



November 30, 2004

VIA HAND DELIVERY

Mr. David Catanach, Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

2004 NOV 30 PM 3 55

Re: Oil Conservation Division Case No. 13348: Application of Marbob Energy Corporation for compulsory pooling, Eddy County, New Mexico.

Dear Mr. Catanach:

At the November 18, 2004 examiner hearing in the above-referenced case, Marbob Energy Corporation advised the Division it was only seeking to pool the mineral interests in the subject spacing unit below the base of the San Andres formation at a depth of 4230 feet. Pursuant to your request, I enclosed the log referenced in Marbob's testimony that identifies the 4230 foot depth.

At the hearing, Julian Ard and others appeared in opposition to the designation of Hudson Oil Company of Texas as operator of the proposed well. Marbob Energy Corporation testified that Hudson was being proposed as operator by the owners of approximately 80% of the working interest in the spacing unit to be dedicated to this well. Marbob also testified that if Hudson and Hudson operates the well, all production from the well will qualify for federal royalty reduction and that all working interest owners will thereby enjoy substantial economic benefit. You asked Marbob to provide you with evidence that would support this testimony.

Enclosed is information that quantifies the value of reduced royalty on two nearby wells. As you can see, at a \$40 oil price, the impact of the royalty reduction on the OXY Proteet Strawberry Federal Well No. 1 in Section 10, Township 17 South, Range 31 East, is \$99,133.00 and on the ConocoPhillips Mitchell B Well No. 11 located in Section 17 of Township 17 South, Range 31 East, is \$1,169,538.30. Similar benefits can be obtained if Hudson Oil Company of Texas operates the well that is the subject of this hearing. This information supports the decision of Marbob and other working interest owners to support Hudson Oil Company of Texas as the operator of this well.

HOLLAND & HART^{LLP}



Mr. David Catanach, Hearing
Examiner
November 30, 2004
Page 2

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr".

William F. Carr

Enclosures

cc: Mr. Raye Miller
Marbob Energy Corporation

Mr. James Bruce, Esq.
Attorney for Julian Ard et al.

Economic Value of Royalty Reduction

Puckett B royalty rate 2.9

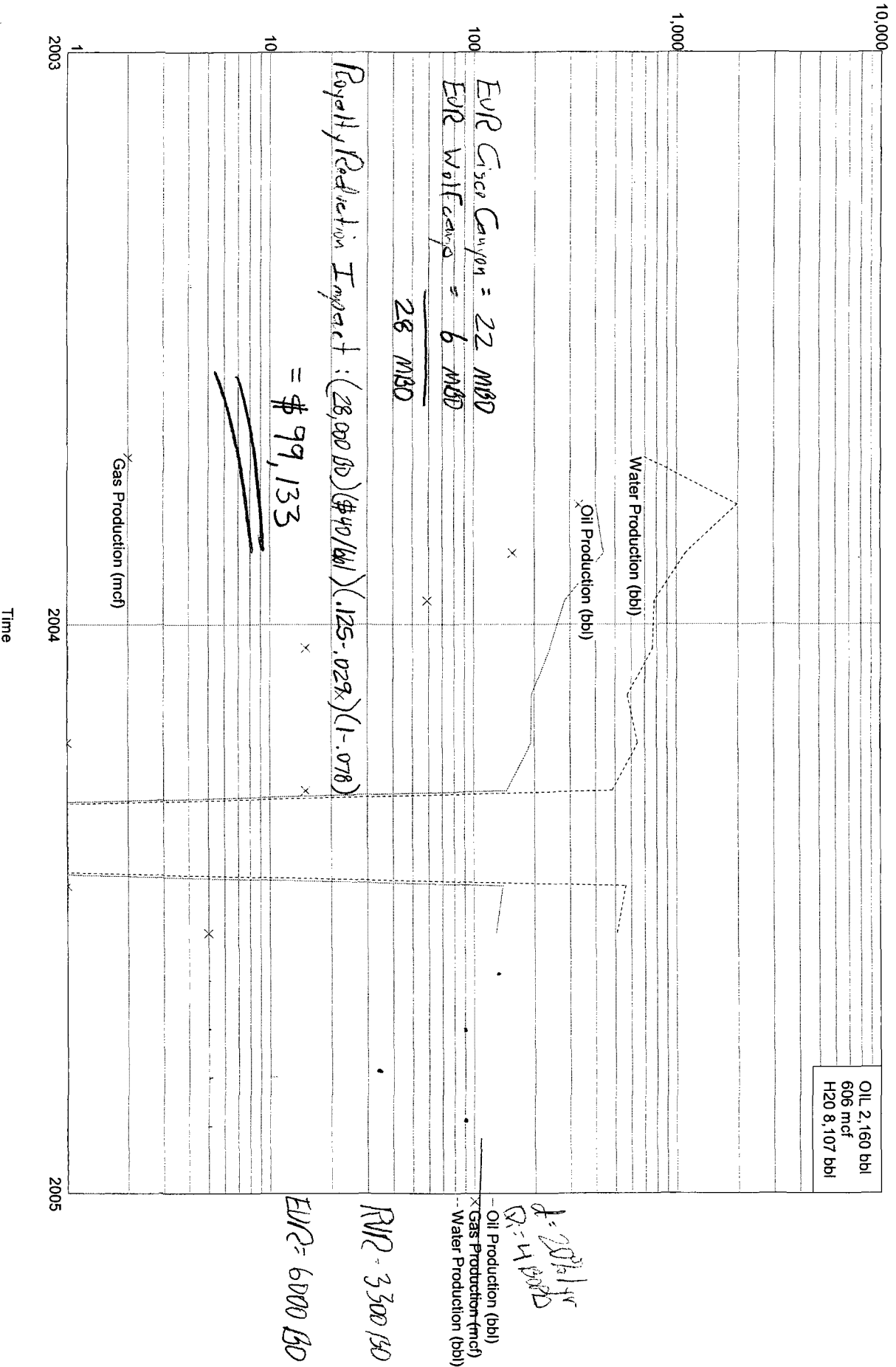
Reserves in oil horizons Oxy Poteet Strawberry Federal
SE/4 NE/4 Section 10 T-17S R-31E
68 MBO = \$99,133.00 at \$40 price

Reserves in oil paddock Mitchell B
Section 17, 20 T-17S R-32E
330 MBO = \$1,169,538.30 at \$40 price

Worksheets showing calculations attached

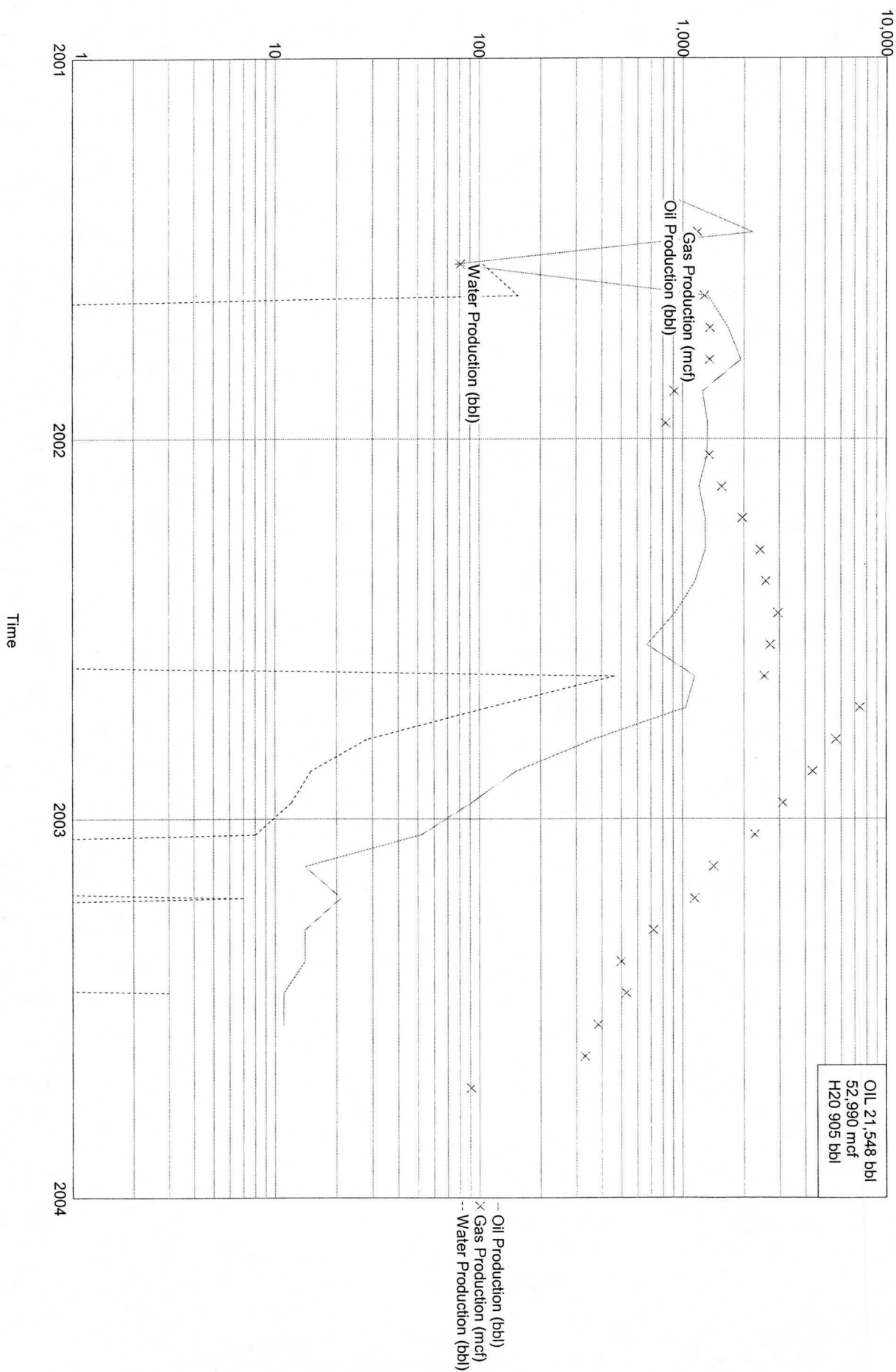
Lease Name: OXY POTEET STRAWBERRY FEDERAL
 County, State: EDDY, NM
 Operator: MARBOB ENERGY CORPORATION
 Field: HENSHAW SOUTHEAST
 Reservoir: WOLFCAMP
 Location: 10 17S 31E N2 SE NE

OXY POTEET STRAWBERRY FEDERAL - [1] WOLFCAMP



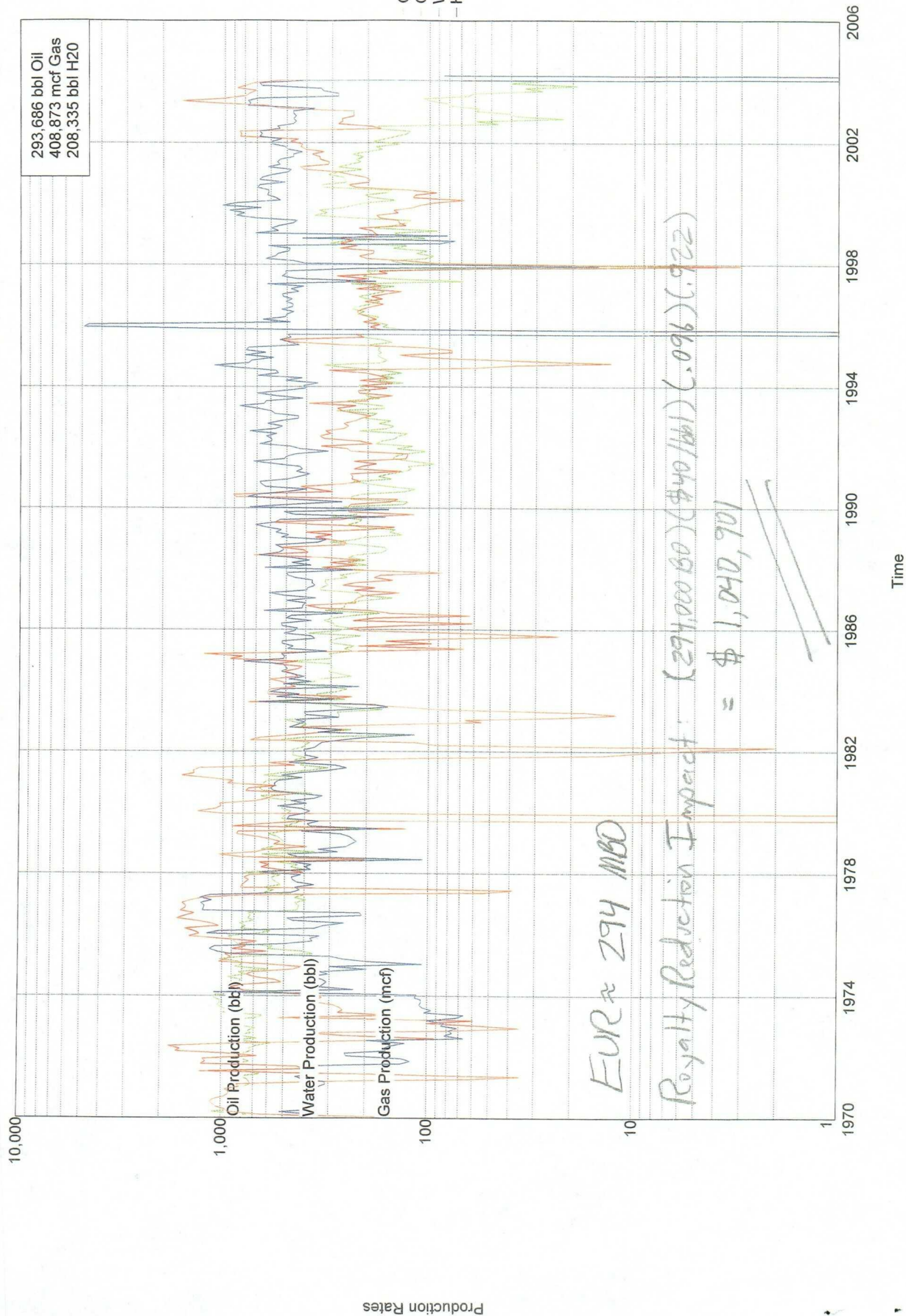
Lease Name: OXY POTEET STRAWBERRY FEDERAL
 County, State: EDDY, NM
 Operator: MARBOB ENERGY CORPORATION
 Field: FREN
 Reservoir: CISCO CANYON
 Location: 10 17S 31E N2 SE NE

OXY POTEET STRAWBERRY FEDERAL - [1 CISCO CANYON



Lease Name: MITCHELL B
 County, State: LEA, NM
 Operator: CONOCOPHILLIPS COMPANY
 Field: MALJAMAR
 Reservoir: PADDOCK
 Location: 17 17S 32E

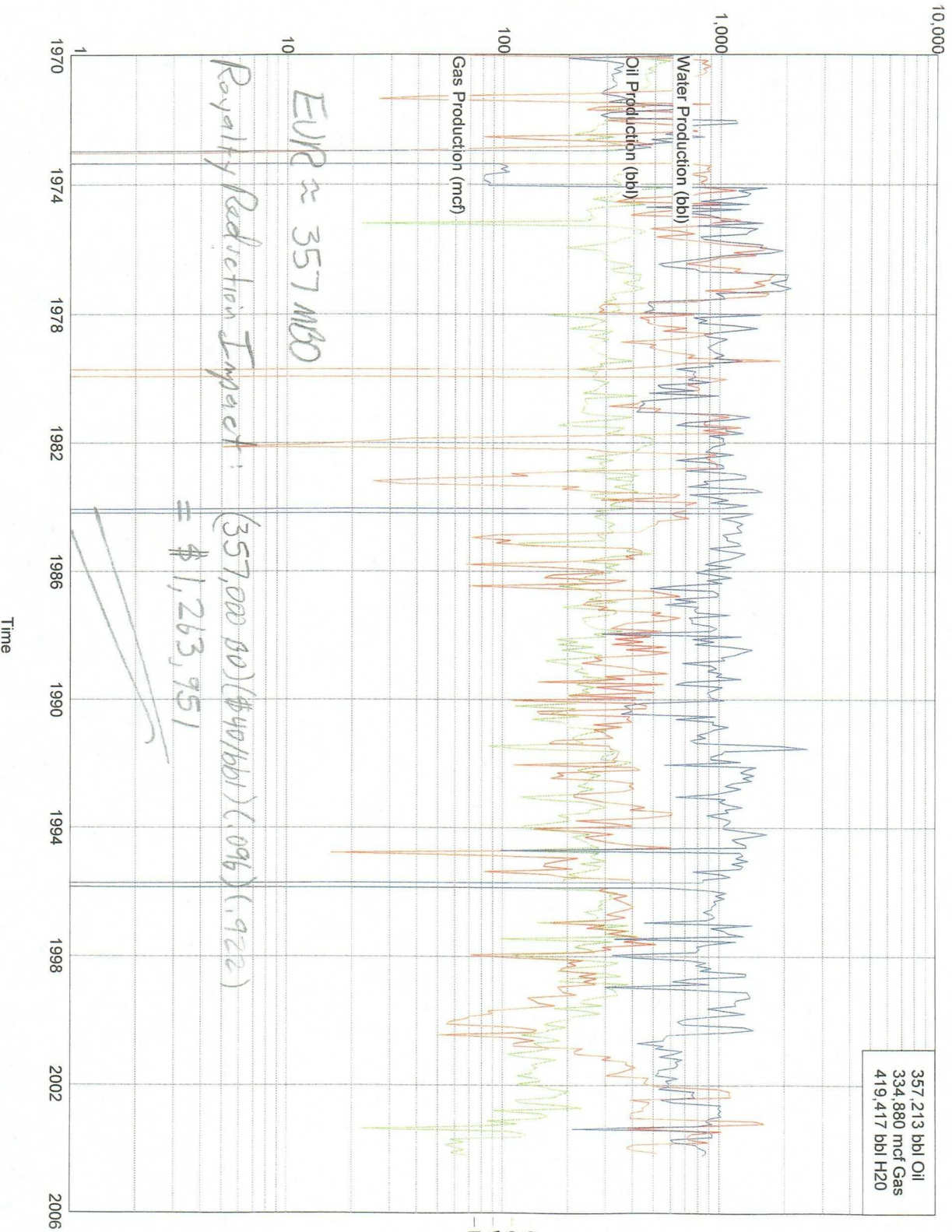
CONOCOPHILLIPS COMPANY - MITCHELL B 11 - 17 17S 32E - MALJAMAR PADDOCK



Lease Name: MITCHELL B
 County, State: LEA, NM
 Operator: CONOCOPHILLIPS COMPANY
 Field: MALJAMAR
 Reservoir: PADDOCK
 Location: 17 17S 32E

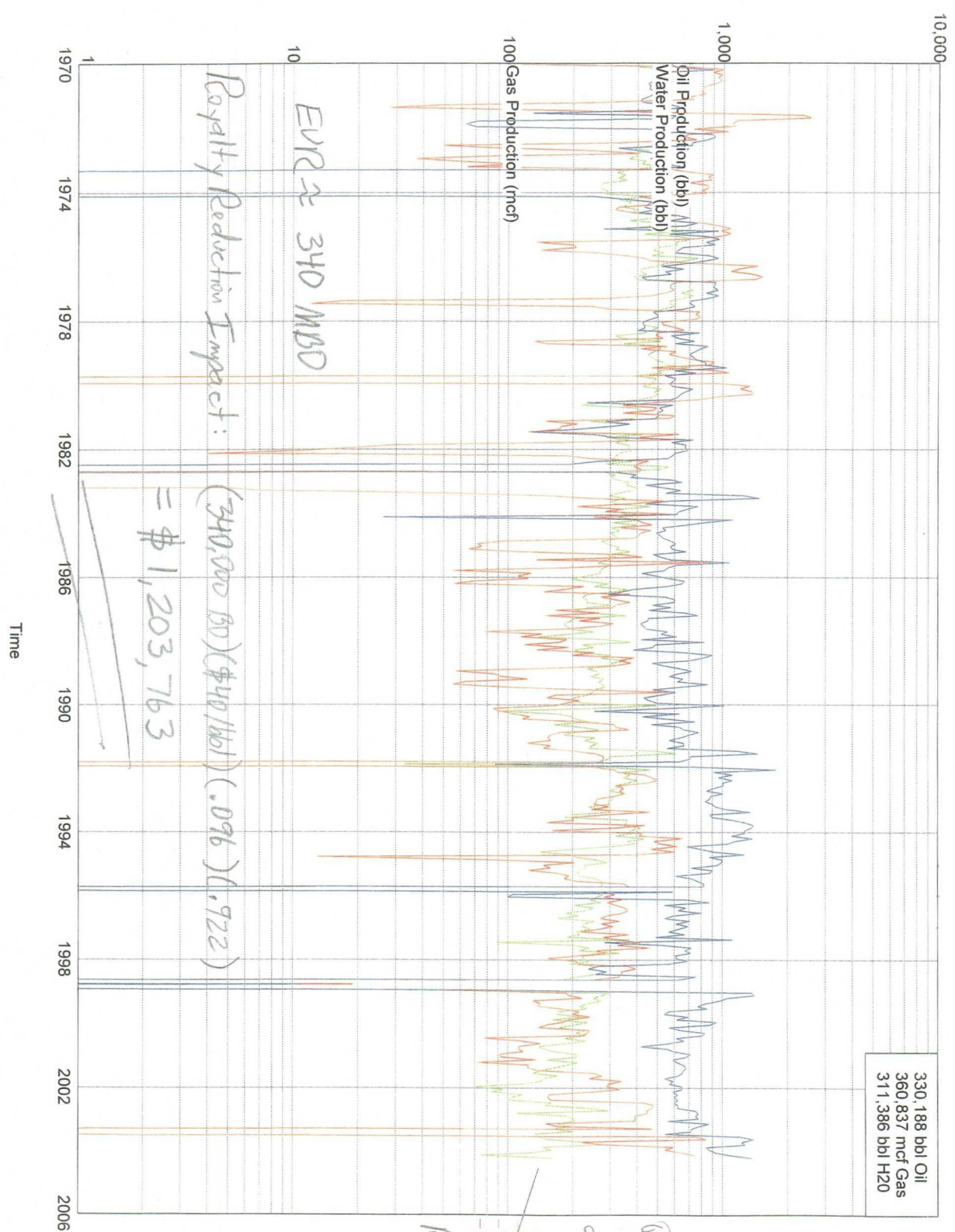
CONOCOPHILLIPS COMPANY - MITCHELL B 10 - 17 17S 32E - MALJAMAR PADDOCK

Production Rates



Lease Name: MITCHELL B
 County, State: LEA, NM
 Operator: CONOCOPHILLIPS COMPANY
 Field: MALJAMAR
 Reservoir: PADDOCK
 Location: 20 17S 32E

CONOCOPHILLIPS COMPANY - MITCHELL B 15 - 20 17S 32E - MALJAMAR PADDOCK



$Q_1 = 5 \text{ BOPD}$
 $d = 10^{-2} / \text{yr}$
 $RUR \approx 10 \text{ MBD}$
 Oil Production (bbl)
 Gas Production (mcf)
 Water Production (bb)
 - Historical Well Counts