



DEPARTMENT OF NATURAL RESOURCES
Roy Romer, Governor
1120 Lincoln St., Suite 801
Denver, CO 80203
Phone: (303) 894-2100
FAX: (303) 894-2109

1.66

December 3, 1996

Mr. John H. Chilson
6610 Chokecherry Drive
Loveland, CO. 80537

Re: Chilson #16-1 NWNW 16 5N 68W Larimer County, Colorado

Dear Mr. Chilson:

Despite numerous correspondence, the Colorado Oil and Gas Conservation Commission has not been able to secure compliance for the referenced well due to the ownership dispute between you and Jenex Petroleum. Jenex Petroleum has contacted Ms. Betty Payne with Sunset Plugging and Equipment about plugging the well. Ms. Payne is agreeable to plugging the well for no cost assuming that at least 5000' of casing can be recovered, however she is unwilling to begin operations without certain guarantees. While knowledge of the area would suggest that it is reasonable to expect at least 5000' of casing recovery, Commission staff believes that Ms. Payne's concerns about payment in the event of unforeseen problems are valid. It is obvious that to finally resolve this matter the Commission must have written documentation that completely defines the responsibilities of both parties.

Please review your proposed responsibilities as listed on page 2. If these terms are acceptable, please sign and return this letter to the Commission immediately. If you choose not to sign this document the matter will be docketed for the January 6, 1997 Commission hearing. If a hearing is required, Commission staff will recommend the enforcement of the listed terms upon both parties and that fines be levied against any party not agreeing to their proposed terms.

Enclosed for your records is a copy of the letter being sent to Jenex Petroleum listing their responsibilities, a copy of Commission plugging requirements, and a copy of Sunset's offer to plug the well. Please contact me at 303-894-2100 extension 108 if you have any questions.

Sincerely,

Dave Shelton
Petroleum Engineer

I, John H. Chilson, agree to allow Sunset Plugging and Equipment Company immediate access to the Chilson #1-16, NWNW 16 5N 68W, in order that Sunset may properly plug and abandon the well according to Commission requirements; agree to be responsible for 50% of any plugging cost incurred by Sunset in the event that casing recovery is not at least 5000'; agree to be responsible for any surface restoration other than surface disturbances around the wellbore caused by Sunset's plugging operations.

John H. Chilson

Date



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JENEX PETROLEUM CORPORATION

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December 12, 1996

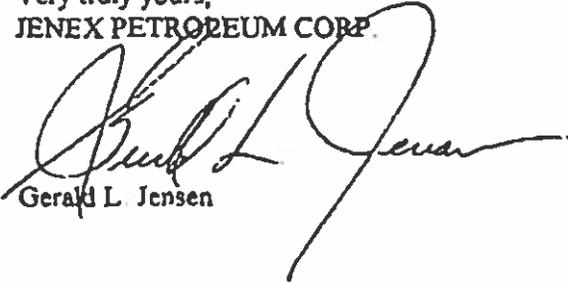
Betty Payne
Sunset Plugging & Equipment Co., Inc.
4902 Kiowa Drive
Greeley, Colorado 80634

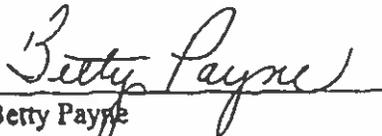
RE. Chilson #16-1 Plugging

Dear Betty,

I am enclosing a copy of the letter I received from Dave Shelton along with the Agreement that he attached which we have signed. This letter is simply to clarify that in the event that you recover less than 5000 feet of casing from the Chilson well, but do recover some portion of the casing, that our one-half of the cost of plugging, will be reduced proportionately by the amount of casing that you do recover. In the event, as Dave Shelton's letter agreement states, that you recover at least 5000 feet of casing then you will be compensated by the casing, and we will not be charged further. If this correctly states our understanding, please sign on the line below marked accepted and fax a copy back to me. I will then fax a copy of that along with the acceptance to Dave Shelton.

Very truly yours,
JENEX PETROLEUM CORP.


Gerald L. Jensen


Betty Payne
Accepted

GLJ:jg

cc: Dave Shelton
C:\WORD\JERRY\LETTERS\CHILPLUG.DOC



GALE A. NORTON
Attorney General

STEPHEN K. ERKENBRACK
Chief Deputy Attorney General

TIMOTHY M. TYMKOVICH
Solicitor General

STATE OF COLORADO
DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL

STATE SERVICES BUILDING
1525 Sherman Street - 5th Floor
Denver, Colorado 80203
Phone (303) 866-4500
FAX (303) 866-5691

July 18, 1996

Mr. Gerald L. Jensen
Jenex Petroleum Corporation
1433 17th Street, Suite 220
Denver, CO 80202-1273

Mr. John H. Chilson
200 East Seventh Street, #320
Loveland, CO 80537

RE: Chilson #16-1
NWNW Sec. 16-TSN-R68W
Larimer County, Colorado

Dear Mr. Jensen and Mr. Chilson:

The Colorado Oil and Gas Conservation Commission (OGCC) has brought to my attention an ownership dispute existing between Jenex and Mr. Chilson relative to the above referenced well. Apparently, this well is no longer in production and the OGCC has requested it be plugged. However, both Mr. Chilson and Jenex have denied ownership of the subject well and both have refused to assume responsibility for having the well plugged.

I have reviewed numerous documents submitted to me by the OGCC with respect to ownership of the well, which documents conflict and, therefore, do not definitively establish ownership. Since the referenced well must be plugged and abandoned and the ownership interest has not been resolved, it appears this matter is ripe for a hearing before the OGCC. OGCC staff will notice this matter for the September, 1996 OGCC hearing, should we be unable to resolve this matter in the immediate future.

However, I will make the following settlement proposal in an effort to avoid pursuing this matter before the OGCC. I would propose that either of you obtain a bid from a contractor for the cost of plugging the well. Enclosed please find plugging directions which may be used in obtaining a bid. Both of you would then agree that the contractor could take possession of all well casing, the value of which would be used of offset the cost of plugging the well. Any remaining monies owed the contractor

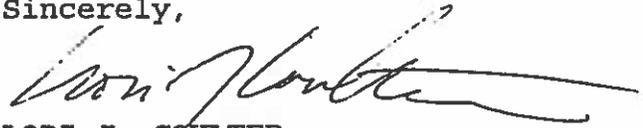
Mr. Gerald L. Jensen
Page 2

would be split equally between Mr. Chilson and Jenex. I anticipate this remaining amount would be considered quite minimal, compared to the cost of pursuing this matter before the OGCC.

I would appreciate your response to this proposal by August 9, 1996, since the liability of this well has been of great concern to the OGCC for quite some time.

Thank you for your attention in this regard.

Sincerely,



LORI J. COULTER
Assistant Attorney General
Natural Resources Section
(303) 866-5010
(303) 866-3558 (FAX)

cc: Tricia Beaver
~~Dave Sheron~~

SUNSET PLUGGING & EQUIPMENT CO., INC.

4902 Kiowa Drive
Greeley, Colorado 80634

Phone: (970)330-1825

Fax: (970)330-1888

James Jensen or Jerry Jensen
Jenex Petroleum
1433 17th Street
Suite 220
Denver, Colorado 80202

Re: Chilson #16-1
NW NW Section 16-5N-68W, Weld County, Colorado

Gentlemen:

I will plug and abandon the above referenced well for the recoverable casing if there is at least 5000 feet there. In the event that the casing is not recoverable, I will charge a fee of \$1,000.00 plus the cost of plugging and and clean up according to the specifications of the Oil & Gas Commission.

I will be there to witness the plugging along with a state representative.

Let me know if this is acceptable to you, and I thank you for the opportunity to bid on this property.

Sincerely:



Betty Payne, owner
Sunset Plugging & Equipment Co., Inc.

REC'D AUG 29 1996



DEPARTMENT OF NATURAL RESOURCES
Roy Romer, Governor
1120 Lincoln St., Suite 801
Denver, CO 80203
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ACCEPTABLE PLUGGING PROCEDURES FOR CHILSON #16-1, NWNW 16 5N 68W,
LARIMER COUNTY, COLORADO

COMPLETION INFORMATION: 8 5/8" casing set to 326', 5 1/2" 17 lb casing set to 6880',
perforations 5842-6124'

PLUGGING PROCEDURES:

- 1) Set cast iron bridge plug at 5800' and dump 2 sks cement on top.
- 2) If 5 1/2" casing is to be cut and pulled:
 - 2a) Pump 40 sks cement thru casing at casing stub
 - 2b) Pump 40 sks cement thru casing from 365' up into 8 5/8" casing
 - 2c) Place 10 sks cement at top of 8 5/8" casing

If 5 1/2" casing is not cut and is left in wellbore:

- 2a) Perforate 5 1/2" casing at 365' and circulate cement to surface for 5 1/2-8 5/8
annulus, leaving 5 1/2 full of cement to surface (approximately 120 sks cmt).
- 3) Cut casing 4' below ground level, weld plate, restore site.

Prepared 7/18/96 by Dave Shelton