

KELLAHIN, KELLAHIN AND AUBREY

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

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W. THOMAS KELLAHIN
KAREN AUBREY

CANDACE HAMANN CALLAHAN

JASON KELLAHIN
OF COUNSEL

February 5, 1991

Mr. Michael E. Stogner
Oil Conservation Division
State Land Office
Santa Fe, New Mexico 87501

HAND DELIVERED

Re: Hanley Petroleum Inc.
Compulsory Pooling Case
NMOCD Case No. 10219

Santa Fe Operating Partners
Compulsory Pooling Case
NMOCD Case No. 10211

Motion for Stay of Examiner Hearings

Dear Mr. Stogner:

Our firm represents Hanley Petroleum Inc. in the above referenced matters. We are currently awaiting a decision by the Commission concerning Santa Fe's appeal of the Subpoena issues originally presented to Mr. Catanach on January 10th.

While I understand that Santa Fe has selectively turned over some of the data to Hanley which was the subject of the Subpoena, there is no representation by Mr. Bruce that they have fully complied with the Subpoena issued by Mr. Catanach. In addition, until the Commission issues its order, it is impossible to guess if Hanley will appeal the Commission order.

Simply stated, it is premature to go forward with either case until all parties find out what the Commission decides to do.

Should Santa Fe go forward with their case, we are faced with doing these cases in piecemeal before multiple examiners on different days.

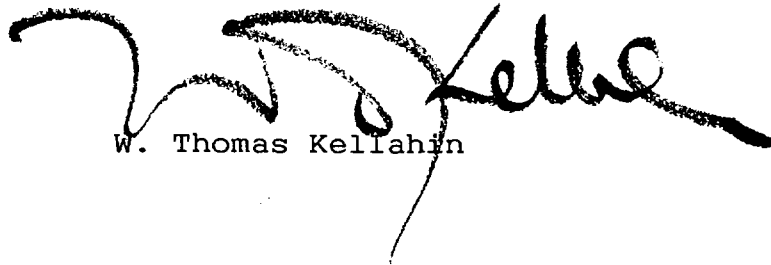
Mr. Michael E. Stogner
February 5, 1991
Page 2

In addition, Hanley is hereby amending its location from the SW/4SW/4 to the NW/4SW/4 of the section.

Accordingly, I move that the hearings of the referenced cases now set for February 7, 1991 be vacated and stayed pending resolution of the Subpoena appeal.

I have been contacted by Mr. Bruce today to determine if he supports or opposes this motion on behalf of Santa Fe. He informs me he is opposed.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'W. Thomas Kellahin', with a long, sweeping horizontal stroke extending to the right.

W. Thomas Kellahin

WTK/tic

cc: Jim Rogers
Robert G. Stovall
James G. Bruce

HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW

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*NOT LICENSED IN NEW MEXICO

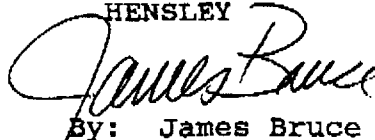
VIA TELECOPYMr. W. Thomas Kel
P. O. Box 2265
Santa Fe, New Me
Telecopy No. (50Mr. Michael E. Stogner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504
Telecopy No. (505) 827-5741

Re: Santa Fe Energy/Hanley Petroleum; OCD Case Nos. 10211 and 10219

Dear Tom:

My clients informed me that they turned over well logs and other information to Hanley Petroleum on Wednesday, January 30th, although no Order on the subpoena has yet been entered by the Commission. As a result, we plan on moving forward with the hearing on February 7, 1991, and will strenuously object to any motion to continue either case. Please call me if you have any questions.

Very truly yours,

HINKLE, COX, EATON, COFFIELD &
HENSLEY
By: James Bruce

JB:le

cc: Larry Murphy (Telecopy No. (915) 687-1699
Wm. F. Carr (Telecopy No. (505) 983-6043



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

BRUCE KING
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

February 6, 1991

Hanley Petroleum Inc.
c/o W. Thomas Kellahin
Kellahin, Kellahin & Aubrey
P.O. Box 2265
Santa Fe, NM 87504-2265

Santa Fe Energy Operating Partners, L.P.
c/o James Bruce
Hinkle, Cox, Eaton, Coffield & Hensley
P.O. Box 2068
Santa Fe, NM 87504-2068

Harvey E. Yates Company
c/o William F. Carr
Campbell & Black, P.A.
P.O. Box 2208
Santa Fe, NM 87504-2208

*RE: Santa Fe Energy/Hanley Petroleum OCD
Case Nos. 10211 and 10219*

Dear Messrs Kellahin, Bruce and Carr:


Reference is made to both Santa Fe Energy's and Hanley's letters dated February 5, 1991 (faxed to me on that day) concerning the Examiner Hearing scheduled for Thursday, February 7, 1991. Several issues were raised by both letters which required some research by me since I had not previously been directly involved in this matter.

- (1) A decision on the subpoena issue brought before the New Mexico Oil Conservation Commission on January 17, 1991 has not been made and probably will not be made prior to the February 7th hearing.

- (2) Hanley is proposing to change its drilling plans and locate its well at an orthodox oil well location in the NW/4 NW/4 (Unit D) of said Section 8. The records on file with the Division indicate that Hanley's working interest in Unit D is 100%. If this be the case there would be no need for Hanley to seek compulsory pooling in this quarter-quarter section for these pools or formations based on 40-acre spacing, and the advertisement in Case 10129 is adequate and such amendments could be addressed at the hearing.
- (3) Vacating and staying the cases pending the outcome of the Commission's decision on the subpoena appeal would only cause further expense and delay since a readvertisement would be necessary to place them back on the docket.

Therefore, over the objection of Santa Fe Energy, both Case Nos. 10211 and 10219 shall be continued at this time to the Examiner Hearing scheduled for February 21, 1991.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

MES/ag

cc: Oil Conservation Division -

Robert G. Stovall
William J. LeMay
David R. Catanach



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

BRUCE KING
GOVERNOR

February 14, 1991

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Hanley Petroleum Inc.
c/o W. Thomas Kellahin
Kellahin, Kellahin & Aubrey
P.O. Box 2265
Santa Fe, NM 87504-2265

*RE: Applicant's second request to amend and readvertise Case
No. 10219 - Application of Hanley Petroleum Inc. for
compulsory pooling, Lea County, New Mexico.*

Dear Mr. Kellahin:

Your request by letter dated February 12, 1991 to readvertise this matter to the March 7, 1991 hearing is hereby **denied**. This issued has been previously addressed with you concerning your request of February 5, 1991 in my letter dated February 6, 1991

I have discussed this matter with the Division's General Counsel and it is still our opinion that because the well location in this case is not essential, and by moving the location from one standard location to another, readvertisement is not necessary and this matter can be addressed at the hearing.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

MES/ag

cc: Oil Conservation Division -

Robert G. Stovall
William J. LeMay
David R. Catanach

James Bruce - Albuquerque
William F. Carr - Santa Fe
Case Files: 10211 and 10219

KELLAHIN, KELLAHIN AND AUBREY

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN
KAREN AUBREY

CANDACE HAMANN CALLAHAN

JASON KELLAHIN
OF COUNSEL

OIL CONSERVATION DIVISION
RECEIVED

'91 FEB 19 AM 9 23

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

February 18, 1991

Mr. David R. Catanach
Oil Conservation Division
State Land Office
Santa Fe, New Mexico 87501

Re: Hanley Petroleum Inc.
Compulsory Pooling Case
NMOCD Case No. 10219

Re: Santa Fe Operating Partners
Compulsory Pooling Case
NMOCD Case No. 10211

MOTION TO CONTINUE EXAMINER HEARINGS

Dear Mr. Catanach:

On behalf of Hanley Petroleum Inc., I request that the referenced hearings now set for February 21, 1991 be continued to the Examiner's hearing set for March 7, 1991.

On January 10, 1991, you decided Hanley was entitled to the following data from Santa Fe Energy Operating Partners:

1. Any and all pressure data, including but not limited to BHP surveys;
2. Mechanical logs and mud log, if any;
3. Any and all gas-oil ratio tests;

Mr. David R. Catanach
February 18, 1991
Page 2

4. Any and all specific gravity information on the liquids (PVT data);
5. Any and all production information;
6. denied;
7. denied;
8. denied;
9. Complete daily drilling and completion reports from inception to the latest available data for the well;
10. denied.

I have just received a copy of the Commission Ruling dated February 15, 1991, which provides that Santa Fe shall deliver to Hanley on or before February 25, 1991 the subpoena data subject to modification of items 2 and 9.

I have spoken to Mr. Bruce, attorney for Santa Fe Energy Partners, this afternoon and both he and I agree that we will not have sufficient time between now and the February 21, 1991 hearing date to resolve the subpoena issues as ordered by the Commission.

Accordingly, I request that the referenced cases be continued to the March 7, 1991 Examiner Hearing.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'W. Thomas Keallahin', with a long horizontal flourish extending to the right.

W. Thomas Keallahin

WTK/tic

Mr. David R. Catanach
February 18, 1991
Page 3

cc: James Rogers
Hanley Petroleum Inc. (FAX 915-685-1104)

James Bruce, Esq. (FAX 505-768-1529)
William F. Carr, Esq. (FAX 505-983-6043)

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

April 11, 1991

KELLAHIN, KELLAHIN & AUBREY
Attorneys at Law
P. O. Drawer 2265
Santa Fe, New Mexico 87504

RE: CASE NO. 10211 and CASE NO. 10219
ORDER NO. R-9480-A

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

Florene Davidson

Florene Davidson
OC Staff Specialist

FD/sl

cc: BLM - Carlsbad
J. Bruce
W. Carr

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:

CASES NOS. 10211 AND 10219
Order No. R-9480-A

APPLICATION OF SANTA FE ENERGY
OPERATING PARTNERS, L.P. FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

APPLICATION OF HANLEY PETROLEUM INC.
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION
STAYING ORDER NO. R-9480

BY THE DIVISION:

This matter having come before the Division upon the request of Hanley Petroleum Inc. for a Stay of Division Order No. R-9480 and the Division Director having considered the request and being fully advised in the premises,

NOW, on this 10th day of April, 1991, the Division Director:

FINDS THAT:

(1) Division Order No. R-9480 was entered on March 29, 1991, upon the application of Santa Fe Energy Operating Partners, L.P. for a compulsory pooling order of the Hanley Petroleum Inc. interests.

(2) On April 8, 1991, Hanley Petroleum Inc. filed with the Division a request for a De Novo Hearing in this matter which will be set for hearing before the New Mexico Oil Conservation Commission on May 9, 1991.

(3) Pursuant to the terms of Division Order No. R-9480 Santa Fe Energy Operating Partners, L.P. has sent to Hanley Petroleum Inc. a notice by which it must make an election to participate in the subject well on or before May 4, 1991.

(4) Unless Division Order No. R-9480 is stayed, Hanley Petroleum Inc. will be denied a reasonable opportunity to make an election following the entry of an order by the Commission.

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

March 29, 1991

HINKLE, COX, EATON,
COFFIELD & HENSLEY
Attorneys at Law
500 Marquette, NW
Suite 740
Albuquerque, New Mexico 87102

RE: CASE NO. 10211 and CASE NO. 10219
ORDER NO. R-9480

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

A handwritten signature in cursive script that reads "Florene Davidson".

Florene Davidson
OC Staff Specialist

FD/sl

cc: T. Kellahin
W. Carr
BLM - Carlsbad

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:

CASES NOS. 10211 AND 10219
Order No. R-9480

APPLICATION OF SANTA FE ENERGY OPERATING
PARTNERS, L.P. FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

APPLICATION OF HANLEY PETROLEUM INC. FOR
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 7, 1991, at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 29th day of March, 1991, 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) The applicant in Case 10211, Santa Fe Energy Operating Partners, L.P., (Santa Fe), seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the following described acreage in Section 8, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, in the following manner:

- (a) The W/2 NW/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated South Corbin-Wolfcamp Pool;

(6) Cases Nos. 10211 and 10219 were consolidated for the purpose of hearing and should be consolidated for purpose of issuing an order since the cases involve common acreage and the granting of one application would require the denial of the other.

(7) This matter has been the subject of previous Oil Conservation Division and Oil Conservation Commission actions involving Hanley's subpoena request for certain Santa Fe records.

(8) A representative of the Harvey E. Yates Company appeared at the hearing in support of Santa Fe's application.

(9) There are interest owners in the proposed units who have not agreed to pool their interests.

(10) The primary objective of either proposed well would be a Wolfcamp completion in the Undesignated South Corbin-Wolfcamp Pool to offset Santa Fe's recently completed Kachina "8" Federal Well No. 1 in the NE/4 NW/4 of said Section 8. It flowed 411 barrels of oil, 59 barrels of water and 577 MCF of gas per day on initial potential on January 13, 1991. Santa Fe's Form C-115 production report shows that the well produced 8143 barrels of oil, 213 barrels of water and 9374 MCF of gas during January, 1991.

(11) Pool rules for the South Corbin-Wolfcamp pool provide for 80-acre standard spacing and proration units with wells to be located within 150 feet of the center of a governmental quarter-quarter section or lot.

(12) In support of its application in Case No. 10211, Santa Fe submitted the following information through its exhibits and the testimony of its witnesses:

- (a) Santa Fe's proposed location for its Kachina 8 Federal Well No. 2 in the SW/4 NW/4 of said Section 8 would conform to an 80-acre diagonal spacing pattern. Santa Fe believes this would provide better recovery than Hanley's location which would be a direct West offset to Santa Fe's Kachina 8 Federal Well No. 1.
- (b) Cross-sections, structure maps and isopach maps were submitted to show the favorable conditions at the Santa Fe location. Their geology shows that the proposed location would be approximately 20 feet lower on the Wolfcamp structure than their Kachina 8 Well No. 1 and would have about the same thickness of clean Wolfcamp carbonate. The Santa Fe location is 50 feet lower structurally than

for their location and 130,000 barrels for the Santa Fe location.

- (c) Water production data from Wolfcamp completions in the Corbin area was used by Hanley to support their testimony that wells lower on the Wolfcamp structure produce more water.
- (d) Hanley submitted a Bone Spring structure map indicating their proposed location would be approximately 100 feet higher on the Bone Spring structure than the Santa Fe location.
- (e) Hanley's estimated cost for a Wolfcamp well is \$667,782. They proposed a method for allocating and amortizing well costs in the event the well is eventually plugged back for a completion attempt in the Bone Spring or other zone in which the ownership differs from that in the Wolfcamp. Monthly overhead rates of \$5,184 while drilling and \$485 while producing were suggested based on the mean rates in the Ernst and Young 1990 survey. A risk penalty of 150% was recommended at the Hanley location. Hanley's witnesses testified that the risk would be higher at the Santa Fe location.
- (f) Payout calculations prepared by Hanley show that a Wolfcamp well will payout in four months at their location and in eight months at the Santa Fe location.

(14) Santa Fe's compulsory pooling application was received by OCD on December 12, 1990, Hanley's initial application was received by OCD on January 2, 1991, and their amended application was received on February 12, 1991. Hanley began efforts to develop their acreage after Santa Fe filed its application.

(15) Based on the evidence and testimony received in these cases, either the Santa Fe or the Hanley location should result in a successful Wolfcamp completion. Evidence shows that Santa Fe's is the more appropriate location since it conforms to an 80-acre diagonal spacing pattern and should therefore result in better recovery of reserves. Santa Fe's application should be approved and they should be designated as operator. Overhead charges for supervision should be set at \$5,184 while drilling and \$485 while producing. Since risk of an unsuccessful completion is low, the risk penalty should be set at 100%. The 40-acre spacing unit applied for in Santa Fe's application is not required since all of the working interests in

(5) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production:

- A. The pro rata share of reasonable well 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; and
- B. As a charge for the risk involved in the drilling of the well, 100 percent of the pro rata share of reasonable well 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.

(9) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) \$5,184 per month while drilling and \$485 per month while producing are hereby fixed as reasonable charges for supervision (combined

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.

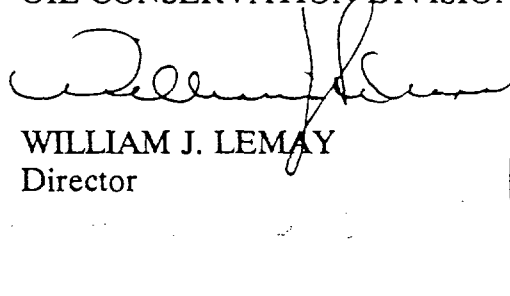
(10) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

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

Case No. 9998
Order No. R-9093-C
Page No. 7

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read 'William J. Lemay', is written over the printed name and title. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

WILLIAM J. LEMAY
Director

S E A L