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October 31, 2001

HAND DELIVERED

Michael E. Stogner
Petroleum Engineer
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1200 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Oil Conservation Division Case 12736: Application of KUKUI Operating Company for an Unorthodox gas well location, Eddy County, New Mexico.

Dear Mr. Stogner;

Enclosed for your consideration is a draft of an administrative order approving the application of KUKUI Operating Company for an unorthodox gas well location for its proposed Goodnight "35" Federal Well No. 3 at a point 660 feet from the West line and 440 feet from the South line of Section 35, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico. This order is also submitted on disc and has been E-mailed to your office. As you are aware, this application was filed for administrative approval but, following objections from offset operators, was set for hearing.

Enclosed is the October 17, 2001 letter by which Devon SFS Operating, Inc. and Kaiser-Francis Oil Company agreed to withdraw their objections to the KUKUI application if a 33% production penalty was imposed on the well's ability to produce. The agreement also provides that the penalty shall not require that the well be produced at rates less than 500 MCF/D.

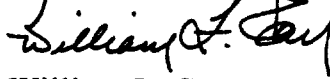
If the settlement set out in the October 17, 2001 letter meets with your approval, KUKUI requests that an administrative order be entered approving the proposed unorthodox gas well location and that Case 12736 be dismissed.

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KUKUI

Letter to Michael E. Stogner
October 31, 2001
Page 2

If you need additional information from KUKUI concerning this matter, please advise.
Your attention to this request is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a large initial "W" and a stylized "C".

William F. Carr
Attorney for KUKUI Operating Company

Enc.

cc: Steve C. Sandlin
Vice President-land
KUKUI Operating Company
1415 Louisiana, Suite 3650
Houston, Texas 77002

W. Thomas Kellahin, Esq.
Attorney for Devon SFS Operating, Inc. and
Kaiser-Francis Oil Company

October 31, 2001

KUKUI Operating Company
c/o William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

Administrative Order NSL-_____

Dear Mr. Carr:

Reference is made to the following: (i) KUKUI Operating Company's application submitted to the Oil Conservation Division ("Division") on August 23, 2001, (ii) the objection of Devon SFS Operating, Inc., (iii) the records of the Division in Santa Fe including the file and transcript of the October 18, 2001 New Mexico Oil Conservation Division Case No. 12736, and (iv) the letter agreement dated October 17, 2001 between KUKUI Operating Company, Devon SFS Operating, Inc. and Kaiser-Francis Oil Company; all concerning KUKUI Operating Company's request for an unorthodox gas well location for its Goodnight "35" Federal Well No. 3 to be drilled at an unorthodox gas well location to test all formations from the surface to the base of the Morrow formation to be located 440 feet from the South line and 660 feet from the West line (Unit M) of Section 35, Township 23 South, Range 29 East, NMPM Eddy County, New Mexico.

The agreement between KUKUI Operating Company, Devon SFS Operating, Inc. and Kaiser-Francis Oil Company provides that (i) Devon and Kaiser-Francis withdraw their objections to the proposed unorthodox well location, (ii) a 33% production penalty be imposed on the ability of the Goodnight "35" Federal Well No. 3 to produce as determined by semi-annual deliverability tests which shall be witnessed by representatives of the Oil Conservation Division and, if they desire after being provided notice of the test, may be witnessed by Devon SFS Operating, Inc. and Kaiser-Francis Oil Company, and (iii) the imposition of a production penalty will not require that the well be produced at rates of less than 500MDF/D.

The geologic interpretation submitted with the application indicates that a well at either an orthodox well location 660 feet from the South and West lines of Section 35 or at the proposed unorthodox location is a acceptable location within the Wolfcamp, Strawn, Atoka and Morrow formations. However, it is our understanding that the proposed unorthodox well location is required by the Bureau of Land Management because of its proximity to known potash reserves as shown on the Division Form C-102 attached to the application.

This application has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation

Commission in Case No. 12119 on August 12, 1999. Since the unorthodox well location is 33% closer to the outer boundary of the dedicated acreage that permitted by Division rule, the agreed to 33% production penalty and other conditions of the October 17, 2001 agreement are reasonable and will prevent waste and protect the correlative rights of all affected interest owners.

By the authority granted me under the provisions of Division Rules 104.F (2), the above described unorthodox gas well location within the proposed 320-acre lay-down unit comprising the S/2 of Section 35 for KUKUI Operating Company's proposed Goodnight "35: Federal Well No. 3 is hereby approved, provided, however, a 33% production penalty is hereby imposed on the ability of the Goodnight "35" Federal Well No. 3 to produce as determined by semi-annual deliverability tests which shall be witnessed by representatives of the Oil Conservation Division and, if they desire after being provided notice of the test, may be witnessed by Devon SFS Operating, Inc. and Kaiser-Francis Oil Company. Provided, however, that the imposition of the 33% production penalty will not require that the well be produced at rates of less than 500MDF/D.

Sincerely,

Lori Wrotenbery
Director

cc: New Mexico Oil Conservation Division - Artesia
U.S. Bureau of Land Management
W. Thomas Kellahin, Esq. Attorney for Devon SFS Operating, Inc.
and Kaiser-Francis Oil Company