

**JAMES B. FULLERTON**

PETROLEUM LANDMAN

NATURAL GAS CONSULTANT

1645 COURT PLACE  
SUITE #406  
DENVER, COLORADO 80202

PHONE: 303-534-4502

June 25, 1992

Frederick L. Lilly Jr.  
2895 Brighton Road  
Shaker Heights, Ohio 44120

CERTIFIED: RETURN RECEIPT REQUESTED

Re: Proposed Fruitland (Coal)  
Formation drilling program  
SG Methane Company - Operator  
1) Township 29 North, Range 10 West  
Section 21: South 1/2  
2) Township 29 North, Range 10 West  
Section 24: North 1/2  
San Juan County, New Mexico

Dear Mr. Lilly:

This correspondence is in regard to a planned Fruitland (Coal) Formation drilling program to be undertaken by SG Methane Company under the lands described above in San Juan County, New Mexico.

SG Methane Company has entered into an Agreement with Amoco Production Company involving a large scale drilling program in Township 29 North, Range 10 West, San Juan County, New Mexico. The title information supplied to us by Amoco indicates that you own 2 net leasehold acres under the South 1/2 of Section 21 and 2 net leasehold acres under the North 1/2 of Section 24. You acquired your interest through an Assignment from Frederick L. Lilly, who derived his interest from those certain oil and gas leases dated July 10, 1956 from Raymond D. Farmer. These leases also cover lands in the SW/4NW/4 of Section 21, in which you own an additional 2 net leasehold acres.

The Fruitland Coal Formation is a shallow gas bearing zone that produces in many areas of the San Juan Basin. The projected Total Depth of this well is 2,100 feet. As reflected on the attached Authority for Expenditures, the estimated cost for drilling and completing each of the wells is approximately \$265,000.00. Thus, the estimated cost to your .625% Working Interest in each well totals approximately \$1,700.00 per well. If we are successful in establishing commercial production, operating costs are expected to be quite high due to the necessity of disposing of the anticipated formation water found in the Fruitland Coal Formation.

Application of SG Interests I, Ltd. for  
Compulsory Pooling  
Case No. 10609 \* 10610  
Examiner Hearing Docket Dated 11/19/92  
Exhibit No. 7

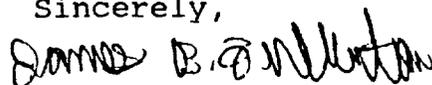
SG Methane Company is proposing to begin drilling operations on the referenced wells within the next 30 days. If you wish to participate for your Working Interest and costs associated with the drilling of these wells, please execute and return one copy of each of the attached Authority for Expenditures. A Model Form Operating Agreement will be prepared and sent to all parties soon. If you do not desire to pay your share of the drilling costs and participate for your Working Interest in the referenced wells, SG Methane Company would offer the following options to you for a Farmout or sale of your interest:

- 1) SG would offer to purchase your Leasehold Interest from the surface to the base of the Fruitland Coal Formation only, for a cash consideration of \$480.00. This would equate to \$80.00 per acre on your 6 net leasehold acres. You would retain your interest as to all other formations under the lands.
- 2) SG would offer to Farmout your interest such that you would retain a 3.0% proportionate Overriding Royalty Interest in return for an Assignment of your Leasehold Interest from the surface to the base of the Fruitland Coal Formation. In this case, SG would assume all the risks and costs associated with the drilling of the subject wells.

Please review the attached Authority for Expenditure and the above mentioned options and advise me if you should have any questions. In as much as we are proposing to begin drilling operations within the next 30 days, your early attention to this matter would be greatly appreciated.

Thank you very much. If you should have any questions please feel free to call me at 303-534-4502. I am handling all land matters for SG Methane Company relative to this development program.

Sincerely,



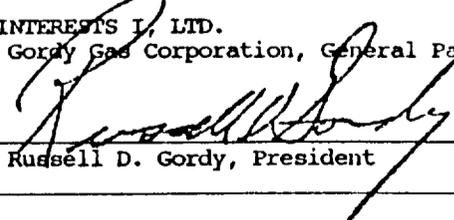
James B. Fullerton  
Consulting Landman on behalf of  
SG Methane Company

**SG INTERESTS I, LTD.  
AUTHORITY FOR EXPENDITURE (AFE)**

WELL NO.		WELL NAME: To Be Determined		DATE: 06/22/92	
FIELD: Basin Fruitland Coal		COUNTY: San Juan		STATE: New Mexico	
LOCATION: North Half (N/2) of Section 24, Township 29 North - Range 10 West, N.M.P.M.				PROPOSED T.D. 2100'	
PURPOSE OF EXPENDITURE: Drill & Complete Coalbed Methane Gas Well			FORMATION: Fruitland Coal Seam		
AFE CODE	INTANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST	
220/101	Staking & Permitting	\$1,200		\$1,200	
220/102	Location, Roads, Pits & Damages	\$12,000	\$2,500	\$14,500	
220/103	Mobilization/Demobilization	\$1,800		\$1,800	
220/104	Contract Drilling - Daywork 12 Hrs. @ \$175/Hour	\$2,100		\$2,100	
220/105	Contract Drilling - Footage 2100 Ft. @ \$14.63/Foot	\$30,725		\$30,725	
220/001	Contract Drilling - Turnkey			\$0	
220/301	Completion Rig		\$7,500	\$7,500	
840/110	Workover Rig			\$0	
220/106	Fuel, Power & Lubricants			\$0	
220/107	Bits, Reamers & Stabilizers			\$0	
220/108	Drilling & Completion Fluids		\$3,200	\$3,200	
220/302	Casing Crews, Tongs, Handling Tools		\$1,200	\$1,200	
220/109	Misc Labor, Contract Services	\$1,000	\$6,500	\$7,500	
220/110	Cement, Cmt Services, Mech Aids & Devices	\$2,500	\$7,300	\$9,800	
220/111	Conventional Coring & Coring Service			\$0	
220/303	Water & Hauling		\$3,600	\$3,600	
220/112	Mud Logging			\$0	
220/113	Logging - Open Hole - SWC's & Dipmeter	\$6,800		\$6,800	
220/304	Cased Hole Logs, Perforating & Other Wireline Services		\$4,800	\$4,800	
220/305	Inspection & Testing	\$800	\$1,200	\$2,000	
220/307	Acidization, Fracturing & Stimulation		\$48,000	\$48,000	
220/114	Rentals Tools & Equipment	\$650	\$1,850	\$2,500	
220/115	Directional Drilling Services			\$0	
220/117	Communications			\$0	
220/120	Overhead per Operating Agreement	\$1,000	\$3,000	\$4,000	
220/119	Supervision	\$1,200	\$4,000	\$5,200	
220/121	Contingencies (10%) & Misc	\$6,220	\$9,425	\$15,645	
<b>TOTAL INTANGIBLE EXPENSE</b>		<b>\$67,995</b>	<b>\$104,075</b>	<b>\$172,070</b>	
AFE CODE	TANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST	
230/101	Conductor Casing 64 Ft. 13-3/8" @ \$9.80/Ft.	\$625		\$625	
230/102	Surface Casing 250 Ft. 8-5/8" @ \$8.60/Ft.	\$2,150		\$2,150	
230/103	Intermediate Casing			\$0	
230/104	Drilling Liner			\$0	
230/301	Production Liner			\$0	
230/302	Production Casing 2100 Ft. 5-1/2" @ \$5.15/Ft.		\$10,815	\$10,815	
230/303	Tubing 2050 Ft. 2-3/8" @ \$2.20/Ft.		\$4,510	\$4,510	
230/304	Wellhead Equipment, Tree	\$800	\$1,900	\$2,700	
230/305	Artificial Lift Equipment, Pumping Unit			\$0	
230/306	Separator, Heater Treater, Dehydrator		\$11,800	\$11,800	
230/307	Meters & Flowlines		\$13,500	\$13,500	
230/308	Tank Battery & Storage		\$5,500	\$5,500	
230/309	Subsurface Production Equipment			\$0	
230/310	Misc. Well Equipment		\$2,200	\$2,200	
230/311	Installation - Production Facilities		\$5,700	\$5,700	
230/312	Compressor		\$40,000	\$40,000	
<b>TOTAL TANGIBLE EXPENSE</b>		<b>\$3,575</b>	<b>\$95,925</b>	<b>\$99,500</b>	
<b>TOTAL WELL COST</b>		<b>\$71,570</b>	<b>\$200,000</b>	<b>\$271,570</b>	

**OPERATOR APPROVAL**

DATE: 6/22/92

SG INTERESTS I, LTD.  
Gordy Gas Corporation, General Partner  
  
BY:   
Russell D. Gordy, President

**JOINT INTEREST APPROVAL**

DATE: \_\_\_\_\_

COMPANY: Frederick L. Lilly Jr.

WORKING INTEREST: \_\_\_\_\_

APPROVED BY: \_\_\_\_\_

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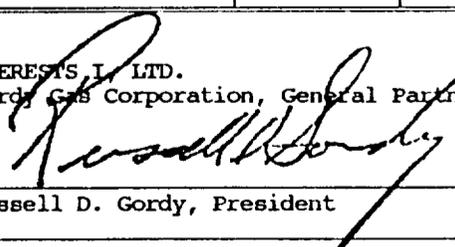
TITLE: \_\_\_\_\_

**SG INTERESTS I, LTD.  
AUTHORITY FOR EXPENDITURE (AFE)**

WELL NO.		WELL NAME: To Be Determined		DATE: 06/22/92	
FIELD: Basin Fruitland Coal		COUNTY: San Juan		STATE: New Mexico	
LOCATION: South Half (S/2) of Section 21, Township 29 North - Range 10 West, N.M.P.M.				PROPOSED T.D. 1950'	
PURPOSE OF EXPENDITURE: Drill & Complete Coalbed Methane Gas Well			FORMATION: Fruitland Coal Seam		
AFE CODE	INTANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST	
220/101	Staking & Permitting	\$1,200		\$1,200	
220/102	Location, Roads, Pits & Damages	\$17,500	\$2,500	\$20,000	
220/103	Mobilization/Demobilization	\$1,800		\$1,800	
220/104	Contract Drilling - Daywork 12 Hrs. @ \$175/Hour	\$2,100		\$2,100	
220/105	Contract Drilling - Footage 1950 Ft. @ \$14.63/Foot	\$28,550		\$28,550	
220/001	Contract Drilling - Turnkey			\$0	
220/301	Completion Rig		\$7,500	\$7,500	
840/110	Workover Rig			\$0	
220/106	Fuel, Power & Lubricants			\$0	
220/107	Bits, Reamers & Stabilizers			\$0	
220/108	Drilling & Completion Fluids		\$3,200	\$3,200	
220/302	Casing Crews, Tongs, Handling Tools		\$1,200	\$1,200	
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220/111	Conventional Coring & Coring Service			\$0	
220/303	Water & Hauling		\$3,600	\$3,600	
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220/113	Logging - Open Hole - SWC's & Dipmeter	\$6,800		\$6,800	
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220/114	Rentals Tools & Equipment	\$650	\$1,850	\$2,500	
220/115	Directional Drilling Services			\$0	
220/117	Communications			\$0	
220/120	Overhead per Operating Agreement	\$1,000	\$3,000	\$4,000	
220/119	Supervision	\$1,200	\$4,000	\$5,200	
220/121	Contingencies (10%) & Misc	\$6,550	\$8,600	\$15,150	
<b>TOTAL INTANGIBLE EXPENSE</b>		<b>\$71,650</b>	<b>\$94,750</b>	<b>\$166,400</b>	
AFE CODE	TANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST	
230/101	Conductor Casing 64 Ft. 13-3/8" @ \$9.80/Ft.	\$625		\$625	
230/102	Surface Casing 250 Ft. 8-5/8" @ \$8.60/Ft.	\$2,150		\$2,150	
230/103	Intermediate Casing			\$0	
230/104	Drilling Liner			\$0	
230/301	Production Liner			\$0	
230/302	Production Casing 1950 Ft. 5-1/2" @ \$5.15/Ft.		\$10,050	\$10,050	
230/303	Tubing 1900 Ft. 2-3/8" @ \$2.20/Ft.		\$4,200	\$4,200	
230/304	Wellhead Equipment, Tree	\$800	\$1,900	\$2,700	
230/305	Artificial Lift Equipment, Pumping Unit			\$0	
230/306	Separator, Heater Treater, Dehydrator		\$11,800	\$11,800	
230/307	Meters & Flowlines		\$13,500	\$13,500	
230/308	Tank Battery & Storage		\$5,500	\$5,500	
230/309	Subsurface Production Equipment			\$0	
230/310	Misc. Well Equipment		\$2,200	\$2,200	
230/311	Installation - Production Facilities		\$5,700	\$5,700	
230/312	Compressor		\$40,000	\$40,000	
<b>TOTAL TANGIBLE EXPENSE</b>		<b>\$3,575</b>	<b>\$94,850</b>	<b>\$98,425</b>	
<b>TOTAL WELL COST</b>		<b>\$75,225</b>	<b>\$189,600</b>	<b>\$264,825</b>	

**OPERATOR APPROVAL**

DATE: 6/22/92

SG INTERESTS I, LTD.  
Gordy Gas Corporation, General Partner  
BY:   
Russell D. Gordy, President

**JOINT INTEREST APPROVAL**

DATE: \_\_\_\_\_

COMPANY: Frederick L. Lilly Jr.

WORKING INTEREST:

APPROVED BY: \_\_\_\_\_

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TITLE: \_\_\_\_\_

P 028 989 571



**Receipt for Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to	Frederick L. Lilly Jr.
Street and No.	2895 Brighton Road
P.O., State and ZIP Code	Shaker Heights, Ohio 44120
Postage	\$ 2.25
Certified Fee	1.00
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	1.00
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$ 3.25
Postmark	DENVER, CO JUN 25 1991

PS Form 3800, June 1991

**STICK POSTAGE STAMPS TO ARTICLE TO COVER FIRST CLASS POSTAGE,  
CERTIFIED MAIL FEE, AND CHARGES FOR ANY SELECTED OPTIONAL SERVICES (see front).**

1. If you want this receipt postmarked, stick the gummed stub to the right of the return address leaving the receipt attached and present the article at a post office service window or hand it to your rural carrier (no extra charge).
2. If you do not want this receipt postmarked, stick the gummed stub to the right of the return address of the article, date, detach and retain the receipt, and mail the article.
3. If you want a return receipt, write the certified mail number and your name and address on a return receipt card, Form 3811, and attach it to the front of the article by means of the gummed ends if space permits. Otherwise, affix to back of article. Endorse front of article **RETURN RECEIPT REQUESTED** adjacent to the number.
4. If you want delivery restricted to the addressee, or to an authorized agent of the addressee, endorse **RESTRICTED DELIVERY** on the front of the article.
5. Enter fees for the services requested in the appropriate spaces on the front of this receipt. If return receipt is requested, check the applicable blocks in item 1 of Form 3811.
6. Save this receipt and present it if you make inquiry.

105803-92-B-0054