

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P.O. BOX 1933

ONE SUNWEST CENTRE

505/623-6601

FAX 505/622-4221

ROSWELL, NEW MEXICO 88202-1933

August 9, 1990

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

Attention: Micky Cohlma

Re: T-18S, R-31E, N.M.P.M.
Sec. 12: S/2, S/2 NW/4
Sec. 13: N/2
containing 720.0 acres, m/l
Eddy County, New Mexico
HEYCO's West Taylor II WIA

Gentlemen:

Harvey E. Yates Company (HEYCO) proposes the formation of a 720-acre working interest area encompassing the S/2 NW/4, S/2 of Section 12 and the N/2 of Section 13, Township 18 South, Range 31 East, N.M.P.M.. HEYCO desires to explore shallow zones, including the Grayburg formation believed to be present throughout the proposed working interest area. The enclosed operating agreement is limited from 3,595' to the base of the Delaware formation because of the existing Taylor Deep Working Interest Unit Operating Agreement and complex horizontal segregation in the various federal leases involved.

The initial test under this proposed operating agreement is a 5,000' Grayburg test, to be at a legal location in the NW/4 SW/4 of Section 12. This will be a west offset to the Taylor Deep "12" Federal #1-Y. The Taylor Deep "12" Federal #1-Y had 25' of excellent porosity, fair permeability and good mud log shows throughout the Grayburg. Mapping indicates successive sands running east/west across the proposed area, and shows two Grayburg sand thicknesses paralleling each other across the area.

Enclosed for your review and execution are the following:

1. West Taylor II Shallow Working Interest Area Joint Operating Agreement, along with an extra set of signature ~~EXHIBIT NO. 1~~
2. Memorandum of Joint Operating Agreement
3. Two copies of the AFE for the West Taylor "12" Federal #1-Y

EXHIBIT NO. 1	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	4
CASE NO.	10180
SUBMITTED BY	HEYCO
HEARING DATE	12/19/90

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Chevron, U.S.A., Inc.
August 9, 1990
Page 2

If your desire is to participate in this shallow prospect, please sign, date and return one copy of the AFE of your choice, the extra set of JOA signature pages and the Memorandum of Joint Operating Agreement.

If you have any comments, ideas or alternatives, I am certainly available to discuss them with you. HEYCO is willing to negotiate terms if your desire is to farmout on mutually-acceptable terms. I will be contacting you in the next few weeks. Thanks for your time and consideration.

Very truly yours,

Shari A. Darr
Landman

SAD/dlm
Enclosures

wstaylor.chv/LL

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HARVEY E. YATES COMPANY

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ONE SUNWEST CENTRE

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FAX 505/622-4221

ROSWELL, NEW MEXICO 88202-1933

July 31, 1990

Meridian Oil, Inc.
21 Desta Drive
Midland, Texas 79705

Attention: Don Davis

Re: T-18S, R-31E, N.M.P.M.
Sec. 12: S/2, S/2 NW/4
Sec. 13: N/2
containing 720.0 acres, m/l
Eddy County, New Mexico
HEYCO's West Taylor II WIA

Gentlemen:

Harvey E. Yates Company (HEYCO) proposes the formation of a 720-acre working interest area encompassing the S/2 NW/4, S/2 of Section 12 and the N/2 of Section 13, Township 18 South, Range 31 East, N.M.P.M.. HEYCO desires to explore shallow zones, including the Grayburg formation believed to be present throughout the proposed working interest area. The enclosed operating agreement is limited from 3,595' to the base of the Delaware formation because of the existing Taylor Deep Working Interest Unit Operating Agreement and complex horizontal segregation in the various federal leases involved.

HEYCO believes the most economical approach to initially testing the shallow zones under the proposed area is to plug back the existing Taylor Deep "12" Federal #1-Y (NE/4 SW/4 Section 12, T-18S, R-31E) which was drilled under the Taylor Deep Working Interest Unit Operating Agreement. Enclosed is an AFE for this proposed operation. This well had 25' of excellent porosity, fair permeability and good mud log shows throughout the Grayburg. Mapping indicates successive sands running east/west across the proposed area, and shows two Grayburg sand thicknesses paralleling each other across the area.

HEYCO recognizes that pursuant to Article VI.E.2 - "Abandonment of Wells That Have Produced", all parties must consent to the abandonment of any well which has been completed as a producer. If HEYCO can not gain 100% approval on the plug back operation, we are alternatively proposing the drilling of a 5,000' Grayburg test, to be at a legal location in the NW/4 SW/4 of Section 12. This will be a west offset to the Taylor Deep "12" Federal #1-Y, which is described above.

Enclosed for your review and execution are the following:

1. West Taylor II Shallow Working Interest Area Joint Operating Agreement, along with an extra set of signature pages.
2. Memorandum of Joint Operating Agreement.

Meridian Oil, Inc.
July 31, 1990
Page 2

3. Two copies of the AFE for the plugback of the Taylor Deep "12" Federal #1-Y operation.

4. Two copies of the AFE for the West Taylor "12" Federal #1.

Please notice that your interest in the plug back would be slightly different that it would be in the drilling of a new well. If your desire is to participate in this Grayburg prospect, please sign, date and return one copy of the AFE of your choice, the extra set of JOA signature pages and the Memorandum of Joint Operating Agreement.

If you have any comments, ideas or alternatives, I am certainly available to discuss them with you. HEYCO is willing to negotiate terms if your desire is to farmout on mutually-acceptable terms. I will be contacting you in the next few weeks. Thanks for your time and consideration.

Very truly yours,

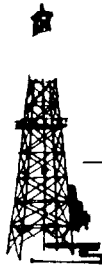
Shari A. Darr
Landman

SAD/dlm
Enclosures

wstaylor.mer/LL

HEYCO

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HARVEY E. YATES COMPANY

P.O. BOX 1933

ONE SUNWEST CENTRE

505/623 6601

FAX 505/622-4221

ROSWELL, NEW MEXICO 88202-1933

September 26, 1990

Mr. James Baca
Chevron, U.S.A., Inc.
P. O. Box 1150
Midland, Texas 79702

Re: HEYCO's West Taylor W.I.A.
T-18S, R-31E, N.M.P.M.
Sec. 12: S/2 NW/4, S/2
Sec. 13: N/2
Eddy County, New Mexico

Dear James:

Thank you for taking time to discuss HEYCO's West Taylor Prospect. This is a very complicated area, thanks for your patience.

HEYCO desires to drill the West Taylor "12" Federal #1 in mid-November, I do not remember if I mentioned that date to you or not. In anticipation of Chevron's willingness to participate in the drilling of this well, we ask that you sign, date and return the information on this prospect on or before October 12, 1990. Please call me if Chevron does not desire to participate in the drilling of this well, perhaps we can discuss amicable farmout terms.

As always, we enjoy working with Chevron and are willing to work around your decision. I am certainly available if you need to discuss this matter, so please feel free to call at any time.

Very truly yours,

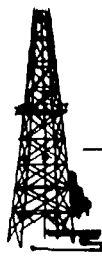
Shari A. Darr
Landman

SAD/dlm

wstaylor.ch2/LL

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HARVEY E. YATES COMPANY

P.O. BOX 1933

ONE SUNWEST CENTRE

505/623-6601

FAX 505/622-4221

ROSWELL, NEW MEXICO 88202-1933

October 30, 1990

Meridian Oil, Inc.
21 Desta Drive
Midland, Texas 79705

Attention: Don Davis

Re: T-18S, R-31E, N.M.P.M.
Sec. 12: N/2 SW/4
containing 80.0 acres, m/l
Eddy County, New Mexico
HEYCO's West Taylor II WIA

Gentlemen:

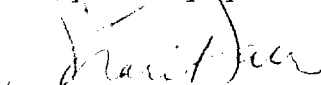
Please recall that Harvey E. Yates Company's (HEYCO's) July 31, 1990, letter proposed the formation of a 720-acre working interest area as support for the drilling of a Delaware test well in the NW/4 SW/4 of Section 12, T-18S, R-31E, Eddy County, New Mexico (referred to as the West Taylor "12" Federal #1).

Telephone conversations and letters from Meridian led HEYCO to believe that Meridian is in favor of having the well drilled but has no desire to join in a joint operating agreement to govern operatorship under an area as large as 720 acres.

HEYCO, therefore, submits the enclosed amended pages to the West Taylor Joint Operating Agreement for your review and acceptance. The contract area is described as the N/2 SW/4 of Section 12, T-18S, R-31E which covers the Taylor Deep "12" Federal #1-Y wellbore and proration unit, which HEYCO operates, as well as the interests in the proration unit for the proposed West Taylor "12" Federal #1.

HEYCO proposes to begin operations for the drilling of this well on or before December 15, 1990. Given this proposed timing, HEYCO would appreciate receiving as soon as possible, an indication of whether or not Meridian desires to participate in the drilling of the West Taylor "12" Federal #1.

Very truly yours,


Shari A. Darr
Landman

SAD/dlm
Enclosures

wstaylor.mer/LL

12/18/90 17:08

Drilling Schedule Strategy

When	Taylor/Prickly Pear Area	Well/Prospect
-07/31/90	- Proposal letter for the West Taylor 720 w.i.a. sent to DEVCO, Spiral, EPC, HEL, Meridian, WTW,	-Taylor West Taylor
-08/02/90	-Talked to Micky Cohlma (Chevron) today -- re: Taylor 12 #1-y plugback and proposed west offset.	-East Taylor West Taylor Taylor
-08/09/90	-Proposal ltr on the West Taylor sent to Chevron	-Taylor West Taylor
-09/06/90	- Called Meridian and Chevron today to visit about the West Taylor proposal.	-Taylor West Taylor
-09/06/90	-Letter from Meridian dated 9/6/90 and received 9/11/90, re: West Taylor	-Taylor West Taylor
-09/10/90	-Talked to Micky Cohlma, re: selling interest in Taylor area, decision on the Thornbush #2, decision on the Prickly Pear #2, West Taylor.	-East Taylor Taylor West Taylor Thornbush Prickly Pear
-09/10/90	- Called Chevron and Meridian today to ask about decisions on the West Taylor -- both landmen were out, left messages	-Taylor West Taylor
-09/10/90	- Talked to Micky Cohlma today -- he thinks that Chevron has decided not to participate in the West Taylor. He will have Mike Evans call us today.	-Taylor West Taylor
-09/14/90	- Called Don Davis at Meridian, re: West Taylor	-Taylor West Taylor
-09/20/90	- Revised original proposal to include only 440 acres for support on the West Taylor, per Meridian's suggestion.	-Taylor West Taylor
-09/21/90	- Called Meridian today - left message for Don Davis on the West Taylor	-Taylor West Taylor
-09/21/90	- Don Davis returned call today -- SAD was out, returned his call, he was on the phone. Calling, re: West Taylor area	-Taylor West Taylor
-09/21/90	- Called Mike Evans at Chevron today -- to talk about the West Taylor, left message	-Taylor West Taylor
-09/21/90	- Don Davis returned call, SAD on phone. SAD returned call, Don on the phone. Re: West Taylor	-Taylor West Taylor

12/18/90 17:08

Drilling Schedule Strategy

-09/24/90	-Talked to Don Davis w/Meridian, re: West Taylor 12 Federal #1	-Taylor West Taylor
-09/24/90	-Talked to Mike Evans with Chevron today, he referred call to James Baca. SAD calling in reference to the West Taylor.	-Taylor West Taylor
-09/24/90	-Sent revised Exhibit A-1 and A-2 of the W. Taylor II Shallow W.I.A. to Chevron, Meridian, WTW, YECO EPC, Spiral, DEVCO, HEL	-Taylor
-09/26/90	-Ltr to James Baca w/Chevron, re: WTaylor.	-West Taylor
-09/27/90	-James Baca w/Chevron called today -- left message. Calling about West Taylor	-Taylor West Taylor
-09/27/90	-Returned James Baca's phone call today, he asked if he could call back, re: WTaylor.	-West Taylor
-09/27/90	-Called Don Davis today, he was on phone, left message. WTaylor	-West Taylor
-09/28/90	-Talked to James Baca today - re: West Taylor, Thornbush and Prickly Pear	-Taylor West Taylor Prickly Pear Thornbush
-10/04/90	-Called Don Davis w/Meridian today -- no answer, calling re: West Taylor	-Taylor West Taylor
-10/09/90	-Conversation with Don Davis (Meridian), re: West Taylor. Don has a meeting with management, will get back with us.	-Taylor West Taylor
-10/23/90	-Conversation with Don Davis, re: West Taylor	-Taylor West Taylor
-10/30/90	-Ltr sent to Meridian, re: proposing a JOA covering the proration unit for the W. Taylor and the Taylor 12#1	-East Taylor Taylor West Taylor ET12#1
-11/07/90	-Talked to Don Davis, re: operating the West Taylor. Meridian will agree with the 80 acres (W Tay and Tay 12#1Y) if they can operate the balance of the S/2 of Sec 12.	-Taylor West Taylor
-11/08/90	-Talked to James Baca, re: how did hearing go? Still evaluating the West Taylor -- will send a follow up ltr. Asked if we are interested in the Pearsall	-Taylor West Taylor

12/18/90 17:08

Drilling Schedule Strategy

-11/08/90	- Conversation with Don Davis (Meridian), re: HEYCO's proposal to drill and operate West Taylor	-Taylor West Taylor
-11/14/90	- Conversation with Don Davis (Meridian), HEYCO wants to drill the West Taylor, if Meridian has a problem with forming a w.i.a., they should agree to the well only.	-Taylor West Taylor
-11/19/90	- Call from Don Davis (Meridian) (9:27 a.m.), was out of the office, calling re: West Taylor	-Taylor West Taylor
-11/20/90	- Conversation with Don Davis at Meridian, one well is approved, probably next week. West Taylor	-Taylor West Taylor
-11/26/90	- Called James Baca at Chevron at 1:32 p.m., line was busy	
-11/26/90	- Filed force pool application on the West Taylor	-Taylor FORCE West Taylor
-11/28/90	- Called James Baca (Chevron), left message on machine that he would be receiving force pool application on the W. Taylor -- HEYCO had to do that to get an answer...initial proposal was made in July and we wanted to drill this well in January.	-Taylor FORCE
-11/29/90	- Called James Baca today, left a message at 8:03, wanted to visit about the force pool on West Taylor	-Taylor FORCE West Taylor
-11/29/90	- Called Micky Cohlma today, wanted to find out if James Baca was out of town -- his wife had her 4th baby. Micky suggested that a geologist call George Burg 687-7750. Told Micky about the force pool on the West Taylor, he said that there should be no misunderstanding.	-Taylor FORCE West Taylor
-11/30/90	- Called James Baca (Chevron), he was out -- left message on his machine.	
-12/03/90	- Conversation with James Baca (Chevron) at 1:50, wanted to explain why HEYCO was force pooling	-FORCE
-12/03/90	- Don Davis (Meridian) called @ 3:45, returned his call at 3:55 - he was on the phone	
-12/05/90	- Called Don Davis (Meridian) @ 10:35 -- no one answered the phone	
-12/06/90	- Conversation with Don Davis from Meridian today	-East Taylor

12/18/90 17:08

Drilling Schedule Strategy

(8:20 a.m.), re: Meridian's proposal to plug back the Taylor 12 #1Y instead of drill the West Taylor Taylor

- 12/13/90 - Called Don Davis, he was out. Left message (8:05 a.m.)
- 12/13/90 - Conversation with Don Davis (Meridian), re: status of force pool hearing. -FORCE
- 12/13/90 - Conversation with James Baca (Chevron) (1:45 p.m.), re: update on Chevron's approval process.
- 12/14/90 - Msg from Dave P, re: Meridian's request to take the West Taylor to 6100' -Taylor West Taylor
- 12/14/90 - Conversation with Don Davis (Meridian) (2:00 p.m.), re: idea of taking West Taylor to 6100'. -Taylor West Taylor
- 12/17/90 - Conversation with James Baca (Chevron) (10:25 a.m.), re: possibility of farmout from Chevron on West Taylor -Taylor West Taylor
- 12/17/90 - Conversation with James Baca (Chevron) (1:02 p.m.), re: further discussion on possible farmout. Waiting on final management approval.
- 12/17/90 - Called Don Davis (Meridian) (2:05 p.m.), re: status of Meridian's decision on the West Taylor. He was out, would not be back that day. -Taylor West Taylor
- 12/18/90 - Call to Don Davis (Meridian) (9:10 a.m.), re: status of Meridian's decision on the West Taylor. He is waiting to have a meeting -- they are probably going to join. -Taylor West Taylor
- 12/18/90 - Call to James Baca (Chevron) (1:25 p.m.) today, re: could Chevron get HEYCO something in writing about its possible farmout terms on the West Taylor. He did not think that was possible because they were still seeking final management approval. -Taylor West Taylor
- 12/18/90 - Call to James Baca (Chevron) (3:00), re: HEYCO's willingness to draft a letter agreement setting out possible farmout terms on the West Taylor. Talked to Sam Martin, he has submitted farmout terms but they have not been approved by management -- not possible to get something in writing. -Taylor West Taylor
- 12/18/90 - Call from Don Davis (Meridian) (3:10 p.m.), re: -Taylor

12/18/90 17:09

Drilling Schedule Strategy

Meridian's decision on the West Taylor. They West Taylor
would join in the well, could not get us anything
in writing.