

DAVID CROCKETT 27 STATE NO. 1
W/2 Section 27, T-18-S, R-28-E,
Eddy County, New Mexico

SUMMARY OF OPERATING AGREEMENT OVERHEAD RATES IN
T-18-S, R-28-E, N.M.P.M., EDDY COUNTY, NEW MEXICO

1. Operating Agreement dated February 6, 1997, Mewbourne Oil Company, Operator, and Marathon Oil Company, et al, Non-Operators, covering S/2 Section 34, T-18-S, R-28-E. Fixed Overhead rates of \$6,000 for drilling wells and \$600 for producing wells. Executed by Marathon on March 27, 1997.
2. Operating Agreement dated November 1, 1996, InterCoast Oil and Gas Company, Operator, and Marathon Oil Company, et al, Non-Operators, covering S/2 of Section 21, T-18-S, R-28-E. Fixed Overhead rates of \$5,828 for drilling wells and \$546 for producing wells. Executed by Marathon on February 19, 1997.



P.O. Box 552
Midland, TX 79702-0552
Telephone 915/682-1626

June 16, 1997

CERTIFIED MAIL & RETURN
RECEIPT REQUESTED

Attn: Janet Richardson, CPL
YATES PETROLEUM CORPORATION
105 South 4th St.
Artesia, NM 88210

Re: David Crockett 27 State No. 1
W/2 Section 27, T-18-S, R-28-E, N.M.P.M.
Eddy County, New Mexico

Gentlemen:

Marathon Oil Company (Marathon), as Operator, hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation, anticipated total depth being 11,200'. Furthermore, Marathon shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. The W/2 of the captioned Section 27 will be dedicated as the proration unit for the well.

The above well will be located at a legal location in the SW/4 of Section 27, T-18-S, R-28-E, Eddy County, New Mexico. An AFE is enclosed for your review. Should you desire to participate to the full extent of your interest in the drilling of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

A Joint Operating Agreement will be provided for your review and execution upon receipt of the executed AFE, or by prior written request.

In the event you do not wish to participate, Marathon respectfully requests you elect one of the following options as to your interest:

- I. Farmout all of your interest in the W/2 of Section 27 for a period of one hundred-eighty (180) days to Marathon under the following general terms:
 - (a) If any well drilled, deepened, completed or recompleted under the terms of our Farmout Agreement results in oil and/or gas production on a proration unit that includes your acreage, Marathon will earn an assignment of 100% of your rights and interest, free of any liens or encumbrances, in the proration unit assigned to each well from a depth of 500' below the top of the San Andres formation to a depth of 100' below the total depth drilled for each well, not to exceed the base of the Morrow formation.

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 11834 Exhibit No. 3
Submitted By:
Marathon Oil Company
Hearing Date: August 21, 1997

A subs	SENDER: ■ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ Print your name and address on the reverse of this form so that we can return this card to you. ■ Attach this form to the front of the mailpiece, or on the back if space does not permit. ■ Write "Return Receipt Requested" on the mailpiece below the article number. ■ The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
	3. Article Addressed to: Janet Richardson Yates Petroleum Corporation 105 South 4th St. Artesia, NM 88210		4a. Article Number <u>P 245 774 698</u>	
5. Received By: (Print Name) <u>Katie Brunson</u>		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD		
6. Signature: (Addressee or Agent) <u>Katie Brunson</u>		7. Date of Delivery <u>6-18-95</u>		
Is your RETURN ADDRESS completed on the reverse side?		8. Addressee's Address (Only if requested and fee is paid)		

Thank you for using Return Receipt Service.

David Crockett 27 State No.1

June 16, 1997

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- (b) Upon completion of the initial test well as a producer or dry hole, Marathon would have the recurring option, but not the obligation, to commence additional wells on New Mexico Oil Conservation approved proration units that include your acreage to establish oil and/or gas production under the captioned lands or land pooled therewith. If any such option is exercised, Marathon agrees to allow not more than 180 days to elapse between the completion of one well and the commencement of operations for any next well.
- (c) You will retain an overriding royalty interest equal to the difference, if any, between 25% of all oil and gas produced and the total of all royalty interests, overriding royalty interests and other burden or lawful claims upon production to which your leases may be currently subject, so that Marathon will be assigned a 75% net revenue interest in your lease(s) as to rights below a depth of 500' below the top of the San Andres formation to 100' below the total depth drilled, not to exceed the base of the Morrow formation. Such overriding royalty interest retained by you shall be subject to proportionate reduction.
- (d) Upon acceptance of our farmout proposal, you agree to furnish, at no cost to Marathon, title information such as copies of the leases covering the captioned lands, title opinions currently in your possession, title curative, letter agreements and any contracts currently in effect, etc.

Should the above general terms be acceptable to you, our formal Farmout Agreement will be provided under separate cover.

- (2) Sell all of your right, title and interest in the W/2 of Section 27, subject to title approval, for \$250 per net acre delivering an 80% net revenue interest to Marathon.

Your earliest response to this proposal would be greatly appreciated. If there are any questions, please call the undersigned at (915) 687-8490.

Very truly yours,



Tim B. Robertson
Advanced Landman

TBR:bk
Enclosure

David Crockett 27 State No. 1
SW/4 Section 27, T-18-S, R-28-E
Eddy County, New Mexico

WORKING INTEREST OWNERS:

Atlantic Richfield Company	50.00%
Yates Petroleum Corporation	18.05555%
Louis Dreyfus Natural Gas Corp.	15.97222%
Marathon Oil Company	15.97222%



P.O. Box 552
Midland, TX 79702-0552
Telephone 915/682-1626

June 16, 1997

CERTIFIED MAIL & RETURN
RECEIPT REQUESTED

Mr. Lee Scarborough
ATLANTIC RICHFIELD COMPANY
P. O. Box 1610
Midland, Texas 79702-1610

Re: David Crockett 27 State No. 1
W/2 Section 27, T-18-S, R-28-E, N.M.P.M.
Eddy County, New Mexico

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 - (a) If any well drilled, deepened, completed or recompleted under the terms of our Farmout Agreement results in oil and/or gas production on a proration unit that includes your acreage, Marathon will earn an assignment of 100% of your rights and interest, free of any liens or encumbrances, in the proration unit assigned to each well from a depth of 500' below the top of the San Andres formation to a depth of 100' below the total depth drilled for each well, not to exceed the base of the Morrow formation.

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	3. Article Addressed to: Mr. Lee Scarborough Atlantic Richfield Company P. O. Box 1610 Midland, TX 79702-1610	4a. Article Number P 245 774 699	Thank you for using Return Receipt Service.
5. Received By: (Print Name) 	4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD		
6. Signature: (Addressee or Agent) X	7. Date of Delivery JUN 18 1997	8. Addressee's Address (Only if requested and fee is paid)	

David Crockett 27 State No.1
June 16, 1997
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Tim B. Robertson
Advanced Landman

TBR:bk
Enclosure

David Crockett 27 State No. 1
SW/4 Section 27, T-18-S, R-28-E
Eddy County, New Mexico

WORKING INTEREST OWNERS:

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David Crockett 27 State No.1
June 16, 1997
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Eddy County, New Mexico

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Region Mid-Continent Region
 Field/Prospect Travis/Empire Morrow Text
 Lease/Facility David Crockett 27 State No. 1
 Location SW/4, S27-T18S-R28E; Eddy County, NM

WILDCAT
 DEVELOPMENT RECOMPLETION
 DEVELOPMENT EXPL WORKOVER

Est. Total Depth 11,200' Est. Drilling Days 35 Est. Completion Days 10

SOURCE	QUANTITY	DESCRIPTION	ACCT. CAT. - FEATURE NO.	C O N D	ESTIMATED COST
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DRILLING COSTS - TANGIBLE

		Drive Pipe	81-7		
		Conductor Pipe	81-8		
Purchase	575	Surface Pipe - 13-3/8", 48#, H-40, 8rd, STC	81-9		9,000
Purchase	2,700	Casing, Intermediate String No. 1 - 9-5/8"	81-11		30,000
		Casing, Intermediate String No. 2	81-12		
		Drilling Liner	81-19		
		Drilling Liner Hanger and Tieback Equipment	81-22		
Purchase		Drilling Wellhead Equipment	81-80		4,500
Purchase		Miscellaneous Materials	81-217		1,000

TOTAL DRILLING COSTS - TANGIBLE \$ 44,500

DRILLING COSTS - INTANGIBLE

Contract		Surveying, Location & Access	81-2		500
Contract		Well Location & Access	81-5		15,000
Contract		Daywork Drilling - \$5,650/24 hr. day inc. Fuel	81-36		27,500
Contract	11,200	Footage Basis Drilling - Dry Hole Drilling	81-37		230,000
		Turnkey Drilling	81-38		
		Drilling Rig Mob/Demob	81-39		
		Blowout Prevention Equipment	81-41		
		Drill Pipe & Collars	81-44		
		Drilling & Service Tools	81-45		
		Drilling Services	81-50		
		Snubbing Units, Company	81-62		
		Snubbing Units, Contract	81-68		
Contract		Mud System/Solids Control	81-40		4,000
Contract		Mud and Mud Services	81-71		25,000
		Bits	81-69		
		Stabilizers, Hole Openers, Underreamers	81-70		
		Oil	81-72		
		Grease	81-72		
		Fuel, Diesel (Not furnished by Contractor)	81-74		
Contract		Water	81-336		12,000
Contract		Casing Tools and Services	81-90		9,000
Contract		Cement and Cementing Service	81-91		25,000
Contract		Logging Services, Open Hole	81-93		30,000
		Logging Services, Cased Hole	81-94		
Contract		Mud Logging	81-95		10,000
Contract		Inspection, Pipe & Casing	81-97		3,500
		Directional Services	81-101		
		Coring	81-102		
Contract		Formation Testing, Open Hole	81-104		4,500
		Formation Testing, Cased Hole	81-105		
		Well Control Services	81-120		
Contract		Trucking/Transportation, Other	81-126		5,500
Contract		Well Test Equipment	81-127		2,500
		Fishing Tools and Services	81-133		
		Abandoning Tools and Services	81-136		
		Sidetracking, Milling Sections, Whipstocks	81-185		
Contract		Miscellaneous Materials	81-217		3,500
Contract		Contract Labor, Welding	81-233		1,000
Contract		Contract Labor, Other - \$400/24 Hr. Day	81-237		15,000
Contract		Contract Services, Living Quarters - \$100/Day	81-243		3,500
		Contract Services, Other	81-266		
Contract		Hydrogen Sulfide Testing - \$150/Day	81-320		4,000
		Spill Control Equipment	81-454		
Contract		Computer Hardware - \$25/Day	81-568		800
Contract		Communications, Field - \$50/Day	81-658		1,800
		Regulatory Compliance	81-685		
MOC		Company Labor & Burden - \$375/Day	81-750		13,000
		Overhead	81-770		
		Indirect Expense	81-779		

TOTAL DRILLING COSTS - INTANGIBLE \$ 446,600

TOTAL DRILLING COSTS \$ 491,100

Region Mid-Continent
 Field/Prospect Travis/Empire Morrow Test
 Lease/Facility David Crockett 27 State No. 1

SOURCE	QUANTITY	DESCRIPTION	ACCT. CAT. - FEATURE NO.	C O N D	ESTIMATED COST
COMPLETION COSTS - TANGIBLE					
Purchase	11,200	Production Casing	82-15		91,000
		Production Liner	82-18		
		Production Liner Hanger & Tieback Equipment	82-21		
Purchase	10,600	Tubing - 2-3/8" O.D., 4.7#, L-80	82-23		36,000
		Wellhead Equipment (Drilling)	82-80		4,500
Purchase		Christmas Tree	82-87		9,000
Purchase		Packers	82-137		6,000
		Rod Pump	82-143		
		Electric Submersible Pump	82-149		
		Completion Wellhead Equipment	82-167		
TOTAL COMPLETION COSTS - TANGIBLE					\$ 146,500

COMPLETION COSTS - INTANGIBLE					
Contract		Location and Access	82-1		1,500
		Drilling Rig During Completion	82-34		11,000
Contract		Blowout Preventer	82-41		1,500
		Tools - Drilling & Service	82-45		
		Rig, Completion	82-48		
		Workover Units, Company	82-55		
Contract		Workover Units, Contract	82-56		7,500
		Snubbing Units, Company	82-62		
		Coiled Tubing Service Units, Contract	82-67		
		Snubbing Units, Contract	82-68		
		Underreamers, Stabilizers, Hole Openers	82-70		
		Lubricants	82-72		
		Fuel, Diesel	82-74		
		Casing Tools and Services	82-90		9,000
		Cement and Cementing Services	82-91		28,000
		Logging Services, Open Hole Wells	82-93		
Contract		Logging Services, Cased Hole Wells	82-94		3,500
Contract		Tubular Inspection, Testing & Cleaning	82-96		7,000
Contract		Formation Testing	82-103		3,000
Contract		Formation Treating	82-113		4,000
Contract		Transportation, Other	82-126		3,500
Contract		Test Equipment - Well Testing	82-127		7,500
		Fishing Tools and Services	82-133		
Contract		Completion and Packer Fluids	82-180		1,000
Contract		Perforating	82-182		16,000
Contract		Wireline Services	82-183		1,500
		Sidetracking, Milling Sections, Whipstocks	82-185		
Contract		Miscellaneous Materials	82-217		3,500
Contract		Miscellaneous Services	82-218		7,000
Contract		Contract Labor, Laborer	82-234		3,000
Contract		Contract Services, Other	82-240		7,400
Contract		Treating Chemicals, Other	82-291		1,000
Contract		Salt Water Disposal & Trans Fees	82-371		1,000
Contract		Rental Tools & Equip.	82-585		4,300
		Communications - Field	82-658		
		Regulatory Compliance	82-685		
NOC		Company Labor & Burden	82-750		3,800
		Overhead	82-770		
		Indirect Expense	82-779		3,800
TOTAL COMPLETION COSTS - INTANGIBLE					\$ 139,500

TOTAL COMPLETION COSTS \$ 286,000

Region Mid-Continent
 Field/Prospect Travis/Empire Morrow Test
 Lease/Facility David Crockett 27 State No. 1

SOURCE	QUANTITY	DESCRIPTION	ACCT. CAT. - FEATURE NO.	C O N D	ESTIMATED COST
SURFACE EQUIPMENT - TANGIBLE					
Purchase		Line Pipe	83-27		1,500
Purchase		Transportation, Other	83-126		2,500
		Pumping Unit	83-141		
		Pumping Equipment - Rod Pump	83-143		
		Flowing/Plunger Lift Equipment	83-146		
		Submersible Pump - Electric	83-149		
		Submersible Pump - Hydraulic	83-152		
		Gas Lift Equipment	83-155		
		Pumps	83-158		
Purchase		Tanks	83-170		10,000
Purchase		Metering Equipment	83-190		4,000
		Instrumentation	83-194		
		Electrical Equipment, Other	83-201		
Purchase		Valves	83-205		2,500
Purchase		Miscellaneous Materials	83-217		10,000
		Contract Labor, Electrical	83-229		
Contract		Contract Labor, Welding	83-233		1,000
Contract		Contract Labor, Other	83-237		4,000
Contract		Contract Services, Other	83-240		2,000
		Compressor Installation	83-365		
Purchase		Dehydration	83-376		10,000
		Crude Oil Treaters	83-378		
Purchase		Separator	83-380		10,000
		Vapor Recovery Units	83-386		
		Free Water Knockouts	83-388		
		Regulatory Compliance (Includes Permitting)	83-685		
MOC		Company Labor & Burden	83-750		2,000
TOTAL SURFACE EQUIPMENT - TANGIBLE					\$ 59,500

ENVIRON. COSTS *****		SUMMARY OF ESTIMATED DRILLING WELL COSTS	(%)
		Total Drilling Cost	\$	491,100
		Total Completion Cost	\$	286,000
Spill Cleanup 41 _____%		Total Surface Equipment	\$	59,500
Remediation 42 _____%		Grand Total Cost	\$	836,600
Air 43 _____%		Marathon's Share of Grand Total Cost to be Booked This Year	\$	
Water 44 _____%		If Wildcat Well, Give Marathon's Share of Dry Hole Cost	\$	
Solid Waste 45 _____%				
Other 47 _____%				
Non-ENV _____%				
Total 100%				

PARTICIPANT'S APPROVAL

Name of Company: _____
 Signature: _____ Date: _____
 Title: _____