

MILLER STRATVERT

LAW OFFICES

Ranne B. Miller
Alice T. Lorenz
Stephen M. Williams
Stephan M. Vidmar
Seth V. Bingham
Timothy R. Briggs
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Joseph L. Romero
Kelly A. Stone
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Patricia A. Bradley
T. Aaron Garrett
Amy P. Hauser
Rebecca M. Alves

Counsel

James B. Collins
Terri S. Beach
Robert D. Taichert
Douglas A. Echols
Randall J. McDonald

Of Counsel

William K. Stratvert
Sharon P. Gross

Reply to Santa Fe

150 Washington Ave., Suite 300
Santa Fe, NM 87501

Mailing Address:
P.O. Box 1986
Santa Fe, NM 87504-1986

Telephone: (505) 989-9614
Facsimile: (505) 989-9857

Writer's Direct E-Mail:
shall@mstlaw.com

* Board Certified Specialist: Natural Resources - Oil & Gas Law
** Board Certified Specialist: Real Estate Law

February 23, 2006

HAND-DELIVERED

Mr. Mark Fesmire, Director
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87504

Case 13686

2006 FEB 23 PM 1 39

Re: Gandy Corporation State "T" Well No. 2 (SWD-836)
4,290 FSL and 500 FWL, Section 6, T16S R36E, NMPM, Lea County, New Mexico

Dear Mr. Fesmire:

This firm represents DKD, LLC, the owner and operator of the Watson "6" No. 1 SWD Well located 2857' FSL and 1417' FWL and the Snyder "A" No. 1 Well located 2318' FSL and 330' FWL in Section 6, T16S R36E. These wells are in close proximity to the Gandy Corporation State "T" Well No. 2 which is utilized for produced water disposal under the authority of SWD-836 and Order No. R-12171.

On investigation, it is apparent that Gandy Corporation's operations have resulted in the escape of water from the injection interval into other formations and onto other properties. Gandy Corporation's operations have also caused the damage and loss of certain producing wells in Section 6 and threatens future damage to additional wells.

It is our belief that Gandy Corporation's operations of the State "T" Well No. 2 are in violation of the Oil and Gas Act and the rules, regulations and orders of the Division. We are filing on behalf of DKD, LLC a separate application to the Division for administrative relief. A copy of the Application is enclosed. However, it is the purpose of this letter to provide the Division with notice of the apparent violations and to request the Division to act to prevent further violation pursuant to the provisions of NMSA 1978 §§70-2-28 and 70-2-29.

A PROFESSIONAL ASSOCIATION

ALBUQUERQUE
(505) 842-1950

FARMINGTON
(505) 326-4521

LAS CRUCES
(505) 523-2481

SANTA FE
(505) 989-9614

Mr. Mark Fesmire
February 23, 2006
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Should you require additional information, please do not hesitate to contact me.

Very truly yours,

MILLER STRATVERT P.A.

A handwritten signature in black ink, appearing to read "J. Scott Hall". The signature is written in a cursive style with a horizontal line above the "i" and "l".

J. Scott Hall

JSH/glb

cc: DKD, LLC