



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
AZTEC DISTRICT OFFICE
1000 RIO BRAZOS ROAD
AZTEC, NEW MEXICO 87410
(505) 334-6178 Fax (505) 334-6170

GARY E. JOHNSON
GOVERNOR

JENNIFER A. SALISBURY
CABINET SECRETARY

February 21, 1997

Fred Shelton
3501 Gillon
Dallas TX 75205

RE: El Poso Ranch Wells

Dear Fred:

I talked to Rand Carroll (OCD attorney) about the possibility of turning the Quinlan Ranch #1 and #2 over to Mr. Quinlan and he said that he didn't see any problem with that. I have enclosed all of the plugging procedures for the Petroleum Development, Chuza and Spur wells. Rand said there was no problem with you plugging all of the wells, but he would need the letter you were talking about from each operator giving you authority to P&A their wells for them. We will need a form C-103, Notice of Intent, filled out on each well explaining how you will plug each well and the time frame needed to finish the project.

I have enclosed a few C-103's and a Water Well Affidavit that needs to be filled out by you as the operator and signed by Mr. Quinlan for each well (Quinlan #1 & #2). If I can help you in any way, feel free to call me at 505-334-6178. I do need the intents on each well as soon as possible.

Sincerely,

Johnny Robinson
Deputy O&G Inspector

JR/sh

encs.

cc: Rand Carroll
JR

Memo

From

C.C. GHOLSON

To

ALANA RYAN Nee
ALANA HILL. KNOWS
A GREAT MANY THINGS
ABOUT FRANK HILL,
SHELTON & OTHERS THAT
HAVE NOT COME TO LIGHT
IF THERE IS EVER A CIVIL
SUIT SHE WOULD LOVE
TO TESTIFY IN BEHALF OF
THE PROSECUTORS. SHE
SAYS FRANK HAS SUED THE
MADDOX ESTATE FOR 28
MILLION DOLLARS.
HER ATTORNEY IS RICARDO
RODRIGUEZ 713-227-6700
HOUSTON. SHE WOULD NOT
GIVE ME HER PERSONAL
PHONE NO.

March 17, 1989

Securities and Exchange Commission
450 5th Street, N. W.
Washington, D. C. 20549

Re: Fred B. Shelton, III & Fred Shelton, Jr.

To All Interested Parties,

It has been brought to our attention that we are not the only ones that have had unfavorable dealings with Fred B. Shelton, III and his father Fred Shelton, Jr.

This letter is being written and mailed in hopes of enlightening investors, operators and other interested parties of problems that have been encountered with Fred B. Shelton, III.

The lease cost in the Lou Dale Sears Venture was represented by Fred Shelton, III as costing \$90,000.00. Fred Shelton, III instructed Thomas Operating Company, Inc.'s office manager, Karen Martin, to show on the Joint Interest Billing the lease cost as \$90,000.00. We asked Fred Shelton, III repeatedly to produce canceled checks for the lease cost. Fred first said he could not locate them and then he ignored all requests for proof.

After considerable effort, we have secured the drafts paid to the different royalty owners. We are in possession of these drafts. These drafts amount to \$31,129.67. There is a considerable discrepancy that we feel should have been explained.

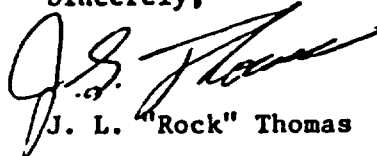
The list of problems with the Sheltons' is endless. Thomas Operating Company, Inc. filed Chapter 11 Bankruptcy February 27, 1986. Non-payment of debts owed by the Sheltons' was a contributing factor. Thomas Operating Company, Inc. was put into Chapter 7 Bankruptcy June 16, 1986.

To list all of the discrepancies in dealings with Fred Shelton, III and Fred B. Shelton, Jr. is impractical.

If you wish documentation or would like further information, write or call Rock Thomas at 915-695-4650. The address is Rt. 5, Box 945 Abilene, Texas 79605.

Thank you for your time.

Sincerely,


J. L. "Rock" Thomas

cc: Grady Barr
P. O. Box 629
Abilene, Texas 79604

Victor C. Bilbo, Jr.
4450 Shady Hill
Dallas, Texas 75229

RECEIVED
MAY 11 1989
OIL CON. DIV.
DIST. 2



POSTAL INSPECTOR

P. O. BOX 162929 FORT WORTH, TX 76161-2929

January 15, 1991

Mr. Frank Chavez
State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Sante Fe, NM 87501

RECEIVED
JAN 23 1992
OIL CON. DIV. 1
DIST. 3

Dear Mr. Chavez:

This is to advise you of the results of a mail fraud investigation related to ~~Texas Rose Petroleum~~ (TRP), Inc., 16970 Dallas Parkway, Suite 700-702, Dallas, TX 75248. The owners of TRP, Phillip R. Matthews, Jerry L. Cain, and David L. Ellis, were indicted by a Federal Grand Jury in Dallas, Texas, on April 11, 1990, and charged with eleven counts of Conspiracy, Mail Fraud, and Interstate Transportation of Fraudulently Obtained Money.

Matthews was arrested in Springfield, Massachusetts, on May 22, 1990. He pleaded guilty to one count of Mail Fraud, and was sentenced on September 19, 1990, to serve two years imprisonment. He also received a consecutive sentence of two years imprisonment on a mail fraud case indicted in the Eastern District of Texas October 15, 1986. Cain was arrested in San Diego, CA, on June 22, 1990. He pleaded guilty to one count of Mail Fraud, and was sentenced on December 10, 1990, to five years probation and 400 hours of community service. Ellis was arrested in Norfolk, VA, on June 13, 1990. He pleaded guilty to one count of Mail Fraud, and was sentenced January 18, 1991 to six months imprisonment, followed by five years probation.

Thank you for the excellent assistance provided during this investigation.

Sincerely,


James L. Mathine
Postal Inspector



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

November 18, 1996

Roger Prucino, Esq.
Schuer, Yost & Patterson
125 Lincoln Avenue, Suite 223
Santa Fe, NM 87501

RE: Letter dated November 5, 1996 from Prucino to the OCD

Dear Mr. Prucino:

In reply to your letter dated November 5, 1996, please be advised that the 890 barrels of oil stored on the El Poso Ranch property was not produced in accordance with all applicable laws and regulations and the OCD will not allow the removal of the oil per your request.

On April 24, 1996, the OCD Aztec District office measured the oil in all the tanks on the El Poso Ranch and found 651.05 barrels. The measuring was witnessed by Harmon Eitchman of Kachina Oil Company representing certain investors including Fred Shelton. Some of the tanks could be directly linked with certain wells and others were at batteries and could not be so linked.

All of the stored oil on the El Poso Ranch was produced prior to Fred Shelton assuming operation of the wells. In May 1985, Giant moved 237.8 barrels of oil from the ranch. OCD records show that only 271 barrels were ever reported as production from those wells. That leaves only 33.2 barrels of possibly legally produced oil. There is a history of noncompliance by the previous operators. As new wells were completed, the OCD would assign the appropriate allowables and then have to cancel those allowables for the operator's failure to file well tests or other documents such as C-115's (Operator's Monthly Report). Except for perhaps the 33.2 barrels noted above, the oil on the ranch is illegal oil under OCD Rule 502 and is subject to seizure and sale under Section 70-2-32, NMSA. Instead of going through the complications of the seizure and sale procedures, the OCD proposes to pump the oil back down the wells.

Since assuming operations on the ranch, Fred Shelton has never filed a C-115 to document any in storage or produced. This is a violation of OCD Rule 1115. He has also never submitted a well test or request for an allowable. The OCD has not to this point pursued penalties for these violations because he has no allowable to produce and we anticipated a quicker resolution to the matter of plugging these wells. If there is more than the documented amount of oil in the tanks as of April 24, 1996, such oil was produced in further violation of OCD Rules, or was transferred illegally.

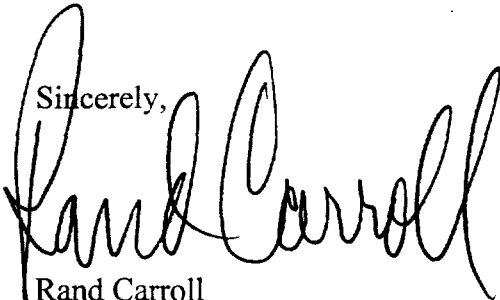
Please submit to the OCD Aztec office documentation for the 857 barrels (890 requested to be removed minus the 33 documented) for which the OCD has no records.

We anticipate that the order on the Oil Conservation Commission de novo hearing (Case Nos. 11507, 11508 and 11509) will be issued at the December Commission hearing on December 12. Since all that was really desired by Fred Shelton in seeking a de novo hearing was more time in finding a buyer for these wells, the delay in the issuance of a Commission order in this case has, in fact, granted Shelton his request, i.e., additional time to find new buyers. New buyers have not apparently been found since we have not received a C-104 (Change of Operator) or a plugging bond for any of these wells.

The OCD intends to plug these wells and foreclose upon the plugging bonds covering the wells at the first opportunity.

If you have any questions, please feel free to call me at 827-8156.

Sincerely,

A handwritten signature in black ink, appearing to read "Rand Carroll". The signature is fluid and cursive, with the first name "Rand" and last name "Carroll" clearly distinguishable.

Rand Carroll
Legal Counsel

c: Fred Shelton, III
Frank Chavez, OCD Aztec
William J. LeMay, OCD Director

Scheuer, Yost & Patterson

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

Rand

RALPH H. SCHEUER
MEL E. YOST
JOHN N. PATTERSON
ELIZABETH A. JAFFE
HOLLY A. HART
ROGER L. PRUCINO
KAREN L. FISHER

OF COUNSEL:
MELVIN T. YOST

STREET ADDRESS:
125 LINCOLN AVENUE, SUITE 223
SANTA FE, NEW MEXICO 87501

MAILING ADDRESS:
POST OFFICE DRAWER 9570
SANTA FE, NEW MEXICO 87504-9570

TELEPHONE: (505) 982-9911
(505) 989-7500
TELEFAX: (505) 982-1621

*Reply w/
Frank draft*

November 5, 1996

William J. LeMay, Director
Oil Conservation Division
New Mexico Dept. of Energy,
Minerals and Natural Resources
2040 S. Pacheco St.
Santa Fe, New Mexico 87505

RECEIVED

NOV 14 1996

Oil Conservation Division

HAND DELIVERED

Re: Removal of Drilled Oil

Dear Mr. LeMay:

There is approximately 890 barrels of drilled oil stored in wells on the El Poso Ranch property. The oil was produced under bond in accordance with all applicable laws and regulations.

Fred Shelton recently agreed with Giant Industries to sell the oil to Giant. Giant has advised our client, however, that it was recently informed by your Aztec office that it could not remove the oil from the wells. It was not made clear what statute or regulation was relied on in prohibiting Giant from taking possession of the oil, and we do not know why that step was taken.

The sale and removal of the oil from the tanks would benefit all parties. Obviously, leakage from the tanks would no longer be a potential hazard once the oil is removed. Further, the existing oil must be removed and the storage tanks cleaned before a new operator steps in to operate the wells. Mr. Shelton has been in contact with a new operator, but further progress in those discussions is contingent on the removal of the existing oil.

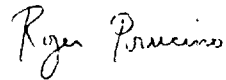
Please let me know on what authority your office relies in directing Giant to refrain from removing the stored oil. If there are any legitimate concerns with the removal, we would like to address them as quickly as possible to allow Giant to proceed with the agreed acquisition and

Scheuer, Yost & Patterson
ATTORNEYS AT LAW

William J. LeMay, Director
November 5, 1996
Page 2

removal of that oil. It is likely that the delays already caused will force the parties to incur additional expense removing the oil by having to heat the oil before removal from the tanks. I would appreciate hearing from you at your earliest convenience, and by no later than Friday November 8 if at all possible.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Roger Prucino".

Roger L. Prucino

cc: Fred Shelton

TRANSMITTAL COVER SHEET

Oil Conservation Division

(505) 827-7131 (Office)

(505) 827-8177 (Fax)

Please Deliver This Fax To:

TO: Roger Pucino PH 989-7900
987-1671

FROM: Rand Carroll

SUBJECT: Case No. 11509

DATE: 9/16/96

PAGES: 2

*If You Have Any Problems Receiving This Fax
Please Call the Number Above*



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

September 17, 1996

Roger L. Prucino, Esq.
Scheuer, Yost & Patterson
P. O. Box 9570
Santa Fe, NM 87504-9570

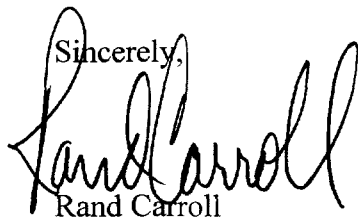
RE: OCD Case 11509 concerning Chuza Operating Co. - De Novo hearing before the OCC on
September 18, 1996

Dear Mr. Prucino:

We are in receipt of your letter dated September 5, 1996. Order Nos. R-8404-D and R-8223-C issued in that case gave August 15, 1996, as the date for completing the plugging of the wells at issue. To date, the wells have not been plugged. The De Novo hearing scheduled for this Wednesday allows you contest any of the findings in those orders. Failure to appear and contest those orders will result in those orders becoming final and binding.

The Division intends to commence plugging activities on these wells as soon as those orders become final. The Division has been attempting for a number of years to get these wells plugged and will not wait on yet another representation that another operator will assume operations and produce from these wells. The Division will take all necessary and authorized steps to carry out its plugging responsibilities

If you have any questions, please call me at 505/827-8156.

Sincerely,

Rand Carroll
Legal Counsel

Scheuer, Yost & Patterson

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

RALPH H. SCHEUER
MEL E. YOST
JOHN N. PATTERSON
ELIZABETH A. JAFFE
HOLLY A. HART
ROGER L. PRUCINO
KAREN L. FISHER

OF COUNSEL:
MELVIN T. YOST

RECEIVED
SEP - 9 1996
CAMPBELL, CARR, & CO.
STREET ADDRESS:
125 LINCOLN AVENUE, SUITE 203
SANTA FE, NEW MEXICO 87501
MAILING ADDRESS:
POST OFFICE DRAWER 8570
SANTA FE, NEW MEXICO 87504-9570

TELEPHONE: (505) 982-9811
(505) 989-7509
TELEFAX: (505) 982-1821

September 5, 1996

William J. LeMay, Director
Oil Conservation Division
New Mexico Dept. of Energy,
Minerals and Natural Resources
2040 S. Pacheco St.
Santa Fe, New Mexico 87505

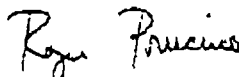
VIA HAND DELIVERYRe: New Mexico Oil Conservation Division Case No. 11509

Dear Mr. LeMay:

This office appeared on behalf of Kachina Production Company at the May 2, 1996 hearing in the above-captioned proceeding. I have received William Carr's August 26, 1996 letter to you discussing this matter and the upcoming September 18, 1996 Commission hearing. I have notified Kachina Production Company of that hearing date.

My client has asked that I inform you that a new operator will become involved in the El Poso Ranch property and will contact your office in the near future. At that time, Fred Shelton will have no further active involvement in drilling operations in that area. Kachina Production Company requests that the OCD neither remove nor damage any equipment on the leased property during the well plugging or other operations, if such steps become necessary.

Very truly yours,



Roger L. Prucino

RLP:lj

cc: Kachina Production Company
William F. Carr, Esq.