

BLAINE HESS
Oil Properties
Post Office Box 326
Roswell, New Mexico 88202-0326
(505) 623-5400; (505) 623-4916 - FAX

January 27, 1997

Mr. William J. LeMay, Director
State of New Mexico
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: Compulsory Pooling by Louis Dreyfus Natural Gas Corp.
Happy Valley "29" Well No. 34
SW/4SE/4 of Section 29, T-22-S, R-26-E, N.M.P.M.
Eddy County, New Mexico
NMOCD Case 11687; Order R-10741

M-5

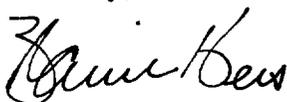
Dear Mr. LeMay:

In reference to the captioned Order, find enclosed copies of letters which include a copy of the captioned Order and AFE for the Happy Valley "29" Well No. 34 that have been mailed (certified mail return receipt requested) to the following mineral interest owners who have not agreed to pool their interests.

1. Mr. Casey MacManemin, Republic Royalty Company
2. Ms. Kathy Conaway, Andrews Royalty, Inc.
3. Ms. Linda Buckner
Dodge Jones Foundation
Matt-Tex, L.L.P.
John A. Mathews, Jr.
Julia Jones Matthew, Trustee

Should you have any questions or need any other information at this time, please contact me.
Thank you.

Sincerely,



Blaine Hess

cc: W. Thomas Kellahin, Esq.
Rusty Waters, Louis Dreyfus Natural Gas Corp.

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NOTIFICATION OF COMPULSORY POOLING ELECTION
CERTIFIED MAIL RETURN RECEIPT REQUESTED

January 23, 1997

Mr. Casey McManemin
Republic Royalty Company
3738 Oak Lawn Avenue, Suite 300
Dallas, TX 75219

Re: Compulsory Pooling by Louis Dreyfus Natural Gas Corp.
Happy Valley "29" Well No. 34
SW/4SE/4 of Section 29, T-22-S, R-26-E, N.M.P.M.
Eddy County, New Mexico
NMOCD Case 11687; Order R-10741

Dear Interest Owner:

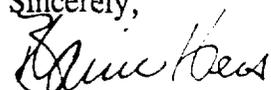
On behalf of Louis Dreyfus Natural Gas Corp. and in accordance with the terms of the New Mexico Oil Conservation Division Order R-10741, issued January 17, 1997, copy enclosed, I am providing you with notice of your right to elect to participate in the well to be completed in the Happy Valley-Delaware Pool pursuant to this order.

Should you desire to participate in this well and avoid the payment of the 200% risk factor out of your share of production, then within thirty days of the date you receive this letter, Louis Dreyfus Natural Gas Corp. must receive a cashier's check from you for your proportionate share of the costs of a completed well and a letter signed by you agreeing to execute our joint operating agreement. Enclosed is a copy of the estimated well costs for this well which totals \$347,432.00.

If you decide not to participate, then you need do nothing further. In that event, Louis Dreyfus Natural Gas Corp. will pay your share of the costs of the well and will recover your share out of production plus an additional 200 percent.

I have not attempted to calculate for you the actual sum of money you must send to us in order to participate. However, you may make that calculation for yourself by taking the net acres you own in the SW/4SE/4 of this section dividing by 40 acres then using the resulting percentage and multiplying it times \$347,432. The product of that calculation will be your dollar share of the costs of the well.

Sincerely,



Blaine Hess

Enclosures: Order R-10741
AFE for subject well

cc: Director, NMOCD - Santa Fe

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. 11687
ORDER NO. R-10741

APPLICATION OF LOUIS DREYFUS NATURAL GAS CORP. FOR
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 9, 1997 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 17th day of January, 1997, 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, Louis Dreyfus Natural Gas Corp., seeks an order pooling all mineral interests from the surface to the base of the Happy Valley-Delaware Pool underlying the SW/4 SE/4 (Unit O) of Section 29, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical.

(3) Said unit is to be dedicated to the proposed Happy Valley "29" Well No. 34 (API No. 30-015-29232) to be drilled at a standard oil well location 660 feet from the South line and 1680 feet from the East line of said Section 29.

(4) The applicant owns an interest in the subject quarter-quarter section and as such has the right to drill for and develop the proposed 40-acre proration unit and to

recover oil underlying the same.

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

(6) No interested or affected party to this matter appeared at the hearing in opposition to this application.

(7) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent 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 oil 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.

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

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

(10) 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.

(11) Any non-consenting 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.

(12) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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.

(13) \$4,000.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling and \$400.00 per month should be fixed as a reasonable charge for supervision while producing, provided that this rate should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; 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.

(14) 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.

(15) Upon the failure of the operator of said pooled unit to commence drilling of the subject well to which said unit is dedicated on or before April 15, 1997, the order pooling said unit should become null and void and of no effect whatsoever.

(16) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(17) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-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 Happy Valley-Delaware Pool underlying the SW/4 SE/4 (Unit O) of Section 29, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent. Said unit is to be dedicated to the proposed Happy Valley "29" Well No. 34 (API No. 30-015-29232) to be drilled at a standard oil well location 660 feet from the South line and 1680 feet from the East line of said Section 29.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the fifteenth day of April, 1997, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Delaware formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the fifteenth day of April, 1997, Decretory 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 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 Decretory Paragraph No. (1) of this order should not be rescinded.

(2) Louis Dreyfus Natural Gas Corp. is hereby designated the operator of the subject well and 40-acre 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 an 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 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.

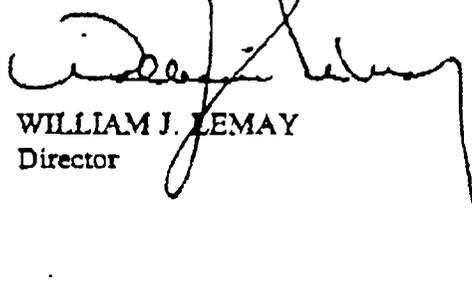
(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (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; and

- (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.
- (9) \$4,000.00 per month while drilling and \$400.00 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 be placed in escrow in Eddy 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 force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.
- (14) The operator of the subject well and 40-acre unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.
- (15) Jurisdiction of this cause is 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

SEAL

LOUIS DREYFUS NATURAL GAS CORP

Depth Revised 9/16/96

ESTIMATED WELL COST (100%)

LEASE: Happy Valley 29

WELL NO: 34

AFE NO: 1187

LOCATION: SW-SE SEC 29-T22S-R26E

PROP. NO:

FIELD: Happy Valley (Delaware) COUNTY: EDDY STATE: NEW MEXICO DISTRICT: WEST TEXAS

PURPOSE: To drill and equip an ⁴⁵⁰⁰~~3000~~' Delaware Test

CODE	INTANGIBLE DRILLING COST	ESTIMATED COSTS		
		Dry Hole	Completion	Total
151-102	Location & Roads, Including Damages	\$10,000		\$10,000
151-110	Moving Rig			\$0
151-111	Drilling: 4,500 ft. @ \$13.65	\$61,500		\$61,500
151-112	Day Work: 1 days @ \$5,232.00	\$5,232		\$5,232
151-113	Conductor, Rat & Mouse Holes	\$3,200		\$3,200
151-114	Drilling Bits	\$500		\$500
151-115	Drilling Water & Fuel, Including Lines	\$6,000	\$3,000	\$9,000
151-118	Drilling Mud, Additives, Mud Oil, Etc.	\$6,000		\$6,000
151-132	Drilling and Completion Insurance	\$350		\$350
151-133	Environmental Protection			\$0
151-180	Safety			\$0
151-126	Open Hole Logging	\$13,000		\$13,000
151-152	Mud Logging 7 days @ \$400.00	\$2,800		\$2,800
151-153	Open Hole Testing/Coring Rotary SWC's	\$5,000		\$5,000
151-121	Hauling and Trucking	\$1,000	\$1,000	\$2,000
151-122	Welding	\$1,000	\$1,000	\$2,000
151-123	Rental Equipment & Fishing Tools	\$3,000	\$5,000	\$8,000
151-124	Special Services & Misc. Items	\$2,000	\$5,000	\$7,000
151-160	Comp. Rig: 8 days @ \$2,000		\$12,000	\$12,000
151-164	Cased Hole Logging, Perforating, & Wireline		\$5,000	\$5,000
151-165	Acidizing, Fracturing, Chemicals		\$30,000	\$30,000
151-166	CO2/Nitrogen			\$0
151-168	Non-Retrievable Equipment			\$0
151-125	Roustabout Labor & Services		\$2,000	\$2,000
151-127	Casing Crews & Service			\$0
151-161	Frac Pit, Liner, Water, & Disposal		\$5,000	\$5,000
151-128	Surface Casing Cementing	\$4,000		\$4,000
151-129	Intermediate Casing Cementing	\$7,000		\$7,000
151-130	Production Casing Cementing		\$13,000	\$13,000
151-131	Liner Cementing			\$0
151-172	Cementing Hardware	\$750	\$500	\$1,250
151-173	Other Cementing Related Services			\$0
151-150	Administrative Overhead	\$2,100	\$1,500	\$3,600
151-151	Supervision, Including Consulting	\$4,500	\$2,500	\$7,000
151-103	Legal & Land Services	\$5,000	\$1,000	\$6,000
	TOTAL INTANGIBLE WELL COST	\$143,932	\$87,500	\$231,432
	TANGIBLE WELL COST			
	Casing Amt. Size Cost/Ft			
152-235	Surface 350 ft. 13-3/8" \$18.00	\$6,500		\$6,500
152-236	Intermediate 1,650 ft. 8 5/8" \$8.00	\$13,500		\$13,500
152-237	Production 3,400 ft. 5 1/2" \$5.45		\$18,600	\$18,600
152-238	Liner ft. 3 1/2" \$0		\$0	\$0
152-240	Tubing 3,350 ft. 2-7/8" \$3.10		\$10,400	\$10,400
152-260	Wellhead Equipment	\$3,000	\$3,000	\$6,000
152-250	Retrievable Equipment		\$2,000	\$2,000
152-211	Flowlines & Connections		\$10,000	\$10,000
152-215	Storage Tanks & Separation Equipment		\$8,000	\$8,000
152-220	Pumping Unit		\$23,000	\$23,000
152-225	Pump Engine		\$9,000	\$9,000
152-245	Sucker Rods, Bottom Hole Pump, & Other		\$9,000	\$9,000
	TOTAL TANGIBLE WELL COSTS	\$23,000	\$93,000	\$116,000
	TOTAL WELL COST	\$166,932	\$180,500	\$347,432

The Above Costs Are Estimates Only. Actual Costs Will Be Billed As Incurred.

Prepared By: Kent Sams

Date: 09/16/96

LDNGC APPROVAL

NON-OPERATOR APPROVAL

Approved By: R. K. Irani, Sr. Vice-President

Approved By: _____

Title: _____

Date: 9/30/96

Date: _____