

512 Welshire  
Carlsbad, NM 88220  
July 19, 1977

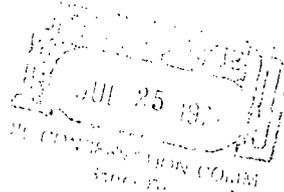
C & K Petroleum, Inc.  
G.C. Tompson  
Manager of Products  
P.O. Drawer 3546  
Midland, TX 79702

Mr. Tompson:

In reference to your letter of July 15, 1977 asking for approval of AFE #00160 covering the drilling and completion of proposed well Carlsbad #7, Eddy County (W $\frac{1}{2}$  7-22S-27E), may I state that I have at no time authorized your direct inclusion of myself in your billing as a participating partner nor do I recall being approached by your company to lease the tract to you.

→ On May 25, 1977, I received from the N.M.O.C.C. (State of New Mexico Oil Conservation Commission) a notice of a forced pool hearing concerning the W $\frac{1}{2}$  of Sec. 7, Township 22 South, Range 27 East (Case 5939) to be held on May 25, 1977 (that same day) at Santa Fe. I expect to be bound by the findings of the N.M.O.C.C. upon receiving a copy of their order and granted the 30 day time allocation after their notification to myself and receipt of your AFE within the time allotted as specified therein. After that time, I intend to take care of my share of estimated well costs. I cannot foresee any other way we can work directly together as:

1. C & K has requested \$15,000 (fifteen thousand dollars) as my share of well insurance--a ridiculous figure as this would cause the total insurance premiums of all parties to exceed \$24,000,000 (twenty-four million dollars) for the well.
2. C & K has shown a disregard for N.M.O.C.C. orders and verbal and written agreements with individuals in prior dealings as:
  - a. Failure of C & K to comply with N.M.O.C.C. order #R-5332 to provide an AFE within 30 days of drilling on the S $\frac{1}{2}$  13-22-26, Eddy County to working interest owners. To rectify this with two of us, C & K has attempted to stretch an agreement beyond intended and agreed bounds.
  - b. Failure of C & K to provide well completion records on said well until requested in writing after phone conversation with the N.M.O.C.C.; complying barely within allotted time and only after at least two contacts, initiated by N.M.O.C.C.
  - c. Failure to fulfill order R-5332 by filing an itemized schedule of "actual" well costs with the N.M.O.C.C. and working interest owners within the time specified; then exaggerating said costs by listing items as tubing at \$33,000 when actual costs were approximately \$12,000 as evidenced by the tubing bill of lading.



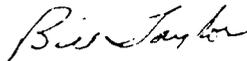
*Case File  
5939*

- c. Failure of C & K to fulfill verbal agreements to have their accounting and legal departments establish the method of payments by working interest owners (although constantly told said working interest owners desired to participate and so stated into N.M.O.C.C. hearing Case 5807); and failure of C & K to respond to working interest owners attempts by phone to set up such procedures, thereby gaining legal grounds for the 120% penalty established.
- e. Efforts of C & K to circumvent N.M.O.C.C. orders concerning said well by efforts to establish new operating agreements with higher cost schedules of present and future drilling (and related costs) designating higher penalties, adding items, restrictions, etc., beyond those previously set forth by N.M.O.C.C. order R-5332.

This is a partial list of the reasons I believe we can only reach agreement with each other through the bounds established upon you by the N.M.O.C.C. although you seem to hold them in disregard as well as individual owners.

Please be advised it is my contention that our present and future relations, before and after well completion, pay outs, etc. will be within the guide lines established by the N.M.O.C.C. and set forth in their rulings. I expect you to so notify responsible departments of your organization.

Sincerely,



Bill Taylor

Copy to N.M.O.C.C.