

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

December 6, 1999

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

DEC 9 9 10:56

HAND DELIVERED

Ms. Lori Wrotenbery, Director
Oil Conservation Division
2030 South Pacheco
Santa Fe, New Mexico 87505

Re: NMOCAD Administrative Orders SD-99-14 and SD-99-15
Applications of SDX Resources, Inc.
for simultaneous dedication, Jalmat Gas Pool,
Lea County, New Mexico

Dear Ms. Wrotenbery:

On behalf of SDX Resources Inc., I am responding to a letter sent to you by J. E. Gallegos on behalf of Doyle Hartman, dated November 9, 1999 in which Mr. Hartman objected to the Division's action in the referenced matters and asked that the Division rescind these orders and set this matter for hearing.

On November 8, 1999, the Division issued administrative order SD-99-14 which approved SDX Resources' request to add the State A-32 Well No. 6 at a standard location within a previously approved non-standard 120-acre spacing and proration unit ("GPU") in the Jalmat Gas Pool consisting of the W/2NW/4 and SW/4NW/4 of Section 32, T24S, R37E and which contains the State A-32 Well No. 4 and Well No. 5. The Division rejected Mr. Hartman's objection in this matter because "Mr. Hartman's letter of objection has no basis".

On November 8, 1999, the Division issued administrative order SD-99-15 which approved SDX Resources' request to add the Wells Federal Well No. 22 and Well No. 23, both located at a standard location within a previously approved non-standard 159.95-acre GPU in the Jalmat Gas Pool consisting of Lots 3, 4 and the S/2NW/4 (NW/4 equivalent) of Section 5, T24S, R37E and which contains the Wells Federal Well No. 4 and Well No. 15. The Division rejected Mr. Hartman's objection in this matter because "Mr. Hartman's letter of objection has no basis".

The Division has correctly rejected Mr. Hartman's objection. There is no basis for or means by which Mr. Hartman can object to these wells being "infill wells". Neither the Division rules nor the Jalmat Gas Pool rules provide for objections to "infill wells". In fact, the Division rules do not even require that an operator request "simultaneous dedication" nor require that the Division issue administrative "simultaneous dedication" orders.

The Jalmat Gas Pool is a prorated gas pool and for more than 45 years, the rules governing this pool never restricted the number of producing gas wells within a GPU. The reason that these rules do not limit the number of wells with a GPU is because this is a prorated gas pool in which correlative rights are protected by restricting the amount of gas to be produced by a GPU regardless of the number of wells within that GPU. The rule is fair reasonable and equitable and has been used by Mr. Hartman on more than 40 instances when he has drilled multiple wells in a GPU.¹ Mr. Hartman's complaint with the Division over how the Division has regulated this pool is not relevant to SDX Resources' application for two unorthodox well locations. If Mr. Hartman's complaint is that the long established Jalmat Pool Rules are not appropriate, then the proper recourse for Mr. Hartman is for him to file an application to change the pool rules.

In fact, in November, 1990,² Mr. Hartman sought and obtained Division approval to establish a minimum gas allowable for GPUs in the Jalmat Pool because, in Mr. Hartman's opinion, the institution of a minimum allowable was necessary to "provide an incentive necessary to promote **field wide fill drilling**...." (emphasis added). Mr. Hartman's expert testified that in excess of 80 percent of Mr. Hartman's production in the Jalmat Gas Pool was the result of him drilling "infill wells". See Transcript page 36 Case 10111. In granting Mr. Hartman's application, the Division also reaffirmed that the protection of correlative rights in the Jalmat Gas Pool was being addressed by prorationing controlling the amount of gas produced by each GPU based upon acreage and not based upon well density.³

¹ For example, see Division Order NSL-1823 in which Mr. Hartman obtained approval for a second well at an unorthodox well location on the same 120-acre non-standard GPU which is now operated by SDX Resources and which is the subject of Case 12302.

² See Order R-8170-J entered January 8, 1991 in Case 10111, application of Doyle Hartman to amend Order R-8170 to establish minimum gas allowables in the Jalmat Gas Pool, heard November 14, 1990.

³ See Finding (20) Order R-8170-J

In granting Mr. Hartman's application, the Division also found that:

"(6) Further evidence and testimony indicates that the production limitations imposed by the gas proration system may have discouraged and may continue to discourage further developmental drilling and attempted workovers of existing wells.

(12) Further evidence and testimony indicates that the applicant has drilled numerous infill wells in the Jalmat Gas Pool and as a result has substantially increased the recoverable gas reserves on each of said drilled leases or proration units."

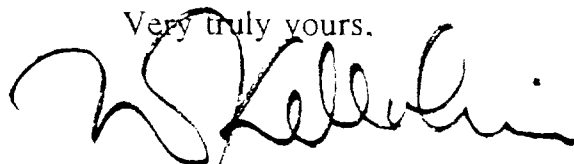
Then, at a hearing held on February 17, 1994, Mr. Hartman returned to the Division in Case 10111 (Reopened) and presented evidence in support of making the minimum 600 MCFPD allowable permanent including, among other things, evidence that there was an additional 438 BCF of gas which could be recovered only by infill wells. See Exhibit 8 in Case 10111 (Reopened). In addition, Mr. Hartman's expert further testified that the minimum allowable could provide the incentive for as many as 300 new wells, recompletions or workovers having a potential economic impact of \$75 million dollars. See page 90-91 transcript in Case 10111. As a result, the Division approved Mr. Hartman's request to make this rule permanent. See Order R-8170-J-1.

If Mr. Hartman now wants to advance an attack on the Division's regulation and management of the Jalmat Gas Pool or now is opposed to the infill drilling program which he supported and promoted in 1990, then he needs to file an application to amend the pool rules and involve all the operators in the pool and not just attempt to address the "infill drilling" issue within the context of SDX's drilling activity.

Mr. Hartman wants to deny to SDX Resources the opportunity to drill "infill wells" in the Jalmat Gas Pool despite the fact that on more than 40 occasions, Hartman has enjoyed and exercised the same opportunity for which he now complains.

SDX Resources, Inc. respectfully requests that you refuse Mr. Hartman's request to set this matter for hearing.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin