



# United States Department of the Interior

## BUREAU OF LAND MANAGEMENT

Roswell District Office  
P.O. Box 1397  
Roswell, New Mexico 88202-1397



IN REPLY  
REFER TO:

Drainage Case No. RNM-91-0066  
Lease No. NM-81893  
3100.2 (065)

CERTIFIED MAIL--RETURN RECEIPT REQUESTED  
P 310 151 153

SF Energy Operating Partners  
500 W. Illinois #500  
Midland, TX 79701

VD	TP
LM	LES
GG	DB
EW	EF
DETESTED	ORFT

RECEIVED

APR 2 - 1991

LAND DEPT.  
MIDLAND, TX

File

MAR 29 1991

*Done 5/1/91 efw*

### INITIAL NOTIFICATION OF POSSIBLE DRAINAGE

Gentlemen:

The Bureau of Land Management, Roswell District, is conducting a Districtwide review of areas in which Federal oil and gas leases may be affected by offset producing wells. The proximity of such wells and normal well spacing are the factors used to determine whether or not lessees are notified of any potential drainage situations at this preliminary stage of review.

According to our records, you are a lessee of Federal oil and gas lease number NM-81893. The following portion of this lease is currently being reviewed for possible drainage based on the proximity of the #1 Algerita AHR State well, located 1980'FNL and 660'FEL, section 16, T. 20 S., R. 24 E., Eddy County, New Mexico. This well was reported as completed on November 26, 1990, in the Canyon Formation, with an initial potential of 3034 MCFGPD.

The possibly affected lands within this lease are:

T. 20 S., R. 24 E., sec. 10: W2.

Both the terms of the lease and the oil and gas operating regulations require protection of the leased lands from drainage. If you believe that drainage is not occurring, or that an economic well could not have been drilled at any time since the first production from the potentially offending well, we encourage you to submit geologic and engineering data which support your position. Our technical staff will then review such data, as well as all available data in the area, in order to make a drainage determination. Any material you wish to submit will be considered confidential.

If our final determination is that drainage is occurring and an economic well could have been drilled, you may be required to protect the lease through one of the following options:

1. Drill a protective well on the drained tract and pay compensatory royalty for the period prior to drilling and producing the protective well.

NEW MEXICO

OIL CONSERVATION DIVISION

*Santa Fe* *2*

A051651

CASE NO. *10871*

2. Pay compensatory royalty.

3. Relinquish the affected portions of the lease after payment of any compensatory royalty that is due.

If you have any questions, please contact Les Babyak, Wayne Melton, or Jim Pettengill at (505) 622-9042.

Sincerely,

A handwritten signature in cursive script, appearing to read "Armando G. Lopez".

Assistant District Manager  
Minerals

**A051652**

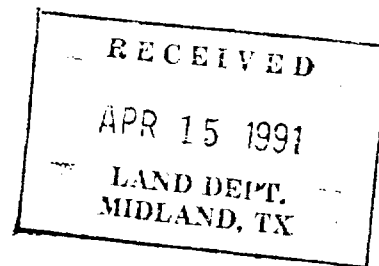
MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

VD TP 105 SOUTH FOURTH STREET  
LM LES AB TESIA, NEW MEXICO 88210  
GG DB 1  
EW DF 4  
FR DRFT  
File

April 12, 1991



Santa Fe Energy Operating Partners, L. P.  
550 West Texas Street, Suite 1330  
Midland, Texas 79701

Attention: Gary Green.

*? Where to Be Filed*  
RE: Township 20 South, Range 24 East  
Section 10: W/2  
Eddy County, New Mexico

Gentlemen:

Yates Petroleum Corporation is responding to the BLM letter concerning drainage of the captioned acreage. We will keep you advised as to their response.

We visited with John Yates after our joint meeting last week and updated him as to your concerns on this lease. As you know, the geologist has picked a Morrow location in Unit F and a Canyon location in Unit N. If Santa Fe wants a well on the W/2 of Section 10 this year, Yates Petroleum Corporation will immediately propose such a test in Unit N and recommend it be drilled next fall when gas prices will hopefully be higher.

Please discuss this and advise us as to your ideas.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

*Kathy H. Porter*  
Kathy H. Porter  
Landman.

NEW MEXICO  
OIL CONSERVATION DIVISION  
*Santa Fe* EXHIBIT 3  
CASE NO. 10871

KHP/pkw

A051658

# **Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

November 4, 1991

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: Dagger Draw  
Development Proposal

Gentlemen:

In planning for the 1992 drilling budget and development of the Dagger Draw Prospect, Santa Fe submits the following proposal for your review and consideration:

- A. Santa Fe requests one drilling rig be continuously assigned to the Santa Fe/Yates jointly owned leases for the drilling of 10 wells. Santa Fe feels this will be a prudent and orderly method of development.
- B. Santa Fe proposes the following locations be drilled during 1992:

<u>Location</u>	<u>Formation</u>	<u>Month</u>
1. NE/4SE/4 of Section 14	Cisco Canyon	December/January
2. SE/4NE/4 of Section 11	Cisco Canyon	January/February
3. SE/4SE/4 of Section 10	Cisco Canyon	March
4. SW/4SE/4 of Section 2	Cisco Canyon	April
5. SE/4SE/4 of Section 11	Cisco Canyon	May
6. SE/4SW/4 of Section 2	Cisco Canyon	June
7. NW/4NE/4 of Section 11	Cisco Canyon	July
8. NW/4SW/4 of Section 15	Cisco Canyon	August
9. NW/4SE/4 of Section 11	Cisco Canyon	September
10. SE/4NW/4 of Section 11	Cisco Canyon	October

Santa Fe's primary concerns in this prospect are to protect the Santa Fe/Yates leases from drainage, and the orderly development of this prospect.

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

NEW MEXICO  
OIL CONSERVATION DIVISION  
*Santa Fe* EXHIBIT *4*  
CASE NO. *10871*

Yates Petroleum Company  
November 4, 1991  
Page 2

Santa Fe would be available to review its proposal, along with any proposal Yates has on this prospect for 1992, prior to the end of the year.

Should you have any questions, please give me a call.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Gary Green, Senior Landman

cc: T.S. Parker  
L.E. Shuflin  
Bill Fulton  
Gene Davis

GG:pr

pr1948



**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

March 10, 1992

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: Dagger Draw Prospect  
Eddy County, New Mexico

Dear Kathy:

As previously discussed, please find enclosed an agenda for the proposed Dagger Draw Prospect meeting Santa Fe is requesting.

After you have reviewed the agenda with your various departments, give me a call and we will schedule a meeting, hopefully semi-convenient for all concerned.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By: Gary Green  
Gary Green, Senior Landman

GG:pr

Enclosure a/s

pr2092

NEW MEXICO  
OIL CONSERVATION DIVISION

Santa Fe EXHIBIT 5

CASE NO. 10871

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915-687-3551

Santa Fe Energy Resources & Yates Petroleum Corporation  
Dagger Draw AMI Management Agenda - 1992

- I. Development Plans
  - A. Approved wells to date
  - B. Anticipated 1992 full program and approximate timing
  - D. Ultimate development plan for field
    - 1. Oil leg
    - 2. Gas Cap
- II. Geologic/Reservoir Interpretation
  - A. Status of Core Evaluation - Saguaro 8; FMI work, etc.
  - B. Pressure history within field
  - C. Any interference problems observed
  - D. Atoka/Morrow development plans
- III. Completion Techniques
  - A. Perforating - net pay picks to minimize water production
  - B. Stimulations - results of recent low rate matrix acidizing techniques
  - C. Dual completions - proposal to dually complete Conoco AGK #1
- IV. Well Review
  - A. Test data
  - B. Mechanical set-up of batteries - which wells currently go to which batteries - any new batteries to add
  - C. AFE's
    - 1. Actual amounts vs. AFE'd amounts
    - 2. AFE requirements for expenditures above limit
    - 3. Pipeline costs charged to wells
  - D. Saguaro #2 and Larue #1 curtailment
  - E. Sub. pump vs. beam pump
  - F. C-115 volumes
  - G. Timely copies of all regulatory filings
- V. Disposal and Gathering Systems
  - A. Fees charged by Yates
  - B. Any work on passing fees through to mineral and royalty owners
  - C. Status of payment
- VI. Gas Marketing
  - A. Current purchaser and contract (if any)
  - B. Current processing agreement and fees charged by Mitchell
  - C. Marketing of sweet gas being used for compressor fuel
  - D. NGL volumes retroactive to first production

In addition to the above discussion topics, if possible, we would like to get copies of the following:

- 1) Well test date for all wells - most recent 7 days
- 2) NTL-2B's for all facilities installations - most recent for each
- 3) Current map of SWD and gathering systems
- 4) Processing agreements

# Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company  
Managing General Partner

September 23, 1992

Certified Mail P 987 116 546

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: Dagger Draw Prospect  
Eddy County, New Mexico  
Proposed Drilling Schedule

Gentlemen:

In reference to our telephone conversation concerning the development of the Dagger Draw Prospect for the remainder of 1992, Santa Fe proposes the following wells be drilled:

Well Name	Location
1. Senita "AIP" #2	SE/4 SW/4 Section 14
2. Hill View "AHE" #13	NE/4 SE/4 Section 14
3. Saguaro "AGS"	SW/4 SW/4 Section 15
4. Ocotillo "ACT" #2	SW/4 SW/4 Section 10
5. Sara "AHA" #7	SW/4 SW/4 Section 11
6. Saguaro "AGS" #1	NE/4 SW/4 Section 11
7. Candelilla "AKD" #3	SW/4 SW/4 Section 2

In comparing the allowable to current production, we feel the above wells would not cause allowable problems. The wells proposed in Sections 10 and 15 should be drilled as early as possible to take advantage of the current increase in gas prices.

Should you have any questions, please feel free to contact me.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By: Gary Green  
Gary Green, Division Landman

GG:pr2391

cc: Tim Parker  
Lou Shufin  
Gene Davis  
Robert Winkler

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

NEW MEXICO  
OIL CONSERVATION DIVISION

Santa Fe EXHIBIT 6

CASE NO. 10871

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a & b.
- 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 Fee will provide you the signature of the person delivered to and the date of delivery.

I also wish to receive the following services (for an extra fee):

- ☒ Addressee's Address
- ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

4a. Article Number

P 987 116 546

4b. Service Type

☐ Registered ☐ Insured

☒ Certified ☐ COD

☐ Express Mail ☐ Return Receipt for Merchandise

7. Date of Delivery

9-25-92

5. Signature (Addressee)

6. Signature (Agent)

8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, November 1990 \* U.S. GPO: 1991-287-006

DOMESTIC RETURN RECEIPT

P 987 116 546

**Receipt for Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

PS Form 3800, June 1991

Sent to	
Yates Petroleum Corporation	
Street and No.	
105 South Fourth	
P.O., State and ZIP Code	
Artesia, NM 88210	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	

P 787 116 546



**Receipt for  
Certified Mail**

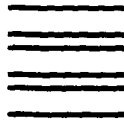
No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to <b>Yates Petroleum Corporation</b>	
Street and No. <b>105, South Fourth</b>	
P.O., State and ZIP Code <b>Artesia, NM 88210</b>	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	

PS Form 3800, June 1991

UNITED STATES POSTAL SERVICE

Official Business



PENALTY FOR PRIVATE  
USE, \$300

Print your name, address and ZIP Code here

**Santa Fe Energy Operating Partners, L.P.  
660 W. Texas Suite 1330  
Midland, Texas 79701**



Santa Fe Pacific Exploration Company  
Managing General Partner

7

September 10, 1993

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attn: Robert Bullock

Re: Daggar Draw Prospect  
Daggar Draw "10" Federal No. 31  
990' FSL & 990' FWL  
Section 10, T20S, R24E  
Eddy County, New Mexico

Gentlemen:

Santa Fe Energy Operating Partners, L. P. hereby proposes the drilling of the Daggar Draw "10" Federal No. 31 well at a legal location of 990' FSL & 990' FWL in Section 10, T20S, R24E, Eddy County, New Mexico which is to be drilled to a depth sufficient to test the Cisco Canyon formation.

Enclosed are two (2) copies of Santa Fe's well cost estimate. Please return one original to my attention.

Should you have any questions, please contact me at (915) 686-6630.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company  
Managing General Partner

By: *Gary Green*  
Gary Green, Division Landman

GG/kt  
2 Encls

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

NEW MEXICO  
OIL CONSERVATION DIVISION  
*Santa Fe* EXHIBIT 7  
CASE NO 10871

## SANTA FE ENERGY OPERATING PARTNERS, L.P.

GENERALIZED WELL COST ESTIMATE

NAME: Dagger Draw "10" Federal No.31

LOC: 990' FSL &amp; FWL, Sec.10-20S-24E, Eddy County, New Mexico

DESC: Drill and Complete A 7,950' Cisco/ Canyon Oil Well



ACCOUNT	DESCRIPTION OF COSTS	DRY HOLE	PRODUCER
501-000	TANGIBLE WELL COSTS		
-41	CONDUCTOR CSG	3,000	3,000
-41	SURFACE CSG		
-41	PROTECTION CSG	9 5/8" 36.0 ppf K-55 ST&C @ 1,200'	14,400
-41	INTERMEDIATE CSG		14,400
-41	PROD CSG	7" 23.0 & 26.0 K-55 & L-80 LT&C @ 7,950'	100,800
-41	PROD LINER		
-42	TUBING	2-7/8" 6.5 ppf K-55 8-rd EUE @ 7,950'	20,160
-43	WELLHEAD		2,000
-44	PMPG UNIT		8,000
-45	PRIME MOVER		
-50	OTHER DWN HOLE EQUIP		2,500
-50	RODS		
-50	SUBSURFACE PMPS	Sub Pump	75,000
-55	CSG EQUIP	1,500	5,000
-55	ELECTRICAL		8,000
-55	MISC. TANGIBLES		1,000
-55	ROD EQUIP		
-55	TUBING EQUIP		2,000
	TOTAL TANGIBLE COSTS	20,900	239,860
541-000	LEASE FACILITY COSTS		
-50	FLOW LINES		6,000
-50	LABOR		10,000
-50	OTHER PROD EQUIP		20,000
-50	TANK FACILITIES		18,000
	TOTAL LEASE FACILITY COSTS	0	54,000
511-000	INTANGIBLE WELL COSTS		
-21	LOCATION	15,000	15,000
-22	FENCING	1,000	3,000
-26	WTR & FUEL FOR RIG	30,000	30,000
-31	CONTRACTOR MOVING EXP		
-32	CONT FOOTAGE OR TURNKEY	\$15/ft X 7950'	119,250
-32	CONTRACTOR DAY WORK	2 days X \$4500/day	9,000
-33	DRLG FLUID & ADDITIVES		15,000
-34	BITS & REAMERS		
-36	CORING & CORE ANALYSES		
-37	CEMENT	15,000	40,000
-39	INSPECTION & TSTG OF TANG	3,000	8,000
-41	DIRECTIONAL DRLG SURVEYS		
-42	DRILLING EQUIP RENTAL	8,000	8,000
-43	OPEN HOLE LOGGING	CNL/LDT/DLL/MSFL	20,000
-44	DRILL STEM TSTG		
-45	MUD LOGGING	5,000	5,000
-51	TRANSPORTATION	4,000	10,000
-52	COMPLETION UNIT	\$1200/day X 10 days	12,000
-53	COMPLETION TOOL RENTAL		4,000
-54	CASED HOLE LOGS & PERFING		12,000
-55	STIMULATION		30,000
-56	RIG SITE SUPERVISION	15 + 10 X \$400/day	6,000
-72	ADMINISTRATIVE OVERHEAD	3,000	5,000
99	FSHG TOOLS & EXPENSES		
99	TESTING: BHP, GOR, 4 PT. POT		4,883
	ABANDONMENT COST	4,940	
	OTHER INTANGIBLES		
0	CONTINGENCY (5%)	12,910	19,007
	TOTAL INTANGIBLES	271,100	378,140
	TOTAL COSTS	292,000	672,000

Drilling Dept:

Daniel Roberts

Date:

8/17/93

Operations Dept:

M. R. Buxton by me

Date:

8/17/93

SFER Approval By:

P. R. Pralier by ju

Date:

8/20/93

Non Operator Approval By:

Date:

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

MUST BE RETURNED

By \_\_\_\_\_

8  
S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

September 20, 1993

Santa Fe Energy Operating Partners, L. P.  
550 West Texas, Suite 1330  
Midland, Texas 79701

Attention: Gary Green

RE: Ocotillo ACI Federal Com. #2  
Township 20 South, Range 24 East, NMPM  
Section 10: S/2  
Eddy County, New Mexico

Gentlemen:

Enclosed for your review, please find the following:

1. Two copies of September 9, 1992 Authority For Expenditure covering the captioned well.
2. Vandiver Title Opinion No. 583 dated March 11, 1993 covering NM-81893.
3. Copy of APD approved November 5, 1992 covering said well.
4. Operating Agreement dated September 20, 1993 covering S/2 of Section 10, Township 20 South, Range 24 East.

We have received your AFE proposing a Canyon well in the W/2 of Section 10, Township 20 South, Range 24 East. As you can see from the dates above, we had planned to propose the captioned well be drilled next summer prior to the July 31, 1994 expiration date. As you know, the E/2 is under Operating Agreement dated August 29, 1989; however, we would like to have one Operating Agreement for the S/2 proration unit well.

The AFE covers an 8,200' Canyon test located 660/S and 660/E of Section 10, Township 20 South, Range 24 East. Our 1992 AFE can be updated if you feel it is necessary. Our geologists feel this location is much closer to the "oil leg" and therefore is a preferred location in the S/2.

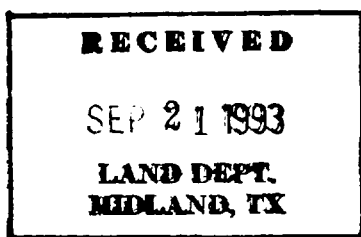
We respectfully request your consideration for approval of this well for the first S/2 well and your withdrawal of your well proposal in the SW/4. Should you have any questions, please do not hesitate to contact us.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

*Kathy H. Porter*  
Kathy H. Porter, CPL  
Landman



KHP/pkw  
Enclosures

NEW MEXICO  
OIL CONCENTRATION DIVISION

*Santa Fe* \_\_\_\_\_ *8*

CASE NO. *10871*

*Copy 9-23-93*  
*Curtis Smith*  
*Gene Dicks (A)*  
*John Smith*



**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

9

Certified Mail P 237 027 771

October 27, 1993

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: Dagger Draw "10" Fed. #31  
W/2 Section 10, T-20-S, R-24-E  
Eddy County, New Mexico

Gentlemen:

Enclosed is notice of Santa Fe Energy Operating Partners, L.P.'s Application for Compulsory Pooling for the captioned well. The hearing is scheduled before the New Mexico Oil Conservation Division on November 18, 1993.

Santa Fe furnished Yates with a Well Proposal and Well Cost Estimate under cover letter dated September 10, 1993.

Should you have any questions, please feel free to contact me.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By: *Gary Green*  
Gary Green, Division Landman

GG:pr

Enclosure a/s

pr2795

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

NEW MEXICO  
OIL CONSERVATION DIVISION

*Santa Fe* 10821 9  
CASE NO. 10821

P 237 027 771



# Receipt for Certified Mail

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to:	
Yates Petroleum Corp.	
Street and No.	
105 South Fourth	
P.O. State and ZIP Code	
Artesia, NM 88210	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
MAILED 10/27/93	

PS Form 3800, June 1991

Fold at line over top of envelope to the right of the return address

**CERTIFIED**

P 237 027 771

**MAIL**

Thank you for using Return Receipt Service.

<b>SENDER:</b> • Complete items 1 and/or 2 for additional services. • Complete items 3, and 4a & b. • 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 checked="" type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to: Yates Petroleum Corporation 105 South Fourth Artesia, NM 88210		4a. Article Number P 237 027 771	
		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
		7. Date of Delivery	
5. Signature (Addressee)		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature (Agent)			

PS Form 3811, December 1991 U.S. POST OFFICE

NOTE:

N1 : OPERATION NUMBER 48 : 4800BPS SELECTED EC : ERROR CORRECT  
 PD : POLLER BY REMOTE SF : STORE & FORWARD RI : RELAY INITIATE  
 MB : SEND TO MAILBOX PG : POLLING & REMOTE MP : MULTI-POLLING RM : RECEIVE TO MEMORY  
 RS : RELAY STATION G2 : G2 COMMUNICATION

TOTAL 0:02:23" 6

1	7489758	10-27-98 10:28AM	2:23"	6 / 6	EC	COMPLETED 9600
NO.	REMOTE STATION	START TIME	DURATION	#PAGES	MODE	RESULTS

\*\*\* SEND \*\*\*

\*\* COUNT \*\*  
 TOTAL PAGES SCANNED : 6  
 TOTAL PAGES CONFIRMED : 6

THIS DOCUMENT WAS CONFIRMED  
 (REDUCED SAMPLE ABOVE - SEE DETAILS BELOW)

# TRANSMISSION REPORT

SENT: 10/27/98

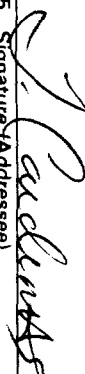
**SANTA FE ENERGY RESOURCES, INC.**  
 Midland, Texas

TO: South Gate (Name) Midland (Location)  
 FROM: Greg Green  
 DATE: 10-27-98 TIME NEEDED: 15M  
 REGARDING: Relay Application

6 Pages (including cover letter)

IF YOU DO NOT RECEIVE ALL PAGES, CALL: 1-815-667-3661  
 ASK FOR: \_\_\_\_\_

DISPOSITION OF ORIGINAL: Return to Sender \_\_\_\_\_  
 Mail to Receiver \_\_\_\_\_  
 File \_\_\_\_\_  
 Destroy \_\_\_\_\_

<b>SENDER:</b> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>• The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul>		I also wish to receive the following services (for an extra fee):	
3. Article Addressed to: Yates Petroleum Corporation 105 South Fourth Artesia, NM 88210		1. <input checked="" type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
4a. Article Number P 237 027 771		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
5. Signature (Addressee) 		7. Date of Delivery OCT 28 1993	
6. Signature (Agent)		8. Addressee's Address (Only if requester and fee is paid)	
PS Form 3811, December 1991 *U.S. GPO: 1992-323-402 DOMESTIC RETURN RECEIPT			

PS Form 3800, June 1991

YATES PETROLEUM CORP. 105 SOUTH FOURTH ARTESTA, NM 88210	
POSTAGE \$	RETURN POSTAGE TO WHOM & DATE DATE AND ADDRESS TOTAL POSTAGE \$

P 237 027 771

Receipt for  
Certified Mail

Do not use for International Mail  
(See Reverse)

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



MUST BE RETURNED 105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
By N/A TELEPHONE (505) 748-1471

November 5, 1993

CERTIFIED MAIL  
RECEIPT REQUESTED

Santa Fe Energy Operating Partners, L. P.  
550 West Texas, Suite 1330  
Midland, Texas 79701

Attention: Gary Green

RE: Zorrillo ANZ Federal #1  
Township 20 South, Range 24 East, NMPM  
Section 10: NW/4  
Eddy County, New Mexico

GG	TP
ST	PR
CS	DB
EW	DF
FR	DEPT
GD	RT
RR	
VW	JS

Gentlemen:

Yates Petroleum Corporation proposes the drilling of the captioned well at a location of 1980' FNL and 1980' FWL of Section 10, Township 20 South, Range 24 East. Approximate Authority For Expenditure costs are \$273,100.00 dry hole and \$551,900.00 completed. We invite you to join, farmout or sell your interest to us.

We have enclosed two copies of AFE and one copy of Operating Agreement with extra signature page attached. You were previously furnished a copy of the Drilling Title Opinion on September 20, 1993.

If it is your wish to join and drill with us, please execute and return one copy of the AFE and the extra signature page to the Operating Agreement.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

*Kathy H. Porter*  
Kathy H. Porter, CPL  
Landman

KHP/pkw  
Enclosures

cc: Bill Carr  
Campbell, Carr, Berge, and Sheridan  
P. O. Box 2208  
Santa Fe, New Mexico 87504-2208

NEW MEXICO  
OIL CONSERVATION DIVISION

*Santa Fe* EXHIBIT 10

CASE NO. 10871

60  
S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PATTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

RECEIVED  
NOV 08 1993  
LAND DEPT.  
MIDLAND, TX

Copy 10-11-93 TO:  
*Gary Green & CS*  
*Gene Davis (2)*  
*John Crocker*



AUTHORITY FOR EXPENDITURE  
NEW DRILLING & RECOMPLETION

AFE DATE 11/3/93

105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

AFE Type: ☒ New Drilling ☐ Recompletion

Well Objective: ☐ Oil ☒ Gas ☐ Injector

Well Type: ☒ Development ☐ Exploratory

AFE STATUS: ☒ Original ☐ Revised ☐ Final

LEASE NAME: Zorrillo 'ANZ' Federal # 1  
COUNTY: Eddy  
LEGAL DESC.: 1980' FNL & 1980' FWL  
FIELD:  
DIVISION CODE: 100  
DISTRICT CODE:  
BRANCH CODE:  
DIVISION NAME: Oil & Gas Division  
DISTRICT NAME:  
BRANCH NAME:

PROJ'D DEPTH: 8250'  
STATE: New Mexico  
LOCATION: Section 10-20S-24E  
HORIZON: Canyon

PROGNOSIS:

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	500	500
920-110	Location, Right-of-Way	10,800	10,800
920-120	Drilling, Footage 8300' @ \$16.75/ft.	139,000	139,000
920-130	Drilling, Daywork 3 days @ \$4500/day	13,500	13,500
920-140	Drilling Water, Fasline Rental	21,000	21,000
920-150	Drilling Mud & Additives	12,000	12,000
920-160	Mud Logging Unit, Sample Bags	5,000	5,000
920-170	Cementing - Surface Casing	20,000	20,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	15,000	15,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	7,000	7,000
920-210	Supervision & Overhead	10,000	10,000
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	300	300
920-350	Cementing - Production Casing		32,000
920-410	Completion Unit - Swabbing		12,600
920-420	Water for Completion		2,900
920-430	Mud & Additives for Completion		600
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		4,000
920-460	Tools & Equip. Rental, Etc. - Completion		8,000
920-470	Stimulation for Completion		25,000
920-480	Supervision & O/H - Completion		5,400
920-490	Additional LOC Charges - Completion		1,000
920-510	Bits, Tools & Supplies - Completion		2,300
920-500	Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS		254,100	347,900

TANGIBLE EQUIPMENT COSTS:			
930-010	Christmas Tree & Wellhead	2,200	15,700
930-020	Casing 9-5/8" @ 1200'	16,800	16,800
	7" @ 8300'		80,000
930-030	Tubing 2-7/8" @ 7900'		21,500
930-040	Packer & Special Equipment Telemetry		15,000
940-010	Pumping Equipment		
940-020	Storage Facilities		20,000
940-030	Separation Equip., Flowlines, Misc.		30,000
940-040	Trucking & Construction Costs		5,000
TOTAL TANGIBLE EQUIPMENT COSTS		19,000	204,000

TOTAL COSTS	273,100	551,900
-------------	---------	---------

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

Prepared By: *Al Springer* Operations Approval: *[Signature]*

OWNER: YATES PETROLEUM CORPORATION

BY: <i>[Signature]</i>	DATE: 11/5/93	SHARE: 50%
BY: <i>[Signature]</i>	DATE:	50%
BY:	DATE:	
BY:	DATE:	



**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

11

**CERTIFIED MAIL - RETURN RECEIPT**

**TELECOPIED**

Fax #505-748-9758

November 9, 1993

Yates Petroleum Corp.  
105 South Fourth Street  
Artesia, New Mexico 88210

ATTN: Ms. Kathy Porter

Re: W/2 Section 10  
T-20-S, R-24-E  
Eddy County, New Mexico  
Dagger Draw Prospect

Gentlemen:

Enclosed is Santa Fe's Amended Application for Compulsory Pooling. Santa Fe feels this is the only fair and equitable solution to the development of Section 10, and the only means of Santa Fe protecting its correlative rights.

Please review this application with your management. We would request that Yates support this application for the spacing of the two wells in question.

Sincerely yours,

**SANTA FE ENERGY OPERATING PARTNERS, L.P.**  
By: Santa Fe Pacific Exploration Company  
Managing General Partner

By:   
Gary Green, Division Landman

GG/efw  
1 Encl a/s

EWP1302

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

An Affiliate of Santa Fe Pacific Corporation

NEW MEXICO  
OIL CONSERVATION DIVISION

Santa Fe EXHIBIT 11

CASE NO. 10871

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF SANTA FE ENERGY  
OPERATING PARTNERS, L.P. FOR  
COMPULSORY POOLING, TO SHUT-IN  
A PRODUCING WELL, AND FOR A NON-  
STANDARD SPACING AND PRORATION  
UNIT, EDDY COUNTY, NEW MEXICO.

No. 10,871

FIRST AMENDED APPLICATION

Santa Fe Energy Operating Partners, L.P. hereby makes application for a compulsory pooling order, to shut-in a producing well, and for a non-standard spacing and proration unit for a proposed well, and in support thereof states:

COUNT I - POOLING

1. Applicant owns 50% of the working interest in the W $\frac{1}{4}$  of Section 10, Township 20 South, Range 24 East, N.M.P.M., Eddy County, New Mexico. The remaining 50% working interest is owned by Yates Petroleum Corporation (Yates) and related entities.

2. Applicant proposes to drill a well in the W $\frac{1}{4}$  of Section 10, at an orthodox location 990 feet from the South and West lines of the Section, to a depth sufficient to test the South Dagger Draw-Upper Pennsylvanian Associated Pool (the Pool), and seeks to dedicate the W $\frac{1}{4}$  of Section 10 for all pools or formations spaced on 320 acres, including the Pool.

3. Applicant has in good faith sought voluntary joinder in the proposed well of all other leasehold interest owners in the W $\frac{1}{4}$  of Section 10.

4. Although Applicant attempted to obtain voluntary

agreements from all leasehold interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their acreage. Therefore, Applicant seeks an order pooling leasehold interest owners underlying the W $\frac{1}{4}$  of Section 10, as described above, pursuant to N.M. Stat. Ann. § 70-2-17 (1987 Repl.).

5. Applicant requests the Division to consider the cost of drilling and completing the well, the allocation of the cost thereof, as well as actual operating charges and costs charged for supervision. Applicant requests that it be designated as operator of the well and that the Division set a penalty of 200% for the risk involved in drilling the well.

**COUNT II - SHUTTING-IN A PRODUCING WELL**

6. Yates is the operator of the Judith "AIJ" Fed. Well No. 1, located 660 feet from the South and East lines of Section 9, Township 20 South, Range 24 East, N.M.P.M., which is a gas well producing from the Pool. Yates and related entities own 100% of the working interest in said well.

7. Applicant's acreage in the W $\frac{1}{4}$  of Section 10 is suffering drainage from the Judith Well, and despite demand Yates has failed to offset the Judith Well. To protect correlative rights, Applicant requests the Division enter its order shutting-in the Judith Well until Applicant's proposed well can be drilled and completed in the SW $\frac{1}{4}$  of Section 10.

COUNT III - NON-STANDARD UNIT

8. Yates is the operator of the SE $\frac{1}{4}$  of Section 10, Township 20 South, Range 24 East, N.M.P.M., pursuant to an operating agreement entered into between applicant (owner of 2/3 of the working interest) and Yates (owner of 1/3 of the working interest).

9. Yates has proposed the Ocotillo "ACI" Fed. Com. No. 2 Well in the SE $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 10, to be drilled to a depth sufficient to test the Pool. Yates proposes a S $\frac{1}{4}$  unit for said well.

10. A well in the SE $\frac{1}{4}$  of Section 10, with a S $\frac{1}{4}$  unit, will not adequately protect the correlative rights of Applicant in the W $\frac{1}{4}$  of Section 10 from the drainage occurring from the Judith Well.

11. In order to protect Applicant's correlative rights, applicant requests that Yates' Ocotillo Well be granted a non-standard spacing and proration unit of 160 acres for the Pool, consisting of the SE $\frac{1}{4}$  of Section 10.

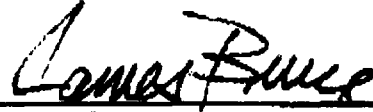
12. Development of this portion of the Pool has been on effective 40 acre spacing, and thus correlative rights of offset operators and interest owners will not be impaired by the non-standard unit.

The pooling of all interests underlying the W $\frac{1}{4}$  of Section 10, an order shutting-in the Yates Judith Well temporarily, and the granting of a non-standard unit consisting of the SE $\frac{1}{4}$  of Section 10 for the Yates Ocotillo Well, will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, Applicant requests that the Division grant the relief requested above.

Respectfully submitted,

HINKLE, COX, EATON, COFFIELD  
& HENSLEY



---

James Bruce  
Post Office Box 2068  
Santa Fe, New Mexico 87504-2068  
(505) 982-4554

Attorneys for Applicant

SANTA FE ENERGY RESOURCES, INC.  
Midland, Texas

TO: Kathy Porter (Name) Antonia Hill Corp (Location)  
FROM: Darryl Green  
DATE: 11/9/93 TIME NEEDED: \_\_\_\_\_  
REGARDING: Dagger Draw Amended  
Applie for Pooling

6 Pages ~~6~~ including cover letter)  
IF YOU DO NOT RECEIVE ALL PAGES, CALL 686-6637  
ASK FOR: Edith Wischail  
DISPOSITION OF ORIGINAL: Return to Sender ☒  
Mail to Receiver \_\_\_\_\_  
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Form 104

TRANSMISSION REPORT

THIS DOCUMENT WAS CONFIRMED  
(REDUCED SAMPLE ABOVE - SEE DETAILS BELOW)

**\*\* COUNT \*\***

TOTAL PAGES SCANNED : 6  
TOTAL PAGES CONFIRMED : 6

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NO.	REMOTE STATION	START TIME	DURATION	#PAGES	MODE	RESULTS
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NOTE:

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MB : SEND TO MAILBOX PG : POLLING A REMOTE MP : MULTI-POLLING RM : RECEIVE TO MEMORY

SENT: \_\_\_\_\_

**SANTA FE ENERGY RESOURCES, INC.**

**Midland, Texas**

TO: Kathy Porter (Name) Yates Pet Corp. (Location)  
Artesia NM

FROM: Dan Green

DATE: 11/9/93 TIME NEEDED: \_\_\_\_\_

REGARDING: Dagger Draw Amended  
Applic for Pooling

6 Pages ~~(not)~~ including cover letter)

IF YOU DO NOT RECEIVE ALL PAGES, CALL: 686-6637  
1-915-~~687-3551~~

ASK FOR: Edith Wisheart

DISPOSITION OF ORIGINAL:

Return to Sender

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**Is your RETURN ADDRESS completed on the reverse side?**

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- 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.

**3. Article Addressed to:**

ATTN: MS. KATHY PORTER  
YATES PETROLEUM CORP.  
1105 SOUTH FOURTH STREET  
ARTESIA NEW MEXICO 88210

4a. Article Number  
P 237 027 728

4b. Service Type

<input type="checkbox"/> Registered	<input type="checkbox"/> Insured
<input checked="" type="checkbox"/> Certified	<input type="checkbox"/> COD
<input type="checkbox"/> Express Mail	<input checked="" type="checkbox"/> Return Receipt
	<input type="checkbox"/> Merchandise Return Label

**7. Date of Delivery**

NOV 10 1993

**5. Signature (Addressed)**

6. Signature (Agent)

**8. Addressee's Address (Only if requested and fee is paid)**

PS Form 3811, December 1991 ☆U.S. GPO: 1992-323-402 DOMESTIC RETURN RECEIPT

**Receipt for  
Certified Mail**  
No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

P 237 027 728

[illegible]

**Thank you for using Return Receipt Service.**

Santa Fe Pacific Exploration Company  
Managing General Partner

CERTIFIED MAIL P 237 027 787

TELECOPIED 11/23/93

November 23, 1993

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: Ocotillo ACI Fed Com No. 2  
Section 10, T-20-S, R-24-E  
Eddy County, New Mexico

Gentlemen:

Please allow this letter to serve as Santa Fe's notice of election to set pipe and attempt completion in the referenced well.

Should you have any questions, please give me a call.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By: *Gary Green*  
Gary Green, Division Landman

GG:pr

pr2834

NEW MEXICO  
OIL CONSERVATION DIVISION

*Santa Fe* EXHIBIT 12

CASE NO. 10871

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

SANTA FE ENERGY RESOURCES, INC.  
Midland, Texas

TO: KIMMY PORTER (Name) (Location)  
FROM: CAROL GREEN  
DATE: 11-23-93 TIME NEEDED: 15M  
REGARDING: COMPLETION ATTEMPT  
OCOTILLA ACI RD #2  
2 Pages (including cover letter)

IF YOU DO NOT RECEIVE ALL PAGES, CALL: 1-915-697-3551

ASK FOR: \_\_\_\_\_

DISPOSITION OF ORIGINAL:

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Form 104

TRANSMISSION REPORT

THIS DOCUMENT WAS CONFIRMED  
(REDUCED SAMPLE ABOVE - SEE DETAILS BELOW)

**\*\* COUNT \*\***

TOTAL PAGES SCANNED : 2  
TOTAL PAGES CONFIRMED : 2

\*\*\* SEND \*\*\*

No.	REMOTE STATION	START TIME	DURATION	#PAGES	MODE	RESULTS
1	7489758	11-23-93 13:39	0:45"	2/ 2	EC	COMPLETED 9600

TOTAL 0:00:45" 2

NOTE:

NO. : OPERATION NUMBER 48 : 4800BPS SELECTED EC : ERROR CORRECT C2 : G2 COMMUNICATION  
PD : POLLED BY REMOTE SF : STORE & FORWARD RI : RELAY INITIATE RS : RELAY STATION  
MB : SEND TO MAILBOX PG : POLLING A REMOTE MP : MULTI-POLLING RM : RECEIVE TO MEMORY

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**Receipt for  
Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

YATES PETROLEUM CORP.	
105 S. FOURTH	
ARTESIA, NM 88210	
Postage	\$
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Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Addressee & Date Delivered	
Return Receipt Showing to Addressee Date and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date  MAILED 11/23/93	

PS Form 3800, June 1991

## COPAS Accounting Procedure Wage Index Adjustment for 1992

The Petroleum Accountants Society of Oklahoma-Tulsa has completed for COPAS the percentage Wage Index Adjustment to be an increase of 1.5 percent. This adjustment applies to the Administration Overhead and/or combined fixed rates as of April 1, 1992, based on the index of average weekly earnings of crude petroleum and gas production workers as published by the United States Department of Labor, Bureau of Labor Statistics. These adjustments are provided for in the COPAS Accounting Procedures dated 1962, 1968, 1974 and 1984, and the Offshore Accounting Procedures of 1976 and 1986.

The computation is as follows:

1991	Average Earnings	\$704.74
1990	Average Earnings	\$694.22
	Increase	\$10.52
	$\$10.52 \div \$694.22 = 1.5\%$	

Effective with April 1992 business, increase 1991 rates by multiplying current rates by 101.5%.

Following are the past year's adjustments:

Effective	Adjustment
April 1	
1963	+1.6%
1964	+3.9%
1965	+ .8%
1966	+2.2%
1967	+3.6%
1968	15.1%
1969	+1.9%
1970	+7.0%
1971	+5.9%
1972	+8.9%
1973	+7.5%
1974	+5.2%
1975	+16.7%
1976	+10.3%
1977	+10.5%
1978	+10.3%
1979	+11.0%
1980	+9.3%
1981	+9.3%
1982	+13.0%
1983	+9.9%
1984	+5.9%
1985	+2.7%
1986	+4.4%
1987	+4.5%
1988	-1.4%
1989	+3.3%
1990	+8.1%
1991	+7.2%
1992	+1.5%

NEW MEXICO  
OIL CONSERVATION DIVISION

Santa Fe EXHIBIT 13

CASE NO. 10871

Audit Per Diem Rate Adjustment Continues on Next Page

### COPAS Employee Benefits Survey

The 1992 Employee Benefits Limitation Survey was mailed on May 11, 1992, to all COPAS member companies and responses are due by June 15, 1992.

The results of this survey will directly determine the COPAS Employee Benefits Percentage for 1993 and we strongly encourage your company to participate. Please contact Debbie Theodoratos at (303) 893-1666 if you have any questions.

## EXHIBIT

1 Attached to and made a part of \_\_\_\_\_  
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# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

### 2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

### 3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at \_\_\_\_\_ on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

### 4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed \_\_\_\_\_ percent ( \_\_\_\_\_ %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- ( ) Fixed Rate Basis, Paragraph 1A, or  
( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

- ( ) shall be covered by the overhead rates, or  
( ) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

- ( ) shall be covered by the overhead rates, or  
( ) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ \_\_\_\_\_  
(Prorated for less than a full month)

Producing Well Rate \$ \_\_\_\_\_

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

- (1) Operator shall charge the Joint Account at the following rates:

(a) Development

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

- (2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

Account for overhead based on the following rates for any Major Construction project in excess of \$ \_\_\_\_\_ :

- A. \_\_\_\_\_ % of first \$100,000 or total cost if less, plus  
B. \_\_\_\_\_ % of costs in excess of \$100,000 but less than \$1,000,000, plus  
C. \_\_\_\_\_ % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

### 3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. \_\_\_\_\_ % of total costs through \$100,000; plus  
B. \_\_\_\_\_ % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
C. \_\_\_\_\_ % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

### 4. Amendment of Rates

The overhead rates provided for in this Section II' may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

## IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

### 1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

### 2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

#### A. New Material (Condition A)

##### (1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2 3/4 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

**4. Expense of Conducting Inventories**

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

APPLICATION OF SANTA FE ENERGY  
OPERATING PARTNERS, L.P. FOR  
COMPULSORY POOLING, TO SHUT-IN  
A PRODUCING WELL, AND FOR A NON-  
STANDARD SPACING AND PRORATION  
UNIT, EDDY COUNTY, NEW MEXICO.

**AFFIDAVIT REGARDING NOTICE**

Gary Green, being duly sworn upon his oath, deposes and states:

- Gary Green  
Gary Green

Jose Romero  
Notary Public

8-15-95

NEW MEXICO  
OIL CONSERVATION DIVISION

Santa Fe EXHIBIT 14

CASE NO. 10871



**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

9

Certified Mail P 237 027 771

October 27, 1993

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: Dagger Draw "10" Fed. #31  
W/2 Section 10, T-20-S, R-24-E  
Eddy County, New Mexico

Gentlemen:

Enclosed is notice of Santa Fe Energy Operating Partners, L.P.'s Application for Compulsory Pooling for the captioned well. The hearing is scheduled before the New Mexico Oil Conservation Division on November 18, 1993.

Santa Fe furnished Yates with a Well Proposal and Well Cost Estimate under cover letter dated September 10, 1993.

Should you have any questions, please feel free to contact me.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Gary Green, Division Landman

GG:pr

Enclosure a/s

pr2795

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- 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. ☒ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:  
Yates Petroleum Corporation  
105 South Fourth  
Artesia, NM 88210

4a. Article Number  
P 237 027 771

4b. Service of

- ☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

7. Date of Delivery

OCT 28 1993

8. Addressee's Address (Only if requested and fee is paid)

5. Signature (Addressee)

*J. Cadena*

6. Signature (Agent)

PS Form 3811, December 1991 \*U.S. GPO: 1992-323-402 DOMESTIC RETURN RECEIPT

PS Form 3800, June 1991

Yates Petroleum Corp.	
105 South Fourth	
Artesia, NM 88210	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Sent to Whom & Date Delivered	
Return Receipt Sent to Whom & Date Delivered	
TOTAL Postage & Fees	\$
Postmark or Date MAILED 10/27/93	



**Receipt for Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

P 237 027 771

Thank you for using Return Receipt Service.



**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

11

**CERTIFIED MAIL - RETURN RECEIPT**

**TELECOPIED**

Fax #505-748-9758

November 9, 1993

Yates Petroleum Corp.  
105 South Fourth Street  
Artesia, New Mexico 88210

ATTN: Ms. Kathy Porter

Re: W/2 Section 10  
T-20-S, R-24-E  
Eddy County, New Mexico  
Dagger Draw Prospect

Gentlemen:

Enclosed is Santa Fe's Amended Application for Compulsory Pooling. Santa Fe feels this is the only fair and equitable solution to the development of Section 10, and the only means of Santa Fe protecting its correlative rights.

Please review this application with your management. We would request that Yates support this application for the spacing of the two wells in question.

Sincerely yours,

**SANTA FE ENERGY OPERATING PARTNERS, L.P.**  
By: Santa Fe Pacific Exploration Company  
Managing General Partner

By:   
Gary Green, Division Landman

GG/efw  
1 Encl a/s

**EWP1302**

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

*An Affiliate of Santa Fe Pacific Corporation*

Is your **RETURN ADDRESS** completed on the reverse side.

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- 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. ☐ Addressee's Address

2. ☐ Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

ATTN: MS. KATHY PORTER  
YATES PETROLEUM CORP.  
105 SOUTH FOURTH STREET  
ARTESIA NEW MEXICO 88210

**4a. Article Number**

P 237 027 728

**4b. Service Type**

- ☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☒ Return Receipt for Merchandise

**7. Date of Delivery**

NOV 10 1993

**5. Signature (Addressee)**

*Kathy Porter*

**6. Signature (Agent)**

**8. Addressee's Address (Only if requested and fee is paid)**

PS Form 3811, December 1991 \*U.S. GPO: 1992-323-402 **DOMESTIC RETURN RECEIPT**

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**Receipt for Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Yates Petroleum Corp.	
105 S. Fourth Street	
Artesia, New Mexico 88210	
\$	
\$	

Thank you for using Return Receipt Service.

**§ 3104.8**

Bureau of Land Management Interior  
existing bond to the amount previously held by the United States, within 6 months after notice, or within such shorter period as may be fixed by the authorized officer. In lieu thereof, the principal may within that time file separate or substitute bonds for each lease or operating agreement.

**§ 3104.8 Termination of period of liability.**

The authorized officer shall not give consent to termination of the period of liability of any bond unless an acceptable alternative bond has been filed or until all the terms and conditions of the lease have been met.

**Subpart 3105—Cooperative Conservation Provisions**

**§ 3105.1 Cooperative or unit agreement.**

The suggested contents of such an agreement and the procedures for obtaining approval are contained in 43 CFR Part 3180.

**§ 3105.2 Communitization or drilling agreements.**

**§ 3105.2-1 Where filed.**

(a) Requests to communitize separate tracts shall be filed, in triplicate, with the proper BLM office.

(b) Where a duly executed agreement is submitted for final Departmental approval, a minimum of 3 signed counterparts shall be submitted. If State lands are involved, 1 additional counterpart shall be submitted.

**§ 3105.2-2 Purpose.**

When a lease or a portion thereof cannot be independently developed and operated in conformity with an established well-spacing or well-development program, the authorized officer may approve communitization or drilling agreements for such lands with other lands, whether or not owned by the United States, upon a determination that it is in the public interest.

Operations or production under such an agreement shall be deemed to be operations or production as to each lease committed thereto.

**43 CFR Ch II (10-1-86 Edition)**

**§ 3105.2-3 Requirements.**

The agreement shall describe the separate tracts comprising the drilling or spacing unit, shall show the apportionment of the production or royalties to the several parties and the name of the operator, and shall contain adequate provisions for the protection of the interests of the United States. The agreement shall be signed by or on behalf of all necessary parties and shall be effective only if approved by the authorized officer. Approved communitization agreements are considered effective from the date of the agreement or from the date of the onset of production from the communitized parcels, whichever is earlier. Execution by, or on behalf of, all necessary parties to a communitization agreement covering a Federal lease shall precede the expiration of that lease in order to confer the benefits of the agreement upon it. Generally, a lessee should file a communitization agreement for approval by the authorized officer as soon as the agreement has been signed by, or on behalf of, all necessary parties. An agreement filed with the authorized officer for approval after the subject Federal lease was due to expire may be approved only if it is filed before the Bureau has given notice to the public that the subject lands are available for lease. No communitization agreement shall be approved with respect to lands which have been subsequently leased to a different lessee. The original agreement need not be in the form required for approval by the Bureau, but may be any agreement between lessees and operators, such as an operating agreement, evidencing the intent of the parties to combine, and having the effect of combining, their leases or interests for operational purposes. If the agreement that combined such leases or interests is other than a formal communitization agreement acceptable for filing and approval as such, the parties shall submit such an agreement in proper form, which, if submitted and approved, shall be deemed effective as of the date of the earlier agreement between the parties that combined their leases or interests or, as of the date of the onset of production from