

NADEL AND GUSSMAN PERMIAN, L.L.C.
3200 FIRST NATIONAL TOWER
TULSA, OK 74103
(918) 583-3333 (P)
(918) 583-0888 (F)

December 11, 1996

Mr. Jerry Sexton
District I Supervisor
New Mexico Oil and Gas Association
1000 W. Broadway, P.O. Box 1980
Hobbs, NM 88240

Re: Peery Federal #2
Little Lucky Lake (Morrow) Field
29-15S-30E, Chaves, NM
Request For Exemption From Statewide Rule 402, Natural Gas Well Yearly Shut-in
Pressure Test

Dear Mr. Sexton:

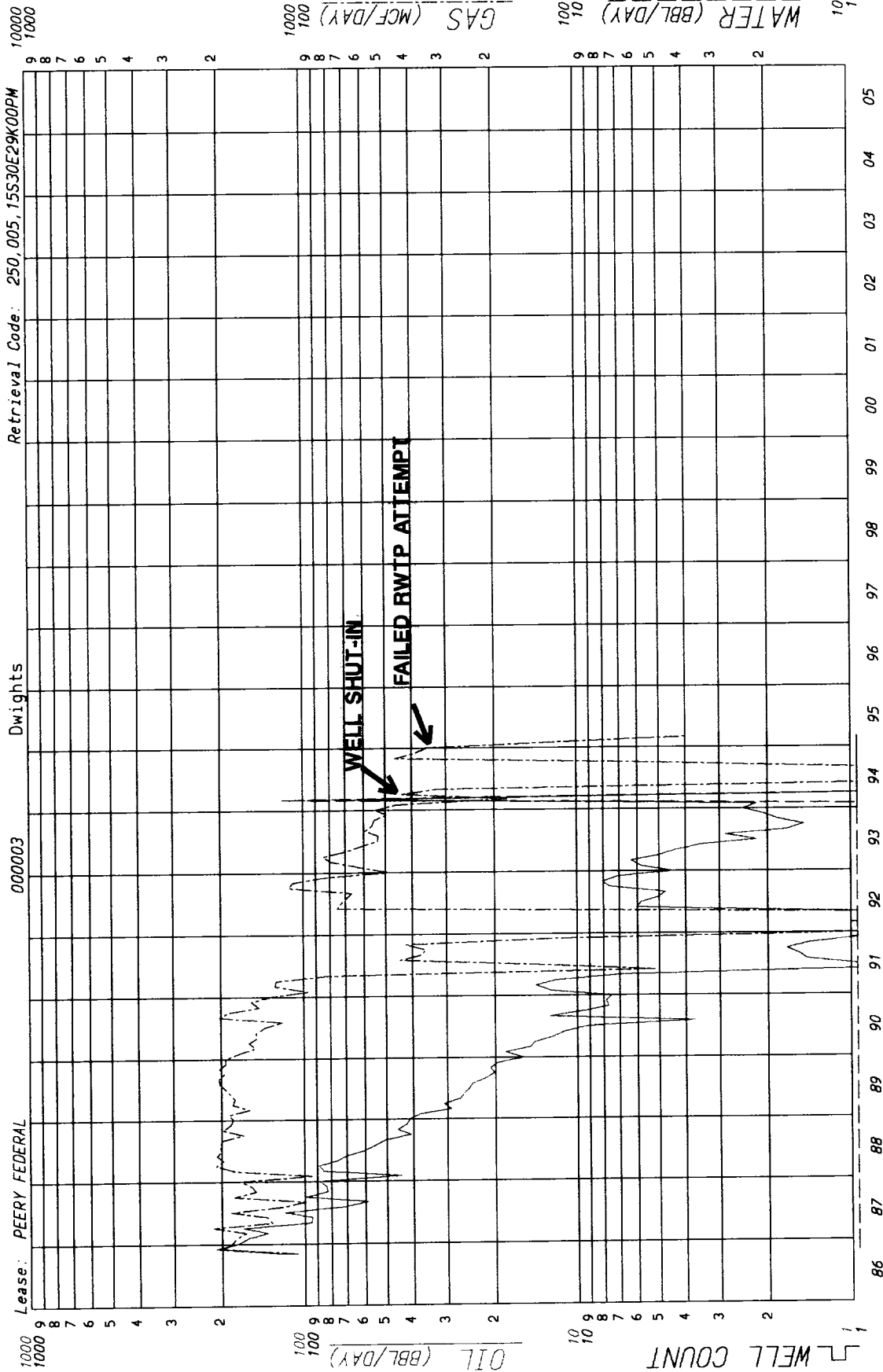
Morrow wells in the Little Lucky Lake field are very fluid sensitive, and wells are sometimes lost when production is completely curtailed (especially when reservoir pressures are lower), as is necessary when complying with Rule 402. As an example, please see the attached plot on the Peery Federal #3. The well was making about 500 mcfd when Paloma Resources recompleted the Peery Federal #2 to the Morrow in early 1994. As both wells were located in the south half of the section, Paloma shut-in the #3 pending a ruling by the New Mexico Oil and Gas Association. When approval to return the well to production was given, Paloma was unable to get the well to produce again, despite repeated swab runs. The well has never again produced from the Morrow.

It is unknown exactly why the Morrow is so sensitive to being shut-in. One probable reason is that the reservoir exhibits retrograde condensate behavior, and the gas relative permeability is reduced near the wellbore, where the pressure is lowest and the condensate level is highest. Shutting the well in allows the condensate to fall back on the formation, further reducing the relative permeability to gas. At any rate, wells that are shut-in are sometimes lost permanently.

Nadel and Gussman, LLC has purchased the Peery Federal lease, and therefore has a significant investment in this well. It is also not in the interests of the State of New Mexico to prematurely lose production from the Peery Federal #2. We hereby respectfully request that the New Mexico Oil and Gas Association grant the well an exception from Statewide Rule 402.

Sincerely,


Joel F. Martin, P.E.



County: CHAVES State: NM
 Field: LITTLE LUCKY LAKE (MORROW) PM
 Reservoir: MORROW
 Operator: PALOMA RESOURCES INC
 Oil Cum: 94224 Gas Cum: 3346756
 Location: 29K 15S 30E

Date: 10-03-96

F.P. Date 10-86