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FAX TRANSMITTAL COVER SHEET

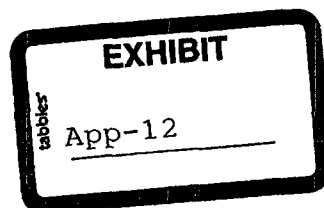
ATTORNEY-CLIENT PRIVILEGED INFORMATION

DATE: June 29, 2004 **TIME:**
TO: Dale Gandy 505-396-6887
FROM: Pete V. Domenici, Jr., Esq.
RE: **OCD Letter-See message below**
NUMBER OF PAGES, INCLUDING COVER:
IFYOU DO NOT RECEIVE ALL PAGES, PLEASE CALL Lorraine at (505) 883-6250.

Hard Copy to Follow ☐ Yes By: ☐ Mail ☒ Overnight ☐ Hand Deliver
☒ No

MESSAGE: PLEASE CALL PETE AS SOON AS POSSIBLE

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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

June 29, 2004

Ms. Lorraine Hollingsworth
Dolan & Domenici, P.C.
6100 Seagull NE, Suite 205
Albuquerque, NM 87109

Via e-mail: Hollings@dolando-domenici.com

Via fax: (505) 884-3424

Re: Gandy Corporation, State "T" Well No. 2, T16S, R36E, NMPM, Lea County, New Mexico NMOCD SWD 836

Dear Ms. Hollingsworth,

Your letter dated June 22, 2004, addressed to Chris Williams, Director of the Oil Conservation Division's District I office, was referred to the Division's Legal Bureau for a response. That letter seeks confirmation that Mr. Williams provided Gandy Corporation ("Gandy") with verbal permission to operate the State "T" Well No. 2 pending the hearing on Gandy's application for an amendment to its permit.

The State "T" Well No. 2 is permitted under Commission Order No. R-11855. The Order permits injection from 6,000 to 6,400 feet. According to Division records, the well was perforated from 4,810 to 6,880 feet. On May 3, 2004, Cabinet Secretary Joanna Prukop, as Acting Director of the Oil Conservation Division, issued an "Emergency Shut-In Order" notifying Gandy that the well was in violation of the permit, Commission Order No. R-11855-B and Division rules, and ordering Gandy to cease injection into the State "T" Well No. 2 until such time as

- a. all perforation depths not permitted under Commission Order No. R-11855-B are squeezed off to the satisfaction of the Division's District I office, or
- b. Gandy obtains an approved permit to inject into the depths already perforated.

Gandy subsequently applied for a permit to inject into the depths already perforated. The hearing on that application is scheduled for July 8, 2004.

The districts do not have the authority to override a directive issued by the Cabinet Secretary or Division Director. As stated in Secretary Prukop's notice, Gandy must cease injection into the State "T" Well No. 2 until all perforation depths not permitted under the Order are squeezed off, or until Gandy obtains an approved permit to inject into the depths already perforated.

Injection outside the zone allowed by the applicable injection permit constitutes injection without a permit, in violation of Division rule 701 [19.15.9.701 NMAC]. Any person who knowingly and willfully violates a Division rule shall be subject to a civil penalty of not more than one thousand dollars for each violation, and in the case of a continuing violation, each day of violation constitutes a separate violation. NMSA 1978, § 70-2-31(A). With this letter the Division notifies Gandy that any continued violation will be viewed as "knowing and willful."

Very truly yours,

Gail MacQuesten

JUN-29-2004 TUE 08:26 AM

FAX NO.

P. 03

Assistant General Counsel

cc: Gandy Corporation
ec: Chris Williams, District I

GANDY CORPORATION

OILFIELD SERVICES

P. O. BOX 827

TATUM, NEW MEXICO 88267

(505) 396-4960

LOVINGTON FAX #

(505) 396-6887

TATUM FAX #

(505) 398-6887

FAK COVER SHEET

DATE: 6-16-04

TIME: _____

NUMBER OF PAGES INCLUDING COVER SHEET: 3

TO:

COMPANY: _____

ATTENTION: Pete Domencici

FAX #: 884-3424

FROM:

GANDY CORPORATION

LOVINGTON, N.M. 88260

SENDERS NAME: Dale Gandy

MESSAGE: _____

For your information

IF THERE IS ANY TROUBLE IN RECEIVING THIS FAX, PLEASE CALL US AT
(505) 396-4948. THANK YOU.

OCT 23 2002



Lynda F. Townsend, CPL/ESA
Landman

October 22, 2002

Mr. G. A. Baber
1022 W. Broadway
Hobbs, NM 88240

RE: Pronghorn Management, State T #2
SWDW, Section 6-16S-36E
Lea County, New Mexico

Dear Mr. Baber:

Pursuant to our recent telephone conversations, please be advised that Chesapeake Operating, Inc. has no objections to the captioned salt water disposal well and your permit to dispose into the San Andres and Glorieta formations.

Please give me a call if you need anything further.

Very truly yours,

CHESAPEAKE OPERATING, INC.

A handwritten signature in cursive script that reads "Lynda F. Townsend".

Lynda F. Townsend

Pronghorn Exhibit 4
Case No. 12905

App-12
Exhibit