

INTEROFFICE MEMORANDUM

TO: SMK

FROM: Craig Hubbard

DATE: Wednesday, December 03, 1997

RE: Redstone
Rock Tank Unit
Various Issues

Pursuant to your request, I am herewith documenting my conversation with Joe Small of Redstone, which occurred on November 25, 1997.

Joe called me as I was putting the finishing touches on our response to Redstone's counter-proposal regarding the Carnero Federal Well. I told him that Fasken was making some concessions in the response, and we spoke amicably about trying to work something out.

Joe then remarked that he got the feeling during our conference call a day prior that Fasken was close to taking legal action in order to resolve the imbalance issue. He asked me if his suspicions were correct. I told Joe that Fasken has reached the end of its rope with this issue, that we are frustrated that nothing has been resolved, and that the issue is not going to go away. He then explained that Redstone would like to work something out, but that if this issue is resolved, they want some assurances that this property does not again wind up out of balance. He wants to limit seasonal marketing decisions, citing reservoir damage, among other reasons. He asked me what Fasken might accept as a settlement, and I told him that we had proposed \$1.20 per MCF. I asked him if proceeds from sales of overproduction would be a good place to start, and he said it would.

We closed amicably, agreeing that our respective companies should keep the lines of communication open in working toward resolution of this issue.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11877 Exhibit No. —(11)
Submitted By:
Fasken Land and Minerals,
Hearing Date: February 5, 1998