

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1935 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

July 2, 1996

Gillespie-Crow, Inc.
PO Box 2557
Midland, Texas 79702
Attention: Bill Crow

RE: State S #1
West Lovington Strawn Unit
Lea County, New Mexico

Gentlemen:

Thank you for arranging the meeting in Midland on June 20 to discuss the proposed expansion of your West Lovington Strawn Unit (Unit) to include the State S #1. As a result of this meeting, we would like to set out our position as it stands now.

The first item we want to address is the production rate of the State S #1. We believe you had no right to choke back the well and you should immediately return it to production at the full allowable as set out by the OCD for this pool. As Operator of the well, you should be operating it on behalf of all parties in the well, not on your own behalf as Operator of the Unit. The State #1 is not a part of the Unit and choking it back only benefits you and your partners in the Unit.

As to the expansion of the Unit, we present the following ideas for your consideration:

1. We oppose having the State S put into the Unit. We believe that it does not benefit substantially from your improved recovery project.

2. If, over our objection, the Unit is expanded to include the State S #1, we propose a modification of the hydrocarbon pore volume map developed by Tom Davis of Viersen & Cochran (Attachment 1) presented at the June 20 meeting. With hydrocarbon pore volume as the only parameter, the modified Davis map (Attachment 2) would assign Tracts 12 and 13 a total of 4.8935587 percent interest in the expanded Unit. Also enclosed are Attachments 3 and 4 that show the calculations associated with the modified Davis map (Attachment 2).

3. We are convinced that we would continue to own our contractual working interest in each forty acre tract as set out in the JOA for the State S #1. Splitting the tracts due to the royalty ownership has no bearing on the working interest—every party retains their working interest as pooled under the JOA.

4. The data indicates that the "CE" well in Section 6 should remain out of the Unit. We do believe, however, that you must decide whether to include the "CE" well in the Unit at the same time as determining the fate of the State S #1.

We understand that you plan a series of pressure measurement tests that may include the State S #1. In order to better evaluate our position, we ask that you provide us with all PVT and pressure information from the Unit. We also ask that you allow a Yates representative to witness all future pressure testing at the State S #1 and at any Unit wells that relate to this matter.

We ask that you give serious consideration to these ideas and hope that we can work towards a mutually beneficial solution.

Very truly yours,

YATES PETROLEUM CORPORATION

Mecca Mauritsen
Landman

MM:bn
Enclosure(s)
cc: See attached Working Interest Owner list

NMOCD Case No. 11724
Exhibit No. 28
Submitted by: Gillespie-Crow, Inc.
May 15, 1997

STATE S #1
WORKING INTEREST OWNER
ADDRESSEE LIST

Viersen & Cochran
PO Box 19227
Oklahoma City, OK 73144
Attention: Mr. Kirk Waits

Lario Oil & Gas Company
500 West Texas - Suite 1420
Midland, TX 79701
Attention: Mr. Stanley H. Fox

Visa Industries of Arizona
9201 North 7th Street
Phoenix, AZ 85021
Attention: Mr. Edgar J. Huffman

Rio Pecos Corporation
4501 Greentree Boulevard
Midland, TX 79707

Pathfinder Exploration Co.
4306 Crestgate
Midland, TX 79707

Cannon Exploration Co.
3608 SCR 1184
Midland, TX 79701

Hollyhock Corporation
3907 Crestgate
Midland, TX 79707

TARA-JON Corporation
6003 Meadow View Lane
Midland, TX 79707

DALEN Resources Oil & Gas Co.
4849 Greenville Ave - Suite 1200
Dallas, TX 75206
Attention: Ms. Bessie Bales

Phillips Petroleum Company
4001 Penbrook
Odessa, TX 79762

Yates Petroleum Corporation
Yates Drilling Company
105 South Fourth Street
Artesia, New Mexico 88210

Abo Petroleum Corporation
Mycro Industries, Inc.
105 South Fourth Street
Artesia, New Mexico 88210

ATTACHMENT 3

WEST LOVINGTON STRAWN UNITIZATION
 3% CROSSPLOT POROSITY CUTOFF
 HYDROCARBON PORE VOLUME BASIS FOR CALCULATION OF
 ORIGINAL OIL IN PLACE
 INCLUDING SNYDER 'EC' COM #1 & STATE 'S' #1 DATA

	TRACT 1 HAMILTON	TRACT 2 EARNESTINE	TRACT 3 STATE 'S'	TRACT 4 STATE 'T'	TRACT 5 SPEIGHT	TRACT 6 SNYDER	TRACT 7 ROOT	TRACT 8 WILEY 'A'	TRACT 9 WILEY 'B'	TRACT 10 KLEIN 'A'	TRACT 11 KLEIN 'B'	TRACT 12 & 13 'S' 1-A & 'S' 1-B	OUTSIDE UNIT	TOTAL
HYDROCARBON PORE VOLUME (ACFT)	731.00	571.60	362.70	137.10	667.60	274.50	142.90	112.80	79.90	49.80	42.70	144.62	205.01	3622.23
RW = 0.62														
% OF TOTAL OF RESERVOIR	20.754%	16.228%	10.288%	3.802%	18.664%	7.793%	4.057%	3.203%	2.368%	1.414%	1.212%	4.106%	5.821%	100.0000%
TRACT PARTICIPATION WITH OUTSIDE UNIT "WINDFALL"	22.037%	17.231%	10.939%	4.133%	20.125%	8.275%	4.308%	3.401%	2.408%	1.501%	1.297%	4.360%	0.000%	100.0000%
HPV PLUS WINDFALL ALLOCATION	778.16	608.92	385.12	145.57	708.86	291.46	151.73	110.77	84.84	52.68	45.34	153.56	0.00	3622.23
ORIGINAL OIL IN PLACE (MBO)	2899.40	2110.77	1339.38	508.27	2465.00	1013.65	527.89	416.54	296.06	183.91	157.68	534.06	0.00	17248.75
HPV-75#BOF-OOIP (MBO); BOF=2.2307														
CUM PRODUCTION AS OF 5/1/85	637.60	359.20	26.70	0.00	254.60	26.70	0.00	15.40	15.40	0.20	0.20	0.00	0.00	1336.20
REMAINING OIL IN PLACE	2081.60	1751.57	1312.68	508.27	7210.70	986.95	527.89	401.14	279.66	183.71	157.48	534.06	0.00	10913.53
PERCENT OF TOTAL	18.80466%	16.049527%	12.0080056%	4.6389207%	20.2666073%	9.0433016%	4.8351908%	3.675621%	2.9623072%	1.6633233%	1.4429795%	4.8935587%	0.00	100.0000000%

ATTACHMENT 4

WEST LOVINGTON STRAWN OWNERSHIP INTERESTS

MODIFIED DAVIS MAP

INCLUDES DATA FOR STATE "S" #1 AND SNYDER "EC" COM #1

<u>Partners in State "S" #1</u>	<u>WI in State "S" #1</u>	<u>Proposed Unit Ownership Interest</u>
Viersen & Cochran, a partnership	5.8013400%	0.2838920%
Lario Oil & Gas Company	5.0000000%	0.2446780%
Yates Petroleum Corporation	5.5000000%	0.2691457%
Yates Drilling Company	2.0714280%	0.1013665%
Abo Petroleum Corporation	2.0714280%	0.1013665%
Myco Industries, Inc.	2.0714280%	0.1013665%
Visa Industries of Arizona	0.7254480%	0.0355002%
Rio Pecos Corporation	2.0000000%	0.0978712%
Pathfinder Exploration Company	2.0000000%	0.0978712%
Cannon Exploration Company	2.0000000%	0.0978712%
Hollyhock Corporation	2.0000000%	0.0978712%
TARA-JON Corporation	2.0000000%	0.0978712%
DALEN Resources Oil & Gas Co.	33.3794640%	1.6334436%
William R. Crow	1.6689732%	0.0816722%
Charles B. Gillespie, Jr.	31.7104908%	1.5517715%
	100.0000000%	4.8935587%