

CASE NO. 11842  
ETA State #3 Well  
1980' FNL & 660' FEL  
Section 8, T16S, R35E  
Lea County, New Mexico

NEW MEXICO  
OIL CONSERVATION DIVISION

MOC EXHIBIT 3

CASE NO. 11842

CONTACTS REGARDING UNORTHODOX LOCATION:

- 1) Received well proposal letter from Kaiser-Francis Oil Company (K-F) with AFE via fax on 7-25-97 regarding a 12,000' Atoka test for the proposed K-F State "8" #9 Well for the referenced location. AFE costs estimated @ \$619,700.00 dry hole cost and \$970,200.00 for completed well.
- 2) Received copy of K-F unorthodox location application dated 8-11-97 on 8-27-97.
- 3) MOC acquired operating rights from Bright Hawk/Burkard Venture and Ayco Energy, L.L.C. on 8-25-97 which collectively covers a 20% interest in the N/2; MOC now owns a 35% interest in the N/2.
- 4) MOC faxed letter dated 9-2-97 to K-F which included K-F's executed AFE with copies of Bright Hawk and Ayco assignments, MOC advised K-F that MOC would assume operatorship because of MOC's majority of interest.
- 5) K-F faxed MOC a letter dated 9-3-97 recognizing MOC's majority interest and that MOC would assume operatorship. K-F withdrew their well proposal and urged MOC to proceed with unorthodox location hearing.
- 6) Called Jerry Gahr with V-F Petroleum Inc. (V-F) on 9-4-97 and advised him that MOC assumed operatorship of the proposed unorthodox location well. MOC proposed a 3 MMCFGPD cap; Jerry advised me V-F wasn't agreeable to that but they would meet with us to discuss.
- 7) Per MOC letter dated 9-5-97, MOC acknowledged receiving K-F's letter dated 9-3-97; MOC advised K-F that MOC would proceed with location hearing and that MOC would make a new well proposal.

- 8) 9-5-97: set up 1:30 p.m. meeting this date with V-F to discuss our well location.

Meeting summary:

In exchange for a waiver for V-F to not oppose our location MOC would:

- 1) not oppose a similar location for V-F;
- 2) would not oppose an application for V-F for increased density;

- 3) would set a production cap of 2 MMCFGPD on a monthly basis;
- 4) furnish V-F well data as to MOC's proposed well.
- 5) V-F was to review our proposal and advise us of their decision by next Friday the 12th as Jerry was to be out of town.

9) Called Jerry 9-12-97 to set up meeting; meeting set for 2:00 p.m.

Meeting summary:

- 1) V-F not agreeable to 2 MMCFGPD production cap, they wanted a 60% production penalty being the difference between the footage from the lease line (660') to the footage of a standard location (1650'); such production penalty to be determined upon initial gas sales period of 7 days with a second test after 3 months of production and thereafter semi-annually.
- 2) MOC advised V-F that their proposal was unreasonable for economic purposes; MOC proposed a 1.5 MMCFGPD production cap; MOC advised V-F that our negotiations were not close that this difference in proposals would probably have to be decided by the NMOCD at a hearing; V-F was to review our proposal.
- 3) V-F advised MOC that V-F couldn't attend a hearing in Santa Fe in October because of prior obligations; MOC accommodated their request.

10) Faxed V-F letter dated 10-14-97 setting out our formal proposal.

11) Called V-F 10-16-97 to check status of our proposal; V-F to advise us of their answer next week.

12) Called V-F 10-20-97 to advise them that Roy Williamson was preparing our engineering exhibits for the hearing and would share same with V-F to speed up our negotiations and perhaps cooperation with V-F.

13) 10-29-97 met with V-F in MOC office and presented Roy Williamson's engineering evidence supporting our case for the reasons why a new well should be drilled - there's plenty of reservoir which would not be drained efficiently by existing wells; the V-F reservoir and MOC reservoir were not connected based upon existing pressure data. MOC advised V-F that MOC had to have an answer from V-F by Friday the 31st.

14) 10-31-97 V-F called at 4:45 and offered us a 50% production penalty with a 250 MCFGPD production cap; advised V-F we couldn't agree with that because of economics and that our partners would not be agreeable to their proposal; the hearing is to occur 11-6-97.