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June 25, 2001

HAND DELIVERED

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

Re: Case 12622: Application of Nearburg Exploration Company, L.L.C. for Two
Non-standard gas spacing and proration units, Lea County, New Mexico.

Dear Ms Wrotenbery:

The above-referenced case is set for hearing on June 28, 2001. The purpose of this letter is to provide you with a status report on this matter; and to provide a final opportunity for settlement, we request that the case be continued.

As you are aware this is an unusual case which involves a well which was originally drilled on a spacing unit comprised of the North half of Section 34, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico. After the well was drilled and producing, Near burg was advised by the OCD that the Application for Permit to Drill and Acreage Dedication Plat had been approved in error, that the W/2 of this section was within a gas storage project and that Nearburg had to either dedicated a standard 320-acre unit to the well or form a non-standard unit for this well comprised of the NE/4 of this section.

Since that time Nearburg has settled the outstanding issues concerning the underlying lease with the State Land Office and with LG&E (now Raptor Pipeline), the operator of the gas storage unit. The parties have been able to establish that the well is not in communication with the storage project and an order is pending establishing rules for this gas storage project. Nearburg has reached an agreement with EOG Resources for the development of the E/2 of this section with two non-standard 160-acre units.

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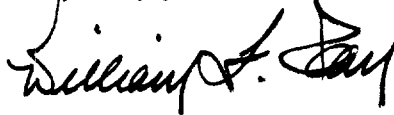
The only interest owners who have not reached an agreement for the development of this acreage are Nearburg and Redrock Operating Ltd, the owner of a 10% overriding royalty interest in the SE/4 of Section 34. Nearburg had produced data to Redrock pursuant to a Division subpoena and the parties were scheduled to meet in Santa Fe on Thursday June 21st to attempt to settle this matter. Due to a death last week, the parties agreed to reschedule this meeting and to request and request that the case again be continued.

To date substantial progress has been made toward settling this matter. We are hopeful that with an additional continuance, all parties will be in agreement and we will be able to come before the Division with a proposal which not only is agreeable to the parties but also will prevent waste and protect the correlative rights of all those involved.

We, therefore, request that this matter be continued to the first examiner hearing docket in August 2001.

Your attention to this request is appreciated.

Very truly yours,



William F. Carr
Attorney for Nearburg Exploration
Company, L.L.C.



W. Thomas Kellahin
Attorney for Redrock Operating Ltd.