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August 11, 2004

HAND DELIVERED

Mr. Michael E. Stogner
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: **Second Supplement to:**
NMOCD Administrative Application of
Citation Oil & Gas Corp. to amended
Division Administrative Order NSP-488 and
for an exception to Order R-8170-P,
Eumont Gas Pool, Lea County, New Mexico

Dear Mr. Stogner:

In accordance with your request during our discussion yesterday, I have the following in response to your four principal questions: (a) the mistake in my July 12th E-mail listing of well numbers for the Eumont well in this E/2 Section 20, T21S, R36E, (b) the lack of an "NSL" order for the Eumont 1-Y well (Unit G); (c) the existence of two Eumont gas wells, the #5 and the 1-Y, within the same 40-acre tract, and (d) whether the #5 was shut-in?

- (1) Citation filed this administrative application prior to contacting me. Upon receipt, I was unable to reconcile the located map with the well's listed in the application. After discussing this with Citation, I E-mailed you a list that incorrectly stated that the #5 used to be the 1-Y. Prior to my July 22, 2004 supplemental filing, I determined that the #5 used to be the #1 and that the 1-Y was a different well, and as I reported to you, the #5 and the #1-Y were are the same 40-acre tract with the #5 shut-in. **Attached is the correct well list as Supplemental Exhibit "A" and "B"**

2004 AUG 11 PM 1 36

- Talked w/ Tom on
Tuesday Aug. 10th
@ 3:15-ish

NMOCD: Citation Administrative application

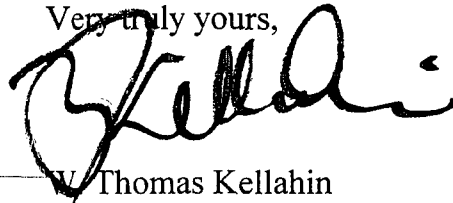
August 11, 2004

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- (2) Neither Citation nor I can find an "NSL" for the #1-Y well. I have concluded that there is none and as requested in my July 22 letter, Citation now seeks that approval.
- (3) As I reported to you in my July 22 letter, the #5 and the #1-Y are in the same 40-acre tract. Citation has provided a summary to me dated August 9, 2004 concerning these wells. **Attached as Supplemental Exhibit "C"**. Also enclosed is Citation's production plot for the #5 well. **Attached as Supplemental Exhibit "D"**
- (4) Citation has confirmed that the #5 was shut-in about 9:30 am on July 21, 2004 and that the flowlines also were disconnected from the wellhead. See Tommy Sager's E-mail dated August 9, 2004. **Attached as Supplemental Exhibit "E"**. Citation has advised me that it will P&A the #5 well. Finally I have included a four page exhibits showing the gauge report for the wells in this GPU showing the daily rates, summary of 3 month production for these wells. See **Attachment Exhibit "F"**

Please call me if you have any future questions.

Very truly yours,



W. Thomas Kellahin

cc: Citation Oil & Gas Corp.
Attn: K. C. (Charlie) Adams

Return to Sharon E-W

xc: KCA
GKG



To: Steve Robinson/Steve Anna

Date: August 8, 1997

From: Sharon Evans-Ward *SW*

Subject: Renaming of Devonian State Com Wells
Eumont Yates Seven Rivers Queen Field
Lea County, New Mexico

Per requirement from Donna Pitzner at the New Mexico Oil Conservation Division, Citation must have all the following wells named the same and in sequential order.

Current Name

Proposed Name

Devonian State 1Y

Devonian State 1Y

Devonian State 2

Devonian State 2

Devonian State 3

Devonian State 3

Devonian State 4

Devonian State 4

Devonian State Com 1

Devonian State 5

Devonian State Com 2
(Proposed New Drill)

Devonian State 6

Devonian State Com 3
(Proposed Re-enter Arco D-1)

Devonian State 7

Please initial below your approval.

Steve Robinson

SLA

Steve Anna

SKA



Thomas Kellahin

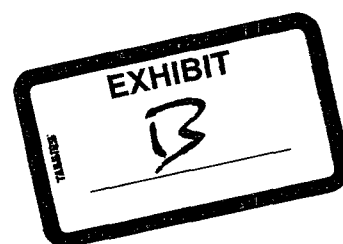
From: "Tommy Deiss" <TDeiss@cogc.com>
To: "Tom Kellahin " <kellahin@earthlink.net>
Sent: Monday, August 09, 2004 1:25 PM
Attach: devonian st well names.pdf
Subject: Devonian State 5 and 1-Y

The **Devonian State 1Y** was originally called:

- 1A by Shell Oil Company in 1955
- 1Y by Shell Oil Company in January 1973 – don't know reason for name change

The Devonian State 5 was originally called:

- Devonian State Com #1 by Shell Oil Company since 1934
- December 1997 name was changed with New Mexico Oil Conservation Division to Devonian State # 5 by Citation Oil & Gas Corp. at the request of the Oil Conservation Division [refer to attached memo "devonian st well names"].





To: Tom Kellahin

Date: August 9, 2004

From: Charlie Adams

Subject: Devonian State 5
Eumont Field
Lea Co., NM

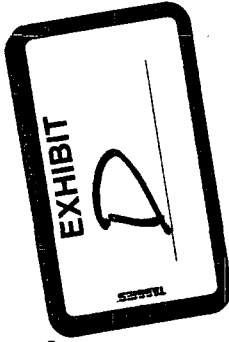
This memo is to address the questions that Mr. Stogner raised with regards to the captioned well:

1. The Devonian State 5 was shut-in on 7/22/2004. I have requested an email from Operations to confirm that once more.
2. The Devonian State 5 was originally the Devonian State Com 1 and was the original Yates/7 Rivers gas productive well on the lease. This production was originally from a communitized 320 acres consisting of the E/2 of Sec. 20 and occurred from 1953 to approximately September of 1997 under the Devonian State Com 1. At that time, an agreement was entered into by the Working Interest owners to make common all interests in the E/2 of Sec. 20, both oil and gas. At that time, the name of the well was changed from the Devonian State Com 1 to the Devonian State 5. No change in the physical completion was made at that time. The Dev St 5 continued to produce gas but declined significantly. In 2001, the well was making approximately 20 MCFPD. Because of the age and condition of the Dev St 5, the decision was made to recompleate the Dev St 1Y to the Yates/7 Rivers for gas production. This was done in December of 2001. Although the Dev St 5 shows an increase in production from December, 2001 to September, 2002, this is believed to be erroneous allocation. When this testing situation was corrected, the actual gas rate from the Dev St 5 was about 17 MCFPD. In about November of 2003, the rate from the well had dropped to about 2 MCFPD.

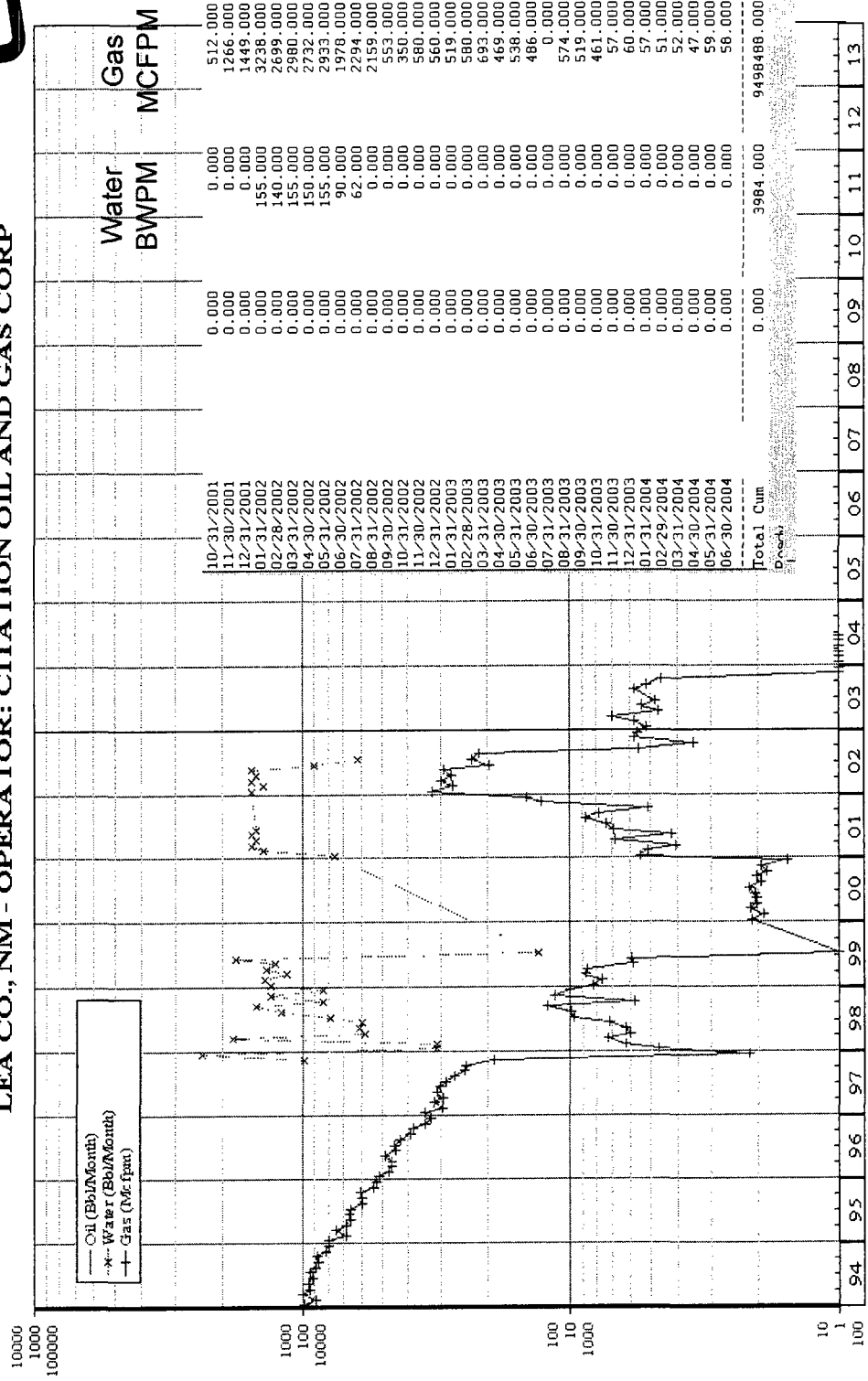
The well was not shut-in upon the recompletion of the Devonian State 1Y, as a result of a regulatory oversight. Most of the gas production (225 MCFPD from Dev St 1Y versus 20 MCFPD from the Dev St 5) was sourcing from the Dev St 1Y at this time. When this was discovered during our discussions with yourself, it was immediately shut in on 7/22/04.

Therefore, the Devonian State 5 and the Devonian State 1Y were mistakenly produced concurrently from December of 2001 to July 22 of 2004. As mentioned, this was corrected immediately on realizing the error.





DEVONIAN STATE 5
EUMONT FIELD, 7 RVRs QUEEN ZONE
LEA CO., NM - OPERATOR: CITATION OIL AND GAS CORP



Thomas Kellahin

From: "Tommy Sager" <TSager@cogc.com>
To: "Charlie Adams" <CAdams@cogc.com>; "Tommy Deiss" <TDeiss@cogc.com>;
<kellahin@earthlink.net>
Cc: "Mark Bing" <MBing@cogc.com>; "Jim Evans" <JEvans@cogc.com>; "Jeff Teare"
<JTeare@cogc.com>
Sent: Monday, August 09, 2004 12:32 PM
Subject: RE: Devonian State Wells E/2 Sec 20

The Devonian State #5 was shut in on July 21, 2004, about 9:30am. The flowlines were also disconnected from the wellhead.

Tommy Sager
Production Engineer





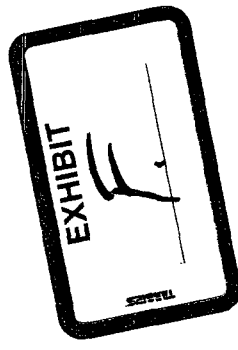
Devonian State Area

July/2004 Field Test Sheet

July/2004 Field Gauge Sheet

3 Mo. Production Data and

Estimated Production for July/2004



K. C. Adams
August 10, 2004



PUMPER: Johany CO: bea FIELD: Euromat LEASE: Dezarian State MONTH: July YEAR: 04

CITATION OIL AND GAS CORP. - MONTHLY GAUGE REPORT

Day	TANK GAUGES								STOCK	OIL SALES & OTHER DISPOSITIONS				PRODUCTION			REMARKS
	3207		3208		FT	IN	FT	IN		METER # or TANK #	LACT # / TICKET #	BBLs	MCPD	BOPD	BWPD		
	FT	IN	FT	IN													
2	12	8	1	8					425			693	11	175			
3	12	8	1	8					486			693	11	174			
4	13	0	2	3 1/2					497			692	11	133			
5	13	0	2	3 1/2					507			693	10	136			
6	13	0	2	7					517			692	10	137			
7	13	0	2	11					528			692	11	134			
8	13	0	3	2					536			690	8	136			
9	13	0	3	3					545			694	9	135			
10	11	11	3	6					189	3207	367	693	11	135			
11	11	11	3	1					200	3208		684	11	132			
12	11	11	4	7					208			684	8	137			
13	11	11	4	7					216			683	8	134			
14	11	11	5	11					227			691	11	132			
15	11	11	5	3					238			690	11	132			
16	11	11	5	3					249			684	11	132			
17	11	11	5	11					260			678	11	137			
18	11	11	5	3					271			682	11	132			
19	11	11	6	10					280			691	11	138			
20	11	11	6	10					291			687	11	134			
21	11	11	7	4					302			685	8	132			
22	11	11	7	4					318			685	11	133			
23	11	11	7	4					329			681	11	137			
24	11	11	7	4					338			685	9	138			
25	11	11	6	3					343			683	5	134			
26	11	11	6	3					352			669	5	137			
27	11	11	8	11					360			669	8	132			
28	11	11	9	2					368			675	8	137			
29	11	11	9	6					379			673	8	134			
30	11	11	9	10					390			696	11	137			
31	11	11	10	2					401			690	11	133			
FLARE	1	1	10	2					401	TOTALS:	367	678	304	4200			

Estimated Prod. For
July/04

Estimated Prod. For July/04

GAS USED ON LEASE?	Y or N	REMARKS:
GAS VOLUME: 38 MCF	Y or N	
Purchased or Off-Lease Oil or Products	Y or N	
Brought onto Facility this Month?	Y or N	
Physical Change to Facility this Month?	Y or N	
If Y, explain:		

TOTAL SOURCE WATER	ENDING STOCK
TOTAL OFF-LEASE WATER	PIPELINE RUNS
TOTAL PRODUCED WATER	TK BTM SKIM, LOSS ETC.
TOTAL INJECTION WATER	OTHER
TOTAL DISPOSED WATER	BEGINNING STOCK
OTHER:	PRODUCTION

Please staple ONLY run tickets to the back of this page. A memo has been circulated that shows how. DO NOT staple this report to anything else. Thank you!

itation

Month	WellName	Status	Oil		Gas		GasSold		Water	DaysOn	3 Month Average MCFPD	July Tests		July Est.
			BOPM	MCFPM	MCFPM	MCFPM	MCFPD	Alloc. Gas MCFPD						
4/1/2004	DEVONIAN STATE 1Y	PR	0	5235	4888	150	30							
5/1/2004	DEVONIAN STATE 1Y	PR	0	6819	6456	155	31							
6/1/2004	DEVONIAN STATE 1Y	PR	0	6435	6084	150	30				203	223	210	
4/1/2004	DEVONIAN STATE 2	PF	0	1817	1696	0	30							
5/1/2004	DEVONIAN STATE 2	PF	0	2312	2189	0	31							
6/1/2004	DEVONIAN STATE 2	PF	0	2164	2046	0	30				69	80	75	
4/1/2004	DEVONIAN STATE 3	PR	30	2909	2716	150	30							
5/1/2004	DEVONIAN STATE 3	PR	41	3646	3452	155	31							
6/1/2004	DEVONIAN STATE 3	PR	59	3462	3274	150	30				110	115	108	
4/1/2004	DEVONIAN STATE 4	PR	213	466	435	3390	30							
5/1/2004	DEVONIAN STATE 4	PR	207	593	562	3720	31							
6/1/2004	DEVONIAN STATE 4	PR	234	577	546	3330	30				18	20	19	
4/1/2004	DEVONIAN STATE 5	PF	0	47	44	0	30							
5/1/2004	DEVONIAN STATE 5	PF	0	59	56	0	31							
6/1/2004	DEVONIAN STATE 5	PF	0	58	55	0	30				2	2	2	2 SI 7/21/04
4/1/2004	DEVONIAN STATE 8	PF	0	3142	2933	90	30							
5/1/2004	DEVONIAN STATE 8	PF	0	4149	3929	93	31							
6/1/2004	DEVONIAN STATE 8	PF	0	3749	3545	150	30				121	100	94	
4/1/2004	DEVONIAN STATE 7	PR	0	1257	1173	150	30							
5/1/2004	DEVONIAN STATE 7	PR	0	1511	1431	155	31							
6/1/2004	DEVONIAN STATE 7	PR	0	1673	1582	150	30				49	58	55	
4/1/2004	DEVONIAN STATE 6	PR	0	2282	2130	150	30							
5/1/2004	DEVONIAN STATE 6	PR	0	3083	2919	155	31							
6/1/2004	DEVONIAN STATE 6	PR	0	2827	2673	150	30				90	130	122	

Total Dev State Average MCFPD	662 MCFPD	728	685 MCFPD
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July Gauge Sheet Est. Prod. 685 MCFPD
21233 MCF/Mo.

July Estimated Alloc. Factor