

DIAMOND HEAD PROPERTIES, L.P.

Redfern Enterprises, Inc., General Partner

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December 12, 1996

IN THE MATTER OF THE APPLICATIONS OF INTERCOAST OIL AND GAS COMPANY
AND YATES PETROLEUM CORPORATION FOR COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION, E/2-N/2 SECTION 20, T-20-S, R-28-E, EDDY
COUNTY, NEW MEXICO.

CASE NO. 11634

For Division Examiner's Docket December 19, 1996

VIA FEDERAL EXPRESS

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505

Ladies and Gentlemen:

Diamond Head Properties, L.P. has a 23.4 % working interest in the NE/4 of Section 20 in Eddy County, New Mexico.

In late October, Yates Petroleum Corporation approached us to participate in the drilling of a well in the NW/4 on a North Half Spacing in Section 20.

Subsequently, InterCoast Oil and Gas Company informed us that they had acquired a farmout from Kerr-McGee Corporation in Section 20 which would expire on January 18, 1997, and asked us to participate in the drilling of a well in the NE/4 on a North Half Spacing.

Since both of these wells conflicted, we could reach no decision. Yates Petroleum and InterCoast met to resolve these matters and decided to drill both wells, but change the spacing to West Half and East Half. We thought this was an excellent compromise and were agreeable to having Yates drill and operate in the West Half and InterCoast drill and operate in the East half.

Subsequent negotiations between InterCoast and Yates broke down, and both are now wanting to drill and operate a well in the NE/4 on an East Half Spacing in Section 20. We have been inundated

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with a blizzard of proposals, and are caught in the middle.


Diamond Head Properties, L.P. thinks highly of both companies and we know of no reason why either party should not be given the right to drill and operate.

Our major concern is that a well is drilled in the NE/4, and each party has assured us in writing that they intend to do so. We remain neutral as to which party ought to be given the right to drill and operate the well, and are agreeable to whatever the Commission decides.

However, we do not want our neutrality to work an injustice on the rights of any party. Diamond Head Properties, L.P. requests that the Commission be sensitive to InterCoast's potential loss of its farmout, and requests that the Commission resolve this matter in a way which preserves the rights of all parties.

Respectfully Submitted,

DIAMOND HEAD PROPERTIES, L.P.
REDFERN ENTERPRISES, INC., GENERAL PARTNER



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