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HAND-DELIVERED

April 3, 2003

Patrick Lyons
Commissioner of Public Lands
State Land Office Building
Santa Fe, New Mexico 87501

***Re: Application for Salt Water Disposal Easement
Pronghorn Management Corp.***

Dear Commissioner Lyons:

Enclosed is the application of Pronghorn Management Corp. for a salt water disposal easement, together with its check for \$500.00.

We are filing this application prior to obtaining an order from the Oil Conservation Commission which is considering Pronghorn's application for salt water disposal following a de novo hearing before the Commission. Enclosed also are two prior orders issued by the Oil Conservation Division, the first approving the application and the second suspending the original order. The second Division Order R-11855 suspended the prior SWD-836 due to Pronghorn's failure to notify certain surface owners and due to not having a salt water disposal easement from your office.

In the hearing before the Commission we introduced a deed from the surface owners (Felipe A. Moreno and Adelaida P. Moreno) to Gandy Corporation, one of Pronghorn's partners in the salt water disposal venture, thus negating the notice requirement. Similarly, we feel that the second issue was satisfied by introduction of a letter from Chesapeake Operating Inc., the state oil and gas lessee, waiving objections to Pronghorn's intended salt water disposal project. A copy of that letter is enclosed. Additional evidence before the Commission and the Division, introduced at both hearings, was that the San Andres and Glorieta formations have not and will not be productive of oil and gas in the future because these formations are water saturated. Only the deep oil and gas rights appear commercially viable in the area.

In the Division and Commission hearings, Pronghorn was opposed by DKD, LLC, which operated a commercial salt water disposal well less than one-half mile from Pronghorn's proposed injection well. It claims, in addition to the issues identified above, that a salt water disposal easement is necessary from your office. We have discussed this issue with Joseph Lopez in your Commercial Division and have been informed that an order from the Oil Conservation Division or the Commission is necessary prior to consideration of a salt water disposal easement application, which is consistent with State Land Office policy. More recently, we have discussed our predicament with Bruce Frederick of your legal department who is very cognizant of the legal issues involved given the split estate (surface/mineral).

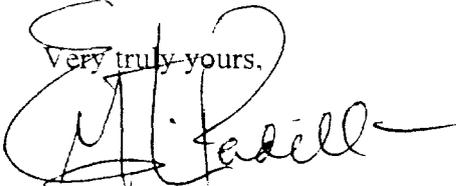
Our position has been that irrespective of the split estate, Pronghorn will require a salt water disposal easement since disposed water will be coming from off-lease (Chesapeake's) oil and gas wells. Mr. Frederick does not disagree. Our approach is simply that we want to avoid the issue of whether a salt water disposal easement is necessary; we agree that it is required due to disposal of produced water within the state mineral estate.

Interestingly, DKD, LLC's principal, Danny Watkins, testified at the Commission hearing that DKD, LLC had a salt water disposal easement from your office. Our search of State Land Office records does not disclose any such easement.

Accordingly, in order to avoid further legal wrangling over split estate issues and the respective rights thereunder, we ask that a salt water disposal easement be issued by your office subject to approval by the Commission of technical and regulatory aspects of the application before the Commission.

Should you or your staff have any questions, please let us know.

Thank you.

Very truly yours,

ERNEST L. PADILLA

ELP/maq
Enclosures

cc: Pronghorn Management Corp.



NEW MEXICO STATE LAND OFFICE

QUESTIONNAIRE TO BE COMPLETED IN CONNECTION WITH SALT WATER DISPOSAL WELL EASEMENT

1. What is the oil and gas mineral ownership of the land from which the salt water will be produced?
Private 25 %, State 50 %, Federal 25 %.
2. What is the approximate number of barrels of salt water that will be injected into the well per day?
approx 1500 bpd
3. What is the formation into which the salt water will be injected? SA and Glorietta
4. Have you enclosed consent of the oil and gas lessee for the use as a salt water disposal well? Yes
5. From which well(s) is the salt water being produced and to be injected? (Give complete description of oil wells.) The application is for commercial use and may come from all around the area. The well being used is The State T #2 Sect 6 T16 R36E
6. What is your O.C.C. Order No. SND-836
7. What reaction have the adjacent wells reflected from the injected water? (Answer only if this is a renewal application.) NA
8. What is estimated reservoir of oil still to be recovered from wells which are the source of the salt water?
Indefinite
9. What is the estimated time that it will take to deplete the well or wells?
many years

Signed by:

[Handwritten Signature]

393-9176

Address:

Box 1772

Hobbs NM 88241

Environmental Management Co.

FOR OFFICE USE ONLY

Approved by O.C.C.:

PRONGHORN MANAGEMENT CORPORATION
PO BOX 1772 392-5516
HOBBS, NM 88241-1772

1856

DATE April 2 20 03

PAY TO THE ORDER OF New Mexico State Land Office \$ 500.00

Five hundred and no/100***** DOLLARS

 **Lea County State Bank**
P.O. Box 400 - Hobbs, New Mexico 88241

[Handwritten Signature]

FOR _____

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