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March 26, 2003

**VIA HAND DELIVERY**

Ms. Lori Wrotenbery, Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

**RECEIVED**

MAR 28 2003

Oil Conservation Division

Re: North Square Lake Unit, Eddy County, New Mexico

Dear Ms. Wrotenbery,

The purpose of this letter is to review the efforts of CBS Operating Corp. to implement a pressure maintenance project in the North Square Lake Unit and to respond to the Division's March 5, 2003, letter directing CBS to shut in two injection wells in the unit.

**STATUS OF OPERATIONS:**

By Division Order No. R-11435-A, dated May 30, 2002, the Oil Conservation Division authorized a pressure maintenance project in the North Square Lake Unit. CBS Operating Corp. subsequently posted plugging bonds in the amount of approximately \$195,000 to cover existing noncompliant wells and assumed operations of North Square Lake Unit from GP II Energy, Inc. effective September 1, 2002. Since that time CBS has: 1) repaired and restored 31 wells to production, 2) revamped the NSLU surface facilities and reduced the oil sales/disposition sites and ordered new vessels for 3 of the new consolidated central batteries, 3) refurbished the Grier Injection Station in anticipation of pressure maintenance requirements, and 4) filed notice of staking for 23 infill wells. CBS is currently working with the BLM to establish a comprehensive development plan covering all Land Use Requirements for the NSLU.

CBS is now implementing its 2003 Development Plan that includes:

1. Commencing a well remediation project to return approximately 6 wells per month to production,
2. Upgrading surface facilities within the Unit area to eliminate roughly 35 sales points and consolidate these into three central batteries with crude pipeline connections,
3. Filing NOS and submitting drilling applications for approximately 20 wells,

4. Attempting to secure an exception to the Prairie Chicken moratorium,
5. Drilling approximately twenty infill wells and obtaining updated geological and reservoir data,
6. Re-routing existing water production facilities for injection into the initial pressure maintenance areas, and
7. Implementing additional injection and upgrading existing injection facilities to handle the required rate for pressure maintenance as justified based on study and experience with initial injection wells.

During 2004, CBS Operating Corp. plans to further upgrade existing injection facilities, convert and/or develop additional injection wells and drill up to 30 additional producing wells. A formal plan of Development will be filed for the year 2004 during December 2003.

#### INJECTION WELLS:

By letter dated March 5, 2003, and received March 17, 2003, the Division demanded that CBS cease injection into NSLU Wells No. 102 and 145. CBS shut in the wells and ceased injection on March 17, 2003.

CBS has discovered certain problems with Division Order No. R-11435-A that we believe were not intended and are the result of errors by GPII and CBS (summarized below), which both created confusion and resulted in an order which, in several respects, is not consistent with what was proposed by the operator and may not accurately reflect the intentions of the Division.

\*

At the OCD hearing last year regarding the pressure maintenance project at the North Square Lake Unit, CBS proposed initiating the project using the **existing** 11 injection wells with prior injection authority (Hearing Exhibit 8). CBS also proposed that it would submit subsequent C-108 applications and conduct all "area of view" work for additional injectors as development progressed. In contrast to CBS's proposal, the Division's order required "area of review" re-plugging work for five wells before injection could **commence** in three of the existing **active** injection wells. We discussed this matter with the Division's District Office in Artesia and confirmed that while the order contained additional "area of review" work on these wells, the existing injection authority had not been terminated.

Apparently, the Division's requirement for "area of review" work on these wells was based on remedial work required by the Division's original order entered in August 2000 granting injection authority for the NSLU waterflood. CBS believes that the Division's requirement resulted from a clerical error in GP II Energy's original C-108 application for **new** injectors in the proposed NSLU waterflood. GP II inadvertently included three of the existing injectors with prior injection authority (wells 102,127,145) in the original C-108 application filed in June 2000. As a result of being including in the C-108 with the proposed new injection wells, the Division's order also required "area of review" for the three previously approved injectors. This problem was compounded by the fact that the Exhibit A listing the proposed initial injection wells that was submitted to the Division with the draft order we submitted following the 2002 hearing had four

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well number typographical errors and inadvertently omitted one well. The exhibit showed: a) 101 for 100, b) 97 for 185, c) 125 for 127, d) 127 for 145, and omitted well #142. Exhibit 8 submitted in the March 2002 hearing, properly identified all 11 existing injection wells within the Unit.

The May 2002 order issued by the OCD incorporated these errors, as well as failed to include the three injection wells in Range 30 that were submitted in our draft.

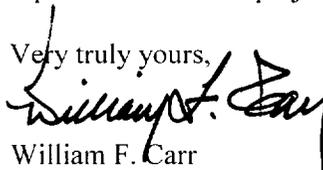
If this order revokes prior injection authority granted to certain wells in the unit, it will effectively create "area of review" work that would otherwise not be required. This requirement goes beyond what has been required for other injection wells in this area. It is and has always been CBS's understanding that it could continue to inject in the existing injection wells subject to meeting the Division's mechanical integrity standards. Accordingly, the Artesia OCD office has scheduled mechanical integrity tests for all 11 of the existing injection wells in the unit on March 26, 2003.

CBS respectfully requests that administrative approval be granted for CBS to continue to utilize the existing injection wells with prior injection authority, subject only to the mechanical integrity standard. CBS feels that the additional remedial work required by the current order is unnecessary and wasteful. CBS will file new C-108 applications for any additional injection wells in the NSLU.

In the absence of obtaining administrative approval for continuing injection in the existing wells in the unit, subject only to the mechanical integrity standard, we would propose a hearing be scheduled to clarify the status of these wells. The current order requires that the "area of review" work for the three existing injection wells in question be completed by May 30, 2003. If this matter is set for hearing, CBS requests an extension of this deadline to allow sufficient time to remedy the status of these wells.

I hope this letter explains the current status of our efforts to develop these properties and explains our understanding of the Division's requirements for this project.

We are anxious to resolve this matter and would like to meet with you at the earliest possible time to discuss this situation and to confirm what must be done to bring the efforts CBS Operating Corp. into compliance with all of the Division's requirements for this project.

Very truly yours,  
  
William F. Carr

cc: Mr. David Cotner  
Mr. John L. Cox