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VIA FACSIMILE to 505-476-3462

Total Fax 5 pages

Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

RE: Matter of the Application of DKD, LLC for an Order Directing Gandy Corporation to Show Case, Lea County, New Mexico; Case No. 13686

Dear Ms. Davidson:

Please find attached Intervenor Gandy-Marley's *Pre-Hearing Statement* for filing in the above captioned case. I am also mailing the original to you this date.

Thank you for your courtesies.

Sincerely,
DOMENICI LAW FIRM, P.C.



Charles N. Lakins, Esq.

cc: 1679
J. Scott Hall, Attorney for DKD

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONVERSION DIVISION**

**IN THE MATTER OF THE APPLICATION OF
DKD, LLC FOR AN ORDER DIRECTING
GANDY CORPORATION TO SHOW CAUSE,
LEA COUNTY, NEW MEXICO**

CASE NO. 13686

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INTERVENOR GANDY CORPORATION'S PRE-HEARING STATEMENT

COMES NOW the Intervenor Gandy Corporation, by and through undersigned counsel of record, and submits the following Pre-Hearing Statement in the above-captioned matter.

I. Name of the Party and Party's Attorney

Gandy Corporation
Owner/Operator of Record
PO Box 827
Tatum, NM 88267

Pete V. Domenici, Jr., Esq.
Charles N. Lakins, Esq.
Attorney for Gandy Corporation
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II. GANDY CORPORATION'S STATEMENT OF THE CASE

Gandy Corporation ("Gandy") is the owner and operator of record of a commercial salt water disposal well, the State "T" Well No. 2 (API No. 30-025-03735), located 4,290' FSL and 500' FWL, Section 6, Township 16 South, Range 36 East, NMPM, in Lea County, New Mexico. The well was authorized by OCD, under Order R-12171 dated July 9, 2004, to inject produced

water between the depths of 4,810 to 6,880 feet. Gandy currently operates its State "T" Well No. 2 under the authority of Division Order No. IPI-264, dated December 19, 2005. Division Order No. IPI-264 authorized Gandy to increase the surface injection pressure on the well to a maximum surface injection pressure of 1,930 PSIG.

DKD operates a commercial salt water disposal well, the Watson 6 Well No 1 (API No. 30-025-34197), located 2,857' FSL and 1,417' FWL, Section 6, Township 16 South, Range 36 East, NMPM, in Lea County, New Mexico. DKD operates its injection well under SWD-834. The well is authorized to inject produced water between the depths of 10,340 to 11,062 feet.

DKD is the owner of the Snyder "A" No. 1 Well (API No. 30-025-03727), located 2,319' FSL and 330' FWL, Section 6, Township 16 South, Range 36 East, NMPM, in Lea County, New Mexico. The well was initially drilled to 10,719 feet with a perforation interval at 10,652' to 10,692', and in 1960 was perforated from 10,571' to 10,582' and 10,614' to 10,649'. The last production of the Snyder "A" No. 1 Well was 32 barrels of oil between January and July 1997. In December 2002, Energen, the former owner of the well, reported to OCD the well would not blow down. In December 2005 DKD asked OCD for an extension to plug and abandon the well, and was granted an extension until June 15, 2006. The well has not been P&A'd.

The State "T" Well No. 2 and the Watson 6 Well No 1 are less than 2,000 feet apart. The Snyder "A" No. 1 Well is located approximately 2,000 feet from Gandy's State "T" Well No. 2, and approximately 1,500 feet from DKD's Watson 6 Well No 1.

DKD asserts that it began to record consistently increasing pressure readings on its Snyder "A" No. 1 Well following Gandy's resumption of injection operations in July 2004, and asserts that this is due directly to Gandy's operations, and alleges that Gandy's State "T" Well has a defective casing program or faulty cemented or corroded casing. DKD alleges that

Gandy's operation of its State "T" Well No. 2 have resulted in violations of several statutes, have caused the plugging and abandonment of wells that were otherwise capable of producing hydrocarbons (thereby causing waste), and that there is a likelihood that Gandy's continued injection operations will cause the damage or loss of additional producing wells in the area. Gandy denies all of these allegations.

No other parties have intervened in the case, and no other parties operating in the vicinity of Gandy's State "T" Well No. 2 and DKD's Watson 6 Well No 1 have alleged any harm to their oil and gas operations. The OCD determined in Order R-12171, that within the ½ mile area of review, there has not been production from above 10,500 feet subsurface, and that the evidence in that case (which concerned the same wells) indicated that there is likely a very small amount of moveable oil in the upper San Andres within the area.

The long-standing history between DKD and Gandy concerning the State "T" Well No. 2 is documented in Order No. R-11855-B, an Order of the Oil Conservation Commission that was issued following an evidentiary hearing on March 20, 2003 concerning Pronghorn Management Corporation's (Gandy's immediate predecessor in interest) application to dispose of produced water utilizing the State "T" Well No. 2. At paragraph 18 of that Order, the Commission stated "DKD seems to claim that Pronghorn's application threatens its [DKD's] existing operations and its substantial investment in those operations and could result ultimately in a loss of approximately 35 to 40 percent of its total revenue. This claim cannot be address here; the Commission has no authority to regulate competition among commercial disposal operations."

It appears that DKD's current application is yet another meritless attempt to put its closest neighboring commercial competitor out of business, as no correlative rights are impacted by Gandy's operations, and there is no evidence of a violation of any statute or of waste.

III. WITNESSES TO TESTIFY AT THE HEARING

Gandy will call the following witnesses to testify at the hearing in this matter:

1. Larry Gandy, Gandy Corporation
2. Larry Scott, IAPNM

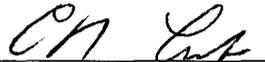
IV. APPROXIMATE TIME NEEDED TO PRESENT GANDY'S CASE.

Gandy will need approximately three (3) hours to present its case.

V. PROCEDURAL MATTERS TO BE RESOLVED PRIOR TO THE HEARING

None at this time.

Respectfully Submitted,



Charles N. Lakins, Esq.
Attorney for Gandy Corporation
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Albuquerque, NM 87102
(505) 883-6250

I hereby certify that a true and correct copy of the foregoing was sent via facsimile and U.S. mail to all parties of record this 20th day of April 2006.



Charles N. Lakins, Esq.