ENERGEN
RESOURCES

March 11, 2002

Mr. Joseph A. Sommer
P.O. Box 1984
Santa Fe, New Mexico 87501

Dear Mr. Sommer:

Please reference your February 13, 2002 letter as I respond to your two basic inquiries. The first series of questions centered on monthly lease operating expenses and associated producing overhead charges. The December 12, 1984 Joint Operating Agreement (JOA) clearly states that a producing overhead charge of $350.00 (escalated each April 1st since) shall be charged the joint account. The overhead charge is designed to compensate a company for the general and administrative burden of being the well operator. This charge is in addition to the monthly lease operating expenses that the operator pays out of pocket for the benefit of the joint property. Further research indicates that you did not sign the aforementioned JOA. This fact does not relieve your responsibility of paying all billed charges, because you are covered by the May 5, 1961 Forced Pool ruling. This ruling yields the same results related to joint interest owner responsibilities.

The second series of questions center on gas balancing concerns. Each joint owner has the responsibility of paying their share of lease operating expenses and marketing their share of production. Each month the joint owners are invoiced for their share of expenses and are paid for their share of associated revenues. If the joint owner does not have a market for their share of product sales, then they are given credit via gas balancing. This situation will continue until the joint owner gets a market for his share of sales or the well depletes. If the joint owner obtains a market, he is normally allowed to "make-up" his share of production plus 25 percent. Lease operating expenses never fluctuate from an owner's working share, even if gas balancing occurs and an owner begins taking 25 per cent more than his share. That is one reason why it is important for each owner to continue to pay his share of monthly operating expenses. Your letter's last point presented a situation where the well has depleted would unfold like this, at that point, the gas imbalances are settled between under and over produced owners at a mutually determined price.

The inquiry presented as to the difference in the gas imbalance positions between you and Mr. McKenna, it was an inherited difference from Burlington Resources when Energen Resources purchased the well in October 1997. My only suggestion is to contact

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Burlington Resources since we have no historical data other than the beginning imbalance figure. If you obtain contradictory information from Burlington please let us know and we will be happy to alter the gas balancing statement. I can confirm that your working ownership interest is the same as Mr. McKenna and each month that we have prepared gas-balancing statements each of you has received the same allotment.

The mention of Enron in your letter highlights the importance of the joint interest owner and operator relationship. Each party is relying of the other to be responsible and fulfill their obligations. Energen Resources is not an Enron, as I hope, you are not either!

I trust this information will be helpful.

Sincerely,

R. Kirk Flowers

R. Kirk Flowers
Director – Jt. Interest / Revenue Accounting