

**HYNES, HALE,  GURLEY**  
ATTORNEYS AT LAW

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April 23, 1997

25

**Oil Conservation Division  
Energy, Minerals & Natural Resources  
State of New Mexico  
2040 South Pacheco  
Santa Fe, NM 87505**

Dear Sir or Madam:

I am writing you on behalf of Mr. Walter M. Kennedy regarding Case No. 11768 in re the application of Sirgo Brothers Energy Corporation for Compulsory Pooling, San Juan County, New Mexico. Apparently the applicant is asking that there be forced pooling on an 80-acre tract located in Section 12, Township 29 North, Range 15 West.

The purpose of this letter is to object to a forced pooling order on the basis hereinafter set forth. This specific 80-acre tract has previously been forced pooled by S & I Oil Company and my client, Walter Kennedy, was forced to participate in the drilling of the Moore Well No. 1. As the result of your previous order, my client paid 15% of all costs associated with the well and, in return, received a 15% interest in that well.

Although Sirgo Brothers Energy Corporation is now offering my client a 12 1/2% landowners royalty, they have refused to compensate him for the cost of the drilling of the Moore Well No. 1. Apparently the applicant feels they can reenter the Moore Well No. 1 without compensating my client for the cost of drilling the said well. It is argued that such an action is contrary to the laws of the State of New Mexico and amount to the taking of property without due process of law and without just compensation.

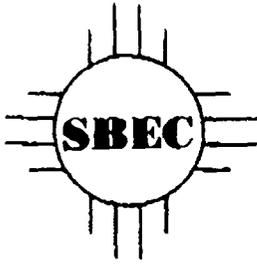
On behalf of Walter M. Kennedy, I am requesting that the forced pooling order be denied until such time as arrangements are made to compensate my client for the expenditures he has made as the result of the previous forced pooling order entered herein.

Sincerely yours,

HYNES, HALE  GURLEY

  
Thomas J. Hynes

TJH:nh  
cc: Client

**Sirgo Brothers Energy Corp.**P.O. BOX 3531 • MIDLAND, TX 79702  
(915) 686-0878 • FAX (915) 682-62241512 W. MURRAY DR. • FARMINGTON, NM 87401  
(505) 326-7700 • FAX (505) 325-7400

April 18, 1997

VIA FAX 505.827.8177STATE OF NEW MEXICO  
Energy, Minerals & Natural Resources Div.  
2040 South Pacheco  
Santa Fe, New Mexico 87505

Attention: Mr. David Catanach

RE: Moore #1 Well, San Juan County, New Mexico

Dear David:

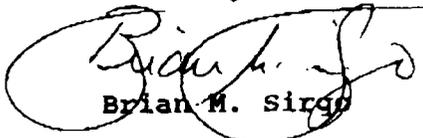
As per our discussions, I am writing this letter to clarify the information I previously provided to you concerning the estimated monthly operations on this well. Please note that we are proposing a total of \$450 per month for administrative overhead. The statement I sent you was for the estimated total cost to operate the well on a monthly basis. The total monthly operations including administrative overhead are estimated at \$900.

For your information, the Moore #1 well was drilled in June of 1981. The well was completed in July of 1981 for 120 BOPD. From the records of the OCD office in Aztec, we determined the last production to be around July of 1991. In May of 1994, the Aztec office began proceedings against S&I for not producing the wells or maintaining them as required. In addition, S&I was told to plug the wells. S&I and representatives of the Aztec office approached us to take the wells over and operate them under our bonds.

Since S&I was out of business and the State was faced with paying for the plugging of the wells, we agreed to take them over. We began working on re-leasing the mineral owners under these wells in early 1996. As of this time, we have turned two of the six wells on and returned them to commercial production. The next well to be turned on is the Moore #1. The only mineral owner we do not have a deal with is Mr. Kennedy.

I hope this information is helpful to you. If you need any other information, please call me.

Best regards,

  
Brian M. Sirgo

BMS/pr