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March 8, 2005

Mr. Mark E. Fesmire
Director, New Mexico Oil Conservation Division
Energy, Minerals and Natural Resources Department
State of New Mexico

OIL CONSERVATION DIVISION
CASE NUMBER
EXHIBIT NUMBER A

RE: Hearing de novo
Case No. 13348 (de novo)
Oil Conservation Commission
March 8, 2005

Dear Mr. Fesmire:

Thank you for your time and consideration of our Motion for a Stay of Division Order No. 12273 heard by you on February 28, 2005. As you indicated at the conclusion of the Hearing, the referenced Motion to Stay Order No. 12275 until after we had an opportunity to present evidence in a hearing de novo before the entire Commission was denied.

Order No. R-12275-B reflected that the Motion to Stay Order No. 12275 was denied except for allowing us until today at 9:00 a.m., Mountain Standard Time, prior to the Hearing de novo before the Commission, to make an election whether or not to participate in the well. As you are aware, our notice to the named Operator, Hudson Oil Company of Texas, of an election to participate in the Marbob- Knockabout Federal Well No. 1, must be accompanied by prepayment of our share of expenses through completion point, which is approximately $175,000.00. Also as you are aware, our major objection to the Compulsory Pooling Order No. R-12275 was the naming of Hudson Oil Company of Texas as Operator. An Operator with no interest in this well; an Operator that is precluded from serving as Operator by the terms of the Joint Operating presented for our execution and the Joint Operating Agreement executed by most of the working interests participating in the referenced well; an Operator that will not be investing a single dollar in this well; and an Operator that has little or no experience in drilling deep Morrow Gas Wells. We have had a long unfortunate thirty-year relationship with the named Operator, mired with fraudulent and imprudent operations, unjustified cost overruns, the charging of lease operating expenses for wells not capable of producing, suspension and misallocation of revenue, denial of information necessary to make economic decisions, and the list goes on.

The only reason Marbob proposed Hudson Oil Company of Texas as Operator was the proposition that <u>if</u> oil production is encountered at some depth other than the Morrow objective, that a royalty rate reduction would apply and that would benefit all working interests owners. At no time has Marbob or Hudson entered into evidence any authority that has expertise in this area of rules and regulations of the MMS indicating that the reduced

royalty rate would apply in this particular instance and if it did apply, how long it would be in effect.

A Hearing de novo would have allowed us the opportunity to put on extensive evidence that we feel would have made it abundantly clear to the Commission the Hudson Oil Company of Texas' inexperience, past breaches of fiduciary capacity, and long history of imprudent operations, which has cost us hundreds of thousands of dollars in audits and litigation and millions of dollars in lost income.

Since the Director's decision to deny a stay forces us to pay a substantial amount of funds to an Operator we consider imprudent and lacking of fiduciary capacity, a hearing de novo at this time has been rendered meaningless. Since the hearing de novo would have afforded us the right to present extensive evidence of the foregoing, we respectfully disagree with the Director's ruling that we did not demonstrate denial of the stay would entail gross negative consequences for us. Denial of the stay has effectively denied due process rights afforded us pursuant to NMSA 1978 Section 70-2-13 and Division Rule 1220.

Additionally, we would like to point out certain misleading and incorrect statements made by Mr. Carr, legal counsel for Hudson Oil Company of Texas made during the Hearing on the Stay held on February 28. Mr. Carr indicated that 90% of the working interest had "voluntarily" committed to this well. He also indicated that our interests are "held by Mary T. Ard as her separate property". He also indicated "the principals and officers of Hudson Oil Company own over 21 percent of the working interest in the spacing unit.

First, we own approximately 11%. An additional 12% is owned by working interest owners who also opposed Hudson Oil Company of Texas as Operator, but are now participating under the Compulsory Pooling Order. So we find it difficult to understand where Mr. Carr arrived at 90% had **voluntarily agreed** to participate. Secondly, we now own our interest in two limited partnerships and in a limited liability company, in which both of us are members. Thirdly, Mr. Carr's contention that the Hudson Oil Company of Texas "principals and officers own 21%" gives us no relief whatsoever. If a dispute arises with Hudson Oil Company of Texas, we will be forced to look to Hudson Oil Company of Texas for relief, and they do not own as single acre in this area and will not be expending a single dollar of their capital. They will however be making a profit off the operating costs charged to the non-operators.

Therefore, in conclusion, based on all of the foregoing we feel have been forced to make a decision to go non-consent in a well in which we otherwise would have participated.

Again, we thank you for your time and consideration.

Kind regards,

Mary T. Ard

Mary T. Ard

Julian Ard

Julian Ard