

CAPATAZ OPERATING, INC.

P.O. 10549

Midland, Texas 79702

(915)620-8820 (O)

(915)620-8842 (F)

FACSIMILE TRANSMITTAL

Date: 7-12-01 Time: _____ No. of pages (including form) 5

To: NMOCD Fax No. 505-393-0720

Attention: Donna Pitzer Phone No. _____

Comments: Originals are being mailed today.

Copies per your request.

Thanks, Kay

CAPATAZ OPERATING, INC.

P.O. Drawer 10549

Midland, Texas 79702

(915)620-8820 / fax (915)620-8842

07/12/01

Mrs. Donna Pitzer
New Mexico Oil Conservation Division
1625 French Dr.
Hobbs, New Mexico 88240

Re: Capataz Operating, Inc,
Redtag #2
2410' FSL & 2210 FWL
2-T20S-R38E, Lea Co., N.M.

Dear Donna;

On July 9, 2001 Capataz Operating submitted for approval our NMOCD FormC-101 for the captioned well. As noted in our discussion of July 11 this well is located in a non-standard position due to it's proximity to the City of Hobbs Waste Water Disposal Facility. A standard drill site location would place this wellbore within an overflow basin associated with the Hobbs effluent water storage pits and as such would be a location that the EPA and the City of Hobbs would object to. You will note from the aerial photograph the large square effluent disposal pits located south and southwest of our proposed location. These pits are use by Hobbs to hold effluent water when their irrigation operations are unable to dispose of these fluids. These large surface pits have overflow basins within which the aforementioned standard location would fall. After meeting with the Assistant City Attorney, City Manager, Waste Water Treatment Engineer and Director of Emergency Management for the City of Hobbs it was mutually determined and agreed that the applied for location would not interfere with the City's disposal operation and as such would be agreeable to Hobbs. The purpose of this transmittal is to seek the NMOCD's approval for this non-standard location based upon the existing and mitigating circumstances.

It should be further noted (see attached lease ownership map - lease taken in name of Leonard Resource) that Capataz has oil and gas leases on all of the tracts adjacent to this proposed location. Capataz expects to develop these locations should the Redtag #2 prove to be a commercial success.

Should you have any questions regarding this drill site or any of the particulars related to same please call.

Thank you for your assistance.

Sincerely,

Capataz Operating, Inc.

H. Scott Davis
President

18

Nadine

35

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SS-R38E

COPSTAR
RESTAG #2

COPSTAR
RESTAG #1

OVERFLOW
PITS

2

ADDITIONAL
OVERFLOW
PITS

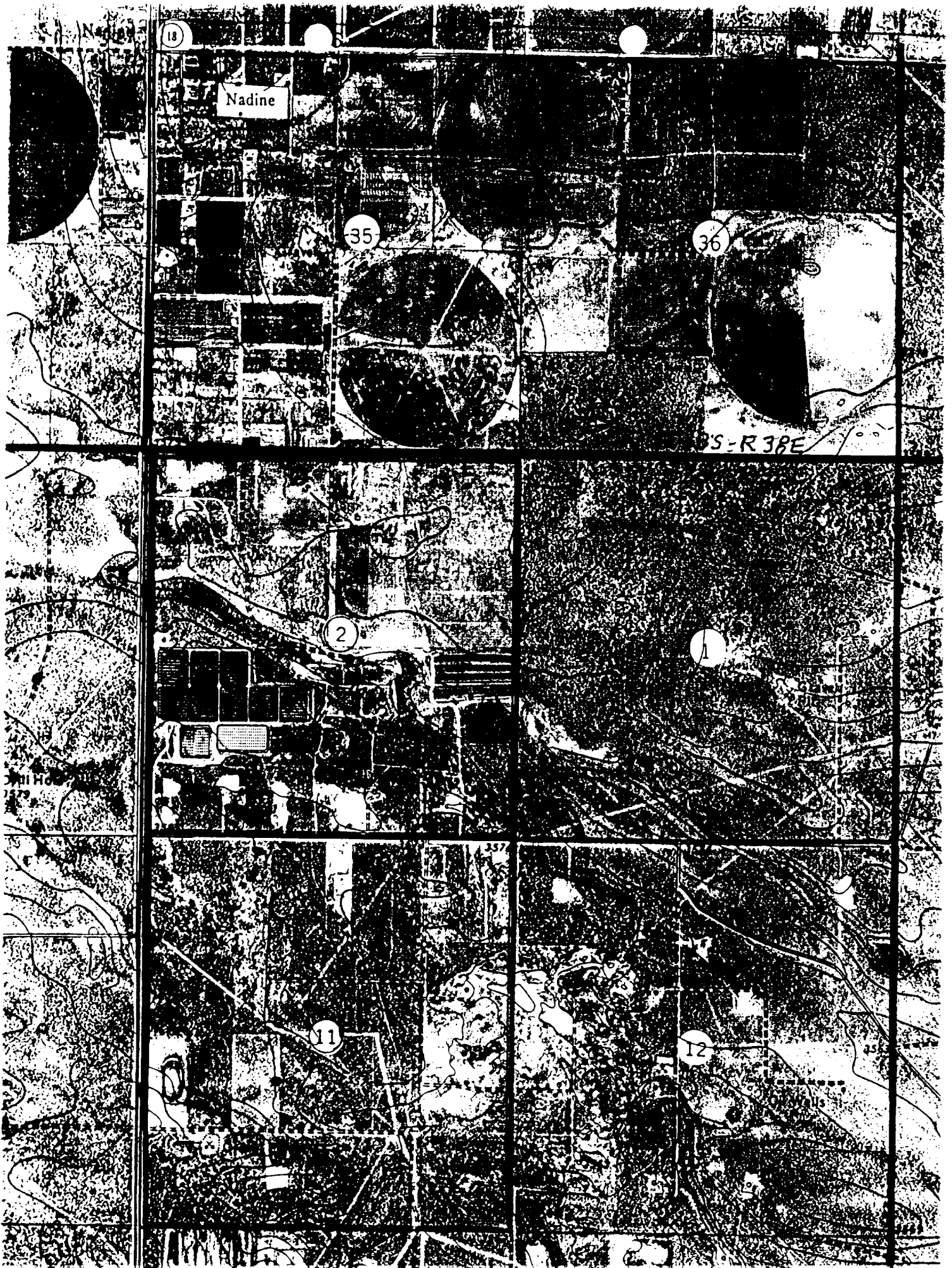
CITY OF HOBBBS
EFFLUENT PITS

1

11

12

356





THE CITY OF

HOBBS, NEW MEXICO

(505) 397-9231

• 300 NORTH TURNER •

HOBBS, NEW MEXICO 88240

FAX # (505) 397-9334

Office of
EMERGENCY MANAGEMENT/SAFETY
LEPC—SARA TITLE III
HAZ-MAT

January 8, 2001

Capataz Drilling, Inc.
Post Office Box 10549
Midland, Texas 79702

Via Facsimile and Mail

Attn: Scott Davis

Re: City of Hobbs, New Mexico
Proposed Drilling Site - Nadine Effluent Facility

Dear Mr. Davis:

I have received your revised plans on the proposed drilling site at Nadine, New Mexico located within the City's WWTP effluent water operations facility. I have discussed the changes your company has agreed to with the City Manager, City Attorney and the New Mexico Oil Conservation officials in Hobbs.

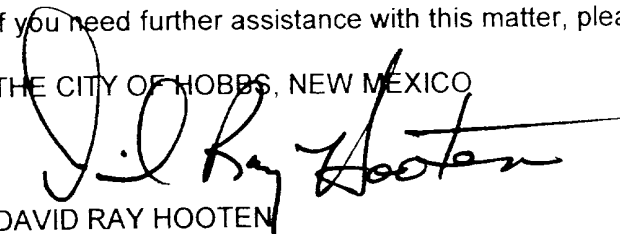
We are approving the "revised drilling plan" for this site, if the following changes are adhered to:

1. Move the rig location 150 feet north of irrigated percolation field from original point of drill hole.
2. Open pits outside of the City's effluent impoundment areas to the north. No on-site run-off will be allowed to flow to the City's impounded areas.
3. A caliche road is to be constructed to the east end of the site utilizing the old roadway surface area.

I will forward a letter and contact Mr. Chris Williams with the Oil Conservation Division of our agreed upon actions, provided these changes meet with the regulatory approval of the New Mexico Oil Conservation Division.

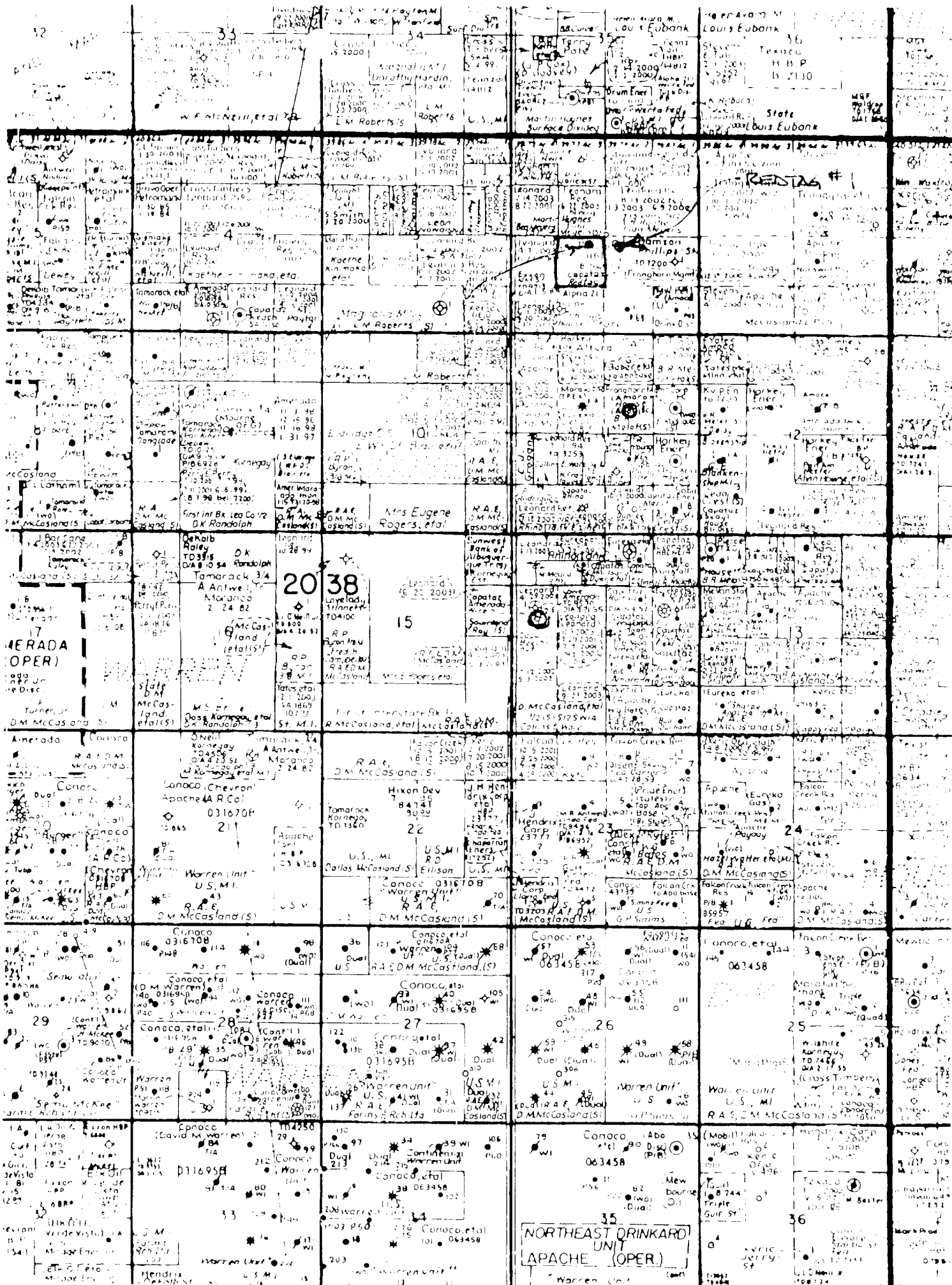
If you need further assistance with this matter, please contact me.

THE CITY OF HOBBS, NEW MEXICO


DAVID RAY HOOTEN
Director of Emergency Management/Safety

DRH:msr

xc: Bo Thomas, City Manager
Chris Williams, OCD





THE CITY OF
HOBBS, NEW MEXICO

300 NORTH TURNER
UTILITIES (505) 397-9315

HOBBS, NEW MEXICO 88240
FAX (505) 397-9370

July 12, 2001

Capataz Drilling Inc.
Mr. Scott Davis
PO Box 10549
Midland, TX 79702

Re: Proposed well site Redtag #1 Lea County, NM

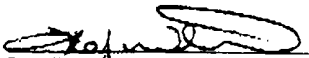
Mr. Davis,

We received and express our appreciation for copies of forms C-101, C-102 and BOP for proposed well site Redtag #1. As per our discussion and visitation of proposed site, the City of Hobbs approves the following location site with the mutual understanding that the following conditions will be observed.

- Pad location and future installation of batteries if required, will be at furthestmost western direction of drill hole.
- Open pits for drilling purposes will be lined and situated so as to prevent any contamination of area due to flooding and/or leakage. Upon completion of drilling, all materials in pit(s) shall be removed from location and properly disposed in accordance with local and federal regulations. Pit liners shall be removed and pit shall be refilled with native materials. Native seeding of pit area is encouraged though not mandatory.
- To provide access to developed site, additional caliche material can be added atop of existing northern berms. No removal of berm(s) will be allowed.
- All future permanent flow lines and electrical services of developed well site will be routed alongside City of Hobbs furthestmost northern boundary.

I believe that above listed items cover initial concerns of proposed well site. Should there be any additional dispute or questions regarding site requirements please do not hesitate to contact me at (505) 397-9315.

Sincerely,


Leo Wilson, WWTP Superintendent

cc: Debi Lee, Assistant City Manager
Tim Woomer, Utilities Director
File

ABOVE DATE DOES NOT
INDICATE WHEN
CONFIDENTIAL LOGS
WILL BE RELEASED

ELF 1-11-88