



## NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON Governor Joanna Prukop Cabinet Secretary

December 29, 2005

Mark E. Fesmire, P.E. Director Oil Conservation Division

Gruy Petroleum Management Company c/o William F. Carr Holland & Hart, LLP P. O. Box 2208 Santa Fe, New Mexico 87504-2208

Dear Mr. Carr:

Reference is made to the following: (i) your application filed on behalf of the operator, Gruy Petroleum Management Company ("Gruy"), and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on November 23, 2005 (*administrative application reference No. pSEM0-532747348*); (ii) your conversations with Mr. Michael E. Stogner, Engineer with the Division in Santa Fe, on Wednesday, December 7, 2005 and on Friday, December 9, 2005; and (iii) the Division's records in Hobbs and Santa Fe, including the files on Division Administrative Order NSP-1639 (L) and in Division Cases No. 12015 and 12017 (see Division Order No. R-11476 dated November 1, 2000).

## The Division Director Finds That:

(1) Gruy is proposing to drill its Rhodes Federal Unit Well No. 87 (**API No. 30-025-37602**) 1850 feet from the South line and 900 feet from the West line (Unit L) of Section 8, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico, and complete this well in the Yates-Seven Rivers interval.

(2) The Rhodes (Yates-Seven Rivers) Pool (**52250**), an oil pool in the Yates and Seven Rivers formations, was discovered in the late 1920's and the horizontal limits for this pool, as currently defined, include the following-described lands in Lea County, New Mexico:

# TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPMSection 8:N/2 SW/4, SW/4 SW/4, and NW/4 SE/4Section 17:W/2 W/2 and W/2 SE/4Section 20:N/2 and SE/4

Section 20: Section 21: Section 22: Section 26: Sections 27 and 28: Sections 34 and 35: W/2 W/2 and W/2 SE/4 N/2 and SE/4 SW/4 NE/4, W/2, and SE/4 W/2 SW/4, SE/4 SW/4, and SW/4 SE/4 W/2 and SE/4 All All.

## Gruy Petroleum Management Company Division Administrative Application Reference No. pSEM0-532747348 December 29, 2005

(3) Currently, the Rhodes (Yates-Seven Rivers) Pool is subject to the statewide rules and regulations, as promulgated by Rule 104.B (1), which provides for 40-acre oil spacing and proration units, or drilling units, and requires that wells be located no closer than 330 feet to the outer boundary of a single 40-acre oil spacing and proration unit. Under Division Rule 505.A the pool-wide depth bracket allowable for the Rhodes (Yates-Seven Rivers) Pool is 80 barrels of oil per day. By Division Order No. R-520, issued in Case No. 673 and dated August 12, 1954, the limiting gas/oil ratio ("GOR") factor for this pool was established as 10,000 cubic feet of gas to one barrel of oil; therefore, the casinghead gas allowable is 800 MCF per day for each 40-acre oil spacing and proration unit.

(4) The Rhodes-Yates-Seven Rivers Gas Pool (83810) was created by Division Order No. R-6891, issued in Case No. 7416 on February 1, 1982 and made effective retroactive to January 1, 1982. The vertical limits include the Yates and Seven Rivers formations. The horizontal limits for this pool currently include the following described lands in Lea County, New Mexico:

<u>10WNSHIP 26 SO</u>	<u>UTH, RANGE 37 EAST, NMPM</u>
Sections 4 and 5:	All
Section 6:	E/2
Section 8:	N/2, SE/4 SW/4, NE/4 SE/4, and S/2 SE/4
Section 9:	All
Section 10:	W/2
Section 14:	W/2
Sections 15 and 16:	All
Section 17:	NE/4, E/2 W/2, and E/2 SE/4
Section 21:	N/2 NE/4 and $SE/4 NE/4$
Section 22:	N/2, NE/4 SW/4, N/2 SE/4, and SE/4 SE/4
Section 23:	W/2 and SE/4
Section 26:	NE/4.

(5) Currently, the Rhodes-Yates-Seven Rivers Gas Pool is an "unprorated gas pool" not subject to Division Rule 605, but is subject however to: (i) Division Rule 104.C (3), which requires standard 160-acre gas spacing units comprising a single governmental quarter section with wells to be located no closer than 660 feet from outer boundary of such unit nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary; and (ii) Division Rule 104.D (3), which restricts the number of producing wells within a single 160-acre gas spacing unit within a non-prorated pool to only one unless otherwise permitted by special pool rules or authorized after notice and hearing, which the Rhodes-Yates-Seven Rivers Gas Pool is not. Gas wells within this pool are allowed to produce at capacity.

## **TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM**

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(6) You state in your application for Gruy that "[I]f the Rhodes Federal Unit Well No. 87 is completed as an <u>oil well</u>, the spacing and set back requirements of Division Rules [for the Rhodes (Yates-Seven Rivers) Pool] are met and the well will be at a standard location on a standard 40-acre oil well unit;" however, in anticipation that this well will be completed as a gas well, Gruy is seeking administrative approval: (i) of an unorthodox gas well location in the Rhodes-Yates-Seven Rivers Gas Pool; and (ii) to establish a non-standard 40-acre gas spacing unit within the Rhodes-Yates-Seven Rivers Gas Pool; and comprising the NW/4 SW/4 (Unit L) of Section 8.

(7) Within the SW/4 of Section 8; the N/2 SW/4 (Units "K" and "L") and the SW/4 SW/4 (Unit "M") is within the prescribed boundary of the Rhodes (Yates-Seven Rivers) [Oil] Pool, and the remaining 40 acres comprising the SE/4 SW/4 (Unit "N") is within the Rhodes-Yates-Seven Rivers Gas Pool [see Finding Paragraphs No. (2) and (4) above].

(8) Gruy currently operates the Rhodes Federal Unit Well No. 85 (API No. 30-025-31358), located 660 feet from the South line and 1780 feet from the West line (Unit N) of Section 8, a gas well that is subject to Division Administrative Order NSP-1639 (L), dated November 25, 1991, which order established a non-standard 40-acre oil spacing unit in the Rhodes-Yates-Seven Rivers Gas Pool and approved the location as an unorthodox gas well location therein.

(9) Division Rule 506.A reads as follows: "In allocated pools containing a well or wells producing from a reservoir which contains both oil and gas, each proration unit shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit oil allowable for the pool. In the event the division has not set a gas-oil ratio limit for a particular oil pool, the limiting gas-oil ratio shall be 2,000 cubic feet of gas for each barrel of oil produced. In allocated oil pools all producing wells, whether oil or casinghead gas, shall be placed on the oil proration schedule."

(10) Division Rule 506.B (2) reads as follows: "Any unit containing a well or wells producing from a reservoir which contains both oil and gas shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit allowable currently assigned to the pool."

(11) Since both Division Rules 506.A and 506.B (2) apply in this instance, any gas production from Gruy's proposed Rhodes Federal Unit Well No. 87 and resulting standard 40-acre oil spacing and proration unit will be subject to the Rhodes (Yates-Seven Rivers) [Oil] Pool's casinghead gas allowable of 800 MCF per day [see Finding Paragraph No. (3) above].

(12) Gruy's requests for a non-standard 40-acre gas spacing unit within the Rhodes-Yates-Seven Rivers Gas Pool comprising the NW/4 SW/4 (Unit L) of Section 8 for its proposed Rhodes Federal Unit Well No. 87 to be drilled at an unorthodox gas well location in the Rhodes-Yates-Seven Rivers Gas Pool is deemed unnecessary and should therefore be **dismissed**.

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## It Is Therefore Ordered That:

(1) The administrative application for Gruy Petroleum Management Company (*administrative application reference No. pSEM0-532747348*): (i) for an unorthodox gas well location in the Rhodes-Yates-Seven Rivers Gas Pool (83810) for its proposed Rhodes Federal Unit Well No. 87 (API No. 30-025-37602), to be drilled 1850 feet from the South line and 900 feet from the West line (Unit L) of Section 8, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico; and (ii) to establish a non-standard 40-acre gas spacing unit within the Rhodes-Yates-Seven Rivers Gas Pool for this well to comprise the NW/4 SW/4 of Section 8, deemed unnecessary, is hereby dismissing and is being returned at this time.

(2) Should it be necessary, Gruy shall amend any forms on file for this well with the Division's district office in Hobbs, New Mexico referencing the correct pool name as the Rhodes (Yates-Seven Rivers) Pool (52250).

(3) Jurisdiction of this cause is 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.

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

1. Fermire,

MARK E. FESMIRE, P. E. Director

### MEF/ms

- cc: New Mexico Oil Conservation Division Hobbs
  - U. S. Bureau of Land Management Carlsbad
  - U. S. Bureau of Land Management Roswell
  - U. S. Bureau of Land Management Santa Fe
  - File: Division Administrative Order NSP-1639 (L) Division Case No. 12015 Division Case No. 12017

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		ADMINISTRATIVE APPLICATION CHECKLIST	
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	[C]	Injection - Disposal - Pressure Increase - Enhanced Oil Recovery WFX PMX SWD IPI EOR PPR	የጠ 12
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	[B]	Offset Operators, Leaseholders or Surface Owner	
	[C]	Application is One Which Requires Published Legal Notice	
	[D]	Notification and/or Concurrent Approval by BLM or SLO U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office	
	[E]	For all of the above, Proof of Notification or Publication is Attached, ar	nd/or,
	[F]	Waivers are Attached	

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## [3] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

WILLIAM F. CARE Print or Type Name	Signature	Title	<u>/23/05</u> Date
		e-mail Address	hart, com

HOLLAND&HART...

William F. Carr wcarr@hollandhart.com

November 23, 2005

## HAND-DELIVERED

Mark E. Fesmire, P. E. Director **Oil Conservation Division** New Mexico Department of Energy, Minerals and Natural Resources 1220 South Saint Francis Drive Santa Fe, New Mexico 87505

5:00 m cos pill 12:7-2005 pill Mut and burn phis ( Mut and burn phis ( discussion for ) it Re: Application of Gruy Petroleum Management Co. for Administrative Approval of an Unorthodox Gas Well Location and an 80-acre Non-Standard Gas Spacing Unit for its Rhodes Federal Unit Well 87 located 1850 feet from the South line and 900 feet from the West Line of Section 8, Township 26 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

Dear Mr. Fesmire:

Gruy Petroleum Management Co. pursuant to the provisions of Division Rule 104 F (2) adopted on January 18, 1996, seeks administrative approval of an unorthodox gas well location for its Rhodes Federal Unit Well No. 87 to be drilled to the Rhodes Yates-Seven Rivers formation, Rhodes Yates-Seven Rivers Gas Pool, at an unorthodox well location 1850 feet from the South line and 900 feet from the West line of Section 8, Township 26 South, Range 37 East, N.M.P.M., Lea County, New Mexico. Attached as Exhibit A is the Application for Permit to Drill the Well (Federal Form 3160-3) and the Acreage Dedication Plat for the Well showing the survey location for the well and the proposed dedicated acreage.

Gruy Petroleum Management Co. also seeks administrative approval pursuant to the provisions of Division Rule 104 D (2)(b) and (c) adopted on January 18, 1996, of a nonstandard 40-acre gas spacing and proration unit in the Rhodes Yates-Seven Rivers formation, Rhodes-Yates Seven Rivers (Gas) Pool for its Rhodes Federal Unit Well No. 87 comprised of the NW/4 SW/4 of Section 8, Township 26 South, Range 37 East, N.M.P.M., Lea County, New Mexico. The Rhodes Federal Unit Well No. 87 will be drilled on a tract under which the Rhodes Yates Seven-Rivers (Gas) Pool with standard 160-acre spacing overlaps the Rhodes Yates Seven-Rivers (Oil) Pool with standard 40acre spacing.

## HOLLAND&HART

If the Rhodes Federal Unit Well No. 87 is completed as an <u>oil well</u>, the spacing and set back requirements of Division Rules are met and the well will be at a standard location on a standard 40-acre oil well unit.

If the well is completed as a <u>gas well</u>, Gruy must obtain approval of a non-standard unit and an unorthodox location.

This <u>unorthodox gas well location</u> is necessary for geological reasons. Attached as **Exhibit B** is a Yates Formation Net Porosity Isopach Map that shows the thinning of the of the porosity in this formation to the north and west of the proposed location. The location is also desired because the structure in the Yates formation is lower to the West. Approval of the proposed location will increase the feet of porosity in the well and improve its structural position in the reservoir. Approval of this application will therefore increase Gruy's opportunity to efficiently recover the reserves under this tract.

Attached as **Exhibit** C is a plat that shows the subject spacing unit for this well and all adjoining spacing units or leases. Attached to this plat is a list that shows that all offsetting and spacing and proration units are operated by Gruy Petroleum Management Co. If the Rhodes Federal Unit Well No. 87 is a gas well, the unorthodox gas well location will only encroach on acreage operated by Gruy Petroleum Management Co. in which the ownership is identical to the ownership under the drill site. Accordingly, there are no affected parties to whom notification of this application for unorthodox well location should be provided.

This <u>non-standard gas unit</u> is comprised of a single quarter-quarter section and therefore lies within a single quarter section. All of the oil and gas minerals in the SW/4 of Section 8 are owned by either  $\operatorname{Gruy}^1$  or Robert A. Armstrong<sup>2</sup> and the ownership in this acreage is common. Although the ownership of all gas rights is common in the SW/4 of Section 8, Robert A. Armstrong, as Armstrong Energy Corporation and as Scolado, LLC, owns leasehold oil rights in this acreage. This is acreage that, if this is a gas well, would be included in a standard 160-acre spacing unit. Robert A. Armstrong, the only other interest owner in the SW/4 of Section 8 and an owner of an interest in the mineral estate in acreage that will be excluded from a standard 160-acre unit, has executed waivers of objection that are attached hereto as **Exhibit D**. There is no other owner of interest in the mineral estate that could be

<sup>&</sup>lt;sup>1</sup> Mineral interest under the SW/4 of Section 8 is owned by Gruy Petroleum Management Company and Prize Energy Resources, LP which are wholly owned subsidiaries of Cimarex Energy Co.

<sup>&</sup>lt;sup>2</sup> Robert A. Armstrong owns mineral interests under the SW/4 of Section 8 as Armstrong Energy Corp. or as leasehold owner for Scolado, LLC. Armstrong is the owner of all of these rights and is agent for Scolado, LLC.

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## HOLLAND&HART

excluded from this non-standard unit and, therefore, no other owners of interest to whom notice of this application must be provided.

Your attention to this application is appreciated.

Very truly yours,

William F. Carr Attorney for Gruy Petroleum Management Co.

Enclosures

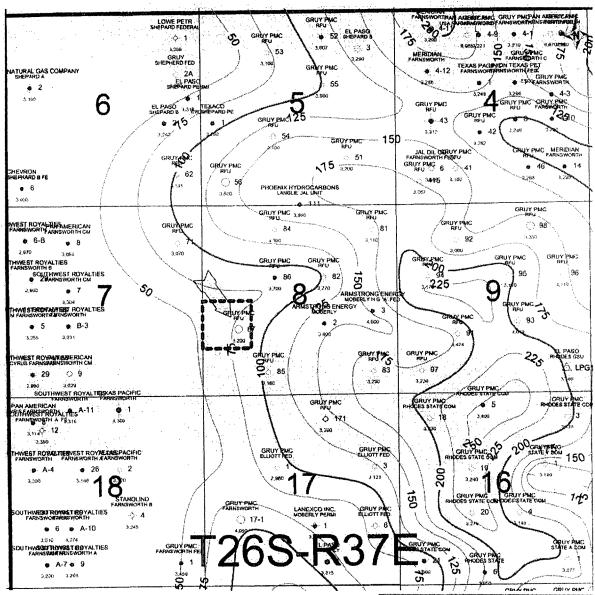
cc: Mr. Zeno Farris Gruy Petroleum Management Co. 600 East Las Colinas Blvd. Suite 1100 Irving, Texas 75039

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## EXHIBIT A

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DISTRICT IV	WELL LOCATION AND ACREAGE DEDICATION PLAT					
1220 S. ST. FRANCIS BR., SANTS FE., NH 57505 API Number	Pool Code Rhodes; Yates-7 Rivers (Gas)					
Property Code	Property Name Well Number RHODES FEDERAL UNIT 87					
ocrid No. 162683	Operator Name Elevation GRUY PETROLEUM MAMAGEMENT CO 2971'					
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Standard 640-acre Section



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Gruy Petroleum Management Company

#### RHODES YATES-SEVEN RIVERS GAS POOL

Yates Net Porosity Isopach (>= 6%)

Rhodes Federal Unit No. 87 Yates Test

#### POSTED WELL DATA

## Operator Well Name

 Well Number WELL - TD

## REMARKS Lea County, New Mexico Contour Interval = 25 feet Showing 40 Acre Proration Unit Outline

## By: K. T. Nordstog

000

2.000 FEET

October 4, 2005

## EXHIBIT B

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List of Offset SPUs Application for Unorthodox Well Location Gruy Petroleum Management Co. Rhodes Federal Unit No. 087 Rhodes; Yates-7 Rivers (Gas) Pool いった。そうな、そう、そうななないが、そうなうかったいのがない。 たちやなかが、たちのないがないのではないないがないのではないのではないないが、たちのないのでは、そうないのでは、「ない」、「ない」、「な

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40	SE/4 SW/4 Sec 8-T26S-37E	Gruy Petroleum Management Co.	N-8-26S-37E	Rhodes Federal Unit No. 85	Blue	4
40	NE/4 SW/4 Sec 8-T26S-R37E	Gruy Petroleum Management Co.	K-8-26S-37E	No Rhodes; Yates-7 Rivers (Gas) Wells	Pink	3
40	NW/4 SW/4 Sec 8-T26S-R37E	Gruy Petroleum Management Co.	L-8-26S-37E	Rhodes Federal Unit No. 87 Proposed	Yellow	2
160	NW/4 Sec 8-T26S-R37E	Gruy Petroleum Management Co.	C-8-26S-37E F-8-26S-37E	Rhodes Federal Unit No. 84 Rhodes Federal Unit No. 86	Orange	1
ACRES	ACREAGE DESCRIPTION	OPERATOR	Location	Well Name	COLOR CODE	OFFSET SPU

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### NW/4 SW/4 Section 8, Township 26S, Range 37E Rhodes Federal Unit No. 87 – 1800' FSL & 990' FWL Lea County, New Mexico, Containing 40 acres

### RE: Rhodes Federal Unit No. 87 Non-Standard Spacing Unit.

## Notification of Offset Operators: Notification of Oil Rights Operator

Gruy Petroleum Management Co. P. O. Box 140907 Irving, TX 75014-0907 Armstrong Energy Corp. P.O. Box 1973 Roswell, NM 88202

Magnum Hunter Production, Inc. owns 100% of the leasehold in the Gruy Petroleum Management Co. operated properties.

Magnum Hunter Production, Inc. and Gruy Petroleum Management Co. are wholly owned subsidiaries of Cimarex Energy Co.

2/2005 15:20 5056222512 OCT. 10. 2005 9:23AM 01701

CIMAREX

Gruy Petroleum Management Co. 500 East Las Colinas Blvd. • Suite 1100 • Irving. TX 75039 • (972

600 East Las Colinas Blvd. • Suito 1100 • Irving, TX 75039 • (972) 401-3111 • Fax (972) 443-6450 Malling Address: P.O. Box 140907 • Irving, TX 75014-0907 A subsidiary of Cimarex Energy Co. • A NYSE Listed Company • "XEC"

October 10, 2005

Armstrong Energy Corporation 500 N Main St. Suite 1000 Roswell, NM 88201 Atten: Mr. Robert G. Armstrong

RE:

Rhodes Federal Unit No. 87 Rhodes; Yates Scvon-Rivers (Gas) Pool Non Standard Spacing and Unorthodox Well Location Exception

Dear Mr. Annstrong.

Gruy Petroleum Management Co. is proposing to drill the referenced Rhodes Federal Unit No. 87 well in the NW/45W/4 of Section 8-26S-37E at 1850' FSL & 900' FWL as a Rhodes; Yates Seven-Rivers gas test. The Rhodes; Yates Seven-Rivers (Gas) Pool with standard 160 acre spacing and the Rhodes; Yates Seven-Rivers (Oil) Pool with standard 40 acre spacing overlap in this area. The proposed RFU 87 is located on acreage in the Rhodes Oil Pool. In this regard, any gas spacing unit greater than 40 acres for this well would sever acreage from the Rhodes Oil Pool offsetting your H. G. Moberly "A" Federal No. 1 well located in the NW/45E/4 of Section 8-26S-37E. If the RFU 87 is completed as an oil well, the spacing and setbacks are standard and orthodox for the Rhodes Oil Pool. However if the well is completed as a gas well, the spacing and setbacks are non standard and unorthodox for the Rhodes Gas Pool. Therefore it is necessary for us to apply for exceptions to the spacing and setback requirements for the Rhodes Gas Pool.

As leasehold owner of oil rights and agent for Scolado, LLC in our proposed gas spacing unit we request you execute this letter in the space provided below, indicating your waiver of protest to our exceptions. We have a nig scheduled for mid to late October, and your cooperation in this matter would be greatly appreciated.

Well information, including logs and drilling reports, will be furnished to you.

Sincerely,

Zeno Fanis Manager, Operations Administration Permian Basin Region

ZennFa

Signature:

Printed Name:

Title:

Date:

## EXHIBIT D

18/10/2005 10:41 5056222512 ULI. IV. /VV2 9:234m

ARMSTRONG

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INAAR

Gruy Petroleum Management Co. 600 Each Las Collass Blvd. + Suite 1100 + 1/2003, TX 75039 + 1972) 401-3111 + Pax 1972) 443-6460 Malling Address P.O. Box 140907 + 1/2013, TX 750340907 A setsidiary of Creares Barry Co. + A NYSB Lined Chappery - XEC\*

Ocorber 10, 2005

Amistrong Energy Corporation 500 N Main St. Suite 1000 Baswall, NM 88201 Atten: Mr. Robert G. American

بر لاط بد تبديد ال

RE

Slocenty,

Rhodes Federal Unit No. 87 Rhodes: Yatus Seven-Rivers (Gas) Pool Non Sundard Spacing and Unorthodox Well Location Broughton

Dear Mr. Annarcoog:

Gany Persoleum Masagement Co. is proposing to doll the referenced Rhodes Federal Unit No. 87 well in the NW/45W/4 of Section 8-265-372 at 1620 FSL & 900° FWL at a Rhoder, Yates Seven-Rivers giv text. The Rhoder, Yates Serrers-Rivers (Gas) Pool with standard 160 acce spacing and the Rhoder, Yates Seven-Rivers (Ga) Pool with standard 40 acre spacing works in this area. The proposed RFU 87 is located on accessing in the Rhoder Oil Pool. In this regard, any gas spacing unit greater than 40 area for this well would save screeps from the Rhodes Oil Pool officieting your H. G. Moberly "A" Federal No. 1 well located in the NW/45E/4 of Section 8-265-378. If the RFU 87 is completed as an eil well, the moder and asthedia text worked and a strained articles as the Rhoder On Pool ensering your et. G. aboorly A. Pennen Po. 1 wes sound in the start of easy a process of 265-378. If the RFU \$7 is completed as an oil well, the specing and sethedis are random and orthodox for the Rhoder Oil Pool. However if the well is completed as a gas well, the specing and sethedes not not standard and marthodex for the Rhoder Gas Pool. Therefore is in necessary for us to apply for asterptions to the specing and setting and

As leasehold owner of all rights and again for Scolado, LLC in our proposed gas spacing unit we request you execute this letter in the space provided below, indicating your waives of propose to our exceptions. We have any scheduled for mid to han October, and your ecoperation in this matter would be gravity approximated.

Well information, individing logs and defling seports, will be funcished to you.

ZenoFa Zeno Panis Manager, Operations Administration Providen Basic Region

	ARMSTRONG EVERCY EXPONATION	SCOLADO, LLC
Signson:	URELS -	75/ton
Printed Name	Lever G. ARUTE	WE THOMAS & SCROGGIN
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Date	10-10-05	MANAGING MEMBER