



SOUTHWEST ROYALTIES, INC.
 Southwest Royalties Building
 407 N. Big Spring, Midland, TX 79701-4326
 P.O. Box 11390, Midland, TX 79702-8390
 (915) 686-9927, 1-800-433-7945

SOUTHWEST ROYALTIES

October 26, 2000

Mr. Zeno Farris
 Gruy Petroleum Management Company
 600 E. Las Colinas Blvd
 Suite 1100
 Dallas, Texas 75039

Re: Application for Unorthodox Gas Well Location
 Eaves "B" Well No. 20
 Scarborough Yates-Seven Rivers Field
 429' FEL, 1414' FSL
 Section 30, T26S, R37E
 Lea County, New Mexico

Dear Mr. Faris,

Southwest Royalties, Inc. is planning to complete the subject temporarily abandoned Seven Rivers oil well as a Yates gas well in the Scarborough Yates-Seven Rivers Pool. The Eaves "B" lease covers 280 acres in Section 30 (240 acres are contiguous). 200 acres of the 240 contiguous acres are in the Scarborough Field. Eaves "B" No. 8 is the only active well on the lease at this time. No. 8 is a Seven Rivers oil well, which is producing with a high volume submersible pump. Well No. 20 was chosen for recompletion as it is a modern completion having been drilled and completed in the deeper Seven Rivers formation in October 1993. If the Yates completion in No. 20 is successful No. 8 will be temporarily abandoned.

Conoco, Gruy Petroleum Management, and Dallas McCasland; the offset operators of record, were provided notice of Southwest Royalties, Inc. intentions. No objection was received.

It is Southwest Royalties, Inc.'s opinion that this work is necessary to prevent waste of Yates gas reserves, and to protect its correlative rights, i.e. Yates gas has been produced from wells in the offset sections 29 and 32, and this well is the only viable candidate for recompletion.

Further, it is Southwest's position that the NMOCD has authority to grant such a request administratively, but none the less required the matter to be set for hearing. In spite of evidence presented at the hearing Southwest's request was denied. Southwest has appealed the decision and will put on its case before the Commissioners on November 8, 2000.

In order to make it clear to the Commissioners that Gruy Petroleum Management Company does not object to this recompletion please sign and return a copy of this letter to the undersigned. If you have any questions or require additional information, please contact the undersigned at (915) 686-9927 or by e-mail at Marty_B@SWRINC.COM.

Sincerely,

C. M. "Marty" Bloodworth, P. E.
 Area Supervisor

Gruy Petroleum Management Company has no objection to the recompletion of the Eaves B-20 well.

Signed: Zeno Farris

Title: Manager, Operations Admin.

Date: October 31, 2000

xc: CMB file
 Well file

BEFORE THE OIL CONSERVATION DIVISION
 Santa Fe, New Mexico
 Case No. 12426 (De Novo) Exhibit No. 3
 Submitted by:
 Southwest Royalties, Inc.
 Hearing Date: November 8, 2000