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SUITE 1
110 NORTH GUADALUPE
SANTA FE, NEW MEXICO 87501-6525
MAILING ADDRESS
P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043
www.hollandhart.com

February 12, 2001

HAND DELIVERED

Michael E. Stogner
Hearing Examiner
Oil Conservation Division
Department of Energy, Minerals
and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

OIL CONSERVATION DIV
01 FEB 12 PM 4:34

Re: Cases 12535, 12567, 12569 and 12570 (Consolidated): Applications of Ocean Energy Resources, Inc. and Yates Petroleum Corporation for compulsory pooling and non-standard spacing and proration units, Lea County, New Mexico.

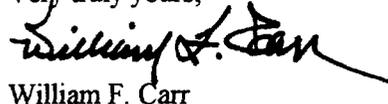
Dear Mr. Stogner:

Enclosed in hard copy and on disc is the proposed order of Yates Petroleum Corporation and David H. Arrington Oil & Gas, Inc. in the above referenced cases.

Pursuant to your request at the hearings on these applications, we also enclose a copy of the Division's April 5, 1995 memorandum concerning Competing Forced Pooling Applications and a copy of a letter dated January 23, 2001 from Yates Petroleum Corporation to Ocean Energy Resources, Inc. attempting to reach a voluntary agreement for the development of this acreage. Yates received no response to this letter.

If you need additional information from Yates Petroleum Corporation or David H. Arrington Oil & Gas, Inc. to proceed with your consideration of this matter, please advise.

Very truly yours,



William F. Carr

Enc.

cc: James Bruce, Esq., Ocean Energy Resources, Inc.
Randy Patterson, Yates Petroleum Corporation
Bill Baker, Jr., David H. Arrington Oil & Gas, Inc.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

01 FEB 12 PM 4:34

OIL CONSERVATION DIV

APPLICATION OF OCEAN ENERGY RESOURCES,
INC. FOR COMPULSORY POOLING AND
FOUR NON-STANDARD OIL AND GAS
SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.

CASE NO. 12535

APPLICATION OF OCEAN ENERGY RESOURCES,
INC. FOR COMPULSORY POOLING AND
FOUR NON-STANDARD OIL AND GAS
SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.

CASE NO. 12567

AMENDED APPLICATION OF YATES PETROLEUM
CORPORATION FOR COMPULSORY
POOLING AND A NON-STANDARD
OIL AND GAS SPACING AND PRORATION
UNIT, LEA COUNTY, NEW MEXICO.

CASE NO. 12569

APPLICATION OF YATES PETROLEUM
CORPORATION FOR COMPULSORY
POOLING AND A NON-STANDARD OIL
AND GAS SPACING AND PRORATION
UNIT, LEA COUNTY, NEW MEXICO.

CASE NO. 12590

PROPOSED ORDER OF THE DIVISION OF
YATES PETROLEUM CORPORATION
AND DAVID H. ARRINGTON & AND GAS INC.

CASE NOS. 12535,12567, 12569 AND 12590

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BY THE DIVISION:

These causes came on for hearing at 8:15 o'clock a.m. on January 11, 2001 , and February 8, 2001, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner.

NOW, on this ____ day of February, 2001, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of these causes and the subject matters thereof.

(2) The applicant in Cases 12535 and 12567, Ocean Energy Resources, Inc. ("Ocean"), seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying Lots 1 through 8 of irregular Section 3, Township 16 South, Range 35 East, in the following manner: Lots 1 through 8 to form a non-standard 355.80-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent which includes the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated North Shoe Bar -Morrow Gas Pool; Lots 3 through 6 to form a non-standard 177.21-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within that vertical extent; Lots 3 and 4 to form a non-standard 97.21-acre spacing and proration unit for any formation and/or pool developed on 80-acre spacing within that vertical extent which includes the Undesignated South Big Dog-Strawn Pool; and Lot 4 to form a non-standard 48.43-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent which includes the Undesignated Townsend-Permo Upper Pennsylvanian Pool. These units are to be dedicated to Ocean's proposed Townsend State Com. Well No. 10, to be located at an orthodox location 800 feet from the North line and 660 feet from the West line of said Section 3.

(3) The applicant in Cases 12569 and 12590, Yates Petroleum Corporation ("Yates"), seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation in Lots 1 through 8 of irregular Section 3, Township 16 South, Range 35 East to form a non-standard 355.80-acre gas spacing and proration unit for any and all formations and/pools developed on 320-acre spacing within that vertical extent which

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includes the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated North Shoe Bar-Morrow Gas Pool. This unit is to be dedicated to Yates' proposed Daisy AFS State Well No. 2 to be drilled at an orthodox location 660 feet from the North and East lines of said Section 3.

✓ (4) David H. Arrington Oil and Gas, Inc. ("Arrington") appeared at the hearing in support of the application of Yates.

✓ (5) Each of the original applications Cases 12535, 12567 and 12569 sought an order pooling all of the minerals from the surface to the base of the Morrow formation. At the request of each of the applicants, the cases were continued to February 8, 2001 to permit the applicants to amend their applications to include the Mississippian formation.

✓ (6) Each applicant proposes to drill a well to test all formations from the surface to the Mississippian formation on a tract on which it owns the working interest.

✓ (7) Since the disposition of each case will affect the decision in each of the other cases, on January 11, 2001, cases 12535, 12567 and 12590 were consolidated for hearing. Case 12590 was consolidated with the other cases at the February 8, 2001 hearing and the record of the January 11, 2001 hearing was incorporated into and becomes the record for Case 12590.

OWNERSHIP

(8) In its closing argument, Yates cited a Division Memorandum dated April 5, 1995 which identified the relevant and pertinent evidence which would be considered by the Division when considering competing force pooling applications. The evidence identified in that memorandum included, among other things, the "Interest ownership within the particular spacing unit being sought."

(9) Yates owns or represents the following working interest in the 355.80-acre gas spacing and proration unit which comprises the N/3 of irregular Section 3:

Yates Companies	50.1939%
David H. Arrington Oil & Gas, Inc.	5.3313%
Clifford Cone	.2854%
Clifford Cone Trust	<u>.2854%</u>
Yates Total	56.0960%

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Yates owns or represents 100% of the working interest in Lots 1, 2, 7 and 8 of Section 3 and therefore owns all working interest in all formations developed on spacing or proration units of 160-acre or less.

(10) Ocean owns or represents 41.0700% of the working interest under the N/3 equivalent of Section 3.

NEGOTIATIONS FOR THE DEVELOPMENT OF THE N/3 OF SECTION 3.

(11) Ocean proposed a well to Yates and Arrington at a location 800 feet from the North line and 660 feet from the West Line (Lot 4) of Section 3 in May 2000. *Ocean Exhibit No. 3A; Maney at Tr. 13*. When Ocean proposed the well, Yates requested that the location be move to a structurally low position in the NW/4 of Section 3 but Ocean declined to do so. *Cummins at Tr. 63*. During the succeeding seven months there were numerous discussions between the parties concerning the drilling of a well in the N/3 of this section. *Bruce at Tr. 8; Maney at Tr. 13-14*. These negotiations included numerous telephone conversations between the parties and discussions between the geologists for the parties concerning the proper location for a Morrow well on this spacing unit. Yates also traveled to Houston in August 2000 to try to reach an agreement for the development of this acreage. *Maney at 13-14*.

(12) On September 29, 2000, Arrington proposed the drilling of a well at a location 660 feet from the North line and 1980 feet from the West line of Section 3. *Ocean Exhibit 3A, Maney at Tr. 13-14*.

(13) At all times the primary issue between the parties has been the proper location for a well to develop the Morrow formation under this acreage. *Maney at Tr. 21, Messa at Tr. 41*.

(14) In October 2000, Ocean filed a compulsory pooling application against Yates and Arrington and in December 2000, filed a second application seeking the pooling of the N/3 of Section 3 for a well to be drilled 800 feet from the North line and 660 feet from the West line of Section 3.

(15) In December 2000, it became apparent to Yates that Ocean would not move the well location (*Bullock at 52-53*) so Yates filed its pooling application on December 21, 2000 "as a defensive move" (*Bullock at 58*) to avoid the drilling of a well at a imprudent location in the N/3 of Section 3. Yates formally proposed a well on this acreage by letter

dated December 27, 2000. *Yates Exhibit No. 3; Bullock at Tr. 53.*

(16) On January 16, 2001, Yates filed a second application pooling this acreage for a well to be drilled 660 feet from the North and East lines of Section 3.

(17) While Yates has proposed several alternatives for the development of this acreage which could have resolved the dispute between the parties, Ocean has only offered the other owners in the N/3 of this section the opportunity to participate in the well by paying their share of the well costs or assigning their interests in this acreage to Ocean. *Ocean Exhibit 3A; Maney at Tr. 21; Bullock at Tr. 52.*

(18) Negotiations continued until the case came on for hearing on January 11, 2001.

(19) At the January 11, 2001 hearing the parties were directed to continue to attempt to reach a voluntary agreement for the development of this acreage. (*Tr. at 119*) In response to this directive, Yates wrote to Ocean on January 23, 2001 and again proposed several ways to resolve this dispute. Ocean rejected these proposals on January 30, 2001 and referred Yates to its original proposal letter of May 31, 2000.

(20) At the conclusion of the January 11, 2001 Examiner hearing, Ocean stated that the application of Yates should be dismissed because Yates' application for compulsory pooling was filed prior to Yates first letter formally proposing its well in Lot 1 of Section 3. In support of its request for dismissal, Ocean cited Oil Conservation Division Order No. R-10977 entered in Case 11927, in which the application of Redstone Oil and Gas was dismissed because the application of Redstone for compulsory pooling was filed prior to the time Redstone formally proposed its well.

(21) The issues in the Redstone case are distinguishable from those presented to the Division in these applications. In Redstone, the issues centered on whether or not Fasken Land and Minerals, Ltd. could pool certain interests and thereby operate properties governed by a Joint Operating Agreement which designated Redstone as operator. Unlike the facts in this case, in Redstone, no well proposal was made until after the hearing on Fasken's compulsory pooling application. Furthermore, in Redstone, the Examiner advised Redstone that if its application was dismissed it could refile its application thereby correcting this problem. *See, transcript of the March 5, 1998 hearing in Case 11877 and 11827 (Consolidated).*

(22) The application filed by Yates in Case 12569 meets the requirements of statute

for a compulsory pooling case. The Oil and Gas Act provides that compulsory pooling is available to those who have a right to drill, propose to drill and where the parties "have not agreed to pool their interests,..." *NMSA 1978, Sec. 70-2-17.C* Yates meets all of these statutory requirements. The evidence in this case shows that the parties had been in negotiations for seven months and that during this time they had discussed this matter on numerous occasions and that Yates had traveled to Houston to meet with Ocean concerning the location of a well in the N/3 of Section 3. The evidence clearly shows that a good faith effort has been made by Yates to reach agreement for the development of this acreage.

(23) Even if Yates application in Case 12569 is determined to be defective because it was filed prior to the formal written proposal of its well, Yates has nonetheless corrected this defect for, consistent with the directive from the Examiner to Redstone in Case 11927, Yates has filed a new compulsory pooling application covering the N/3 of this Section. This new application is styled case 12590. It was filed after the well was formally proposed to Ocean and the other interest owners in Section 3. Notice of this application has been provided to all affected interest owners in accordance with Division rules. *Yates Exhibit B*. The case was called for hearing before a Division Examiner on February 8, 2001, and the record of the January 11, 2001 hearing was incorporated into the hearing on this application. Accordingly, the application of Yates Petroleum Corporation in Case 12590 is properly before the Division and an order in that case can now be rendered on the issues of waste prevention and the protection of correlative rights.

GEOLOGY

(24) The parties are in agreement that the successful wells in this area are those wells which have been drilled and completed in structural lows. *Yates Exhibit No. 8, Cummins at Tr. 67; Scheubel at Tr. 89; Silver at Tr. 100.*

(25) Using its geological and geophysical interpretation whereby it combines data on sand thickness and evidence of structural lows (*Silver at Tr. 100*), Ocean has drilled one successful Morrow well in this area. That well, the Panther Martin No. 1, was a re-entry and recompletion of the Bridge Oil Chevron State No. 1 that was originally drilled as a dry hole in the S/3 of Section 3. Ocean has also drilled the following two unsuccessful Morrow wells in this area:

- A. the Townsend 2 State Com Well No. 1 in Section 2 which was a dry hole in the Morrow (*Messa at Tr. 37*), and

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- B. the Townsend 9 in Section 2 which is a poor Morrow well producing 5 barrels of oil per day and 180 mcf of natural gas per day (*Silver at Tr. 104, 107-108; Cummins at Tr. 62 and 63*).

(26) Yates has been selecting well locations in structural lows in this area using its 3-D seismic interpretations and depositional model. Using its geological and geophysical interpretation of the area to locate wells in fault bounded structural lows, Yates has recently drilled four successful Morrow wells (*Cummins at Tr. 65*) and has a drilling program for the area whereby it will drill approximately 50 locations with three rigs drilling full time for the next 3.5 years. *Cummins at Tr. 66*.

(27) Ocean presented the following geological and geophysical evidence:

- A. The Morrow formation is comprised of discontinuous sands of limited extent (*Ocean Exhibit Nos 6 and 7, Messa at Tr. 29-31*),
- B. The Morrow sands are found in narrow channels that are continuous and extend over a large area (*Messa at Tr. 34*), and
- C. Ocean's interpretation shows only a potential for a drillable well location in Lot 1 of Section 3 (*Silver at Tr. 47*).

(28) Ocean testified that sand thickness should be utilized as well as information on structural lows to select the best location for drilling a Morrow well in this area (*Ocean Exhibit 10, Silver at Tr. 101-106*).

(29) Ocean presented an Isochron Map (*Ocean Exhibit 10*) which shows its interpretation of sand thickness in Section 3 and the surrounding acreage. Although this interpretation shows that the Panther Martin Well in Section 3 was completed in a sand thick, it also shows that neither the Townsend Unit Well No. 1 in Section 3 nor the Field Well No. 3 in Section 2, both good Morrow wells, is completed in a sand thick as interpreted by Ocean.

(30) Yates presented the following geological and geophysical evidence:

- A. To drill a successful well in this area it must be completed in a fault bounded structural low where sands have accumulated (*Yates Exhibit 8; Cummins at Tr. 70-72, 79*),

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- B. Production data on the wells in the area support the geological conclusion that wells producing from structural lows are good wells and wells completed on structural highs are poor wells (*Yates Exhibit 8, Cummins at Tr. 70, 77*),
- C. The unsuccessful wells in the area, the Ocean Townsend 2 State Com Well No. 1, the Ocean Townsend Well No. 9 and the original location of the Ocean panther Martin Well No. 1, were all completed on structural highs (*Cummins at Tr. 72*),
- D. Ocean's proposed location for the Townsend Well No. 10 in Lot 4 of Section 3 is at a structural high in a location similar to the location of the dry holes drilled in Ocean's original Panther Martin well (*Yates Exhibits 11, 12 and 13, Cummins at Tr. 72-73, Scheubel at Tr. 87, 91*), and the location of the Baer Well No. 3 which was drilled on an up thrown fault block in Section 32, Township 15 South, Range 35 East, NMPM (*Yates Exhibits 9, 10 and 11, Cummins at Tr. 77-78*),
- E. Yates' proposed location in the Lot 1, and its recommended location in Lot 3, are in structural lows (*Yates Exhibits 9 and 10, Cummins at Tr. 75-78*), and
- F. Yates interpretations show drillable locations in both Lots 1 and 3 of Section 3 (*Cummins at Tr. 79*).

(31) In its closing at the January 11, 2001 hearing, Ocean cited Division Order No. R-10731-B as the controlling Division authority on what it considers when hearing competing force pooling applications. This order provides :

"The most important consideration in awarding operations to competing interest owners is geologic evidence as it relates to well location and recovery of oil and gas and associated risk..."

(32) The geologic evidence presented by Yates and Ocean shows that a well drilled at the Yates proposed location would be completed in a structural low at a location similar to the locations of other successful Morrow wells in the area while the location proposed by Ocean would be on a structural high at a location similar to the locations of the original

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location in the Ocean Panther Martin Well No.1 and the Baer Well No. 3, both of which were dry holes in the Morrow formation. Accordingly, the location proposed by Yates is most likely to result in a successful well in the Morrow formation and there is less risk associated with the drilling of a well at this location.

(33) The evidence in these cases establish that:

- A. Yates owns or represents the largest percentage of the working interest in the proposed spacing unit comprised of the N/3 of Section 3 (Yates owns or represents 56.0960% of the working interest compared to 41.0700% owned by Ocean);
- B. Yates has attempted to negotiate a resolution of the dispute between it and Ocean for the development of the N/3 of Section 3 by proposing a number of alternative solutions, both prior to the January 11, 2001 Division hearings on these applications and, pursuant to the directive of the Examiner, after the hearing. Ocean has only made its May 2000 offer to Yates to participate in an Ocean well or assign to it Yates interests in the property. Ocean has rejected any other suggested ways of resolving the differences between the parties.
- C. The well location proposed by Yates with the supporting geological interpretation, which has been confirmed by the successful drilling of Morrow wells in the area, and is supported by David H. Arrington Oil & Gas , Inc., will result in a well being drilled at the best location in the N/3 of Section 3 and will reduce the risk associated with the drilling of this well for all interest owners in this spacing unit.

(34) The application of Yates Petroleum Company in Case 12590 for an order pooling all mineral interests from the surface to the base of the Mississippian formation in Lots 1 through 8 of irregular Section 3, Township 16 South, Range 35 East, to form a 355.80-acre gas spacing and proration unit for all formations developed on 320-acre gas spacing and proration units to be dedicated to its Daisy AFS State Well No. 2 to be drilled at a standard location 660 feet from the North and East lines of said Section 3 should be granted.

(35) Yates Petroleum Corporation should be designated the operator of the subject well and the pooled spacing units.

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(36) The parties are in agreement that a 200% risk penalty should be assessed against any interest owner which does not voluntarily participate in the well (*Messa at Tr. 33, Cummins at Tr. 66*) and there is no dispute over the AFE costs presented by the parties or the overhead and administrative cost to be assessed against any non-participating interest owner in the well.

(37) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(38) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(39) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(40) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(41) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5400.00 per month while drilling and \$540.00 per month while producing. The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(42) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the owner thereof upon demand and proof of ownership.

(43) If the operator of the pooled units fails to commence drilling the well on or before June 1, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become of no effect, unless extended by the Director for good cause shown.

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(44) The operator of the well and units should notify the Director in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of his order.

IT IS THEREFORE ORDERED THAT:

(1) The applications of Ocean Energy Resources, Inc. in Cases 12535 and 12567, Ocean Energy Resources, Inc. for an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying Lots 1 through 8 of irregular Section 3, Township 16 South, Range 35 East, in the following manner: Lots 1 through 8 to form a non-standard 355.80-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent which includes the Undesignated North Shoe Bar- Atoka Gas Pool and Undesignated North Shoe Bar -Morrow Gas Pool; Lots 3 through 6 to form a non-standard 177.21-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within that vertical extent; Lots 3 and 4 to form a non-standard 97.21-acre spacing and proration unit for any formation and/or pool developed on 80-acre spacing within that vertical extent which includes the Undesignated South Big Dog-Strawn Pool: and Lot 4 to form a non-standard 48.43-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent which includes the Undesignated Townsend-Permo Upper Pennsylvanian Pool to be dedicated to Ocean's proposed Townsend State Com. Well No. 10, to be located at an unorthodox location 800 feet from the North line and 660 feet from the West line of said Section 3 are hereby denied.

(2) The applications of Yates Petroleum Corporation in Cases 12569 and 12590, for an order pooling all mineral interests from the surface to the base of the Mississippian formation in Lots 1 through 8 of irregular Section 3, Township 16 South, Range 35 to form a non-standard 355.80-acre gas spacing and proration unit for any and all formations and/pools developed on 320-acre spacing within that vertical extent which includes the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated North Shoe Bar-Morrow Gas Pool to be dedicated to Yates' proposed Daisy AFS State Well No. 2 to be drilled at a standard location 660 feet from the North and East lines of said Section 3 are hereby granted.

PROVIDED HOWEVER THAT, the operator shall commence drilling the well on or before June 1, 2001, and shall thereafter continue the drilling the well with due diligence to a depth sufficient to test the Morrow formation.

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PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before June 1, 2001, Ordering Paragraph (1) shall be null and void and of no further effect whatsoever, unless the operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) should not be rescinded.

(3) Yates Petroleum Corporation is hereby designated operator of the proposed Daisy ASF State Well No. 2 and the proposed 355.85-acre units.

(4) After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known working interest owner in the units an itemized schedule of estimated well costs.

(5) Within 30 days from the date of receipt of the schedule of estimated well costs, any non-consenting working interest owner shall have the right to pay its share of estimated wells costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well. If no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges

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from production:

(a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and

(b) as a charge for the risk involved in drilling the well, an additional 200 percent of such costs.

(9) The operator shall distribute the costs and charges withheld from production to the parties who advanced the well costs.

(10) Reasonable charges for supervision (combined fixed rate) are hereby fixed at \$5,400.00 per month while drilling and \$540.00 per month while producing. The operator is hereby authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order.

(12) Any well costs or charges that are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(13) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(14) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this

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order.

(16) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

S E A L

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



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210-2118
TELEPHONE (505) 748-1471

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 23, 2001

Ocean Energy Resources, Inc.
1001 Fannin, Suite 1600
Houston, Texas 77002-6794

Certified Mail
Return Receipt Requested

RE: Township 16 South, Range 35 East
Section 3: Lots 1-8
Lea County, New Mexico

Gentlemen:

In a good faith effort to reach a voluntary agreement for development of the captioned spacing unit Yates would like to solicit your consideration and invite your participation in any one of the three proposals set out below:

Proposal 1

Join Yates "heads up" in the drilling of a 13,100' Morrow/Mississippian test located 660' FNL & 660' FEL of Section 3, Township 16S, Range 35 East.

Proposal 2

Rather than drilling on a "heads up basis" Yates would grant Ocean a farmout of wellbore rights covering the Atoka/Morrow/Mississippian formations for the drilling of its well in the NW/4NW/4 and in return would receive a farmout from Ocean of wellbore rights covering the Atoka/Morrow/Mississippian formations for the drilling of its well in the NE/4NE/4; the farmout in each case would be on like terms.

Proposal 3

Yates and Ocean would each seek a non-standard proration unit: Ocean (Lots 3, 4, 5, 6-NW/4) and Yates (Lots 1, 2, 7, 8-NE/4) and each drill and operate its own well(s) on its respective proration unit.

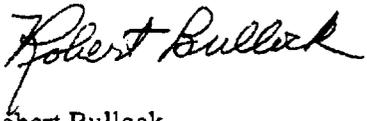
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We respectfully submit these proposals to you in anticipation that we might be able to reach voluntary agreement and look forward to a positive response from you.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION



Robert Bullock
Landman

RB:bn

cc: ✓ Holland & Hart LLP
Campbell & Carr
PO Box 2208
Santa Fe, NM 87504-2208



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 S. PACHECO
SANTA FE, NEW MEXICO 87503
(505) 827-7131

MEMORANDUM

TO: William J. LeMay, Director *WJL*
FROM: David Catanach, Examiner *DC*
DATE: April 5, 1995
RE: Competing Forced Pooling Applications

It has come to our attention that during the next few months the Division will receive numerous competing forced-pooling applications. In an effort to reduce the presentation of unnecessary evidence and testimony, and to clarify the types of criteria that the decisions in these cases should be based upon, I am presenting to you some suggested guidelines to be utilized by Division Examiners in deciding these issues. In addition, I am presenting some criteria that should not be utilized in deciding these issues. It should be noted that these criteria are in no particular order of importance and may be used singly or in any combination thereof.

RELEVANT AND PERTINENT EVIDENCE

- a) Any information related to pre-hearing negotiations conducted between the parties;
- b) Willingness of operator(s) to negotiate a voluntary agreement;
- c) Interest ownership within the particular spacing unit being sought;
- d) Geologic evidence and testimony as it relates to proposed well location(s), especially if proposed well locations are different;
- e) Information regarding dates prospect was developed, proposed, etc.;
- f) Overhead rates for supervision;
- g) Proposed risk penalties;
- h) Significant differences in AFE's (Well costs);
- i) Other information deemed pertinent by Division Examiner.

IRRELEVANT AND UNNECESSARY EVIDENCE

- a) Insignificant differences in AFE's (Well costs), overhead rates and risk penalties;
- b) Subjective judgement calls on an operator's ability to drill a well;
- c) Subjective judgement calls on an operator's ability to produce and/or operate a well;

- d) Subjective judgement calls on an operator's ability to market oil and gas from the subject well, or dispose of waste products;
- e) Incidence and description of previous disagreements between the parties;

In those cases where the differences in relevant evidence are not sufficient to make a clear and fair determination of operatorship, the Division should institute a policy and/or procedure whereby operatorship is awarded on an alternate basis.