

NEARBURG'S GEOLOGIC EVIDENCE

In its effort to have the Division circumvent the hearing process, Nearburg contends that it "presented geological evidence which demonstrates that only reserves from the NE/4 of Section 34 will be produced by the Grama Ridge "34" State Well No .1" Redrock disputes this claim. While Nearburg's geologist stated that conclusion, his exhibits did not support him. Redrock did not present any geologic exhibits because Nearburg's own geologic presentation failed to justify the unusual relief Nearburg requested.

In addition, if this well only drains the NE/4 of Section 34, why should Nearburg now claim that it is subject to drainage from the BTA well? Nearburg's positions are inconsistent, and frankly, neither are supported by the record in this case.

STATE LAND OFFICE INVOLVEMENT

In support of its request to lift the shut-in order, Nearburg relies upon the support of the State Land Office which continues to engage in exparte communications with the Division. The State Land Office's motives are less than objective--(a) the state royalty is greater if the Nearburg application is approved; and (b) the State Land Office wants to help resolve Nearburg's problem which it helped to create by issuing a lease to Nearburg which ignored the existence of the gas storage unit. Such self serving efforts by the State Land Office to influence the Division's decision should be rejected by the Division. It is interesting to note that the State Land Office now states that it "takes no position on what the appropriate spacing units should be..."

DRAINAGE

Nearburg complains, but provides no technical evidence in support, of drainage from the BTA well completed on March 15, 2001, almost 3 months before the Division Examiner hearing. The BTA Burgundy Well in Section 35 has severely declined from an initial rate in April, 2001 of only 339 Mcfpd to a rate of 149 Mcfpd in the last reported month of August 2001. This 54% production decline rate in 6 months hardly supports Nearburg's claim of "drainage." "It is difficult to think that such a poor well poses any drainage risk.

If any such contention has merit, Nearburg should supply all relevant data to the Division and to all parties so that we can have appropriate time to evaluate such a contention. At this point, it is nothing more than an unsupported allegation and as such should be rejected by the Division.

WELLBORE DAMAGE

Nearburg complains of wellbore damage but provides no technical evidence to support that contention. Perhaps Nearburg has failed to support this contention because it is common knowledge that there is little, if any risk, of wellbore damage from a shutting in a Morrow "dry gas" well such as this. If this contention is true, then Nearburg should provide the technical evidence to support it.

GAS PRICES

Finally, Nearburg complains about the fact it cannot produce gas during a "high and good price" period. Nearburg should have thought of that before it drilled its illegal well.

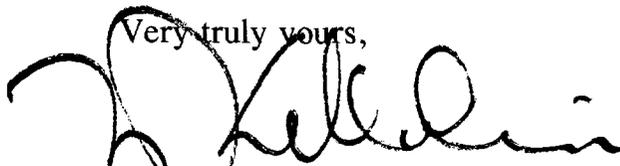
SETTLEMENT

Finally, despite Nearburg's protests to the contrary, Redrock has made repeated good faith efforts to settle this dispute all of which have been rejected by Nearburg. Redrock's last effort included forwarding to Nearburg a detailed spreadsheet in support of its settlement proposal. Nearburg never responded.

CONCLUSION

In summary, Nearburg is attempting to usurp the Division's hearing process and have the Director take action which is not warranted in this case. Redrock respectfully requests that the Director decline to take action and allow the hearing examiner to make his decision. Thereafter, if Nearburg is dissatisfied, it can appeal to the Commission.

Very truly yours,



W. Thomas Kellahin

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