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October 29, 2001

VIA HAND DELIVERY

David Catanach, Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

***Re: Application of V-F Petroleum, Inc., for exceptions to special pool rules
permitting an unorthodox well location and a second well on 640-acre
proration unit, Eddy County, New Mexico.***

Dear Mr. Catanach:

You will recall that I discussed this case with you on Tuesday, October 9, prior to filing the above-referenced application. We originally intended to file this matter as an administrative application, and I discussed that matter at length with Mr. Stogner. However, because the relief requested includes the authorization of two wells on a 640-acre spacing unit (the standard spacing unit size under the special pool rules applicable to the acreage), you and I discussed the fact that the matter needed to be set for hearing.

Nevertheless, the relief requested by the application is in accordance with statewide rules for the Morrow formation. The application is necessary because Order No. R-3022, adopted January 1, 1966, establishing the Dos Hermanos Morrow Gas Pool, established special pool rules for the formation in the subject acreage. In particular, rule number 2 provides that the standard spacing unit for Dos Hermanos Gas Pool is 640 acres, while rule number 4 provides that each well within the subject pool shall be located no nearer than 1650 feet to the outer boundary of the section and no nearer than 330 feet to any governmental quarter-quarter section line. The proposed well, the Hale Federal Com. Well No. 3, will be the second well in the existing 640-acre spacing unit, and will be unorthodox as its bottomhole location will be 950 feet from the north line and 760 feet from the west line of the section.

On October 11, I delivered to Mr. Stogner technical information in support of the application, and discussed that material with him in a meeting on October 22. Mr. Stogner indicated that the technical information which I submitted would be included in the case file in this matter. In addition, Mr. Stogner indicated that it would be appropriate to submit two additional pieces of

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technical information in support of the application.

Accordingly, enclosed please find "Attachment No. 3," to be substituted for the attachment No. 3 which I submitted on October 11. This document lists the results of drainage area estimates using volumetric calculations for the Morrow producers in the Dos Hermanos Field. The enclosed document reflects the porosity, assumed recovery, and other figures forming the basis of the calculations in the document.

Also enclosed is the Application for Permit to Drill for the subject well which my client submitted to the Bureau of Land Management. This document and its attachments reflect all of the characteristics of the proposed well.

I will call you later today (Monday, October 29) to discuss this matter. Please let me know if there is any additional material which you will require in order to consider this application.

Very truly yours,

Paul R. Owen

Enclosures

cc: Mr. Larry Brazile
V-F Petroleum, Inc.