



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

November 6, 1996

Harrison Pace
3403 Boyd
Midland, TX 79707

RE: Pat State Well No. 1 located in Unit P, Sec. 30, T-10 South, R-27 East, Chaves County, NM

Dear Mr. Pace:

Thank you for sending the information regarding your New Mexico litigation concerning the above-referenced well. Unfortunately, expiration of the underlying state lease does not relieve you from liability for plugging this well. No subsequent operator ever assumed control of this well pursuant to Division Rule 101 by filing (i) an OCD C-104 Change of Operator form and (ii) posting a plugging bond. See Rule 101, Subsections H, I and J (Enclosed). The mineral interest owner (here the State of New Mexico) is not required to file a C-104 or post a bond because the lease it issued expired according to its terms. Expiration of the underlying oil and gas lease does not result in the shift of plugging responsibility to the mineral interest owner/lessor.

You are the last operator of record and as such are liable for plugging this well. An active \$5,000 bond issued by American Manufacturers Mutual Insurance Company is still on file with the Division. If you (or the insurance company) do not plug this well and the Division plugs it, the Division will then foreclose upon your bond to help pay for the costs of plugging. Any costs above \$5,000, the Division will seek to recover from you personally through the appropriate New Mexico and Texas state procedures. And if the bond is foreclosed upon, the insurance company will then undoubtedly seek reimbursement from you for \$5,000..

Enclosed is a copy of Division Order No. R-10675. You have until November 15, 1996, to plug the well before the Division is authorized to do so. It may be in your and/or the insurance company's best interest to plug this well prior to the Division doing it because in most cases the operator or other private party can get it done cheaper. Please contact Ray Smith with our Artesia, New Mexico office (Ph. 505/748-1283) regarding the proper plugging procedures to follow.

If you have any question, please feel free to call me at 505/827-8156.

Sincerely,

Rand Carroll
Legal Counsel

cc: Jeff Eyles, American Manufacturers Mutual-Claim Department
Ray Smith, OCD Artesia