

KELLAHIN & KELLAHIN  
ATTORNEY AT LAW

W. THOMAS KELLAHIN  
NEW MEXICO BOARD OF LEGAL  
SPECIALIZATION RECOGNIZED SPECIALIST  
IN THE AREA OF NATURAL RESOURCES-  
OIL AND GAS LAW

P.O. BOX 2265  
SANTA FE, NEW MEXICO 87504  
117 NORTH GUADALUPE  
SANTA FE, NEW MEXICO 87501

TELEPHONE 505-982-4285  
FACSIMILE 505-982-2047  
TKELLAHIN@AOL.COM

September 18, 2002

**HAND DELIVERED**

William F. Carr, Esq.  
Holland & Hart  
107 Guadalupe  
Santa Fe, New Mexico 87501

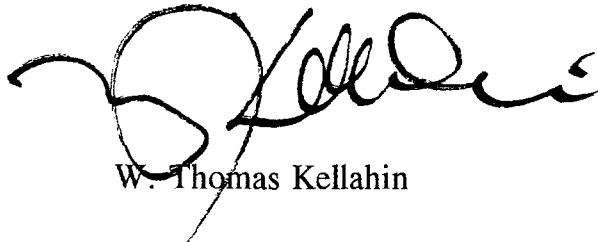
Re: **NMOCD CASE 12622 (DeNovo)**  
*Nearburg Exploration Company, L.L.C.*  
*Application for Approval of Two Non-Standard 160-acre*  
*Gas Proration and Spacing Units*  
*NE/4 and SE/4, Section 34, T21S, R34E, NMPM,*  
*East Grama Ridge-Morrow Gas Pool, Lea County, New Mexico*

Dear Mr. Carr:

Enclosed please find documents which are responsive to the Subpoena Duces Tecum served on Redrock Operating Ltd, Co. ("Redrock") which was issued by the Oil Conservation Division at the request of Nearburg Exploration Company, L.L.C. on September 13, 2002 requiring production at 8:15 am on September 19, 2002 at the Division.

Also enclosed is a copy of Redrock's Objections to this Subpoena.

Very truly yours,



W. Thomas Kellahin

cfx: Steve Ross, Esq.  
Oil Conservation Commission  
Redrock Operating Ltd. Co.  
Attn: Tim Cashon  
J. Scott Hall, Esq.  
Attorney for Raptor Pipeline

RECEIVED  
SEP 19 11 00 AM  
OIL CONSERVATION DIVISION

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2285

SANTA FE, NEW MEXICO 87504-2285

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)

April 27, 2001

Via Federal Express and Facsimile  
(915) 686-3773

EOG Resources Inc.  
4000 N. Big Springs, Suite 500  
Midland, Texas 79705

Re: NMOCD CASE 12622

*Nearburg Exploration Company, L.L.C.*

*Application for Approval of Two Non-Standard 160-acre*

*Gas Proration and Spacing Units*

*NE/4 and SE/4, Section 34, T21S, R34E, NMPM,*

*East Grama Ridge-Morrow Gas Pool, Lea County, New Mexico*

Dear Mr. Smith:

I represent Redrock Operating Ltd. Co ("Redrock") who owns a 10% overriding royalty in New Mexico State Oil & Gas Lease E-9659 covering the S/2 of Section 34, T21S, R34E, Lea County, New Mexico. On October 19, 1979, the SE/4 of this lease was communitized with another State of New Mexico lease covering the NE/4 of this section to form a 320-acre gas proration and spacing unit consisting of the E/2 of this section ("EOG spacing unit") and dedicated to the Llano "34" State Com Well No. 1 ("the EOG well") located in Unit 1 for production from the Morrow formation (East Grama Ridge Morrow Gas Pool.) It is our understanding that EOG Resources, Inc. ("EOG") is the current operator of this unit, this lease and this spacing unit including the EOG well which has been shut-in and is not currently producing.

On June 9, 2000, Nearburg Producing Company ("Nearburg") completed its Grama Ridge East 34 State Well No. 1 ("the Nearburg well") in the NE/4 of this section (Unit H). However, instead of dedicating this well as an infill well as required by New Mexico Oil Conservation Division Rule 104, to the existing EOG spacing unit and sharing that production with the owners in this unit, Nearburg is attempting to exclude the owners in the SE/4 by petitioning the Division to approve the formation of a 160-acre non-standard gas proration and spacing unit consisting of the NE/4 of this section. This case is currently pending hearing on May 17, 2001.

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April 27, 2001

-Page 2-

In pursuit of its objective, Nearburg, by letter dated December 15, 2000, requested a waiver of objection to Nearburg's petition from EOG which EOG signed and returned to Nearburg. In doing so, EOG has violated the correlative rights of Redrock, breached the implied covenant to use reasonable care in conducting all operations affecting my client's overriding royalty interest, breached the implied covenant to protect the SE/4 from drainage. For example, see *Cook v. El Paso Natural Gas Co*, 560 F.2d 978 (10th Cir. 1977).


It makes no sense for the owners in the NE/4 of this spacing unit to exclude the owners in the SE/4 from sharing in production from the Nearburg well when, in accordance with Division rules, the SE/4 owners have already shared with the NE/4 owners the production from the EOG well in the SE/4.

Accordingly, Redrock hereby demands that EOG:

- (a) immediately rescind its waiver of objection given to Nearburg;
- (b) commence appropriate action to have Nearburg pay to Redrock a 5% overriding royalty on all production from the Nearburg well from date of first production;
- (c) maintain and properly develop the existing 320-acre gas spacing and proration unit consisting of the E/2 of this section;
- (e) insure that State of New Mexico oil & gas Lease E-9659 continues to remain in full force and effect and is not canceled or surrendered for cancellation;
- (f) appear in Division Case 12622 in opposition to Nearburg and protect Redrock's correlative rights; and
- (g) remedy its breach of the implied covenants described above.

Because of the pending Division hearing, time is of the essence in this matter. Therefore, if EOG fails to commence action to protect Redrock not later than May 2, 2001, we will have no alternative but to seek appropriate judicial relief.

Very truly yours,



W. Thomas Kellahin

cfx: Redrock Operating Ltd. Co.

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**KELLAHIN AND KELLAHIN**

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2262

SANTA FE, NEW MEXICO 87504-2262

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)

**FACSIMILE COVER SHEET**

DATE: August 29, 2001  
TIME: 10:00 AM

NUMBER OF PAGES: -5-

\*\*\*

TO: Tim Cashion  
FAX NO: 214-382-3402

RE: Nearburg Grama Ridge  
NMOCD Case 12622

Dear Tim:

On August 24th I transmitted the attached letters to EOG, Bruce and Carr and to you. I am sorry that you did not receive your copy. I have against faxing a set to you.

I have had a phone call from Mr. Carr saying he forwarded by letter to Nearburg. I called Bruce and left a message. Neither has responded.

Attached are proposed letters to EOG and to Carr concerning any possible agreement between EOG and Nearburg.

Please call me when you are ready to discuss.

Regards,



This information contained in this Facsimile Message and Transmission is ATTORNEY PRIVILEGED AND CONFIDENTIAL information intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this Facsimile in error, please immediately notify us by telephone and return the original message to us at the above address via the U.S. Postal Service. Thank you.

000003

KELLAHN AND KELLAHN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2285

SANTA FE, NEW MEXICO 87504-2285

W. THOMAS KELLAHN\*

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

JASON KELLAHN (RETIRED 1991)

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

August 24, 2001

EOG Resources Inc.  
4000 N. Big Springs, Suite 500  
Midland, Texas 79705  
Attn: Mr. Steve Smith

Facsimile 915-686-3773

James Bruce, Esq.  
P. O. Box  
Santa Fe, New Mexico 87504

facsimile 505-982-2151

Re: NMOCD CASE 12622

*Nearburg Exploration Company, L.L.C.*

*Application for Approval of Two Non-Standard 160-acre*

*Gas Proration and Spacing Units*

*NE/4 and SE/4, Section 34, T21S, R34E, NMPM,*

*East Grama Ridge-Morrow Gas Pool, Lea County, New Mexico*

Dear Gentlemen:

On April 23, 2001, on behalf of Redrock Operating Ltd ("Redrock") I talk to Mr. Steve Smith concerning the waiver of objection EOG Resources Inc. ("EOG") signed and returned to Nearburg Exploration Company, L.L.C. ("Nearburg") by letter dated December 15, 2000. He advised me that it was his understanding that EOG received no consideration from Nearburg in exchange for this waiver.

On April 27, 2001, I wrote to EOG on behalf of Redrock demanding that EOG take necessary action to protect Redrock's rights pertaining to Nearburg's non-standard unit application. Thereafter, Mr. Bruce informed me that he was representing EOG and he would be responding to my letter. Unfortunately, as of today, I have not received any response.

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EOG Resources/James Bruce

August 24, 2001

-Page 2-


On June 28, 2001, the New Mexico Oil Conservation Division held a hearing of the referenced case and on July 26, 2001 ordered the Nearburg well shut-in pending an order in this case.

Therefore, in addition to responding to my April 23, 2001 letter, please advise me of the following:

- (a) What were the reasons EOG granted the waiver to Nearburg?
- (b) What individuals for EOG and Nearburg were involved?
- (c) Did EOG receive any consideration from Nearburg in exchange for the waiver? If so, please explain. If not, please explain why not.
- (d) Are there any oral agreements between Nearburg and EOG concerning unitization, the Nearburg application, future actions by either party and/or EOG waiver? If so, please provide supportive documentation.
- (e) Since Redrock believes EOG has failed their fiduciary duty in protecting Redrock's rights, what is EOG prepared to now do to protect and support Redrock's interest?

I look forward to a timely response from EOG regarding these issues.

Very truly yours,



W. Thomas Kellahin

cfx: Redrock Operating Ltd. Co.

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**KELLAHIN AND KELLAHIN**

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2268

SANTA FE, NEW MEXICO 87504-2268

TELEPHONE (505) 982-4265

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)

August 24, 2001

Via Facsimile  
505-983-6043

William F. Carr, Esq.  
P. O. Box 2208  
Santa Fe, New Mexico 87504

Re: **NMOCD CASE 12622**

*Nearburg Exploration Company, L.L.C.*

*Application for Approval of Two Non-Standard 160-acre*

*Gas Proration and Spacing Units*

*NE/4 and SE/4, Section 34, T21S, R34E, NMPM,*

*East Grama Ridge-Morrow Gas Pool, Lea County, New Mexico*

Dear Mr. Carr:

As you know, Nearburg Exploration Company, L.L.C. ("Nearburg") and Redrock Operating Ltd. (Redrock") met on August 14, 2001, to discuss a possible settlement of this matter. Also, you may know Redrock has asserted claims against EOG Resources Inc. ("EOG") for its failure to protect Redrock's interest in this matter. As you know, by letter dated December 15, 2000, your client, Nearburg Exploration Company, L.L.C. ("Nearburg") requested a waiver of objection from EOG Resources Inc. ("EOG") to the referenced case.

I am interested to know if your client, Nearburg, and EOG have any agreements or "understandings" between them concerning either the Nearburg application or Redrock's claims against Nearburg and EOG.

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William F. Carr, Esq.

August 24, 2001

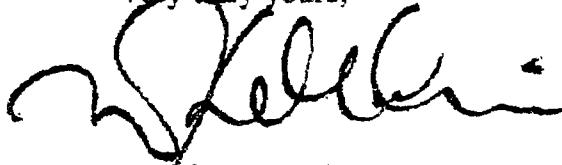
-Page 2-

Please advise me of the following:

- (a) What were the reasons EOG granted the waiver to Nearburg?
- (b) What individuals for EOG and Nearburg were involved?
- (c) Did Nearburg give any consideration to EOG in exchange for the waiver, If so, please explain. If not, please explain.
- (d) Are there any oral or written agreements between Nearburg and EOG concerning unitization, the Nearburg application, future actions by either party and/or the EOG waiver? IF so, please provide supportive documentation.
- (e) Are there any documents concerning this matter which Nearburg claims to be confidential or privileged? If so list and explain.

I would appreciate your response as soon as possible.

Very truly yours,



W. Thomas Kellahin

cfx: Redrock Operating Ltd. Co.

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EOG Resources, Inc.  
P.O. Box 2267  
Midland, TX 79702  
(915) 686-3600

May 1, 2002

Ms. Terri McGuire Watson  
Attorney at Law  
106 Springbrook Court  
Southlake, Texas 76092

Re: Nearburg Grama Ridge East 34 State #1 Well  
NE/4 Section 34, T-21-S, R-34-E, Lea County, New Mexico

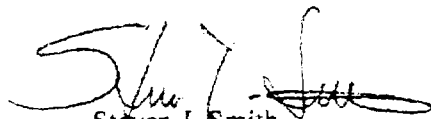
Dear Ms. Watson:

We are in receipt of your letter of April 19, 2002, concerning the captioned. In response to your question, EOG Resources, Inc. granted the waiver because we believe, based upon the same geological information presented by Nearburg Exploration Company, L.L.C. at the NMOCD hearing, that the perforated interval in the Morrow formation from which the subject well produced (identified on the logs for the well as being the GRE sand between 13,134 feet and 13,156 feet) is not present in and therefore can not be produced from the SE/4 of Section 34, T21-S, R-34-E, Lea County, New Mexico.

Should you need a copy of the materials presented at the NMOCD hearing, or have any further questions concerning this matter, please contact Mr. Robert Shelton with Nearburg Exploration Company, L.L.C.

Sincerely,

EOG RESOURCES, INC.

  
Steven J. Smith  
Project Landman

cc: Mr. Robert Shelton/Nearburg Exploration Company, L.L.C.

**TERRI MCGUIRE WATSON**

Attorney at Law  
106 Springbrook Court  
Southlake, Texas 76092  
(817) 251-3613

**VIA OVERNIGHT MAIL**

April 19, 2002

Mr. Steve Smith  
EOG Resources, Inc.  
4000 N. Big Springs, Suite 500  
Midland, TX 79702

Re: Nearburg Grama Ridge East 34 State #1 Well  
NE/4 Section 34-21S-34E, Lea County, New Mexico

Dear Mr. Smith:

I am in receipt of your letter dated March 21, 2002. Thank you for the information regarding EOG Resources, Inc.'s ("EOG") assignment of the State of New Mexico Oil and Gas Lease, No. E-9659, dated December 20, 1955, covering the S/2 Section 34-21S-34E, Lea County, New Mexico (the "Lease") to Nearburg Producing Company ("Nearburg"). Please be advised, however, that Redrock Operating Ltd. Co. ("Redrock") still requests certain information from EOG as set forth in my previous letter.

Because the assignment was executed after the date of Redrock's initial letter to EOG and after the date of the initial OCD hearing, this assignment is clearly another attempt by EOG and Nearburg to avoid potential liability to the overriding royalty interest owner.

Redrock, once again, demands an explanation from EOG, as the lease owner of record at the time, regarding its reason for agreeing to execute the waiver to objection. Redrock has been unable to determine the reason for EOG's waiver since no information has been forthcoming from EOG. Redrock has a right to receive this information regarding lease operations from the lease owner of record, which was EOG at the time, despite the effective date of the assignment.

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Mr. Steve Smith

April 3, 2002

-Page 2-

Redrock continues to maintain its claims of breach of implied covenants against EOG. In the event that EOG fails to provide an explanation to Redrock for its actions relating to the waiver of objection by April 29, 2002, Redrock will be forced to pursue all legal and equitable remedies available against EOG.

Sincerely,

A handwritten signature in cursive script that reads "Terri McGuire Watson". The signature is written in dark ink and includes a long, sweeping horizontal line at the end.

Terri McGuire Watson

cc: Redrock Operating Ltd. Co.

000010



EOG Resources, Inc.  
P.O. Box 2267  
Midland, TX 79702  
(915) 686-5600

March 21, 2001

Ms. Terri McGuire Watson  
Attorney at Law  
106 Springbrook Court  
Southlake, Texas 76092

Re: Nearburg Grama Ridge East 34 State #1 Well (the "Well")  
NE/4 Section 34, T21-S, R-34-E, Lea County, New Mexico

Dear Ms. Watson:

We are in receipt of your letter of March 18, 2002, concerning the captioned. Please be advised that EOG Resources, Inc. (EOG) ceased to own an interest in State of New Mexico lease No. 9659 effective April 1, 1999. Enclosed for your file is a copy of the recorded Assignment and Bill of Sale whereby EOG conveyed all of its right, title and interest in this lease to Nearburg Exploration Company, L.L.C., et al.

Please direct any further questions or correspondence concerning this matter to Nearburg Exploration Company, L.L.C., attention Mr. Robert Shelton, at the address shown on enclosed assignment.

Sincerely,

EOG RESOURCES, INC.

A handwritten signature in black ink, appearing to read "Steven J. Smith", written over a horizontal line.

Steven J. Smith  
Project Landman

Enclosure

cc: Mr. Robert Shelton/Nearburg Exploration Company, L.L.C.

*energy opportunity growth*

000011

**TERRI MCGUIRE WATSON**

Attorney at Law  
106 Springbrook Court  
Southlake, Texas 76092  
(817) 251-3613

**VIA OVERNIGHT MAIL**

March 18, 2002

Mr. James Bruce  
Attorney at Law  
3304 Camino Lisa  
Hyde Park Estates  
Santa Fe, New Mexico 87504

Re: Nearburg Grama Ridge East 34 State #1 Well (the "Well")  
NE/4 Section 34-21S-34E, Lea County, New Mexico

Dear Mr. Bruce:

I am writing on behalf of my client, Redrock Operating Ltd. Co. ("Redrock"), to reiterate Redrock's position on Nearburg Producing Company's ("Nearburg") request for non-standard units in connection with the Well and to notify your client, EOG Resources Inc. ("EOG"), of Redrock's disagreement with EOG's consent to Nearburg's request. By letter dated April 27, 2001 to Mr. Steve Smith of EOG (the "Kellahin Letter"), Mr. W. Thomas Kellahin set forth Redrock's position with regard to (1) Nearburg's request for non-standard units and (2) EOG's failure to protect Redrock's interests as an overriding royalty interest owner.

In review, Redrock owns a 10% overriding royalty interest (the "ORRI") in the State of New Mexico Oil and Gas Lease, No. E-9659, dated December 20, 1955, covering the S/2 Section 34-21S-34E, Lea County, New Mexico (the "Lease"), of which EOG is the lease owner of record. The Lease is part of a field covering the E/2 Section 34-21S-34E (the "Grama Ridge East Field").

By application for permit to drill, dated February 23, 2000, Nearburg received approval from the Oil Conservation Division of the State of New Mexico (the "OCD") to drill the Well. The Well, as approved, had a production unit comprised of the N/2 of Section 34-21S-34E. In June 2000, Nearburg began producing the Well. In July 2000, the OCD informed Nearburg that the N/2 unit would not be allowed because it overlapped two, existing fields. The Grama Ridge East Field is described above, and the W/2 of Section 34 is included in the Grama Ridge Morrow Field. Nearburg, however, continued to produce the Well on an unapproved unit basis.

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Mr. James Bruce

March 18, 2002

-Page 2-

In an attempt to exclude the SE/4 interest owners from sharing in the Well, Nearburg subsequently sought approval from the OCD of two non-standard 160 acre gas proration and spacing units (the "Application") in the NE/4 and SE/4 of Section 34-21S-34E (OCD Case 12622). For reasons unknown to Redrock, EOG, in a letter dated December 15, 2000, waived objection to Nearburg's Application.

On June 28, 2001, Redrock appeared at the OCD hearing of this matter to contest the validity and necessity of this action. Nearburg's Application is not consistent with OCD's historical unit configurations given the existence of the two fields and is an apparent attempt by Nearburg to exclude the owners in the SE/4. The Application remains under advisement with the OCD, and the Well has been shut-in since that time.

Redrock questions why EOG would refuse to pursue an E/2 unit and a potential 50% working interest in a risk-free well which had favorable economics. At the time EOG executed the Letter, the Well had produced approximately 0.7 Bcf of gas and 9600 Bbls of oil. Furthermore, Nearburg's own geological and reservoir interpretations cannot conclusively show the limits of the Well's production. Therefore, it appears that EOG has breached the implied covenant to use reasonable care in conducting operations which affect the ORRI, as well as the implied covenant to protect against drainage in the SE/4 of Section 34.

Redrock has received no communication from EOG relating to this matter, other than a letter from you, dated May 2, 2001, requesting an extension of time. This lack of response is unacceptable to Redrock and again shows EOG's failure to uphold its duties to the overriding royalty interest owner.

Redrock's demands, as set forth in the Kellahin Letter, remain unchanged. Redrock demands that EOG:

- 1.) rescind its waiver of objection to the non-standard units;
- 2.) maintain and properly develop the Grama Ridge East Field, including the establishment of an E/2 unit resulting in Redrock receiving a 5% overriding royalty on all production;
- 3.) commence appropriate action to assure that Redrock receives a 5% overriding royalty interest on all production from the Well from the date of first production;
- 4.) insure that the Lease continues to remain in full force and effect and is not canceled or surrendered for cancellation; and
- 5.) participate in OCD Case 12622, as necessary, to oppose Nearburg and protect Redrock's interests.

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Mr. James Bruce  
March 18, 2002  
-Page 3-

In the event that EOG fails to respond to these demands by no later than March 27, 2002, Redrock will be forced to pursue all legal and equitable remedies available to protect its ORRI.

Sincerely,

A handwritten signature in cursive script that reads "Terri McGuire Watson". The signature is written in dark ink and is positioned below the word "Sincerely,".

Terri McGuire Watson

cc: Redrock Operating Ltd. Co.

Mr. William R. Thomas, Sr. Vice President  
EOG Resources, Inc.  
4000 N. Big Springs, Suite 500  
Midland, TX 79702

000014

**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA  
HYDE PARK ESTATES  
SANTA FE, NEW MEXICO 87501

(505) 982-2043  
(505) 982-2151 (FAX)

May 2, 2001

Via Fax and U.S. Mail

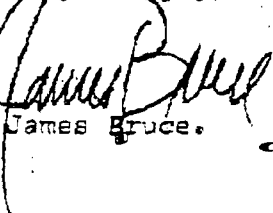
W. Thomas Kellahin  
P.O. Box 2265  
Santa Fe, New Mexico 87504

Re: Redrock Operating, Ltd. ("Redrock")  
534-218-34E  
Lea County, New Mexico

Dear Mr. Kellahin:

I represent EOG Resources, Inc. ("EOG"). I have reviewed your letter of April 27, 2001, addressed to EOG. The letter requested EOG to respond by May 2, 2001. There is a pending case before the Oil Conservation Division filed by Redrock (No. 12622), which has been continued to May 17th, and may well be continued beyond that date. As a result, on behalf of EOG I request a like extension of time to consider and respond to your letter.

Very truly yours,

  
James Bruce.

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