



OIL & GAS COMPANY

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11877 Exhibit No. 8
Submitted By:
Fasken Land and Minerals,
Hearing Date: February 5, 1998

November 20, 1997

Sally M. Kvasnicka
Fasken Oil and Ranch, Ltd.
303 West Wall, Suite 1900
Midland, TX 79701

Via fax (915) 687-0669

Re: Your proposed Carnero Federal No. 1 well
500' FNL & 2,265' FWL
Section 12-T23S-R24E
NMPM, Eddy County, New Mexico

Gentlemen,

Redstone Oil & Gas Company ("Redstone") has received your letter dated October 30, 1997 regarding the proposed well captioned above. This letter will not discuss the differences of fact and/or opinion relative to the JOA dated January 1, 1970, but rather will address the issues which will hopefully permit the owners to expedite the drilling of your proposed well.

As to the terms and conditions set forth in your letter, in number order, Redstone offers the following:

1. Discussing and working toward an agreement regarding the method of balancing the gas accounts in the Rock Tank Unit is agreeable to Redstone, however, those discussions and a possible agreement should be outside the purview of the discussions of the drilling of the captioned well.
2. Redstone's working interest in the Rock Tank Unit is 33.145538 %. As to any well to be drilled 375' and 500' from the unit boundaries, it would be imprudent for Redstone to participate in the draining of those reserves with a lesser interest than what it would have in the Rock Tank Unit. We would agree to the Exhibit "A" percentage for Redstone to be 33.145538 %.
3. Redstone would pay the sum of \$250 per net acre for a quantum of interest in the lease covering the W/2 to yield Redstone the 33.145538 % working interest in the unit.

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4. At this time, Redstone has not reviewed the August 1, 1997 Operating Agreement in sufficient detail to indicate its total approval. We do not object to the execution of a new JOA, however, we would like to amend several provisions including, but not limited to, the following:
- a. Article XIII
 - b. Article XV. B, D, G, L, N, Q
 - c. Exhibit "A" as to percentages for the initial well and subsequent wells. The percentages should be the same for any well drilled on the contract area, regardless of the location or the spacing units involved.
 - d. Exhibit "E"

5. This provision is acceptable, however, we should perhaps consider language that is in effect a voting percentage, i.e. 80 to 85%, so that one very minor owner could not impede the wishes of the other owners.

Redstone further proposes the following to be included in our agreement to drill the captioned well:

- Redstone believes we are close to the economic limit of the Upper Morrow production in the Rock Tank Unit #4 well. At some point in the near future, Redstone will propose the abandonment of the Morrow formation and propose a recompletion in uphole zones, such as the Cisco/Canyon. Fasken agrees to consent to the abandonment of the Morrow formation. Such agreement by Fasken to abandon the Morrow formation will not be construed as an election by Fasken to participate in any proposed operation and Fasken will not attempt to interfere or prevent any such proposed operation.
- Fasken will not protest an application that Redstone may make to the OCD for an irregular location for a well in Section 1-23S-24E, NMPM which is 500' or more from the South line of said Section 1-23S-24E, NMPM.

We appreciate your recent letter regarding the captioned well. Please let us hear from you regarding the above at your earliest convenience.

Very truly yours,

REDSTONE OIL & GAS COMPANY



Joe E. Small, CPL
Vice President-Land

JES:epd /fasken camero prop2.doc

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