



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

Joanna Prukop
Cabinet Secretary
Acting Director
Oil Conservation Division

May 3, 2004

Gandy Corporation
1008 W Broadway
Hobbs, New Mexico 88240

EMERGENCY SHUT-IN ORDER

Re: Salt Water Disposal Well
State "T" Well No. 2
API No. 30-025-03735
4290 FSL, 500 FWL, Unit L, Section 6
Township 16 South, Range 36 East, NMPM
Lea County, New Mexico

Dear Sir or Madam:

On April 30, 2002, the New Mexico Oil Conservation Division ("Division") granted Pronghorn Management Corporation a permit to utilize the State "T" Well No. 2 as a saltwater disposal well to inject for disposal purposes into the San Andres and Glorieta formations from a depth of 6,000 to 6,200 feet through plastic lined tubing. This permit was contingent upon first plugging back the well to 6,500 feet and then squeezing cement from the existing cement top to the surface. Division hearing order R-11855 issued in Case No. 12905 on October 28th, 2002, rescinded this permit and denied Pronghorn's application to inject into this well for disposal purposes from 6,000 to 6,400 feet. Subsequently Pronghorn applied "de novo" to the Oil Conservation Commission to re-instate SWD-836 and permit injection from 6,000 to 6,400 feet. This application was approved on May 15th, 2003 by Commission hearing Order No. R-11855-B.

Division records indicate that operation of the well has transferred from Pronghorn to Gandy Corp (OGRID 8426) and on or before 8/19/2003, the well was plugged back, cement squeezed, and perforated from 4,810 to 6,880. Since this injection interval was not permitted under Commission Order No. R-11855-B, and injection permits are depth specific, **this well is in violation of Division rules and regulations. You are hereby ordered to immediately cease injection into this well until such time as either:**

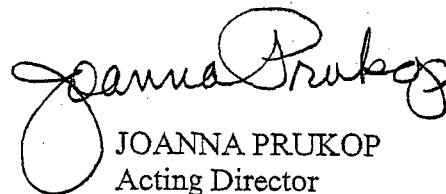
- (i) all perforation depths not permitted under Commission Order No. R-11855-B are squeezed off to the satisfaction of the Hobbs district office of the Division, or;
- (ii) you have an approved permit from the Division for injection into depths already perforated.

BEFORE THE OIL CONSERVATION
DIVISION
Santa Fe, New Mexico
Exhibit No. G
Case No. 13293
Submitted by: DKD, L. L. C.

Gandy Corporation
State "T" Well No. 2
May 3, 2004
Page 2 of 2

To obtain the necessary injection permit for this well, please review the Division's rules on injection wells, 19.15.9.701 through 708 NMAC, and follow form C-108, available on <http://www.emnrd.state.nm.us/ocd/> under "rulebook" and "forms" respectively.

If you contest this directive, you may file an application for consideration by a Division appointed hearing examiner. However, you must nevertheless, shut-in the well as directed pending such hearing.


JOANNA PRUKOP
Acting Director

JP/wvjj

cc: Oil Conservation Division – Hobbs
Division Compliance Officer – Lori Wrotenbery
Case 12905, SWD-836, UIC Compliance File