Nearburg Exploration Company, L.L.C.

Exploration and Production
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November 20, 1998

Ms. Lori Wrotenbery, Director
Oil Conservation Division
2040 Pacheco Street
Santa Fe, New Mexico 87505

RE: Oil Conservation Division Case #12073
Application of Nearburg Exploration Company, L.L.C.
Compulsory Pooling
E/2 Section 11, T-17-S, R-25-E
Eddy County, New Mexico

Dear Ms. Wrotenbery:

I am in receipt of Mr. Randy G. Patterson's letter dated November 19, 1998 addressed to you, wherein Mr. Patterson contends that Nearburg Exploration Company, L.L.C. (NEC) has discontinued negotiations concerning a voluntary agreement for the drilling of a well which is the subject of the captioned Compulsory Pooling case. Mr. Patterson states that NEC has ceased negotiations without explanation or justification. NEC strongly disagrees with Mr. Patterson's statement inasmuch as on November 18th, I personally made a counter offer to Mr. Doug Hurlbut in connection with this case. It is Yates who has refused to negotiate.

For several months, NEC has been negotiating in good faith with Yates for the acquisition of a farmout agreement covering Yates' undivided interest in the E/2 of Section 11. Yates' only proposal has been a 75% net revenue interest farmout with a 1/3rd back-in after payout. Yates is unwilling to negotiate any counter offer from its original position. Although Nearburg did accept identical terms for a farmout on an offsetting tract, the well that is the subject of Mr. Patterson's letter will be a directional well with an additional cost of approximately $140,000.00. This additional cost along with the results from the offsetting well, (which proved to be less productive in total estimated cumulative reserves than we expected), are the reasons why the 75% net revenue interest farmout with a 1/3rd back-in is not acceptable. Throughout the past weeks, both prior to the pooling case and thereafter, NEC has continually made Yates aware of the additional drilling costs for the E/2 Section 11 well and the lower than expected reserves found in the Section 14 well. Nearburg's refusal to accept Yates' 75% net revenue interest farmout with a 1/3rd back-in is purely an economic decision based on the reality of drilling costs and reserves anticipated.

As stated above, NEC did make a counter proposal to Yates on November 18th offering to accept a farmout on a 78% net revenue interest, without conversion and a 1/3rd back-in after payout. Yates flatly refused our counter without comment. This counter proposal is still acceptable to NEC.

We believe that Yates is trying to delay the issuance of this pooling order as an attempt to force Nearburg to accept an uneconomic trade. We request that the order in Case #12073 be issued immediately. This will provide Yates with the opportunity to participate in the well under the terms of the order or in the alternative to be subject to the penalties set forth.

I appreciate your time and review of this issue and if you have any questions, please feel free to contact the undersigned.

Very truly yours,

Robert G. Shelton
Attorney-in-Fact

RGS/dw

cc: William F. Carr, Esq.
W. Thomas Kellahin, Esq.
Randy Patterson – Yates Petroleum Corporation