STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

2007 JAN 5 PM 3 08

IN THE MATTER OF THE APPLICATION OF DKD, LLC FOR AN ORDER REVOKING THE INJECTION AUTHORITY FOR THE GANDY CORPORATION STATE "T" WELL NO. 2, LEA COUNTY, NEW MEXICO

CASE NO. 13686
ORDER NO. R-12649
DE NOVO

DKD'S RESPONSE TO MOTION TO DISMISS

DKD, LLC ("DKD") thorough its undersigned counsel, for its response to the Motion To Dismiss Amended Application filed on behalf of Gandy Corporation, states:

Summary

Gandy Corporation asserts that DKD's Application states a private cause of action that is beyond this agency's jurisdiction. Gandy's motion thus implicates the issues of (1) the primary jurisdiction of the agency and (2) the Applicant's standing. Gandy's motion is in substance the same one it made during the course of the Division Examiner hearing on April 27, 2006. Subsequently, on May 10, 2006 Gandy reversed its position and withdrew its motion, thereby consenting to the agency's exercise of jurisdiction and authority in this matter. (See Exhibit 1, attached.)

Applicant, DKD, is the owner and the operator of the Watson 6 No. 1 well located 2857' FSL and 1417' FWL in Unit N, Section 6, T16S, R36E which is utilized for the disposal of produced water by injection into the Cisco and Canyon formations (SWD 834). Applicant also owns and operates the Snyder A No. 1 well located 2319' FSL and 330' FWL in Unit L of said Section 6. Gandy Corporation operates the State "T" Well No. 2 for the disposal of produced water pursuant to SWD-836 and Order No. R-12171. DKD's wells and mineral interests are within the one-half mile area of review of the State "T" Well No. 2.

DKD contends that Gandy Corporation has operated the State "T" Well No. 2 in violation of the Division's rules and orders with the result that injected waters have escaped from the permitted injection intervals to other formations and onto adjoining properties causing damages to wells and property, including DKD's. Applicant seeks the entry of an order immediately revoking Gandy Corporation's injection authority and directing it to take such other actions necessary to reduce pressures in the injection formation and other formations so as to prevent further waste and damage to property. Applicant also seeks an order directing that the State "T" Well No. 2 be plugged and abandoned. Gandy's operations have resulted in the plugging and abandonment of two other wells that were otherwise capable of producing hydrocarbons, thereby causing waste. Since the Division Examiner hearing on DKD's Application, in July of 2006 significant volumes of disposal waters injected into the State "T" Well No. 2 were encountered by Yates Petroleum Corporation in the San Andres formation during the drilling of the Yates Door "BIW" State Well No. 1 located in Unit I, T-16-S R-35-E leading to the loss of that well before TD was reached. Applicant has also contended that there also exists the reasonable likelihood that the continued injection operations will cause the damage or loss of additional wells in the area, including the Watson 6 No. 1 well for the reason, among others, that the location and quality of the cement surrounding the wellbore cannot be determined with certainty.

In its original Application and as amended, the Applicant invoked the Division's authority under, *inter alia*, NMSA 1978 § 70-2-12(2) (escape of water from strata into other strata); § 70-2-12(4) (drowning by water of any strata or part thereof capable of producing oil or gas; and § 70-2-12(15) (disposition of water produced ... in a manner that will afford reasonable protection against contamination of fresh water supplies). The Applicant specifically requested the Division to take such actions as may be necessary to immediately reduce pressures in the injection formation and other formations so as to prevent further waste and to avoid further

damage to other property, as well as providing such additional relief the Division determines appropriate.

On April 27, 2006, a Division Examiner hearing was convened on the merits of the Application. There, DKD established by a preponderance of the evidence that Gandy Corporation's injection operations on the State "T" Well No. 2 have resulted in the escape of fluids from the permitted injection intervals. It was also established that the original injection authority for the State "T" Well No. 2 was based on information contained in the original C-108 Application that included the erroneous calculation of cement tops in offsetting wells within the one-half mile area of review. The casings of these offsetting wells have no cement protection in the equivalent of the permitted injection interval which is a known corrosive zone. On October 24, 2006, the Division entered Order No. R-12649 revoking Gandy Corporation's authority to inject through the State "T" Well No. 2.

During the earlier history of this matter, soon after commencing injection operations, injection pressures on the State "T" Well No. 2 went from a vacuum to a positive pressure that significantly increased over time, and at times exceeded the injection pressure limitations set forth in the Division's previous orders. Correlating pressure responses were observed in three of the offset wells. Further, flows of significant volumes of waters through casing leaks occurred at intervals equivalent to the injection intervals in the Energen Synder "A" Com No. 1 and the Snyder "B" No. 2 wells in Section 6. Both of the Energen wells experienced casing collapse and, although they were otherwise capable of producing in paying quantities, were plugged and abandoned.

Witnesses presented by Gandy Corporation admitted that the pressure responses observed in the Applicant's Watson Snyder "A" No. 1 well and the Energen Synder "A" Com No. 1 Snyder "B" No. 2 wells may be attributable to the injection operations on the State "T" Well No. 2. Gandy Corporation's petroleum engineer witness also admitted that Gandy Corporation's

injection operations could be the cause of the casing collapse and flows of water to the surface through the two Energen wells. Gandy Corporation's witnesses asserted that the significant pressure increases observed on the State "T" Well No. 2 were attributable to scale and clogged perforations caused by the receipt and disposal of one or more loads of contaminated produced water in late March or early April of 2005. However, the pressure responses observed in the offsetting DKD and Energen wells occurred before the time Gandy Corporation contends it received the contaminated water.

The overwhelming preponderance of evidence establishes that the State "T" Well No. 2 is the cause of the abnormal pressures in the disposal reservoir and that a number of conduits to the surface and other zones exist in the immediate area. It was further established that the injection operations and the abnormal pressures caused or contributed to casing leaks in the offsets. The DKD Watson 6 No. 1 Well was eliminated as a cause of abnormal reservoir pressures or the escape of fluids for the reason that it has consistently injected under a vacuum. The point in time when Gandy's injection operations went from a vacuum to a positive pressure in August 2004 corresponds in time to the occurrence of problems in the offsetting wells. Further, the observed pressures in the offsets had a virtual direct correlation with injection operations.

Produced water disposal operations through the State "T" Well No. 2 were first authorized on April 30, 2002 under Administrative Order SWD-836. The authorization was issued pursuant to the Division's administrative processes for C-108 applications pursuant to Rule 708. The State "T" Well No. 2 was subsequently the subject of a number of additional actions and orders of the Division and the Commission:

April 30, 2002	Administrative Order SWD-836 approving of Pronghorn Management Corporation's administrative application for salt water disposal, Lea County, New Mexico.
July 9, 2002	Director's letter order suspending Order SWD-836 due to the receipt of an objection from offsetting lease holder.

May 15, 2003	Order No. R-11855-B (De Novo) approving of Pronghorn Management Corporation's application for salt water disposal.
May 3, 2004	The Department Secretary and Acting Division Director issued an Emergency Shut-in Order due to injections through intervals not permitted under Order No. R-11855-B.
July 1, 2004	Division Order No. R-12161 denying Gandy Corporation's application for an emergency order authorizing it to operate the State "T" No. 2 Well until a decision is issued after a hearing on the merits of Gandy's main application.
July 9, 2004	Order No. R-12171 approving of Gandy Corporation's application for disposal into additional perforated intervals in the State "T" Well No. 2.
December 19, 2005	Division Order No. IPI-264 authorizing Gandy Corporation to increase the surface injection pressure to 1930 psig.

The last of these orders resulting from a hearing was Order No. R-12171 issued on July 8, 2004 in Case No. 12393. In Order No. R-12171, the wellhead injection pressure was limited to 962 psi. That injection pressure limitation was increased 1930 psig on December 19, 2005 by Division Order No. IPI-264 pursuant to the provisions for administrative approval set forth in Order No. R-12171, although no notification of the pressure increase was provided to third parties.

During the course of testimony at the Division Examiner hearing on the Application in this matter, the Applicant's principal, Mr. Danny Watson, testified that he had informed three different individuals from the Division's Hobbs District office of the problems resulting from Gandy Corporation's injection operations. Complaints to the Hobbs District office by a third party operator, Energen Resources Corporation, resulted in the issuance of a shut-in order on April 22, 2005. On February 23, 2006, Applicant, through its counsel, wrote to the Division's Director requesting the Agency to take action to correct the apparent violations of the Division's statutes, regulations and orders by Gandy Corporation. The Application was filed with the Division that same day.

The Division Has Primary Jurisdiction

The jurisdiction and the authority of the Division to grant the relief sought by the Application in this matter are clearly established in the Oil and Gas Act. NMSA 1978 §70-2-1 et seq. Section 70-2-12(B) of the Act provides:

> "Apart from any authority, express or implied, elsewhere given to or existing in the Oil Conservation Division by virtue of the Oil and Gas Act or the statutes of the state, the Division is authorized to make rules, regulations and orders for the purposes and with respect to the subject matter stated in this subsection;
>
> (2.) To prevent crude petroleum oil, natural gas or water from escaping from strata in which it is found into other strata; ...
>
> (4.) To prevent the drowning by water of any stratum or part thereof capable of producing oil or gas or both oil and gas in paying quantities and to prevent the premature and irregular encroachment of water or any other kind of water encroachment which reduces or tends to reduce the total ultimate recovery of crude petroleum oil or gas or both oil and gas from any pool; ...
>
> (7.) To require wells to be drilled, operated and produced in such manner to prevent injury to neighboring leases or properties; ... [and]
>
> (15.) To regulate the disposition of water produced or used in connection with the drilling for or producing of oil and gas or both and to direct the surface or subsurface disposal of the water in a manner that will afford reasonable protection against contamination of fresh water supplies designated by the state engineer[.]

Section 70-2-11 of the Oil and Gas Act makes clear that the Division has a duty to act on the Application in this matter. That section provides: "(a.) The Division is hereby empowered, and it is its duty, to prevent waste prohibited by this act and to protect correlative rights, as in this act provided. To that end, the Division is empowered to make and enforce rules, regulations and orders, and to do whatever may be reasonably necessary to carry out the purposes of this act, whether or not indicated or specified in any section hereof."[1] In past cases, the Division has cited to this specific provision of the Oil and Gas Act as authority supporting the Agency's broad construction of its powers to act as "cumulative and not exclusive". *See*, Order No. R-11573-B,

[1] *See, also*, NMSA 1978, § 70-2-6; "...[The Division] shall have jurisdiction, authority and control of and over all persons, matters or things necessary or proper to enforce effectively the provisions of this act ...."

Case No. 12601; *Application of Bettis Boyle and Stovall To Reopen Compulsory Pooling Order No. R-11573 To Address The Appropriate Royalty Burdens On The Well For Purposes Of The Charge For Risk Involved In Drilling Said Well, Lea County, New Mexico*

The fact that the Division's jurisdiction here has been triggered by an operator's application under Division Rule 1206-A rather by the Division itself under Rule 1227 does not mean that the Division is somehow required to abstain from or defer action on this application. Indeed, the opposite is true. The agency has a clear duty to act. As the Division does consistently, Order No. R-12171, the last hearing order authorizing Gandy Corporation's injection operations, expressly provided that "*Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.*" Any argument that the Division cannot assume jurisdiction over the subject matter and the parties arising under the terms of Order No. R-12171 is baseless.

In a number of instances in the past, the Division has acted authoritatively on similar or analogous applications brought by affected operators and third parties.

In Case No. 6987, operator Doyle Hartman invoked the Division's jurisdiction to halt numerous violations of the Oil and Gas Act resulting from the operation of the Myers-Langley Maddox Unit by Oxy USA, Inc. Chief among Hartman's complaints was the injection of water for Oxy's enhanced recovery operations in excess of authorized surface injection pressures resulting in the escape of waters from the authorized injection zone into Hartman's properties.[2] In the course of the *Hartman/Oxy* case, the Division denied Oxy's Motion to Dismiss and found that it had ongoing jurisdiction over the subject matter and the parties, simultaneously with the pendency of separate but related litigation in the Lea County District Court.

[2] *Amended Application of Doyle Hartman to Give Full Force and Effect to Commission Order No. R-6447, to Revoke or Modify Order No. R-460-A, To Alternatively Terminate the Myers Langley Maddox Unit, Lea County, New Mexico.*

In Case No. 11996, the *Pendragon* case, the Division assumed and maintained jurisdiction over an application invoking the Division's jurisdiction to address the claimed escape of gas and water from one formation into another as the result of hydraulic fracturing operations in the separately owned Pictured Cliffs and Basin-Fruitland Coal formations.[3] In the *Pendragon* case, the Division specifically rejected arguments that the application raised a dispute between private parties over which jurisdiction was reserved exclusively to the courts.

In consolidated Cases Nos. 12441 and 12588, the *Grama Ridge* cases, the Division assumed jurisdiction over the applications filed by LG&E Natural Pipeline, LLC and Raptor Natural Pipeline, LLC, the operators of the Grama Ridge Gas Storage Unit, over concerns that the drilling and completion by Nearburg Exploration Company, LLC of a well in the Morrow formation would lead to the escape of gas from one strata into another.[4]

The Division also recently heard the application of the owners of leased and unleased mineral interests who sought the termination of an operator's salt water disposal well permit in Case No. 13532, *Application of J. W. Neal, Patricia Neal and the Claudia Young Trust to Rescind Division Administrative Order No. SWD-984, Lea County, New Mexico.*

There is also currently pending before the Division another application for the rescission or amendment of another operator's salt water disposal permit. *See*, Case No. 13707, *Application of Yates Petroleum Corporation to Rescind or Amend Administrative Order SWD-1021, Lea County, New Mexico.*

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[3] *Application of Pendragon Energy Partners, Inc. and J. K. Edwards Associates, Inc. To Confirm Production From The Appropriate Common Source Of Supply, San Juan County, New Mexico.*

[4] See Order No. R-11611; *Application of Raptor Natural Pipeline, LLC f/k/a LG&E Energy Corporation for Special Rules for the Grama Ridge Morrow Gas Storage Unit, Lea County, New Mexico, Case No. 12588; Case No. 12441, Application of LG&E Natural Pipeline, LLC for Special Rules for the Grama Ridge Morrow Gas Storage Unit, Lea County, New Mexico.* See also, Case No. 12622, *Application of Nearburg Exploration Company, LLC for Two Non-Standard Gas Spacing and Proration Units, Lea County, New Mexico and Case No. 12908-A, Application of the Oil Conservation Division for an Order Creating, Re-designating and Extending the Vertical and Horizontal Limits of Certain Pools in Lea County, New Mexico, Order No. R-11768-B.*

Under the Doctrine of Primary Jurisdiction, the Division must assume jurisdiction over the application in this matter. No other body, judicial, administrative or otherwise has been charged with the specific statutory mandate to exercise jurisdiction, authority and control over oil and gas operations in this state. *See*, NMSA 1978, § 70-2-6-A; *see also Continental Oil Co. v. Oil Conservation Commission*, 70 N.M. 310, 323, 373 P.2d 809, 817 (1962). Moreover, no other body in the state possesses the requisite technical expertise in geology and petroleum engineering necessary to effect a solution to the issues raised in the Application here. Only the Division can resolve the factual questions that have been presented to it. *See*, *Far East Conference v. the United States*, 342 U.S. 570 (1952). This view has been acknowledged by the New Mexico Supreme Court when it affirmed that NMOCD decisions are accorded special weight and credence in light of the Division's technical competence and specialized knowledge. *See*, *Grace v. Oil Conservation Commission*, 87 N.M. 203, 531 P.2d 939 (1975).

New Mexico courts, both Federal and State, have long recognized the Doctrine of Primary Jurisdiction. The Doctrine often comes into play where issues requiring a regulatory body's technical expertise are involved. In such cases, the Doctrine recognizes that the administrative process should be allowed to proceed whenever a dispute requires the resolution of issues which, under our regulatory scheme, have been placed within the competency of an administrative body. *See, State ex rel. Norvell v. Arizona Public Service Co.*, 85 N.M. 165, 510 P.2d 98 (1973).

This case is a perfect example of the applicability of the Primary Jurisdiction Doctrine and the proper invocation of the agency's jurisdiction.

DKD, LLC Has Requisite Standing

To acquire standing, a party must demonstrate "(1) an injury in fact,[5] (2) a causal relationship between the injury and the challenged conduct, and (3) a likelihood that the injury will be redressed by a favorable decision. *John Does I Through III v. Roman Catholic Church of The Archdiocese, Inc.*, 1996-NMCA-094, 122 N.M. 307, 924 P.2d 273. In addition, a party must also establish "that the injury alleged is within the zone of interests to be protected by a... statute." *Forest Guardians v. Powell,* 2001-NMCA-028, 130 N.M. 368, 375, 24 P. 3d 803, citing to *Key v. Chrysler Motors Corp.,* 121 N.M. 764, 774, 918 P.2d 350, 360 (1996).

DKD's wells and mineral interests are literally within the one-half mile area of review prescribed by the Division's rules and C-108 forms. Both of DKD's wells and Gandy's disposal well operate under Division-issued permits and regulations. DKD has alleged and proved injury in-fact resulting from Gandy Corporation's operations, as well as the threat of future injury.

Under NMSA 1978 §70-2-23, as an interested party, DKD is entitled to be heard. Further, Rule 1206 makes specific provision for such matters to be raised by an application filed by *"[t]he Division, attorney general, any operator or producer or any other person with standing..."* (emphasis added).[6] DKD's interests fall squarely within the zone of interests the legislative enactments referenced above are intended to protect and DKD may accordingly invoke the Division's administrative processes to protect those interests. It need not wait until further harm is caused.

Gandy Corporation asserts that DKD, LLC's Application cannot lie because it alleges a "private cause of action" that is not authorized under the Oil and Gas Act or the Divisions rules.

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[5] The threat of injury is also sufficient to establish standing. *Am. Civil Liberties Union v. City of Albuquerque*, 1999-NMSC-044, 128 N. M. 315, 992 P. 2d 866.

[6] The current version of Rule 1206 is little changed from its earlier iteration as Rule 1203 A:
19.15.14.1203 NMAC INITIATING A HEARING.
A. The division, the attorney general, any operator or producer or any other person may apply for a hearing.

This is rather beside the point. It is inconsequential how the issues raised by the Application are characterized. It remains that the subject matter of DKD's Application invokes numerous provisions of the Oil and Gas Act. Yet, nowhere does that act, or do the Division's rules, restrict operators or other parties from invoking the agency's statutory jurisdiction. Neither do they reserve the invocation of the agency's remedial authority only to the agency or the attorney general. Standing to enforce the Oil and Gas Act is not limited to the Division or the attorney general. This very argument was squarely rejected by the Court of Appeals in *Forest Guardians v. Powell, supra*, 130 N.M. 368, 374.

The Division is fully authorized to bring Gandy Corporation's salt water disposal well into compliance with the Agency regulations by a variety of means. There is nothing in Rule 1227 which would preclude the Division from acting on an application properly brought before it by an operator pursuant to Rule 1206-A. The exercise of authority in such a manner is fully in accord with the Division's mandate to prevent waste, prevent water from escaping from strata and to prevent entry onto neighboring leases. (Section 70-2-12-B (2), (4) and (7)).

Accordingly, proceedings addressing matters such as those raised by the Application here are not limited exclusively to compliance proceedings brought by the Division pursuant to Rule 1227. Rather, common sense and the authorities referenced above demand that operators have full access to the Division's administrative processes in order to seek redress for any number of matters within the agency's special expertise.

Conclusion

The evidence supports the conclusions that Gandy Corporation's injection operations should be immediately terminated and that the State "T" Well No. 2 should be plugged and abandoned in order to prevent the escape of additional volumes and further harm to offsetting wells and properties. The applicable provisions of the Oil and Gas Act mandate that the agency order such action.

Respectfully submitted,

MILLER STRATVERT P.A.

By: _____

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CERTIFICATE OF SERVICE

The undersigned hereby certifies he faxed a true and accurate copy of the foregoing to:

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on this 4th day of January, 2007.

_____
J. SCOTT HALL

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

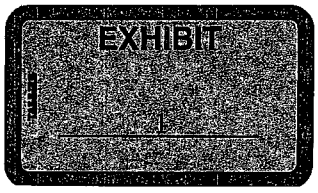
IN THE MATTER OF THE APPLICATION OF DKD, LLC FOR AN ORDER REVOKING THE INJECTION AUTHORITY FOR THE GANDY CORPORATION STATE "T" WELL NO. 2, LEA COUNTY, NEW MEXICO

CASE NO. 13686

INTERVENOR'S WITHDRAWAL OF MOTION TO DISMISS AND REQUEST FOR DECISION ON THE MERITS

COMES NOW the Intervenor Gandy Corporation, by and through undersigned counsel of record, and for its Withdrawal of Motion to Dismiss and Request for a Decision on the Merits states as follows:

1. A Hearing on DKD's Application was held before the Oil Conservation Division Hearing Examiner on April 27, 2006. Through its Application, DKD challenged the permit issued by the OCD and also challenged Gandy Corporation's ("Gandy") operations under that permit. At the hearing, all evidence indicated that Gandy's permit was properly issued, the permit was not appealed, and that Gandy is operating within its permit.
2. At the Hearing, the attorney for OCD raised concerns under NMAC 19.15.14.1227 about the Division's authority to hear the application. Intervenor moved to dismiss DKD's Application for lack of jurisdiction and standing.
3. Intervenor Gandy Corporation hereby withdraws its motion to dismiss, and requests that DKD's Application be denied based upon the evidence presented as applied to the legal rights at issue.



4. At the hearing, Danny Watson, owner of DKD, testified: 1) that he had "tried, and tried and tried" to get OCD to shut down Gandy's State "T" Well No. 2 injection well through previous proceedings before the OCD and OCC; 2) that the primary reason for DKD's Application in this case was due to his worry about any potential future impact to DKD's Watson 6 No. 1 injection well from Gandy's State "T" injection well operations; 3) that DKD's last efforts at production from DKD's Snyder "A" No. 1 well were undertaken in August 2004; 4) that DKD recognized its plugging obligation in December 2005 and has received an extension (which is probably not legal or complete) from OCD until June 15, 2006 to plug and abandon DKD's Snyder "A" Well, 5) that no down-hole attempts have been made to isolate the source of the Snyder "A" Well pressure; and 6) that his initial request that OCD take action against Gandy occurred in February 2006, after he had acknowledged he would plug and abandon DKD's Synder "A" No. 1 well.
5. Mr. George Friesen, DKD's expert, testified that: 1) well casing collapse history in the area can be traced to the 1960s; 2) DKD's injection well is cemented to surface; 3) as long as a well is cemented to surface, the casing is protected and it is sealed from injection. DKD's own expert witness testified, in essence, that DKD's concern that its injection well could be impacted by Gandy's operations is unfounded, because DKD's well is cemented to surface and therefore is sealed from injection.
6. DKD's and Energen's attorney, Mr. Scott Hall, informed the Hearing Examiner that Energen (owner of the Snyder A "Com" 1-6 and Snyder B No. 2 wells referenced in DKD's Application) was on notice of the hearing and chose not to participate.

7. Mr. Larry Scott testified that from the evidence presented no definitive conclusion could be drawn regarding subsurface pressures or the source of the surface pressure in DKD's well from the evidence presented by DKD.

8. Larry Gandy testified that the March 2005 spike in Gandy's injection pressure was caused by a third-party dumping LCMs into the State "T" well, causing it to become plugged. He further testified about the clean-out operations that Gandy had to conduct and the legal proceeding underway to recover from the negligent third-party.

9. The exhibits introduced showed that: 1) DKD's Snyder A well had not produced since 1997 (Gandy Exhibit 4); 2) DKD's claims concerning any impact on correlative rights, potential harm to DKD's injection well from Gandy's injection well, the financial threat to DKD's existing operations that could result in loss of revenue to DKD from Gandy's injection operations, and other matters, were all previously considered and determined by the Division and Commission. See i.e. OCD Order R-11855, ¶5h, OCC Order R-118555-B, ¶16, & ¶18, OCD Order R-12171, ¶12a, ¶12b, & ¶13.

10. The evidence further demonstrated that the pressure readings on DKD's Snyder "A" well were at multiple times in excess of the injection pressure on Gandy's State "T" well, indicating - as DKD's expert had testified to - that the relational data was "bad data," and therefore unreliable. (Compare Gandy Exhibit 5 with Gandy Exhibit 20; i.e. Jan 05, Feb 05, Apr 05, May 05, Oct 05, Nov 05, and Dec 05).

11. The evidence further demonstrated that based upon a step-rate test performed on Gandy's State "T" well in December 2005, the well is injecting into the permitted formation and no fractures were indicated in the well case, and that from the results of the test OCD has authorized Gandy to inject at up to 1,930 PSIG.

12. The right to inject is not a correlative right.
13. DKD presented no evidence that supported or proved up any of the claims made in DKD's Application and Amended Application.
14. DKD failed to demonstrate that any operator's correlative rights are being impacted by Gandy's injection operations of its State "T" well.
15. The evidence clearly demonstrated that Gandy Corporation operates its State "T" injection well in full compliance of all New Mexico Statutes and OCD Rules and Regulations.
16. All evidence presented demonstrated that OCD has previously thoroughly considered Gandy's State "T" injection well operations and *all* of DKD's concerns on multiple prior occasions, and in each instance the Division has determined that Gandy's operations protect the environment, prevent waste, and do not impact any other operator's correlative rights.

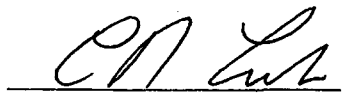
WHEREFORE, Gandy Corporation hereby withdraws its motion to dismiss and requests that the Oil Conservation Division make a determination on the merits that:

1. All of DKD's concerns have previously been addressed and decided by OCD;
2. DKD's concern about a potential impact to its injection well is not only unfounded based upon DKD's expert's testimony, but also that the right to inject is not a correlative right;
3. The evidence did not establish an impact to correlative rights, or waste, due from Gandy's State "T" injection well operations;
4. DKD did not provide clear and convincing or a preponderance of evidence that supported or proved up any claim made in DKD's Application and Amended Application;

5. Gandy Corporation is operating its State "T" injection well in full compliance of all New Mexico Statutes and OCD Rules and Regulations; and

6. Deny DKD's Amended Application.

Respectfully Submitted,
DOMENICI LAW FIRM, P.C.



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I certify that on the 10th day of May 2006, a true and correct copy of the foregoing was faxed and mailed to the following:

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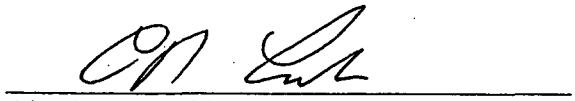

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