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New Mexico Department of Energy and Natural Resources
Oil and Gas Conservation Commission
1220 South St. Francis Drive
Santa Fe, NM 87505

RE: Proposed Pit Rules

Ladies and Gentlemen:

San Juan Resources, Inc. has some comments to make with regards to the draft pit rules that the OCD has proposed. I will begin by telling you a little about our company.

San Juan Resources (SJR) is an independent exploration and production company that began in 1990, with reserves primarily located in the San Juan Basin, New Mexico. We operate over a dozen wells in San Juan County, with plans to drill 5-6 wells each year. There are also non-operated properties in Rio Arriba and La Plata Counties. SJR has always been incorporating into our work new drilling and completions technologies and conducting the financial, regulatory and accounting activities ethically with compliance to state and federal laws. As we read the draft of the new State's Pit Rule (Title 19.15.17 NMAC), it has seems that it will have a detrimental on SJR's economics for new wells and the time that it takes to drill and complete a well. A lot of extra work is being devoted to an unnecessary complex rule, which in our view is not needed.

Some adverse prerequisites that have an effect on the time management, engineers and assets of the company are found in the Design and Construction Specifications (Title 19.15.17.11 NMAC). Stipulating an operator to "design and construct a pit, closed-loop system, below-grade tank or sump to contain liquids and solids" is excessive. In the past, majority of petroleum companies have constructed their pits next to the rig in the topsoil, taking into account for all environmental concerns. Having to create a closed-loop system, below-grade tank or sump will impede with engineers time and how the capital is utilized. Engineers will now have to engineer these design specifications into the drilling project, eradicating the time that could be used to facilitate with the completion and production. The cash flow of the capital is reduced having to pay for unnecessary work, equipment and labor.

The last two wells SJR drilled last year cost us upwards of \$200,000 per well in pit clean up costs. Since we drill a small number of wells every year, we don't have the luxury of transporting drilling fluids from one pit to another like a major company driller/operator can do. The pit rules as proposed will give an unfair advantage to the larger operators who can spread out the costs of pit reclamation across a larger number of wells. Small independent operators like SJR cannot do this when we drill a limited number of wells.

A more incongruous adaptation to the draft rule is the closed-loop systems. Closed-loop systems are unfounded to be used compared to the traditional pit. Having to purchase or rent the equipment that

is obligatory for the closed-loop system requires almost all oil and gas companies to do so. It also decrees that the "operator shall recycle, reuse or reclaim all drilling fluids in a manner that prevents contaminations..." While this is how closed-loop systems work, these procedures are not required in any Rocky Mountain state, except near towns or areas of human habitation. New Mexico has been an awesome State in which to operate, but will find that these pit rules will reduce drilling and add to costs of extraction in the State.

While we appreciate the work the task force has done in proposing these rules, SJR finds the implementation will further erode our ability to drill marginal wells in New Mexico, necessitating us to look at other States which have more favorable oil and gas commission rules.

Very truly yours,

SAN JUAN RESOURCES, INC.

A handwritten signature in black ink, appearing to read "Jerry McHugh, Jr.", with a stylized flourish at the end.

Jerry McHugh, Jr.

President