

Stratton & Cavin, P.A.

Attorneys & Counselors at Law

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August 1, 1991

CERTIFIED MAIL -- RETURN RECEIPT REQUESTED

Addressees listed at Exhibit A hereto

**Re: Application of Seay Exploration, Inc. for Compulsory Pooling,
Lea County, New Mexico**

Gentlemen:

This letter is to advise you that Seay Exploration, Inc. has filed the enclosed Application with the New Mexico Oil Conservation Division seeking the forced pooling of all mineral interests as follows:

From the surface of the Earth to the base of the Seven Rivers Formation (approximately 3,300 feet subsurface) for the formation of a 160-acre gas spacing and proration unit consisting of the NW1/4 of Section 6, T20S, R39E, N.M.P.M., Lea County, New Mexico for any production so spaced.

Seay Exploration, Inc. proposes to dedicate the referenced pooled unit to a well which will be located at a standard location. This Application has been set for hearing before a Division Examiner on August 8, 1991.

The Application was filed with the OCD on July 16, 1991 and notice of the case by publication was properly made. However, we inadvertently failed to provide personal notice as required by the OCD rules which require that "notice required by this rule shall be to the last known address of the party to whom notice is to be given at least 20 days prior to the date of hearing of the application and shall apprise such party of the nature and pendency of such action and the means by which protest may be made."

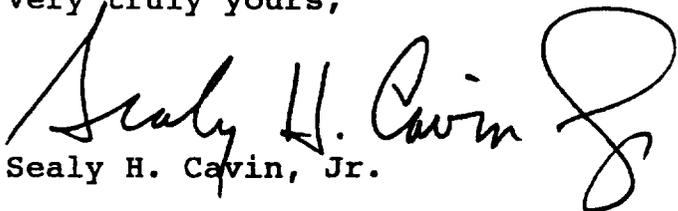
BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
EXHIBIT NO. <u>8</u>
CASE NO. <u>10361</u>

August 1, 1991
Page 2

Because drilling operations for the proposed well are imminent, we intend to put on our basic case at the August 8, 1991 hearing notwithstanding the notice deficiency. Because of the notice deficiency, we will request that the case be continued to the hearing scheduled for August 22, 1991 so that you have sufficient time to prepare for such hearing. You are not required to attend either of the hearings, but as an owner of an interest that may be subject to pooling, you may appear and present testimony. Failure to appear at that time and become a party of record may preclude you from challenging this application at a later date.

We are enclosing for your information a copy of the Application and the Docket.

Very truly yours,


Sealy H. Cavin, Jr.

SHC/jas

Enclosures

cc: William J. LeMay, Oil Conservation Division
John Seay, President, Seay Exploration, Inc.
Dan M. Leonard, President, Leonard Resource Investment
Corporation

THIS IS EXHIBIT A TO THE LETTER DATED
August 1, 1991 REGARDING APPLICATION OF
SEAY EXPLORATION, INC. FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO

EXHIBIT A

Harold W. Herndon, Deceased
Fort Worth, Texas

Libby P. Wright
Alameda County, California

Jean Marie Johansen et vir, Dan Johansen
Weston, Wyoming

R. A. Hefner, Jr. Estate
c/o GHK Company
3030 NW Expressway, 18th Floor
Oklahoma City, Oklahoma 73112

GHK Company, a Limited Partnership (formerly the R. A. Hefner Trust
#1 and Eva Hefner Trust #1)
3030 NW Expressway, 18th Floor
Oklahoma City, Oklahoma 73112

P 671 283 040
Certified Mail Receipt
 No Insurance Coverage Provided
 Do not use for International Mail
 (See Reverse)

Sent to <i>LeRoy P. Wright</i>	
Street & No. <i>Alameda County, CA</i>	
P.O., State & ZIP Code	
Postage	\$ 75
Certified Fee	100
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	100
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$ 275

Postmark of Post Office

1991 AUG 17 10 51 AM
 ALBUQUERQUE, NM
 USPO

PS Form 3800, June 1990

PS Form 3800, June 1990

Sent to <i>Hazel W Henderson</i>	
Street & No. <i>Fort Worth, TX</i>	
P.O., State & ZIP Code	
Postage	\$ 75
Certified Fee	100
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Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	100
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TOTAL Postage & Fees	\$ 275

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PS Form 3800, June 1990

Sent to <i>GHR Co - a 2nd Post</i>	
Street & No. <i>3030 NW Expressway - 18th Fl</i>	
P.O., State & ZIP Code <i>Oklaoma City OK 73112</i>	
Postage	\$ 75
Certified Fee	100
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	100
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$ 275

Postmark of Post Office

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Certified Mail Receipt
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Sent to <i>Kar Marie Hansen</i>	
Street & No. <i>Wilton, WY</i>	
P.O., State & ZIP Code	
Postage	\$ 75
Certified Fee	100
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	100
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$ 275

Postmark of Post Office

1991 AUG 17 10 51 AM
 ALBUQUERQUE, NM
 USPO

PS Form 3800, June 1990

PS Form 3800, June 1990

Sent to <i>LA Vernich Estate</i>	
Street & No. <i>110 GHK Company</i>	
P.O., State & ZIP Code <i>3030 NW Expressway - 18th Fl</i>	
Postage	\$ 75
Certified Fee	100
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	100
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$ 275

Postmark of Post Office

1991 AUG 17 10 51 AM
 ALBUQUERQUE, NM
 USPO

P 671 283 038
Certified Mail Receipt
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STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

August 30, 1991

Sealy H. Cavin, Jr.
Stratton & Cavin
Attorneys at Law
P. O. Box 1216
Albuquerque, New Mexico 87103-1216

RE: CASE NO. 10361
ORDER NO. R-9571

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

A handwritten signature in cursive script that reads "Florene Davidson".

Florene Davidson
OC Staff Specialist

FD/sl

cc: BLM Carlsbad Office

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 10361
Order No. R-9571

APPLICATION OF SEAY EXPLORATION, INC.
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 8 and August 22, 1991, at Santa Fe, New Mexico, before Examiners David R. Catanach and Jim Morrow, respectively.

NOW, on this 30th day of August, 1991, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Seay Exploration, Inc., seeks an order pooling all mineral interests from the surface to the base of the Seven Rivers formation underlying Lots 3 and 4 and the S/2 NW/4 (NW/4 equivalent) of Section 6, Township 20 South, Range 39 East, NMPM, Lea County, New Mexico, forming a standard 160.04-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre gas spacing within said vertical extent, which presently includes but is not necessarily limited to the House Yates-Seven Rivers Gas Pool. Said unit is to be dedicated to the applicant's proposed Bilberry Well No. 2 to be drilled at a standard gas well location thereon.

(3) The applicant has the right to drill and proposes to drill its Bilberry Well No. 2 as described above.

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Order No. R-9571

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(4) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) The applicant should be designated the operator of the subject well and unit.

(7) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) \$3500.00 per month while drilling and \$350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

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Order No. R-9571

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(13) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before December 1, 1991, the order pooling said unit should become null and void and of no effect whatsoever.

(14) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Seven Rivers formation underlying Lots 3 and 4 and the S/2 NW/4 (NW/4 equivalent) of Section 6, Township 20 South, Range 39 East, NMPM, Lea County, New Mexico, are hereby pooled forming a standard 160.04-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre gas spacing within said vertical extent, which presently includes but is not necessarily limited to the House Yates-Seven Rivers Gas Pool. Said unit shall be dedicated to the applicant's proposed Bilberry Well No. 2 to be drilled at a standard gas well location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of December, 1991, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Seven Rivers formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of December, 1991, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Seay Exploration, Inc. is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

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Order No. R-9571

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(9) \$3500.00 per month while drilling and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

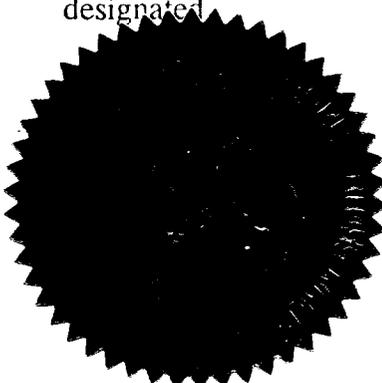
(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

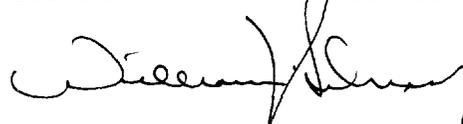
(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY, Director