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JASON KELLAHIN (RETIRED 1991)

August 25, 1998

HAND DELIVERED

Mr. Michael E. Stogner
Mr. David R. Catanach
Rand Carroll, Esq.
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: Blanco Mesaverde Gas Pool
proposed rules changes to provide for
additional optional infill wells.

Gentlemen:

Burlington Resources Oil & Gas Company has requested my assistance in drafting a proposed Blanco Mesaverde Pool rule change to be circulated for comment among the operators in the pool. However, before circulating this proposed rule change, it would be most helpful to me to have the benefit of your comments and suggestions. I have enclosed a copy of my August 25, 1998 draft.

The premise is that the Blanco Mesaverde Pool contains areas of differing drainage sizes such that the current 4 wells per section may be sufficient in some areas ("Special Qualifying Areas") while the balance of the pool may require up to 8 wells per section in order to adequately drain the pool. These special qualifying areas are located such that the current pool could not be conveniently divided geographically into two new pools.

CURRENT RULES FOR BLANCO MESAVERDE POOL

"A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2(a). Standard GPU (gas proration unit) in the Blanco-Mesaverde Gas Pool shall be 320 acres.

RULE 2(b) Well Location:

(1) THE INITIAL WELL drilled on a GPU shall be located not closer than 790 feet to any outer boundary of the quarter section on which the well is located and not closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.

(2) THE INFILL WELL drilled on a GPU shall be located in the quarter section of the GPU not containing a Mesaverde well, and shall be located with respect to the GPU boundaries as described in the preceding paragraph."

PROPOSED RULE CHANGES

Burlington proposes that the Division amend the Special Rules and Regulations for the Blanco Mesaverde Gas Pool to allow a maximum of four (4) wells per GPU ("80-acre infill") in this pool as follows:

"A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2(a). Standard GPU (Gas proration Unit) in the Blanco-Mesaverde Gas Pool shall be 320 acres.

RULE 2(b) Well locations and well density in Special Qualifying Area:

Within the Special Qualifying Area of the Pool, a second and third optional "infill" wells may be drilled within a GPU in accordance with Rule 2(c) pursuant to the following procedures:

1. Operators of an existing GPU which contains both an original well and a first infill well and who desire to drill a second or third optional infill wells shall send a copy of its Application for Permit to Drill ("APD") to adjacent operators by certified mail-return receipt requested on or before the date the APD is filed with the Division's District Supervisor.

2. An adjacent operator shall be any operator of a Mesaverde GPU which contains any quarter-quarter section whose side boundary or corner adjoins the side boundary or corner of the quarter-quarter section in which the proposed optional infill well is to be located.

3. The Division's District Supervisor may approve the application for permit to drill ("APD") upon receipt of the APD and certification by the applicant that all adjacent operators have received notification and no objections have been received within a twenty (20) day notice period.

4. Well locations for approved second or third optional infill wells in the Special Qualifying Area shall not be closer than permitted by Rule 2(b)(1).

5. In the event an objection is timely received, or the District Supervisor upon its own initiative, the application shall be set for a hearing before a Division Examiner.

In the event the Division desires to adopt criteria for approval of an infill well even in the absence of objection, the following is suggested:

5. Any APD requesting approval of an additional optional infill well shall include a map of the GPU showing the location of all existing Mesaverde wells, and any two (2) of the following:

(a) showing original pressure, current pressure, cumulative recovery and current rate for each Mesaverde well within the GPU and calculations of the pressure drop per year for each year that the first infill well was produced in comparison to the original well on that GPU;

(b) volumetric estimates of drainage areas for the original and first infill well in the GPU;

(c) reservoir simulations of drainage areas for the original and first infill wells in the GPU.

6. The District Supervisor, in the absence of objection, shall approve the APD provided that the drop in pressure per year is not greater than 20 psi or that the drainage areas estimated by volumetrics or simulation are not greater than 80-acre per well.

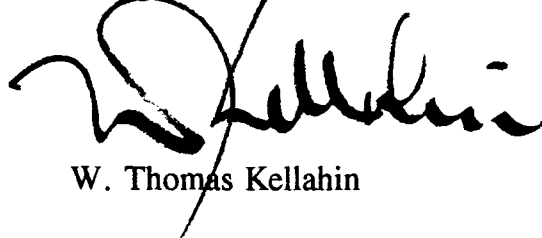
Oil Conservation Division

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I am not asking you to make any judgment about the merits of the case and I do not intend to show you any of the data involved. What I am requesting is that, assuming the rules are changed, do you see any flaws in the procedure and process I have suggested in this draft? Do you have any suggestions for improving the rule as I have currently drafted it?

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', with a large, stylized initial 'W' and a long, sweeping underline.

W. Thomas Kellahin

cc: Burlington Resources Oil & Gas Company
Attn: Alan Alexander

RULE 2(c) Well locations and well density for all acreage in the pool outside any special qualifying area:

Within any area of the Pool outside any special qualifying area, up to three (3) optional "infill" wells may be drilled within a GPU, subject to the following restrictions:

(1) Well Locations:

- (i) wells drilled on a GPU shall be located not closer than 660 feet to the South and North lines nor closer than 330 feet to the East and West lines of a GPU and not closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.
- (ii) no well shall be located closer than 990 feet to any existing Mesaverde well located in an adjacent GPU;
- (iii) wells located within federal exploratory units shall not be closer than 10 feet to any section, quarter section or interior quarter-quarter section line or subdivision inner boundary except that wells located within one-half mile of the outer boundary of any such unit, shall not be closer than permitted by Rule 2(b)(1)(i) above.

(2) Well Density:

- (i) the FIRST INFILL WELL drilled on a GPU shall be located in the quarter section of the GPU not containing a Mesaverde well;
- (ii) the SECOND INFILL WELL drilled on a GPU shall be located in a quarter-quarter section of the GPU not containing a Mesaverde well and within a quarter section of the GPU not containing more than one (1) Mesaverde well;
- (iii) the THIRD INFILL WELL drilled on a GPU shall be located in a quarter-quarter section of the GPU not containing a Mesaverde well and within a quarter section of the GPU not containing more than one (1) Mesaverde well.

RULE 3. Administrative Exceptions

The Division Director, in accordance with the applicable provisions of General Rule 104, may grant an exception to Rule 2 when an application has been submitted to the Division including notification to the affected parties.