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September 11, 2002

Hand Delivered

Lori Wrotenbery
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case Nos. 12816, 12841, 12859, and 12860 (TMBR/Sharp Drilling, Inc./Ocean Energy, Inc./David H. Arrington Oil & Gas, Inc.)

Dear Ms. Wrotenbery:

I am very reluctant to write this letter, but I am compelled to request prompt issuance of an order in the above cases.

The cases involve pooling of contradicting standup and laydown units for Atoka/Morrow/Mississippian wells in §25-16S-35E. TMBR/Sharp requested a laydown N½ unit, while Ocean and Arrington sought W½ and E½ units, respectively. The cases were consolidated for hearing, and were heard on May 16th and 17th.

The problem arises due to expiring farmout agreements owned by Ocean Energy covering 100% of the working interest in the SW¼ §25 (Arrington owns an interest in the farmouts). The farmouts were to expire on June 30, 2002. This fact was testified to at hearing, and Ocean Energy requested expedited issuance of an order. When it appeared that no order would be issued by June 30th, Ocean Energy was able to obtain extensions of the farmouts until September 30, 2002. See Exhibit A attached hereto.

September 30th is now upon us, but still no order has been issued. Ocean Energy has informed me that an additional extension of the farmouts may not be granted. **If you have questions about the farmouts, you may contact F. Andrew Grooms at Branex Resources, Inc., one of the primary farmors (telephone no. (505) 622-1001).** If Ocean Energy is successful in its pooling case (by September 30th), it need not drill an additional well in the W½ §25. However, if it is unsuccessful, it either has to (1) commence a

well in the SW¼ §25, or (2) relinquish its rights under the farmout agreements. A third option is to file suit in District Court under *force majeure*. That option is not favored by Ocean Energy, because it would have to sue people with whom it has made a deal, and because success in District Court is not ensured.

Based on the foregoing, issuance of an order is essential. If the order is adverse to Ocean Energy, it may be forced to commence a well in the SW¼ §25. While I won't re-argue the case, Ocean Energy believes that would be wasteful.

Commencing a second well in the W½ §25 raises another issue: If Ocean Energy must commence a well in the SW¼ §25, it needs an APD approved by the Division. TMBR/Sharp, based on Commission Order No. R-11700-B, has an APD for the N½ §25 (now on appeal to District Court). Ocean does not desire a S½ §25 well unit, because that would be used against it in this case.[1] Thus, it requests, as an interim measure, that its APD for the Triple Hackle Dragon Well No. 2, located in the SW¼ §25, be approved for a W½ well unit. The final well units can be sorted out on appeal. Moreover, despite the Commission's position in Order No. R-11700-B that conflicting APD's cannot be issued, that very same thing was done **subsequent to Order No. R-11700-B** for two wells in the S½ §36-14S-34E (See the files for API Nos. 30-025-35869 and 30-025-35899).

I note that the Division's order in the consolidated cases will be appealed to the Commission, regardless of who prevails at the Division level. Please call me if you have any questions, or if an interim conference needs to be set up on this matter.

Very truly yours,

James Bruce

James Bruce

Attorney for Ocean Energy, Inc.

cc: David K. Brooks
Stephen C. Ross
F. Andrew Grooms
Derold Maney
W. Thomas Kellahin
J. Scott Hall
William F. Carr
Susan Richardson

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[1]In addition, Arrington has a case pending before the Division (No. 12876) to re-instate an APD for an E½ §25 well unit. Although that case has been stayed by the Division, Arrington had pre-existing title in the E½ §25, which under the reasoning of Commission Order No. R-11700-B should never have been revoked, because Arrington's APD pre-dated TMBR/Sharp's N½ §25 APD.

FIRST JUDICIAL DISTRICT COURT
COUNTY OF SANTA FE
STATE OF NEW MEXICO

DAVID H. ARRINGTON OIL & GAS, INC.,

Appellant,

v. **No. D-0101-CV-2002-1391**

NEW MEXICO OIL CONSERVATION COMMISSION,

Appellee.

AFFIDAVIT OF DEROLD MANEY

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

Derold Maney, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters stated herein.

2. I am employed by Ocean Energy, Inc. as a petroleum landman.

3. Ocean Energy, Inc. has obtained farmout agreements, as amended, covering 100% of the oil and gas leasehold working interest in the SW¼ of Section 25, Township 16 South, Range 35 East, N.M.P.M., Lea County, New Mexico.

4. The farmout agreements, as amended, required a well to be commenced on the SW¼ of Section 25, or on lands pooled therewith, by July 1, 2002.

5. In late June 2002 Ocean Energy, Inc. obtained extensions of the farmout agreements. The farmout agreements have been restated and amended, so that Ocean Energy, Inc. is allowed until September 30, 2002 to commence a well on the SW¼ of Section 25, or on lands pooled therewith.

Derold Maney

Derold Maney

SUBSCRIBED AND SWORN TO before me this 22nd day of August, 2002, by Derold Maney.

Notary Public

My Commission Expires:

3/14/05