

Correspondence

denovo

Case No. 12622

Oct. 1st - 10th 2002

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October 7, 2002

Hand Delivered

Steve Ross, Esq.
New Mexico Oil Conservation Commission
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

William F. Carr, Esq.
110 North Guadalupe
Santa Fe, New Mexico 87501

J. Scott Hall, Esq.
150 Washington, Ste 300
Santa Fe, New Mexico 87501

Re: NMOCC Case 12622 (De Novo) Application of Nearburg Exploration
Company, LLC for two non-standard gas spacing units, Lea County, New Mexico

NMOCD Case 12908-A: In the matter of the hearing called by the
Division for expanding the Grama Ridge Morrow Gas Pool and contracting the
East Grama Ridge Morrow Gas Pool, Lea County, New Mexico

Dear Counsel:

On behalf of Redrock Operating Ltd, Co., and in accordance with Mr. Ross' letter
dated September 26, 2002, I am submitting the following:

- (1) Redrock's original exhibits A-1 thorough A-4 are hereby withdrawn and revised
exhibits A-1 thorough A-22 substituted;
- (2) Redrock's original exhibit B-4 and B-7 are reversed and will be renumbered;
- (3) Redrock's original exhibit B-3 is hereby withdrawn and revised B-3 substituted [large
copy of strategraphic cross-section (copy enclosed)].

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October 7, 2002
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I reserve the right to use the transcript and exhibits from the Examiner hearing held on June 28, 2001, and any rebuttal evidence as I may deem necessary.

Very truly yours,

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

W. Thomas Kellahin

cc: Redrock Operating Ltd, Co.
Attn: Mr. Tim Cashon

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

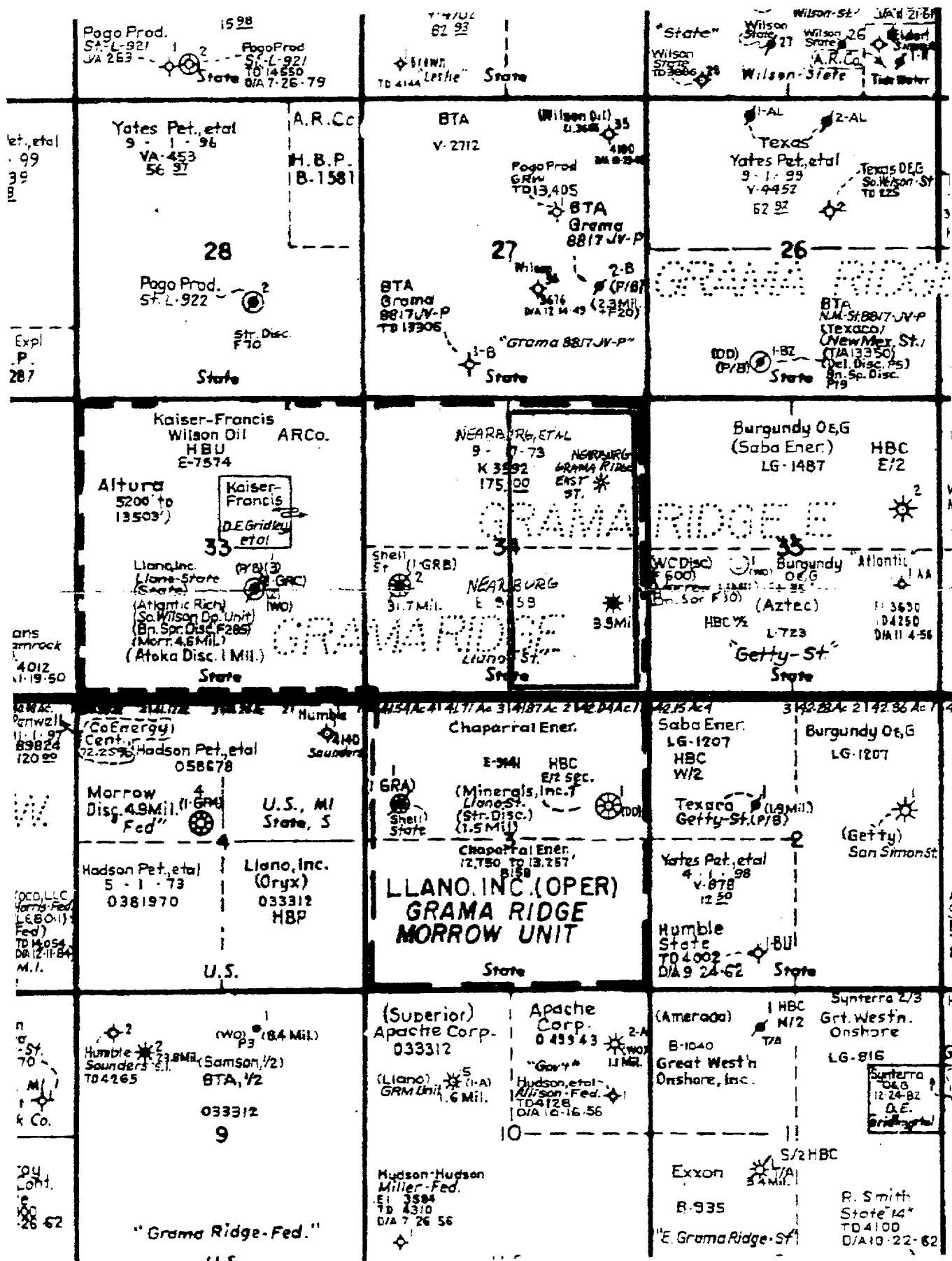
(21) By the time of the Examiner hearing, the Nearburg well had produced in excess of 900 MMCF of gas.

(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**



BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-3**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

CASE No. 3128
Order No. R-2792

APPLICATION OF SHELL OIL COMPANY
FOR APPROVAL OF THE GRAMA RIDGE
UNIT AGREEMENT, LEA COUNTY, NEW
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on October 13, 1964, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 21st day of October, 1964, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Shell Oil Company, seeks approval of the Grama Ridge Unit Agreement covering 3051.92 acres, more or less, of State and Federal lands described as follows:

LEA COUNTY, NEW MEXICO
TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 34: All

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 3: N/2
Section 4: All
Section 5: SE/4
Section 8: All
Section 9: All

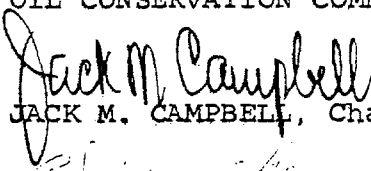
(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

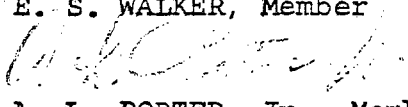
- (1) That the Grama Ridge Unit Agreement is hereby approved.
- (2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.
- (3) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.
- (4) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.
- (5) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JACK M. CAMPBELL, Chairman


E. S. WALKER, Member


A. L. PORTER, Jr., Member & Secretary

S E A L

esr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-4**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

CASE NO. 4896
Order No. R-4491

APPLICATION OF LLANO, INC.,
FOR GAS INJECTION, LEA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 17, 1973, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 16th day of March, 1973, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Llano, Inc., is the operator of the Grama Ridge Morrow Unit Area comprising some 1280 acres, more or less, of lands in Section 34, Township 21 South, Range 34 East, NMPM, and Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico.

(3) That the applicant proposes to inject purchased gas for storage purposes into its State GRA Well No. 1 located in Unit E of the aforesaid Section 3 and its State GRB Well No. 1 located in Unit L of the aforesaid Section 34, injection to be into the perforated intervals from 12,827 to 12,847 feet, 12,984 to 12,985 feet, and 13,010 to 13,021 feet in said State GRA Well No. 1, and the perforated intervals from 12,921 to 12,934 feet, 13,020 to 13,022 feet, and 13,051 to 13,073 feet in said State GRB Well No. 1, all of said perforations being into irregular and non-continuous sands embedded in the shale matrix of the Morrow formation, Grama Ridge Morrow Gas Pool.

(4) That while there are other wells than the aforesaid State GRA Well No. 1 and State GRB Well No. 1 producing from the Morrow formation of said Grama Ridge-Morrow Gas Pool, the evidence indicates that said other wells are producing from separate sand stringers not in communication with the proposed injection zones.

(5) That the applicant proposes to initiate and conduct its gas storage operations in the subject wells in accordance with a 3-phase plan as follows:

Phase I - General conditioning of downhole well equipment and installation of surface, testing and metering facilities. Pilot test in order to determine by pressure analysis the limits of the Morrow reservoir and the compatability for gas storage.

Phase II - First installation of permanent compression equipment to expedite fill-up operation after soundness of underground Morrow reservoir is established.

Phase III - Installation of additional compression after evaluation of Phase II has corroborated the reservoir limits as determined in the Phase I evaluation and final fill-up to 2500 psig surface pressure.

(6) That the injection of gas into the subject wells for gas storage purposes, and the subsequent withdrawal of such gas for transportation to market, will not cause waste nor violate correlative rights, and should be approved.

IT IS THEREFORE ORDERED:

(1) That the applicant, Llano, Inc., is hereby authorized to inject gas for storage purposes, and to subsequently withdraw such gas, in the perforated intervals from 12,827 to 12,847 feet, 12,984 to 12,985 feet, and 13,010 to 13,021 feet in its State GRA Well No. 1 located in Unit E of Section 3, Township 22 South, Range 34 East, NMPM, and in the perforated intervals from 12,921 to 12,934 feet, 13,020 to 13,022 feet, and 13,051 to 13,073 feet in its State GRB Well No. 1 located in Unit L of Section 34, Township 21 South, Range 34 East, NMPM, Grama Ridge-Morrow Gas Pool, Lea County, New Mexico.

(2) That the applicant shall notify the Santa Fe and Hobbs offices of the Commission and the Commissioner of Public Lands for the State of New Mexico upon commencement of each phase of operations as outlined in Finding No. (5) above. Further, that the applicant shall file monthly reports of gas injected and gas withdrawn as required by Rule 405 of the Commission Rules and Regulations.

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Case No. 4896

Order No. R-4491

(3) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

BRUCE KING, Chairman

S E A L

ALEX J. ARMIJO, Member

A. L. PORTER, Jr., Member & Secretary

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-5**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6496
Order No. R-5995

APPLICATION OF LLANO, INC. FOR
RESCISSION OF POOL RULES, LEA
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 14, 1979,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 2nd day of May, 1979, the Division
Director, having considered the testimony, the record, and
the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Llano Inc., is the owner of five
wells in the Grama Ridge-Morrow Gas Pool, Lea County, New
Mexico.

(3) That said pool was created and defined by Division
Order No. R-3006 on December 3, 1965, comprising all of
Sections 3 and 4, Township 22 South, Range 34 East, NMPM,
and made subject to the special pool rules promulgated by said
order, which include a provision for 640-acre spacing and
proration units, with well locations prescribed as being no
closer than 1650 feet to the outer boundary of the unit and
no closer than 330 feet to any quarter-quarter section line.

(4) That said pool was extended by Order No. R-3080,
effective July 1, 1966, to include all of Section 34, Township
21 South, Range 34 East, NMPM; by Order No. R-3152, effective
December 1, 1966, to include all of Section 10, Township 22
South, Range 34 East, NMPM; by Order No. R-3195, effective

March 1, 1967, to include all of Section 33, Township 21 South, Range 34 East, NMPM; and by Order No. R-5729, effective June 1, 1978, to include all of Section 2, Township 22 South, Range 34 East, NMPM.

(5) That the applicant seeks the rescission of the Special Rules and Regulations for the Grama Ridge-Morrow Gas Pool to provide that said pool would be governed by the 320-acre spacing and acreage dedication requirements and well location requirements of Rule 104 of the Division Rules and Regulations.

(6) That the evidence in this case indicates that the five Morrow gas wells owned by the applicant, namely the Grama Ridge Unit Wells Nos. 2 and 3, located in Sections 34 and 33, respectively, of Township 21 South, Range 34 East, NMPM, and Grama Ridge Unit Wells Nos. 1 and 4, and Government "A" Well No. 1, located in Sections 3, 4, and 10, respectively, of Township 22 South, Range 34 East, NMPM, are all located within an upthrust fault block bounded on the west by a northeast-southwest trending fault and on the east by a north-south trending fault, and that they are not in communication with other wells recently drilled in the area, namely the POGO State L-922 Well No. 2 located in Section 28, or the Getty 35 State Well No. 1 located in Section 35, both in Township 21 South, Range 34 East, NMPM, or the Getty 2 State Well No. 1 located in Section 2, Township 22 South, Range 34 East, NMPM.

(7) That the evidence in this case indicates that the horizontal limits of the Grama Ridge-Morrow Gas Pool, as heretofore defined, are excessive and contain lands which are not producible by wells completed within said pool.

(8) That the horizontal limits of the pool should be contracted to approximately the known productive limits of the above-described fault block, and the pool should be redefined as comprising the following-described lands:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM

Section 33: E/2

Section 34: W/2

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM

Section 3: W/2

Section 4: All

Section 10: W/2

(9) That the applicant has established that the drainage characteristics of the reservoir in the wells completed within the aforesaid fault block are not such as to support 640-acre spacing, and that 320-acre spacing is more appropriate for the Morrow wells completed therein.

(10) That the Special Rules and Regulations for the Grama Ridge-Morrow Gas Pool, as promulgated by Division Order No. R-3006, should be rescinded, and the pool, as hereinabove redefined, should be spaced, drilled, operated, and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable.

(11) That the three recently completed wells described in Finding No. (6) above are not completed in the Grama Ridge-Morrow Gas Pool as redefined, and a separate new pool should be created and defined for the POGO well located in Section 28, and a separate new pool should be created for each or both of the Getty wells located in Sections 35 and 2.

(12) That the owner of the aforesaid wells in said Sections 35 and 2 should be given a reasonable period of time in which to apply to the Division for a hearing to consider the creation of a new pool for said wells, and the promulgation of special rules therefor, if said owner wishes to pursue spacing and proration units of other than 320 acres, and 30 days after the entry of this order is a reasonable period of time for such purpose.

(13) That during such 30-day period, and during the time an application for other than 320-acre spacing has been filed, and a hearing, or an order following hearing, is pending, the following described lands should be placed on temporary 640-acre spacing for the Morrow formation, and no Morrow gas well drilling permits should be approved for said lands unless such permits are for wells to which 640-acres (being a single governmental section) is dedicated and which are located at least 1650 feet from the outer boundary of the unit and at least 330 feet from any quarter-quarter section line, or unless an exception to the provisions of this finding and the derivative order therefrom has been obtained after notice and hearing; the lands are:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM

Section 26: All

Section 34: E/2

Sections 35 and 36: All

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Case No. 6496
Order No. R-5995

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Sections 1 and 2: All
Section 3: E/2
Section 10: E/2
Sections 11 and 12: All

(14) That in the event the owner of the wells in Sections 35, Township 21 South, Range 34 East, NMPM, and 2, Township 22 South, Range 34 East, NMPM, has not filed an application for creation of a new pool for said wells and the promulgation of special rules for said pool, including a provision for other than 320-acre spacing, within the above-described 30-day period, or in the event that spacing and proration units of other than 320 acres are denied, then all the lands described in Finding No. (13) above should be governed by the provisions of Rule 104 of the Division Rules and Regulations.

(15) That an order based on the above findings is in the interest of conservation and will prevent waste and protect correlative rights and should be approved.

IT IS THEREFORE ORDERED:

(1) That the Grama Ridge-Morrow Gas Pool in Lea County, New Mexico, as heretofore classified and defined, is hereby redefined to include only the following described lands:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 33: E/2
Section 34: W/2

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 3: W/2
Section 4: All
Section 10: W/2

(2) That the Special Rules and Regulations for the Grama Ridge-Morrow Gas Pool, as promulgated by Division Order No. R-3006, are hereby rescinded, and said pool shall hereafter be spaced, drilled, operated, and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable.

(3) That the Morrow formation underlying all of Section 26, the E/2 of Section 34, and all of Sections 35 and 36, Township 21 South, Range 34 East, NMPM, and all of Sections 1 and 2, the E/2 of Section 3, the E/2 of Section 10, and all of

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Case No. 6496
Order No. R-5995

Sections 11 and 12, Township 22 South, Range 34 East, NMPM, are hereby placed on temporary 640-acre spacing, and no drilling permit shall be approved for any Morrow gas well proposed to be drilled on said lands unless such permit is for a well to which 640 acres (being a single governmental section) is dedicated and which is located at least 1650 feet from the outer boundary of the unit and at least 330 feet from any quarter-quarter section line, or unless an exception to the provisions of this Order No. (3) has been obtained after notice and hearing.

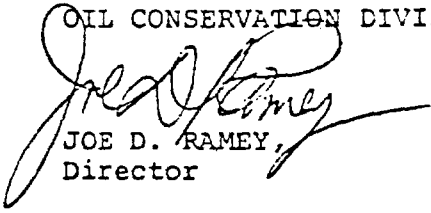
(4) That the provisions of Order No. (3) above shall be in force for a period of 30 days after the date of entry of this order, or provided Getty Oil Company has filed an application for creation of a new gas pool within the lands described in Order No. (3) above and for the promulgation of special rules for such new pool, including a provision for other than 320-acre spacing, for so long thereafter as a hearing, or an order following a hearing, is pending.

(5) That upon expiration of the acreage dedication and well location requirements provisions of Order No. (3) above, and in the absence of special pool rules to the contrary, all Morrow gas wells completed on the lands described in Order No. (3) above shall be spaced, drilled, operated, and produced in accordance with the provisions of Rule 104 of the Division Rules and Regulations.

(6) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY,
Director

S E A L

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 6557
Order No. R-6050

APPLICATION OF GETTY OIL COMPANY
FOR POOL CREATION AND SPECIAL POOL
RULES, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 29, 1979, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 17th day of July, 1979, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the Division, by its Order No. R-5995 entered May 2, 1979, rescinded the Special Rules and Regulations for the Grama Ridge-Morrow Gas Pool, as promulgated by Division Order No. R-3006, and provided that said pool should henceforth be spaced, drilled, operated, and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable.

(3) That said Order No. R-5995 redefined the horizontal limits of the Grama Ridge-Morrow Gas Pool to include only the E/2 of Section 33 and the W/2 of Section 34, Township 21 South, Range 34 East, NMPM, and the W/2 of Section 3, all of Section 4, and the W/2 of Section 10, Township 22 South, Range 34 East, NMPM.

(4) That said Order No. R-5995 further defined a particular area, described as all of Section 26, the E/2 of Section 34, and all of Sections 35 and 36, Township 21 South,

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-6
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Range 34 East, NMPM, and all of Sections 1 and 2, the E/2 of Section 3, the E/2 of Section 10, and all of Sections 11 and 12, Township 22 South, Range 34 East, NMPM, and prescribed that the Morrow formation underlying said area would be placed on temporary 640-acre well spacing and location requirements for a period of 30 days after the date of entry of said Order No. R-5995, or, provided that if Getty Oil Company had filed an application for creation of a new gas pool within the hereinabove-described lands and the promulgation of special rules for such new pool, including a provision for other than 320-acre spacing, then such temporary rules should remain in effect for so long thereafter as a hearing, or an order following a hearing, is pending.

(5) That Getty Oil Company did file an application with the Division on May 3, 1979, requesting such pool creation and special rules, and said application was docketed for hearing as the instant case.

(6) That as the applicant herein, Getty Oil Company seeks the creation of a new Morrow Gas Pool comprising all of Section 35, Township 21 South, Range 34 East, NMPM, and all of Section 2, Township 22 South, Range 34 East, NMPM, and the promulgation of special rules therefor, including a provision for 640-acre spacing and proration units, and well locations, no closer than 1650 feet to the outer boundary of the unit and no closer than 330 feet to any quarter-quarter section line.

(7) That the applicant is the operator of its Getty "35" State Well No. 1 located in Unit K of the aforesaid Section 35, and its Getty "2" State Well No. 1 located in Unit F of the aforesaid Section 2.

(8) That said wells are located approximately 4290 feet apart, or less than one mile, but the main producing zone in each of the two wells does not appear to be of major significance in the other well.

(9) That Getty presented evidence attempting to establish that the Morrow producing interval in both the Grama Ridge-Morrow Gas Pool and in the lands immediately East thereof, i.e., the lands under consideration in this case, is of deltaic marine nature, and therefore should extend laterally for considerable distance and exhibit good continuity of permeability throughout the reservoir, thus being conducive to 640-acre spacing; however, the preponderance of the evidence presented at the hearing establishes that said Morrow producing interval does not constitute a broad continuous producing body but instead is composed of numerous separate and isolated sand bodies.

-3-

Case No. 6557
Order No. R-6050

(10) That from the evidence submitted at the hearing, there is no reason to believe that the drainage characteristics in the Morrow formation in the area under consideration (Section 35, Township 21 South, Range 34 East, NMPM, and Section 2, Township 22 South, Range 34 East, NMPM) are any different than the drainage characteristics of the Morrow formation in the Grama Ridge-Morrow Gas Pool immediately to the West.

(11) That the Division found, in Case No. 6496, from which Order No. R-5995 issued, that the drainage characteristics of the Morrow formation in the Grama Ridge-Morrow Gas Pool are not such as to support 640-acre spacing, and that 320-acre spacing was more appropriate for said pool.

(12) That the applicant has failed to establish that one well will effectively and efficiently drain 640 acres in the Morrow formation underlying Section 35, Township 21 South, Range 34 East, NMPM, and Section 2, Township 22 South, Range 34 East, NMPM.

(13) That after considering the evidence presented in this case and the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells, and the prevention of reduced recovery which might result from the drilling of too few wells, the Commission can only conclude that the application for 640-acre spacing in the subject area should be denied, and that said lands should be developed on 320-acre spacing and proration units.

(14) That a new pool should be created and defined for applicant's wells in the subject area, and that said pool should be designated the East Grama Ridge-Morrow Gas Pool with vertical limits comprising the Morrow formation and horizontal limits comprising the S/2 of Section 35, Township 21 South, Range 34 East, NMPM, and the N/2 of Section 2, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico.

(15) That said East Grama Ridge-Morrow Gas Pool should be spaced, drilled, operated and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable, including 320-acre spacing and proration units and well location requirements.

(16) That the provisions of Order No. (3) on Pages 4 and 5 of Division Order No. R-5995 should be rescinded.

-4-

Case No. 6557
Order No. R-6050

IT IS THEREFORE ORDERED:

(1) That the application of Getty Oil Company for the creation of a new gas pool in Lea County, New Mexico, for the production of gas from the Morrow formation is approved, and there is hereby created the East Grama Ridge-Morrow Gas Pool, with vertical limits comprising the Morrow formation and horizontal limits comprising the following described area:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 35: S/2

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 2: N/2

(2) That said East Grama Ridge-Morrow Gas Pool shall be spaced, drilled, operated, and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable to 320-acre spacing and proration units and well location requirements.

(3) That the application of Getty Oil Company for 640-acre spacing and well location requirements is hereby denied.

(4) That the provisions of Order No. (3) on Pages 4 and 5 of Division Order No. R-5995 are hereby rescinded.

IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in, or for which drilling permits have been approved for, the East Grama Ridge-Morrow Gas Pool or the Morrow formation within one mile thereof, are hereby approved.

(2) That existing wells in the East Grama Ridge-Morrow Gas Pool shall have dedicated thereto 320 acres in accordance with the foregoing, and the operator thereof shall file Forms C-102 dedicating 320 acres to such wells within 60 days after entry of this order.

Failure to file new Forms C-102 with the Division dedicating 320 acres to a well within 60 days from the date of this order shall subject the well to cancellation of allowable.

(3) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

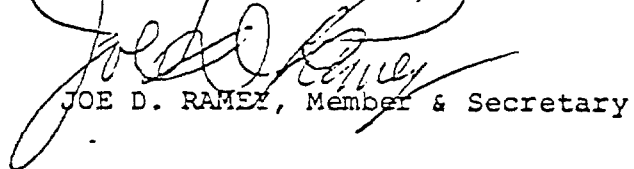
-5-
Case No. 6557
Order No. R-6050

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


ALEX J. ARMIJO, Member


EMERY C. ARNOLD, Member


JOE D. RAMEZ, Member & Secretary

S E A L

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 6558
Order No. R-6051

APPLICATION OF LLANO, INC. FOR
A NON-STANDARD GAS PRORATION UNIT,
LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 29, 1979, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 17th day of July, 1979, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the application of Llano, Inc., for a 320-acre non-standard gas proration unit comprising the E/2 of Section 34, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico, was predicated on the temporary 640-acre spacing and proration units and well location requirements promulgated by Order No. (3) on Pages 4 and 5 of Division Order No. R-5995.

(3) That the Division, by its Order No. R-6050 rescinded said Order No. (3) of Division Order No. R-5995, and the Morrow formation underlying the aforesaid E/2 of Section 34 is now subject to 320-acre well spacing and location requirements, thereby rendering this case moot.

(4) That Case No. 6558 should be dismissed.

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-7
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

-2-

Case No. 6558

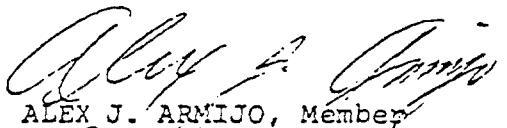
Order No. R-6051


IT IS THEREFORE ORDERED:

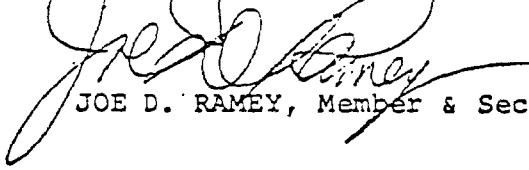
(1) That Case No. 6558 is hereby dismissed.

DONE at Santa Fe, New Mexico, on the day and year herein
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


ALEX J. ARMIJO, Member


EMERY C. ARNOLD, Member


JOE D. RAMEY, Member & Secretary

S E A L

fd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8008
Order No. R-7582

APPLICATION OF LIANO, INC. FOR
SPECIAL WELL TESTING REQUIREMENTS
OR EXPANSION OF ITS GAS STORAGE
PROJECT, LEA COUNTY, NEW MEXICO.

SECTION 5 WELL

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on May 15, 1984, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 29th day of June, 1984, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Liano, Inc., is the operator of the Grana Ridge Morrow Unit which was approved by the Commission on January 29, 1973, by Order No. R-4473 and has been subsequently expanded to include the following described state lands:

LEA COUNTY, NEW MEXICO, NMPM

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Sections 33 and 34: All

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 3: All

(3) That the applicant operates an underground gas storage project in the Morrow Formation, Grana Ridge Morrow Gas Pool, under the Grana Ridge Morrow Unit Area described in Paragraph (2) and under Sections 4 and 10, Township 22 South,

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-8
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

That the L & B Oil Company, through its agent, the L & B Oil Company, has entered into an agreement with the L & B Oil Company, through its agent, the L & B Oil Company, for the storage of gas in the Morrow formation, Grana Ridge area, Lea County, New Mexico, Agreement No. 14-0000001-14277, as amended).

(4) That Llano injects gas into the Morrow formation in its GRM Unit Well No. 1 (formerly State GRM Well No. 1) located in Unit 2, Section 3, Township 22 South, Range 34 East, NMPM, and in the GRM Unit Well No. 2 (formerly State GRM Well No. 1) located in Unit 1 of Section 34, Township 21 South, Range 34 East, NMPM, Grana Ridge-Morrow Gas Pool, Lea County, New Mexico, pursuant to Commission Order R-4491 entered on March 16, 1971.

(5) That L & B Oil Company proposes to drill its Federal Well No. 1 at a location 650 feet from the south line and 1900 feet from the west line of Section 5, Township 22 South, Range 34 East, NMPM, which directly offsets the Llano Storage Project.

(6) That the boundaries of the Grana Ridge Storage Reservoir cannot be precisely determined.

(7) That L & B Oil Company proposes to test and possibly complete its Federal Well No. 1 in the same Morrow interval into which Llano injects natural gas for storage and in so doing could damage Llano's storage project and produce gas which is the property of Llano, Inc.

(8) That applicant seeks an order requiring L & B Oil Company to test the Morrow sands encountered below the top of the Morrow Classics in its Federal Well No. 1 by using a Repeat Formation Tester (RFT) to establish the pressure in each Morrow stringer and thereby determine if the well is in communication with Llano's storage project.

(9) That Llano should be required to bear the cost of conducting this test and should further be required to indemnify L & B Oil Company for any damage to their well which results from the tests.

(10) That testing at the L & B Oil Company Federal Well No. 1 will not cause waste nor violate correlative rights and should be approved.

(11) That there was insufficient evidence presented to warrant the expansion of the gas storage project to include the N/2 of Section 5, Township 22 South, Range 34 East.

IT IS HEREBY ORDERED:

(1) That the applicant, Llano, Inc., shall be authorized, at its option, to run an RFT log on the L & S Oil Company Federal Well No. 1 to be drilled at a location 500 feet from the south line and 1500 feet from the west line of Section 5, Township 22 South, Range 14 East, NMP, Lea County, New Mexico.

(2) That L & S Oil Company shall provide Llano, Inc. with the following information on the said Federal Well No. 1 from the top of the Morrow formation to total depth:

- (a) Drilling data, including time, weight, bit changes, etc.
- (b) Copies of drill stem tests.
- (c) Mud log information.
- (d) Samples or drilling cuttings.
- (e) Copy of the CNL-WDC porosity log or equivalent porosity log.

(3) Within twenty-four hours after receipt of the data required in Paragraph (2) of this order, Llano at its sole discretion, shall determine if the Morrow formation in the L & S Oil Company well is structurally equivalent to Llano's storage system and shall notify L & S Oil Company and the District Office of the Oil Conservation Division in Hobbs, New Mexico, whether or not it will run an RFT log on the well.

- (a) If Llano, Inc. decides to run an RFT log on the well:
- (b) L & S Oil Company will temporarily turn over control of the well to Llano, Inc. for the sole purpose of running an RFT log from the top of the Morrow formation to the well's total depth;
- (c) Llano will make all arrangements with the service company to run the RFT log;
- (d) Llano will be liable for any damage to the well during the time Llano has control of the well and will reimburse L & S Oil Company for any costs for the period while Llano is determining whether or not to run the RFT log, if the costs involved in running the RFT log, and any other costs incurred by L & S Oil Company as a result of running the RFT log.

14.
Order No. 10000
Order No. 10000

(1) Liano will provide a copy of the log on the well to I & M Oil Company.

(2) Liano will provide a copy of the log on the well to I & M Oil Company.

PROVIDED FURTHER, that I & M Oil Company will not run casing in the well until Liano has run the log on the well or failed to notify I & M Oil Company and the Oil Conservation Division's District Office of its intention to run the log in accordance with the provisions of Paragraph (3) of this Order.

(3) That if it is established by the data obtained from the log that the Morrow stringers in the said I & M well have pressures similar to those of Liano's gas storage project, I & M Oil Company shall not produce gas from those stringers and shall demonstrate this fact to the satisfaction of Liano, Inc. and the District Office of the Oil Conservation Division located in Hobbs, New Mexico.

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinafter designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, Member

ED KELLEY, Member

JOE D. HANEY, Chairman and Secretary

U F A I

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

APPLICATION OF RAPTOR NATURAL PIPELINE, LLC CASE NO. 12588
f/k/a LG & E ENERGY CORPORATION, FOR SPECIAL
RULES FOR THE GRAMA RIDGE MORROW GAS STORAGE
UNIT, LEA COUNTY, NEW MEXICO.

APPLICATION OF LG & E NATURAL PIPELINE LLC CASE NO. 12441
FOR SPECIAL RULES FOR THE GRAMA RIDGE
MORROW GAS STORAGE UNIT, LEA COUNTY, NEW
MEXICO.

ORDER NO. R-11611

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 9:00 a.m. on May 21, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 3rd day of July, 2001, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of these cases and their subject matter.

(2) At the time of the hearing, Cases No. 12588 and 12441 were consolidated for the purpose of testimony. It is further noted that the original applicant in Case No. 12441, LG&E Natural Pipeline, LLC, through a change of name became Raptor Natural Pipeline LLC.

(3) BTA Oil Producers, Yates Petroleum Corporation, C. W. Trainer, Inc., Nearburg Exploration Company L.L.C. and Concho Resources, Inc. appeared at the hearing and were represented by counsel.

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-2
Submitted By: Redrock Operating
Hearing Date: October 21 & 22 2002

(4) The applicant in Case No. 12588, Raptor Natural Pipeline LLC, is the Unit Operator of the Grama Ridge Morrow Gas Storage Unit, utilized for the purposes of the injection, storage, and withdrawal of gas in the Unitized Formation, consisting of those Morrow formation sands encountered between log depths of 12,722 feet and 13,208 feet in the Shell Oil Company State GRA Well No. 1 (API No. 30-025-21336), located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico.

(5) The Grama Ridge Morrow unitized area, as originally approved by the Division on January 29, 1973, pursuant to Order No. R-4473, and subsequently amended, encompasses the above-referenced interval of the Morrow Formation underlying the following lands:

Township 21 South, Range 34 East, NMPM

Section 33: All

Section 34: All

Township 22 South, Range 34 East, NMPM

Section 3: All

Section 4: All

Section 10: All.

(6) Unit operations originally commenced in 1964 as conventional production operations authorized by the Division under Order No. R-2792. In 1973, the Division, by Order No. R-4491, authorized the conversion of the Unit from primary recovery to gas storage, pursuant to a three-phase plan consisting of pilot pressure testing to determine the limits of the Morrow reservoir, followed by the installation of permanent compression equipment and fill-up operations, and subsequently, by installation of additional compression to facilitate fill-up to 2,500 psig surface pressure.

(7) In 1979, in Case No. 6557, the New Mexico Oil Conservation Commission ("Commission") issued Order No. R-6050, creating the East Grama Ridge-Morrow Gas Pool in the area. In Order No. R-6050, the Commission found that the Morrow producing interval in the area does not constitute a broad, continuous producing body, but instead is composed of numerous and separate isolated sand bodies. Subsequently, in Case No. 8088, the Commission found in Order No. R-7582 that the boundaries of the Grama Ridge Storage Reservoir could not be precisely determined. The issuance of Order No. R-7582 by the Commission in Case No. 8088 was precipitated by the proposed location of the L&B Oil Company Federal Well No. 1 to be drilled at a location 660 feet from the South line and

1980 feet from the East line (Unit O) of Section 5, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico directly offsetting the Grama Ridge Morrow Gas Storage Unit. At the insistence of the Unit operator, then Llano, Inc., the Commission ordered L&B Oil Company to permit Llano to run an RFT log in the Federal Well No. 1, in order to establish the pressure in each Morrow stringer and thereby determine if the well was in communication with the gas storage project. The Commission further ordered L&B Oil Company to provide Llano with certain information on the Federal Well No. 1, including drilling time, weight, bit changes, *etc.*; copies of drill stem tests; mud log information; samples of drill cuttings; and copies of the CNL-FDC porosity log or equivalent porosity log. L&B was further ordered to delay running casing into the well until Llano had the opportunity to run the RFT log. Order No. R-7582 finally prohibited L&B Oil Company from producing gas from those Morrow stringers that the RFT log data showed as having pressure similar to Llano's gas storage project

(8) The applicant presented evidence establishing that Nearburg Exploration Company LLC drilled and completed its Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948) within the horizontal limits of the Unit at a location approximately 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico. This well was also drilled to a total depth and completed within the vertical limits of the structural equivalent of the Unitized Formation.

(9) Raptor presented testimony and evidence establishing that, based on currently available data, it appears that the Grama Ridge East "34" State Well No. 1 has not adversely affected Unit Operations, although the possibility of actual communication with the Unitized Formation cannot be precluded with absolute certainty.

(10) Raptor presented additional geologic and engineering evidence establishing that the exact boundaries of the storage reservoir still cannot be precisely determined. The evidence further establishes that the precise location of faults in the area and the apparent boundary or boundaries between the storage reservoir and the East Grama Ridge-Morrow Gas Pool is uncertain.

(11) Raptor presented additional geologic evidence of the depositional mechanics of the Morrow formation in the area, establishing that there is a reasonable possibility of communication between the storage reservoir and Morrow sands in the East Grama Ridge-Morrow Gas Pool. These depositional mechanisms include distributary prograding channel sands with truncation of lobe sands; bifurcating distributary channels; crevasse splays with communication up-formation; stacked channel sands with truncation; offsetting channels of relatively close proximity with varying relative reservoir pressures which may lead to the

failure of inter-reservoir sealing mechanisms; and, faulted distributaries with cross-fault communication.

(12) The applicant presented additional evidence establishing that the potential exists for additional drilling and development within the horizontal limits of the Unit Area and that additional drilling or recompletions may result in wells being completed in Morrow Formation reservoirs that are in communication with that portion of the formation dedicated to the Grama Ridge Morrow Gas Storage Unit. As a consequence, there exists a reasonable potential that the drilling, completion, and operation of new wells or recompletions of existing wells in the area, would result in interference with Unit operations and the impairment of Applicant's correlative rights.

(13) Raptor requests that the Division adopt Special Project Rules and Operating Procedures for the Grama Ridge Morrow Gas Storage Unit Area, including certain notification, casing, cementing, completion and recompletion requirements for newly drilled and existing wells within the Unit Area.

(14) Raptor presented engineering testimony and evidence in support of its proposed casing and cementing requirements that would permit recompletions and new drills through the Unitized Formation, and completions immediately above and below the Unitized Formation, while maintaining the integrity of the Unit and unit operations.

(15) Raptor presented evidence establishing that the implementation of such rules is reasonable, and does not unduly burden operators of wells within the project area, and industry and regulatory precedent exists for such rules.

(16) The evidence presented further established that the implementation of such Special Project Rules and Operating Procedures would be in the interest of, and would promote, public safety.

(17) In August 2000, Raptor, then known as LG&E Natural Pipeline LLC, convened a meeting in Midland, Texas with operators in the vicinity of the Grama Ridge Morrow Gas Storage Unit to discuss the establishment of proposed Special Project Rules and Operating Procedures in the Grama Ridge Morrow Gas Storage Unit Area as well as in a buffer zone consisting of each 320- acre gas spacing and proration unit immediately adjacent to the Grama Ridge Morrow Gas Storage Unit. As a result of that meeting and the comments received from the other operators, Raptor/LG&E modified its proposal by eliminating certain notification and testing procedures as well as the buffer zone. Subsequent meetings with other operators, specifically Nearburg Exploration, resulted in further refinements and modifications to the proposed Special Project Rules and Operating Procedures.

(18) The Special Project Rules and Operating Procedures presently proposed by Raptor provide for:

- (a) Advance notification of drilling or recompletion operations;
- (b) The sharing of certain information during drilling operations;
- (c) Availability of well logs;
- (d) Certain casing and cementing requirements for wells penetrating the Morrow Formation and completed above the top of the Unitized Formation;
- (e) Certain casing and cementing requirements for wells penetrating the Morrow Formation and completed below the base of the Unitized Formation and/or below the base of the Morrow Formation; and
- (f) A prohibition on completions within the Unitized Formation underlying the Unit Project Area by other than the Unit Operator.

The proposed Special Project Rules and Operating Procedures would not apply to any well that does not penetrate the Morrow Formation within the Unit Project Area.

(19) The evidence presented by Raptor established that the Special Project Rules and Operating Procedures are necessary to protect the correlative rights of the Unit Operator to the gas in its storage facility as well as to maintain the integrity of Unit operations. The evidence further established that the Special Project Rules and Operating Procedures would serve to prevent waste and are otherwise in the interests of conservation. The Special Project Rules and Operating Procedures would also promote public safety.

(20) In addition to its general authority to prevent waste and protect correlative rights set forth at N.M. Stat. Ann. 1978 Section 70-2-11, the Division is authorized by Section § 70-2-12.B (2), (7) and (13) to prevent the escape of gas from strata, to require wells to be drilled so as to prevent injury to neighboring leases or properties, and to regulate the subsurface storage of natural gas.

(21) Special operating procedures for all recompletions and newly drilled wells within the Grama Ridge Morrow Gas Storage Unit project area should be implemented in accordance with the Special Project Rules and Operating Procedures, as described above.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Raptor Natural Pipeline LLC, special project rules and operating procedures for the Grama Ridge Morrow Gas Storage Unit Area in Lea County, New Mexico are hereby promulgated as follows:

**SPECIAL PROJECT RULES AND OPERATING PROCEDURES
FOR THE
GRAMA RIDGE MORROW GAS STORAGE UNIT**

RULE 1. Each newly drilled or recompleted well penetrating the Morrow formation in the area of the Grama Ridge Morrow Gas Storage Unit Project Area shall be drilled, operated, and produced in accordance with the Special Project Rules and Operating Procedures hereinafter set forth.

RULE 2. Provisions of these Special Project Rules and Operating Procedures shall apply to the Grama Ridge Morrow Gas Storage Unit Project Area (the "Unit Project Area" or "Unit Area"), defined as and consisting of the following described acreage in Lea County, New Mexico:

**GRAMA RIDGE MORROW
GAS STORAGE UNIT
PROJECT AREA**

Township 21 South, Range 34 East, NMPM

Section 33: All

Section 34: All

Township 22 South, Range 34 East, NMPM

Section 3: All

Section 4: All

Section 10: All.

RULE 3. For purposes of these Special Project Rules

and Operating Procedures, the "Unitized Formation," as to State lands, is defined by that April 25, 1973, Unit Agreement For The Operation Of The Grama Ridge Morrow Unit Area, Lea County, New Mexico, as amended, and consists of "[t]hat subsurface portion of the unit area commonly known as the Morrow sands which is the same zone as [sic] the top and bottom of which were encountered at log depths of 12,722 feet and 13,208 feet respectively, in the Shell Oil Company State GRA Well No. 1 (API No. 30-025-21336), as shown on the Schlumberger Sonic Log B Gamma Ray Log of said well dated July 5, 1965, which well is located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico." As to State and fee lands, the Unit Area includes Sections 33 and 34, Township 21 South, Range 34 East, NMPM, and the NE/4 of Section 4 and all of Section 3, Township 22 South Range 34 East, NMPM. As to Federal lands, the "Unitized Formation" consists of the Morrow Formation underlying the "gas storage reservoir area" (also the Unit Area) in Section 4 (excluding the NE/4 of Section 4) and Section 10, Township 22 South, Range 34 East, NMPM, as defined in that November 24, 1975 Agreement for the Subsurface Storage of Gas, No. 14-08-0001-14277, as amended.

RULE 4. For purposes of these Special Project Rules and Operating Procedures, the "Morrow Formation" is defined as the full extent of the vertical limits of the Morrow formation. The "Unit Operator" is defined as the operator of the Grama Ridge Morrow Gas Storage Unit Area.

RULE 5. Operators other than the Unit Operator proposing to drill a new well or recomplete an existing well penetrating or that may penetrate the Morrow Formation within the Unit Project Area of the Grama Ridge Morrow Gas Storage Unit, as defined above, shall:

- (a) provide the Unit Operator with advance written notification of intent to drill at the sooner of the date of filing of APD, C-101 and

C-102 forms, or thirty (30) days prior to commencing drilling operations;

- (b) on commencement of drilling operations, provide the Unit Operator with the following information within twenty-four (24) hours of its availability:
 - (i) daily drilling reports, including detailed time breakdown and other parameters normally associated with IADC daily drilling reports; and
 - (ii) the anticipated date and time when the top of the Morrow formation will be encountered by the drill bit; and
- (c) provide the Unit Operator with copies of all logs run on the well within twenty-four (24) hours of their availability and before casing is set.

RULE 6. For each well penetrating the Morrow formation within the boundaries of the Unit Project Area and completed above the top of Unitized Formation, the operator shall:

- (a) in the event of a cased hole into or through the Unitized Formation, isolate the Unitized Formation by squeezing cement immediately above and below (if penetrated) the Unitized Formation and immediately below the operator's deepest completion interval, run a cement bond log, and then fill the casing with cement to a level higher than the top of the Unitized Formation; and
- (b) in the case of an open hole into or through the Unitized Formation with casing set above the Unitized Formation:

- (i) if the hole total depth is within the Unitized Formation, fill the hole with cement to a level 20 feet higher than the top of the Unitized Formation; and
- (ii) if the hole total depth is below the bottom of the Unitized Formation, set a bridge plug at a depth 20 feet below the bottom of the Unitized Formation and fill the hole with cement from the bridge plug to a level 20 feet higher than the top of the Unitized Formation.

RULE 7. For each well penetrating the Morrow Formation and completed below the base of the Unitized Formation within the boundaries of the Unit Project Area, the operator shall:

- (a) squeeze cement immediately above the perforation interval, squeeze cement immediately below the Unitized Formation and squeeze cement immediately above the Unitized Formation; and
- (b) provide the Unit Operator with a cement bond log to document bond on all squeeze jobs.

RULE 8. For each exploratory well penetrating the Morrow Formation that is to be plugged and abandoned without casing, the operator shall fill the hole with cement from a bridge plug set at 20 feet below the base of the Unitized Formation (if applicable) to a level 20 feet above the top of the Unitized Formation.

RULE 9. The Unit Operator, on the request of an operator providing information and materials pursuant to Rule 5 (a) through (c) above or any other applicable provision of these Special Project Rules and Operating Procedures, shall

treat all or any part of such information and materials as confidential and shall prevent their release to any third party, except that this confidentiality provision shall not cover such information and materials that: (i) are or become generally available to the public other than as a result of a disclosure by the Unit Operator or an affiliate in violation of this provision; (ii) the Unit Operator or an affiliate already possessed on a non-confidential basis; or (iii) the Unit Operator or an affiliate is obligated to disclose by law, subpoena, or the order of a court or other governmental entity having jurisdiction.

RULE 10. Completions within the Unitized Formation underlying the Unit Project Area by anyone other than the Unit Operator are prohibited.

RULE 11. These Special Project Rules and Operating Procedures shall not apply to any well that does not penetrate the Morrow Formation within the Grama Ridge Morrow Gas Storage Unit Project Area.

(2) The Special Project Rules and Operating Procedures for the Grama Ridge Morrow Gas Storage Unit Area shall become effective May 1, 2001.

(3) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, reading "Lori Wrotenbery".

LORI WROTENBERY
Director

SEAL

-45057

ASSIGNMENT AND BILL OF SALE

THE STATE OF NEW MEXICO §
 §
 COUNTY OF LEA §

KNOW ALL MEN BY THESE PRESENTS:

THAT for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt of which is hereby acknowledged, the undersigned REDROCK OPERATING LTD. CO., a New Mexico Limited Liability Company whose address is P. O. Box 140505, Dallas, Texas 75214 ("Assignor"), does hereby SELL, ASSIGN, TRANSFER, SET OVER and CONVEY unto ROCA RESOURCE COMPANY, INC., whose address is P. O. Box 1981, Midland, Texas 79702 ("Assignee"), subject to the terms and provisions set forth herein, all of the Assignor's right, title and interest in, to and under, or derived from, the oil and gas leases, oil, gas and mineral leases and other interests therein (the "Leases") specifically described or referred to in Exhibit "A" attached hereto and made a part hereof for all purposes; together with identical interests in and to all property and rights incident thereto, including without limitation, all materials, equipment, personal property and fixtures located thereon (excepting and reserving the compressor and appurtenances thereto) or used in connection therewith and all of Assignor's rights in, to and under all agreements, leases, permits, rights-of-way, easements, licenses, options and orders in any way relating thereto as of 7 A.M. Local Time April 1, 1999, (the "Effective Time"); all of the foregoing properties, rights and interests being hereinafter sometimes called the Subject Interests.

Assignor hereby excepts and reserves unto itself as an overriding royalty interest two percent (2%) of all oil, gas, and associated hydrocarbons produced and saved from the E/2 of Section 10 under the terms and provisions of the Leases 1 and 2 more fully described on Exhibit "A" and an overriding

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BOOK 980 PAGE 340

BEFORE THE
 OIL CONSERVATION COMMISSION
 Case No. 12622 & 12908
 Exhibit # A-10
 Submitted By: Redrock Operating
 Hearing Date: October 21 & 22, 2002

royalty interest of ten percent (10%) percent of all oil, gas, and associated hydrocarbons produced and saved from the S/2 of Section 34 under the terms and provisions of Lease 4 more fully described on Exhibit "A". This overriding royalty interest shall be in addition to all royalties, overriding royalties, and burdens payable out of production heretofore created. Said overriding royalty shall be delivered to Assignor free and clear of all liens and all costs of development and operation, (including charges for gathering, transportation, compression and treatment), but will be subject to a proportionate part of any and all applicable taxes. Assignor shall have the right to take or separately dispose of its proportionate share of all production which is attributable to the overriding royalty interest herein reserved.

The overriding royalty interest reserved herein to Assignor shall be reduced proportionately if Assignor's interest in the Oil and Gas Leases cover less than the full undivided interest in the oil and gas and associated hydrocarbons in the assigned premises or if Assignor does not own all leasehold rights in said leases.

TO HAVE AND TO HOLD the Subject Interests unto Assignee, its successors and assigns forever.

1. Assignor further gives and grants unto Assignee full power and right of substitution and subrogation in and to all covenants and warranties by others heretofore given or made in respect of the Subject Interests. THIS ASSIGNMENT IS FURTHER MADE AND ACCEPTED UPON THE UNDERSTANDING AND AGREEMENT THAT ASSIGNOR MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF ANY DATA, INFORMATION, OR MATERIALS HERETOFORE OR HEREAFTER FURNISHED ASSIGNEE IN CONNECTION WITH THE SUBJECT

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INTERESTS, OR AS TO THE QUALITY OR QUANTITY OF HYDROCARBON RESERVES (IF ANY) ATTRIBUTABLE TO THE SUBJECT INTERESTS, OR THE ABILITY OF THE INTERESTS TO PRODUCE HYDROCARBONS. ANY AND ALL SUCH DATA, INFORMATION, OR OTHER MATERIALS FURNISHED BY ASSIGNOR IS PROVIDED ASSIGNEE AS A CONVENIENCE AND ANY RELIANCE ON OR USE OF THE SAME SHALL BE AT ASSIGNEE'S SOLE RISK. ASSIGNEE EXPRESSLY WAIVES THE PROVISIONS OF CHAPTER XVII, SUBCHAPTER E, SECTIONS 17.41 THROUGH 17.63, INCLUSIVE (OTHER THAN SECTION 17.555, WHICH IS NOT WAIVED), VERNON'S TEXAS CODE ANNOTATED BUSINESS AND COMMERCE CODE (THE "DECEPTIVE TRADE PRACTICES ACT").

2. THIS ASSIGNMENT IS MADE BY ASSIGNOR AND ACCEPTED BY ASSIGNEE WITHOUT REPRESENTATIONS, COVENANTS OR WARRANTIES AS TO TITLE OR QUANTUM OF INTEREST CONVEYED, EITHER EXPRESSED OR IMPLIED, ASSIGNEE HAVING MADE ITS OWN INDEPENDENT EXAMINATION AND FOUND SAME TO BE SATISFACTORY. IT IS UNDERSTOOD AND AGREED THAT ASSIGNEE HAS INSPECTED THE PROPERTY AND PREMISES AND SATISFIED ITSELF AS TO THEIR PHYSICAL AND ENVIRONMENTAL CONDITION AND THAT ASSIGNEE SHALL ACCEPT ALL OF THE SAME IN THEIR "AS IS, WHERE IS" CONDITION.
3. Assignor will execute and deliver all such other and additional instruments, notices, releases, acquittances and other documents, and will do all such other acts and things, as may be necessary more fully to assure to Assignee or its successors or assigns all of the respective rights and interests herein and hereby granted or intended to be granted.
4. By its acceptance of this Assignment, Assignee shall comply with and does hereby assume and agree to perform Assignee's proportionate part of all express and implied covenants,

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obligations and reservations contained in the Leases, and the interests assigned herein are subject to and shall bear their proportionate share of all existing burdens on the Leases.

5. This Assignment of the Subject Interests is made subject to all reservations, exceptions, limitations, contracts and other burdens or instruments which are of record or of which Assignee has actual or constructive notice, including any matter included or referenced in the materials made available by Assignor to Assignee.
6. As used in this paragraph 6, and the subparagraphs hereunder "claims" shall include claims, demands, causes of action, liabilities, damages, penalties and judgments of any kind or character and all costs and fees in connection therewith.
 - (a) Assignee shall, (i) at the Effective Time assume, and be responsible for and comply with all duties and obligations of Assignor, express or implied, with respect to the Subject Interests, including, without limitation, those arising under or by virtue of any lease, contract, agreement, document, permit, applicable statute or rule, regulation or order of any governmental authority (specifically including, without limitation, any governmental request or requirement to plug, re-plug and/or abandon any well of whatsoever type, status or classification, or take any clean-up or other action with respect to the property or premises), and (ii) defend, indemnify and hold Assignor harmless from any and all claims in connection therewith, except any such claims arising directly or indirectly from, or incident to, Assignor's

ownership or operation of the Subject Interests prior to the Effective Time.

- (b) Assignor shall indemnify and hold harmless Assignee from any and all claims, costs, expenses, liabilities or causes of action to or by third parties arising out of or relating to the ownership or operation of the Subject Interests prior to the Effective Time. Assignee shall indemnify and hold harmless Assignor from any and all claims, costs, expenses, liabilities or causes of action to or by third parties arising out of or relating to the ownership or operation of the Subject Interests after the Effective Time. Each indemnified party hereunder agrees that upon its discovery of facts giving rise to a claim for indemnity under the provisions of this Assignment, including receipt by it of notice of any demand, assertion, claim, action or proceeding, judicial or otherwise, by any third party (such third party actions being collectively referred to herein as the "Claim"), with respect to any matter as to which it is entitled to indemnity under the provisions of this Assignment, it will give prompt notice thereof in writing to the indemnifying party together with a statement of such information respecting any of the foregoing as it shall then have. Such notice shall include a formal demand for indemnification under this Assignment. The indemnified party shall afford the indemnifying party a reasonable opportunity to pay, settle or contest the Claim at its expense.
- (c) Assignor shall (i) be responsible for any and all claims arising out of the production or sale of hydrocarbons from the Subject Interests—or the proper accounting or payment to

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parties for their interests therein—insofar as such claims relate to periods of time prior to the Effective Time, and (ii) defend, indemnify and hold Assignee harmless from any and all such claims. Assignee shall be responsible for all of said types of claims insofar as they relate to periods of time from and after the Effective Time and shall defend, indemnify and hold Assignor harmless therefrom.

7. All ad valorem taxes, real property and similar obligations ("Property Taxes") for the year 1999 shall be prorated and settlement shall be made at Closing or as soon thereafter as possible.
8. All proceeds (including proceeds held in suspense or escrow) from the sale of production actually sold and delivered by Assignor prior to the Effective Time and attributable to the Subject Interests shall belong to Assignor and all proceeds from the sale of production actually sold and delivered after the Effective Time attributable to the Subject Interests shall belong to Assignee. In addition, all oil, condensate or liquid hydrocarbons (hereinafter in this paragraph called "oil") in storage above the pipeline connection shall be gauged and all gas meter charts shall be replaced at the Effective Time (with Assignee having the right to have a representative present). Assignee shall pay Assignor for such oil at the highest posted field price prevailing for oil of like grade and gravity for the particular field as of the Effective Time.
9. All costs, expenses and obligations relating to the Subject Interests which accrue prior to the Effective Time shall be paid

and discharged by Assignor; and all costs, expenses and obligations relating to the Subject Interests which accrue after the Effective Time shall be paid and discharged by Assignee.

10. All taxes (other than ad valorem and income taxes) which are imposed on or with respect to the production of oil, gas or other hydrocarbons or minerals or the receipt of proceeds therefrom (including but not limited to severance, production, excise and windfall profit taxes) shall be apportioned between the parties based upon the respective shares of production taken by the parties. Payment or withholding of all such taxes which have accrued prior to the Effective Time and filing of all statements, returns and documents pertinent thereto shall be the responsibility of Assignor. Payment or withholding of all such taxes which have accrued from and after the Effective Time and filing of all statements, returns and documents incident thereto shall be the responsibility of Assignee.
11. The provisions hereof shall be covenants running with the lands and shall be binding upon and inure to the benefit of the parties hereto, their respective successors and assigns.
12. This Assignment and Bill of Sale may be executed in multiple counterparts, all of which shall be construed together as an original instrument to the same extent and with like effect as though all the parties hereto had executed each counterpart. The parties specifically agree that the execution and acknowledgment pages from the several counterparts may be aggregated into one counterpart for recordation and other purposes.

BOOK 960 PAGE 346

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EXECUTED this 27th day of May, 1999, but effective as of the
1st day of April, 1999.

"ASSIGNOR"

REDROCK OPERATING LTD. CO.

By: Mark 2. Stanger
Title: Partner
Date: 3/27/99

"ASSIGNER"

ROCA RESOURCE COMPANY, INC.

By: John [Signature]
Title: Vice-President
Date: 5/27/99

STATE OF TEXAS \$
COUNTY OF Dallas \$

COUNTY OF Dallas \$

This instrument was acknowledged before me on 27th of May, 1999, by Mark L. Stanger, of REDROCK OPERATING LTD. CO., a limited liability company, on behalf of said company.

ny. New Mexico
Cami Ruiz
Notary Public, State of Texas
Cami Ruiz
Printed/Typed Name of Notary



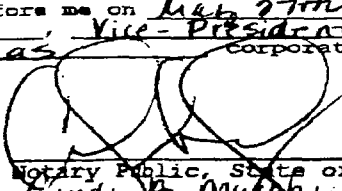
BOOK: 360 PAGE 347

STATE OF TEXAS §

COUNTY OF MIDLAND §

This instrument was acknowledged before me on Mar 27th,
1999, by Dana L. Hillman, Vice-President
of ROCA RESOURCE COMPANY, INC., a Texas corporation, on behalf
of said corporation.

My Commission Expires:
5-17-2003


Notary Public, State of Texas
Candy A. Murphy
Printed/Typed Name of Notary



BOOK 960 PAGE 348

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EXHIBIT 'A'

Attached to and made a part of that certain Assignment and Bill of Sale dated _____, 1999 and between Redrock Operating Ltd. Co. and Roca Resources Company, Inc.

All of Seller's rights, title and interest in, to and under or derived from the oil and gas leases, oil, gas and mineral leases, mineral interests, unit agreements, operating agreements and all other contracts and agreements and all other interests derived therefrom located in whole or in part within the surface boundaries of the following described tracts of land.

Lease #1

Lessor: United States of America
 Serial Number: NM-043943
 Original Lessee: Charles H. Quinn
 Lease Date: April 1, 1958
 Recording Information: Unrecorded
 Lands Covered: NE/4 of Section 10, T-22-S, R-34-E, Lea County, New Mexico

Lease #2

Lessor: United States of America
 Serial Number: NM-033312
 Original Lessee: Mary W. Goodpasture
 Lease Date: April 1, 1958
 Recording Information: Unrecorded
 Lands Covered: INSOFA as lease covers the SE/4 of Section 10, T-22-S, R-34-E, Lea County, New Mexico

Lease #3

Lessor: United States of America
 Serial Number: NM-033312
 Original Lessee: Mary W. Goodpasture
 Lease Date: April 1, 1958
 Recording Information: Unrecorded
 Lands Covered: INSOFA as lease covers the W/2 of Section 10, T-22-S, R-34-E, Lea County, New Mexico

Lease #4

Lessor: State of New Mexico
 Serial Number: E-9653
 Original Lessee: Gulf Oil Corporation
 Lease Date: December 20, 1955
 Recording Information: Unrecorded
 Lands Covered: S/2 of Section 34, T-21-S, R-34-E, Lea County, New Mexico, LIMITED from surface of the earth to the top of the Silurian formation, SAVE AND EXCEPT the interval from 12,722' to 13,208' subsurface in the SW/4

Lease #5

Lessor: United States of America
 Serial Number: NM-69400
 Original Lessee: Hudson Petroleum (USA), Inc.
 Lease Date: 9/21/87
 Recording Information: Unrecorded
 Lands Covered: Well access road with a total length of 1.572 miles (503.03 rods) in the NE/4 SE/4 and S/2 SE/4 of Section 9 and N/2 NE/4, SW/4 NE/4, SE/4 NW/4 and N/2 SW/4 of Section 10, T-22-S, R-34-E, Lea County, New Mexico

45057

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

JUN 11 1999

at 11:36 clock A M

and recorded to Book _____

Page _____

Pat Chappelle, Lea County Clerk

By Pat Deputy



BOOK 960 PAGE 350

NEARBURG PRODUCING COMPANY
PO Box 1888, Hobbs, NM 88241-1888
District II
811 South First, Artesia, NM 88210
District III
1000 Rio Arriba Rd., Aztec, NM 87410
District IV
1000 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-11**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address Nearburg Producing Company 3500 N A St., Bldg 2, Suite 120 Midland, TX 79705		GRID Number 015742
Property Code 25382		API Number 30-025-34948
Property Name Grama Ridge East 34 State		Well No. 1

Surface Location

UL or lot no.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West Line	County
H	34	21S	34E		1548	North	990	East	Lea

Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West Line	County
Proposed Pool 1 Grama Ridge Morrow, East					Proposed Pool 2				

Work Type Code N	Well Type Code G	Cable/Rotary R	Lease Type Code S	Ground Level Elevation 3689
Multiple No	Proposed Depth 13700	Formation Morrow	Contractor Patterson	Spud Date 03-05-00

Proposed Casing and Cement Program

Well Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2"	13-3/8"	48#	1300'	800 sbs	Circ to surface
12-1/4"	9-5/8"	24# & 32#	5700'	2000 sbs	Circ to surface
8-3/4"	5-1/2"	17# & 20#	13700'	1500 sbs	

Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Propose to drill the well to sufficient depth to evaluate the Morrow formation. After reaching TD, logs will be run and casing set if the evaluation is positive. Perforate, test and stimulate as necessary to establish production.

Acreage dedication is 320 acres; N/2 of Section 34.

Permit Expires 1 Year From Approval
Date Unless Drilling Underway

I hereby certify that the information given above is true and complete to the best of my knowledge and belief. Signature: <i>Kim Stewart</i>		OIL CONSERVATION DIVISION	
Printed name: Kim Stewart		Approved By: <i>[Signature]</i>	
Regulatory Analyst		Title: <i>[Signature]</i>	
Date: 02-23-00		Approval Date: FEB 28 2000	
Phone: 915/686-8235		Expiration Date:	
		Conditions of Approval: Attached: <input type="checkbox"/>	

DISTRICT I
P.O. Box 1000, Santa Fe, NM 87501-1000

DISTRICT II
P.O. Box 1000, Santa Fe, NM 87501-1000

DISTRICT III
P.O. Box 1000, Santa Fe, NM 87501-1000

DISTRICT IV
P.O. Box 1000, Santa Fe, NM 87501-1000

State of New Mexico

Energy, Minerals and Natural Resources Department

Form O-102

Revised February 14, 1994

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-34948	Pool Code 77690	Pool Name Gramma Ridge Morrow, East
Property Code 25382	Property Name GRAMA RIDGE EAST 34 ST.	Well Number 1
OCNID No. 15742	Operator Name NEARBURG PRODUCING COMPANY	Elevation 3689

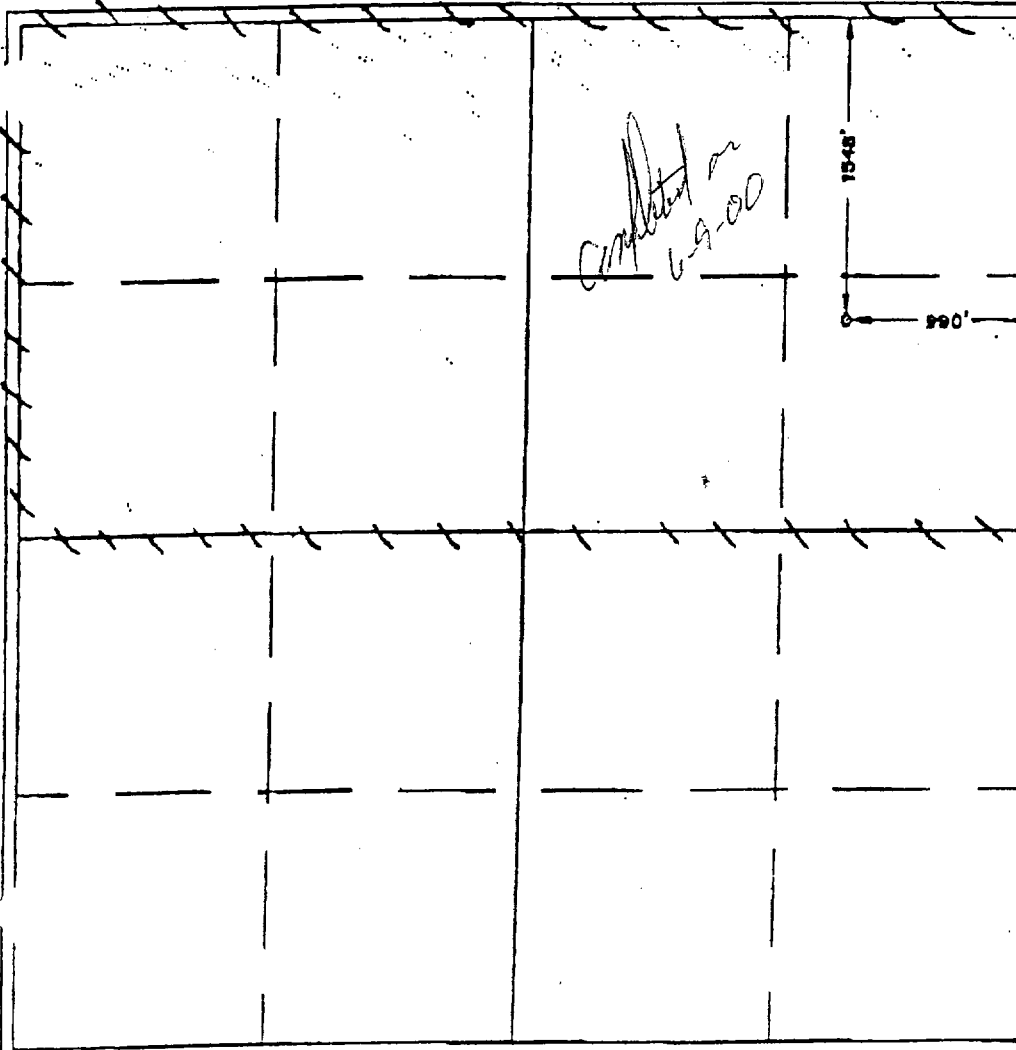
Surface Location

UL or Lot No. H	Section 34	Township 21 S	Range 34 E	Lot Id#	Feet from the 1548	North/South Line NORTH	Feet from the 990	East/West Line EAST	County LEA
---------------------------	----------------------	-------------------------	----------------------	---------	------------------------------	----------------------------------	-----------------------------	-------------------------------	----------------------

Bottom Hole Location If Different From Surface

UL or Lot No.	Section	Township	Range	Lot Id#	Feet from the	North/South Line	Feet from the	East/West Line	County
Dedicated Acres 320	Joint or Infill N	Consolidation Code	Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief. <u><i>Kim Stewart</i></u> Signature Kim Stewart Printed Name Regulatory Analyst Title February 23, 2000 Date
	SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief. FEBRUARY 21, 2000 Date <u><i>Donald J. Edson</i></u> Signature Donald J. Edson Printed Name Professional Surveyor Title NEW MEXICO State 100-11-0258 License No. 2/22/2000 Expiration Date 12185 Certificate No.
	PROFESIONAL SURVEYOR NEW MEXICO 100-11-0258 2/22/2000 12185
	100-11-0258 12185

N0202

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,622
)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, L.L.C., FOR TWO NONSTANDARD)
GAS SPACING AND PRORATION UNITS, LEA)
COUNTY, NEW MEXICO)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 28th, 2001

Santa Fe, New Mexico

01 JUL 12 AM 7:57

OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 28th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-12**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

1 A. Yes.

2 Q. -- does that come across your desk for any type
3 of approval?

4 A. Yes, it does.

5 Q. So you would have an opportunity to inquire and
6 check on various things?

7 A. That's correct.

8 Q. Let's look at the APD. When this APD is filled
9 out, Nearburg as the operator/applicant fills in everything
10 except the Division approval and perhaps the API number,
11 right?

12 A. That's correct.

13 Q. When I look at the proposed pool, it indicates
14 Grama Ridge-Morrow East. Do you see that?

15 A. Yes.

16 Q. That would have been action taken by Nearburg to
17 fill in the form, right?

18 A. Either that or we would have submitted the form
19 to them and they would have told us what to put in that
20 pool, what the well -- We generally look at the well
21 location and we find out what the closest pool is, and we
22 found out in that case that that location in the northeast
23 quarter, that would be included in the Grama Ridge North --
24 or the Grama Ridge East Pool.

25 Q. Do you have in place a practice where you check

1 pool rules?

2 A. Only if we think there's a reason to do so, via
3 something that alerts us to that effect. And I honestly
4 don't believe, Tom, that any operator in the State of New
5 Mexico, when they get ready to have well, if they have a
6 dedication of 320 acres, goes and researches every single
7 pool, you know, around the area?

8 Q. Wouldn't you do that, Mr. Shelton?

9 A. No, I don't think anybody does that. I think
10 they rely on title opinions and they rely on the State's
11 notification after the C-102 is approved for that type of
12 information.

13 Q. And that is Nearburg's practice, then,
14 apparently, at least in this case?

15 A. That's Nearburg's practice and the practice of
16 other people I've been associated with, yes.

17 Q. So you're expecting the Division District office
18 and the Santa Fe office to check any kind of mistake that
19 you might make?

20 A. Well, in the title opinion also.

21 Q. Well, the title opinion, does that include a
22 search of the OCD public records?

23 A. It includes a search of the -- in this case, the
24 SLO records.

25 Q. Well, they won't search, then -- under the drill-

1 site title-opinion process, they don't search the OCD well
2 files, do they?

3 A. No, they do not.

4 Q. They don't search *Byram's* or the OCD rule book
5 for pool rules, do they?

6 A. No, they do not.

7 Q. They don't look to see where the boundaries are
8 of any pool?

9 A. That's correct.

10 Q. They don't check to see if there's a difference
11 in special rules between the special rules and the
12 statewide rules, right?

13 A. That's correct.

14 Q. And you don't do it internally?

15 A. We do it if we feel like there's a necessity to,
16 if we're alerted to that.

17 Q. Okay. How would you know which way to turn the
18 320 acres in Section 34?

19 A. Well, we would -- I don't know that we would
20 have. We likely would have come before the Division asking
21 for what we have right now at that time, based on the
22 mapping that we have now, which I think you will see and
23 which will present our evidence, that the 160-acre spacing
24 unit is the applicable acreage to be dedicated to the well.

25 Q. Well, let's look at Exhibit 1, the plat.

1 A. Okay.

2 Q. You and Mr. Gawloski are looking at this
3 prospect, and he's doing some geology for you, right?

4 A. Correct.

5 Q. And he's going to base his geology on a Morrow
6 attempt, right?

7 A. Correct.

8 Q. He's going to have available to him in Section 34
9 the existence of Morrow wells, true?

10 A. That's correct.

11 Q. Wouldn't it be interesting for you to know,
12 before you file the permit, which way those spacing units
13 are oriented for existing wells that he's looking at?

14 A. Well, we knew the well in the southeast quarter
15 was non- -- it had not produced. And just like we
16 testified to, there was no com agreement. The com
17 agreement had expired for that well.

18 Q. Did you check the OCD files to determine whether
19 or not their records still showed the east half of Section
20 34 dedicated to this temporarily abandoned well?

21 A. No, we did not at that time. But we know the com
22 agreement under the -- has terminated with regard to that
23 well, and there is no dedication to the east half.

24 Q. Did you look at the pool rules for the East Grama
25 Ridge-Morrow Gas Pool?

1 A. Well, we knew what the pool rules were. They
2 were 320 acres.

3 Q. All right. Did you know the west half was in a
4 different pool?

5 A. No, we did not.

6 Q. Did you make any effort to determine that?

7 A. Only through the indications that I've made
8 previous to you.

9 Q. In your prior practices, aren't you aware that
10 the Division precludes you from having two separate pools
11 dedicated in the same spacing unit for the same well?

12 A. Well, we haven't -- You know, that is the
13 practice of the OCD, I understand that.

14 Q. But you didn't know it then?

15 A. Well, we -- you know, I didn't know how that
16 would affect us, no.

17 Q. Who was the landman responsible for this at this
18 time?

19 A. Duke Roush.

20 Q. Is he still employed?

21 A. Yes, he is.

22 Q. Was there a petroleum engineer involved in the
23 process, Mr. Shelton?

24 A. Well, there would have been somebody that ran
25 economics on the well and reviewed the prospect along with

BEFORE THE

OIL CONSERVATION COMMISSION

State of New Mexico
Oils and Natural Resources DepartmentForm C-105
Revised 1-1-89

Case No. 12622 & 12908

Exhibit #

A-13

CONSERVATION DIVISION

2040 Pacheco St.
Santa Fe, NM 87505

Submitted By: Redrock Operating

Hearing Date: October 21 & 22, 2002

WELL API NO.
30-025-34948

5. Indicate Type of Lease

STATE ☒FEE ☐

6. State Oil & Gas Lease No.

T III

Brazos Rd, Aztec, NM 87410

WELL COMPLETION OR RECOMPLETION REPORT AND LOG

1a. Type of Well:

OIL WELL ☐GAS WELL ☒DRY ☐OTHER ☐

b. Type of Completion:

NEW

WELL ☒

WORK

OVER ☐DEEPEN ☐

PLUG

BACK ☐

DIFF

RESVR ☐OTHER ☐

2. Name of Operator

Nearburg Producing Company

8. Well No.

1

3. Address of Operator

3300 N A St., Bldg 2, Suite 120, Midland, TX 79705

9. Pool name or Wildcat

Grama Ridge Morrow; East

4. Well Location

Unit Letter H : 1548 Feet From The North Line and 990 Feet From The East Line

Section

34

Township

21S

Range

34E

NMPM

Lea

County

10. Date Spudded

03/07/00

11. Date T.D. Reached

04/28/00

12. Date Compl. (Ready to Prod.)

06/09/00

13. Elevations (DF & RKB, RT, GR, etc.)

3689' GL

3706' KB

14. Elev. Casinghead

15. Total Depth

13,500'

16. Plug Back T.D.

13,412'

17. If Multiple Compl. How Many Zones?

18. Intervals Drilled By

Rotary Tools ☒

Cable Tools

19. Producing Interval(s), of this completion - Top, Bottom, Name

13,134' - 13,156' (Morrow)

20. Was Directional Survey Made

No

21. Type Electric and Other Logs Run

DLL/CNL/LDT/GR

22. Was Well Cored

No

23.

CASING RECORD (Report all strings set in well)

WG SIZE	WEIGHT LB/FT.	DEPTH SET	HOLE SIZE	CEMENTING RECORD	AMOUNT PULLED
13-3/8"	68#	1296'	17-1/2"	872 sx	NA
9-5/8"	36 & 40#	5763'	12-1/4"	1903 sx	NA
7"	23, 26 & 29#	11250'	8-3/4"	180 sx	NA

24.

LINER RECORD

SIZE	TOP	BOTTOM	SACKS CEMENT	SCREEN	SIZE	DEPTH SET	PACKER SET
4-1/2"	11,018'	13,500'	350 sx		2-3/8		13,055'

25.

TUBING RECORD

26. Perforation record (interval, size, and number)

13,134' - 13,156' 5 JSPF (110 holes)

27. ACID, SHOT, FRACTURE, CEMENT, SQUEEZE, ETC.

DEPTH INTERVAL

AMOUNT AND KIND MATERIAL USED

13,134' - 13,156'

28.

PRODUCTION

Date First Production 06/09/00		Production Method (Flowing, gas lift, pumping - Size and type pump) Flowing				Well Status (Prod. or Shut-in) Producing	
Date of Test 06/16/00	Hours Tested 24	Choke Size 9/64"	Prod'n For Test Period	Oil - BbL. 20	Gas - MCF 1239	Water - BbL. 0	Gas - Oil Ratio 61950:1
Flow Tubing Press. 5000	Casing Pressure —	Calculated 24-Hour Rate	Oil - BbL. 20	Gas - MCF 1239	Water - BbL. 0	Oil Gravity - API - (Corr.) 52.5	

29. Disposition of Gas (Sold, used for fuel, vented, etc.)

Sold

Test Witnessed By

Matt Lee

30. List Attachments

C-104, Deviations and Logs

31. I certify that the information shown on both sides of this form is true and complete to the best of my knowledge and belief

Signature

Kim Stewart

Printed Name

Kim Stewart

Title

Regulatory Analyst

Date

06/27/00

N0019

HOLLAND & HART^{LLP}
and
CAMPBELL & CARR
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208
110 NORTH GUADALUPE, SUITE 1
SANTA FE, NEW MEXICO 87501

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

January 8, 2001

HAND-DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-14**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Re: *Application of Nearburg Exploration Company, L. L. C. for Administrative Approval of Two Non-Standard 160 Acre Gas Well Spacing Units in the E/2 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico*

Dear Ms. Wrotenbery:

Nearburg Exploration Company, L. L. C. hereby seeks administrative approval pursuant to the provisions of Division Rule 104.D(2)(b) to form:

Two non-standard 160 acre gas spacing and proration units in the East Grama Ridge-Morrow Gas Pool comprised of the NE/4 and the SE/4 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

The following attachments are provided with this application:

Attachment A is a plat showing the Morrow ownership in said Section 34 and demonstrating that the proposed NE/4 and SE/4 gas spacing and proration units are comprised of contiguous quarter sections that lie wholly within a single governmental half section.

Attachment B is a waiver letter from EOG Resources, Inc., the only party affected by this application.

Attachment C is a 1979 amended Well Location and Acreage Dedication Plat showing that the W/2 of said Section 34 is devoted to the Grama Ridge Morrow Unit Well No. 2 and therefore not affected by this application.

Since state leases are involved, attachment D is a certified letter to the New Mexico State Land Office advising them of this application.

Two Morrow gas pools are located in said Section 34: The W/2 of Section 34 is part of the Grama Ridge-Morrow Gas Pool and the E/2 of Section 34 is part of the East Grama Ridge-Morrow Gas Pool. The existence of two pools in said Section 34 is the result of the Division's finding that the Grama Ridge-Morrow Gas Pool is located "within an upthrust fault block bounded to the west by a northeast - southwest trending fault and on the east by a north-south trending fault." See Division Order No. R-5995 (entered May 2, 1979) (said order is also referenced at the bottom of Attachment C).

In January of 1999, the New Mexico State Land Office cancelled Lease No. K-3592 for the N/2 of said Section 34 for non-payment of rental. The State subsequently leased the N/2 of Section 34 to Nearburg under Lease No. V-5683. On February 28, 2000, the Division approved a drilling permit which dedicated the N/2 of Section 34 to Nearburg's East Grama Ridge Morrow State 34 No. 1 Well located in the NE/4 of Section 34. See Attachment E.

After Nearburg drilled and completed this well, the Division's Hobbs office informed Nearburg that a change in the acreage dedicated to Nearburg's well is necessary because (a) there are separate Morrow pools in the W/2 and E/2 of Section 34, (b) the W/2 of Section 34 is already devoted to the Grama Ridge Morrow Unit Well No. 2, and (c) the E/2 of Section 34 is presently devoted to the Llano 34 State Com #1 Well, located in the SE/4 of Section 34 (Unit I). The Llano 34 State Com #1 Well was drilled in 1979 under a communitization agreement with the state and is presently shut-in. EOG Resources, Inc. is the successor operator to this well.

As a result of these events, the respective acreage positions of Nearburg and EOG Resources, and their right to produce gas from the E/2 of Section 34, is in question. The operators in the E/2 of Section 34 desire to resolve these issues and protect their correlative rights. The creation of two non-standard gas spacing and proration units in Section 34 will clarify their respective acreage positions and right to produce gas from the East Grama Ridge-Morrow Gas Pool underlying the E/2 of Section 34 from their respective wells.

The granting of this application under this unique set of circumstances will protect the correlative rights of all interest owners in Section 34, will not cause waste, will avoid litigation and administrative hearings over the rights of the interest owners to develop the reserves under the E/2 of Section 34, accommodate the Divisions' desire to re-dedicate acreage to Nearburg's well in the NE/4 of Section 34, and provide EOG the opportunity to produce their well in the SE/4 of said Section 34 in the Morrow formation.

Lori Wrotenbery

January 8, 2001

Page 3

Since all of the interest owners in the E/2 of Section 34 support this application, there are no affected parties to whom notice of this application needs to be provided.

A proposed form of order is also enclosed.

Very truly yours,

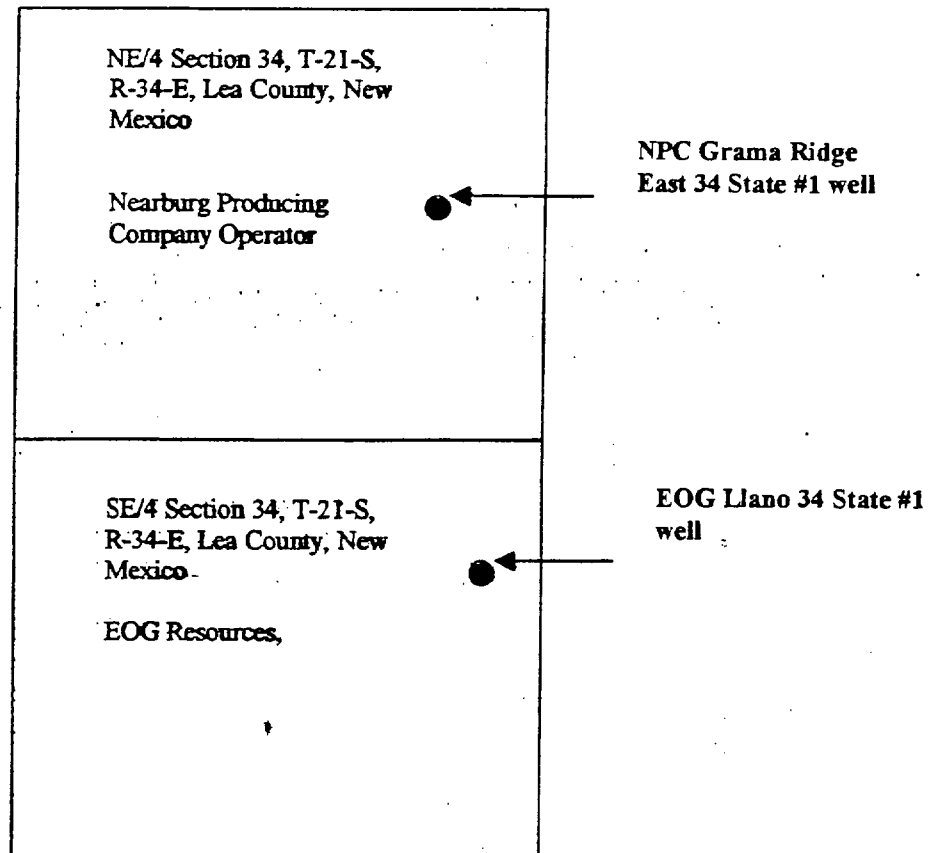
A handwritten signature in black ink, appearing to read "Michael H. Feldewert", written in a cursive style.

Michael H. Feldewert

MHF/ras

Enclosure

**E/2 of Section 34, T-21-S, R-34-E
Lea County, New Mexico**





RECEIVED

JUL 25 2000

CAMPBELL, CARR, et. al.

RAY POWELL, M.S., D.V.M.
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

Legal Division
(505) 827-5713
Fax (505) 827-4262

July 21, 2000

VIA FAX AND

U.S. MAIL

(Fax - 983-6043)

Mr. William Carr
Attorney at Law
Campbell, Carr, Berge & Sheridan, P.A.
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

RE: State Oil and Gas Lease Nos. VO-5682 & VO-5683; Sections 33 & 34, Township 21
South, Range 34 East; LG&E Gas Storage Unit

Dear Mr. Carr:

I understand that you represent Nearburg Exploration Company and Yates Petroleum Corporation, BTA, Inc., who have interests in State Oil and Gas Leases Nos. VO-5682 and VO-5683, respectively. The purpose of this letter is to clarify the position of the New Mexico State Land Office ("NMSLO") regarding the gas storage unit that LG&E currently operates in Lea County. The storage unit underlies the west half of state section 34-21S-34E and the east half of section 33-21S-34E, which sections are also partially encumbered by your clients' leases.

Enclosed with this letter is page 3 of the Grama Ridge-Morrow Unit Agreement ("Unit Agreement"), which describes and delineates the "unitized formation" in which LG&E stores its gas. Although your clients are not parties to the Unit Agreement, and their leases are not modified by it, LG&E nonetheless had (and continues to have) valid existing storage rights at the time your clients obtained their leases. Therefore, VO-5682 and VO-5683 are subject to LG&E's existing right to store gas in the unitized formation and to use the surface of Sections 33 and 34 to the extent necessary to inject and withdraw its gas.

Despite the existence of LG&E's storage rights, your clients have the right under their oil and gas leases to explore for, and produce, native oil and gas on and below the leased premises. However, since they should not exercise their exploration and production rights in a manner that unreasonably interferes with LG&E's existing storage rights, NMSLO advises your clients to cooperate with LG&E and to coordinate their activities with LG&E to the extent possible.

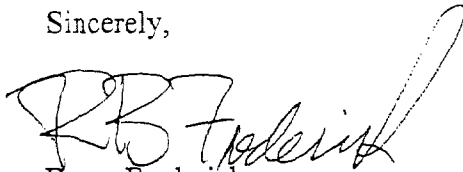
BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-19**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Mr. William Carr
Attorney at Law
Campbell, Carr, Berge & Sheridan, P.A.
July 21, 2000
Page 2

Please note that the Commissioner regards both LG&E and your clients as valued business partners. With that in mind, NMSLO would be glad to help facilitate an agreement between LG&E and your clients that reasonably accommodates the interests of all parties.

If you have any questions regarding this letter, or would like to propose a resolution to the current situation, please do not hesitate to contact me. My direct line is (505) 827-5756.

Sincerely,

A handwritten signature in dark ink, appearing to read "B. Frederick", with a large, sweeping flourish extending upwards and to the right.

Bruce Frederick
Associate Counsel

pc: J. Scott Hall, Attorney for LG&E
Dennis Hazlett, Deputy Commissioner, NMSLO
Larry Kehoe, Assistant Commissioner, NMSLO

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline and associated fluid hydrocarbons in the unitized formation as hereinafter defined are unitized under the terms of this agreement and herein are called unitized substances.

3. UNITIZED FORMATION: That subsurface portion of the unit area commonly known as the Morrow sands which is the same zone as the top and bottom of which were encountered at log depths of 12,722 feet and 13,208 feet in the Shell Oil Company State GRA Well No. 1 as shown on the Schlumberger Sonic Log - Gamma Ray Log of said well dated July 5, 1965, which said well is located 1980 feet from the North line and 660 feet from the west line of Section 3, Township 22 South, Range 34 East, is unitized under this agreement and is hereinafter referred to as the "unitized formation".

4. UNIT OPERATOR: Llano, Inc. with offices at Hobbs, New Mexico (P.O. Drawer 1320) is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth on Exhibit "B" and agrees and consents to accept the duties and obligations of unit operator for the operation of the Grama Ridge Morrow Unit Area. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time, but such resignation shall not become effective until a successor unit operator has been selected

COMMISSIONER'S OFFICE
Phone (505) 827-5760
Fax (505) 827-5766

ADMINISTRATION
Phone (505) 827-5700
Fax (505) 827-5853

LEGAL COUNSEL
Phone (505) 827-5713
Fax (505) 827-4262

PUBLIC AFFAIRS
Phone (505) 827-1245
Fax (505) 827-5766



**New Mexico State Land Office
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.**

COMMERCIAL RESOURCES
Phone (505) 827-5724
Fax (505) 827-6157

MINERAL RESOURCES
Phone (505) 827-5744
Fax (505) 827-4739

ROYALTY MANAGEMENT
Phone (505) 827-5772
Fax (505) 827-4739

SURFACE RESOURCES
Phone (505) 827-5793
Fax (505) 827-5711

January 10, 2001

Holland and Hart LLP
Campbell and Carr, Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico 87501

Attn: Michael H. Feldewert

Re: Non-Standard Proration Unit Proposal
NE4 & SE4 (Respectively)
Section 34, Township 21 South, Range 34 East
Lea County, New Mexico

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-16**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Dear Mr. Feldewert:

We received your January 8, 2001 letter requesting approval from the Commissioner of Public Lands for two separate proration units for the NE4 and SE4 of said Section 34 for the Grama Ridge Morrow, East Gas pool. We are familiar with the distinction of this pool from that of the Grama Ridge Morrow Gas pool underlying the W2 of said Section 34. However, we would like to clarify a couple of points that were misstated in your letter.

Great Western Drilling Company is the lessee of record for the N2 of Section 34, not Nearburg Producing Company as you stated. However, we do concur that Nearburg Producing Company has obtained operating rights for the Morrow in this lease. In addition, we do not recognize EOG Resources as the operator of record for the Llano 34 State Com Well No. 1. Pecos River Operating, Inc. is the operator of record for this well. The Llano 34 State Com Well No. 1 has an E2 dedication in said Section 34 to the Grama Ridge Morrow, East Gas pool. We understand the error regarding a N2 dedication to the Nearburg well that was drilled in the NE4 of Section 34, and concur that an E2 dedication was necessary due to the differing Morrow Gas pools segregated by the North to South trending fault through the middle of Section 34.

Our concern has been and remains, that an E2 dedicated Grama Ridge Morrow, East Gas well already exists in Section 34, although inactive. Upon the presence of the Nearburg well in the NE4 of Section 34, and with an E2 dedication, we assumed that they would obtain operating rights to the Llano 34 State Com Well No. 1 and possibly produce both wells within the E2. Or, that Pecos River Operating, Inc. would be required to plug the Llano 34 State Com Well No. 1. Regardless, two separate operators within the same pool and proration unit can not be allowed.

RECEIVED

N0207

JAN 15 2001

Holland & Hart

5/17/01

"WE WORK FOR EDUCATION"

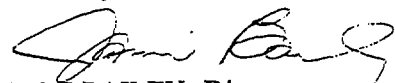
CAMPBELL, CARR, et. al.

We understand the desire of your client to operate and produce separately within Section 34, thus the necessity of the quarter section proration units. However, we concur with the current rules, regulations, and spacing requirements affecting the Grama Ridge Morrow, East Gas pool established by the New Mexico Oil Conservation Division. We believe that 320 acre spacing is correct and justified for this pool.

Therefore, please be informed that a recommendation for a waiver of objection from the Commissioner of Public Lands will not be made.

If you care to discuss this further, please contact Jeff Albers at (505) 827-5759.

Sincerely,



JAMI BAILEY, Director
Oil, Gas & Minerals Division
(505) 827-5744

JB/ja

Xc: New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505
Attn: Mr. Michael Stogner

N0208



State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

Legal Division
(505) 827-5713
Fax (505) 827-4262

January 23, 2001

Michael H. Feldewert, Esq.
Holland and Hart LLP
P.O. Box 2208
Santa Fe, New Mexico 87501

Re: Non-Standard Proration Unit Proposal
NE4 & SE4 (Respectively)
Section 34-21S-34E
Lea County, New Mexico

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-17**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Dear Mr. Feldewert:

The New Mexico State Land Office hereby withdraws its objection to the creation of two non-standard 160-acre gas spacing and proration units in the Grama Ridge Morrow, East Gas pool. The creation of this non-standard unit is in the best interest of the state's trust beneficiaries, but only because of the unique geology and other special circumstances. However, the other administrative issues raised in Mr. Jeff Albers' letter, dated January 10, 2001, still need to be addressed.

If you have any questions, please do not hesitate to call me.

Sincerely,

Bruce Frederick
Associate Counsel, NMSLO

pc: Mike Stogner, OCD

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JAN 24 2001

CAMPBELL, CARR, et. al.

N0209



State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

Office of the General Counsel
(505) 827-5713
Fax: (505) 827-4262

December 11, 2001

William F. Carr, Esq.
Holland & Hart LLP
Campbell & Carr, Attorneys at Law
110 North Guadalupe
Santa Fe, New Mexico 87504-2208

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-18**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Re: Grama Ridge East 34 State Well No. 1
Unit H, Section 34, Township 21 South, Range 34 East
Lea County, New Mexico

Dear Mr. Carr:

This is to advise you that the New Mexico State Land Office ("NMSLO") continues to support the efforts of Nearburg Exploration Company, L.L.C. ("Nearburg") to persuade the Oil Conservation Division ("OCD") to rescind its July 26th shut-in order regarding the well referenced above, as provided in my letter of November 16, 2001.

However, please be advised that if OCD agrees to rescind the shut-in order before it resolves the spacing unit issue, Nearburg should pay State royalties on 1/6th of the total production, as provided in State Lease VO-5683 covering the N/2 of Section 34. Because a different State lease covers the S/2 of Section 34, and it provides for only a 1/8th royalty, NMSLO will hold in suspense 1/48th of Nearburg's royalty (the difference between 1/6th and 1/2(1/6 + 1/8)). NMSLO will refund the 1/48th to Nearburg in the event OCD ultimately decides that the appropriate spacing unit should be the entire E/2 of Section 34 (rather than dividing the E/2 into two 160-acre units).

Notwithstanding anything in this or any prior letter to the contrary, NMSLO takes no position on what the appropriate spacing unit should be or on whether any working interest proceeds should be escrowed pending OCD's resolution of the matter. Please disregard the suggestion in my November 16th letter that 50% of the proceeds should be escrowed. 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 OCD, and NMSLO will support any decision of OCD that is based on substantial evidence presented to OCD at hearing.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "BF Frederick". The signature is stylized with large, bold letters and a long, sweeping underline.

Bruce Frederick
Associate Counsel

pc: Larry Kehoe
Jeff Albers
Kurt McFall

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

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

JAEON KELLAHIN (RETIRED 1991)

February 14, 2001

Via Facsimile

Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87504
Attn: Mr. Michael E. Stogner

Re: **NOTICE OF OBJECTION:**
Nearburg Exploration Company, L.L.C.
Administrative Application to NMOCD
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

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-19**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Dear Mr. Stogner:

By letter dated January 8, 2001, Nearburg Exploration Company, L.L.C.
filed the referenced administrative application with the Division and by letter dated January 29,
2001 sent notification to Redrock Operating Ltd. Co. of the referenced request.

On behalf of Redrock Operating Ltd Co., an affected overriding royalty interest owner
in the SE/4 of this section, we hereby object to the referenced application as described in its
administrative application to the Division.

We request that this matter be set for hearing and that I on behalf of Redrock Operating
Inc. be provided notification of the hearing in accordance with Division notice rules.

Very truly yours,



W. Thomas Kellahin

ccx: William F. Carr, Esq.

Attorney for Nearburg Exploration, L.L.C.
Commissioner of Public Lands State of New Mexico

Attn: Jeff Alpers
Redrock Operating Ltd. Co.
Attn: Mark L. Stanger
Tim Cashon



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

RY E. JOHNSON

Governor

Jennifer A. Salisbury

Cabinet Secretary

February 15, 2001

Lori Wrotenbery

Director

Oil Conservation Division

Nearburg Exploration Company, L.L.C.

c/o **Holland & Hart LLP and Campbell & Carr**

P. O. Box 2208

Santa Fe, New Mexico 87504-2208

Attention: Michael H. Feldewert

BEFORE THE

OIL CONSERVATION COMMISSION

Case No. 12622 & 12908

Exhibit # **A-20**

Submitted By: Redrock Operating

Hearing Date: October 21 & 22, 2002

Re: Administrative application initially filed with the New Mexico Oil Conservation Division in Santa Fe on January 8, 2001 for an exception to the spacing provisions of Division Rule 104C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, to create two non-standard 160-acre gas spacing and proration units within the East Grama Ridge-morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to a well to be operated by Nearburg Producing Company; and (ii) the SE/4 of Section 34 to be dedicated to a well to be operated by EOG Resources, Inc.

Dear Mr. Feldewert:

On Wednesday, February 14, 2001 I received the following: (i) a letter of opposition from Redrock Operating Ltd. Co. of Coppell, Texas dated February 12, 2001 to your application (see attached); (ii) your voice mail message left at 11:40 a.m.; and (iii) a faxed letter from Mr. W. Thomas Kellahin who represents Redrock Operating Ltd. Co. (also attached). This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for March 22, 2001. I prepared the following advertisement in this matter:

"Application of Nearburg Exploration Company, L.L.C. for spacing and proration units, Lea County, New Mexico. Applicant seeks an exception to the provisions of Division Rule 104.C (2) to create two non-standard units within the East Grama Ridge-Morrow Gas Pool comprising Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico. Nearburg Producing Company's existing Grama Ridge East "34" (34948), located at a standard gas well location 1548 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be operated by EOG Resources, Inc. operated Llano "34" State Well No. 1 (API No. 1650), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34. These two wells are located approximately 17 miles west of Eunice, New Mexico.

RECEIVED

FEB 16 2001

CAMPBELL, GARR, et. al.

cc: New Mexico Oil Conservation Division - Hobbs
Jeff Albers, Engineer - New Mexico State Land Office - Santa Fe
W. Thomas Kellahin, Legal Counsel for Redrock Operating Ltd. Co.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**CASE NO. 12622
ORDER NO. R-11768**

**APPLICATION OF NEARBURG EXPLORATION COMPANY, L.L.C. FOR TWO
NON-STANDARD GAS SPACING UNITS, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 28 and July 26, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of May, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Nearburg Exploration Company, L.L.C. ("Nearburg"), seeks exception to the spacing provisions of Division Rule 104.C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, in order to create two non-standard 160-acre spacing units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc.-operated Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34.

(3) The E/2 of Section 34 is included in the East Grama Ridge-Morrow Gas Pool and the W/2 of the section is in the Grama Ridge-Morrow Gas Pool. Both pools are subject to Division Rule 104.C (2), as revised, which provides for 320-acre spacing units comprising any two contiguous quarter sections of a single governmental section and

**BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-21**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002**

provides for infill development (a total of two wells per unit); provided however, there can only be one well in each quarter section.

(4) All of Section 34 is within the Grama Ridge Morrow Gas Storage Unit Area, which was unitized for the purpose of gas injection, storage, and withdrawal within a portion of the Morrow formation, as provided for by Division Order No. R-11611, issued in consolidated cases No. 12441 and 12588 on July 3, 2001.

(5) Redrock Operating Ltd., Co. of Coppel, Texas ("Redrock"), an overriding royalty interest owner in the SE/4 of Section 34, appeared at the hearing and presented evidence in opposition to the application. Raptor Natural Pipeline, LLC, operator of the Grama Ridge Morrow Gas Storage Unit Area and a unit well in the W/2 of Section 34, and Wayne Newkumet, James E. Brown, Brent D. Hilliard, Wendel Creech, and David F. Alderks, all of Midland, Texas and all overriding royalty interest owners in the N/2 of Section 34, appeared through legal counsel but did not oppose Nearburg's request.

(6) On October 10, 1979, the above-described EOG Resources, Inc.-operated Llano "34" State Well No. 1 in the SE/4 of Section 34 (originally drilled by Minerals, Inc.) was completed in the East Grama Ridge-Morrow Gas Pool. A standard 320-acre stand-up gas spacing unit comprising the E/2 of Section 34 was dedicated to the well under a communitization agreement approved October 19, 1979 and made effective May 1, 1979 by the New Mexico State Land Office ("NMSLO"). This well last produced in 1991 and the communitization agreement was terminated by the NMSLO effective March 31, 1991. This 320-acre unit ceased to exist when the well stopped producing and the communitization agreement terminated.

(7) Evidence indicates that Redrock acquired the working interest in the SE/4 of Section 34 by assignment on March 1, 1998. On May 27, 1999 Redrock assigned its interest to Roco Resources Company, Inc. of Midland, Texas, reserving however a 10% overriding royalty interest.

(8) The evidence presented by Nearburg and the records of the Division establish that:

- (a) State of New Mexico Oil and Gas Lease No. K-03592 covering the N/2 of Section 34 was cancelled by the NMSLO in January, 1999;
- (b) a new oil and gas lease covering the N/2 of Section 34 was offered by the NMSLO at the December, 1999 lease sale; the NMSLO request for bids contained no stipulations or reservations concerning the existence of the Grama Ridge

Morrow Gas Storage Unit;

- (c) Great Western Drilling Company of Midland, Texas was the successful bidder and received a new oil and gas lease (Lease No. V-05683) covering the N/2 of Section 34 that became effective January 1, 2000;
- (d) Nearburg later acquired 75% of the interest of Great Western Drilling Company in the N/2 of section 34. On February 28, 2000 the Division's district office in Hobbs approved Nearburg Producing Company's "*Application for Permit to Drill ("APD")*" (Division Form C-101 with Form C-102 attached) for its above-described Grama Ridge East "34" State Well No. 1 at a standard gas well location on a standard 320-acre lay-down gas spacing unit comprising the N/2 of Section 34;
- (e) the Grama Ridge East "34" State Well No. 1 was drilled in March, 2000 to a depth of 13,500 feet and completed as a Morrow gas well on June 9, 2000; on June 19, 2000 the Division's Hobbs district office approved Nearburg Producing Company's "*Request for Allowable and Authorization to Transport*" (Division Form C-104), and on June 22, 2000 approved a testing allowable for the well;
- (f) in July, 2000 Nearburg Producing Company was notified by the Division's Hobbs district office that the previously authorized lay-down N/2 spacing unit included acreage from two separate Morrow gas pools [see Finding Paragraph No. (3) above];
- (g) Nearburg filed an administrative application pursuant to Division Rule 104.D, as revised, with the Division's Santa Fe office on January 8, 2001 for the two subject 160-acre non-standard gas spacing units within the E/2 of Section 34;
- (h) due to inadequate notification pursuant to Division Rule 1207.A (3), the administrative application was ruled incomplete by the Division on February 5, 2001, and Nearburg was duly informed by letter to provide such notice;
- (i) subsequent to Nearburg's notification, Redrock filed

objections in a timely manner with the Division on February 12 and 14, 2001; the application was then set for hearing before a Division Examiner;

- (j) pending the hearing, the Grama Ridge East "34" State Well No. 1 was allowed to continue producing gas from the East Grama Ridge-Morrow Gas Pool;
- (k) at the conclusion of the June 28, 2001 hearing, a four-week continuance was granted in order to give all the parties in this matter the opportunity to reach a mutually acceptable agreement; and
- (l) at the July 26, 2001 hearing, the Examiner ordered Nearburg to shut-in its Grama Ridge East "34" State Well No. 1 because an agreement had not been reached.

(9) The evidence and testimony presented in this case and in Division Cases No. 12441 and 12588 [see Paragraph Nos. (8) and (9) of Division Order No. R-11611] indicate that although the Nearburg Producing Company-operated Grama Ridge East "34" State Well No. 1 is completed in and producing from the Morrow formation, it is not in communication with the unitized interval of Raptor Natural Pipeline LLC's Grama Ridge Morrow Gas Storage Unit.

(10) Nearburg Exploration Company, LLC presented engineering and geological testimony in support of its application, which the Division finds inconclusive for the following reasons:

- (a) Nearburg developed a P/Z curve with bottom-hole flowing pressures instead of static reservoir pressures, and for a deep gas well such as the Grama Ridge East "34" State Well No. 1, the difference between the static reservoir pressures and bottom-hole flowing pressures can be substantial. 5/2
- (b) The gas compressibility factors or the gas deviation factors (the Z- factor) and the gas formation volume factors (Bg) depend on and change with temperature and pressure. When the pressures and the temperatures are incorrect, the calculated P/Z values are erroneous; therefore a plot of P/Z versus cumulative production will give a wrong slope, which translates into a wrong Initial Gas in Place and 6/2

Estimated Ultimate Recovery (EUR)*. Nearburg arrived at an estimated ultimate recovery of 1.1 Bcf using the material balance method, which Nearburg's witness admitted to be too low.

- (c) The decline curve analysis presented by Nearburg is not precise enough to support any conclusion about the ultimate recovery from the Grama Ridge East "34" State Well No.1. Nearburg's witness testified that the well is declining between 50 and 82 percent annually, with probable estimated ultimate recovery of 1.7 Bcf. A range of 50 to 82 percent is too wide to use as a basis for estimating ultimate recovery.
- (d) Nearburg's witness calculated an estimated ultimate recovery of 2.7 Bcf from the geological isopach map of the Grama Ridge East Morrow sands.
- (e) Haas Petroleum Consultants conducted volumetric analysis for Nearburg and demonstrated that the estimated ultimate recovery is about 3.0 Bcf. The ultimate recovery as presented in Nearburg's testimony ranges from 1.1 to 3.0 Bcf. 7.1 Bcf
- (f) Using an estimated ultimate recovery of 1.7 Bcf, Nearburg presented testimony that the size of the reservoir is between 140 and 165 acres. If the size of the reservoir is between 140 and 165 acres, we can calculate the drainage radius to be between 1393 and 1513 feet respectively. Since the well is located in the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H), it is probable that the SE/4 of Section 34 is contributing recoverable hydrocarbons in this interval even under Nearburg's conservative estimates of ultimate recovery. Agree

*EUR is calculated as follows: $EUR = [P_i/Z_i - P_a/Z_a]/\text{slope}$ where i indicates initial conditions and a indicates abandonment conditions.

(11) There is insufficient evidence to support Nearburg's contentions about the size, shape, and orientation of this producing interval or to show that the SE/4 does not contribute recoverable hydrocarbons in this interval.

(12) The application of Nearburg for approval of two non-standard 160-acre gas spacing units within the East Grama Ridge-Morrow Gas Pool comprising the NE/4 of Section 34 and the SE/4 of Section 34 should be **denied**.

(13) All past and any future Morrow gas production from the Nearburg Grama Ridge East "34" State Well No. 1, as described above, should be allocated to either: (i) the N/2 of Section 34, being a standard 320-acre lay-down gas spacing unit, in either the East Grama Ridge-Morrow Gas Pool or the Grama Ridge-Morrow Gas Pool, depending on the necessary adjustment to the pool boundaries to be sought through the Division's nomenclature process; or (ii) the E/2 of Section 34, being a standard 320-acre stand-up gas spacing unit in the East Grama Ridge-Morrow Gas Pool.

IT IS THEREFORE ORDERED THAT:

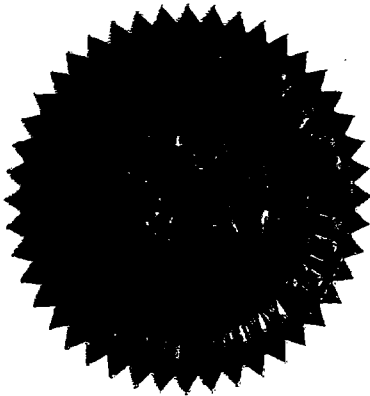
(1) The application of Nearburg Exploration Company, L.L.C., for an exception to the spacing provisions of Division Rule 104.C (2) creating two non-standard 160-acre spacing units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc. Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34, is hereby **denied**.

(2) The above-described Nearburg Producing Company Grama Ridge East "34" State Well No. 1 shall remain shut-in pending the following:

- (a) establishment of a standard 320-acre stand-up gas spacing unit comprising the N/2 or the E/2 of Section 34; and
- (b) designation of a single Division-approved operator for this unit and the applicable well dedicated thereto.

(3) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 12908
Order No. R-11818

APPLICATION OF THE OIL CONSERVATION
DIVISION FOR AN ORDER CREATING,
CONTRACTING, REDESIGNATING, AND
EXTENDING VERTICAL AND HORIZONTAL
LIMITS OF CERTAIN POOLS IN LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 1, 2002, at Santa Fe, New Mexico, before Examiner David R. Catanach. *

NOW, on this 26th day of August, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.
- (2) There is need for the creation of a new pool in Lea County, New Mexico for the production of gas from the Morrow formation, bearing the designation of Southwest Austin-Morrow Gas Pool (**Pool Code 96664**). The Southwest Austin-Morrow Gas Pool was discovered by the Yates Petroleum Corporation Morton Unit Well No. 1 (**API No. 30-025-33314**) located in Unit B of Section 5, Township 15 South, Range 35 East, NMPM, which was completed in the Morrow formation on December 10, 1996. The top of the perforations is at 13,207 feet.
- (3) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the San Andres formation, bearing the designation of North Bagley-San Andres Pool (**Pool Code 97159**). The North Bagley-San Andres Pool was

South, Range 32 East, NMPM, which was completed in the Cisco and Canyon formations on October 18, 2001. The top of the perforations is at 10,432 feet.

(9) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Wolfcamp formation, bearing the designation of West Shoe Bar-Wolfcamp Pool (**Pool Code 97100**). The West Shoe Bar-Wolfcamp Pool was discovered by the David H. Arrington Oil & Gas, Inc. Lord Baltimore 20 State Well No. 1 (**API No. 30-025-35172**) located in Unit K of Section 20, Township 16 South, Range 35 East, NMPM, which was completed in the Wolfcamp formation on June 11, 2001. The top of the perforations is at 10,898 feet.

(10) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Glorieta formation, bearing the designation of Northwest Skaggs-Glorieta Pool (**Pool Code 97203**). The Northwest Skaggs-Glorieta Pool was discovered by the Matador Operating Company Williams 34 Well No. 3 (**API No. 30-025-35711**) located in Unit O of Section 34, Township 19 South, Range 37 East, NMPM, which was completed in the Glorieta formation on December 26, 2001. The top of the perforations is at 5,242 feet.

(11) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Simpson formation, bearing the designation of Northwest Skaggs-Simpson Pool (**Pool Code 97204**). The Northwest Skaggs-Simpson Pool was discovered by the Matador Operating Company Cooper 3 Well No. 6 (**API No. 30-025-35204**) located in Unit B of Section 3, Township 20 South, Range 37 East, NMPM, which was completed in the Simpson formation on March 6, 2001. The top of the perforations is at 9,729 feet.

(12) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Delaware formation, bearing the designation of Vaca Ridge-Delaware Pool (**Pool Code 97161**). The Vaca Ridge-Delaware Pool was discovered by the EOG Resources, Inc. Vaca Ridge 4 Federal Well No. 1 (**API No. 30-025-28491**) located in Unit C of Section 4, Township 25 South, Range 34 East, NMPM, which was completed in the Delaware formation on June 20, 2001. The top of the perforations is at 8,970 feet.

(13) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Cisco and Canyon formations, bearing the designation of Northeast Vacuum-Cisco-Canyon Pool (**Pool Code 97202**). The Northeast Vacuum-Cisco-Canyon Pool was discovered by the Read and Stevens, Inc. Meridith State Well No. 1 (**API No. 30-025-30903**) located in Unit F of Section 24, Township 17 South, Range 35 East, NMPM, which was completed in the Cisco and Canyon formations on March 15, 2002. The top of the perforations is at 11,069 feet.

- (b) extend the horizontal limits of the Grama Ridge-Morrow Gas Pool to include the E/2 of Section 34, Township 21 South, Range 34 East, NMPM.

(19) In the alternative, Redrock and Raptor seek to reopen that portion of Case No. 12908 described above and have this matter heard before the Oil Conservation Commission ("Commission") in conjunction with De Novo Case No. 12622, the application of Nearburg Exploration Company, L.L.C. for two non-standard gas spacing and proration units, Lea County, New Mexico, which is currently scheduled to be heard by the Commission on September 10, 2002.

(20) It appears that the proposed contraction of the East Grama Ridge-Morrow Gas Pool and the proposed extension of the Grama Ridge-Morrow Gas Pool have a direct bearing on Case No. 12622, and that approval of these pool changes at this time may be premature.

(21) By letter to the Division dated August 13, 2002, Nearburg Exploration Company, L.L.C., Great Western Drilling Company, and CL & F Resources, L.P., advised the Division that they concur with Redrock and Raptor's request to reopen that portion of Case No. 12908 described above.

(22) Redrock and Raptor's request to reopen that portion of Case No. 12908 described above should be granted.

IT IS THEREFORE ORDERED THAT:

(a) A new pool in Lea County, New Mexico classified as a gas pool for Morrow production is hereby created and designated as the Southwest Austin-Morrow Gas Pool (**Pool Code 96664**), consisting of the following described area:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 4: S/2
Section 5: N/2 and SE/4
Section 9: NE/4
Section 10: N/2

(b) A new pool in Lea County, New Mexico classified as an oil pool for San Andres production is hereby created and designated as the North Bagley-San Andres Pool (**Pool Code 97159**), consisting of the following described area:

TOWNSHIP 11 SOUTH, RANGE 33 EAST, NMPM

Section 10: SE/4

TOWNSHIP 19 SOUTH, RANGE 37 EAST, NMPM
Section 34: SE/4

(j) A new pool in Lea County, New Mexico classified as an oil pool for Simpson production is hereby created and designated as the Northwest Skaggs-Simpson Pool (**Pool Code 97204**), consisting of the following described area:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 3: NE/4

(k) A new pool in Lea County, New Mexico classified as an oil pool for Delaware production is hereby created and designated as the Vaca Ridge-Delaware Pool (**Pool Code 97161**), consisting of the following described area:

TOWNSHIP 25 SOUTH, RANGE 34 EAST, NMPM
Section 4: NW/4

(l) A new pool in Lea County, New Mexico classified as an oil pool for Cisco and Canyon production is hereby created and designated as the Northeast Vacuum-Cisco-Canyon Pool (**Pool Code 97202**), consisting of the following described area:

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 24: NW/4

(m) A new pool in Lea County, New Mexico classified as an oil pool for Wolfcamp production is hereby created and designated as the South Wilson-Wolfcamp Pool (**Pool Code 97162**), consisting of the following described area:

TOWNSHIP 21 SOUTH, RANGE 35 EAST, NMPM
Section 18: NE/4

(n) The Southwest Austin-Mississippian Gas Pool (**Pool Code 96242**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM
Section 12: SW/4
Section 13: W/2 and SE/4

(o) The Baish-Wolfcamp Pool (**Pool Code 4480**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 17 SOUTH, RANGE 32 EAST, NMPM
Section 20: N/2

(p) The vertical limits of the Cuerno Largo-Pennsylvanian Pool (**Pool Code 14980**) in Lea County, New Mexico are hereby extended to include the Cisco, Canyon

TOWNSHIP 15 SOUTH, RANGE 32 EAST, NMPM
Section 20: S/2

(w) The East Featherstone-Bone Spring Pool (**Pool Code 24270**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 35 EAST, NMPM
Section 14: NE/4

(x) The Four Lakes-Mississippian Gas Pool (**Pool Code 97053**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 12 SOUTH, RANGE 34 EAST, NMPM
Section 1: W/2 and SE/4

TOWNSHIP 12 SOUTH, RANGE 35 EAST, NMPM
Section 6: SW/4
Section 7: NW/4

(y) The Gem-Morrow Gas Pool (**Pool Code 77370**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM
Section 24: E/2

(z) The West Grama Ridge-Bone Spring Pool (**Pool Code 28432**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 8: NE/4
Section 9: W/2

(aa) The East Grama Ridge-Morrow Gas Pool (**Pool Code 77690**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 26: W/2

(bb) The North Hardy-Strawn Pool (**Pool Code 96893**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 36: NW/4

(cc) The North Hardy-Tubb-Drinkard Pool (**Pool Code 96356**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM

Section 4: N/2
Section 5: NE/4

(jj) The West Monument-Tubb Gas Pool (**Pool Code 96968**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM

Section 6: E/2

(kk) The North Morton-Atoka Gas Pool (**Pool Code 96676**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 14 SOUTH, RANGE 35 EAST, NMPM

Section 32: S/2

(ll) The Nadine-Drinkard-Abo Pool (**Pool Code 47510**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 38 EAST, NMPM

Section 15: SE/4

(mm) The West Red Tank-Delaware Pool (**Pool Code 51689**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 23 SOUTH, RANGE 32 EAST, NMPM

Section 1: NW/4

(nn) The Southeast Scharb-Wolfcamp Pool (**Pool Code 55650**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 35 EAST, NMPM

Section 21: SE/4

(oo) The Northwest Skaggs-Drinkard Pool (**Pool Code 96768**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 37 EAST, NMPM

Section 34: NE/4
Section 35: NW/4

(pp) The North Teague-Wolfcamp Pool (**Pool Code 96961**) in Lea County, New Mexico is hereby extended to include:

days from the effective date of this order to file Form C-102 dedicating a standard unit for the pool to that well or to obtain a non-standard unit approved by the Division. Pending such compliance, the well shall receive a maximum allowable in the same proportion to a standard allowable for the pool that the acreage dedicated to the well bears to a standard unit for the pool. Failure to file Form C-102 dedicating a standard unit to the well or to obtain a non-standard unit approved by the Division within that 60-day period shall subject the well to cancellation of allowable.

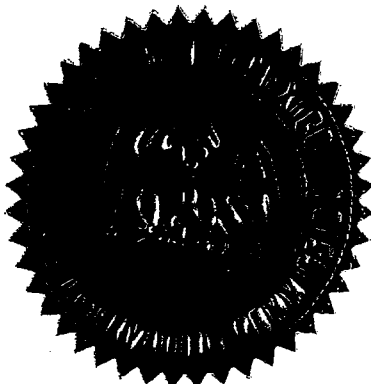
(2) The effective date of this order and all creations, contractions, redesignations, and extensions of vertical and horizontal limits included herein shall be September 1, 2002.

(3) That portion of Case No. 12908 that seeks to:

- (a) contract the horizontal limits of the East Grama Ridge-Morrow Gas Pool (**Pool Code 77690**) by deleting the E/2 of Section 34, Township 21 South, Range 34 East, NMPM; and
- (b) extend the horizontal limits of the Grama Ridge-Morrow Gas Pool (**Pool Code 77680**) to include the E/2 of Section 34, Township 21 South, Range 34 East, NMPM;

is hereby severed from this case and assigned Case No. 12908-A. Case No. 12908-A shall be docketed for hearing before the Oil Conservation Commission on September 10, 2002, and heard in conjunction with De Novo Case No. 12622, the application of Nearburg Exploration Company, L.L.C. for two non-standard gas spacing and proration units, Lea County, New Mexico.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenberg
LORI WROTENBERY
Director

MILLER, STRATVERT & TORGERSO, P. A.
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DATE: October 3, 2002

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Thomas Kellahin (505) 982-2047
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FROM: J. Scott Hall OPERATOR: Ginny

MESSAGE: Please see attached.

NUMBER OF PAGES INCLUDING COVER SHEET: 3

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* NEW MEXICO BOARD OF SPECIALIZATION RECOGNIZED SPECIALIST IN NATURAL RESOURCES - OIL & GAS LAW
** NEW MEXICO BOARD OF SPECIALIZATION RECOGNIZED SPECIALIST IN REAL ESTATE LAW

October 3, 2002

VIA FACSIMILE

Steve Ross, Esq.
New Mexico Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87505

Thomas Kellahin, Esq.
Post Office Box 2265
Santa Fe, New Mexico 87504

William F. Carr, Esq.
Post Office Box 2208
Santa Fe, New Mexico 87504

Re: NMOCC Case No. 12622 (De Novo): Application of Nearburg Exploration Company, L.L.C. for two non-standard gas spacing and proration units, Lea County, New Mexico

NMOCD Case No. 12908-A: In the Matter of the Hearing Called by the New Mexico Oil Conservation Division for an Order Creating, Re-Designating and Extending the Vertical and Horizontal Limits of Certain Pools, Lea County, New Mexico

Dear Counsel:

On behalf of Raptor Natural Pipeline LLC, please be advised that I plan on submitting the following materials as exhibits at the hearing on the above-referenced cases.

- (1) Grama Ridge-Morrow Gas Storage Unit "Plan of Operations" filed with the State Land Office on August 23, 2002;

October 3, 2002

Page 2

- (2) Original Unit Agreement with 1st and 2nd Amendments;
- (3) State Land Commissioner's Approval of the 2nd Amendment to Unit Agreement;
- (4) NMOCD Order No. R-11611 (Special Project Rules and Operating Procedures for the Grama Ridge-Morrow Gas Storage Unit);
- (5) One or more of the following orders previously issued by the Division: R-2792, R-4491, R-6050, R-7582;
- (6) Map Exhibits: Unit Area (Oil and Gas Leases); Unit Surface Area.

All of the foregoing materials are matters of public record. You will be provided with exhibit notebooks containing these materials in the next few days. I do not plan on presenting any technical evidence at this time. I reserve the right to present any rebuttal evidence as I may deem necessary.

Very truly yours,

MILLER, STRATVERT & TORGERSON, P.A.

A handwritten signature in black ink, appearing to read "J. Scott Hall", with a stylized flourish at the end.

J. Scott Hall

JSH/glb

cc: Darren Groce, Esq.

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William F. Carr

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October 2, 2002

HAND DELIVERED

Stephen C. Ross, Esq.
Assistant General Counsel
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: New Mexico Oil Conservation Division Case 12908: Division
Nomenclature Case, August 1, 2002.

New Mexico Oil Conservation Division Case 12622 (De Novo):
Application of Nearburg Exploration Company, L.L.C. for
approval of two non-standard 160-acre gas spacing and proration
units, Lea County, New Mexico.

Dear Mr. Ross:

Enclosed is Nearburg Exploration Company, L.L.C.'s Consolidated Response to Redrock Operating Ltd., Co.'s Motion to Strike and Objections to Certain Exhibits and Motion in Limine to limit Argument and Evidence to Certain Issues. Also enclosed is Nearburg's Amended Pre-hearing Statement.

I will be prepared exchange exhibits by Friday, October 4, 2002. The revisions to our exhibits were identified in my letter to the Division dated September 30th. I have discovered one additional change in our exhibits. There are certain control discrepancies in our structure maps in an area approximately two miles to the northeast of Section 34. These have been corrected and new maps will be produced to the Division and parties. These discrepancies do not affect the mapping of the Morrow formation in Section 34.

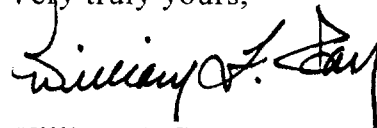
Nearburg assumes any new exhibits that any other party proposes to use will be exchanged at the time Nearburg produces its revised exhibits. We also assume that either party will be permitted to respond to any new exhibit produced at that time. If this is incorrect, we request that we be so advised by either counsel for Redrock or Raptor Natural Pipeline or by the Division.

HOLLAND & HART ^{LLP}
ATTORNEYS AT LAW

Stephen C. Ross, Esq
October 2, 2002
Page 2

I am hopeful that with the enclosed documents and an exchange of proposed exhibits, this case will be in a posture where all parties can stand down until after October 18, 2002.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr", written in a cursive style.

William F. Carr

cc: W. Thomas Kellahin, Esq.
J. Scott Hall, Esq.
Robert Shelton
Nearburg Exploration Company, L.L.C.

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**APPLICATION OF NEARBURG EXPLORATION
COMPANY, L.L.C. FOR TWO NON-STANDARD
GAS SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.**

**CASE 12662
(De Novo)**

**APPLICATION OF THE OIL CONSERVATION
DIVISION FOR AN ORDER CREATING,
RE-DESIGNATING AND EXTENDING THE
VERTICAL AND HORIZONTAL LIMITS
OF CERTAIN POOLS IN LEA COUNTY,
NEW MEXICO.**

**CASE 12908-A
(Severed and Reopened)**

**NEARBURG EXPLORATION COMPANY, L.L.C.'S
CONSOLIDATED RESPONSE TO REDROCK OPERATING LTD., CO.'S
1. MOTION TO STRIKE AND OBJECTIONS TO CERTAIN EXHIBITS
AND
2. MOTION IN LIMINE TO LIMIT ARGUMENT AND EVIDENCE TO
CERTAIN ISSUES**

I. INTRODUCTION.

Redrock Operating Ltd., Co. has filed two motions, which, in sum and substance, seek the same relief: exclusion of certain evidentiary exhibits and argument that Redrock expects Nearburg will offer at the hearing on this matter. Neither motion is well founded and both motions should be denied. While each motion suffers from its own, separate defects, both motions are premised on unfounded accusations of Nearburg's alleged attempts to "unduly influence" and "prejudice" the Commission,

while at the same time completely failing to inform the Commission of, one, the legal authority for bringing such a motion, and two, exactly how the portions of the exhibits it seeks to strike are irrelevant and inadmissible. Redrock's failure to establish these prerequisites is fatal to its attempt to obtain the extraordinary relief it seeks.

II. REDROCK'S MOTION TO STRIKE IS INAPPROPRIATE.

A. Motions to Strike Are "Drastic" and Narrow in Application.

Motions to strike propose "a drastic remedy". *Sierra Club v. Young Life Campaign, Inc.*, 176 F. Supp.2d 1070, 1086 (D. Colo. 2001). As such, motions to strike generally are "not favored" in the law. *Peoples v. Peoples*, 72 N.M. 64, 70, 380 P.2d 513, 517 (1963). New Mexico Rule of Civil Procedure 12(F)¹ is the basis for a motion to strike, and by its express terms, only applies to a pleading. 1-012(F) NMRA 2000 (the Court "may order stricken from any pleading . . ."). Only material included in a "pleading" may be addressed by a motion to strike, and exhibits, therefore, are not the proper subject of such a motion. *See, e.g., Dawson v. City of Kent*, 682 F. Supp. 920 (N.D. Oh. 1988) (refusing to strike affidavit and exhibit because motion to strike improper as to these materials).

Here, Redrock seeks to strike portions of Exhibit 2, and Exhibits 12, 13, and 23, in their entirety. Redrock's motion is not directed at a pleading, but only exhibits, and

¹ Rule 12(f) provides:

F. Motion to strike. Upon motion made by a party before responding to a pleading or, if no responsive pleading is permitted by these rules, upon motion made by a party within thirty (30) days after the service of the pleading upon him or upon the court's own initiative at any time, the court may order stricken from any pleading any insufficient defense or any redundant, immaterial, impertinent or scandalous matter.

is therefore improper when compared against the express language of the rule authorizing a motion to strike. Redrock's motion must be denied.

Even if the exhibits were properly addressed by a motion to strike, which they are not, a motion to strike should be considered with caution. New Mexico courts have granted motions to strike only in the narrowest of circumstances, or, in other words, "only those matters improperly pleaded, or which have no bearing on the lawsuit." *DiMatteo v. County of Doña Ana*, 109 N.M. 374, 378, 758 P.2d 285, 289 (N.M. Ct. App. 1989). In *Peoples*, the Supreme Court ruled that only immaterial matters, "calculated to be harmful," as well as pleadings in which "abuse and practical impropriety" are present, should be stricken. *Peoples* at 70, 758 P.2d at 517. New Mexico's approach to motions to strike is in accord with other jurisdictions. As one court has said, in order to justify striking a portion of the complaint, "the allegations being challenged must be so unrelated to plaintiff's claims as to be void of merit and unworthy of any consideration." See, e.g., *NOW v. Scheidler*, 897 F. Supp. 1047, 1087 (N.D. Ill. 1995) (emphasis supplied).

The exhibits singled out by Redrock are not "improperly pleaded" and cannot be said to "have no bearing on the lawsuit" as required by the New Mexico courts. *DiMatteo*, 758 P.2d 285, 289. Instead, as demonstrated below (*infra* Section III, B) the exhibits are relevant to the issue presented to the Commission and merit consideration in this case.

III. REDROCK'S MOTION IN LIMINE IS MISPLACED.

A. Redrock's Motion Lacks the Particularity Required By Rule 7, Thereby Prejudicing Nearburg's Ability to Adequately Respond.

Redrock's motion in limine (like its motion to strike) suffers from several defects, perhaps the most obvious of which is its ambiguity and lack of clarity. Rule 7 of the New Mexico Rules of Civil Procedure requires specificity and clarity: "motion[s] . . . shall be made in writing, shall state with particularity the grounds therefore, and shall set forth the relief or order sought." NMRA 1-007. Simply stated, Redrock's motion ignores this directive, thereby prejudicing Nearburg's ability to fully and completely respond. *See, e.g., National Excess Ins. Co. v. Bingham*, 106 N.M. 325, 742 P.2d 537 (N.M. Ct. App. 1987) (finding that prejudice may result where party must respond to motion lacking specificity).

Redrock's lack of specificity is obvious. Redrock seeks to exclude Nearburg's anticipated arguments and certain of Nearburg's exhibits, but fails to specify exactly which arguments and exhibits it seeks to exclude.² For example, in the only two lines addressing the issue, Redrock declares

Rule 801 New Mexico Rules of Evidence precludes 'hearsay' evidence. Nearburg proposes to rely upon hearsay for which there is no exception.

Motion at pg. 6. In similar thrift, Redrock declares

Matter's [sic] involving discovery are always not matters which should be used to try and influence or distract the Commission from the technical issues in these cases.

Motion at pg. 6 (citing Rule 403, NMRE).³

Yet, Redrock fails to inform the Commission, and Nearburg too, of the specific evidence that allegedly contains hearsay. Similarly, Redrock invokes discovery

² Nearburg has assumed for purposes of this response that the exhibits sought to be excluded are those same exhibits briefly referenced in Redrock's Motion to Strike.

³ As discussed *infra*, Section D, Redrock's invocation of Rule 403 is improper.

matters, but in seven pages of motion, fails to specify with the least bit of particularity the discovery matters to which it refers.

Nearburg therefore requests that Redrock's motion be denied for its failure to conform with Rule 7.

B. **The Evidence At Issue is Relevant, and Is Not the Proper Subject of a Motion in Limine.**

Redrock challenges the relevancy of certain matters, but fails to recognize that relevance at the evidentiary level is broadly construed. New Mexico Rule of Evidence 401 provides:

‘Relevant evidence’ means evidence having any tendency to make the existence of any fact that is of consequence to the determination of the action more probable or less probable than it would be without the evidence.

NMRE 11-401. Any evidence which logically addresses an issue in the case is material and should be admitted. *See, e.g., Wright v. Brem*, 81 N.M. 410, 467 P.2d 736 (N.M. Ct. App. 1970).

Redrock not only ignores the breadth of “relevant evidence” directives, it also ignores the narrow application of a motion in limine. A motion in limine is properly directed at questions asked or statements made in connection with the offer of evidence in the presence of a jury, and not the evidence itself. *Proper v. Mowry*, 90 N.M. 710, 568 P.2d 236 (N.M. Ct. App. 1977) (emphasis supplied) (citing and quoting *Burrus v. Shilhavy*, 293 N.E.2d 794 (Ind. Ct. App. 1973)). The purpose of the motion in limine is to exclude references to prejudicial matters, and it is not the purpose to exclude irrelevant evidence. *Id.* (citations omitted). Redrock, therefore, improperly attempts to use the motion in limine. Redrock bases its motion on what it calls “three (3) critical

issues”. The relevance of the contested exhibits and arguments is substantiated by the very “critical issues” set forth by Redrock in its motion. That is, the issues as framed by Redrock demonstrate the relevance of the evidence proposed by Nearburg. Even assuming that Redrock has correctly stated the issues —which Nearburg vigorously denies — then relevance is apparent in the following ways.

1. Issue 1: “How did Nearburg get itself in this mess”.

If, as Redrock suggests, the first issue involves “how did Nearburg get itself in this mess,” then Nearburg’s chronology (Exhibit 2) is not only an appropriate exhibit but it identifies information necessary to explain the very question posed by Redrock. The chronology offers an objective explanation of more than three years of events involving this case, and is of necessary relevance to the issues before the Commission.

Redrock next objects to Nearburg’s chronology by attacking Nearburg’s inclusion of the parties’ failed settlement efforts. Motion at pg. 6. For its authority, Redrock cites Rule 408 of the New Mexico Rules of Evidence. Even the most casual reading of Rule 408 and the case law, however, demonstrates that Redrock misunderstands Rule 408. Rule 408 excludes only evidence of a settlement that is being used to attempt to **establish liability**:

[settlement] evidence . . . is not admissible to prove liability for or invalidity of the claim or its amount. Evidence of conduct or statements made in compromise negotiations is likewise not admissible. . . . This rule also does not require exclusion when the evidence is offered for another purpose

11-408 NMRE (emphasis supplied). The express language of the rule makes clear that Rule 408 prevents evidence of what was said -- not evidence that settlement discussions occurred. New Mexico courts have long recognized the distinction that Redrock fails to

appreciate. *See, e.g., Jesko v. Stauffer Chemical Co.*, 89 N.M. 786, 558 P.2d 55 (N.M. Ct. App. 1976) (citing Weinstein’s Evidence, para. 408[05] (1975)).

Contrary to Redrock’s statement, Nearburg does not contend that anyone did or did not conduct themselves in good faith. The chronology only states that settlement efforts were undertaken by the parties. It does not mention the conduct of these negotiations nor any statement made therein and therefore does not violate the rules of evidence.

Nearburg’s Exhibit #12 (May 12, 1999 Title Opinion) is also directly relevant to Issue 1 as framed by Redrock. The exhibit will not be offered to establish title to any interest in the affected tracts but is relevant to explain “How Nearburg got into this mess.” Redrock itself raises the status of its title in the “Opposition” portion of its Pre-Hearing Statement. Redrock cannot be permitted to raise and/or frame issues and then attempt to prevent the introduction of relevant evidence on the issues it created.

2. Issue 2: “The Pool boundary.”

Redrock’s second issue addresses the pool boundary. This issue is governed by the geological and engineering data available on the reservoir. The issue in this case is not as Redrock states: protection of the gas storage unit. That issue was resolved many months ago. Nearburg has not completed its well in the gas storage interval and is not producing nor will it produce in the future gas from this storage project. Redrock’s misstatement of the issue is nothing more than an attempt to frame the issue in a light of advocacy to avoid the import of the relevant evidence.

In response to Redrock’s attempt to revive the issue — resolved months ago — Nearburg’s Exhibit 13 is a letter from a party to this proceeding involving the property

at issue in this proceeding. The exhibit will not to be offered for the purpose of establishing or arguing title issues. The exhibit will be used to confirm that, while the mineral owners in this section have always recognized the need to protect and not produce stored gas, they also have recognized the potential for communication across Section 34. This evidence goes to the very heart of the issue Redrock attempts to revive.

Nearburg's Exhibit 23 also speaks to Redrock's second issue. Exhibit 23 is an October 19, 1979, letter with an attached assignment of operating rights regarding the "Llano Well". The exhibit explicitly recognizes that as early as 1979, the year when the pool boundaries were adjusted to divide the Morrow formation in Section 34 into two pools, the mineral owners in this section recognized that drainage may occur in certain Morrow intervals across Section 34. As recognized by Redrock, this is directly relevant to the issues before the Commission.

3. Issue 3: Spacing Unit.

Redrock's third issue addresses the appropriate spacing unit for the Nearburg GRE State Well No. 1 located in the NE/4 of Section 34. Redrock frames the issue as if there are only two possible spacing units for this well: 1) a 160-acre non-standard unit comprised of the NE/4 of Section 34; or 2) a 320-acre unit comprised of the E/2 of the section. The third option — which Redrock conveniently ignores — is a N/2 unit that will require a change in the pool boundary. Again, the issue will be determined by geological and engineering data.

Redrock has already implicitly recognized the relevance of Nearburg's Exhibit 23. In its Pre-Hearing Statement, Redrock states what it expects the "evidence will

show” regarding the “Llano Well” drilled in October of 1979. Nearburg’s Exhibit 23 is an October 19, 1979, letter with attachments regarding the “Llano Well”. As discussed above, the letter and attachment is consistent with Nearburg’s version of what the “evidence will show”. Again, Redrock cannot be permitted to frame issues, and then object to evidence relevant to the issues it framed.

C. **Redrock’s Issue Goes to Weight of the Evidence, Not Its Admissibility.**

While Redrock attempts to portray portions of Nearburg’s evidence as irrelevant, Redrock’s real complaint goes to the weight of the evidence, and not its admissibility. The Commission, however, is authorized to determine the weight to be afforded any evidence before it. The Commission is authorized by statute to conduct hearings, and, as a necessary corollary of its authority to conduct hearings, the Commission is authorized to prescribe rules of procedure for hearings. *See, e.g.*, NMSA 1978, § 70-2-6,7. The Commission’s rules provide for the parties to have a full opportunity to present evidence. 19 NMAC 15.N.1212. The Commission, of course, is entitled to exercise its discretion in determining both admissibility of evidence, and the weight to be afforded evidence in the decision-making process. *See, e.g., In re Protest of Miller*, 88 N.M. 492, 542 P.2d 1182 (N.M. Ct. App. 1975) rev’d on other grounds, 89 N.M. 547, 555 P.2d 142 (1976); *Claridge v. State of New Mexico Racing Comm’n*, 107 N.M. 632, 763 P.2d 66 (N.M. Ct. App. 1988).

Redrock attempts to preclude the Commission from exercising its discretion in even admitting the evidence, let alone deciding what weight should be afforded the evidence. Redrock’s attempt has no basis in either the Rules of Evidence or this Commission’s rules. For example, with respect to Nearburg’s chronology (Exhibit No.

2) the case law makes clear that the issue is one of weight, not admissibility. *See, e.g., Baerwald v. Flores*, 122 N.M. 679, 930 P.2d 816 (N.M. Ct. App. 1996). In *Baerwald*, a challenge was made to the trial court's admission into evidence of a summary of the plaintiff's claims, much like the chronology offered by Nearburg in this case. *Id.* at 685, 930 P.2d 822. The appellate court rejected the challenge, noting "any dispute . . . would go to the weight and credibility of the summary, not its admissibility." (citations omitted). *Id.* The court also cited case law for the proposition that any inaccuracies could properly be brought on cross-examination. *Id.* (citing *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F. 2d 505, 515 n.9 (9th Cir. 1985)).

Redrock's challenge seeks to circumvent the Commission's ability to hear evidence and decide the relevance of the evidence to the issues before it. This challenge flies in the face of logic and the long-standing policy to defer to the credence, experience, and specialized knowledge of the Commission. *See, e.g., Grace v. Oil Conservation Commission of New Mexico*, 87 N.M. 205, 208, 531 P.2d 939, 942 (1975).

D. Redrock Cannot Rely on Rule 403.

In what must be construed as a final, desperate effort, Redrock suggests that Nearburg may try to "influence or distract the Commission" and cites to Rule 403 of the New Mexico Rules of Evidence in support of its effort. Redrock fails to offer any support for its bald assertion and corresponding cite to Rule 403.

Redrock's failure to explain the applicability of Rule 403 is easily understood: Rule 403 has no applicability here. Rule 403 seeks to protect a jury from being confused, misled, or being exposed to unfairly prejudicial evidence. NMRE 11-403

(emphasis supplied). As interpreted, the Rule has little to no applicability when a jury is not involved. *See, e.g., Schultz v. Butcher*, 24 F.3d 626, 632 (4th Cir. 1994) (finding court should not exclude evidence under Rule 403 in bench trial on grounds of unfair prejudice); *Gulf States Utilities Co. v. Ecodyne Corp.*, 635 F.2d 517, 519 (5th Cir. 1981) (same).

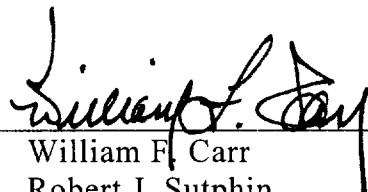
There is no jury involved in this proceeding, and therefore no threat of unfair prejudice or misleading or confusing the jury. Rule 403 has no applicability here, and Redrock's invocation of the rule must be disregarded.

IV. CONCLUSION

Redrock's motion is replete with accusations of Nearburg's attempts to "unduly influence the Commission," "prejudice the Commission," and "misdirect the Commission's attention." Redrock's motion is all smoke and mirrors. In more than ten combined pages of argument Redrock completely shirks discussion of the legal authority supporting its extraordinary motion, and also shirks any attempt at the detail required to invoke the extraordinary relief sought. Nearburg requests that Redrock's motions be denied.

Respectfully submitted,

HOLLAND & HART, LLP

BY: 
William F. Carr
Robert J. Sutphin

CERTIFICATE OF SERVICE

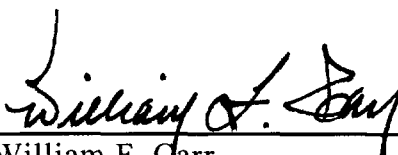
I certify that on October 2, 2002, I served a copy of the foregoing document to the following by:

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