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**EXXON** COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

PRODUCTION DEPARTMENT  
SOUTHWESTERN DIVISION

October 10, 1994

Re: Yates Letter: Sept. 6, 1994  
Avalon (Delaware) Field, Eddy Co., N.M.David Boneau, Reservoir Engineering Supervisor  
Yates Petroleum Corporation  
105 S. Fourth Street  
Artesia, N. M. 88210

Dear Mr. Boneau:

One of the action items from our 6/17/94 Working Interest Owners' Meeting was for you to provide an alternative Equity Formula.

We have reviewed your proposal dated September 6, 1994. Instead of immediately circulating your letter, followed by our response, to the Working Interest Owners (WIO's) we believe it would be simpler if Yates and Exxon attempt to reach agreement on these matters, or at least clarify our positions as much as possible, prior to transmitting to WIOs. Our fundamental difference lies in equity resulting from how Phase 1 and 2 are defined.

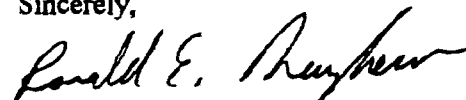
→ The waterflood is the reason the Unit has value to all of us and your representation of Phase 1 would be acceptable to us for the waterflood. The CO<sub>2</sub> flood has some probability of happening/not happening and your representation of Phase 2 is acceptable if a CO<sub>2</sub> flood is in the future at Avalon.

If your proposal is modified as follows we could support it:

- **Reference Item 4, your letter:** We prefer to vote for a Phase change coincident with WIO's agreeing to proceed with a CO<sub>2</sub> flood. However, if this is a problem, a compromise we would offer is to revise the automatic phase change date closer to an risked CO<sub>2</sub> injection date, such as the earlier of 12/31/2004 or the actual date of CO<sub>2</sub> injection.
- **Clarification, Item 5:** Investment equalization is not covered. It would seem consistent to treat it similar to Capital Expenditures, basing it on Phase 2 participation.
- **Clarification if Premier Acreage not in Unit:** Attachment 2 in your letter assumes a similar development plan if Premier acreage is not in the Unit. If Premier is not in the unit the 20 acre swath adjoining their 4 tracts could not be flooded; therefore, those reserves in those tracts would not be included in the calculation.

Our response to other areas of interest to you and other owners from our Working Interest Owners meeting are summarized in Attachment I. If these counterproposals are acceptable to you we will circulate the correspondence to all owners and request a vote under the pre-unit voting agreement.

Sincerely,

Ronald E. Mayhew  
Avalon Project Manager

## Attachment I: Other areas of interest, Avalon Unitization

Topic	WIO Issue	Exxon Proposal
Voting Percentage	75% approval level would give Exxon control of vote during Phase 1	Agree with WIO issue in concept; will work out exact details and numbers when participation determined
After Payout (APO)	requires a change in previous agreements	Unclear what Exxon as operator would need to do. Willing to consider if clear understanding of how to administer can be obtained.
Overhead	seems high compared to Ernst & Young data	As discussed in WIO Meeting: <ul style="list-style-type: none"> <li>• Ernst &amp; Young not comparable</li> <li>• no change unless comparable data for Avalon is submitted for discussion</li> </ul>
Bidding Crude & CO <sub>2</sub>	would like UOA to incorporate bidding of CO <sub>2</sub> and crude oil by operator for WIO's	Done: Wording submitted to ANPC 8/25/94, who made this request