TECHSYS RESOURCES, LLC

May 1, 2009

Mr. David K. Brooks – Examiner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 14271
Subject: Reply to Letter from Vanguard's Attorney Mr. James Bruce dated April 20, 2009

Dear Examiner Brooks:

I respectfully submit this reply to the above referenced letter in the ongoing hearing (Case #14271) before the Oil Conservation Division (herein after "OCD").

1. Questions Regarding Additional Testimony and Information Provided by Mr. Bruce

In the hearing, Mr. Bruce was asked to research a couple of questions and provide information back to the OCD. In his letter and using his words, he sets forth the results of the searches. Unfortunately, Mr. Bruce clearly does not stop there. Mr. Bruce takes advantage of the OCD's request for specific information to add opinions, innuendos, statements, testimony and even demands - all of which were not asked to be provided, and all of which now have been provided outside the hearing room. In particular, the information and comments provided by Mr. Bruce on page two are so misleading, biased, and/or unsupported by fact, whether intentionally or negligently, that they cannot be permitted to stand.

As I am not an attorney, I respectfully request the OCD's assistance to help me understand how the additional information provided by Mr. Bruce will be handled by the OCD for this Case based on State of New Mexico's Laws, Rules, and Regulations for hearings before the OCD. To help me understand the affect of this situation, I have the following questions regarding the letter provided by Mr. Bruce:

i. Are this letter and its contents permissible in part or in whole in this Case?

ii. Is Mr. Bruce's letter with the additional testimony (clearly intended to affect the Case's outcome and persuade the OCD) provided outside the hearing room acceptable testimony to the Case? Will this letter become part of the Case record? Will Techsys have the right to reply to the letter for the record?

iii. Will the OCD use any of the information provided in Mr. Bruce's letter to decide the Case? If so, what information will be used and how will it be used in deciding the case?

iv. The following questions to the OCD are in reference to the last sentence on page two of Mr. Bruce's letter where he demands that Techsys must shut-in if cannot provide NSL and NSP orders for the W.D. Grimes NCT-A Well No. 4. Is the OCD including Techsys' permits review as part of Case 14271 or is the OCD opening up a new Case that is entirely separate?

2. Reply Comments

This is the issue upon which all interested parties including the people of New Mexico should be focused on – should the OCD require producers in the Byers-Queen gas pool to get the existing standard 160-acre unit for gas wells and particularly if (as in the Case) an adjoining property owner with a 160-acre unit objects to producers' request for non-standard / lesser oil-lease acreages. I have made this issue my focus and tried my best to explain in the hearing why it is so important and why that the 160-acre gas spacing is an essential differentiator from oil spacing rules. The spacing rules were formed and have been tested over decades against all important aspects including physical property differences of gas and oil, economical, legal, commercial, property rights, technical, competition, etc. The gas spacing rules have certainly been proven by nothing better than the test of time after tremendous scrutiny from many very smart governmental, legal, corporate, and scientific minds supported with millions of dollars and time resources to argue the issues. Through all of this, the gas spacing rules have been preserved with minimum of 160-acre gas spacing. The OCD's decision on this Case will affect all gas developer's ability for future development of the Byers-Queen gas pool as well as any other gas pool in the State. The OCD's decision, I believe, will certainly set a precedent with implications that reach far beyond Techsys and will impact all other gas producers and all other gas pools in the State of New Mexico.

Unfortunately, Mr. Bruce has provided additional information in his April 20, 2009 letter that doesn't address any issue other than the attempt to wrongfully impugn Techsys, attempt to divert the OCD's focus and to influence the OCD's decision in his favor. Mr. Bruce has not attempted in his letter to discuss the key issues important to the State. Instead he has decided to assail Techsys. It will be very difficult for me with my lack of legal experience, lack of time and money to "prove" every negative and/or "prove" Techsys has every rule perfectly covered, particularly to an Attorney that would equate the absence of a permit document from Techsys' predecessor or finding of wrongdoing by Techsys as the basis for the OCD making a decision in his favor on this Case. And, it is more difficult to have a fair hearing when Mr. Bruce attempts to persuade the OCD on the Case's outcome by providing in his letter – outside the hearing room - his opinions, testimony and demands that were not requested and are based, not on facts, but on biases that are born of and support for his own self interest. Nonetheless, because the persistent drumbeat of criticism from Mr. Bruce not only has wrongly impugned me and my family's business (Techsys) and impugned my father's years and years of very hard work to provide the 160-acre property adjoining Vanguard, I feel compelled to reaffirm facts on the record in this Case and correct Mr. Bruce's statements in the letter.

First, on page two Mr. Bruce wrote the following sentence: "Please note that all wells are at unorthodox locations, and all wells are being produced on a leasehold basis." While this may be the case, every one of these locations were approved many, many years ago (most before I was born) and with entirely different circumstances. I personally had no knowledge and/or understanding of any of these applications in contrast to the knowledge I have about Vanguard's application. Mr. Bruce's statement (intended to influence the OCD's decision) is based on the notion that because the other operators/owners received approval then that means Vanguard should also be approved is without merit and does not warrant serious consideration.

Second, on page two Mr. Bruce references his attached Exhibit 6 and states that it shows the lease outlines (the W.D. Grimes NCT-A Lease actually covers the entire W ½ of Section 32). At this point, I would like to reference his Exhibit 6 and tell the important history and story the first wells located in the Byers-Queen gas pool and tell how my father made a family business out of the NW ¼ of Section 32. In the 1940's and 1950's, an oil company that would later become Gulf Oil produced gas from the Byers-Queen for fuel gas for the local production camp and for

the numerous natural gas engines driving the oil pumping units. To my knowledge, there were three wells producing from the Byers-Queen in the 40's and 50's – the WD Grimes #1 and #4 (both owned by Gulf Oil) and the State A #1 well (owned by Shell in 1953 according to Exhibit 5 in Mr. Bruce's letter). As you can see in Exhibit 1 in Mr. Bruce's letter, Gulf Oil applied for and received OCD permission to use the WD Grimes #1 to produce in Byers-Queen gas pool. Gulf Oil also produced gas from the Byers-Queen gas pool from the WD Grimes #4. During the 1970's, Gulf Oil produced gas from the Byers-Queen from the WD Grimes #1 and #4 wells. How do I know this? My father, Paul Bliss, worked for Gulf Oil as a reservoir/petroleum engineer and transferred to Hobbs in 1966. The person that my father worked for at Gulf Oil was Mr. C.D. "Chuck" Borland. The same person that the OCD mailed the Administrative Order with approval for the WD Grimes #1 to (see Exhibit 1 in Mr. Bruce's letter) in 1971.

The WD Grimes #1 and #4 were eventually shut-in by Gulf Oil and abandoned probably in the 1970's. The only well that I know of that continued to produce gas from the Byers-Queen was the State A #1 (see Exhibit 5 again in Mr. Bruce's letter) well which is now owned by Occidental Petroleum. Oxy's State A #1 well is still active and is located in the same 160-acre unit that Vanguard's well is located in.

In the 1980's, my father, now an independent producer, attempted to buy the 160-acres from Chevron (which purchased Gulf Oil). It took him almost a decade of hard work, writing letters, holding meetings, and eventually paying Chevron to acquire the 160-acres with the WD Grimes #1 and #4[1]. Once he paid Chevron for the acreage, he put a deal together and re-completed the #1. A few years later, he and I put another deal together and re-completed the #4.

The #1 and #4 well locations were not chosen because they were oil wells that had gone dry. These locations were chosen because these were wells had been producing gas from the Byers-Queen gas pool for many years. These wells were selected based on my father's knowledge and after many years of hard work to acquire and develop. He has since put many more years of hard, manual labor keeping these two gas wells going. This 160-acre family owned property with these two producing gas wells is all that my family owns a working interest in.

It is for these reasons –rather than the imaginative innuendos of Mr. Bruce who is more focused on conjuring up conspiracy theories about me and my company – why the WD Grimes # 4 is located where it is. The facts show that the WD Grimes #4 well was located where it is and has been producing gas from the Byers-Queen long before I was born, as was the WD Grimes #1 and the State A #1 well. The facts show that it was a very smart idea to use the #4 well's location to re-complete in and produce from the Byers-Queen pool in contrast to Mr. Bruce's criticism. The selection of the #4's location is based on many factors that are entirely different from the factors that the current oil operators are using to select their well locations.

Third, on page two Mr. Bruce lists data that he states affects Vanguard's application. Below are reply comments given to each of Mr. Bruce's listed statements numbered A through C:

A. In this paragraph, Mr. Bruce states the following: "The only acreage available for Vanguard's well unit is the N ½ NE ¼ of Section 32". I disagree with the statement. I have a totally different view from Mr. Bruce of what is, and what is not, the meaning of available.

[1] Brad Bliss owns WI in both the #1 and #4 wells which are both located in the 160-acre spacing unit also owned by Brad Bliss. Brad Bliss owns a 50% WI in #1 (operated by HRC) and he owns 60% WI in the #4 wells (operated by Techsys).

Repeating what I said above, Chevron had the 160-acres that my dad sought. After years of work, writing letters and paying money for the property, my father was able to buy the acreage. So in our case it is clear that the acreage was available with work and money. Vanguard testified on record (paraphrasing) that they have not tried to get the 160-acre unit and they testified that they did not currently know of any reason stopping them from getting the 160-acre unit. I believe the 160-acre unit is available to Vanguard.

In the second and third sentence, Mr. Bruce states Vanguard has never shared in production and demands application must be approved to protect Vanguard's correlative rights.

I disagree with Mr. Bruce's statement and demand. At the moment and until a decision from the OCD stating otherwise, Vanguard's State A # 7 is an oil well held by a 40-acre spacing unit. The statement made here by Mr. Bruce is no different than what any and all other producer/operators desire and will say given the chance. Every oil producer in the State can say exactly the same which is that they have never shared in the production and therefore demand approval from the OCD. His statement can be used by any producer/operator desiring to do the same thing Vanguard is trying to do no matter where they are in the State, no matter which gas pool their well penetrates, and no matter if they have 80, 40 or 20 acre spacing units. As mentioned in the hearing, Vanguard has five (5) oil wells and Texland Petroleum has approximately 33 wells penetrating the Byers-Queen gas pool. It is clear that Mr. Bruce's statement can be used the same for every one of these 38 oil wells. Texland has already filed an application exactly the same (literally word for word) as Vanguard.

It is understandable that all oil operators desire to produce from gas pools when their oil wells dry up. Approving Vanguard's and Texland's applications will increase the number of Byers-Queen gas wells in a ½-mile radius circle centered on the WD Grimes # 4 from five (5) existing gas wells to a total of seven (7) gas wells (40% increase in well density). This is a very high density for any gas pool and I believe especially for the depleted Byers-Queen gas pool.

Finally, I would like to understand whether Mr. Bruce's statement and demand in this paragraph would be acceptable to the OCD for any and all gas pools in New Mexico, including the most prolific gas pool operated by the largest gas company? I believe the answer is clearly no. It trumps the whole meaning and purpose of gas spacing rules being distinctive from oil spacing rules. I recommend that the OCD require Vanguard to obtain the existing 160-acre spacing that the Byers-Queen gas pool currently requires.

B. In this paragraph, second sentence, Mr. Bruce states the following: "No one has objected, and that portion of the application must be approved. This is simply an incorrect statement by Mr. Bruce, whether intentionally or negligently. . I testified in the hearing, and it is on record, that I did not object to the unorthodox location as long as Vanguard obtained the 160-acre unit first. I recommend that a correction to Mr. Bruce's statement be added to the record.

C. In this paragraph, Mr. Bruce states that "the reservoir has been developed and produced on an 80-acre basis, with all wells at unorthodox locations, including those on Techsys' acreage and therefore Techsys' claim that operators must strictly comply with the statewide spacing rules is without merit". I disagree obviously with Mr. Bruce's statement and demand. The location for the two wells I own (WD Grimes #1 and # 4)

and the State A #1 owned by Oxy was decided on many years ago based on entirely different circumstances as I mentioned above. The reason my father purchased the 160-acres and re-entered the #1 and #4 was because they were previously existing Byers-Queen gas wells. His statement that since all others are produced on 80-acre basis means Vanguard should be approved to do so does not have any basis and does not address the very important issues currently raised in the hearing.

Fourth, in the last sentence on page two Mr. Bruce's demands that Techsys provide certain permits or shut-in, and Techsys has also received a demand from the OCD for certain information: Techsys has all of the permits and will gladly provide the information to the OCD as requested.

Finally, the OCD has an important task at hand – the preservation of the gas spacing rules from changing to the oil spacing rules for the Byers-Queen gas pool. The gas spacing rules have withstood the best test of all, the test of time. The reason the gas rules have survived is that they have merit. The OCD's preservation of gas spacing rules in Case 14271 will: 1. continue to support the OCD's most fundamental public policy objectives, and 2. ensure that entrepreneurial developers like Techsys Resources, LLC have consistent Statewide Rules to base their future development decisions on for all gas pools in New Mexico.

Sincerely,

Brad D. Bliss

Techsys Resources, LLC, President

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