

well  
file

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July 20, 1995

Mr. Royce Fort  
P.O. Box 11327  
Midland, Tx 79702

Re: Knight #1  
San Juan Co., New Mexico  
Our Property No. 6141100

*A-5-30N-13W*

Dear Royce:

After receiving the Knight #1 and Knight #1E land and well files sent to us, we scheduled a meeting with Andy Rector to discuss considerations surrounding the 1987 New Mexico Oil Conservation Division (OCD) Order R-8383 establishing a 160 acre non-standard gas proration unit for the Knight #1. Given the information at hand there did not appear to be any immediate remedy to our situation. To further clarify the situation we decided it would be helpful to know what proration unit was assigned to the Knight #1E, because it appeared that the Knight #1E division order also covered the entire E/2 of Section 5. I contacted the OCD requesting proration information for the #1E.

OCD confirmed that the Knight #1E had been granted a non-standard 160 acre gas proration unit via OCD Order No. R-8387 issued in January, 1987. They agreed to fax to me this order, copy enclosed. It basically mirrors Order R-8383 and covers the Federal 1E, Knight 1E, and the Johnson 1E. They also faxed to me a copy of the April 15, 1987 memo from William Lemay, Division Director of the OCD regarding non-standard proration units, copy enclosed. I called OCD attempting to get a clarification of the scope of this memo. I was told the Mr. Frank Chaves would have to make that response and he was out of the office for the remainder of the week. When he did not return my call, I made a follow-up call.

I did get to visit with Frank Chaves at OCD, telephone number (505) 334-6178, about the Lemay memo. He confirmed that the memo basically superseded the January, 1987 Orders and that non-standard proration units in the Basin Dakota pool were no longer valid. In fact, that were eliminated almost immediately after they were created. I again pursued the problem that started this whole odyssey regarding the patent only designation that OCD had assigned to the Knight. He said that the OCD office could not catch all problems and to get the correct gas proration unit on file for the Knight #1, we would need to complete and submit a Form C-102. He dismissed my idea about OCD initiating the change and reiterated our need to submit a Form C-102. He has faxed to me a copy of this form and the instructions for completing the form, copy enclosed.

Knight #1  
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I am assuming that the information from Mr. Chavez is correct. Andy Rector has returned files to us and will do no additional work on this matter unless asked by us. It appears that we need to submit a Form C-102 for each of the three wells we operate: Federal, Knight and Johnson. It would seem best that these forms be submitted by the Midland office. I am a little wary of the overall impact of completing these forms, particularly if it has any impact on allowables. Also, I am uncertain about the necessity of similar filings by P-R-O for the #1E wells. I am enclosing the Knight #1 and #1E files previously mailed to us.

The New Mexico Taxation and Revenue Department has taken exception to the production tax information I submitted for the Knight. I suspect it is because I have claimed a Federal royalty due on this property, although they have not returned my call to specify the problem. Royce, I would appreciate your review of this matter and assessment of our best response. I will return from vacation on July 31, and will be happy to assist in any way to help resolve this situation.

Yours very truly,



R. F. Wagner

Enclosures

RFW/ns