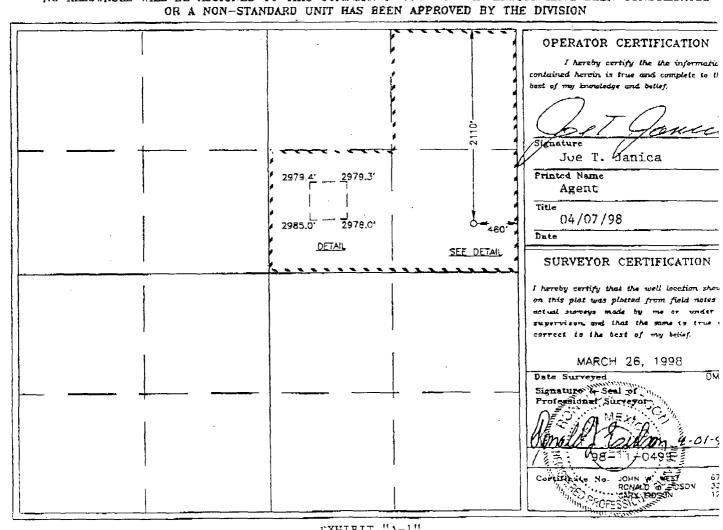
☐ AMENDED REPC

Fee Lease - 3 Cor

451 V A A

WELL LOCATION AND ACREAGE DEDICATION PLAT

	Number		838:	Pool Cade	RHO	DES-YATES-7R	Pool Name IVERS		
Property 22321			Property Name RFU					Well Number 159	
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DISTRICT I P.D. Box 1965, Kabba, IX 85241-1066

State of New Mexico

Storgy, Minerals and Natural Resources Department.

Form C-102 Hariard Fahruary 10, 1994 Submit to Appropriate District Office State Louse - 4 Copies Fee Lassu - 3 Copies

DISTRICT II P.G. Brawer DD, Artesia, RM 88211-9719

DISTRICT III			OIL	CON		ON DIVIS	ION	You Langu	- 3 Copie
OCO PSo Brason) DISTRICT IV				Santa F	P.O. Box 2 e. New Mexic	2088 20 87504-2088		X VATEMDED	REPORT
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on this plat was platted from field notes of metral province made by me or under my supervisors and that the same is from and correct to the best of my belief.

7, 1998

Data Source d'intimulation JL
Signature D'amaria D'amaria

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W.O. Num 98-1,7-0700

Certificate No. RONADO EDSON.

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