



NOV 19 1999

November 17, 1999

Mr. Mike Stogner
New Mexico Energy, Minerals & Natural Resources Dept.
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

RE: Federal "D" No.3
E/2 Section 31, T9S, R36E
Lea County, New Mexico

Dear Mr. Stogner:

As an interested party in the above referenced well and Atoka gas production, we would like to be advised of any petitions, filings or hearing applications made by Reliance Operating Company, the Operator of the well. Reliance Operating has not provided any information or notice to us regarding the well since their last letter dated October 13, 1999 addressed to Mr. Armando Lopez at the Roswell BLM office.

Our geologic and seismic interpretation of the Atoka gas producing zone in the Federal D No.3 well indicates that the productive Atoka sand channel system trends in a general north-south direction through the E/2 of Section 31. Additionally, our seismic data indicates that the majority of the SW/4 of Section 31 is downthrown at the Atoka horizon to the SE/4 of Section 31 and is structurally separated from the Atoka producing reservoir at the Federal D No.3 well location. Therefore, we believe there is strong geologic and geophysical evidence that the Atoka gas production in the Federal D No.3 well should be allocated to the E/2 of Section 31 (as currently designated) in order to protect the correlative rights of all interested parties. Bahlburg Exploration, Inc. would be willing to present testimony at a hearing proposed by Reliance Operating Company (if any) in support of the currently established E/2 Section 31 proration unit for this well. We will also provide geological and geophysical evidence in support of an E/2 unit in lieu of a hearing if deemed necessary or requested by the NMOCD or BLM.

Please advise us of any future developments or issues regarding this well.

Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read "William C. Bahlburg". The signature is fluid and cursive, with a large, stylized initial "W".

William C. Bahlburg

cc: Mr. Chris Williams
Hobbs, District

Mr. Armando Lopez
BLM- Roswell, NM

Mr. David Cherry
PetroVen, Inc.



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Roswell Field Office
2909 West Second St.
Roswell, New Mexico 88201
www.nm.blm.gov



IN REPLY REFER TO:
3160 (3105.2-2)
LC-065243

October 20, 1999

Reliance Operating Company
Attn: Jack L. Waldrep, Jr.
P.O. Box 10946
Midland, Texas 79702

Re: Federal "D" No.3
1120' FSL & 1420' FEL
Sec. 31, T9S, R36E, Lease LC-065243
Lea County, New Mexico

Dear Mr. Waldrep:

By letter dated October 13, 1999, you requested the Bureau of Land Management's (BLM) position concerning the communitization of two Federal leases.

Federal Regulation 43 CFR 3105.2-2 concerning communitization or drilling agreements states the following:

3105.2-2 Purpose

When a lease or a portion thereof cannot be independently developed and operated in conformity with an established well-spacing or well-development program, the authorized officer may approve communitization or drilling agreements for such lands with other lands, whether or not owned by the United States, upon a determination that it is in the public interest. Operations or production under such an agreement shall be deemed to be operations or production as to each lease committed thereto.

As stated in the regulation the objective of communitization is to provide for the development of separate tracts which cannot be independently developed or operated in conformity with well spacing patterns established in the area. As a general guideline, communitization will not be authorized when a single Federal Lease or unleased Federal acreage can be fully developed and still conform to an optional (North-South or East-West) pattern established by State Order.

In certain instances the BLM will approve a communitization even though the lease can be independently developed in conforms with state established spacing if adequate engineering and/or geological data is presented to indicate that communitizing two or more leases of unleased Federal acreage will result in more efficient drainage of an area.

If you have any questions concerning this matter, please call Armando A. Lopez at (505)627-0248.

Sincerely,

/S/ Larry D. Bray

Larry D. Bray
Assistant Field Manager,
Lands and Minerals

cc:

Bahlburg Exploration, Inc.
P.O. Box 866937
Plano, Texas 75086-6937

✓ New Mexico Oil Conservation Division
Attn: Michael Stogner
2040 S. Pacheco
Santa Fe, New Mexico, 87505



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
DISTRICT I HOBBS
1625 French Dr, Hobbs, NM 88240
(505) 393-6161
FAX (505) 393-0720

Jennifer A. Salisbury
CABINET SECRETARY

October 18, 1999

Lori Wrotenbery, Director
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

Subject: Allegations of influence in well classification

Dear Ms Lori Wrotenbery

On October 12 or 13, 1999, I (Paul Kautz) had a phone conversation with Mr. Jack L. Waldrep, Jr., Land Manager with Reliance Operating Company of Midland, Texas. Mr. Waldrep was complaining about Reliance Operating Company Federal D # 3 well being classified as a gas well and also requiring a stand-up 320 acre proration unit. I informed Mr. Waldrep, that as far as this district was concern the proration unit could be either a stand-up or lay-down. He also inquired if this pool could be only a 160 acre gas pool. I informed him that under are rules since it was a gas well completed in a formation deeper than the Wolfcamp formation it had to have 320 acres dedicated to it. At that time, Mr Waldrep accused Mr. David L. Cherry and Mr. William C. Bahlburg of contacting someone in the Hobbs District Office and influencing them to classify this well as a gas well.

At this time, I explained to Mr. Waldrep, that I made the decision that this was a gas well and that I made the decision prior to being contacted by anyone. I further explained to Mr. Waldrep, that the Federal D # 3 was producing from what we call a retrograde gas pool. I explained to him that a retrograde gas pool was a pool in which under reservoir conditions it is a gas pool. That as gas is produced from a retrograde gas pool, the gas condenses into condensate. Based on studies done in Oklahoma that if a retrograde gas pool is produced as an oil pool damage is done to the pool causing underground waste. I also explained that under are rules an Oil well means any well capable of producing oil and gas which is not a gas well. I also explained to him what are guidelines are in this case and that these guidelines were develpoed based on numerous test results in our district. These guidelines are for wells producing from Wolfcamp or deeper. If the condensate has a gravity between 54 to 56 degrees its questionable and needs testing and a gravity of 56 or higher indicates a retrograde gas pool. The above guidelines have been used by District I for more than 25 years.

Even with the above explanation on Monday October 18, 1999, I received a copy of correspondence Mr. Jack L. Waldrep, Jr., with Reliance Operating Company to Mr. Lopez with

the U.S. Bureau Of Land Management in which Mr. Waldrep accuses both the BLM and State of being influenced by Mr. Bahlburg and Mr. Cherry. A copy of this letter is attached. This letter contains a chain of events which are one sided and miss-leading.

1. September 30, 1998 received from Reliance Operating Company a C-122 four point test and BLM form 3160-5 indicating that the Federal D # 3 well was re-completed in the Atoka formation as a Gas Well.
2. January 13, 1999 received from Reliance Operating Company BLM form 3160-4 (Well Completion Report changing it to a oil well completion in the Undesignated Crossroads Atoka Oil Pool.
3. Mid Febuary, 1999 after Hobbs OCD office move, Ms. Donna Pitzer gave me the well file and completion report for Reliance Operating Co, Federal D # 3 well in order to determine if this well was a gas or oil well. It was determined that this well was outside the boundries of an existing West Crossroads Atoka Oil Pool. Information indicated that there was only one well completed in the Atoka oil pool, and that this well was completed May 1 1970 and reported a gravity for the liquid as 48. This gravity did not seem correct based on what was reported for the by Reliance. At this time since the well West Crossroads Atoka pool was plugged the gravity could not be checked. If it was wrong it could be a typographical error or an error in caused by careless sampling. The Federal D # 3 fit all the requirements listed above to be classified as a retrograde gas pool. Therefore, I determined that this well should be classified as a gas well and designated as a wildcat pool. I informed Donna Pitzer of this and to notify Reliance Operating Compnay of this classification. Donna Pitzer notified Reliance of this fact and if they had any objections to please contact Pauk Kautz of the Hobbs office.
4. Prior to being contacted by Reliance I was contacted by Mr. Bahlburg and others about this well. They were concern about this well being classified as an oil well. I informed them that I have looked into the mater and have determined that this well should be classified as a gas well.
5. Approximately one month after event 4 I was contacted by someone with Reliance objecting to this well being classified as a gas well. I informed them of the reasons why this well was being classified as a gas well based on the pool being a retrograde. I explained to him all the guidelines used to determine that it was a retrograde gas pool. He still wanted to contest its classification as a gas well. I explained to the Reliance representative that he could contest by obtaining a sample of liquid from the well determine the gravity and whether or not it is gas under reservoir conditions. He agreed to go by the results of the test. The representative from Reliance insisted on using a lab from here in Hobbs. I said any lab is OK and the one here in Hobbs is acceptable. I do not recall the name of the Lab he wanted to use. The representative also wanted to know if it was classified as gas if they could dedicate the eastern half of the section. I said it would be OK.
6. About 2 weeks later the representative from Reliance called and informed me that the lab in Hobbs was having some difficulties and it would be a week before they could sample the well.
7. Several more weeks go by the representative calls again and the Lab is still having problems. I gave them another week. It seemed to me that Reliance was just dragging their feet. I

informed Chris Williams my supervisor and explained everything that has occurred up to that point.

8. Mr. Bahlburg called Chris Williams and I about how long we were going to allow Reliance to continue to operate the Federal D # 3 with obtaining the proper dedicated acreage. Based on the two C102's (wells first completion in Devonian and wells second completion in the Atoka) submitted by Reliance indicated that eastern half of the section was dedicated.
9. In April Michael Stogner notified Reliance that this well was a non-standard location for a gas well.
10. Chris Williams checked with the gas transporter to find out what the gravity of the liquid condensate was. The transporter reported that they had two test one was 62 and the other was 63 degree gravity. Based on this information Chris Williams notified a representative with Reliance that they needed to file a nonstandard location for the gas well. The representative for Reliance said it was not a gas well because the gravity was too low. Chris replied by stating a gravity from 62-63 makes it a gas well. The representative was surprised that Chris knew what the gravity was for the condensate. In April, Reliance applied for and was granted a nonstandard location (NSL3838-A)
11. In August, 1999 a new pool was advertised for creation as the Cross-Bough;Atoka (Gas) pool for this well. Since no operator filed any objections this pool was created effective October 1, 1999.

Sincerely



Paul F. Kautz
Petroleum Engineering Specialist
and District I Geologist

cc Mr. Michael Stogner
Mr. Rand Carrol