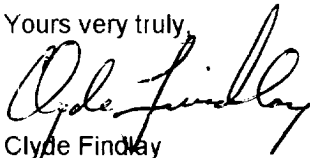


in event. Analogous Upper Penn wells in the Indian Basin field (located 6 miles northwest) have recovered 10 – 50 BCF gas/well. Analogous Upper Penn wells in the Springs field (located 7 miles northeast) have incurred shut-in productivity damage – specifically the Conoco Federal 34 #2 in 1987. This resulted in the granting of Hardship Classification to select Springs field wells in 1987.

4. Loss and Abandonment of Well from Unrepairable Shut-in Damage – The McKittrick Hills Upper Penn (Gas) Pool has a poor track record during shut-in events. The nearby Shelby Federal No.2 well was lost and abandoned due to permanent damage incurred during a shut-in event in 1987. The Shelby Federal No.3 was drilled as a replacement wellbore to the No.2. Nearburg estimates that a replacement well would cost \$1,000,000 to drill and complete if the No.1Y was unrepairably damaged during a shut-in event.
5. Reason to Grant Hardship Classification – The McKittrick Federal 11 No.1Y has never been shut-in by Nearburg for the reasons previously stated. We fear a possible gas gathering system shut-in this spring due to pipeline and processing constraints in the Indian Basin area. The remote location of the No.1Y at the end of the Duke Gas Gathering System puts us in a poor gas sales position and will cause underground waste if we are shut-in. By granting Hardship Classification to the No.1Y, pipeline shut-ins will be avoided and underground waste will be eliminated. The gas will be prioritized and can continue flowing until abandonment.
6. Log-Off Test – Nearburg is hesitant to run a log-off test on the No.1Y due to the nearby No.2 being lost and abandoned during a shut-in event. We would prefer to use the current producing rate of 1,000 MCF/day as the minimum sustainable producing rate for the No.1Y. The Shelby Federal No.1Y averaged gas sales of 800 -1,000 MCF/day over the last year without suffering productivity damage or negative reservoir effects.
7. Wellbore Diagram – See Attachment One.
8. Proration Unit Land Plat – See Attachment Two.
9. Authorized Gas Transporter and Purchaser – Duke Energy Field Services, L.P.
10. Other Relevant Data – See Attachment Three – the open hole porosity log showing the perforated pay interval. Note that the No.1Y well is completed at the top of the Upper Penn and substantial pay remains unperforated below. This is due to the weak water drive/water influx recovery mechanism and the completion necessary to prevent early water frontal breakthrough.
11. Notification of Gas Transporter, Purchaser, and Offset Operators – See Attachment Four – copies of notification letters.

Yours very truly,



Clyde Findlay  
Production Engineering Supervisor

cc: Artesia District NMOCD office – Tim Gum  
w/attach: Wellbore Diagram, Proration Unit Land Plat, Open Hole Porosity Log with Perforations, Copies of Notification Letters