

June 20, 1994

PRODUCTION DEPARTMENT
SOUTHWESTERN DIVISION

June 17 Meeting Notes
Avalon Field, Eddy Co., N. M.

Avalon Field Owners:

On June 17 meeting attendees provided feedback on the proposed Unit Agreement (UA) and Unit Operating Agreement (UOA) for the Avalon Field. The following companies were represented:

- Exxon
- American National Petroleum
- Pennzoil
- Yates Petroleum
- MWJ Producing

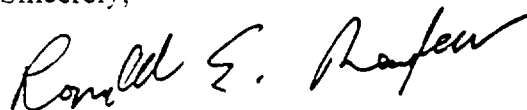
The attached table, Avalon Working Interest Owners Meeting Summary, June 17, 1994, provides an overview of the issues discussed, the rationale behind positions, and plans for resolution. Additionally, letters commenting on the UA and UOA are enclosed. The issues identified to be high priority were:

Issue	Action
1. Participation Formula	Yates will propose a single phase formula prior to a future meeting.
2. Voting Percent	Exxon will entertain higher voting percentage requirements after equities are established.
3. Bidding Oil/CO ₂	Exxon will look into adding to agreements.

It is anticipated that a **Single Phase Formula** being developed by Yates Petroleum will be mailed to Working Interest Owners in mid-July. If you did not attend the June 17 meeting, but are interested in attending the next Working Interest Owner meeting please notify me (915) 688-7841 so I can inform you of the date and location.

We anticipate the ballots to ratify the UA/UOA and the election to participate in the unit will be mailed to you thereafter.

Sincerely,



Ronald E. Mayhew
Avalon Project Manager

Avalon Working Interest Owners Meeting Summary, June 17, 1994

Issue	Companies Originating Issue	Company Rationale	Exxon Rationale	Solutions and Next Steps
Withdrawal from Unit	Premier	Disagree with other WIO reservoir interpretations		<ul style="list-style-type: none"> Remap unit boundaries to exclude Premier acreage [all agree]
Participation Formula	<ul style="list-style-type: none"> Yates Petroleum Company American National Petroleum (ANPC) 		20% is based on risks associated with CO2 Project. Capital cost reduction is water injection phase related and much is a result of minimizing preinvestment in CO2 phase.	<ul style="list-style-type: none"> Yates: Will propose single phase formula and possibly 2 phase formula acceptable to Yates ANPC: Prefer single phase formula, but don't need to include outer ring now (can live with including it) Yates: Suggest using Discount Factor lower than 20%, and start date of 1/1/95
Voting Percentage	<ul style="list-style-type: none"> Yates Petroleum Company American National Petroleum (ANPC) 	75% too low. Large Exxon interest. Should be in 85-90% range, or have some combination of 2nd, 3rd, or 4th largest owners.	75% plus one gave others control during CO2 phase and Exxon control during water injection phase.	<ul style="list-style-type: none"> Yates: Large minority interests should be able to preclude projects they don't like, suggest combination of 2nd-4th largest owners for approvals ANPC: Would prefer 90% approval requirement Exxon: Would prefer to focus on % requirements rather than number of WIO's All Agree: Wait until participation is finalized to review percentage requirements
After Payout (APO)	Yates Petroleum Company	Yates won't have 3 of 5 wells paid out with intangible portion of investment equalization.	Necessary to determine voting percentage and disposition of funds. Exxon perceived administrative burden to be large; therefore, unfair to impose on other WIO's.	<ul style="list-style-type: none"> Yates: Wishes to maintain status of non-consent parties that have not paid out Yates: If assume status, consider using bpo rather than apo ownership Exxon: Status of non-consent interests must be resolved among parties Yates will research payout status further
Withdrawal from Unit / Overrides	W.A. & E.R. Hudson	Makes withdrawal subject to other WIO. Withdrawing party loses interest.	Exxon has experienced unfair cost burdens elsewhere from high override percentages. Offers other WIO's some protection.	<ul style="list-style-type: none"> Pennzoil: Appears that Hudson not affected, only other interests in tract Exxon: No action planned unless needs are defined further

Avalon Working Interest Owners Meeting Summary, June 17, 1994 (cont.)

Issue	Companies Originating Issue	Company Rationale	Exxon Rationale	Solutions and Next Steps
Overhead	<ul style="list-style-type: none"> • W.A. & E.R. Hudson • Whiting Petroleum 	Median rates \$3000-\$3100 drilling, \$300-\$323 for producing, See Ernst & Young rates.	<ul style="list-style-type: none"> • Rates paid Exxon in Eddy/Lea counties in \$700-\$800 range. • Hartzog Draw Unit (waterflood with potential CO₂): >\$700/well. • Ernst & Young not representative of water nor CO₂ floods. See basis of Ernst & Young rates. 	<ul style="list-style-type: none"> • Various parties: Overhead rates too high • Exxon: Ernst & Young rates quoted are not really comparable. Exxon's rates are comparable for similar operations. • Yates/ANPC will try to locate comparable overhead data
Define Phase 1 / 2	American National Petroleum (ANPC)	Clarify		<ul style="list-style-type: none"> • ANPC: Provide definitions if multiple phases retained
Maximize amount received for oil	American National Petroleum (ANPC)	Process to receive competitive oil price		<ul style="list-style-type: none"> • ANPC: Include bid process for selling oil • Exxon and ANPC will work together to resolve
Minimize price paid for CO ₂	American National Petroleum (ANPC)	Process to receive competitive CO ₂ price		<ul style="list-style-type: none"> • ANPC Modify Section 7.13 to require Operator bid CO₂ • Exxon and ANPC will work together to resolve
Operating Costs	American National Petroleum (ANPC)	General Concern of major oil companies		<ul style="list-style-type: none"> • ANPC believes Exxon's operating costs are too high • Exxon believes its costs are prudent and will work w/ANPC to resolve

Avalon Delaware Unit
June 17, 1994

Yates Petroleum Concerns

1) Formula

- a. One Phase
- b. Exxon Present - Value Method
 - i. 20% Discount Too High
 - ii. 1-1-95 More Likely Start Date
 - iii. These Effects are Important

<u>Method</u>	<u>%</u>	<u>Exxon</u>	<u>Yates</u>
<Exxon>	20	0.756	0.108
Yates	20	0.726	0.113
Yates	15	0.696	0.123
Yates	10	0.683	0.125

- c. Traditional Formulas
 - i. Parameters
 - Original Oil in Place
 - Remaining Primary Oil
 - Waterflood + Workover Oil
 - CO₂ Oil
 - ii. "Reasonable" Combinations give
 - Exxon 0.704 to 0.739
 - Yates 0.116 to 0.126

2) Voting Percentage for Approval

- a. 75% too low
- b. Big Minority Owners need voice

3) After Payout Interests

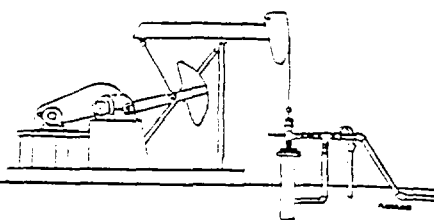
- a. Exxon thinks \$250,000 wellbore adjustment will help
- b. Yates rechecking nonconsent status - 5 wells
- c. At least three wells will not payout through inventory

4) Overhead Rate

5) Non-Consent in Unit

- a. Really talking about collecting bills?
- b. Complicated with interest.

Meeting Agenda



Topic: Proposed Avalon Field Unit

Date: Friday, June 17, 1994

Location: Exxon Building PC #4 Training Room, 3300 N. A St. Midland, Tx

Purpose: Potential Working Interest Owners of the Avalon Unit provide suggested changes to Exxon's recommended Unit Agreement and Unit Operating Agreement

Desired Outcomes:

1. Attendees understand issues presented by other companies and contribute ideas toward resolution.
2. Agree on next step(s) to progress Unitization.

Steps	Methods/Presenter	Min.	Time
Introduction	Welcome/ Ron Mayhew	5	10:00 am
Agenda Review	Ron Mayhew	5	10:05 am
Working Interest Owner Comments	<ul style="list-style-type: none"> • Each company presents issues in their letters. Priority issues clearly distinguished. WIO's offer/discuss resolutions to each issue after presented. • Ron Mayhew presents issues from owners not present. • Break where convenient 	110	10:10 am
Lunch	Provided onsite	30	12:00pm
Working Interest Owner Comments	<ul style="list-style-type: none"> • Continue as in above. 	30	12:30 pm
List Next Steps to Progress Unitization	<ul style="list-style-type: none"> • List Priority Items • Group offers suggestions on how to work them. Attempt to reach consensus. Vote if necessary. 	40	1:00 pm
Review notes	<ul style="list-style-type: none"> • Scott scrolls through; group clarifies as necessary 	15	1:40pm
Next Steps/Meeting; Exxon Contacts	Ron Mayhew presents	5	1:55pm
Adjourn			2:00 pm