

DOYLE HARTMAN

Oil Operator

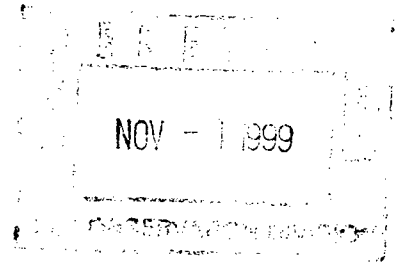
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October 29, 1999

Lori Wrotenbery, Director ✓
Michael Stogner, Chief Hearing Examiner
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

Re: Failure by Raptor Resources, Inc. to Give Proper Notice
Raptor's Jalmat Infill Program
Sections 8 and 9, T-22-S, R-36-E, Lea County, New Mexico

Dear Ms. Wrotenbery and Mr. Stogner:

Doyle Hartman is an offset Jalmat operator to Raptor Resources, Inc. (Raptor), with respect to the above-referenced Sections 8 and 9, T-22-S, R-36-E, Lea County, New Mexico, by virtue of the 160-acre Jalmat State "H" lease in the NE/4 of Section 17, T-22-S, R-36-E. In 1998, Doyle Hartman and James A. Davidson acquired the State "H" Lease from OXY USA, Inc., effective November 1, 1997, and recorded the lease of record in Lea County, New Mexico, on April 24, 1998. A copy of a Lea County ownership map, which reflects Hartman's ownership in that lease, is attached as Exhibit "A".

Please accept this letter as a general objection, on behalf of Doyle Hartman and James A. Davidson, to the Jalmat infill drilling and recompletion program which Raptor Resources is presently undertaking in Sections 8 and 9, T-22-S, R-36-E (and also to Raptor's dense infill drilling throughout the Jalmat Pool). See Exhibit "A". Hartman has previously set out objections to unjustified high-density Jalmat infill drilling and recompletion programs to Raptor by letter dated October 21, 1999. Copy attached as Exhibit "B". A more detailed explanation of Hartman's objections to high-density Jalmat infill drilling and recompletion programs is set out in Hartman's letter to Ms. Wrotenbery, director of the NMOCD, dated October 13, 1999, with respect to a package of administrative applications submitted by SDX Resources, Inc. (SDX). A copy of that letter is attached as Exhibit "C".

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For a number of years, under NMOCD Order R-6013-A, Jalmat operators, before receiving maximum lawful gas pricing approval for infill wells, were required to make a satisfactory showing that an infill well was necessary "...to effectively and efficiently drain a portion of the reservoir covered by the proration unit which [could] not be effectively and efficiently drained by any existing well within the proration unit... and [would] not cause waste nor violate correlative rights". This procedure clearly provided for the continued orderly development of the Jalmat Pool, at the very beginning of the infill development phase for the Jalmat Pool.

Although operators are no longer making filings to qualify new wells for NGPA maximum lawful gas pricing, operators seeking approval for simultaneous dedication (infill wells) in the Jalmat Pool must still recognize and be prepared to demonstrate that each infill well is necessary in order "...to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be effectively and efficiently drained by any existing well within the proration unit..."; especially since a standard gas proration unit in the Jalmat Pool is 640 acres, and there exists a statutory presumption that one gas well in the Jalmat Pool is capable of efficiently and effectively draining 640 acres. Moreover, an operator seeking approval for simultaneous dedication (infill well) must also be able to demonstrate that an infill well or wells "...will not cause waste nor violate correlative rights".

Notwithstanding the fact that these important showings were mandatory to qualify each new infill well for maximum lawful gas pricing, the NMOCD's spacing rules, the State of New Mexico's statutes prohibiting waste and protecting correlative rights, and the Supreme Court of New Mexico's ruling and findings in Continental Oil Company v. Oil Conservation Commission (373 P.2d 809) still survive during this current period of lower gas prices. Therefore, the need for the NMOCD to require operators to properly justify infill wells in the Jalmat Pool still exists, and is consistent with NMSA 1978 §70-2-2, §70-2-11, §70-2-12, and §70-2-17, and the findings of the Supreme Court of New Mexico in Continental Oil Company v. Oil Conservation Commission. Moreover, such showings of necessity, when required, should be made on a case-by-case basis for each proposed infill well, since correlative rights are clearly at issue and indiscriminate and unnecessary Jalmat infill drilling and recompletions threaten rapid depletion of remaining Jalmat Pool reserves. Such rapid and premature depletion is not in the public interest and amounts to waste and a violation of correlative rights.

In addition to the foregoing general objection, several problems have developed with respect to Raptor's Jalmat Pool infill drilling and recompletion program, corresponding to Sections 8 and 9, T-22-S, R-36-E. The specific well problems are as follows:

1. State "A" A/C-2 Wells No. 24 and 25: Raptor apparently submitted an administrative application to the NMOCD for unorthodox locations and simultaneous dedication for these wells. See

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excerpt from the herein enclosed *Statehouse Reporting Service* dated October 25, 1999 (Exhibit "D"). Hartman was not notified of the Raptor application, even though Hartman is an offset operator. Hartman has not consented to the application. Because Hartman was not given notice, Hartman did not have the opportunity to serve an objection to the application, which was apparently approved by Order NSL-2816-C(SD). Hartman did not discover issuance of this Order until October 27, 1999, upon receiving a copy of the October 25, 1999 issue of the *Statehouse Reporting Service*.

~~Because Hartman was not given notice, as required by Division rules and regulations, and because Hartman objects, we are asking the Division to withdraw Order NSL-2816-C(SD), and set the matter for hearing.~~ If Raptor intends to pursue the application, the Division should require Raptor to justify the need for high-density infill Jalmat gas wells including a sufficient showing that the subject wells, when combined with Raptor's other existing and planned wells for Sections 8 and 9, will not cause waste nor violate correlative rights. Raptor should also be required to make a showing as to why it is necessary to perform essentially all of its Section 8 development work, on the eastern half of its 640-acre Jalmat gas proration unit consisting of Section 8, instead of uniformly spreading its new Jalmat gas completions throughout Section 8, as would be expected. A review of Exhibit "A" demonstrates Raptor's unprecedented high-density Jalmat infill drilling and recompletion program.

2. **State "A" A/C-2 Wells No. 4 and No. 32-Y:** From an examination of Exhibit "A", it can be seen that these wells, located in the SW/4 of Section 9, are the subject of proposed or recent workovers by Raptor. Hartman assumes that they are recompletions from the Eunice South Pool to the Jalmat Pool, and should have been the subject of an application for administrative approval for unorthodox locations and simultaneous dedication. Again, Hartman received no notice of such applications, although Hartman is an offset operator. Because Hartman received no required notice, and because Hartman presently objects to any non-standard location or request for simultaneous dedication for these wells, if any administrative approval has already been given for these wells, Hartman hereby requests that it be withdrawn and the matter set for hearing, if Raptor intends to pursue operation of these wells.

3. **State "A" A/C-2 Wells No. 54 and No. 77** On October 27, 1999, Hartman also became aware of the Application for Permit to Drill, Form C-101, for Well No. 77, and the Sundry Notice, Form C-103, for Well no. 54. Copies are attached as Exhibits "E" and "F". With respect to Well No. 54, Raptor has stated that the well will be completed over a vertical interval from 3331'-3700', but characterizes its proposed completion interval as being in the Eunice South Pool. If the Division will refer to its Geological Nomenclature Subcommittee Cross-Sections for the Jalmat and Eumont Pools (excerpt enclosed as Exhibit "G"), the Division will see that 80% of Raptor's proposed completion interval for the State "A" A/C-2 No. 54 well falls within the vertical limits of

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the Jalmat Pool, not the Eunice South Pool. For the proposed State "A" A/C-2 No. 54 recompletion, the Jalmat Pool includes within its vertical limits the depths from 3331' to approximately 3650'. Consequently, if the No. 54 well is completed from 3331'-3650', any approval for the No. 54 well as a Eunice South well should be withdrawn, and Raptor should be required to appear before the Division to explain the need for yet another Jalmat well in the SE/4 of Section 8. See Exhibit "A".

To date, no known Special Pool Rule 2(a)(3) filing has been made for any part of the SE/4 Section 8 or the remainder of Raptor's 640-acre Section 8 Jalmat proration unit. The presently existing or proposed Jalmat wells in the SE/4 of Section 8 appear to be the No. 24, No. 54, No. 70 and No. 77. Although the proposed No. 77 well has been filed as a Eunice South well, it will most likely be completed in the same interval as the No. 54, since the nearby No. 70 (20-acre offset), before recompletion as a Jalmat gas well, was a Eunice South water injection well, and has watered out much of the Eunice South interval, as to the SE/4 of Section 8.

4. **State "A" A/C-2 Wells No. 30 and No. 48:** These wells were the subject of a Raptor application for which Hartman actually received notice. By letter dated October 21, 1999, Exhibit "B", Hartman informed Raptor that it would not oppose Raptor's application for wells No. 30 and No. 48, providing that the gas wells on Raptor's 480-acre non-standard Jalmat gas proration unit situated in Section 9, T-22-S, R-36-E, were both separately and accurately metered, and also providing that Raptor recognize that Hartman reserved the right to object to future applications for simultaneous dedication, if or when it became apparent that Raptor's proposed Jalmat spacing is more dense than the drainage capability of an efficiently completed Jalmat well. Raptor acknowledged Hartman's right to object by its signature on Exhibit "B".

Consequently, it could be argued that Hartman's approval may have been secured by deceit, since Raptor never informed Hartman of the true extent of its proposed Jalmat infill development plans for Section 9. In this regard, the Division will note, when one considers well Nos. 1, 32-Y, 67, 72 (already apparent Jalmat producers in Section 9), 30, 24, 54, 70 and 77 in Sections 8 and 9, that Raptor is proposing nine Jalmat Pool wells within a limited 220-acre area (Exhibit "H"). This apparent spacing density for Jalmat wells is preposterous. There is no economic or engineering rationale that can be offered for such a dense Jalmat infill drilling and completion program. Raptor has made no showing, nor could a credible engineering showing be made, that dense infill drilling on what equates to 20-acre to 40-acre spacing is necessary in order to efficiently, effectively, and economically drain remaining Jalmat Pool gas reserves.

In light of the foregoing problems and the due process violations, Hartman requests that the Division order Raptor to cease all Jalmat activity in Sections 8 and 9, T-22-S, R-36-E, until such time as

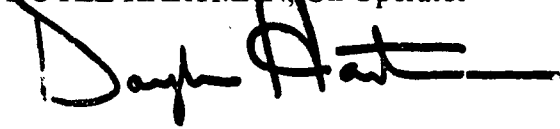
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Raptor appears before the Division, at a public hearing, to (1) explain the true nature and extent of its proposed drilling and completion program in Sections 8 and 9, and the Jalmat Pool overall, and (2) justify its drilling and completion program as being necessary to efficiently, effectively, and economically drain the acreage at issue.

If you have any questions, or need additional information, please do not hesitate to contact our attorneys, Mr. J.E. Gallegos and Michael J. Condon. Thank you for your cooperation.

Very truly yours,

DOYLE HARTMAN, Oil Operator



Doyle Hartman

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LIST OF EXHIBITS

- Exhibit "A" Ownership P.U. Plat.
- Exhibit "B" Hartman letter to Raptor dated October 21, 1999.
- Exhibit "C" Hartman letter to the NMOCD dated October 13, 1999.
- Exhibit "D" *Statehouse Reporting Service* dated October 25, 1999.
- Exhibit "E" NMOCD Form C-101 for well No. 77.
- Exhibit "F" NMOCD Form C-103 for well No. 54.
- Exhibit "G" NMOCC Index Plat, NMOCC Cross-Section (reduced), and three Cross-Section logs (enlarged).
- Exhibit "H" Ownership Plat.