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May 1, 1996

HAND-DELIVERED

Rand Carroll, Esq.
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case 11509: Application of the New Mexico Oil Conservation Division for a show cause hearing requiring Chuza Operating and other interested parties to appear and show cause why seven wells in Rio Arriba County, New Mexico, should not be plugged and abandoned

Dear Mr. Carroll:

Since our meeting on April 3, 1996 with you and Frank Chavez, I met with Mr. Roger Prucino, attorney for Fred Shelton, III, concerning the plan of Mr. Shelton and others to take over the wells which are the subject of the above-referenced case. It is our understanding that they propose to assume operation of these wells in the name of a company now being formed and that this company also plans to drill additional wells in this immediate area.

Following our April 3rd meeting, we were hopeful that the transfer of operatorship of these wells would be completed by this date and that this Division case could then be dismissed. However, although Shelton's attorneys report progress towards getting this matter resolved, they are apparently experiencing delays in their negotiations with the Jicarilla Tribe.

Rand Carroll, Esq.
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
May 1, 1996
Page 2

As you know, Chuza Operating was involved in a lawsuit in Texas with Fred Shelton , III, which resulted in a settlement requiring Mr. Shelton, among other things, to assume operation of these wells. Chuza furnished completed Oil Conservation Division forms to transfer operation of these particular wells.

Although Chuza has agreed to the above-referenced settlement with Mr. Shelton, we recognize that absent some arrangement acceptable to the Oil Conservation Division concerning the transfer of these properties, this plugging obligation still remains with Chuza.

It is important to note that the wells covered by Case 11509 are on a separate lease from other wells in the area which are also the subject of Oil Conservation Division Cases 11507 and 11508 which appear on the May 2, 1996 Examiner hearing docket.

Chuza has authorized me to contact you and make the following proposal to address the Division's concerns about the current status of these wells. Chuza requests that any Order entered in this case provide Chuza Operating ninety (90) days to post a \$5,000 cash bond on each of the wells which are the subject of this application to assure that they are properly plugged and abandoned. At that time, if these bonds have not been posted or a satisfactory arrangement is not in place for another entity to assume operation of these properties, the wells could be ordered plugged and abandoned. This arrangement would enable the current Chuza bond to remain in place since it secures Chuza's plugging obligations on all properties operated at this time by Chuza in New Mexico. It is also our opinion, that to immediately require work be under- taken on these wells to maintain them in a temporarily abandoned status pursuant to Rule 202 would result in economic waste, for these costs are unnecessary if the wells are subsequently to be plugged and abandoned.

Rand Carroll, Esq.
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
May 1, 1996
Page 2

We appreciate your consideration of this request. If given the ninety (90) days requested, we will be able to post one well bonds to provide the Division with adequate assurances that the properties will not ultimately become a plugging responsibility of the State of New Mexico.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr", with a stylized flourish extending from the end.

WILLIAM F. CARR

WFC:mlh