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February 19, 2002

**BY FACSIMILE AND U.S. MAIL**

FAX NO. (915) 682-4139

John R. McRae  
David H. Arrington Oil & Gas, Inc.  
214 West Texas  
Suite 400  
Midland, Texas 79701

**Re: Well Re-Completion**  
Ralph Davis Well No. 1  
Lot 4, Section 29, T-18-S, R-39-E  
Lea County, New Mexico  
Hobbs East Prospect



Dear John:

To comply with the Oil Conservation Division's request for a plan for the above-referenced well, David H. Arrington proposes to re-enter the well, repair the casing leak, and plug back to the Queen formation at a depth of approximately 4000', perforate and stimulate the formation. The Queen spacing unit for the well will be 51.95 acres instead of 160-acres as required by Division Rules due to variations in the U. S. Public Land Surveys.

To receive Division approval of this non-standard spacing unit, Arrington needs to file an application for administrative approval of this unit pursuant to Division Rules 104 D(2)(b). The application consists of a letter which contains a statement discussing the reasons for the formation of the non-standard spacing unit. Attached to the letter is (1) a plat showing the spacing unit, an applicable standard unit for the pool or formation, the well location and all adjoining spacing units, and (2) a list of affected persons. "Affected persons" are defined as the following persons owning interest in offsetting spacing units: (a) the Division-designated operator, (b) if there is no offset operator, any offsetting lessee whose interest is of record or is otherwise known by the applicant, or (c) if there is no lessee of record, any offsetting mineral interest owner whose interest is of record or who is otherwise known to the applicant. It is not clear whether the Division would require us to notify offset operators

HOLLAND & HART LLP  
ATTORNEYS AT LAW

February 19, 2002

Page 2

in Texas. However, since Texland is the offset operator in Texas and will not object to the non-standard unit, I would also notify them. This application is filed with the Santa Fe office of the Division.

The application must contain a statement attesting that the applicant, on or before the date the application was submitted to the Division, sent notification to the affected persons by sending each a copy of the complete application by certified mail advising them that they have 20 days within which to object in writing. If no objection is received by the Santa Fe office within 20 days, the Director may approve the application. In this situation, there should be no allowable restriction on the well.

The Director always has the authority to set any matter for hearing, but, unless there is an objection from an affected person, this almost never happens.

Once the application for the non-standard Queen spacing unit has been filed, Arrington should write the Division and request that the well be dismissed from the plugging hearing docket. At a minimum, the Division should continue the hearing on this well until you have had an opportunity to work on the well. You should not be faced with any fines and the surety on your plugging bond should not be involved in this matter.

If you have questions concerning this matter, or if you would like us to prepare the letter application, please advise.

Sincerely yours,



William F. Carr

