

BEFORE EXAMINER STOBARD
OIL CONSERVATION DIVISION

McHugh EXHIBIT NO. 4

CASE NO. 8788

January 9, 1986

To: All Working Interest Owners
(See Addressee List attached)

Re: Continental Divide #1
E/2 Section 12-T25N-R2W
Rio Arriba County, New Mexico

Gentlemen:

I am writing to update each of you as to the status of the Continental Divide #1 well which we had hoped to spud prior to the end of 1985.

Enclosed for your files are original counterpart signature pages to the Operating Agreement from the parties which have joined to date. Reading & Bates has yet to send in their pages and we have made efforts, which have proved to be futile, to contact the principles of Mountain States Natural Gas. We have been unable to get Mountain States to respond at all as to their election to join and are preparing to force pool their interest. The force pool hearing is set for January 22, 1986 in Santa Fe.

Also enclosed is a revised page 5 to the Operating Agreement wherein we have changed the non-consent penalty applicable to intangibles on future wells from 500% to 300% at the request of Hooper, Kimball, and Williams, Inc. A copy of Hooper's letter is enclosed for your files and we ask that you insert the revised page into your copy of the Operating Agreement provided you have no objections to said revision.

You will also note that a new page 2 to the Exhibit "A" is attached. This was necessitated by virtue of the fact that we had to correct the addresses for Mr. Ralph Gilliland as well as the Clark & Oatman group. Please insert it into your Operating Agreement as well.

With respect to the progress of the well, we have encountered an unavoidable delay. In surveying the location and the road necessary to reach said location, it became obvious that the only entry into the location is from the east. Unfortunately, Sections 6 and 7 of Township 25 North, Range 1 West which are east of our Section 12 location are in the Santa Fe National Forest. We were aware of this fact in October, 1985 and have been working with the Forest people since that time to gain access to our location per their requirements. The unavoidable part of our situation is the fact that once the first snowfall occurred in early December, the Forest Service put the halt on any future operations until Spring. We have made every effort we

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can in continuing to obtain their approval for constructing a road through the Forest but have been advised that this must wait until Spring.

We are sorry for any inconvenience this delay may have caused you but I assure you that we will keep you posted and will commence this well as soon as conditions allow.

Please let me know in writing should you have any objections to the enclosed revisions. Thank you.

Very Truly Yours,


Kent C. Craig

KCC/rm

enclosures

Addressee List

Hooper, Kimball, and Williams, Inc.
320 South Boston Avenue
Suite 1222
Tulsa, Oklahoma 74104
Attention: Mr. George W. Owens

Clark & Oatman
P. O. Box 1846
Austin, Texas 78767
Attention: Waylon W. Oatman

Duer Wagner & Co.
Duer Wagner, III
Duer Wagner, Jr.
2906 Texas American Bank Building
Fort Worth, Texas 76102
Attention: Mr. Joe Hale

Mr. Ralph Gilliland
7420 Caruth
Dallas, Texas 75225

PC, Ltd.
Ibex Partnership
P. O. Box 911
Breckenridge, Texas 76024-0911
Attention: Lester Clark

Dugan Production Corp.
P. O. Box 208
Farmington, New Mexico 87499
Attention: Robert G. Stovall

Reading & Bates Petroleum Company
3200 Mid Continent Tower
Tulsa, Oklahoma 74103
Attention: Mr. Eric Koelling

Mountain States Natural Gas
P. O. Box 35426
Tulsa, Oklahoma 74543
Attention: Mr. Albert Blair