

3M

To: Janet Richardson
From: Dave Boneau *Dave Boneau*
Date: December 30, 1994
Subject: Proposed Avalon Delaware Unit

Yesterday, Exxon responded by telephone to my letter of December 5, which outlined two participation formulas which Yates could support (Yates B and Yates C proposals). The good news is that Exxon made a concrete counterproposal. The bad news is that Exxon wants every crumb we've ever talked about plus more.

In detail, the Exxon proposal goes as follows:

- 1) Phase I participation is based upon
70% Remaining Primary
20% Tract Waterflood Reserves
10% Tract CO₂ Reserves

This gives Exxon WI = 0.805129 and Yates WI = 0.091292 as in Yates Proposal B

- 2) Phase II participation is based upon
20% Remaining Primary
40% Tract Waterflood Reserves
40% Tract CO₂ Reserves

This gives Exxon WI = 0.724939 and Yates WI = 0.120907 just as Yates has consistently proposed from the start.

- 3) Phase I will end and Phase II will begin on 1-1-99 or when oil production from the Unit area (after 1-1-93) reaches 1190 MBO, whichever occurs earlier in time.

I have proposed changeover dates from 4-1-97 to 1-1-98. At the start of the telephone conversation, Ron Mayhew of Exxon wanted to eliminate the mandatory changeover date. I said we couldn't do that and Exxon settled on 1-1-99. Over the months, Exxon has gone from 2005 AD to 2000 AD to 1999.

- 4) Capital Expenses will be changed according to the Phase II formula at all times. The exception is for those owners (mainly Premier) who have only CO₂ Reserves so their Phase II interest is about four times their Phase I interest. These people will be charged according to Phase I during Phase I. Exxon and Yates Petroleum will "lend" these people the difference at zero interest until Phase II begins, with Exxon providing 8/9 and Yates 1/9.

It was our idea to charge Capital costs at the Phase II formula during Phase I. The modification for Premier et al is a cheap change (< \$5000 to YPC) to keep some small owners from being hurt.

5) Exxon wants overhead charged at \$729 per month per producing well. Exxon will accept my proposal of \$700 per month during actual injection of CO₂ and \$550 per month otherwise if the other owners agree that Exxon can ballot for approval of an AFE to pay Exxon for specified pre-CO₂ Engineering work.

Exxon knows it must lower the \$729 per month number, but Exxon wants to lower it very little. Yates must decide which of the suggested approaches makes sense.

The Attachment compares the Exxon and Yates proposals. Pretty much, Exxon wants the best we have offered in each area plus a later changeover date and an Engineering AFE. My two main concerns are 1) that Yates has 12+ percent of Phase II, and 2) that Phase II not be delayed unreasonably. Exxon agrees that Yates can have 12.1 percent of Phase II, while Yates and Exxon are one year apart on the changeover date. I don't want more than a two-year delay from the time Yates pays for 12% of the waterflood to the time Yates receives waterflood income based on 12%. I don't think we should give Exxon everything it wants; and I especially want to roll the changeover date back into 1998.

Exxon expects some reaction from Yates by the evening of January 4 so I hope we can talk to Peyton early next week.

cc Mike Slater
Bob Fant
Randy Patterson
Peyton Yates

DFB/mjr

Avalon Delaware Unit -- Comparison of Exxon and Yates Proposals for Participation

Item	Issue	Exxon Wants	Yates A	Yates B	Yates C
1	Phase I Formula	70% Primary	60% Primary	70% Primary	60% Primary
		20% WF	30% WF	20% WF	30% WF
		10% CO2	10% CO2	10% CO2	10% CO2
2	Phase II Formula	20% Primary	20% Primary	20% Primary	20% Primary
		40% WF	40% WF	40% WF	40% WF
		40% CO2	40% CO2	40% CO2	40% CO2
3	Exxon WI Phase I	0.805129	0.790822	0.805129	0.790822
	Exxon WI Phase II	0.724939	0.724939	0.724939	0.724939
	Yates WI Phase I	0.091292	0.098309	0.091292	0.098309
	Yates WI Phase II	0.120907	0.120907	0.120907	0.120907
3	Phase Change Date	1190 MBO or 1-Jan-99	1190 MBO or 1-Apr-97	1190 MBO or 1-Jan-98	1190 MBO or 1-Jan-98
	4 Who Pays Phase I Capital Costs	Modified Phase II	Phase II WI	Phase I WI	Modified Phase II
5	Overhead Charges	\$729/Prod Well or \$550 WF + \$700 CO2	NA	\$550 WF + \$700 CO2	\$550 WF + \$700 CO2
		with Consultant AFE			