

3N

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

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

January 5, 1995

Exxon Company, USA
P. O. Box 1600
Midland, Texas 79702-1600

ATTN: Ronald E. Mayhew

RE: Avalon Delaware Unit

Dear Sir:

Attached is the internal Yates memo you and I discussed on the telephone on January 4, 1995. The memo sets out our position concerning the five areas where Yates and Exxon are trying to reach agreement.

Sincerely,

David F. Boneau
Reservoir Engineering Supervisor

DFB/cvg

Attachment

January 4, 1995

TO: Janet Richardson
FROM: Dave Boneau *Dave Boneau*
SUBJECT: Proposed Avalon Delaware Unit

This note attempts to outline the Yates response to Exxon after our discussion with Peyton Yates this morning.

1. Phase I Formula

Yates will accept a Phase I formula based upon

70% Remaining Primary
20% Tract Waterflood Reserves
10% Tract CO₂ Reserves.

This gives Exxon WI = 0.805129 and Yates WI = 0.091292.

2. Phase II Formula

Yates will accept a Phase II formula based upon

20% Remaining Primary
40% Tract Waterflood Reserves
40% Tract CO₂ Reserves

This gives Exxon WI = 0.724939 and Yates WI = 0.120907.

3. Phase Change Date

Phase I will end and Phase II will begin on 5-1-98 or when oil production from the Unit area (after 1-1-93) reaches 1190 MBO, whichever occurs earlier in time.

Peyton says that, if Exxon wants to move the date into the future past May 1, 1998, that Yates must have a Phase II formula that gives Yates greater than 12.1 percent in order to compensate Yates for the added risk taken by Yates during Phase I.

Janet Richardson

January 4, 1995

-2-

4. Who Pays Phase I Capital Costs

Yates will accept that Capital Costs during Phase I are charged to Phase II owners (modified for the "Special Phase II Owners") as long as the following thoughts are considered and discussed:

- a) No AFE for CO₂ installations may be submitted during Phase I. Yates believes we should eliminate any remote chance that Phase II owners pay for a CO₂ flood during Phase I.
- b) Yates believes we should think about the scenario where the waterflood is marginal and the "Special Phase II Owners" have little incentive to repay the loan from Exxon and Yates. In general, Yates thinks the Special Phase II Owners must pay the loan debt on time or take some penalty. Ideas for the penalty include i) Exxon and Yates absorb unpaid ownership, ii) we get access to some other collateral such as deep rights, iii) some imputed interest is added to the loan so the tax write-off is greater. Probably Exxon has some better ideas and Yates surely encourages those. Yates realizes we may have entered an area where a Side Agreement might be necessary.

5. Overhead Charges

Yates would prefer to forget the Exxon idea of paying Exxon for CO₂ Engineering work via a special Engineering AFE. However, Yates would go along if the idea is subjected to safeguards such as i) a one-time event with a dollar limit equal to something like six months of overhead charges and/or ii) a bidding process where Exxon and two or more outsiders submit written bids to do the work as specified by a Unit Technical Committee.

DFB/cvg

Attachment

xc: Peyton Yates
Bob Fant
Mike Slater

Avalon Delaware Unit -- Comparison of Exxon and Yates Proposals for Participation

Item	Issue	Exxon Wants	Yates A	Yates B	Yates C
1	Phase I Formula	70% Primary	60% Primary	70% Primary	60% Primary
		20% WF	30% WF	20% WF	30% WF
		10% CO2	10% CO2	10% CO2	10% CO2
2	Phase II Formula	20% Primary	20% Primary	20% Primary	20% Primary
		40% WF	40% WF	40% WF	40% WF
		40% CO2	40% CO2	40% CO2	40% CO2
	Exxon WI Phase I	0.805129	0.790822	0.805129	0.790822
	Exxon WI Phase II	0.724939	0.724939	0.724939	0.724939
	Yates WI Phase I	0.091292	0.098309	0.091292	0.098309
	Yates WI Phase II	0.120907	0.120907	0.120907	0.120907
3	Phase Change Date	1190 MBO or	1190 MBO or	1190 MBO or	1190 MBO or
		1-Jan-99	1-Apr-97	1-Jan-98	1-Jan-98
4	Who Pays Phase I Capital Costs	Modified Phase II	Phase II WI	Phase I WI	Modified Phase II
5	Overhead Charges	\$729/Prod Well or	NA	\$550 WF + \$700 CO2	\$550 WF + \$700 CO2
		\$550 WF + \$700 CO2			
		with Consultant AFE			