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March 13, 2002

Ms. Lori Wrotenbery  
New Mexico Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, NM 87605

via: e-mail & mail

Re: Red Lake Pool (and Others)

Dear Ms Wrotenbery:

We are proposing to file an application with the NMOCD relative to creating a special pool for the San Andres formation under the Red Lake Premier Sand Unit which is located in the Red Lake Pool (Queen, Grayburg, San Andres). This is a bigger issue than just our property or even the Red Lake Pool. The problem, using the Red Lake Premier Sand Unit as an example is as follows:

1. The Red Lake Pool includes the Queen, Grayburg and San Andres formations. It is my understanding that no more than one operator may produce from a given proration unit within the pool, in this case 40 acres.
2. The Red Lake Premier Sand Unit contains 1760 acres and contains 24 tracts. It was unitized as to the "Premier Sand" only which is in the Grayburg formation. This Premier Sand is approximately 40 feet thick at most and in this area occurs around 1900 feet subsurface.
3. Other zones produce in the Red Lake Pool the **Queen** -upper, middle, and lower (Penrose); **Grayburg** – upper (Loco Hills), middle (Metex), lower (Premier), **San Andres** – upper (Vacuum, Lovington), middle (Jackson), and lower (Slaughter A,B,C).
4. In the Red Lake Premier Sand Unit the ownership of rights both above and the Premier Sand zone are distinct and different as in virtually every waterflood unit in New Mexico and probably Texas. The current operator of the Red Lake Premier Sand Unit has no rights below the Premier Sand.
5. The current rules preclude development of the minerals above and below the Premier Sand by others since there can be no more than one operator on a given proration unit within the Red Lake Pool. At the same time, the current operator is precluded from completing wells in rights which they do not own. Therefore, in this case there are up to 11 zones within the Queen, Grayburg, and San Andres which cannot be developed, eliminating even 1 zone from potential development would be wasteful. Further these rules preclude SDX and other companies from developing our mineral and leasehold rights.

This problem is not specific to the Red Lake Premier Sand Unit or even the Red Lake Pool it is a common problem under most units with negative effects for leasehold, mineral, and royalty owners.

Raye Miller with Marbob has suggested a wider solution possible remedy is to create a separate pool for units specific to the zones unitized. This would allow separate operators to develop leasehold and mineral rights which are not unitized and help eliminate waste.

There are a number of likely solutions to this issue which require discussion, however this is a common problem that **requires a remedy**. In this regard we would like to set up a meeting to discuss this matter with you, Raye Miller, Tom Kellahin and myself, along with any other interested parties at your earliest convenience.

Should you have any questions or comments, please advise. Thank you for your attention to this matter.

Best regards,

Steve Sell

xc: Tom Kellahin, Mike Stogner(NMOCD), Raye Miller (Marbob), Tim Gum (NMOCD-Artesia), John Pool, Ken Gray (Devon), Lee Scharborough (BP), Mack & Robert Chase .

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