

PROPOSED ALLOCATION OF COSTS
Shallow Formations to base of Bone Spring
vs. 11,500' Wolfcamp Test

In the event the subject well is plugged back for a completion attempt in the Bone Spring, or any other zone in which the ownership differs from that which has been force-pooled as a result of this hearing;

1. Hanley Petroleum Inc. proposes that the cost of drilling and completing the subject well should be allocated between the Bone Spring and Wolfcamp formations in accordance with The Council of Petroleum Accountants Societies' Bulletin No.2, dated September, 1965, entitled Determination of Values for Well Cost Adjustments Joint Operations as follows:

Section A: DETERMINATION OF INTANGIBLE COSTS

Actual Historical Cost - amortized using straight-line method in subsection 3.

Section B: ALLOCATION OF INTANGIBLE COSTS

Subsections 1a and 2, with the drilling day ratio equaling the number of days required to drill to 100' below the shallow producing horizon divided by the total number of days from spud to rig-released. The cost of any operations known to be zone-specific, such as DST's, coring, squeezing, etc., should be withheld from the total cost, and the corresponding days deducted prior to determining the day ratio.

2nd

Section A: DETERMINATION OF TANGIBLE COSTS

Base price as in subsection 1a, depreciated according to subsection 2b, except that a life of seven years be substituted in the denominator.

2nd

Section B: ALLOCATION OF TANGIBLE COSTS

Subsection 1, 2, and 3.

2. Hanley further proposes that, for the purposes of these calculations, the operator of the subject well furnish all working interest owners an accounting of the actual well costs within 60 days of completion of drilling and completion operations.

RECORDS EXAMINER MONROE

OIL CONSERVATION DIVISION

NO. 15