

Drainage Analysis Summary

Dagger Draw South Field

Gas Well Area

Well Name	Location	Net Pay (ft)	Avg Por (%)	Avg Sw (%)	Cum Gas Prod @ 9/93 (mcf)	Acres Drained	Estimated EUR (mcf)	Acres Drained
Algerita "AHR" State #1	16H - T20S - R24E	46.5	9.6% *	27.8%	4,200,000	177	7,500,000	317
Judith "AIJ" Fed #1	9P - T20S - R24E	28.0	9.3% *	26.5%	819,000	58	1,477,000	105
Saguaro "AGS" Fed #2	15F - T20S - R24E	18.0	10.8% *	27.6%	2,380,000	230	4,400,000	425

Assumptions :	Rw = 0.13 ohm - m	Rf = 75%
	m = 1.75	Bg = 225 mcf/mscf
	n = 2.00	
	a = 1.0	
Cutoffs :	Xplot Porosity > = 3%	
	Sw < = 50%	

* Actual porosity values calculated from OH logs factored by 1.5 to account for secondary porosity not seen by logging tool.

NEW MEXICO
OIL AND GAS DIVISION

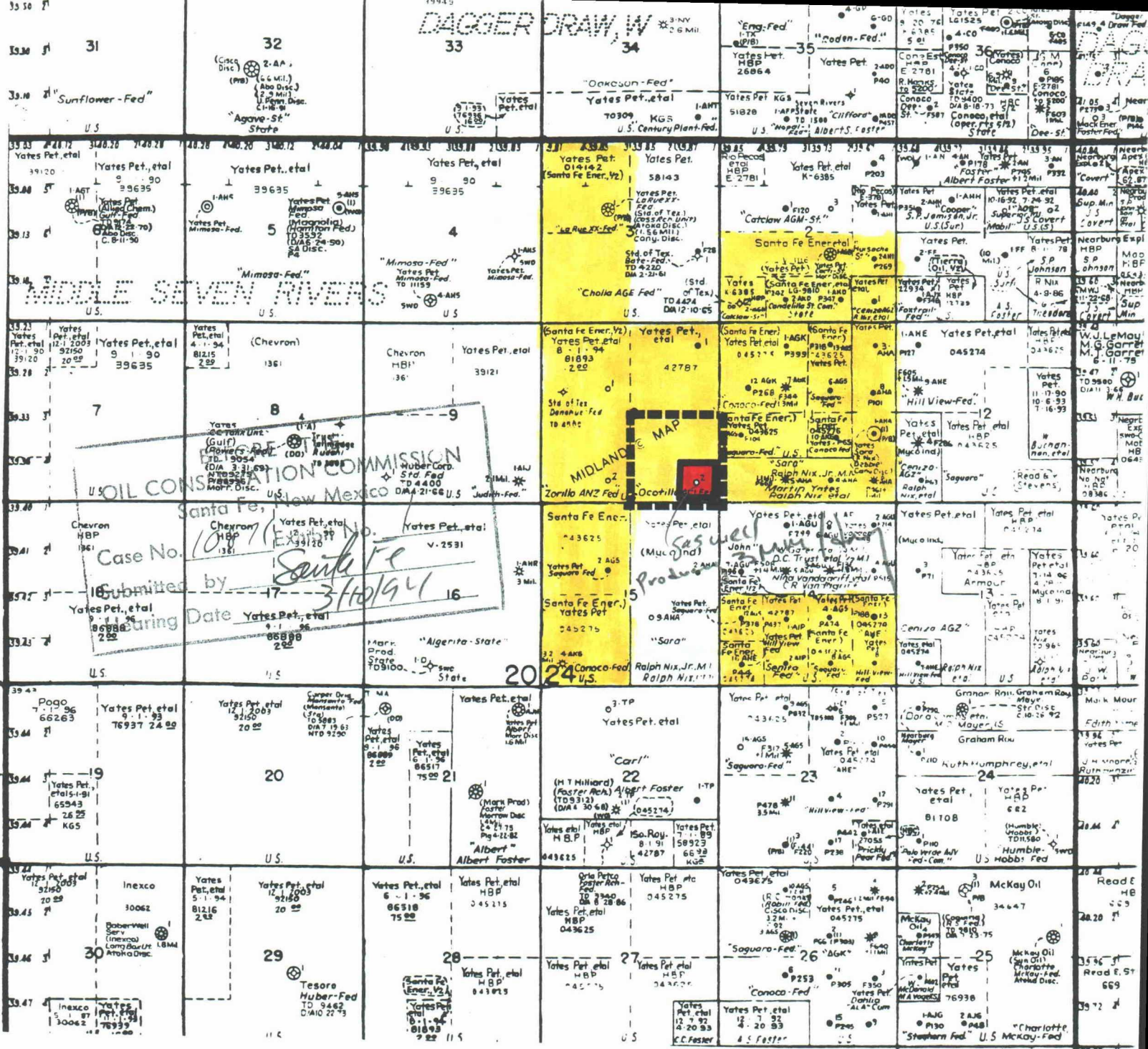
Santa Fe 24

CASE NO 10871

**GAS-OIL RATIO SUMMARY
DAGGER DRAW NORTH SOUTH FIELDS
GAS WELL AREA**

<u>Well Name</u>	<u>GOR 1993 YTD (scf/bbl)</u>	<u>GOR Cumulative (scf/bbl)</u>
Conoco "AGK" Fed Com #14	579,076	579,076
Larue "XX" Fed #1	386,074	183,081
Ocotillo "ACT" Fed #1	152,220	138,939
Saguaro "AGS" Fed Com #2	86,065	127,121
Algerita "AHR" State #1	154,878	118,779
Carl "TP" Com #1	262,897	182,643
Carl "TP" Com #2	210,061	199,736
Cholla "AGE" Fed #1	44,694	39,544
Judith "AIJ" Fed #1	500,198	414,316
Sara "AHA" #2	112,551	82,055

UNITED STATES OF AMERICA
 OIL AND GAS ADMINISTRATION
 _____ 25
 CASE NO. 10871

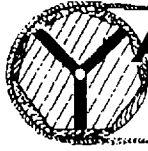


MARTIN YATES, III

FRANK W. YATES

RECEIVED

MAR 07 1994

**LAND DEPT.
MIDLAND, TX****YATES
PETROLEUM
CORPORATION**105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS C. KINSEY
TREASURERSanta Fe Energy Company
500 West Illinois
Midland, Texas 79701

Attn.: Gary Green

February 28, 1994
BEFORE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 10871 Exhibit No. 2
Submitted by Santa Fe
Hearing Date 3/10/94

GG	TP
ST	PB
CS	DW
JS	DF
RR	GD
EFW	LJ
RR	DRET
LS	FILE
KT	

RE: Township 20 South, Range 24 East, NMPM
Section 10: All
Containing 640 acres, more or less
Eddy County, New Mexico

Gentlemen:

As per our prior conversations concerning the captioned, Yates Petroleum Corporation is agreeable to the following:

1. Joint Operating Agreement covering S/2 of Section 10, Township 20 South, Range 24 East dated September 20, 1993, executed by Yates Petroleum Corporation as Operator, would be amended to cover 480 acres, being the SE/4 and the W/2 of Section 10, Township 20 South, Range 24 East.
2. Yates Petroleum Corporation would build location and commence drilling the Zorrillo ANZ Federal #2 located in the SESW Section 10, Township 20 South, Range 24 East on or before March 31, 1994. Santa Fe would have to execute our AFE prior to spud.
3. Yates Petroleum Corporation would begin the process to stake and permit the Ocotillo ACI Federal #3 in the SWNE Section 10, Township 20 South, Range 24 East. This well would be drilled as soon as APD could be approved, drilling rig arrangements finalized and AFE executed.
4. Yates Petroleum Corporation would move location of the permitted Zorrillo ANZ Federal #1 from the SENW to the SWNW of Section 1, Township 20 South, Range 24 East and submit a revised APD. This well would be drilled after approval of the revised APD, after the completions of the Zorrillo ANZ Federal #2 and Ocotillo ACI Federal #3, and after AFE execution. Neither Yates Petroleum Corporation nor Santa Fe would be obligated to drill this well if the results of the other two wells prove to be unsatisfactory.
5. Based on legal concurrence, Yates Petroleum Corporation and Santa Fe Energy Company would proceed with the scheduled March De Novo Hearing and withdraw their respective applications with the exception of 1 item in Santa Fe Energy Company's application, being the Non-Standard Proration Unit request for the Ocotillo ACI Federal #2, SE/4 Section 10, Township 20 South, Range 24 East.

Santa Fe Energy Company
February 28, 1994
Page two

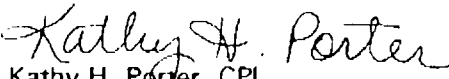
Yates Petroleum Corporation wishes to emphasize the importance of developing this Section prudently. Management is still very concerned about gas well placements and wants to make sure all parties involved realize that no conscientious party should be drilling more than one gas well per 160 acres except under very extenuating circumstances.

If this meets with your approval, we request you to execute and return the signature page to the September 20, 1993 Operating Agreement and also to execute and return one copy of this letter. Upon receipt of both, we will forward you a fully executed copy of this letter and will begin the processes listed above.

Thank you for your assistance.

Very truly yours,

YATES PETROLEUM CORPORATION


Kathy H. Porter, CPL
Landman

ACCEPTED AND AGREED TO THIS _____ DAY OF FEBRUARY 1994.

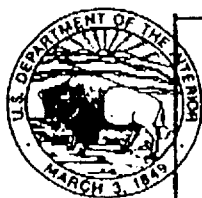
YATES PETROLEUM CORPORATION

By: _____

ACCEPTED AND AGREED TO THIS _____ DAY OF _____ 1994.

SANTA FE ENERGY COMPANY

By: _____

IN REPLY
REFER TO:

RECEIVED
United States Depart
JAN 25 1994
LAND DEPT. BUREAU OF LAND
MIDLAND, TX

Roswell District Office
1717 West Second Street
Roswell, New Mexico 88201-2019

Drainage Case No.: NM-81893-01
3100.2 (065)

CERTIFIED MAIL - RETURN RECEIPT REQUESTED
P 293 298 930

Santa Fe Energy Operating
1616 S. Voss Rd., Ste. 1000
Houston, TX 77057

JAN 19 1994

Gentlemen:

According to our records, you are the lessee of Federal Oil and Gas Lease No. NM-81893. All or part of this lease is subject to possible drainage by the Algerita AHR State # 1 well, located 1980' FNL and 660' FEL, section 16, T. 20 S., R. 24 E., Eddy County, New Mexico. This well was reported as completed on November 26, 1990, in the Canyon formation, with an initial potential of 3034 MCFOPD. Lands within the lease subject to drainage are described as follows:

Section 10, T. 20 S., R. 24 E.: W2

Both the terms of your lease and the oil and gas operating regulations require you to protect the lease lands from drainage. Unless you can demonstrate that no drainage is occurring, you will be expected to protect the lease lands by utilizing the following options:

1. Drill a protective well on the drained tract(s) and pay compensatory royalty for the period prior to drilling and producing the protective well.
2. Pay compensatory royalty.
3. Relinquish the affected portions of the lease after payment of any compensatory royalty due.

By March 8, 1994, you must advise us of your plans for protecting the lease from drainage. If you contend that no drainage is taking place, you must submit detailed engineering and geologic data to support that contention. If you contend that a protective well would have little or no chance of encountering oil or gas in quantities sufficient to pay the cost of drilling and operating the well with a reasonable profit, detailed data must be submitted to support that contention also. If you fail to submit a plan for protection or provide convincing evidence that no drainage has occurred, compensatory royalty will be assessed beginning July 1, 1992, and ending the date that protection is provided utilizing one of the above options, or the date that the draining well ceases to produce.

If you have any questions, please contact Wayne Melton, Jim Pettengill, or Lee Babyak at (505) 627-0272.

Sincerely,

Tony L. Ferguson
Tony L. Ferguson
Assistant District Manager
Minerals

BEFORE THE OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>10671</u>	Exhibit No. <u>3</u>
Submitted by <u>Santa Fe</u>	
Hearing Date <u>3/10/94</u>	

Post-It™ brand fax tra. Initial memo 7671 # of pages >	
To <u>D. Bruce</u>	From <u>G. Brun</u>
Co <u>Amale Cox</u>	Co. <u>SFE OF</u>
Dept.	Phone #
Fax # <u>505-982-8623</u>	Fax #

RR

WW

Filo