

INTEROFFICE MEMORANDUM

TO: SMK

FROM: Craig Hubbard

DATE: Wednesday, December 03, 1997

RE: Wes Perry
Rock Tank Unit
Various Issues

Today I had a conversation with Wes Perry regarding the Carnero Federal well and the Rock Tank imbalances issue. Wes said that Our Carnero Federal proposal seems fair to him and he is ready to go drill the well. He said he would talk to Redstone and determine if their stance has softened.

Regarding imbalances in the Rock Tank Unit, Wes agreed that the issue is not going to go away. He knows he owes, and he is willing to come to some sort of settlement. His stance is that, in the absence of a gas balancing agreement, he owes us the money at depletion, which may occur twenty years from now. Taking into account the time value of money, his opinion is that a settlement should fall somewhere between cash balancing and the discounted present value of the amount due at depletion at some indeterminable future date. While acknowledging that it is not Fasken's problem, he said that this issue is a very touchy one with his investors. They bought the property from Chevron, and they maintain that Chevron misrepresented and actually lied to them about the imbalance status. This is mentioned only to help explain why Perry's group will aggressively negotiate and bargain to keep from paying out moneys that they did not receive.

Wes agreed that actual proceeds from sale of overproduction might be a good starting position, and I closed by saying we would continue to talk about the issue.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11877 Exhibit No. 10
Submitted By:
Fasken Land and Minerals,
Hearing Date: February 5, 1998