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July 2, 2001

HAND DELIVERED

Mr. Richard Ezeanyim
Chief Engineer
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

01 JUN 32 PM 2:18
OIL CONSERVATION DIV.

Re: Case 12587: Amended Application of Sapient Energy Corporation for an unorthodox well location and (i) two non-standard 160-acre spacing units, or in the alternative, (ii) one non-standard 160-acre spacing and proration unit, Lea County, New Mexico.

Case 12605: Application of Sapient Energy Corporation for Special Pool Rules, Lea County, New Mexico.

Dear Mr. Ezeanyim:

Pursuant to my recent conversations with you and earlier conversations with Ms. Wrotenbery and Mr. Stogner, this letter is written to outline the concerns of Chevron USA Production Company ("Chevron") and Conoco, Inc. ("Conoco") in the above referenced matters and to again ask the Oil Conservation Division to act to protect the correlative rights of Chevron and Conoco.

Since August 1999, Sapient Energy Corporation has been allowed to produce the Bertha J. Barber Well No. 12 ("the Barber Well") at an unorthodox well location on a non-standard spacing and proration unit--neither of which have been approved by the Oil Conservation Division. Each day this well is allowed to produce, the correlative rights of Chevron and Conoco are impaired.

The Barber Well is a gas well completed in the West Monument-Tubb Gas Pool. This pool is developed under statewide rules which provide for 160-acre spacing units "substantially in the form of a square which is a quarter section and a legal subdivision of the U. S. Public Lands Surveys . . ." with wells to be "located no closer than 660 feet to any outer boundary of such unit." The Barber Well is at an unorthodox gas well location 330 feet from the North line of Section 7, Township 20 South,

Range 37 East, NMPM, on a proposed spacing unit comprised of the E/2 E/2 of the Section. Although Sapient has filed Division Form C-102 showing this unorthodox well location and non-standard unit, and while Sapient forms have been approved by the Division's District office in Hobbs, neither this unorthodox location nor non-standard spacing unit have been properly approved by the Division pursuant to the provisions of Rule 104. Chevron and Conoco have asked the Division to order the Barber Well shut in until it is in full compliance with Division rules. The Oil Conservation Division has not acted on these requests.

Chevron is the owner of oil and gas rights and operator of the SE/4 of Section 6, Township 20 South, Range 37 East, NMPM, the acreage offsetting the Barber Well to the north. To protect itself from drainage, on October 11, 2000, Chevron filed an administrative application seeking authority to re-complete its C. J. Matthews well at a location 330 north of the common boundary between its acreage and the Sapient tract. The re-completion of this well would have enabled Chevron to offset drainage from the Sapient well which is also 330 feet from the common spacing unit boundary. However, due to objections to this unorthodox location from Sapient, a hearing was required on this application. The parties were directed to attempt to reach a voluntary settlement of the issues in this matter but, after no agreement was reached, the Chevron application was set for hearing on the January 25, 2001 examiner hearing docket. During this time, the Barber Well drained Chevron acreage, Chevron was not permitted to offset this drainage with counter-drainage, and its correlative rights were impaired. The day before the scheduled Chevron hearing, Sapient withdrew its objection; and Chevron's application was approved by Division Order NSL- 3752-A.

On March 1, 2001, the above-referenced cases were heard by the Division. During that hearing, the Division placed a stay on Order NSL-3752-A until additional interest owners were notified of the proposed unorthodox well location. Although Chevron has complied with all Division notice requirements and has requested that the stay be lifted since the reason for the stay no longer exists, the stay remains in place and the Sapient well continues to drain Chevron acreage. Each day Chevron is unable to get Division approval to recomplete and produce an offsetting well to protect itself and its royalty owners from drainage, Chevron is denied the opportunity to produce its fair share of the reserves in this pool in violation of the Oil and Gas Act.

Conoco, Inc. ("Conoco") is the owner of oil and gas rights in the W/2 NE/4 of Section 7. Since August 1999, Sapient has been draining the Conoco acreage and keeping all production proceeds. Conoco seeks the creation of a standard 160-acre unit for the Barber Well and appeared at the March 1, 2001 examiner hearing on Sapient's applications and presented evidence which showed the well is draining the W/2 NE/4 of Section 7. If a standard unit comprised of the NE/4 of Section 7 is dedicated to the well, the Conoco acreage which is being drained by the Barber Well would be dedicated to the well and the production from this well would be shared with Conoco. Conoco has asked the Division to deny Sapient's request for a non-standard spacing unit comprised of the E/2 E/2 of Section 7 and has requested that the Barber Well be shut in until a standard spacing unit is

Letter to Richard Ezeanyim

July 2, 2001

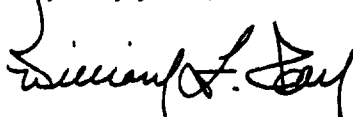
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dedicated to the well. The Division has not acted on these requests. Each day the Barber Well is allowed to produce and Sapient is allowed to keep all the production proceeds from the well, Conoco's correlative rights are impaired because it is denied the opportunity to produce its fair share of the reserves in this pool.

Furthermore, Conoco has learned that Sapient has sold or is attempting to sell this property. The sale of this acreage and well may make it impossible at a later date for Conoco to recover the proceeds for the production which has been drained from the Conoco acreage.

Chevron and Conoco again ask the Division to exercise its jurisdiction and to act to protect their correlative rights. Chevron asks that the March 1, 2001, stay be lifted and that it immediately be given authority to re-enter, deepen and re-complete its C. J. Matthews Well No. 12 at a location 330 feet from the South line and 990 feet from the East line (Unit P) of Section 6, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico. Conoco, Inc. requests that the application of Sapient Energy for approval of a non-standard gas spacing unit comprised of the E/2 E/2 of Section 7, Township 20 South, Range 37 East, NMPM, be denied and Sapient be ordered to form a standard gas spacing unit for the well. Both Chevron and Conoco again requests that the Sapient Bertha J. Barber Well No. 12 be immediately shut-in and remain shut-in until it is in full compliance with the Oil and Gas Act and the Rules and Regulations of the Oil Conservation Division.

Very truly yours,



William F. Carr

Attorney for Chevron USA Production Company and
Conoco, Inc.

cc: Ms. Lori Wrotenbery
Mr. Michael E. Stogner
Oil Conservation Division

Frank Cusimano, Esq.
Chevron USA Production Company

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W. T. Kellahin, Esq.
Attorney for Sapient Energy Corporation