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SUITE 1  
110 NORTH GUADALUPE  
SANTA FE, NEW MEXICO 87501-6525  
MAILING ADDRESS  
P.O. BOX 2208  
SANTA FE, NEW MEXICO 87504-2208

TELEPHONE (505) 988-4421  
FACSIMILE (505) 983-6043  
www.hollandhart.com

December 14, 2001

**HAND DELIVERED**

Ms. Lori Wrotenbery, Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

Re: Oil Conservation Division Case No. 12622: Application of Nearburg  
Exploration Company, L.L.C. for two non-standard gas spacing and  
proration units, Lea County, New Mexico.

Dear Ms Wrotenbery:

In March 2000, Nearburg Exploration Company, L.L.C. ("NEC") drilled the Grama Ridge "34" State Well No. 1 in the SE/4 NE/4 of Section 34 as a commercial well in the Morrow formation. As you are aware, after the well was drilled it was discovered that although NEC owned an oil and gas lease covering the N/2 of Section 34, the Morrow formation in the NW/4 of this section is dedicated to a gas storage unit which was operated by LG&E Natural Pipeline, L.L.C. (now Raptor Natural Pipeline, L.L.C.). The problems with the LG&E/Raptor storage unit have been resolved.

On December 13, 2000, Nearburg filed an application with the Oil Conservation Division seeking the creation of two 160-acre non-standard gas spacing units in the E/2 of Section 34. Approval of these non-standard units will enable Nearburg to produce the Grama Ridge "34" Well No. 1 on a spacing unit comprised of the NE/4 of this section and will result in all owners of Morrow production from the acreage drained by this well receiving their respective shares of the production proceeds.

Because of an objection to this application from Redrock Operating Ltd., the owner of a recently created overriding royalty interest in the SE/4 of Section 34, the application was set for hearing before an Oil Conservation Division examiner.

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The case was heard on June 28, 2001. At the hearing, Nearburg 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. See, Nearburg Exhibits 7 and 8 admitted into evidence in Case 12622. Redrock did not present technical evidence.

At the conclusion of the hearing, Examiner Stogner gave the parties four weeks to settle this dispute and advised that if no settlement was reached the Division would order the well shut in. No agreement was reached and the well was ordered shut in on July 27, 2001. The well remains shut in.

The purpose of this letter is to request that the Division lift the shut in order and permit the Grama Ridge "34" Well No. 1 to produce pending the entry of an order in Case 12622. Continuing to leave the well shut in will be detrimental to all owners, including the State of New Mexico, for the following reasons:

1. DRAINAGE. On March 15, 2001 BTA Oil Producers completed a Morrow well as a direct offset to the Grama Ridge "34" State Well No. 1. It is located in Unit E, of Section 35 at a distance of 1650 feet from the Nearburg Well. The initial potential for this well was 410 MCF/D, 29 BBLs of condensate and no water. The well continues to produce from a State of New Mexico lease which bears a 1/8th royalty burden. State Oil and Gas Lease V-5683 has a 1/6th royalty. As long as the Grama Ridge "34" Well No. 1 is shut in reserves will continue to be drained from the N/2 of Section 34 with no opportunity to offset this drainage.

2. WELLBORE DAMAGE: During the time the Grama Ridge "34" Well No. 1 remains shut in, condensed water and other liquids collect in the well bore. Continual gas flow removes these liquids but when the well is shut in, the collection of these liquids can cause an emulsion block and clay swelling. This in turn reduces permeability which may not be reversed by remedial work once the well is turned back on. The longer the well is shut in and fluids remain on the formation, the higher the likelihood of permanent permeability damage due to swelling of clay in the sandstone.

3. GAS PRICES: At present, gas prices are relatively high and good prices should continue as we move through this winter. To leave the well shut in at this time will cost every owner in the well.

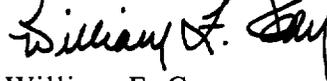
The overriding royalty owners in the N/2 of Section 34 continue to suffer economic hardship while the well remains shut in. By separate cover, you will receive letters from these overriding royalty interest owners requesting that the well be returned to production. Also enclosed is a letter from the State Land Office, the royalty owner in Section 34, supporting Nearburg's request.

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We believe that returning the well to production is necessary to prevent well bore damage and the resulting waste of natural gas. It also is necessary if the correlative rights of all owners, including Redrock, are to be protected.

Your attention to this request is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is written in a cursive style with a large, stylized initial "W".

William F. Carr

cc: Michael E. Stogner  
Chief Hearing Examiner  
Oil Conservation Division

W. Thomas Kellahin, Esq.  
Attorney for Redrock Operating Ltd.