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JASON KELLAHIN (RETIRED 1991)

FACSIMILE COVER SHEET

DATE: December 27, 1999

NUMBER OF PAGES: - -

TO: Michael E. Stogner

OF: OCD

FAX: 827-1389

RE: NMOCD Cases 12301 and 12302

Jalmat wells

Dear Mr. Stogner:

Attached is a copy of W. Thomas Kellahin's letter to the Director on behalf of SDX Resources

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December 27, 1999

VIA FACSIMILE AND HAND DELIVERY

Ms. Lori Wrotenbery, Director
Oil Conservation Division
2030 South Pacheco
Santa Fe, New Mexico 87505

Re: NMOCD Cases 12301 and 12302--Applications of SDX Resources, Inc. for unorthodox infill gas well locations, Jalmat Gas Pool, Lea County, New Mexico

Re: NMOCD Cases 12303 and 12304--Applications of Raptor Resources, Inc. for unorthodox infill gas well locations, Jalmat Gas Pool, Lea County, New Mexico

Dear Ms. Wrotenbery:

On behalf of SDX Resources Inc., we urgently request that you, as Director, reconsider the decisions apparently made on behalf of the Division by Rand Carroll, attorney for the Division, in his letter dated December 22, 1999 concerning the referenced cases. In doing so, we request that you consider the following:

In Paragraph (i) of Mr. Carroll's letter, he represents a position of the Division which exceeds the Division's authority by arbitrarily and capriciously rescinding Applications for Permits to Drill ("APDs") for wells, some of which are already drilled and producing, and certain administrative orders issued to SDX Resources. He has done so in the absence of clear and convincing evidence that these APDs and administrative orders were issued in violation of Division's rules and regulations. There is no basis for such action. Mr. Hartman presented no evidence at the pre-hearing conference to warrant such extraordinary and improper action by the Division. It is beyond the authority of the Division to rescind APDs and orders which had been issued after all appropriate notice and which were in full compliance with existing Division rules including the current special rules and regulations for the Jalmat Gas Pool.

Lori Wrotenbery
December 27, 1999
-Page 2-

Paragraph (i) Mr. Carroll's letter always is so ambiguous as to be unenforceable. For example, at the pre-hearing conference and with what I thought was the concurrence of Mr. Hartman's attorneys and in response to Mr. Carroll's question, I identified the following five wells as being the subject of any "stay" decision:

(a) SDX's State A-32 Well No. 6, at a standard location in Unit E, Section 32, T24S, R37E which was approved by the Division on November 8, 1999 by Administrative Order SD-99-14;

(b) SDX's Wells Federal Well No. 22 and Well No 23, both at a standard location in Unit C and E, Section 5, T25S, R37E which was approved by the Division on November 8, 1999 by Administrative Order SD-99-15;

(c) SDX's E. J. Wells No 25, in Unit K of Section 5, T25S, R37E which is at an unorthodox location but not encroaching towards Hartman's GPU and which is the subject of Case 12301;

(d) SDX's Jalmat Federal Com Well No. 2, in Unit L of Section 31, T25S, R37E which is at an unorthodox location encroaching some 62 feet towards Hartman's GPU and which is the subject of Case 12302.

Yet, at the conclusion of the pre-hearing conference, Mr. Carroll left it up to Mr. Hartman to designate any infill wells for which he now wanted a stay. On December 23, 1999, I was advised that Mr. Hartman also wants the Division's "stay" decision applied to four more SDX Resources' wells:

(a) SDX's State A-32 Well No. 5 in Unit D of Section 32, T24S, R37E which was properly approved by Administrative Order SD-99-1 issued on January 26, 1999, after notice to Mr. Hartman received by him on January 21, 1999.

(b) SDX's Wells Federal Well No. 20 and 21 in Units P and O of Section 5, T25S, R37E which was properly approved by Administrative Order NSL-4248(SD) issued on March 31, 1999, as infill Jalmat gas wells because their locations were unorthodox to internal quarter-quarter lines within its GPU for which here is no notice requirements to any offset operator.

(c) SDX's Langlie Jal Federal Well No. 2 in Unit G of Section 8, T25S, R37E which was properly approved by Administrative Order SD-99-1 issued on March 31, 1999, after notice to Mr. Hartman was sent to him on March 10, 1999 and received by him on March 11, 1999.

Lori Wrotenbery
December 27, 1999
-Page 3-

Paragraphs (ii) and (iii) of Mr. Carroll's letter declare that the Division, on its own motion, will docket a hearing to consider reviewing the Jalmat Gas Pool Rules and will call an operators meeting prior to that hearing. SDX Resources welcomes such a hearing which SDX considers to be the proper method for discussing this pool and its rules. SDX Resources welcomes the opportunity to demonstrate that on August 1., 1954, when the Commission adopted Order R-520 there is nothing in the record of that case to support "Finding (9). That one gas well in the Jalmat, Eumont and Arrow Gas Pools can effectively drain 640 acres" and that in that same order, the Commission adopted well location and acreage factors which recognized and encourage infill drilling. Hartman admits in his Response (page 5) that "(T)he reality, however, is that there are few Jalmat wells dedicated to 640-acres." He continues by saying "The Division has addressed infill wells by the procedure of forming a non-standard proration unit." SDX is not changing the size or shape of an existing non-standard proration unit. It is only adding wells to existing units which have been long established and approved by the Division. SDX is doing what the rules allow, what the Division has approved and what Hartman has done.

In his Response to the Motion to Quash, Hartman, at page 5, concedes "acreage alone determines the amount of gas which can be produced from a GPU" . Having made that concession, he must also concede that the infill program of SDX, Raptor and Hartman are not relevant in a pool which basis the protection of correlative rights and waste upon restricting the amount of gas to be produced by a GPU regardless of the number of wells within that GPU. To suggest that Mr. Hartman has exposed a difficult problem or can argue that the rule limit the number of wells in this pool is to fail to acknowledge more than 45 years of effective and efficient rules for the management of this pool--rules which Hartman has used to his advantage. A complete analysis of Mr. Hartman's Response is beyond the subject of this letter except for you to understand that it is replete with mistakes and mischaracterizations of the Division's rules and the history of this pool.

Despite an absence of justification to do so, Paragraph (iv) of Mr. Carroll's letter states that the Division will place "a moratorium on all new Jalmat infill wells on a greater density than 160 acres.." Upon what factual basis or technical evidence does Mr. Carroll justify such a sweeping moratorium? In addition, Mr. Carroll has failed to specify at what point in time this moratorium will be put in place. Is it to be retroactive only as to those infill wells for which Mr. Hartman now raises an objection? If so, then the Division's actions will be arbitrary and capricious because out of a population of infill wells, you will have singled out only a small number of those wells which will be subject to a stay because of Hartman's objection.