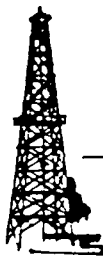


HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P.O. BOX 1933

ONE SUNWEST CENTRE

505/623-6601

FAX 505/622-4221

ROSWELL, NEW MEXICO 88202-1933

May 5, 2000

McMILLAN VIA WORKING INTEREST OWNERS
(See attached mailing list)

Re: **Turner 7 Federal Deep #1**
1980' FNL & 660' FWL Section 7
T-20S R-27E, N.M.P.M.
Eddy County, New Mexico

Ladies and Gentleman:

Harvey E. Yates Company (HEYCO) proposes to drill the Turner 7 Federal Deep #1 as a 10,450' Morrow test at the captioned location in the N/2 of Section 7, T-20S, R-27E. The primary objective for the well is the Morrow Sand package recently found productive in the Pogo Davis 7 Federal #1 ½ mile south. This well was completed on 3/8/00 for an IP of 4.375 MMCFG + 44 BC with 2800# FTP on a 14/64" choke. The Davis 7 Federal #1 has been producing steady at approximately 2.5 MMCFG/D and has a cumulative production of >100 MMCFG through 5/1/00, with no apparent decline in FTP. HEYCO's mapping indicates that the productive interval is most likely a Lower Middle Morrow delta distributary channel complex with a strong N-S orientation. The HEYCO Hondo Singer "C" #1 (Sec. 18, T-20S, R-27E) along this trend produced over 6 BCFG from a similar sand interval. Secondary objectives are the Cisco-Canyon and Wolfcamp Carbonate sections uphole.

Enclosed is HEYCO's AFE and joint operating agreement (which supercedes the existing joint operating agreement dated February 7, 1964) for your review. If your decision is to participate, please sign, date and return the extra set of the signature and acknowledgment pages to the joint operating agreement and one copy of the AFE, along with your well requirements list, within thirty (30) days of your receipt of this proposal. If your decision is NOT to participate, please notify us, in writing or by FAX at 505/622-4221, as soon as possible. HEYCO anticipates spudding this well near June 15, 2000.

Should you have any questions about this proposal, please call Gordon Yahney, geologist, Steve Yates, engineer and Vice President, or me at 505/623-6601.

Very truly yours,

Melissa Randle
Landman.

GKY:MVR/dlm
Enclosures

Turner7FedDeep#1 AFE Land.McMillanTurner

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12545 Exhibit No. 3
Submitted by:
Harvey E. Yates Company
Hearing Date: November 16, 2000

HARVEY E. YATES COMPANY

LEASE NAME & NO.: TURNER 7 FED DEEP #1 AFE TYPE: DRILLING ACCOUNTING NO: 0
 LEGAL LOCATION: 1980' FNL & 660' FWL SEC 7, T20S, R27E DEPTH: 10,450 AFE NO: DO1
 COUNTY: EDDY STATE: NM FORMATION: MORROW

DRILLING & COMPLETION COSTS:

920-000	INTANGIBLE DRILLING COSTS:				DRY HOLE COSTS	PRODUCING WELL COSTS
920-009	ABSTRACTS & TITLE OPINIONS				\$2,500	\$2,500
921-000	STAKING DAMAGES & LEGAL FEES				\$1,500	\$1,500
921-001	LOCATION, RIGHT OF WAY				\$20,000	\$20,000
921-002	FOOTAGE: FEET @ \$/FOOT	10,450	\$24.13		\$252,119	\$252,119
921-003	DAYWORK: DAYS & \$/DAY	3	\$6,308		\$18,923	\$18,923
921-004	SURFACE CASING CEMENTING & SERVICE				\$5,500	\$5,500
921-005	DRILLING MUD, ADDITIVES & WATER				\$86,300	\$86,300
921-006	MUD LOGGING UNIT, SURVEYS ETC.				\$13,200	\$13,200
921-007	INTERMEDIATE CASING CEMENTING & SERVICES				\$15,000	\$15,000
921-008	GENERAL MISC. (BOP TEST, RATHOLE...ETC)				\$1,000	\$1,000
922-000	RENTAL TOOLS & EQUIPMENT				\$6,300	\$6,300
922-001	COMPANY SUPERVISION & OVERHEAD				\$13,950	\$13,950
922-004	MISC. BITS, TOOLS & SUPPLIES				\$22,340	\$22,340
	TOTAL INTANGIBLE DRILLING COSTS				\$458,632	\$458,632

923-000	INTANGIBLE FORMATION EVALUATION:					
923-001	CORING, TOOLS & SERVICE				\$10,000	\$10,000
923-002	DST: # DST TO RUN/ \$ CHARGE	1	\$4,200		\$4,200	\$4,200
923-003	ELECTRIC LOGS, ...ETC				\$27,000	\$27,000
923-004	MISC. FORMATION EVAL.				\$3,635	\$3,635
	TOTAL INTANGIBLE FORMATION EVALUATION				\$44,835	\$44,835

924-000	INTANGIBLE COMPLETION COSTS:					
924-001	COMPLETION UNIT: DAYS & \$/DAY	10	\$1,800		\$0	\$18,000
924-003	MUD, WATER & ADDITIVES				\$0	\$5,000
924-004	CEMENT, TOOLS & SERVICES (PROD.STRING...ETC)				\$0	\$29,000
924-005	ELECTRIC LOGS(CBL...ETC.), TESTING				\$0	\$5,000
924-006	TOOL & EQUIPMENT RENTAL & TRUCKING				\$0	\$3,000
924-007	STIMULATION & TREATING				\$0	\$20,000
924-008	COMPANY SUPERVISION & OVERHEAD				\$0	\$4,500
925-001	BITS, TOOLS & SUPPLIES				\$0	\$500
925-002	PLUG BACK				\$0	\$5,000
925-003	MISCELLANEOUS				\$500	\$4,500
951-000	PLUGGING EXPENSE				\$10,000	\$0
	TOTAL INTANGIBLE COMPLETION COSTS				\$10,500	\$94,500

930-000	TANGIBLE DRILLING & COMPLETION COSTS:					
930-001	SURFACE CASING COSTS (SIZE/FT)	13 3/8"	400		\$7,600	\$7,600
930-002	INTERMEDIATE CASING (SIZE/FT)	8 5/8"	3,000		\$36,150	\$36,150
930-003	PRODUCTION CASING (SIZE/FT)	5 1/2"	10,450		\$0	\$91,000
930-004	PRODUCTION TUBING (SIZE/FT)	2 3/8"	10,450		\$0	\$30,000
930-005	CASING HEAD				\$0	\$4,900
930-006	CASING SPOOL				\$0	\$7,250
930-007	TUBING HEAD				\$0	\$5,900
930-008	CHRISTMAS TREE				\$0	\$6,500
931-000	SUBSURFACE EQUIPMENT				\$0	\$3,800
931-001	MISC PIPE CONNECTIONS				\$0	\$1,500
931-002	PACKER & SPECIAL EQUIPMENT				\$0	\$1,500
931-003	MISCELLANEOUS				\$2,188	\$9,805
	TOTAL TANGIBLE DRILLING & COMPLETION COSTS				\$45,938	\$205,905

940-000	GENERAL LEASE & BATTERY EQUIPMENT:					
940-001	PUMPING UNIT (PRIME MOVER)				\$0	\$0
940-002	SEPARATORS, GAS PROD.UNITS,...ETC.				\$0	\$15,000
940-005	TANKS: NO. & SIZE	2	400		\$0	\$8,500
941-000	INSTALLATION COSTS				\$0	\$15,000
941-001	FLOW LINES, VALVES...ETC				\$0	\$3,000
941-005	MISCELLANEOUS LEASE EQUIPMENT				\$0	\$3,650
	TOTAL GENERAL LEASE & BATTERY EQUIPMENT COSTS				\$0	\$45,150

RETURN SIGNED
 AFE TO:

Melissa Randle
 HEYCO
 P. O. Box 1933
 Roswell, NM 88202

TOTAL INTANGIBLE COSTS: \$513,967 \$597,967
 TOTAL TANGIBLE COSTS: \$45,938 \$205,905
 TOTAL LEASE & BATTERY EQUIPMENT: \$0 \$45,150

\$559,905 \$849,022

TOTAL COSTS PREPARED BY: BOB WILLIAMS DATE: 4/5/00

APPROVED BY: _____

COMPANY: _____

DATE: _____

"IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE
 ESTIMATED ONLY, AND APPROVAL OF THIS AUTHORIZATION SHALL
 EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPER-
 ATIONS SPECIFIED, WHETHER MORE OR LESS THAN HEREIN SET OUT"

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

ONE SUNWEST CENTRE

505 / 623-6601

FAX 505 / 622-4221

ROSWELL, NEW MEXICO 88202-1933

October 3, 2000

Working Interest Owners
(See attached List)

Re: Turner 7 Federal Deep #1
N/2 Section 7 T-20S R-27E, NMPM
Eddy County, New Mexico

Ladies and Gentlemen:

As you are aware, Harvey E. Yates Company (HEYCO) has drilled to total depth the above captioned well in Eddy County, New Mexico. Prior to drilling the well, HEYCO sent out i) a well proposal, ii) an AFE and iii) a new Operating Agreement (O/A) for a N/2 proration unit to those parties shown by our records to be the Working Interest Owners (WIOs) in the well. The WIOs approved the drilling of the well; HEYCO received permission by the State of New Mexico for an exception to the field rules, which allowed HEYCO to spud the well and drill to the total depth required under the new O/A.

HEYCO was then notified by our attorney of a 1976 Assignment to HEYCO from certain Working Interest Owners of record in the County Clerk Office. This gave the immediate appearance that HEYCO did not notify all of the WIOs in the well, and possibly notified some WIOs in the well who do not have a working interest, but an overriding royalty interest. HEYCO had sent notice to the consenting WIOs to set casing, just prior to our notice from the attorney. So HEYCO set the casing on the well and moved the drilling rig off location.

At this point, HEYCO began searching our records to determine six things; i) who was (or is) the Assignee and Assignor of the Assignment, ii) what did (or does) the Assignment cover, iii) what were (or are) the terms of the Assignment, iv) have all the terms of the Assignment been met, v) what is the present status of the Assignment, and vi) who are the present WIOs.

Item i. There are two (2) Assignments of record. In the first Assignment (#1), the Assignee is HEYCO, and the Assignors are Martin Yates III, Lillie M. Yates, S. P. Yates and Estelle Yates, and Yates Petroleum Corporation (Yates Group). In the second Assignment (#2), the Assignee is HEYCO and the Assignor is Tenneco Oil Company (Tenneco).

Item ii. Assignment #1 from Yates Group covered all of Yates Group operating rights in all of Section 7, T-20S, R-27E from 4000 feet down to 10,450 feet. The Yates Group acreage was located in both the N/2 and the S/2 of Section 7. Assignment #2 from Tenneco covered all of Tenneco's operating rights in the NW/4 and E/2 NE/4 of Section 7 from 4000 feet down to 10,540 feet.

Item iii. The terms of the Assignments are as follows: Assignment #1 (Yates Group) has farmout language concerning the drilling of the Singer-Davis well, whereby Yates Group reserved an overriding royalty interest equal to 12.5%, proportionately reduced. It provided that after "Payout", the reserved overriding royalty interest shall automatically convert into a working interest equal to one-half of the operating rights assigned "within the proration unit upon which payout has occurred." Assignment #2 (Tenneco) also has farmout language concerning the drilling of the Singer-Davis well and Tenneco reserved an overriding royalty interest equal to 12.5%, proportionately reduced. The overriding royalty interest is convertible to 50% of the operating rights assigned, at Tenneco's option, at such time as has been recovered out of working interest production from "said lands and from the lands and zones pooled therewith...by Communitization Agreement #RM-1114...all of the actual costs of drilling, testing, completing and equipping the Singer-Davis No. 1 Well located in said Section 7 and the cost of operating such well up to the time of payout."

Item iv. As to the terms or requirements of the Assignments, the Singer-Davis was drilled in 1976 and completed as a Morrow producer. The well produced until the fall of 1978 when the well was plugged. HEYCO, by letter agreement, assigned portions of its rights under the Assignments (farmouts) to Larry Harris, Dan Hannifin, Jim Cieszinski, Bob Armstrong and the Franklin, Aston & Fair Group to join in the drilling of the Singer-Davis well. However, a formal Assignment was never made from HEYCO to the above named parties. The above group did satisfy the portion of the Assignment as to the drilling, testing and completion of the Singer-Davis well; therefore are entitled to an Assignment of their earned interest in the Assignment (farmout). However, there is an outstanding balance of

\$294,000.00 on the Singer-Davis well before it can reach payout status, thus we are in a before-payout situation. The Singer-Davis well was operated under an O/A dated March 10, 1976, being an AAPL Form 610, 1956 Model Form Operating Agreement, covering all of Section 7, T-20S R-27E, as to all horizons lying 4,000 feet or more below the surface. In Paragraph 10, "Term of Agreement", it states this agreement shall terminate 180 days from the cessation of production on the Unit Area, and in Paragraph 35, "Prior Joint Operating Agreement" it states "this operating agreement shall replace a prior joint operating agreement dated February 7, 1964". Therefore, the O/A for the Singer-Davis has terminated and there is not a O/A covering this tract, except the new O/A (covering only the N/2 proration unit) sent out and signed by the majority of the WIOs in the Turner 7 Federal Deep #1 well.

Item v. Taking into consideration all of the above, HEYCO has determined, and our attorney has concurred, that the status of the Assignments made by Yates Group and Tenneco has only been partially met, by the drilling of the Singer-Davis Well, but has not been completed as to the payout of the well or wells in Section 7. Therefore the Yates Group (or their successors) and Tenneco (or their successors) do not have the right to participate as WIOs, but are in an overriding royalty status until payout of the Singer-Davis, as set out above, and payout of the Turner 7 Federal Deep #1, under the same criteria, is met from the proceeds of the Turner 7 Federal Deep #1.

Item vi. The present WIOs of the Turner 7 Federal Deep #1, with their interest in the BPO of the well, are set out on the attached worksheet.

Considering the above, and HEYCO now knowing the WIOs for the Turner 7 Federal Deep #1, HEYCO has determined that the next steps to take in this matter are:

- i) HEYCO acknowledges the interest earned under the letter agreement and will make an Assignment to the parties of the letter agreement for each party's share of the Assignment (Farmout).
- ii) To get an Operating Agreement (O/A) and an AFE to the WIOs that have not been furnished the same. Melissa Randle and /or I have presented to each WIO, either by mail or in person, an O/A and an AFE. As there is not a Non-Consent clause for the initial well under the O/A, the WIO's have four (4) choices:
 - 1. Join in the well,
 - 2. Be force pooled in the well,
 - 3. Reassign the Farmout interest to HEYCO, or
 - 4. Make a deal with the Yates Group or Tenneco (or their successors) concerning the assigned acreage.
- iii) Initiate Compulsory Pooling Hearing for the well, as to all WIO's who have not signed or will not sign the O/A. HEYCO has already contacted Attorney Bill Carr and he is preparing the necessary paper work for a force pool hearing at this time. As we get commitments from the WIO's, we will advise the Commission and their names will be removed from the Compulsory Pooling list.

As there is a possibility the Turner 7 Federal Deep #1 may be in a competitive zone in the Morrow with the Pogo Davis 7 Federal #1 in the S/2 of Section 7, HEYCO intends to attempt a completion on the well as soon as possible. HEYCO does intend to keep the information on the completion attempt as "tight", so all the WIO's hopefully will have the same information to make their decision. HEYCO is also requesting each party who has not signed the O/A, to respond within fifteen (15) from the receipt of this letter.

If you have any questions concerning this letter or this request, please contact me at 505/623-6601.

Yours very truly,

Vernon D. Dyer CPL #3174
Land Manager

VDD/dlm
Enclosure

Turner7fed3title.doc/Land:McMillanTurner

MAILING LIST – TURNER 7 FED. DEEP #1

HARVEY E. YATES COMPANY
SPIRAL, INC.
EXPLORERS PETROLEUM CORPORATION
P. O. Box 1933
Roswell, New Mexico 88202

VALKO LLC
EAKO LLC, (FORMERLY
ASTON FAMILY LTD. PARTNERSHIP)
P. O. Box 1090
Roswell, New Mexico 88202

EOG RESOURCES, INC.
P. O. Box 2267
Midland, Texas 79702

MARY ANN MORRISON
P. O. Box 5581
Hobbs, New Mexico 88241

S. P. YATES
SHARBRO OIL LTD. CO.
EST. OF LILLIE M. YATES
105 S. 4th
Artesia, New Mexico 88210

ASTON PARTNERSHIP
c/o Minerale Resources, Inc.
Attn: Gail Cotton
P. O. Box 515792
Dallas, Texas 75251

BANK OF AMERICA, NA, AGENT FOR
Charles A. Aston III
P. O. Box 830308
Dallas, TX 75283-0308

ROBERT G. ARMSTRONG
Armstrong Energy Corp.
P. O. Box 1973
Roswell, NM 88202-1973

BARBARA HANNIFIN
Estate of Dan Hannifin
P. O. Drawer 2588
Roswell, NM 88202-2558

YATES ENERGY CORPORATION
P. O. Box 2323
Roswell, New Mexico 88202

JALAPEÑO CORPORATION
P. O. Box 1608
Albuquerque, New Mexico 87108

READ & STEVENS INC.
P. O. Box 1518
Roswell, New Mexico 88202

GLENN DAVID MILLER
711 W. Alameda
Roswell, New Mexico 88201

JOHN R. LUCAS AGENCY &
TOM P. STEPHENS TRUST
c/o Bank of America NA, Attn: Deborah Coughlin
P. O. Box 2546
Fort Worth, TX 76113-2546

GRANT M. SMITH
1112 Rancho Road
Roswell, NM 88201

J. E. CIESZINSKI
P. O. Box 3047
Roswell, NM 88202-3047

LAWRENCE C. HARRIS
New Mexico Oil Corporation
P. O. Box 1714
Roswell, NM 88202-1714

