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110 NORTH GUADALUPE, SUITE 1,

P.O. BOX 2208, SANTA FE, NEW MEXICO 87501-6525

Friday, November 02, 2001

To: Michael Stogner
Oil Conservation Division

Fax: 476-3462
Phone: 476-3465

From: William F. Carr, Esq.

Fax: 505-983-6043
Phone: 505-988-4421

Message:

Attached is a copy of the signed letter with Tom Kellahin for your use. Thank you.

☒ No Confirmation Copy

Number of pages including cover sheet: 3

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October 17, 2001

HAND DELIVERED

W. Thomas Kellahin, Esq.
Kellahin and Kellahin
El Patio Building
117 North Guadalupe
Santa Fe, New Mexico 87504

Re: **Oil Conservation Division Case No. 12736:** Application of KUKUI
Operating Company for an unorthodox gas well location, Eddy County,
New Mexico.

Dear Mr. Kellahin;

This letter sets forth the agreement reached between KUKUI Operating Company, Devon SFS Operating Company and Kaiser-Francis Oil Company to resolve the dispute concerning the proposed unorthodox gas well location for the KUKUI Operating Company Goodnight "35" Federal Well No. 3 at a point 440 feet from the South line and 660 feet from the West line of Section 35, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico.

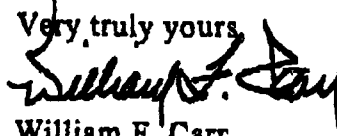
1. A 33% production penalty shall be imposed on the ability of the Goodnight "35" Federal Well No. 3 to produce as determined by semi-annual deliverability tests which shall be witnessed by representatives of the Oil Conservation Division. Devon SFS Operating Company and Kaiser-Francis Oil Company will also be given the opportunity to witness these tests.
2. The imposition of the 33% penalty would not require that the well be produced at rates less than 500MCF/D.

Letter to W. Thomas Kellahin
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3. Devon SFS Operating Company and Kaiser-Francis Oil Company withdraw their respective objections to the proposed unorthodox gas well location.

If this letter accurately sets forth our agreement, please execute a copy on behalf of Kaiser-Francis Oil Company and Devon SFS Operating Company and return it to me for filing with the Division. I appreciate your assistance in resolving this dispute.

Very truly yours,



William F. Carr
Attorney for KUKUI Operating Company

AGREED:



W. Thomas Kellahin
Attorney for Kaiser-Francis Oil Company
and Devon SFS Operating Company.

cc: Steve C. Sandlin
Vice President-Land
KUKUI Operating Company

TRANSACTION REPORT

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