

DATA IN SUPPORT OF  
NON-DRILLING PARTIES PARTICIPATING  
At 125% of "Reasonable" Actual Development Costs  
Incurred by Drilling Parties  
Gavilan Mancos Oil Pool  
Rio Arriba County, New Mexico  
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Purpose: When a spacing unit is enlarged subsequent to the drilling and completion of a well, it is reasonable that the drilling parties receive compensation from the non-drilling parties in proportion to their effective interest in the resulting spacing unit for all costs incurred plus some minor compensation for the fact that the total burden of "risk" in drilling and completing a well was taken by the drilling parties and the fact that monies necessary to drill and complete were paid for by the drilling parties. It is also not reasonable that the non-drilling parties be "required" to pay a large compensation normally associated with a conventional non-consent case since they were not afforded the opportunity to participate and it is possible that had participation been an option, the non-drilling party would have participated.

1. Compensation for "Risk":

Should be limited to the risk of effectively drilling and should not include any risk associated with well quality. The drilling risk is set by comparing "turnkey" to "footage" bids with the difference being the maximum actual cash exposure as the "risk" in the drilling of a well. Page No. 2 is a drilling bid dated 2-25-88 from Four Corners Drilling Company in Farmington for the drilling of Dugan Production Corp's Ramses II Com Well No. 1 in the NW/4 of Section 22, T-26N, R-2W:

Turnkey Bid = \$261,975  
Footage Bid = \$147,145  
\$114,800 - actual cash risk of a  
guaranteed well  
drilled to 8200'.

For Dugan Production's Ramses II Com Well No. 1 estimated drilling and completion cost of \$479,000, the \$114,800 represents a factor of 24.0%.

For Amoco's estimated drilling & completion costs for the Seifert Gas Com "A" Well No. 1 of \$600,000, the \$114,800 represents a factor of 19.1%.

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2. Compensation for Drilling & Completion Costs Paid:

This compensation should be limited to the approximate interest value on the money invested from spudding until the well is ready to place on production. For Dugan Production this would represent approximately 2 to 3 months, while on the Seifert Gas Com "A" Well No. 1, approximately 13 months were required (10/25/86 to 1/12/88). An overall average of 6 months is probably reasonable. Thus, assuming an interest rate of 8-1/2%, the interest for 6 months ranges from \$20,400 (4.3%) on an estimated well cost of \$479,000 to \$25,500 (4.3%) on an estimated well cost of \$600,000.

3. Summary of Compensation Estimates:

	Dugan Well <u>(\$479,000)</u>	Amoco Well <u>(\$600,000)</u>
Drilling Risk Compensation-	\$114,800 (24.0%)	\$114,800 (19.1%)
Investment Interest Comp. -	<u>20,400 ( 4.3%)</u>	<u>25,500 ( 4.3%)</u>
Total Compensation	\$135,200 (28.3%)	\$140,300 (23.4%)
	Average % = 25.85%	
	or for simplicity <u>25.0%</u>	

**FOUR CORNERS DRILLING CO.**

P. O. BOX 1067

491 HWY. 64

FARMINGTON, NEW MEXICO 87499

TELEPHONE: (505) 326-3371

February 25, 1988

Dugan Production Company  
709 Bloomfield Road  
Farmington, N.M. 87401

Re: Ramses II Com  
Section 22, T26N, R2W  
Rio Arriba County, New Mexico

Gentlemen;

The Four Corners Drilling Company turnky bid on the above referenced well is \$260,000.00. Contractor to furnish complete rig, fuel, labor, anchors, bits, mud, water, casing crew, rig time to run surface and production casing, rig time to condition hole for logs and guarantee logs to bottom. Daywork rates are \$3950.00 with or without drill pipe. Operator to furnish casing, cement, logging service, and rig time to log.

The footage rate on the well would be \$10.25 per foot. Contractor to furnish rig, fuel, labor, bits, casing crew, rig time to run surface and production casing, and rig time to condition hole for logs and and guarantee first log to bottom. Operator to furnish mud, water, anchors, rig time to log, logging service, casing, cement, and all normal third party services.

Thank you for the bid request and if we can be of further service please call on us.

Sincerely,

*W. E. Lang*  
W.E. Lang  
Vice President

WL:bb

8200' RAMSES II Com #1

Ⓐ Turnky drilling bid =	\$260,000
1/2 day logging =	1,975
	<u>\$261,975</u>
Ⓑ Footage drilling bid @ 10.25/ft =	\$84,050
1/2 Day logging =	1,975
mud =	45,000
drilling water =	15,000
ANCHORS =	1,200
	<u>\$147,145</u>