CHEVRON U.S.A.
SPRINKLE "B" FEDERAL #2
SEC.1 T18S R32E
LEA CO., NEW MEXICO

Time & Depth Versus Operating Expenditures			
Day	Depth	Cum. Cost	Comments
1	450	15,115	Spud 12:30 pm 10-1-90
2	450	42,710	Set 11 3/4" Surface
3	1285	61,065	
4	2247	83,410	
5	2780	94,770	
6	2780	149,175	Set 8 5/8" Intermediate
7	3210	158,275	
8	3903	172,640	
9	4200	179,910	
10	4800	192,150	
11	5420	206,655	
12	5948	219,465	
13	6414	229,135	
14	6898	239,980	
15	7311	249,080	
16	7625	257,265	
17	7886	264,200	
18	8037	268,520	
19	8228	273,065	
20	8400	282,270	
21	8400	292,610	DST #1
22	8503	301,580	
23	8701	306,955	Fish #1
24	8772	313,665	Fish #1 Recovered
25	9069	321,730	
26	9250 TD	327,210	TD & Log
27	9250	354,895	Log & Run 5 1/2" Prod.
28	9250	458,475	Rig Released

Estimated Costs For Sprinkle 'B' To TD @ 4800'			
Drill	192,150	5 1/2" Cmt	11,000
Log	8,500	Perf & Acid	12,000
5 1/2" Csg	32,802	Pulling Unit	6,000
2 3/8" Tbg	10,895	Misc.	10,000
Prod Frac	13,073		

Total Est. Costs @ 4800' **$296,420**

BEFORE EXAMINER STOGNER
Oil Conservation Division
Chevron's Exhibit No. 5
Case No. 9998

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

CASE NO. 9998 REOPENED
ORDER NO. R-9093-C-1

APPLICATION OF YATES ENERGY CORPORATION TO AMEND DIVISION ORDER NO. R-9093, AS AMENDED, EDDY COUNTY NEW MEXICO

NUNC PRO TUNC ORDER

BY THE DIVISION:

It appearing to the Division that Order No. R-9093-C dated November 29, 1990, does not correctly state the intended order of the Division,

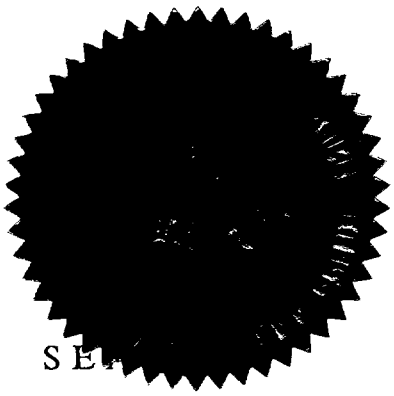
IT IS THEREFORE ORDERED THAT:

(1) Decretory Paragraph No. (4) on Page 6 of said Order No. R-9093-C be and the same is hereby amended to read in its entirety as follows:

> "(4) The operator is hereby authorized to withhold the following costs and charge from production.
>
> (A) The pro rata share of reasonable well costs allocated to the San Andres formation pursuant to this order attributable to each non-consenting working interest owner in said formation who has not paid its share of actual well costs within 30 days from the date the schedule of actual well costs is furnished to it; and,
>
> (B) As a charge for the risk involved in the drilling of the well, 150 percent of the pro rata share of reasonable costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him."

(2) The corrections set forth in this order be entered nunc pro tunc as of November 29, 1990.

DONE at Santa Fe, New Mexico, on this 14th day of December, 1990.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9998 REOPENED
ORDER NO. R-9093-C

APPLICATION OF YATES ENERGY CORPORATION
TO AMEND DIVISION ORDER NO. R-9093, AS
AMENDED, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 31, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 29th day of November, 1990 the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) By Division Order No. R-9093, dated January 8, 1990, issued in Case No. 9845, the Division, upon the application of Yates Energy Corporation, pooled all mineral interests only in the Undesignated Tamano-Bone Spring Pool underlying the SE/4 SW/4 of Section 1, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, forming a standard 40-acre oil spacing and proration unit to be dedicated to the applicant's Thornbush Federal Well No. 1 to be drilled at a standard location 330 feet from the South line and 1980 feet from the West line (Unit N) of said Section 1.

(3) By Order R-9093-A, entered on February 27, 1990, the Oil Conservation Commission, pursuant to the request of Spiral, Inc., Explorers Petroleum Corporation and HEYCO Employers, Ltd., as applicants for De Novo hearing, dismissed Case 9845 De Novo and ordered that Order R-9093 continue in full force and effect until further notice.

(4) By Order R-9093-B, entered on September 19, 1990, the Division temporarily denied Yates Energy Corporation's request to amend said Order No. R-9093 to include a provision pooling all mineral interests within the SE/4 SW/4 of said Section 1 in the expanded interval from the surface to the base of the Undesignated Tamano-Bone Spring Pool, and among other things:

> (a) Ordered applicant to "conduct good faith negotiations with Chevron in order to determine a fair and equitable method whereby Chevron's interest as to the San Andres formation may be consolidated."
>
> (b) Ordered that the matter be reopened on October 31, 1990 should the parties fail to reach a voluntary agreement, "at which time the division shall consider additional evidence regarding conductance of negotiations, the proportionate share of well costs which are allocated to the San Andres completion, and the assignment of a risk penalty which is fair to both parties."

(5) Yates Energy Corporation (Yates) spudded the subject well on February 14, 1990, drilled to a total depth of approximately 9,060 feet, and tested the Bone Spring interval as non-productive.

(6) The applicant subsequently tested the San Andres formation at a depth of approximately 4,637 feet and has completed the subject well as a San Andres producer with an initial potential of 82 barrels of oil per day.

(7) Chevron USA, Inc. (Chevron) a twenty-five percent working interest owner in the subject unit, did not appear in the hearing resulting in said Order R-9093 and elected not to participate in the drilling of the subject well to the Bone Spring formation.

(8) Both Chevron and Yates appeared at the October 31, 1990 hearing and presented evidence to support their positions.

(9) Subsequent to the issuance of Division Order No. R-9093-B, both Yates and Chevron participated in negotiations in an attempt to determine a fair and equitable method of consolidating Chevron's interest in the San Andres formation to the subject 40-acre tract.

(10) Such negotiations were unsuccessful.

(11) Yates proposes at this time that total well costs for completion of the Thornbush Federal Well No. 1 in the San Andres formation should include the cost of drilling and testing the Undesignated Tamano-Bone Spring Pool, including, but not limited to, intermediate casing and any additional reasonable incremental costs and expenses associated with testing the Undesignated Tamano-Bone Spring Pool.

(12) Chevron proposes that the cost of drilling and completing the Thornbush Federal Well No. 1 should be allocated between the San Andres and Bone Spring formations in accordance with the Council of Petroleum Accountants Societies Bulletin No. 2, dated September, 1965, entitled Determination of Values for Well Cost Adjustments Joint Operations, (see Chevron's Exhibit No. 2) as follows:

Section B: ALLOCATION OF INTANGIBLE DRILLING COSTS

Sub-Sections 1 (a) and 2

Section B: ALLOCATION OF TANGIBLE COST

Sub-Sections 1, 2, and 3

and further provided that for this well the drilling day ratio should be ten days to 4800 feet divided by 24 days to 9060 feet or 41.67% for the intangible allocation calculation and the tangible costs attributable to the San Andres formation should be limited to the following:

(a) casing and tubing Heads
(b) surface casing
(c) 5 1/2-inch production casing to 4800 feet
(d) 2 3/8-inch tubing to 4800 feet
(e) production facilities.

(13) Yates' proposed allocation of costs to the San Andres formation *is not* fair and reasonable, Chevron therefore should not be required to pay those actual costs to the subject well attributable to the drilling of this well below 4800 feet; however, such costs attributable to the setting of the intermediate 8 5/8-inch casing should be considered.

(14) The risk penalty factors suggested by Yates and Chevron are 200 and zero, respectively. Neither penalty properly reflects the situation; therefore, the risk penalty in this instance should be 150 percent.

(15) Yates Energy Corporation should continue to be the designated operator of the subject well and unit.

(16) Any non-consenting working interest owner should be afforded the opportunity to pay its share of actual San Andres well costs to the operator in lieu of paying his proportionate share of reasonable well costs attributable to the San Andres out of production.

(17) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such an objection.

(18) Following determination of reasonable well costs, any non-consenting working interest owner should receive from the operator any amount that it paid or was charged which was in excess of reasonable well costs.

(19) Because Order No. R-9998 establishes overhead charges for a Bone Spring well and not a San Andres well, those charges previously approved should be reduced to reflect the overhead rates established by Ernst and Young which are $3200.00 per month while drilling and $320.00 per month while producing which should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(20) Should all parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(21) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) Within 30 days after the effective date of this order, the operator shall furnish the Division, Chevron and all other working interest owners in the subject unit an itemized schedule of actual well costs which shall be allocated between the San Andres and Bone Spring formations in accordance with the Council of Petroleum Accountants Societies Bulletin No. 2, dated September, 1965, entitled Determination of Values for Well Cost Adjustments Joint Operations, (see Chevron's Exhibit No. 2) as follows:

Section B: ALLOCATION OF INTANGIBLE DRILLING COSTS

Sub-Sections 1 (a) and 2

Section B: ALLOCATION OF TANGIBLE COST

Sub-Sections 1, 2, and 3

and the drilling day ratio shall be ten (10) days to 4800 feet divided by twenty-four (24) days to 9060 feet or 41.67% and the tangible costs attributable to the San Andres formation shall include:

(a) casing and tubing Heads
(b) surface casing
(c) 5 1/2-inch production casing to 4800 feet
(d) 2 3/8-inch tubing to 4800 feet
(e) intermediate 8 5/8-inch casing to 4800 feet
(f) production facilities.

(2) Within 30 days from the date the schedule of actual well costs is furnished to Chevron and any other working interest owner, any such non-consenting working interest owner shall have the right to pay his share of actual well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(3) If no objection to the actual well costs is received by the Division from any such non-consenting working interest owner within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(4) The operator is hereby designated to withhold the following costs and charges from production: the pro rata share of reasonable well costs attributable to such non-consenting interest to the San Andres formation if it becomes a non-consenting working interest owner who has not paid its share of actual well costs within 30 days from the date the schedule of actual well costs is furnished to it.

(5) $3200.00 per month while drilling and $320.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(6) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(7) Proceeds from the sale of production attributable to Chevron's 25% working interest held in escrow pursuant to letter of Division Director dated October 3, 1990 shall be released to Chevron if it elects to join and pay its share of well costs as provided in this order; otherwise such funds shall be released to the operator and applied to costs attributable to Chevron's interest as provided in this order for non-consent interests pooled hereunder.

(8) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(9) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(10) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(11) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9998
Order No. R-9093-B

APPLICATION OF YATES ENERGY
CORPORATION TO AMEND DIVISION
ORDER NO. R-9093, AS AMENDED,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 25 and August 22, 1990, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 19th day of September, 1990, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) By Division Order No. R-9093, as amended, dated January 8, 1990, issued in Case No. 9845, the Division, upon the application of Yates Energy Corporation, pooled all mineral interests only in the Undesignated Tamano-Bone Spring Pool underlying the SE/4 SW/4 of Section 1, Township 18 South, Range 31 East, NMPM, forming a standard 40-acre oil spacing and proration unit to be dedicated to the applicant's Thornbush Federal Well No. 1 to be drilled at a standard location 330 feet from the South line and 1980 feet from the West line (Unit N) of said Section 1.

(3) The applicant, Yates Energy Corporation, seeks to amend said Order No. R-9093 to include a provision pooling all mineral interests within said unit in the expanded interval from the surface to the base of the Undesignated Tamano-Bone Spring Pool. The applicant further requests that this amendment be made retroactive to January 8, 1990.

(4) Chevron U.S.A. Inc. (Chevron), a 25 percent working interest owner in the subject unit whose interest was pooled by Order No. R-9093, appeared at the hearing in opposition to the application.

(5) The evidence and testimony indicates that Chevron, subsequent to the issuance of Order No. R-9093, elected not to participate in the drilling of the subject well to the Bone Spring formation.

(6) The applicant spudded the subject well on February 14, 1990, drilled to a total depth of approximately 9,060 feet, and tested the Bone Spring interval as non-productive.

(7) The applicant subsequently tested the San Andres formation at a depth of approximately 4,637 feet, and has completed the subject well as a San Andres producer with an initial potential of 82 barrels of oil per day.

(8) The subject well is currently shut-in by order of the Division until such time as the interests within the proration unit have been consolidated, either by voluntary agreement or by forced-pooling order of the Division.

(9) The applicant seeks to pool the interest of Chevron within the San Andres formation under the terms and conditions set forth in Order No. R-9093 with the exception of the drilling and producing overhead rates which are now proposed to be reduced to $3200.00 and $320.00, respectively.

(10) At the time of the hearing, Chevron made a motion to dismiss on the basis that the applicant has not made an attempt to secure a voluntary agreement as to its interest in the San Andres formation. A ruling on the motion was deferred until such time as evidence and testimony were presented, and was further deferred until such time as the motion could be addressed within this order.

(11) Chevron's motion to dismiss should be denied.

(12) At the request of Chevron, administrative notice was taken of the record and evidence presented in original Case No. 9845.

(13) Chevron opposes the application for the following reasons:

a) Yates has not attempted to obtain the voluntary joinder of Chevron as to its interest in the San Andres formation;

b) Chevron contends that it should only have to pay the proportionate cost of the well associated with drilling and completing in the San Andres formation;

c) Chevron contends that it should not have to pay a risk penalty associated with the San Andres completion if it elects to join the well and pay its proportionate share of costs; and,

d) Chevron is willing to join in the San Andres completion at this time under the terms of (b) and (c) above.

(14) The evidence and testimony presented in Case No. 9845 indicates that the applicant's original attempt to secure Chevron's voluntary agreement consisted of a proposal to drill a well to test the 1st Bone Spring Carbonate and the 2nd Bone Spring Sand, being the primary and secondary objectives, respectively.

(15) The evidence further indicates that at no time did the applicant discuss or convey to Chevron the possibility of a San Andres completion.

(16) The authority of the Division to pool interests in a proration unit is found in the Oil and Gas Act (N.M.S.A. 1978 Section 70-2-17). That section provides, among other things, that the Division shall describe the lands included in the unit and identify the pool or pools to which it applies. The section further provides that in the event of a dispute as to well costs, the Division shall determine proper costs, and that a risk penalty, not to exceed 200 percent, may be assessed against non-consenting parties.

(17) The evidence indicates that the applicant has not, neither initially nor subsequent to completing the subject well in the San Andres formation, attempted to secure a voluntary agreement with Chevron as to its interest in the San Andres formation.

(18) Prior to amending Order No. R-9093 or issuing a new order pooling all interests in the San Andres formation, the applicant should be required to conduct good faith negotiations with Chevron in order to determine a fair and equitable method whereby Chevron's interest as to the San Andres formation may be consolidated.

(19) The applicant should notify the Division in the event of a subsequent voluntary agreement with Chevron.

(20) Should the parties fail to reach a voluntary agreement, this matter should be reopened on the Examiner Docket for October 31, 1990, at which time the Division should consider additional evidence regarding conductance of negotiations, the proportionate share of well costs which are allocated to the San Andres completion, and the assignment of a risk penalty which is fair to both parties.

(21) The application should be temporarily denied.

(22) The subject well should remain shut-in until such time as all the interests in the subject proration unit have been consolidated.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Energy Corporation to amend Division Order No. R-9093, as amended, is hereby temporarily denied.

(2) The applicant shall conduct good faith negotiations with Chevron in order to determine a fair and equitable method whereby Chevron's interest as to the San Andres formation may be consolidated.

(3) The applicant shall notify the Division in the event of a subsequent voluntary agreement with Chevron.

(4) Should the parties fail to reach a voluntary agreement, this matter shall be reopened on the Examiner Docket for October 31, 1990, at which time the Division shall consider additional evidence regarding conductance of negotiations, the proportionate share of well costs which are allocated to the San Andres completion, and the assignment of a risk penalty which is fair to both parties.

(5) The subject well shall remain shut-in until such time as all the interests in the subject proration unit have been consolidated.

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director