

REDROCK'S CHRONOLOGY

(1) This dispute involves Section 34, T21S, R24E, Lea County, New Mexico. See **Exhibit A-2 (chronology) and Exhibit A-2 (locator map)**

(2) Section 34 was divided by the Division (Orders R-2792, R-4491, R-5995, R-6050, R-6051, and R-7582) to separate and isolate the Gas Storage Unit in the W/2 from any Morrow production in the E/2 of Section 34. See **Exhibit A-3 through Exhibit A-8**

(3) Raptor Natural Pipeline, LLC ("Raptor") is the current operator of the Grama Ridge Morrow Gas Storage Unit ("Gas Storage Unit") which includes the W/2 of Section 34, T21S, R34 E, and other acreage. R-11611 See **Exhibit A-9**

(4) The Gas Storage Pool has its own special rules to protect the gas storage unit. See **Exhibits A-9**

(5) Section 34 has been divided such that the W/2 is in the Grama Ridge-Morrow Gas Pool ("Gas Storage Pool") and the E/2 is in the East Grama Ridge-Morrow Gas Pool ("Nearburg's Pool"). See **Exhibit A-2**

(6) The E/2 of Section 34 is a 320-acre spacing and proration unit ("GPU") originally dedicated to the Llano "34" State Well No. 1 ("the Llano Well") located in the SE/4 of this section. See **Exhibit A-2**

(7) On March 1, 1998, Redrock Operating Ltd., Co. obtained an interest in the S/2 of Section 34, and thereafter on May 27, 1999, retained a 10% overriding royalty interest therein. See **Exhibit A-10**

(8) On January 1, 2000, Great Western Drilling Company obtained an oil & gas lease from the Commissioner of Public Lands for New Mexico ("NMSLO") for the N/2 of Section 34.

(9) On February 28, 2000, Nearburg filed a request for approval of the APD for its Grama Ridge 34-1 Well ("Nearburg's Well") in the NE/4 to be dedicated to a standard 320-acre spacing unit consisting of the N/2 of Section 34. See **Exhibit A-11**

(10) Nearburg contends that it mistakenly believed that the N/2 of Section 34 was available for dedication to its well and relied upon the fact that the Division's Hobbs office had approved the Nearburg's application for permit to drill.

(11) Nearburg's senior landman testified that prior to drilling the Nearburg well,

(i) he did not know that Nearburg's proposed N/2 spacing unit would include portions of two separate pools in violation of Division's rules;

(ii) he made no effort to determine the pool rules applicable for the Morrow in Section 34 nor did he make any effort to search the Division's well files or records to determine the availability of the N/2 of Section 34 for a standard 320-acre gas spacing unit;

(iii) Nearburg failed to check if any portion of Section 34 was dedicated to the gas storage unit before drilling its well;

(iv) Nearburg has not, and sees no need to improve their spacing unit research process regarding this situation to prevent similar problems in the future.

(v) instead, he simply relied upon the new State of New Mexico oil & gas lease, a N/2 Section 34 drill site title opinion which was ordered by Nearburg to conform with their "presumed" unit, and the Division's approval of the Nearburg Application for Permit to Drill ("APD") Examiner Transcript 34-38
See Exhibit A-12

(12) On March 3, 2000, Nearburg spudded the Nearburg well and on June 9, 2000, completed it for production from the Morrow formation.

(13) On June 27, 2000, Nearburg filed its completion report with the Division. **See Exhibit A-13**

(14) In July, 2000, the Division Hobbs office notified Nearburg by telephone that the N/2 spacing unit could not be allowed and that Nearburg would have to change the acreage dedication.

(15) On January 8, 2001, some six months after being notified, Nearburg finally filed an administrative application with the Division seeking to subdivide this 320-acre GPU to create two non-standard 160 acre gas proration and spacing units as follows:

- (a) for Nearburg's Well located in Unit H of Section 34 a unit consisting of the NE/4 of Section 34, T21S R34E for production from the East Grama Ridge Morrow Gas Pool; and
- (b) for the Llano "34" State Com Well No. 1 ("Llano Well") located in Unit I of Section 34 a unit consisting of the SE/4 of Section 34, T21S R34E for production from the East Grama Ridge Morrow Gas Pool. **See Exhibit A-14**

(16) Nearburg's administrative application is based upon two factors (i) the existence of a fault separating the NW/4 from the NE/4 of Section 34, and (ii) Nearburg representation that all of the owners in the E/2 of Section 34 were in agreement to subdivide the E/2 into 2 non-standard 160-acres units. **See Exhibit A-14 at page 2 and 3**

(17) Nearburg sought support from the Commissioner of Public Lands for New Mexico ("NMSLO") for Nearburg's effort to create a non-standard 160-acre spacing unit for this well. **See Exhibits A-15 through A-17**

(18) By letter dated December 11, 2001, the SLO advised Nearburg that "NMSLO believes that all issues (i.e., the size of the spacing unit, whether to rescind the shut-in order, and whether to require the escrow of working interest funds) are properly resolved by the OCD, and NMSLO will support any decision of OCD that is based on substantial evidence presented to OCD at hearing."
See Exhibit A-18

(19) Nearburg never attempted to dedicate its well to the 320-acre spacing unit consisting of the E/2 of Section 34, nor did Nearburg explore any other solutions or options.

(20) On January 29, 2001, Nearburg sent notice to Redrock of Nearburg's administrative application. On February 12, 2001, Redrock filed an objection and this matter was set for hearing on March 22, 2001 and then continued repeatedly until June 28, 2001.
See Exhibits A-19 and A-20

(21) By the time of the Examiner hearing, the Nearburg well had produced in excess of 900 MMCF of gas.

(22) On May 22, 2002, some 11 months after the Examiner's Hearing, the Division entered Order R-11768 denying Nearburg's application and order that the Well be shut-in. **See Exhibit A-21.**

(23) The Division Case 12908, at the request of Nearburg, attempted to extend the GRM Pool and contract the EGRM Pool so that all of Section 34 would be in the GRM Pool.

(24) On August 1, 2002, the Division held a hearing in Case 12908 and without evidence to support a change and without notice to Redrock or Raptor, and attempted to grant Nearburg's request

(25) On August 19, 2002, Redrock and Raptor filed an objection to Case 12908, which was granted by the Division such that the Grama Ridge Pool boundary would be consolidated with Case 12622 for hearing before the Commission. **See Exhibit A-22**