

GRAMA RIDGE 34 STATE WELL #1

Chronology

REVISED 10/20/02

- 1/13/99: Prior lease (#K-03592) owned by Apache Corporation is cancelled by the State of New Mexico. Title failure from non payment of rental. This lease covered the N/2 of Section 34-21/34, Lea County, New Mexico. **TAB 1.**
- 12/21/99: New Oil and Gas Lease is offered by the State of New Mexico, without stipulation, on the December 1999 SLO sale. Lease is acquired by a representative of GWDC and assigned to GWDC. Lease is effective 1/1/00. **TAB 2.**
- 2/28/00: Received approved APD from the OCD on a N/2 Section 34 spacing unit. **TAB 3.**
- 3/1/00: LG&E added the Grama Ridge 34 State #1 well under the existing gas contract.
- 3/3/00: Purchase of the prospect from Great Western Drilling Company.
- 3/7/00: Well Spuds.
- 5/4/00: Received position letter from the SLO. The subsequent and current lease is independent of the unit agreement. **TAB 4.**
- 6/9/00: Completed well: Morrow perforated 6/10/00. Flowed 2,010 MCFG and 45 B/O with 5300# FTP on a 6/64th choke; estimated that the BH flowing pressure is 6,790#.
- 6/19/00: Received approved Request for Allowable and Authorization to Transport from the OCD. **TAB 5.**
- 6/22/00: Received approval from the OCD for test allowable. **TAB 6.**
- 6/27/00: Filed completion report with the OCD. **TAB 7.**
- 7/00: Notified in a telephone conversation from the OCD that the N/2 spacing unit crossed two (2) pool boundary lines.

- 7/21/00: New Mexico SLO issues a letter advising that our lease is a valid Oil and Gas lease but subject to LG&E's rights to store gas in the unitized formation in the W/2 of Section 34 and the E/2 of Section 33. **TAB 8.**
- 12/13/00: NEC files an Administrative Application for the formation of two non-standard gas spacing units in the E/2 of Section 34-21/34. Notices of waiver are sent out to all affected parties. **TAB 9.**
- 1/8/01: NEC receives a waiver from EOG for the formation of the two non-standard spacing units in the E/2 of Section 34. **TAB 10.**
- 1/9/01: Notices sent to ORRI owners.
- 1/10/01: Received a letter from the SLO objecting to our request for a waiver to our application for the 160-acre non standard spacing unit. **TAB 11.**
- 1/23/01: Received a letter from the SLO reversing its prior objection to a waiver for the formation of NEC non-standard spacing units. **TAB 12.**
- 1/29/01: Notice letter sent to Redrock Operating Ltd. **TAB 13.**
- 2/01: NEC is advised by telephone that Redrock Operating will not execute the waiver for the two nonstandard spacing units in the E/2 of Section 34-21/34. **TAB 14.**
- 2/15/01: OCD advises that it has received an objection to NEC's application for two non-standard units and is setting the application for hearing for the 3/22/01. **TAB 15.**
- 4/27/01: Received a subpoena from Tom Kellahin (Red Rock Operating) for production of information.
- 5/14/01: NEC furnishes information pursuant to the subpoena.
- 6/26/01: Advised by Bill Carr that the OCD wants the case heard on June 28 or the well shut in.
- 6/28/01: Examiner hearing on application of Nearburg Exploration Company for the creation of two non-standard spacing units in Section 34.

- 7/27/01: The Oil Conservation Division case was re-opened. Mr. Stogner ordered the well shut-in.
- 8/19/01: Discussion with EOG concerning possible sale or acreage trade.
- 11/15/01: Received a letter from the SLO requesting NPC advise them concerning whether we intend to do any additional drilling on the S/2 of Section 34.
- 11/19/01: Filed notice of our intent to plug the Llano 34 State Com #1 well.
- 12/8/01: Mailed maps and write-ups to the SLO concerning further drilling in the S/2 of Section 34.
- 5/23/02: Oil Conservation Division Order No. R-11768 entered denying NEC application for two Non-standard spacing units in Section 34. **TAB 16.**
- 6/6/02: Paul Kautz in Hobbs advised that he is up to speed on the geology for a pool boundary change and does not need any information from NEC. If boundary changed, it would be on a motion made by the OCD.
- 6/22/02: Filed De Novo application for the 160-acre non-spacing unit application.
- 6/23/02: Raptor makes application for a continuance of the De Novo hearing from the scheduled July 19 hearing date to August 30, 2002.
- 8/7/02: Attorney for Redrock called regarding a nomenclature hearing.
- 8/9/02: Redrock filed a motion to dismiss or reopen the nomenclature hearing.
- 8/13/02: NEC filed a response to Redrock's motion to dismiss or reopen the nomenclature hearing. Agreed to consolidate the nonstandard spacing unit case and the nomenclature case and request Commission hearing.
- 8/13/02: NEC filed Joint Motion with Redrock to consolidate cases before the Commission.

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- 4/27/01: Received a subpoena from Tom Kellahin (Red Rock Operating) for production of information.
- 5/14/01: NEC furnishes information pursuant to the subpoena.
- 6/11/01-6/21/01: Settlement efforts continue.
- 6/26/01: Advised by Bill Carr that the OCD wants the case heard on June 28 or the well shut in.

- 6/28/01: Examiner hearing on application of Nearburg Exploration Company for the creation of two non-standard spacing units in Section 34. Examiner Stogner called the attorneys together after the hearing and indicated that he wanted the parties to try to settle the case. He has scheduled a meeting on July 19th to see if the parties are able to settle. If the case is not settled he will call the case again on the July 27th docket and shut in the well until an order is entered in this case.
- 7/26/01: Attempts to settle were unsuccessful.
- 7/27/01: The Oil Conservation Division case was re-opened. The examiner was advised we were attempting to set up a settlement meeting but Kellahin indicated that a settlement was not probable. Mr. Stogner ordered the well shut-in.
- 8/1–8/20: Settlement efforts continue.
- 8/19/01: Discussion with EOG concerning possible sale or acreage trade.
- 11/15/01: Received a letter from the SLO requesting NPC advise them concerning whether we intend to do any additional drilling on the S/2 of Section 34.
- 11/19/01: Filed notice of our intent to plug the Llano 34 State Com #1 well.
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COMMERICAL RESOURCES
(505)-827-5724

SURFACE RESOURCES
(505)-827-5793

MINERAL RESOURCES
(505)-827-5744

ROYALTY
(505)-827-5772

State of New Mexico
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.
310 Old Santa Fe Trail, P. O. Box 1148
Santa Fe, New Mexico 87504-1148
Phone (505)-827-5760, Fax (505)-827-5766

PUBLIC AFFAIRS
(505)-827-5763

ADMINISTRATIVE MGMT.
(505)-827-5700

LEGAL
(505)-827-5713

PLANNING
(505)-827-5752

January 13, 1999

Apache Resources Corp.
2000 Post Oak Blvd.
Houston, TX 77056

NOTICE


Notice is given that State Oil and Gas Lease Number K03592, Assignment Number 0003, original dated 09/17/1963, has been cancelled for non-payment of rental as specified in the notice previously sent to you by certified mail. State Land Office records have been noted to reflect the action taken.

Notice is also given that if any assignments or other instruments of transfer of royalties in the lease production have been recorded in the office of the county clerk wherein these lands are situated, the holders of such instruments must see that they are released from record as required by law. (Section 70-1-1, NMSA 1978 {1995 Repl. Pamp.}).

Notice is further given that the Commissioner of Public Lands will look to you, as lessee of record at the State Land Office, for reimbursement to the State for any production from the premises formerly leased to you that occurs after lease cancellation as a consequence of your failure to notify working interest owners of lease termination. You should therefore immediately notify in writing all holders of working interests in the lease that the lease has cancelled effective 01/13/99.

Very truly yours,

RAY POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

By: 
Jami Bailey, Director
Oil, Gas & Minerals Division
(505) 827-5744

RP/JB/dv

"WE WORK FOR EDUCATION"

LEASE NO: V05683 0000

NUM
2/10/2000

Application No:

**OIL AND GAS LEASE
(Discovery Form)**

THIS AGREEMENT, dated January 01, 2000, between the state of New Mexico, acting by and through its commissioner of public lands, hereinafter called the "lessor", and

**GREAT WESTERN DRILLING CO
PO BOX 1659
MIDLAND, TX 79702**

hereinafter called the "lessee",

WITNESSETH:

WHEREAS, the lessee has filed in the office of the commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment; and

WHEREAS, all of the requirements of law relative to the application and tender have been duly complied with;

THEREFORE, in consideration of the premises as well as the sum of **FORTY-EIGHT THOUSAND and 00/100 dollars (\$48,000.00)**, the same being the amount of the tender above mentioned, and the further sum of \$30.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and helium), or both thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone lines, tanks, power houses, stations, gasoline plants and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas or water from said lands, but not from lessor's water wells, and with the rights of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the covenants and conditions hereinafter set out, the following described land situated in the count(y)(ies) of **Lea**, state of New Mexico, and more particularly described as follows:

<u>Subdivisions</u>	<u>Section</u>	<u>Twp</u>	<u>Rge</u>	<u>Acres</u>	<u>Institution</u>
N2	34	21S	34E	320.00	CS

Said lands having been awarded to lessee and designated as Tract No. **V0-0009** at public sale held by the commissioner of public lands on **December 21, 1999**.

To have and to hold said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five years from the date hereof, and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land by lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one-sixth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipeline, if the oil be run into a pipeline, or into storage tanks, if the oil is stored.
2. Subject to the free use without royalty, as hereinbefore provided, at the option of the lessor at any time and from time to time, the lessee shall pay the lessor as royalty one-sixth part of the gas produced and saved from the leased premises, including casing-head gas. Unless said option is exercised by lessor, the lessee shall pay the lessor as royalty one-sixth of the cash value of the gas, including casing-head gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the net proceeds derived from the sale of such gas in the field; provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof, in the field) if the commissioner of public lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas or in the public interest.

This lease shall not expire at the end of the primary term hereof if there is a well capable of producing gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in due to the inability of the lessee to obtain a pipeline connection or to market the gas therefrom and if the lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of ninety days from the date said well was shut-in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable hereunder to the lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leasehold premises and through no fault of the lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as herein provided. The amount of any annual royalty payable under this section shall equal twice the annual rental due by the lessee under the terms of this lease but not less than three hundred twenty dollars (\$320) per well per year, provided, however, that any such annual royalty for any year beginning on or after ten years from the date hereof shall equal four times the annual rental due by the lessee under the terms of this lease but not less than two thousand dollars (\$2,000) per well per year; provided further that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by lessor and if such other lease includes lands communitized with lands granted hereunder for the purpose of prorationally sharing in the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after five years from the date hereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the commissioner of public lands, in his discretion, grants such a continuance.

3. Lessee agrees to make full settlement on the twentieth day of each month for all royalties due to the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. An annual rental at the rate of \$1.00 per acre shall become due and payable to the lessor by the lessee upon each acre of the land above described and then claimed by such lessee, and the same shall be due and payable in advance to the lessor on successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than forty dollars (\$40.00).

In the event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the lessor a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to the lessor a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the lessor all amounts then due as provided herein and the further sum of forty dollars (\$40.00), surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms expressed or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, at the office of the commissioner of public lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor shall have the rights to assign this lease in whole or in part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land which is draining the leased premises, lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the lessor and the lessee.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor.

If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when lessor deems it to be in the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agree to pay of all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of Paragraph 10 above.

13. Upon failure or default of the lessee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee so defaulting, by registered or certified mail, addressed to the post-office address of such lessee as shown by the records of the state land office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

14. If this lease shall have been maintained in accordance with the provisions hereof and if at the expiration of the primary term provided for herein oil or gas is not being produced on said land but lessee is then engaged in bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities, or either of them, is produced from said land; provided, however, such operations extending beyond the primary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all such operations shall be made by the lessee to the lessor every thirty days and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

If during the drilling or reworking of any well under this section, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, then within twenty days after the abandonment of said operations, lessee may commence another well within three hundred thirty feet of the lost or junked hole or well and drill the same with due diligence.

Operations commenced and continued as herein provided shall extend this lease as to all lands as to which the same is in full force and effect as of the time said drilling operations are commenced; provided, however, this lease shall be subject to cancellation in accordance with Paragraph 13 hereof for failure to pay rentals or file reports which may become due while operations are being conducted hereunder.

15. Should production of oil and gas or either of them in paying quantities be obtained while this lease is in force and effect and should thereafter cease from any cause after the expiration of five years from the date hereof this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than twenty consecutive days, and if such operations result in the production of oil or gas in paying quantities, so long thereafter as oil or gas in paying quantities is produced from said land; provided, however, written notice of intention to commence such operations shall be filed with the lessor within thirty days after the cessation of such production, and a report of the status of such operations shall be made by the lessee to the lessor every thirty days, and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

16. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder, however, this clause is enforceable by the lessor in any manner provided in this lease or by law.

17. Should lessor desire to exercise its rights to take in-kind its royalty share of oil, gas or associated substances or purchase all or any part of the oil, gas or associated substances produced from the lands covered by this lease, the lessee hereby irrevocably consents to the lessor exercising its right. Such consent is a consent to the termination of any supplier/purchaser relationship between the lessor and the lessee deemed to exist under federal regulations. Lessee further agrees that it will require any purchaser of oil, gas or associated substance to likewise waive any such rights.

18. Lessor reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or any part of the minerals (oil and gas) that will be produced from the lands covered by this lease.

19. Lessor reserves the right to execute leases for geothermal resource development and operation thereon; the right to sell or dispose of the geothermal resources of such lands; and the right to grant rights-of-way and easements for these purposes.

20. All terms of this agreement shall extend to and bind the heirs, executors, administrator, successors and assigns of the parties hereto.

In witness whereof, the party of the first part has hereunto signed and caused its name to be signed by its commissioner of public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

STATE OF NEW MEXICO

By: Rory Powell
Commissioner of Public Lands, Lessor

Mike S. Heathington
Mike S. Heathington - Land Manager
Great Western Drilling Company
Lessee

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ as attorney-in-fact in behalf of

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

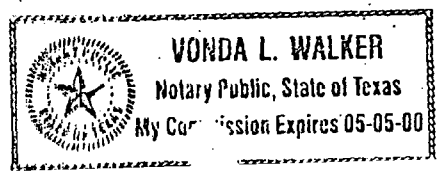
STATE OF TEXAS ss.

COUNTY OF MIDLAND ss.

The foregoing instrument was acknowledged before me this 4th day of January, 2000 by Mike S. Heathington, Land Manager of Great Western Drilling Company (Name) (Title) (Corporation) Texas corporation, on behalf of said corporation.

My commission expires: 05-05-00 Vonda L. Walker
Notary Public

O - 23 06/14/1985



N0006

State of New Mexico

Energy, Minerals & Natural Resources Department

Form C-101
Revised October 18, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 6 Copies
Fee Lease - 5 Copies

District I
811 South First, Anasazi, NM 88210

District III
1000 Pecos Branch Rd., Aztec, NM 87410

District IV
South Pacheco, Santa Fe, NM 87508

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address Nearburg Producing Company 3500 N A St., Bldg 2, Suite 120 Midland, TX 79705		GRID Number 015742
Property Code 25382		API Number 30-025-34948
Property Name Grama Ridge East 34 State		Well No. 1

Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West Line	County
H	34	21S	34E		1548	North	990	East	Lea

Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West Line	County

Proposed Pool 1 Grama Ridge Morrow, East	Proposed Pool 2
---------------------------------------------	-----------------

Work Type Code N	Well Type Code G	Cable/Rotary R	Lease Type Code S	Ground Level Elevation 3689
Multiple No	Proposed Depth 13700	Formation Morrow	Contractor Patterson	Spud Date 03-05-00

Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2"	13-3/8"	48#	1300'	800 sxs	Circ to surface
12-1/4"	9-5/8"	24# & 32#	5700'	2000 sxs	Circ to surface
8-3/4"	5-1/2"	17# & 20#	13700'	1500 sxs	

Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Propose to drill the well to sufficient depth to evaluate the Morrow formation. After reaching TD, logs will be run and casing set if the evaluation is positive. Perforate, test and stimulate as necessary to establish production.

Acreage dedication is 320 acres; N/2 of Section 34.

Permit Expires 1 Year From Approval
Date Unless Drilling Underway

I hereby certify that the information given above is true and complete to the best of my knowledge and belief. Signature: <i>Kim Stewart</i> Printed name: Kim Stewart Regulatory Analyst Date: 02-23-00 Phone: 915/686-8235	OIL CONSERVATION DIVISION	
	Approved By: <i>[Signature]</i> Title: <i>[Title]</i> Approval Date: FEB 28 2000 Expiration Date:	Conditions of Approval: Attached: <input type="checkbox"/>

DISTRICT I
P.O. Box 1000, Santa Fe, N.M. 87501-1000

DISTRICT II
P.O. Box 2000, Santa Fe, N.M. 87501-0720

DISTRICT III
P.O. Box 3000, Santa Fe, N.M. 87501-0740

DISTRICT IV
P.O. Box 4000, Santa Fe, N.M. 87501-0760

OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-34948	Pool Code 77690	Pool Name Gramma Ridge Morrow, East
Property Code 25382	Property Name GRAMA RIDGE EAST 34 ST.	Well Number 1
OCED No. 15742	Operator Name NEARBURG PRODUCING COMPANY	Elevation 3689

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
H	34	21 S	34 E		1548	NORTH	990	EAST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 320	Joint or Infill N	Consolidation Code	Order No.
------------------------	----------------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Kim Stewart
Signature

Kim Stewart
Printed Name

Regulatory Analyst
Title

February 23, 2000
Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

FEBRUARY 21, 2000
Date

Signature

Printed Name

Title

Date

N0202



State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

Legal Division
(505) 827-5713
Fax (505) 827-4262

May 4, 2000

Phil Brewer
P.O. Box 298
Roswell, New Mexico 88202-0298

Re: O&G Lease V-5683

Dear Mr. Brewer:

I am writing in response to your letter of April 28, 2000.

The existence of the Gramma Ridge Morrow storage unit is, in fact, evident in the State Land Office tract books. I enclose a copy of the relevant page, and have highlighted the reference to the unit. I believe this is adequate public and constructive notice of the unit.

The position of the Land Office in this matter is that when the prior lease expired, the unit agreement was terminated as to it. The subsequent and current lease is independent of the Unit. In any event, the Land Office is not a party to the unit agreement. Since your client apparently is doing business with LG&E, it might be best to resolve any conflict directly with them by negotiated agreement.

Please do not hesitate to contact me with further concerns or questions. Thank you for your attention in this regard.

Sincerely,

Stephen G. Hughes
State Land Office Associate Counsel
Phone: (505) 827-1261
Fax: (505) 827-4262

pc: LG&E Natural Gas and Processing Co., Jack Billinger via FAX
Jami Bailey
Bruce Frederick

District I
PO Box 1980, Hobbs, NM 88241-1980

District II
811 South First, Artesia, NM 88210

District III
10 Brazos Rd., Aztec, NM 87410

District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Form C-104
Revised October 18, 1994

Instructions on back
Submit to Appropriate District Office

5 Copies

AMENDED REPORT

I. REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT

¹ Operator name and Address Nearburg Producing Company 3300 North A Street, Building 2, Suite 120 Midland, Texas 79705		² OGRID Number 15742
		³ Reason for Filing Code NW
⁴ API Number 30 - 0 25 34948	⁵ Pool Name Grama Ridge Morrow; East	⁶ Pool Code 77690
⁷ Property Code 25392	⁸ Property Name Grama Ridge East 34 State	⁹ Well Number 1

II. ¹⁰ Surface Location

UI or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South Line	Feet from the	East/West line	County
H	34	T21S	R34E		1548	North	990	East	Lea

¹¹ Bottom Hole Location

UI or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South Line	Feet from the	East/West line	County

¹² Lease Code F	¹³ Producing Method Code Flowing	¹⁴ Gas Connection Date 06/09/00	¹⁵ C-129 Permit Number	¹⁶ C-129 Effective Date	¹⁷ C-129 Expiration Date
-------------------------------	------------------------------------------------	-----------------------------------------------	-----------------------------------	------------------------------------	-------------------------------------

III. Oil and Gas Transporters

¹⁸ Transporter 3RID	¹⁹ Transporter Name and Address	²⁰ POD	²¹ O/G	²² POD ULSTR Location and Description
21778	Sunoco Inc. (R&M) 907 South Detroit Tulsa, OK 74102	2825726	O	Section 34, T21S, R34E Tank Battery
032109	LG&E Natural Gas Gathering & Processing 2777 Stemmon Freeway, Suite 700 Dallas, TX 75207	2825727	G	Section 34, T21S, R34E Tank Battery

IV. Produced Water

²³ POD 2825728	²⁴ POD ULSTR Location and Description Section 34, T21S, R34E Tank Battery
------------------------------	-----------------------------------------------------------------------------------------

V. Well Completion Data

²⁵ Spud Date	²⁶ Ready Date	²⁷ TD	²⁸ PBTD	²⁹ Perforations	³⁰ DHC, DC, MC
03/07/00	06/09/00	13,500'	13,402'	13,134' - 13,158'	
³¹ Hole Size	³² Casing & Tubing Size	³³ Depth Set	³⁴ Sacks Cement		
17-1/2"	13-3/8"	1296'	872 sx		
12-1/4"	9-5/8"	5783'	1903 sx		
8-3/4"	7"	11,250'	180 sx		
6-1/8"	4-1/2" LR	13,500'	350 sx		

VI. Well Test Data

³⁵ Date New Oil 08/09/00	³⁶ Gas Delivery Date 08/09/00	³⁷ Test Date 06/16/00	³⁸ Test Length 24 hrs	³⁹ Tbg. Pressure 5000	⁴⁰ Csg. Pressure
----------------------------------------	---------------------------------------------	-------------------------------------	-------------------------------------	-------------------------------------	-----------------------------

⁴¹ Choke Size 9/64"	⁴² Oil 20	⁴³ Water 0	⁴⁴ Gas 1230	⁴⁵ AOF	⁴⁶ Test Method Flowing
⁴⁷ I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.			OIL CONSERVATION DIVISION		
S " <i>Kim Stewart</i>			Approved by:		
Printed name: Kim Stewart			Title: <i>ORIGINAL OBTAINED BY OGRIS DISTRICT</i>		
Title: Regulatory Analyst			Approval Date:		
Date: 06/27/00		Phone: (915) 686-8235		<i>JUN 05 2000</i>	
⁴⁸ If this is a change of operator fill in the OGRID number and name of the previous operator					
Previous Operator Signature		Printed Name		Title	Date

II. ¹⁰ Surface Location

Oil or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South Line	Feet from the	East/West line	County
H	34	21S	34E		1548	North	990	East	Lea

¹¹ Bottom Hole Location

Oil or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South Line	Feet from the	East/West line	County
----------------	---------	----------	-------	---------	---------------	------------------	---------------	----------------	--------

¹² Lsa Code	¹³ Producing Method Code	¹⁴ Gas Connection Date	¹⁶ C-129 Permit Number	¹⁸ C-129 Effective Date	¹⁷ C-129 Expiration Date
F	Flowing	06/09/00			

III. Oil and Gas Transporters

¹⁹ Transporter OGRID	¹⁵ Transporter Name and Address	²⁰ POD	²¹ O/G	²² POD ULSTR Location and Description
138648	Amoco Pipeline - ICT 502 North West Avenue Levelland, TX 79336	2825726	O	Section 34, T21S, R34E Tank Battery
032109	LG&E Natural Gas Gathering & Processing 2777 Stemmon Freeway, Suite 700 Dallas, TX 75207	2825727	G	Section 34, T21S, R34E Tank Battery

IV. Produced Water

²³ POD	²⁴ POD ULSTR Location and Description
2825728	Section 34, T21S, R34E Tank Battery

V. Well Completion Data

Spud Date	²⁶ Ready Date	²⁷ TD	²⁸ PBTD	²⁹ Perforations	³⁰ DHC, DC, MC
03/07/00	06/09/00	13,500'	13,402'	13,134' - 13,156'	
³¹ Hole Size	³² Casing & Tubing Size	³³ Depth Set	³⁴ Sacks Cement		
17-1/2"	13-3/8"	1296'	372 sx		
12-1/4"	9-5/8"	5763'	1903 sx		
8-3/4"	7"	11,250'	180 sx		
6-1/8"	4-1/2" LR	13,500'	350 sx		

VI. Well Test Data

³⁵ Date New Oil	³⁶ Gas Delivery Date	³⁷ Test Date	³⁸ Test Length	³⁹ Tbg. Pressure	⁴⁰ Csg. Pressure
⁴¹ Choke Size	⁴² Oil	⁴³ Water	⁴⁴ Gas	⁴⁵ AOF	⁴⁶ Test Method

⁴⁷ I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.

Signature: *Kim Stewart*
 Printed name: Kim Stewart
 Title: Regulatory Analyst
 Date: 06/09/00
 Phone: (915) 686-8235

OIL CONSERVATION DIVISION

Approved by: *ORIGINAL SIGNED BY CHRIS WILLIAMS*
 Title: DISTRICT I SUPERVISOR
 Approval Date: JUN 10 2000

⁴⁸ If this is a change of operator fill in the OGRID number and name of the previous operator

Previous Operator Signature	Printed Name	Title	Date
	<i>ORIGINAL SIGNED BY CHRIS WILLIAMS</i>	DISTRICT I SUPERVISOR	

District I
PO Box 1980, Hobbs, NM 88241-1980

District II
811 South First, Artesia, NM 88210

District III
1000 Rio Brazos Rd., Aztec, NM 87410

District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

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Revised October 18, 1994
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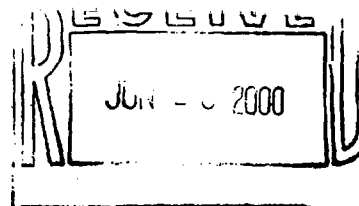
AMENDED REPORT

I. REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT

¹ Operator name and Address Nearburg Producing Company 3300 North A Street, Building 2, Suite 120 Wichita, Texas 79705		² OGRID Number 15742
		³ Reason for Filing Code RT - 3000 (June, 2000)
⁴ API Number 30 - 0 25 34948	⁵ Pool Name Grama Ridge Morrow; East	⁶ Pool Code 77690
⁷ Property Code 1 0 8824 080001X2	⁸ Property Name	⁹ Well Number

OIL CONSERVATION DIVISION
Hobbs, New Mexico 88241

DISTRICT OFFICE



January Thru
June, 2000

NO. 1345T

SUPPLEMENT TO THE OIL PRORATION SCHEDULE

DATE: 06/22/2000

PURPOSE: TESTING ALLOWABLE

A testing allowable in the amount of 3000 barrels of oil
is hereby assigned to the

NEARBURG PRODUCING CO,
GRAMA RIDGE EAST 34 STATE, 1 - H, 34-21-34

for the month of June, 2000.

Any oil produced against this allowable will be charged
against any future allowable assigned this well.

OIL CONSERVATION DIVISION

Chris Williams

DISTRICT SUPERVISOR

nm

CW:nm
NEARBURG PRODUCING CO

AIT 138648

LGE 32109

District Office
 State Lease - 6 copies
 Fee Lease - 5 copies
DISTRICT I
 P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
 P.O. Drawer DD, Artesia, NM 88210

D III
 1000 Rio Brazos Rd, Aztec, NM 87410

State of New Mexico
 Energy, Minerals and Natural Resources Department

Form C-105
 Revised 1-1-89

OIL CONSERVATION DIVISION

2040 Pacheco St.
 Santa Fe, NM 87505

WELL API NO.
 30-025-34948

5. Indicate Type of Lease
 STATE FEE

6. State Oil & Gas Lease No.

WELL COMPLETION OR RECOMPLETION REPORT AND LOG

1a. Type of Well:
 OIL WELL GAS WELL DRY OTHER _____

b. Type of Completion:
 NEW WELL WORK OVER DEEPEN PLUG BACK DIFF RESVR OTHER _____

7. Lease Name or Unit Agreement Name
 Grama Ridge East 34 State

2. Name of Operator
 Nearburg Producing Company

8. Well No.
 1

3. Address of Operator
 3300 N A St., Bldg 2, Suite 120, Midland, TX 79705

9. Pool name or Wildcat
 Grama Ridge Morrow; East

4. Well Location
 Unit Letter H : 1548 Feet From The North Line and 990 Feet From The East Line
 Section 34 Township 21S Range 34E NMPM Lea County

10. Date Spudded 03/07/00
 11. Date T.D. Reached 04/28/00
 12. Date Compl. (Ready to Prod.) 06/09/00
 13. Elevations (DF & RKB, RT, GR, etc.) 3689' GL 3706' KB
 14. Elev. Casinghead

15. Total Depth 13,500'
 16. Plug Back T.D. 13,412'
 17. If Multiple Compl. How Many Zones?
 18. Intervals Drilled By Rotary Tools Cable Tools

19. Producing Interval(s), of this completion - Top, Bottom, Name
 13,134' - 13,156' (Morrow)
 20. Was Directional Survey Made No

21. Type Electric and Other Logs Run
 DLL/CNL/LDT/GR
 22. Was Well Cored No

23. **CASING RECORD (Report all strings set in well)**

PIPE SIZE	WEIGHT LB/FT.	DEPTH SET	HOLE SIZE	CEMENTING RECORD	AMOUNT PULLED
13-3/8"	68#	1296'	17-1/2"	872 sx	NA
9-5/8"	36 & 40#	5763'	12-1/4"	1903 sx	NA
7"	23, 26 & 29#	11250'	8-3/4"	180 sx	NA

24. **LINER RECORD** 25. **TUBING RECORD**

SIZE	TOP	BOTTOM	SACKS CEMENT	SCREEN	SIZE	DEPTH SET	PACKER SET
4-1/2"	11,018'	13,500'	350 sx		2-3/8		13,055'

26. Perforation record (interval, size, and number)
 13,134' - 13,156' 5 JSPF (110 holes)

27. ACID, SHOT, FRACTURE, CEMENT, SQUEEZE, ETC.

DEPTH INTERVAL	AMOUNT AND KIND MATERIAL USED
13,134' - 13,156'	

28. **PRODUCTION**

Date First Production 06/09/00
 Production Method (Flowing, gas lift, pumping - Size and type pump) Flowing
 Well Status (Prod. or Shut-In) Producing

Date of Test	Hours Tested	Choke Size	Prod'n For Test Period	Oil - Bbl.	Gas - MCF	Water - Bbl.	Gas - Oil Ratio
06/16/00	24	9/64"		20	1239	0	61950:1

Flow Tubing Press.	Casing Pressure	Calculated 24-Hour Rate	Oil - Bbl.	Gas - MCF	Water - Bbl.	Oil Gravity - API - (Corr.)
5000	-		20	1239	0	52.5

29. Disposition of Gas (Sold, used for fuel, vented, etc.) Sold
 Test Witnessed By Matt Lee

30. List Attachments
 C-104, Deviations and Logs

31. I hereby certify that the information shown on both sides of this form is true and complete to the best of my knowledge and belief

Signature Kim Stewart Printed Name Kim Stewart Title Regulatory Analyst Date 06/27/00

N0019



RECEIVED

JUL 25 2000

CAMPBELL, CARR, et. al.

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

RAY POWELL, M.S., D.V.M.
COMMISSIONER

Legal Division
(505) 827-5713
Fax (505) 827-4262

July 21, 2000

VIA FAX AND
U.S. MAIL
(Fax - 983-6043)

Mr. William Carr
Attorney at Law
Campbell, Carr, Berge & Sheridan, P.A.
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

RE: State Oil and Gas Lease Nos. VO-5682 & VO-5683; Sections 33 & 34, Township 21
South, Range 34 East; LG&E Gas Storage Unit

Dear Mr. Carr:

I understand that you represent Nearburg Exploration Company and Yates Petroleum Corporation, BTA, Inc., who have interests in State Oil and Gas Leases Nos. VO-5682 and VO-5683, respectively. The purpose of this letter is to clarify the position of the New Mexico State Land Office ("NMSLO") regarding the gas storage unit that LG&E currently operates in Lea County. The storage unit underlies the west half of state section 34-21S-34E and the east half of section 33-21S-34E, which sections are also partially encumbered by your clients' leases.

Enclosed with this letter is page 3 of the Grama Ridge-Morrow Unit Agreement ("Unit Agreement"), which describes and delineates the "unitized formation" in which LG&E stores its gas. Although your clients are not parties to the Unit Agreement, and their leases are not modified by it, LG&E nonetheless had (and continues to have) valid existing storage rights at the time your clients obtained their leases. Therefore, VO-5682 and VO-5683 are subject to LG&E's existing right to store gas in the unitized formation and to use the surface of Sections 33 and 34 to the extent necessary to inject and withdraw its gas.

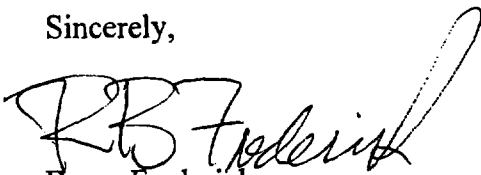
Despite the existence of LG&E's storage rights, your clients have the right under their oil and gas leases to explore for, and produce, native oil and gas on and below the leased premises. However, since they should not exercise their exploration and production rights in a manner that unreasonably interferes with LG&E's existing storage rights, NMSLO advises your clients to cooperate with LG&E and to coordinate their activities with LG&E to the extent possible.

Mr. William Carr
Attorney at Law
Campbell, Carr, Berge & Sheridan, P.A.
July 21, 2000
Page 2

Please note that the Commissioner regards both LG&E and your clients as valued business partners. With that in mind, NMSLO would be glad to help facilitate an agreement between LG&E and your clients that reasonably accommodates the interests of all parties.

If you have any questions regarding this letter, or would like to propose a resolution to the current situation, please do not hesitate to contact me. My direct line is (505) 827-5756.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce Frederick". The signature is stylized and cursive, with a large loop at the end.

Bruce Frederick
Associate Counsel

pc: J. Scott Hall, Attorney for LG&E
Dennis Hazlett, Deputy Commissioner, NMSLO
Larry Kehoe, Assistant Commissioner, NMSLO

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline and associated fluid hydrocarbons in the unitized formation as hereinafter defined are unitized under the terms of this agreement and herein are called unitized substances.

3. UNITIZED FORMATION: That subsurface portion of the unit area commonly known as the Morrow sands which is the same zone as the top and bottom of which were encountered at log depths of 12,722 feet and 13,208 feet in the Shell Oil Company State GRA Well No. 1 as shown on the Schlumberger Sonic Log - Gamma Ray Log of said well dated July 5, 1965, which said well is located 1980 feet from the North line and 660 feet from the west line of Section 3, Township 22 South, Range 34 East, is unitized under this agreement and is hereinafter referred to as the "unitized formation".

4. UNIT OPERATOR: Llano, Inc. with offices at Hobbs, New Mexico (P.O. Drawer 1320) is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth on Exhibit "B" and agrees and consents to accept the duties and obligations of unit operator for the operation of the Grama Ridge Morrow Unit Area. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time, but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 6 of this agreement.

HOLLAND & HART ^{LLP}
and
CAMPBELL & CARR
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

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

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

January 8, 2001

HAND-DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: *Application of Nearburg Exploration Company, L. L. C. for Administrative Approval of Two Non-Standard 160 Acre Gas Well Spacing Units in the E/2 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico*

Dear Ms. Wrotenbery:

Nearburg Exploration Company, L. L. C. hereby seeks administrative approval pursuant to the provisions of Division Rule 104.D(2)(b) to form:

Two non-standard 160 acre gas spacing and proration units in the East Grama Ridge-Morrow Gas Pool comprised of the NE/4 and the SE/4 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

The following attachments are provided with this application:

Attachment A is a plat showing the Morrow ownership in said Section 34 and demonstrating that the proposed NE/4 and SE/4 gas spacing and proration units are comprised of contiguous quarter sections that lie wholly within a single governmental half section.

Attachment B is a waiver letter from EOG Resources, Inc., the only party affected by this application.

Attachment C is a 1979 amended Well Location and Acreage Dedication Plat showing that the W/2 of said Section 34 is devoted to the Grama Ridge Morrow Unit Well No. 2 and therefore not affected by this application.

Lori Wrotenbery
January 8, 2001
Page 2

Since state leases are involved, attachment D is a certified letter to the New Mexico State Land Office advising them of this application.

Two Morrow gas pools are located in said Section 34: The W/2 of Section 34 is part of the Grama Ridge-Morrow Gas Pool and the E/2 of Section 34 is part of the East Grama Ridge-Morrow Gas Pool. The existence of two pools in said Section 34 is the result of the Division's finding that the Grama Ridge-Morrow Gas Pool is located "within an upthrust fault block bounded to the west by a northeast - southwest trending fault and on the east by a north-south trending fault." See Division Order No. R-5995 (entered May 2, 1979) (said order is also referenced at the bottom of Attachment C).

In January of 1999, the New Mexico State Land Office cancelled Lease No. K-3592 for the N/2 of said Section 34 for non-payment of rental. The State subsequently leased the N/2 of Section 34 to Nearburg under Lease No. V-5683. On February 28, 2000, the Division approved a drilling permit which dedicated the N/2 of Section 34 to Nearburg's East Grama Ridge Morrow State 34 No. 1 Well located in the NE/4 of Section 34. See Attachment E.

After Nearburg drilled and completed this well, the Division's Hobbs office informed Nearburg that a change in the acreage dedicated to Nearburg's well is necessary because (a) there are separate Morrow pools in the W/2 and E/2 of Section 34, (b) the W/2 of Section 34 is already devoted to the Grama Ridge Morrow Unit Well No. 2, and (c) the E/2 of Section 34 is presently devoted to the Llano 34 State Com #1 Well, located in the SE/4 of Section 34 (Unit I). The Llano 34 State Com #1 Well was drilled in 1979 under a communitization agreement with the state and is presently shut-in. EOG Resources, Inc. is the successor operator to this well.

As a result of these events, the respective acreage positions of Nearburg and EOG Resources, and their right to produce gas from the E/2 of Section 34, is in question. The operators in the E/2 of Section 34 desire to resolve these issues and protect their correlative rights. The creation of two non-standard gas spacing and proration units in Section 34 will clarify their respective acreage positions and right to produce gas from the East Grama Ridge-Morrow Gas Pool underlying the E/2 of Section 34 from their respective wells.

The granting of this application under this unique set of circumstances will protect the correlative rights of all interest owners in Section 34, will not cause waste, will avoid litigation and administrative hearings over the rights of the interest owners to develop the reserves under the E/2 of Section 34, accommodate the Divisions' desire to re-dedicate acreage to Nearburg's well in the NE/4 of Section 34, and provide EOG the opportunity to produce their well in the SE/4 of said Section 34 in the Morrow formation.

Lori Wrotenbery
January 8, 2001
Page 3

Since all of the interest owners in the E/2 of Section 34 support this application, there are no affected parties to whom notice of this application needs to be provided.

A proposed form of order is also enclosed.

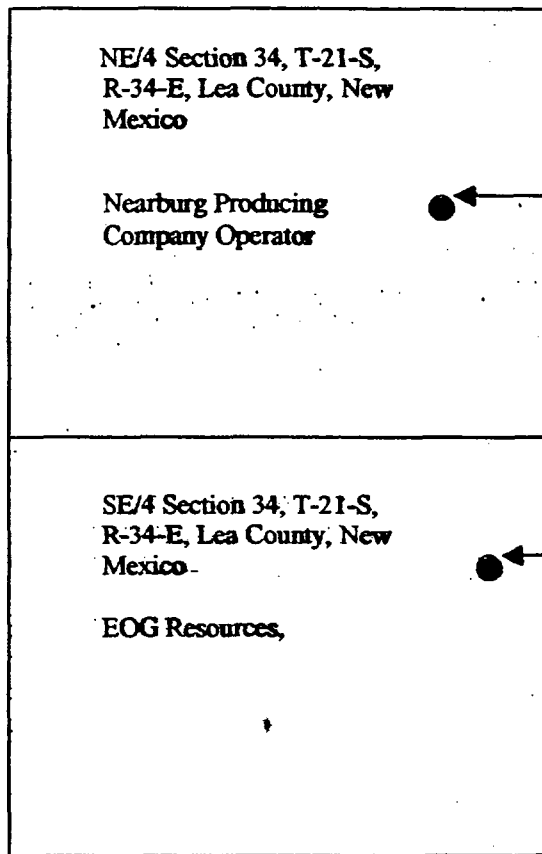
Very truly yours,

A handwritten signature in black ink, appearing to read "Michael H. Feldewert". The signature is fluid and cursive, with the first name "Michael" being the most prominent.

Michael H. Feldewert

MHF/ras
Enclosure

**E/2 of Section 34, T-21-S, R-34-E
Lea County, New Mexico**



**NPC Grama Ridge
East 34 State #1 well**

**EOG Llano 34 State #1
well**

CAMPBELL, CARR, BERGE

& SHERIDAN, P.A.

LAWYERS

MICHAEL G. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
MICHAEL H. FELDEWERT
TANYA M. TRUJILLO
ROBERT J. SUTPHIN, JR.

JACK M. CAMPBELL
1978-1999

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
FACSIMILE: (505) 983-6043
E-MAIL: law@westofpcos.com

December 15, 2000

Mr. Steve Smith
EOG Resources, Inc.
4000 N. Big Spring, Suite 500
Midland, Texas 79705

Re: *Application of Nearburg Exploration Company, L. L. C. for Administrative Approval of Two Non-Standard 160 Acre Gas Well Spacing Units In The E/2 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.*

Dear Mr. Smith:

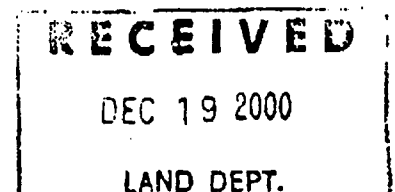
Nearburg Exploration Company, L.L.C. intends to file the attached administrative application and proposed order with the Santa Fe office of the New Mexico Oil Conservation Division pursuant to the provisions of Division Rule 104.D(2)(b) seeking approval to form:

Two non-standard 160 acre gas spacing and proration units in the East Grama Ridge-Morrow Gas Pool comprised of the NE/4 and the SE/4 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

I understand that you have been in contact with Bob Shelton, head of Nearburg's land department, about this application.

As the interest owner in the SE/4 of the said Section 34, please indicate your support for these non-standard gas spacing and proration units by signing below and returning a signed copy of this letter to this office in the self-addressed stamped envelope so that it may be included with Nearburg's application.

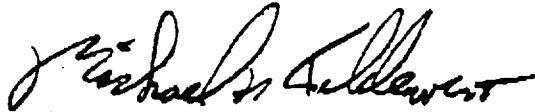
ATTACHMENT B



Mr. Steve Smith
EOG Resources, Inc.
December 15, 2000
Page 2

Your prompt attention to this matter is appreciated.

Very truly yours,



Michael H. Feldewert

WFC/ras

EOG Resources, Inc. hereby waives objection to creation of the two non-standard gas spacing and proration units identified above.

William R. Thomas (name)
William R. Thomas, Sr. Vice-President (title)

W
573

WELL LOCATION AND ACREAGE DEDICATION PLAT

SEE INSTRUCTIONS FOR COMPLETING THIS FORM ON THE REVERSE SIDE

SECTION A

Operator Llano, Inc.		Lease Gramma Ridge Morrow Unit		Well No. 2
Grid Letter L	Section 34	Township 21 South	Range 34 East	County Lea

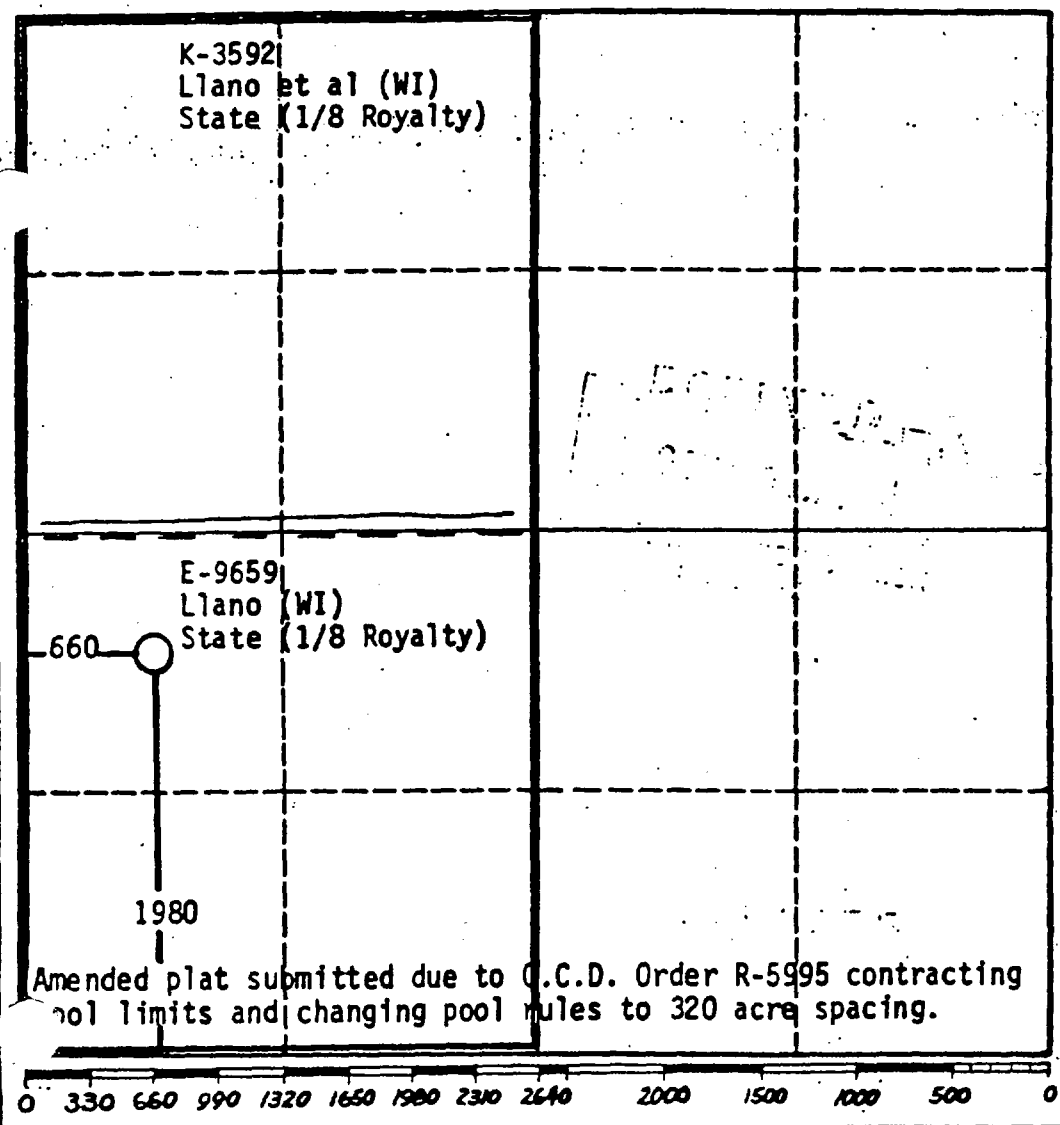
Actual Footage Location of Well:
1980 feet from the **South** line and **660** feet from the **West** line

Ground Level Elev. 3641	Producing Formation Morrow	Pool Gramma Ridge Morrow (Gas)	Dedicated Acreage: 320 Acres
-----------------------------------	--------------------------------------	------------------------------------------	----------------------------------------

1. Is the Operator the only owner in the dedicated acreage outlined on the plat below? YES _____ NO X. ("Owner" means the person who has the right to drill into and to produce from any pool and to appropriate the production either for himself or for himself and another. (65-3-29 (e) NMSA 1935 Comp.)
2. If the answer to question one is "no," have the interests of all the owners been consolidated by communication agreement or otherwise? YES X NO _____. If answer is "yes," Type of Consolidation Unit Agreement
3. If the answer to question two is "no," list all the owners and their respective interests below:

Owner	Land Description

SECTION B



CERTIFICATION

I hereby certify that the information in SECTION A above is true and complete to the best of my knowledge and belief.

Al Klaar

Name Al Klaar
Position Mgr. Pet. & N.G. Engr.
Company Llano, Inc.
Date May 2, 1979

I hereby certify that the well location shown on the plat in SECTION B was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed 9-30-65
Registered Professional Engineer and/or Land Surveyor T. E. Chapman, Jr.
Certificate No.

HOLLAND & HART^{LLP}
and
CAMPBELL & CARR
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

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

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

January 8, 2001

CERTIFIED MAIL/RETURN RECEIPT REQUESTED

Bruce Frederick
Associate Counsel
New Mexico State Land Office
Legal Division
Post Office Box 1148
Santa Fe, New Mexico 87504-1148

Re: *Application of Nearburg Exploration Company, L. L. C. for Administrative Approval of Two Non-Standard 160 Acre Gas Well Spacing Units In The E/2 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.*

Dear Mr. Frederick:

Enclosed please find the above referenced application filed with the New Mexico Oil Conservation Division. You are being notified because the application involves lands leased by the State of New Mexico.

Pursuant to Division Rule 104.D(2), if the State Land Office has an objection to this application, that objection must be filed in writing within 20 days from the date the Division receives the application. The Director may approve the application upon receipt of waivers from all the notified persons, or if no person has filed an objection within the 20 day period.

Sincerely,



Michael H. Feldewert

MHF/ras
Enclosure

ATTACHMENT D

District II
811 South First, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
2040 South Pacheco, Santa Fe, NM 87505

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address Nearburg Producing Company 3500 N A St., Bldg 2, Suite 120 Midland, TX 79705		GRID Number 015742
Property Code 25382		API Number 30-025-34942
Property Name Grama Ridge East 34 State		Well No. 1

Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West Line	County
H	34	21S	34E		1548	North	990	East	Lea

Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West Line	County

Proposed Pool 1 Grama Ridge Morrow, East	Proposed Pool 2
---------------------------------------------	-----------------

Work Type Code N	Well Type Code G	Cable/Rotary R	Lease Type Code S	Ground Level Elevation 3689
Multiple No	Proposed Depth 13700	Formation Morrow	Contractor Patterson	Spud Date 03-05-00

Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2"	13-3/8"	48#	1300'	800 sxs	Circ to surface
12-1/4"	9-5/8"	24# & 32#	5700'	2000 sxs	Circ to surface
8-3/4"	5-1/2"	17# & 20#	13700'	1500 sxs	

Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Propose to drill the well to sufficient depth to evaluate the Morrow formation. After reaching TD, logs will be run and casing set if the evaluation is positive. Perforate, test and stimulate as necessary to establish production.

Acresage dedication is 320 acres; N/2 of Section 34.

Permit Expires 1 Year From Approval
Date Unless Drilling Underway

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Signature: *Kim Stewart*

Printed name: Kim Stewart

Title: Regulatory Analyst

Phone: 915/686-2235

OIL CONSERVATION DIVISION

Approved By: *[Signature]*

Title: *[Signature]*

Approval Date: FEB 28 2000

Expiration Date:

Conditions of Approval:
Attached:

DISTRICT I
P.O. Box 1000, Santa Fe, NM 87501-1000

DISTRICT II
P.O. Box 1000, Santa Fe, NM 87501-1000

DISTRICT III
1000 Rio Grande Rd., Arroyo, NM 87410

DISTRICT IV
P.O. Box 1000, Santa Fe, NM 87501-1000

State of New Mexico
Energy, Minerals and Natural Resources Department

Revised February 18, 1994
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-34948	Pool Code 77690	Pool Name Gramu Ridge Morrow, East
Property Code 25382	Property Name GRAMA RIDGE EAST 34 ST.	Well Number 1
OCED No. 15742	Operator Name NEARBURG PRODUCING COMPANY	Elevation 3689

Surface Location

UL or lot No.	Section	Township	Range	Lot Idm	Feet from the	North/South line	Feet from the	East/West line	County
H	34	21 S	34 E		1548	NORTH	990	EAST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idm	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 320	Joint or Infill N	Consolidation Code	Order No.
-------------------------------	-----------------------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Kim Stewart</i> Signature</p> <p>Kim Stewart Printed Name</p> <p>Regulatory Analyst Title</p> <p>February 23, 2000 Date</p>
	<p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>FEBRUARY 21, 2000</p>
	<p>Date Signed _____ LWP</p> <p>Signature <i>Ronald J. Edson</i></p> <p>Professional Seal</p> <p>RONALD J. EDSON Professional Seal</p> <p>100-11-0258</p>
	<p>County No. ROMA EDSON 3230</p> <p>City EDSON 12641</p> <p>State NEW MEXICO 12185</p>

NEARBURG MIDLAND FAX 915 600 1000 Jan 8 01 10:30 P.02

**CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS**

MICHAEL S. CAMPBELL
WILLIAM F. CARR
BRADFORD G. BERGE
MARK P. SHERIDAN
MICHAEL H. FELDEWERT
TANYA M. TRUJILLO
ROBERT J. SUTPHIN, JR.

JACK M. CAMPBELL
1916-1999

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
FACSIMILE: (505) 983-8043
E-MAIL: law@westofpecos.com

December 15, 2000

Mr. Steve Smith
EOG Resources, Inc.
4000 N. Big Spring, Suite 500
Midland, Texas 79705

Re: *Application of Nearburg Exploration Company, L. L. C. for Administrative Approval of Two Non-Standard 160 Acre Gas Well Spacing Units In The E/2 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.*

Dear Mr. Smith:

Nearburg Exploration Company, L.L.C. intends to file the attached administrative application and proposed order with the Santa Fe office of the New Mexico Oil Conservation Division pursuant to the provisions of Division Rule 104.D(2)(b) seeking approval to form:

Two non-standard 160 acre gas spacing and proration units in the East Grama Ridge-Morrow Gas Pool comprised of the NE/4 and the SE/4 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

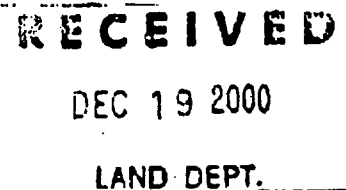
I understand that you have been in contact with Bob Shelton, head of Nearburg's land department, about this application.

As the interest owner in the SE/4 of the said Section 34, please indicate your support for these non-standard gas spacing and proration units by signing below and returning a signed copy of this letter to this office in the self-addressed stamped envelope so that it may be included with Nearburg's application.

N0197

Holland & Hart

5/17/01

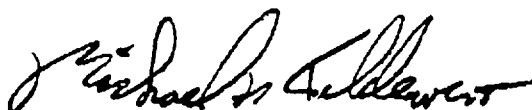


ATTACHMENT B

Mr. Steve Smith
EOG Resources, Inc.
December 15, 2000
Page 2

Your prompt attention to this matter is appreciated.

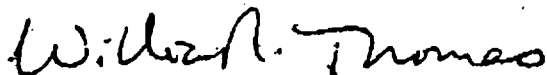
Very truly yours,



Michael H. Feldewert

WFC/ras

EOG Resources, Inc. hereby waives objection to creation of the two non-standard gas spacing and proration units identified above.



(name)

William R. Thomas, Sr. Vice-President

(title)



COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

ADMINISTRATION

Phone (505) 827-5700

Fax (505) 827-5853

GENERAL COUNSEL

Phone (505) 827-5713

Fax (505) 827-4262

PUBLIC AFFAIRS

Phone (505) 827-1245

Fax (505) 827-5766



New Mexico State Land Office
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.

COMMERCIAL RESOURCES

Phone (505) 827-5724

Fax (505) 827-6157

MINERAL RESOURCES

Phone (505) 827-5744

Fax (505) 827-4739

ROYALTY MANAGEMENT

Phone (505) 827-5772

Fax (505) 827-4739

SURFACE RESOURCES

Phone (505) 827-5793

Fax (505) 827-5711

January 10, 2001

Holland and Hart LLP
Campbell and Carr, Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico 87501

Attn: Michael H. Feldewert

Re: Non-Standard Proration Unit Proposal
NE4 & SE4 (Respectively)
Section 34, Township 21 South, Range 34 East
Lea County, New Mexico

Dear Mr. Feldewert:

We received your January 8, 2001 letter requesting approval from the Commissioner of Public Lands for two separate proration units for the NE4 and SE4 of said Section 34 for the Grama Ridge Morrow, East Gas pool. We are familiar with the distinction of this pool from that of the Grama Ridge Morrow Gas pool underlying the W2 of said Section 34. However, we would like to clarify a couple of points that were misstated in your letter.

Great Western Drilling Company is the lessee of record for the N2 of Section 34, not Nearburg Producing Company as you stated. However, we do concur that Nearburg Producing Company has obtained operating rights for the Morrow in this lease. In addition, we do not recognize EOG Resources as the operator of record for the Llano 34 State Com Well No. 1. Pecos River Operating, Inc. is the operator of record for this well. The Llano 34 State Com Well No. 1 has an E2 dedication in said Section 34 to the Grama Ridge Morrow, East Gas pool. We understand the error regarding a N2 dedication to the Nearburg well that was drilled in the NE4 of Section 34, and concur that an E2 dedication was necessary due to the differing Morrow Gas pools segregated by the North to South trending fault through the middle of Section 34.

Our concern has been and remains, that an E2 dedicated Grama Ridge Morrow, East Gas well already exists in Section 34, although inactive. Upon the presence of the Nearburg well in the NE4 of Section 34, and with an E2 dedication, we assumed that they would obtain operating rights to the Llano 34 State Com Well No. 1 and possibly produce both wells within the E2. Or, that Pecos River Operating, Inc. would be required to plug the Llano 34 State Com Well No.1. Regardless, two separate operators within the same pool and proration unit can not be allowed.

RECEIVED

JAN 15 2001

N0207

Holland & Hart

5/17/01

"WE WORK FOR EDUCATION"

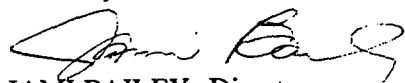
CAMPBELL, CARR, et. al.

We understand the desire of your client to operate and produce separately within Section 34, thus the necessity of the quarter section proration units. However, we concur with the current rules, regulations, and spacing requirements affecting the Grama Ridge Morrow, East Gas pool established by the New Mexico Oil Conservation Division. We believe that 320 acre spacing is correct and justified for this pool.

Therefore, please be informed that a recommendation for a waiver of objection from the Commissioner of Public Lands will not be made.

If you care to discuss this further, please contact Jeff Albers at (505) 827-5759.

Sincerely,



JAMI BAILEY, Director
Oil, Gas & Minerals Division
(505) 827-5744

JB/ja

Xc: New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505
Attn: Mr. Michael Stogner

N0208



State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

RAY POWELL, M.S., D.V.M.
COMMISSIONER

Legal Division
(505) 827-5713
Fax (505) 827-4262

January 23, 2001

Michael H. Feldewert, Esq.
Holland and Hart LLP
P.O. Box 2208
Santa Fe, New Mexico 87501

Re: Non-Standard Proration Unit Proposal
NE4 & SE4 (Respectively)
Section 34-21S-34E
Lea County, New Mexico

Dear Mr. Feldewert:

The New Mexico State Land Office hereby withdraws its objection to the creation of two non-standard 160-acre gas spacing and proration units in the Grama Ridge Morrow, East Gas pool. The creation of this non-standard unit is in the best interest of the state's trust beneficiaries, but only because of the unique geology and other special circumstances. However, the other administrative issues raised in Mr. Jeff Albers' letter, dated January 10, 2001, still need to be addressed.

If you have any questions, please do not hesitate to call me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bruce Frederick".

Bruce Frederick
Associate Counsel, NMSLO

pc: Mike Stogner, OCD

RECEIVED

JAN 24 2001

CAMPBELL, CARR, et. al.

N0209

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

January 29, 2001

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Mr. Mark Stanger
Redrock Operating, Ltd.
122 Allencrest *← correct*
Coppell, Texas 75019

Re: Application of Nearburg Exploration Company, L.L.C. for
Administrative Approval of Two Non-Standard 160-acre Gas
Well Spacing Units in the E/2 of Section 34, Township 21 South, Range 34 East, N.M.P.M.
Lea County, New Mexico

Dear Mr. Stanger:

This letter is to advise you that Nearburg Exploration Company, L.L.C. has filed an application with the New Mexico Oil Conservation Division seeking administrative approval of two non-standard 160-acre gas spacing and proration units in the East Grama Ridge-Morrow Gas Pool comprised of the NE/4 and the SE/4 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

As the owner of an interest which will be affected by the proposed non-standard units, you may object to this application and request a hearing before the Division. Objections must be filed in writing at the Division's Santa Fe office within twenty days from the date this notice was sent to you. If no objection is received within twenty days after the Division Director receives this application, the non-standard spacing or proration units may be approved.

Nearburg Exploration Company, L.L.C. requests that you waive objection to this application by signing below and returning a signed copy in the enclosed envelope.

Your attention to this request is appreciated.

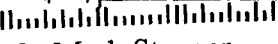
Very truly yours,

William F. Carr

William F. Carr
Attorney for Nearburg Exploration Company, L.L.C.

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

Grama Ridge 34

Postage	\$	Postmark Here
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restrictive (Endorsement)		
Total Postage		
Mr. Mark Stanger Redrock Operating, Ltd. 122 Allencrest <i>(deleted by mailer)</i> Coppell, Texas 75019		
City, State, ZIP+ 4		

7000 0520 0021 3171 7732

I hereby waive objection to the application of Nearburg Exploration Company, L.L.C. for two non-standard 160-acre gas well spacing units in the East Grama Ridge-Morrow Gas Pool comprised of the NE/4 and the SE/4 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

Signature

Printed Name

Title

Company

Cc: **Bob Shelton**
Nearburg Exploration Company, L.L.C.
2000 "A" Street
Building 2, Suite 120
Midland, Texas 79705

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN, (RETIRED 1991)

February 14, 2001

Via Facsimile

Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87504
Attn: Mr. Michael E. Stogner

Re: **NOTICE OF OBJECTION:**
Nearburg Exploration Company, L.L.C.
Administrative Application to NMOCD
for Approval of Two Non-Standard 160-acre
Gas Proration and Spacing Units
NE/4 and SE/4, Section 34, T21S, R34E, NMPM,
East Grama Ridge-Morrow Gas Pool, Lea County, New Mexico

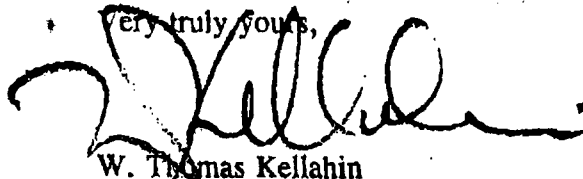
Dear Mr. Stogner:

By letter dated January 8, 2001, Nearburg Exploration Company, L.L.C. filed the referenced administrative application with the Division and by letter dated January 29, 2001 sent notification to Redrock Operating Ltd. Co. of the referenced request.

On behalf of Redrock Operating Ltd Co., an affected overriding royalty interest owner in the SE/4 of this section, we hereby object to the referenced application as described in its administrative application to the Division.

We request that this matter be set for hearing and that I on behalf of Redrock Operating Inc. be provided notification of the hearing in accordance with Division notice rules.

Very truly yours,



W. Thomas Kellahin

cfx: William F. Carr, Esq.
Attorney for Nearburg Exploration, L.L.C.
Commissioner of Public Lands State of New Mexico
Attn: Jeff Alpers
Redrock Operating Ltd. Co.
Attn: Mark L. Stanger
Tim Cashon



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

RY E. JOHNSON
Governor

Jennifer A. Salisbury
Cabinet Secretary

February 15, 2001

Lori Wrotenberg
Director
Oil Conservation Division

Nearburg Exploration Company, L.L.C.
c/o **Holland & Hart LLP and Campbell & Carr**
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Attention: Michael H. Feldewert

Re: Administrative application initially filed with the New Mexico Oil Conservation Division in Santa Fe on January 8, 2001 for an exception to the spacing provisions of Division Rule 104C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, to create two non-standard 160-acre gas spacing and proration units within the East Grama Ridge-morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to a well to be operated by Nearburg Producing Company; and (ii) the SE/4 of Section 34 to be dedicated to a well to be operated by EOG Resources, Inc.

Dear Mr. Feldewert:

On Wednesday, February 14, 2001 I received the following: (i) a letter of opposition from Redrock Operating Ltd. Co. of Coppell, Texas dated February 12, 2001 to your application (see attached); (ii) your voice mail message left at 11:40 a.m.; and (iii) a faxed letter from Mr. W. Thomas Kellahin who represents Redrock Operating Ltd. Co. (also attached). This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for March 22, 2001. I prepared the following advertisement in this matter:

"Application of Nearburg Exploration Company, L.L.C. for two non-standard gas spacing and proration units, Lea County, New Mexico. Applicant seeks an exception to the spacing provisions of Division Rule 104.C (2) to create two non-standard 160-acre gas spacing and proration units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc. operated Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34. These two wells are located approximately 17 miles west of Eunice, New Mexico.

RECEIVED

FEB 16 2001

CAMPBELL, CARR, et. al.

cc: New Mexico Oil Conservation Division - Hobbs
Jeff Albers, Engineer - New Mexico State Land Office - Santa Fe
W. Thomas Kellahin, Legal Counsel for Redrock Operating Ltd. Co.

Sincerely,

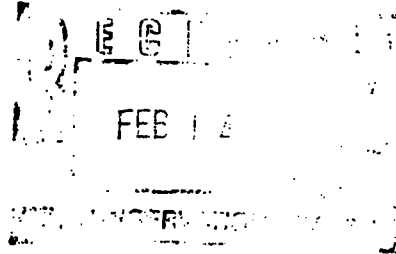
Michael E. Stogner
Chief Hearing Officer/Engineer

Redrock Operating Ltd. Co.

122 Allencrest
Coppell, TX 75019
(972)-393-6945

February 12, 2001

Mr. Mike Stogner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505



Re: Application of Nearburg Exploration, L.L.C. for
Administrative Approval of Two Non-Standard 160-acre Gas
Well Spacing Units in the E/2 of Section 34, Township 21 South, Range 34 East,
N.M.P.M. , Lea County, New Mexico

Dear Mr. Stogner,

On or about January 29, 2001, Redrock Operating Ltd. Co. ("Redrock") received notice of the above referenced application from Nearburg Exploration Co. ("Nearburg"). Please be advised that Redrock intends to oppose this application and consequently the creation of two separate units in the E/2 of Section 34, Township 21 South, Range 34 East. Redrock owns an Overriding Royalty Interest in the SE/4 of Section 34, that would be adversely impacted by a change in the current unit configuration.

Contrary to Nearburg's assertion that their application will protect the correlative rights of all interested parties, Redrock would be precluded from participating in production from the NE/4 of Section 34. The working interest owners and other interests in the NE/4 shared in the opportunity to develop the production established by the Llano 34 State Com #1 well located in the SE/4. Therefore, interests in the SE/4 should be afforded the same opportunity to share in the production from the Nearburg - Grama East 34 well in the NE/4.

The existing unit and the OCD's past practices of providing for alternative unit wells will prevent waste and will protect the correlative rights of all parties. Past OCD practices have provided for infill drilling by methods other than reconfiguring existing units. Redrock sees no reason to make an exception to these past practices in this particular case.

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1998)

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

February 14, 2001

Via Facsimile

Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87504
Attn: Mr. Michael E. Stogner

Re: **NOTICE OF OBJECTION:**
Nearburg Exploration Company, L.L.C.
Administrative Application to NMOCD
for Approval of Two Non-Standard 160-acre
Gas Proration and Spacing Units
NE/4 and SE/4, Section 34, T21S, R34E, NMPM,
East Grama Ridge-Morrow Gas Pool, Lea County, New Mexico

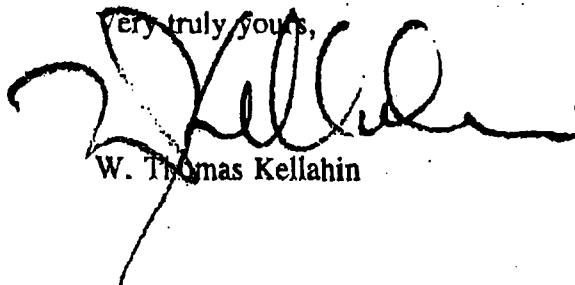
Dear Mr. Stogner:

By letter dated January 8, 2001, Nearburg Exploration Company, L.L.C. filed the referenced administrative application with the Division and by letter dated January 29, 2001 sent notification to Redrock Operating Ltd. Co. of the referenced request.

On behalf of Redrock Operating Ltd Co., an affected overriding royalty interest owner in the SE/4 of this section, we hereby object to the referenced application as described in its administrative application to the Division.

We request that this matter be set for hearing and that I on behalf of Redrock Operating Inc. be provided notification of the hearing in accordance with Division notice rules.

Very truly yours,



W. Thomas Kellahin

cfx: William F. Carr, Esq.

Attorney for Nearburg Exploration, L.L.C.

Commissioner of Public Lands State of New Mexico

Attn: Jeff Alpers

Redrock Operating Ltd. Co.

Attn: Mark L. Stanger

Tim Cashon

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**CASE NO. 12622
ORDER NO. R-11768**

**APPLICATION OF NEARBURG EXPLORATION COMPANY, L.L.C. FOR TWO
NON-STANDARD GAS SPACING UNITS, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 28 and July 26, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of May, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Nearburg Exploration Company, L.L.C. ("Nearburg"), seeks exception to the spacing provisions of Division Rule 104.C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, in order to create two non-standard 160-acre spacing units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc.-operated Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34.

(3) The E/2 of Section 34 is included in the East Grama Ridge-Morrow Gas Pool and the W/2 of the section is in the Grama Ridge-Morrow Gas Pool. Both pools are subject to Division Rule 104.C (2), as revised, which provides for 320-acre spacing units comprising any two contiguous quarter sections of a single governmental section and

provides for infill development (a total of two wells per unit); provided however, there can only be one well in each quarter section.

(4) All of Section 34 is within the Grama Ridge Morrow Gas Storage Unit Area, which was unitized for the purpose of gas injection, storage, and withdrawal within a portion of the Morrow formation, as provided for by Division Order No. R-11611, issued in consolidated cases No. 12441 and 12588 on July 3, 2001.

(5) Redrock Operating Ltd., Co. of Coppell, Texas ("Redrock"), an overriding royalty interest owner in the SE/4 of Section 34, appeared at the hearing and presented evidence in opposition to the application. Raptor Natural Pipeline, LLC, operator of the Grama Ridge Morrow Gas Storage Unit Area and a unit well in the W/2 of Section 34, and Wayne Newkumet, James E. Brown, Brent D. Hilliard, Wendel Creech, and David F. Alderks, all of Midland, Texas and all overriding royalty interest owners in the N/2 of Section 34, appeared through legal counsel but did not oppose Nearburg's request.

(6) On October 10, 1979, the above-described EOG Resources, Inc.-operated Llano "34" State Well No. 1 in the SE/4 of Section 34 (originally drilled by Minerals, Inc.) was completed in the East Grama Ridge-Morrow Gas Pool. A standard 320-acre stand-up gas spacing unit comprising the E/2 of Section 34 was dedicated to the well under a communitization agreement approved October 19, 1979 and made effective May 1, 1979 by the New Mexico State Land Office ("NMSLO"). This well last produced in 1991 and the communitization agreement was terminated by the NMSLO effective March 31, 1991. This 320-acre unit ceased to exist when the well stopped producing and the communitization agreement terminated.

(7) Evidence indicates that Redrock acquired the working interest in the SE/4 of Section 34 by assignment on March 1, 1998. On May 27, 1999 Redrock assigned its interest to Roco Resources Company, Inc. of Midland, Texas, reserving however a 10% overriding royalty interest.

(8) The evidence presented by Nearburg and the records of the Division establish that:

- (a) State of New Mexico Oil and Gas Lease No. K-03592 covering the N/2 of Section 34 was cancelled by the NMSLO in January, 1999;
- (b) a new oil and gas lease covering the N/2 of Section 34 was offered by the NMSLO at the December, 1999 lease sale; the NMSLO request for bids contained no stipulations or reservations concerning the existence of the Grama Ridge

Morrow Gas Storage Unit;

- (c) Great Western Drilling Company of Midland, Texas was the successful bidder and received a new oil and gas lease (Lease No. V-05683) covering the N/2 of Section 34 that became effective January 1, 2000;
- (d) Nearburg later acquired 75% of the interest of Great Western Drilling Company in the N/2 of section 34. On February 28, 2000 the Division's district office in Hobbs approved Nearburg Producing Company's "*Application for Permit to Drill ("APD")*" (Division Form C-101 with Form C-102 attached) for its above-described Grama Ridge East "34" State Well No. 1 at a standard gas well location on a standard 320-acre lay-down gas spacing unit comprising the N/2 of Section 34;
- (e) the Grama Ridge East "34" State Well No. 1 was drilled in March, 2000 to a depth of 13,500 feet and completed as a Morrow gas well on June 9, 2000; on June 19, 2000 the Division's Hobbs district office approved Nearburg Producing Company's "*Request for Allowable and Authorization to Transport*" (Division Form C-104), and on June 22, 2000 approved a testing allowable for the well;
- (f) in July, 2000 Nearburg Producing Company was notified by the Division's Hobbs district office that the previously authorized lay-down N/2 spacing unit included acreage from two separate Morrow gas pools [see Finding Paragraph No. (3) above];
- (g) Nearburg filed an administrative application pursuant to Division Rule 104.D, as revised, with the Division's Santa Fe office on January 8, 2001 for the two subject 160-acre non-standard gas spacing units within the E/2 of Section 34;
- (h) due to inadequate notification pursuant to Division Rule 1207.A (3), the administrative application was ruled incomplete by the Division on February 5, 2001, and Nearburg was duly informed by letter to provide such notice;
- (i) subsequent to Nearburg's notification, Redrock filed

objections in a timely manner with the Division on February 12 and 14, 2001; the application was then set for hearing before a Division Examiner;

- (j) pending the hearing, the Grama Ridge East "34" State Well No. 1 was allowed to continue producing gas from the East Grama Ridge-Morrow Gas Pool;
- (k) at the conclusion of the June 28, 2001 hearing, a four-week continuance was granted in order to give all the parties in this matter the opportunity to reach a mutually acceptable agreement; and
- (l) at the July 26, 2001 hearing, the Examiner ordered Nearburg to shut-in its Grama Ridge East "34" State Well No. 1 because an agreement had not been reached.

(9) The evidence and testimony presented in this case and in Division Cases No. 12441 and 12588 [see Paragraph Nos. (8) and (9) of Division Order No. R-11611] indicate that although the Nearburg Producing Company-operated Grama Ridge East "34" State Well No. 1 is completed in and producing from the Morrow formation, it is not in communication with the unitized interval of Raptor Natural Pipeline LLC's Grama Ridge Morrow Gas Storage Unit.

(10) Nearburg Exploration Company, LLC presented engineering and geological testimony in support of its application, which the Division finds inconclusive for the following reasons:

- (a) Nearburg developed a P/Z curve with bottom-hole flowing pressures instead of static reservoir pressures, and for a deep gas well such as the Grama Ridge East "34" State Well No. 1, the difference between the static reservoir pressures and bottom-hole flowing pressures can be substantial.
- (b) The gas compressibility factors or the gas deviation factors (the Z- factor) and the gas formation volume factors (Bg) depend on and change with temperature and pressure. When the pressures and the temperatures are incorrect, the calculated P/Z values are erroneous; therefore a plot of P/Z versus cumulative production will give a wrong slope, which translates into a wrong Initial Gas in Place and

Estimated Ultimate Recovery (EUR)*. Nearburg arrived at an estimated ultimate recovery of 1.1 Bcf using the material balance method, which Nearburg's witness admitted to be too low.

- (c) The decline curve analysis presented by Nearburg is not precise enough to support any conclusion about the ultimate recovery from the Grama Ridge East "34" State Well No.1. Nearburg's witness testified that the well is declining between 50 and 82 percent annually, with probable estimated ultimate recovery of 1.7 Bcf. A range of 50 to 82 percent is too wide to use as a basis for estimating ultimate recovery.
- (d) Nearburg's witness calculated an estimated ultimate recovery of 2.7 Bcf from the geological isopach map of the Grama Ridge East Morrow sands.
- (e) Haas Petroleum Consultants conducted volumetric analysis for Nearburg and demonstrated that the estimated ultimate recovery is about 3.0 Bcf. The ultimate recovery as presented in Nearburg's testimony ranges from 1.1 to 3.0 Bcf.
- (f) Using an estimated ultimate recovery of 1.7 Bcf, Nearburg presented testimony that the size of the reservoir is between 140 and 165 acres. If the size of the reservoir is between 140 and 165 acres, we can calculate the drainage radius to be between 1393 and 1513 feet respectively. Since the well is located in the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H), it is probable that the SE/4 of Section 34 is contributing recoverable hydrocarbons in this interval even under Nearburg's conservative estimates of ultimate recovery.

*EUR is calculated as follows: $EUR = [P_i/Z_i - P_a/Z_a]/\text{slope}$ where i indicates initial conditions and a indicates abandonment conditions.

(11) There is insufficient evidence to support Nearburg's contentions about the size, shape, and orientation of this producing interval or to show that the SE/4 does not contribute recoverable hydrocarbons in this interval.

(12) The application of Nearburg for approval of two non-standard 160-acre gas spacing units within the East Grama Ridge-Morrow Gas Pool comprising the NE/4 of Section 34 and the SE/4 of Section 34 should be **denied**.

(13) All past and any future Morrow gas production from the Nearburg Grama Ridge East "34" State Well No. 1, as described above, should be allocated to either: (i) the N/2 of Section 34, being a standard 320-acre lay-down gas spacing unit, in either the East Grama Ridge-Morrow Gas Pool or the Grama Ridge-Morrow Gas Pool, depending on the necessary adjustment to the pool boundaries to be sought through the Division's nomenclature process; or (ii) the E/2 of Section 34, being a standard 320-acre stand-up gas spacing unit in the East Grama Ridge-Morrow Gas Pool.

IT IS THEREFORE ORDERED THAT:

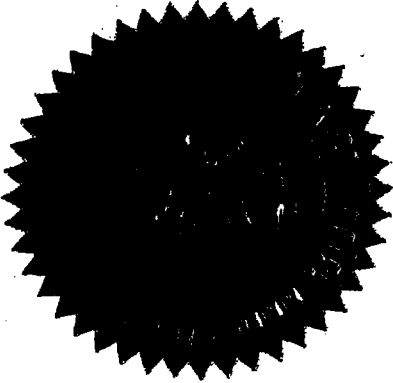
(1) The application of Nearburg Exploration Company, L.L.C., for an exception to the spacing provisions of Division Rule 104.C (2) creating two non-standard 160-acre spacing units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc. Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34, is hereby **denied**.

(2) The above-described Nearburg Producing Company Grama Ridge East "34" State Well No. 1 shall remain shut-in pending the following:

- (a) establishment of a standard 320-acre stand-up gas spacing unit comprising the N/2 or the E/2 of Section 34; and
- (b) designation of a single Division-approved operator for this unit and the applicable well dedicated thereto.

(3) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**CASE NO. 12622
ORDER NO. R-11768**

**APPLICATION OF NEARBURG EXPLORATION COMPANY, L.L.C. FOR TWO
NON-STANDARD GAS SPACING UNITS, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 28 and July 26, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of May, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Nearburg Exploration Company, L.L.C. ("Nearburg"), seeks exception to the spacing provisions of Division Rule 104.C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, in order to create two non-standard 160-acre spacing units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc.-operated Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34.

(3) The E/2 of Section 34 is included in the East Grama Ridge-Morrow Gas Pool and the W/2 of the section is in the Grama Ridge-Morrow Gas Pool. Both pools are subject to Division Rule 104.C (2), as revised, which provides for 320-acre spacing units comprising any two contiguous quarter sections of a single governmental section and

provides for infill development (a total of two wells per unit); provided however, there can only be one well in each quarter section.

(4) All of Section 34 is within the Grama Ridge Morrow Gas Storage Unit Area, which was unitized for the purpose of gas injection, storage, and withdrawal within a portion of the Morrow formation, as provided for by Division Order No. R-11611, issued in consolidated cases No. 12441 and 12588 on July 3, 2001.

(5) Redrock Operating Ltd., Co. of Coppell, Texas ("Redrock"), an overriding royalty interest owner in the SE/4 of Section 34, appeared at the hearing and presented evidence in opposition to the application. Raptor Natural Pipeline, LLC, operator of the Grama Ridge Morrow Gas Storage Unit Area and a unit well in the W/2 of Section 34, and Wayne Newkumet, James E. Brown, Brent D. Hilliard, Wendel Creech, and David F. Alderks, all of Midland, Texas and all overriding royalty interest owners in the N/2 of Section 34, appeared through legal counsel but did not oppose Nearburg's request.

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Morrow Gas Storage Unit;

- (c) Great Western Drilling Company of Midland, Texas was the successful bidder and received a new oil and gas lease (Lease No. V-05683) covering the N/2 of Section 34 that became effective January 1, 2000;
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- (e) the Grama Ridge East "34" State Well No. 1 was drilled in March, 2000 to a depth of 13,500 feet and completed as a Morrow gas well on June 9, 2000; on June 19, 2000 the Division's Hobbs district office approved Nearburg Producing Company's "*Request for Allowable and Authorization to Transport*" (Division Form C-104), and on June 22, 2000 approved a testing allowable for the well;
- (f) in July, 2000 Nearburg Producing Company was notified by the Division's Hobbs district office that the previously authorized lay-down N/2 spacing unit included acreage from two separate Morrow gas pools [see Finding Paragraph No. (3) above];
- (g) Nearburg filed an administrative application pursuant to Division Rule 104.D, as revised, with the Division's Santa Fe office on January 8, 2001 for the two subject 160-acre non-standard gas spacing units within the E/2 of Section 34;
- (h) due to inadequate notification pursuant to Division Rule 1207.A (3), the administrative application was ruled incomplete by the Division on February 5, 2001, and Nearburg was duly informed by letter to provide such notice;
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- (j) pending the hearing, the Grama Ridge East "34" State Well No. 1 was allowed to continue producing gas from the East Grama Ridge-Morrow Gas Pool;
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(11) There is insufficient evidence to support Nearburg's contentions about the size, shape, and orientation of this producing interval or to show that the SE/4 does not contribute recoverable hydrocarbons in this interval.

(12) The application of Nearburg for approval of two non-standard 160-acre gas spacing units within the East Grama Ridge-Morrow Gas Pool comprising the NE/4 of Section 34 and the SE/4 of Section 34 should be **denied**.

(13) All past and any future Morrow gas production from the Nearburg Grama Ridge East "34" State Well No. 1, as described above, should be allocated to either: (i) the N/2 of Section 34, being a standard 320-acre lay-down gas spacing unit, in either the East Grama Ridge-Morrow Gas Pool or the Grama Ridge-Morrow Gas Pool, depending on the necessary adjustment to the pool boundaries to be sought through the Division's nomenclature process; or (ii) the E/2 of Section 34, being a standard 320-acre stand-up gas spacing unit in the East Grama Ridge-Morrow Gas Pool.

IT IS THEREFORE ORDERED THAT:

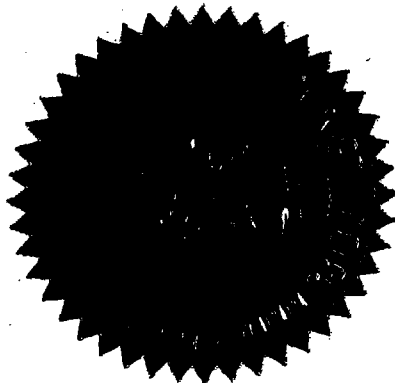
(1) The application of Nearburg Exploration Company, L.L.C., for an exception to the spacing provisions of Division Rule 104.C (2) creating two non-standard 160-acre spacing units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc. Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34, is hereby **denied**.

(2) The above-described Nearburg Producing Company Grama Ridge East "34" State Well No. 1 shall remain shut-in pending the following:

- (a) establishment of a standard 320-acre stand-up gas spacing unit comprising the N/2 or the E/2 of Section 34; and
- (b) designation of a single Division-approved operator for this unit and the applicable well dedicated thereto.

(3) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director