

HEC Petroleum, Inc.

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May 26, 2004

Mr. Michael E. Stogner
New Mexico Oil Conservation Division
1220 S. Saint Francis Drive
Santa Fe, New Mexico 87504

RE: Answer to Your Questions
Application for Administrative Approval of Unorthodox Location
HEC Petroleum Inc.'s Montoya 25 #3 Well
660' FSL and 180' FEL
Unit P, Section 25, T32N, R13W
San Juan County, New Mexico
Basin Fruitland Coal



Dear Mr. Stogner:

Thank you for your questions on our NSL application. I hope the following will help clarify HEC Petroleum's reasons for an NSL.

Question #1: How much surface in the SE/4 of Sec. 25 does Mr. Montoya own?
Mr. Montoya owns the E/2 of SE/4.

Question #2: Why can't this well be twined with XTO Energy's Montoya Com. #1A (P 25 32N 13W)?

I have calculated the cement behind pipe in the #1A to be at 3501'. The top of the PC is at 2150'. Therefore, to frac a Fruitland Coal well near the #1A could have very bad consequences. In addition, HEC Petroleum has had poor luck in the past in getting XTO Energy to allow us to twin a well on one of their locations due to environmental, wellbore proximity, and safety rules.

Question #3: Why can't this well be twined with XTO Energy's Montoya Com. #1C (J 25 32N 13W)?

Geological reasons. A Fruitland Coal well on the #1C location would be only 1134' from the Montoya B 25 #2 (K 25). The #2 has a Fruitland Coal cumulative of 6.7 BCF with a current capacity of 1000 MCF/D. We therefore believe the #2 is sufficiently draining the Fruitland Coal near the #1C location. If the proposed well was placed in unit letter I of Section 25, it would be near Montoya B 25 #1 (H 25) and Culpepper Martin #107 (L 30 32N 12W). If the proposed well was placed in unit letter O of Section 25, it would be near State Com. #361 (B 36 32N 13W) and nearer the Montoya B 25 #2 (K 25). I was therefore directed to try to place the well in P of Section 25 where it is 1593' from the nearest well (Culpepper Martin #107 (L 30 32n 12W)).

CORRECTION: The original NSL application stated that Mr. Montoya wanted us to move the well from an irrigated area to a non-irrigated area. In fact neither area is irrigated. Mr. Montoya believes the grass is much better and thicker in the standard area, and the grass is very poor in the non-standard area. It was due to Mr. Montoya's request that we moved to a non-standard location.

HEC Petroleum would like to request your Administrative Approval for the unorthodox location based on the above additional information. Should you need anything further, please feel free to contact me at (505) 327-4573.

Best Regards,

A handwritten signature in black ink that reads "Mike Pippin".

Mike Pippin
Petroleum Engineer
Agent - HEC Petroleum, Inc.

cc: Steve Hayden