



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
HOBBS DISTRICT OFFICE

January 27, 1992

BRUCE KING
GOVERNOR

POST OFFICE BOX 1980
HOBBS, NEW MEXICO 88241-1980
(505) 393-6161

Anschutz Corporation
4000 North Big Spring Suite 209
Midland, TX 79705

Attn: Mr. Phil M. Whitsitt

Re: Proposed South Knowles Devonian Well
W/2 SE/4 of Section 12, T17S, R38E

Gentlemen:

Your letter indicating Anschutz is entering into an agreement with F&M Oil & Gas Company so that Anschutz can drill a Devonian well in the NW/4 SE/4 of Sect. 12, T17S, R38E has been received.

In order for the District office to approve an application for you to drill a well in the NW/4 SE/4 of Section 12 to which you would dedicate the W/2 SE/4 it would be necessary for F&M to file a sundry notice that their well, the W.F. Cone #2, is SI or TA with CIBP and the acreage is to be dedicated to your well. (Chevron filed an intent to set a CIPB in the #2 well in 1988 but we have no record of this work being done.)

After your well has been drilled and completed should F&M rework their well and want to return it to production we could approve a 50% allowable for each operator with a letter of agreement to this condition from each party.

Very truly yours,

OIL CONSERVATION DIVISION

Jerry Sexton
Supervisor, District I

JS/ed





MIDLAND DIVISION OFFICE
4000 N. BIG SPRING
SUITE 209
MIDLAND, TEXAS 79705
TELEPHONE 915/686-0038

January 24, 1992

The New Mexico Oil Conservation Division
P.O. Box 1980
Hobbs, NM 88240

Att: Mr. Jerry Sexton

RE: South Knowles Devonian Field
Lea County, New Mexico

Gentlemen:

The Anschutz Corporation and F&M Oil and Gas Company are entering into an agreement under which Anschutz is to drill a 12,200' Devonian test in the South Knowles Devonian Field at a location in the NW/4 SE/4 Section 12, T-17-S, R-38-E, Lea County, New Mexico.

F&M Oil and Gas Company is the leasehold owner and operator of the entire SE/4 Section 12 which contains one producing well and two wells which are currently not producing. In order to comply with the 80 acre proration unit requirement for the South Knowles Devonian Field, Anschutz and F&M propose to form a proration unit consisting of 40 acres out of the NW/4 SE/4 Section 12 and 40 acres out of the SW/4 SE/4 Section 12 which contains the currently not producing F&M - W.F. Cone #2 Well. Prior to agreeing to this arrangement, F&M desires assurance that should they at some time in the future re-work their W.F. Cone #2 Well in the SW/4 SE/4 Section 12 and it become productive they will be entitled to an allowable.

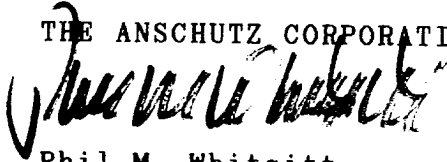
It is our understanding that one operator can operate two wells on the same 80 acre proration unit and each well be entitled to a 50% allowable. This letter is to request your approval of Anschutz and F&M sharing an 80 acre proration unit allowable between two wells, one operated by Anschutz and the other operated by F&M, should the Anschutz well be productive and the F&M well be re-worked and become productive.

The New Mexico Oil Conservation Division
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If this meets with your approval, please so indicate by signing and returning one (1) copy of this letter. Should you need anything additional in this regard, please let me know.

Very truly yours,

THE ANSCHUTZ CORPORATION



Phil M. Whitsitt
Division Manager

PMW/dlr

Approved this _____ day of _____, 1992.

NEW MEXICO OIL CONSERVATION DIVISION

BY: _____
JERRY SEXTON