

9-24-90 telephone conservation
9-26-90 telephone conservation
9-28-90 telephone conservation
10-1-90 telephone conservation
10-3-90 telephone conservation
unknown telephone conservation
10-15-90 telephone conservation
10-19-90 telephone conservation
10-25-90 telephone conservation

9-27-90 Letter concerning production
10-2-90 Agreement to allow production to resume
10-3-90 OCD Order allowing production
10-5-90 Settlement proposal to Chevron - no formal response received
10-19-90 Letter submitting executed Escrow Agreement to Chevron for approval
10-29-90 Settlement counter proposal from Chevron received
10-29-90 Delivered cost breakdown to Chevron in Midland

| | |
|---------------------------|----------------------|
| BEFORE EXAMINER STOGNER | |
| OIL CONSERVATION DIVISION | |
| <i>Yakov. Emery</i> | EXHIBIT NO. <u>2</u> |
| CASE NO. <u>9998</u> | |

NEGOTIATIONS WITH CHEVRON - THORNBUSH FEDERAL #1

- 9-24-90 Fred G. Yates and Sharon R. Hamilton telephoned Chevron in Midland, TX 915/687-7215 Sam Martin (replacing Mickey Cohlma in handling this area, is somewhat familiar with problems)
- YEC FGY indicated that we would like to discuss options, and make a proposal, pursuant to the OCD Order No. R-9093-B.
- YEC YEC would request a F/O covering the S/2 of Section 1 in our Thornbush Prospect, in an attempt to avoid a force pool situation on each drilling proposal, as we have had to force pool Chevron twice in the section already, without any participation by Chevron.
- YEC Requested delivery of a 75% NRI, option to continuous develop the S/2 of Section 1 with 180 days between completion and commencement, drill to earn basis, earning to 100' below total depth. The Thornbush Federal #1 would be the initial earning well under the farmout.
- Chevron Sam Martin indicated that he had talked to Geology Dept. about Sections 1 and 12 (YEC Thornbush Prospect covers all of Section 1, YEC Prickly Pear Prospect covers N/2 of Section 12 - Chevron has failed to participate in any well proposals or execute either Operating Agreement), to avoid the necessity of force pool hearings with each well proposal. (YEC has had to force pool Chevron in 3 locations thus far) He indicated that Chevron had wasted time with production offices moving from Hobbs to Midland, he has not talked to production yet in much detail concerning this area.
- Chevron On farmout request concerning S/2 of Section 1, he would not recommend entire S/2, would want to set up something on well by well basis, to give Chevron the option to participate.
- Chevron Knows that we want well to produce Thornbush Federal #1, that prices are high now and climbing and is sure that we want to benefit from current market.
- Chevron He has Order No. R-9093-B, but has not gone through it in detail. Hopes that we can work out some kind of agreement for current problem, plus some offsets if possible. On Thornbush Federal #1, needs to talk to production about it.
- YEC Indicated that we need some sort of arrangement to allow us continuous development without force pooling each well. We understand that Chevron would like option to pay their way, but they haven't elected to do so in any well so far. Our most recent well proposal on the Thornbush Federal #2 is directly offset by Bone Springs and San Andres completions, and they still have not elected to participate, our feeling is that they probably wouldn't participate in anything.
- Chevron Sam Martin indicated that we should contact him again on Wednesday, September 26, he will try to talk to his inhouse people by then about problem.

NEGOTIATIONS WITH CHEVRON - THORNBUSH FEDERAL #1

- 9-26-90 Sharon R. Hamilton telephoned Chevron in Midland, TX 915/687-7215
Sam Martin
- YEC Calling to see if any progress had been made.
- Chevron Sam Martin indicated he had made some suggestions, but doesn't have anything to lay on the table for discussion.
- On Thornbush Federal #1, Chevron's position before probably still stands, will pay only San Andres costs. Still checking on options.
- YEC Indicated that YEC had drilled well as a Bone Springs test, and had encountered costs accordingly, and would of course want to recoup those costs, would Chevron consider paying.
- Chevron If we insist on drilling costs through Bone Springs, Chevron will not agree, and we'll all have to go back to hearing on October 31st. Does not think a Farmout is possible, but needs to talk w/Manager of Non-Operated ventures first.
- On paying San Andres costs, would pay what is in well now, not insist on a San Andres well cost only (w/specifcics deleting Bone Springs equipment, pipe, etc.).
- New Geologist is working area now, so may be a while before he's ready.
- They will not pay cost of Bone Springs, so would let State decide on that before agreeing to it.
- Knows that we want to produce well, hopes to work out something, but seem pretty far apart on #1 well.
- Feel free to call him from time to time for any progress.
- 9-28-90 Sam Martin - Chevron, they received our fax letter concerning the production status of the well. Has a letter drafted which requires final management approval (Manager is out today) which would agree to allow production. Will have word on Monday and will call.

NEGOTIATIONS WITH CHEVRON - THORNBUSH FEDERAL #1

- 10-1-90 Telephone conversation between Sam Martin with Chevron and Sharon R. Hamilton
- Chevron Joint interest manager would be in in the morning to sign letter indicating no objection to allowing production to resume, will fax letter over. Pending OCD approval, escrow funds.
- YEC YEC will assume paying royalties and be responsible for payments obligated under the 25% WI.
- Chevron Assumes no liability for renewal lease, which is in process.
- 10-3-90 Telephone conversation between Sam Martin with Chevron and Sharon R. Hamilton
- Chevron Made reference to Chevron's letter of 7-18-90 whereby Chevron notified YEC that Chevron would pay cost and participate in San Andres Completion. They have evaluated previous Bone Springs AFE and San Andres AFE, Sam has made a proposal to Management, maybe basis to start for further discussions. Set out what Chevron would pay, reasonable well cost for San Andres. If neither of us back off, no middle ground, then looks like OCD will decide. Something in the middle of well costs that could be considered. Requested cost breakdown:
1. Drilling to base of San Andres
 2. Drilling from base of San Andres to Bone Springs
 3. Logging and testing for both zones
 4. Cost to plug back and complete in San Andres
- YEC Pretty far apart, as we feel Bone Springs costs total well costs. Chevron not willing to pay for Bone Springs test.
- no date Sam Martin w/Chevron called to verify cost figure in YEC 10-5-90 letter, it is being circulated. Told him that our Engineer would be preparing the breakdown, per their request.
- 10-15-90 Chevron called for a daily production rate, gave the daily report from 10-12-90 20.9# TP/PP, 45.9 MCF, 71.45 BO, 8.31 BW.
- 10-19-90 Called Sam Martin at Chevron, notified him that Engineer was still working on cost breakdown. Would get something to them as soon as available.
- 10-25-90 Sam Martin w/Chevron called. Do not have approval to offer, but proposal might be: (1) will join, subject to mutual agreement of reasonable well cost, down to San Andres formation base; or (2) F/O to base of San Andres, keeping a 25% ORI or 1/16th of well production. Will be sending letter out when final approval given by management. Without cost breakdown, hard for them to determine for discussion for a settlement of mutual costs, would then be up to OCD to determine a fair price.
- 10-26-90 Sam Martin called, left message. SRH returned call, left message.



September 27, 1990

VIA FAX 915/687-7666

Sam H. Martin
Chevron U.S.A. Inc.
P. O. Box 1150
Midland, Texas 79702

Re: Thornbush Federal #1
SE/4SW/4 Section 1-18S-31E
Eddy County, New Mexico

Dear Mr. Martin:

Pursuant to our telephone discussions of September 24th and 26th, we would like to attempt to reach a temporary agreement whereby the captioned well could be returned to production. As you know, said well was shut-in August 9, 1990 pursuant to the order of the Oil Conservation Division, and shall remain shut-in until the parties involved resolve the ownership dispute or until the OCD renders an order. However, the OCD has indicated that should Yates Energy and Chevron enter into a written agreement which would allow the well to produce prior to settlement, they would allow said production to resume.

As we discussed, with the increase in current oil prices, the economic loss incurred by all owners in the property with the well shut-in is deplorable. It is our sincere desire to reach an amiable agreement with Chevron to resolve this situation and thereby resume production.

Enclosed please find a copy of the Division Order Title Opinion covering the captioned well. Please note that Chevron's interest is suspended until the title dispute is resolved. Division Orders have been forwarded to Chevron's Houston office by Navajo Refining Company for a one time disbursement (May's production) and by Yates Energy Corporation for casinghead gas production. Both Division Orders indicate the revenue allocated to Chevron is in suspense (copies enclosed for your review). The current crude oil purchaser, effective June 1st, is Koch Oil Company; their Division Order should be forthcoming.

Chevron U.S.A. Inc.
September 27, 1990
Page 2

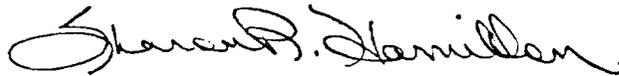
Yates Energy would propose to place the contested interest of Chevron into an interest bearing escrow account, providing Chevron with all production, purchase and volume information. Chevron also consents to entry by the OCD of an interim order returning the well to production. If you are in agreement to this arrangement, please execute in the space provided below, returning two executed forms of this letter to our office immediately for further handling.

Should Chevron have an alternative solution, we would be anxious to discuss it with you. We feel that it is economically imperative that this well be placed back on production without further delay. As you know, we are not scheduled for hearing before the OCD until the October 31st docket, if our settlement negotiations are unsuccessful. By entering into this temporary agreement, production could be resumed thereby avoiding the loss of October production.

Your prompt attention and cooperation in this matter is greatly appreciated.

Yours very truly,

YATES ENERGY CORPORATION



Sharon R. Hamilton
Landman

SRH/jj
Enclosures

AGREED TO AND ACCEPTED THIS _____ day of _____, 1990.

CHEVRON U.S.A. INC.

By: _____

Title: _____

Chevron



Chevron U.S.A. Inc.
P.O. Box 1150, Midland, TX 79702

RECEIVED OCT - 4 1990

Land Department
Interior Division

October 2, 1990

RE: THORNBUSH FEDERAL
#1 SE/4 SW/4 OF SECTION
1,18-S, 31-E, EDDY COUNTY,
NEW MEXICO

Yates Energy Corporation
P.O. Box 2323
Roswell, New Mexico 88202

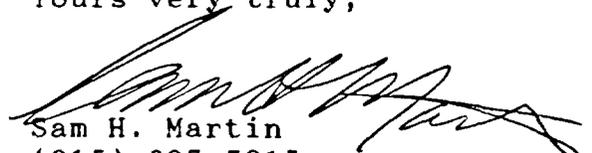
Gentlemen:

In reference to your letter of September 27, 1990, Chevron has no objection to producing the captioned well, subject to the following conditions:

1. OCD Approval
2. The proceeds attributable to Chevron's interest, 25% G.W.I. and 21.875% Net W.I. will be suspended and held by Koch Oil Company, escrow agent, or other purchaser acceptable to Chevron, in an interest bearing account, until Yates Energy Company, et al and Chevron reach a voluntary settlement regarding the captioned well or 30 days after the OCD issues a subsequent order, whichever occurs first.
3. Royalty payments due on Chevron's leasehold will be properly paid to the USA in accordance with lease provisions of NM-2538 or any renewal thereof and Yates Energy agrees to assume responsibility for payment of such royalty.
4. Federal lease NM-2538 expired 10-1-90. Our records indicate a renewal lease was executed in accordance with federal regulations. Inasmuch as Chevron is not subject to the JOA or any of its terms and conditions, including, but not limited to title curative matters, Yates Energy agrees to satisfy itself regarding title to the lease and assume any liability as to Chevron's leasehold that results from producing the captioned well until a voluntary settlement is reached between the partners or by 30 days after the OCD issues a subsequent order, whichever occurs first.

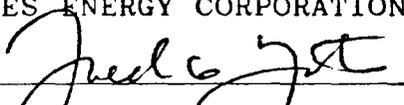
Upon your acceptance of the above conditions and our receipt of a properly executed copy of this letter, this letter shall serve as our conditional approval to produce the captioned well.

Yours very truly,


Sam H. Martin
(915) 687-7215

Agreed and Accepted:

YATES ENERGY CORPORATION

BY 

DATE 10-3-90

SHM/dh



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

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2068
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

October 3, 1990

Yates Energy Corporation
P. O. Box 2323
Roswell, New Mexico 88201

ATTN: FRED G. YATES

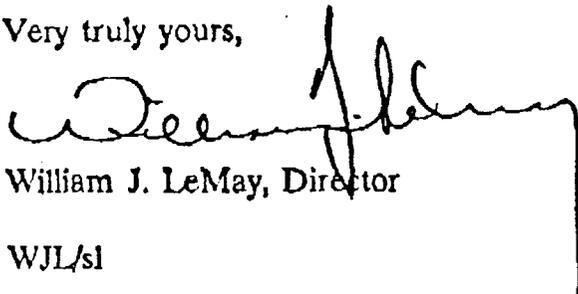
RE: Thornbush Federal #1, SE/4 SW/4, Sec. 1, T18S, R31E, Eddy County, New Mexico

Gentlemen:

Division Order R-9093-B, ordering paragraph (5) directed that the above well remain shut-in until all interests in the proration unit have been consolidated. The Division has received a letter agreement dated October 2, 1990, accepted by Yates on October 3, 1990, providing an appropriate method for suspending and holding payments on Chevron's interest until the interests have been consolidated, subject to all of the terms contained in the letter, including provisions for payment of royalties.

On the basis of this agreement, the Division hereby suspends ordering paragraph (5) of Order R-9093-B. You are hereby authorized effective 12:01 AM on October 3, 1990 to produce the captioned well subject to the terms and conditions of the agreement between Yates Energy and Chevron, copy of which is in Oil Conservation Division records. As provided in agreement, Chevron's interest will be kept separate in an interest bearing account until either Yates Energy Corporation and Chevron, USA reach a voluntary settlement or 30 days after the OCD issues an order pertaining to ownership issues in the captioned well. Your oil allowable is 80 barrels of oil per day effective at 12:01 AM October 3, 1990.

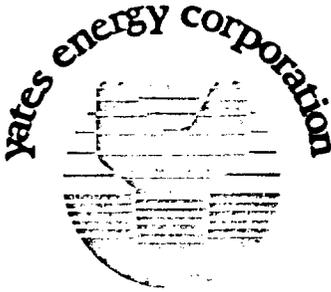
Very truly yours,



William J. LeMay, Director

WJL/sl

cc: Chevron, Inc.



October 5, 1990

Sam H. Martin
Chevron U.S.A., Inc.
P. O. Box 1150
Midland, Texas 79702

Re: Thornbush Federal #1
SE/4SW/4 Section 1-18S-31E
Eddy County, NM

Dear Mr. Martin:

In recent conversations we have discussed the positions of both Yates Energy and Chevron in the dispute concerning the captioned well. We greatly appreciate your cooperation in reaching an agreement which allowed production to resume on this property.

As discussed, Yates Energy would again request that Chevron accept one of the following proposals:

1. Participate in the drilling of the captioned well as originally proposed, through the Bone Springs formation. The total well costs, per the enclosed itemized statement, amounted to \$599,988. Total LOE and leasehold costs billed through August amounts to \$18,002.83. Chevron's 25% working interest would amount to \$154,497.71
2. Farmout all of their interest in the 40 acre tract, delivering a 75% NRI, with no backin or reversionary interest, with rights earned to 100 feet below total depth drilled.

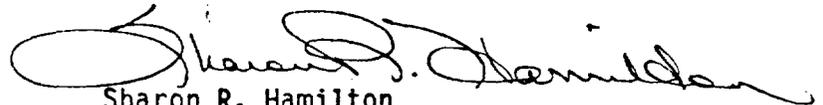
Sam H. Martin
Chevron U.S.A., Inc.
October 5, 1990
Page 2

Pursuant to your telephone request, we are currently in the process of categorizing the well costs for your review. The breakdown should be available next week and will be sent when complete.

We appreciate your consideration of these proposals, and the opportunity to discuss this matter with you further.

Yours very truly,

YATES ENERGY CORPORATION

A handwritten signature in cursive script, appearing to read "Sharon R. Hamilton".

Sharon R. Hamilton
Landman

SRH/jj

ACTUAL COSTS
THORNBUSH FED #1
#93-005

AUGUST, 1990

ACTUAL COSTS
THORNBUSH FED #1
#93-005

AUGUST, 1990

| | TOTAL COSTS |
|----------------------------------|------------------|
| Location, roads, survey, damages | * 17,372 |
| Rig move in and move out | * 0 |
| Footage or turnkey | * 124,782 |
| Daywork | * 6,633 |
| Fuel, power, water | * 14,612 |
| Mud and additives | * 15,221 |
| Bits and reamers | * 0 |
| Rental equipment | * 0 |
| Casing crew, tongs, tools | * 2,736 |
| Directional drilling svc. | * 0 |
| Fishing tools and svc. | * 0 |
| Cement and svc. | * 41,951 |
| Open hole logs, form, testing | * 20,814 |
| DST, coring, analysis | * 0 |
| Mud logging | * 8,240 |
| Transportation | * 198 |
| Equipment Inspection | * 0 |
| Supervision | * 13,457 |
| Drilling O/H | * 9,717 |
| Geologist | * 2,713 |
| Misc and contingency | * 25,088 |
| Completion and swab unit | * 45,962 |
| Casing crew, prod string | * 4,520 |
| Cased hole logs, perforate | * 15,388 |
| Stimulation svc | * 45,182 |
| Rental equipment | * 2,933 |
| Transportation, compl chems | * 1,545 |
| Location restoration | * 0 |
| Misc and contingency | * 0 |
| Total Intangible | * 419,063 |

| | TOTAL COSTS |
|-----------------------------|------------------|
| Cond. casing | * 7,782 |
| Surf. casing | * 31,233 |
| Inter. casing | * 7,922 |
| Wellhead | * 0 |
| Float, cent, scratchers | * 61,915 |
| Prod. casing | * 20,566 |
| Tubing | * 983 |
| Downhole, packers, mandrels | * 7,643 |
| Wellhead, tree and wing | * 42,746 |
| Production facilities | * 136 |
| Misc. and contingency | * |
| Total tangible | * 180,925 |

Total well cost

* 599,988

Actual
B.S.
Figures



October 19, 1990

Sam H. Martin
Chevron U.S.A., Inc.
P. O. Box 1150
Midland, Texas 79702

Re: Thornbush Federal #1

Dear Sam:

Pursuant to our letter agreement dated October 2, 1990 allowing production to resume on the captioned well, enclosed please find for your review the Escrow Agreement.

Sunwest Bank of Roswell has agreed to serve as the Escrow Agent. Upon receipt of two executed forms, the account will be established. We will provide you with a full accounting of all funds in suspense.

Please execute said form, retaining one for your files and returning two executed forms to our office. Please advise should you have any questions.

Yours very truly,

YATES ENERGY CORPORATION

A handwritten signature in cursive script, appearing to read "Sharon R. Hamilton".

Sharon R. Hamilton
Landman

SRH/jj
Enclosure



Chevron U.S.A. Inc.
 P.O. Box 1150, Midland, TX 79702

Permian Basin Production Business Unit

October 29, 1990

Thornbush Federal #1
 SE/4 SW/4 Section 1, T-18-S, R-31-E
 Thornbush Federal #2
 SW/4 SW/4 Section 1, T-18-S,
R-31-E Eddy County, New Mexico

Yates Energy Corporation
 P. O. Box 2323
 Sunwest Center Suite 1010
 Roswell, New Mexico 88202
 Attention: Ms. Sharon R. Hamilton

Gentlemen:

In response to your letters of October 5, 1990 and October 15, 1990, Chevron proposes the following:

1. Chevron will either participate with or farmout it's interest in the Thornbush #1 after it has had an opportunity to review mutually agreeable and reasonable well costs attributable to the San Andres completion. The portion of the cost attributable to the San Andres well must be separated from the portion attributable to the deeper Bone Spring formation and a mutually agreeable JOA form must be adopted.

If after such review, Chevron does not wish to participate, and subject to acceptance of a mutually agreeable contract, Chevron will farmout to Yates the SE/4 SW/4 of Section 1 from the surface to the base of the San Andres formation. Chevron will retain a 25% ORR exclusive of lease burdens.

2. Chevron will farmout to Yates its interest in the SW/4 SW/4 of Section 1 for your Thornbush #2 well from the surface down to (a) the base of the Bone Spring formation (b) a depth of 9,100' or (c) 50' below the deepest commercially productive perforation, whichever is the lesser. Chevron will retain a 25% ORR exclusive of lease burdens.

*Yates proposed Chevron receive an
 1/8 ORR.*

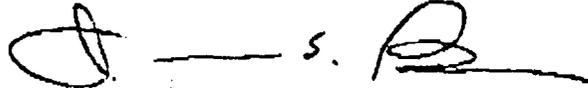
Hugh

Chevron's offer is subject to Chevron management acceptance of mutually agreeable operating and/or farmout agreements.

This letter is intended to evidence Chevron's willingness to reach accord with Yates for disposition of Chevron's interest in these two wells.

Should you have any questions or comments please do not hesitate to call me at (915) 687-7129.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'J. S. Baca', with a long horizontal line extending to the right.

James Baca
Land Representative

MJE:db
WLD01029.05



Chevron U.S.A. Inc.
P.O. Box 1160, Midland, TX 79702

DATE: 10-29-90

PLEASE DELIVER TO:

Name: Yates Energy Corp
ATTN: Sharon R. Hamilton
Room #: P.O. Box 2323, Sunwest Centre
Location: Roswell, New Mexico
Fax#: 505-623-4947

This Fax is from:

J.E. Baca
Chevron
Midland, TX

The total number of pages, including cover page are: 3. If you DO NOT receive ALL pages to this set, please call our confirmation number below.

CONFIRMATION NUMBER:

(915) 687-7100 or
CTN 687-7100

FAX NUMBERS:

(915) 687-7666
(915) 687-7667