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BEFORE EXAMINER STOGNER  
OIL CONSERVATION DIVISION  
EXHIBIT NO. 1  
CASE NO. 10336

31

Fed Comm 6-1  
12,255  
(361 05/481 4/481 4)  
HBP

Grace Fed 1-1  
12,255  
12-1-82  
(480/540/540)  
HBP

13,059  
1-1-85  
80/80

N.M. 9251  
12-1-82  
(479,97/639,96/639,96)  
719 97/959,96/959,96  
HBP

2

12,255  
130,22/150/150  
Smith Ranch  
#1-12

12,254  
2-1-82  
(80/80/80)  
480/480/480  
Tr.1 of 3

21,841  
166,67/150/150  
Tr.3 of 7

12,945  
1-1-86  
(80/80/80)  
240/240/240  
Tr.1 of 2

21,833  
2-1-60  
(20/160/160)  
HBP

21,833  
9-1-51  
16,67/40/  
HBP

21,838  
7-1-51  
16,67/40/  
HBP 40

21,841  
(83,34/200/200)  
Tr.2 of 7

21,833  
2-1-60  
(20/160/160)  
HBP

9766  
Polish suspension  
150/150

100/150/150  
4-4-92  
Tontie  
Fed #1

12,254  
1-1-86  
(40/40/40)  
HBP

12,945  
1-1-86  
(40/40/40)  
HBP

12,945  
1-1-86  
(80/80/80)  
240/240/240  
Tr.1 of 2

21,841  
166,67/150/150  
Tr.3 of 7

21,837  
9-1-51  
16,67/40/  
HBP

21,841  
7-1-51  
400/350/350  
Tr.1 of 7

12,254  
1-1-86  
(40/40/40)  
HBP

12,945  
1-1-86  
(40/40/40)  
HBP

12,945  
1-1-86  
(80/80/80)  
240/240/240  
Tr.1 of 2

21,833  
2-1-60  
(20/160/160)  
HBP

21,837  
9-1-51  
16,67/40/  
HBP

21,833  
10,61/40/40  
181,75/280/280  
(Contractual Interest only)

21,833  
123,36/80/80  
(Contractual Interest only)

21,842  
9-1-51  
250/600/600

12,253  
(80/80/80)  
Tr.2 of 2

21,841  
(33,57/80/80),  
Tr.4 of 7

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R34E

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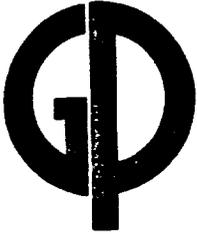
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Grace Petroleum Corporation  
Subsidiary of W. R. Grace & Co.

Broadway Executive Park  
6501 North Broadway  
Oklahoma City, Oklahoma 73116-8298  
Phone (405) 840-6600  
FAX—(405) 840-6887

Certified Mail

April 4, 1991

WORKING INTEREST OWNERS  
(See Addressee List Attached)

Re: Smith Ranch Federal #1-3  
Section 3-T20S-R33E  
Teas Prospect  
Lea County, New Mexico

Gentlemen:

Grace Petroleum Corporation proposes the drilling of a 9,400 foot Bone Springs well to be located 330' FSL and 330' FEL of Section 3-20S-33E, Lea County, New Mexico. The drilling and spacing unit for said well will be the SE/4 SE/4. The drilling costs for the well are estimated to be \$602,550.00 for a dry hole and \$1,058,450.00 for a completed producer.

If you elect to participate in the drilling of the proposed well, please so indicate by signing both of the enclosed Authority for Expenditure forms and returning one (1) original to my attention. An Operating Agreement governing operations of the well will be submitted for your review upon receipt of your executed AFE.

In the event you do not wish to participate in the drilling of said well, Grace Petroleum requests a farmout of your acreage in the proposed drilling unit delivering a 75% net revenue interest before payout with the option, at payout, to convert your retained overriding royalty interest to a 25% back-in.

It is our intent to spud the Smith Ranch Federal #1-3 by June 15, 1991, therefore, your earliest consideration to our proposal will be appreciated.

Very truly yours,

Randy Upchurch  
Land Consultant

RU:al  
Enclosure

cc: Carrie Askins  
Dan Scott  
Paul Basinski

BEFORE EXAMINER SIGNATURE
OIL COMPANY SIGNATURE
DATE _____ 2
CASE NO. _____ 10336

ADDRESSEE LIST

Smith Ranch Federal #1-3  
Teas Prospect  
Lea County, New Mexico

Southern Union Exploration Company Attn: Sue Coley 1201 Elm Street, Suite 1800 DALLAS, TX 75270	6.389%
Meridian Oil Production, Inc. <i>signed</i> Midland Region 12 Desta Drive MIDLAND, TX 79705	18.611%
Grace Petroleum Corporation	75.000%

*Tealithone in March*

**SENDER:** Complete items 1 and 2 when additional services are desired, and complete 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this mail from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for rates and book booklet for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address.      2.  Restricted Delivery (Extra charge)

<p>3. Article Addressed to:</p> <p>Sue Coley Southern Union Exploration Co 1201 Elm St., Suite 1900 Dallas, TX 75270</p>	<p>4. Article Number</p> <p>P 948 367 924</p>
<p>5. Signature - Addressee</p> <p>X</p>	<p>Type of Service:</p> <p><input type="checkbox"/> Registered      <input type="checkbox"/> Insured  <input checked="" type="checkbox"/> Certified      <input type="checkbox"/> COD  <input type="checkbox"/> Express Mail      <input type="checkbox"/> Return Receipt for Merchandise</p>
<p>6. Signature - Agent</p> <p>X Judy L. Gabelmann</p>	<p>Always obtain signature of addressee or agent and DATE DELIVERED.</p>
<p>7. Date of Delivery</p> <p>APR 8 1991</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>



Grace Petroleum Corporation  
Subsidiary of W. R. Grace & Co.

Broadway Executive Park  
6501 North Broadway  
Oklahoma City, Oklahoma 73116-8298  
Phone (405) 840-6600  
FAX—(405) 840-6887

June 21, 1991

Southern Union Exploration Company  
1201 Elm Street #1800  
Dallas, Texas 75270

Attention: Craig Neilson

Re: Compulsory Pooling  
June 27, 1991  
State of New Mexico  
Oil Conservation  
Division Case #10336

Gentlemen:

Confirming our recent phone conversations, it is our understanding that we will be unable to receive your election to join with your interest in the drilling of the Smith Ranch Federal No. 3 in the SE/4 SE/4 of Section 3-20S-33E, nor will you be able to elect to farmout your interest to Grace Petroleum Corporation prior to our scheduled compulsory hearing date of June 27th, 1991.

In the event Management is able to elect one of the options offered by our proposal of April 4th, 1991 prior to the June 27th hearing, please promptly notify me so that said hearing can be dismissed.

Very truly yours,

Randy Upchurch  
Land Consultant

RU:srj

cc: Jim Bruce  
Hinkle Law Firm

COMPLS.RU2