

STATE OF NEW MEXICO

OIL CONSERVATION DISTRICT

► **Case Nº 11958**

Application for Compulsory Pooling and Unorthodox Well Location
OEI Townsend State Com. #2 Well
Lots 9-16 of Section 2, T16S, R35E
Lea County, New Mexico

► **Case Nº 11959**

Application for Compulsory Pooling
OEI Townsend State Com. #6 Well
S½ of Section 2, T16S, R35E
Lea County, New Mexico

DATE	EVENT
01/06/97	Letter Agreement entered into between UMC and Yates whereby two Working Interest Pooled Units were formed for two Strawn test wells: (a) Unit One: Lots 10 & 15 Yates, Operator, Field APK State #1, producer (b) Unit Two: Lots 11 & 14 UMC, Operator, Test Well was never drilled This Agreement shall terminate 120 days from rig release from the Field APK State #1.
02/97-05/20/97	UMC conducts additional seismic interpretation of the Townsend area.
05/21/97	UMC and Yates compete to acquire the NW¼ of Section 10, T16S, R35E which is owned by Union Oil Company of California. This acreage is offset support for the Yates Brunson State AQK State Com. #1 (E½ of Section 10). UMC proposes to Yates the following arrangement: <ul style="list-style-type: none"> • Yates shall withdraw any proposals previously made to Union. • UMC shall continue its efforts to acquire the NW¼ under favorable terms. • In the event UMC acquires the NW¼, Yates shall be entitled to receive 50%. Yates agreed to this proposal.
05/22/97-07/08/97	UMC conducts additional seismic interpretation of the Townsend area. UMC believes a Strawn anomaly straddles Lots 13 & 14 of Section 2.
07/09/97	UMC files its Form C-101 to drill its Townsend State #3, an 11,900' Strawn test well to be drilled 2310' FSL and 2310' FWL of Section 2 with an 80-acre unit consisting of the E½SW¼. Application approved on 07/17/97.
07/10/97-07/22/97	UMC conducts ongoing geological and geophysical interpretation of the Townsend area.
07/23/97	UMC proposes to Yates the Townsend State Com. #2, an 11,800' Strawn test, at a location of 1350' FWL and 3200' FSL of Section 2. In proposal letter, suggested revising the aforementioned Agreement to reflect Unit Two consisting of Lots 13 & 14. No ownership changes would result from the creation of the revised unit. This location required an unorthodox location only because it was too close to the quarter-quarter section line between Lots 13 and 14.
07/24/97	The Townsend State Com. #2 location was staked.

DATE	EVENT
07/28/97	The aforementioned Agreement terminated (120 days from rig release from the Field APK State #1.
07/29/97	Laura Smith (UMC) called Robert Bullock (Yates). Bullock stated the geologist recommended this location subject to management approval. Smith explained she would proceed to file the unorthodox well location.
07/31/97	UMC files its Form C-101 for its Townsend State Com. #2.
08/04/97	UMC requested Jim Bruce file the unorthodox well location application for the Townsend State Com. #2. Application was filed on 08/11/97.
08/06/97	Laura Smith called Robert Bullock. Bullock stated Yates is willing to work with UMC. However, the aforementioned agreement is dead, no 30-day response period in place. Yates believes the best location is primarily on them. He suggested the respective geologists and geophysicists discuss the well's location.
08/07/97- 08/17/97	John McRae (UMC), Frank Scheubel (Yates) and Mike Hayes (Yates) discussed technical issues including the Strawn anomaly.
08/18/97	Based upon the aforementioned discussions, UMC repropoed the Townsend State Com. #2, as an 11,800' Strawn test, at a location 710' FWL and 3300' FSL of Section 2. This revised location was preferred by Yates. UMC withdrew its unorthodox well location application for its original Townsend State Com. #2. UMC stated in its proposal letter that "Based upon early interpretations, this location may also be prospective for the Morrow formation. A rig capable of drilling to the Morrow formation shall be utilized for the drilling of this well."
09/03/97	Laura Smith contacted Robert Bullock. Bullock stated he was out of the office until 09/02/97. He would send copies of the well proposal to Hayes and Mr. Yates today. Smith stated that UMC was anxious to drill and would continue looking for a rig.
09/09/97	Smith followed up with Bullock. Bullock stated Mr. Yates wished to monitor other wells in the area prior to making a decision on this well.
09/10/97 - 11/30/97	Discussions held periodically between UMC and Yates. Discussed drilling two Atoka/Morrow wells in Section 2. Both companies monitored the Brunson AQK State Com. #1's performance. Yates conducted completion operations on its Shell Lusk well.
12/01/97	Yates proposed its Field APK State Com. #3, a 12,600' Morrow test well to be drilled 3300' FSL and 760' FWL of Section 2 with the W½ of Section 2 as the spacing unit.
12/02/97	Yates sends corrected well proposal (corrects the Range).
12/03/97	Based upon UMC's and Yates' many discussions, UMC proposes the Townsend State Com. #2 as a 12,700' Morrow test well to be drilled at a location 3300' FSL and 1350' FWL of Section 2 with a laydown unit consisting of Lots 9-16 of Section 2 as the spacing unit. UMC offers to meet with Yates in Artesia.
12/05/97	UMC received Yates Operating Agreement for its Field APK State Com. #3. (This Operating Agreement was not furnished to several of the small WI owners.)

DATE	EVENT
12/09/97	UMC sends geological and geophysical information to Yates supporting its Townsend State Com. #2 and Townsend State Com. #6. UMC states the #6 well shall be drilled under an identical AFE as the #2 well. <i>UMC again offered to meet with Yates in Artesia.</i>
12/10/97 - 01/09/98	Holiday Season. Yates provides UMC pressure data from its Shell Lusk well. The geologists hold additional discussions.
01/16/98	Robert Bullock and Mike Hayes contact Laura Smith and verbally offer the following proposal: Yates agreeable to two laydown 320-acre units subject to the following: <ul style="list-style-type: none"> • Yates shall proceed to drill the Field APK State #3 at its proposed location which is an unorthodox location for a laydown unit. If Yates completes the unorthodox location hearing without a "significant" penalty, Yates shall agree to two laydown units. • If a penalty is assessed, "all bets are off." Yates would then proceed to drill at its location with a standup unit. • UMC must agree to this arrangement prior to the Hearing. • Yates shall operate both wells. UMC shall assume operatorship of the Townsend State Com. #6 after Yates completes the well.
02/05/98	Laura Smith and John McRae spoke to Robert Bullock and verbally proposed the following: <ul style="list-style-type: none"> • Yates shall move their location further to the East to reduce the potential penalty for an unorthodox well location. • Two laydown 320-acre units. • Yates shall operate the Northern 320-acre unit. • UMC shall operate the Southern 320-acre unit. UMC explained it would be difficult for Yates and UMC to coordinate operations on the Strawn formation as Yates does not own an interest in the Strawn. Robert Bullock agreed.
02/10/98	Yates files its compulsory pooling. Hearing to be held 03/05/98.
02/17/98	UMC receives pooling notice (Description of pooled lands is incorrect). John McRae immediately contacts Mike Hayes. Robert Bullock is out of the office.
02/18/98	Laura Smith contacts Robert Bullock asking why Yates proceeded to file the compulsory pooling application. Bullock responded Mr. Yates wanted to "get on with it."
02/19/98	<i>John McRae contacts John Yates and arranges a meeting in Artesia on 02/25/98.</i>
02/25/98	<i>John McRae, Laura Smith, Jim Huck and Chad Johnson (UMC) meet with John Yates, Mike Hayes and Robert Bullock in Artesia in an attempt to resolve these issues. Yates was unwilling to compromise.</i>
03/02/98	UMC receives Yates corrected pooling application. Hearing moved until 03/19/98.

DATE	EVENT
03/03/98- 03/04/98	UMC proposes its Townsend State Com. #2 and Townsend State Com. #6 wells to all parties including Operating Agreements (via fax and overnight courier).
03/10/98	UMC's compulsory pooling and unorthodox well location applications were filed.
03/26/98	UMC proposes its Townsend State Com. #6 well to additional parties. Includes Operating Agreement with well proposal.
03/27/98	Ocean Energy, Inc. ("OEI") becomes successor by merger to UMC.
03/30/98	OEI receives Yates' <i>revised</i> Operating Agreement dated 11/26/97 for the Field APK State Com. #3 well.
04/07/98	<p><i>OEI offers to Yates the following settlement proposal:</i></p> <ul style="list-style-type: none"> • Yates shall withdraw its compulsory pooling application and become Operator under OEI's Compulsory Pooling and Unorthodox Well Application covering Lots 9-16 of Section 2 and OEI's Compulsory Pooling Application covering the S½ of Section 2. • Yates shall be named Operator of the Townsend State Com. #6 subject to certain conditions. • Yates shall be named Operator of the Townsend State Com. #2. <p>Yates declines the settlement offer.</p>
04/20/98	OEI files its Form C-101 for the Townsend State Com. #2.
04/30/98	OEI notifies all owners in the Townsend State Com. #6 of the necessity to move the location 60' to the South due to a pipeline. The revised location is 1650' FWL and 930' FSL of Section 2.
05/01/98	OEI files its Form C-101 for the Townsend State Com. #6. Application approved on 05/05/98.