

# EXAMPLE COST ALLOCATION

9000' Bone Spring  
vs.  
11,500' Wolfcamp

- Costs shown are from Hanley Petroleum Inc. AFE furnished 1-7-91.
- Drilling day ratio is based on the drilling curve of the Santa Fe - Kachina 8 Federal No. 1.

$$\text{Ratio} = \frac{\text{Drilling days to 9000' (incl. logs, run csg.)}}{\text{Drilling days to 11,500' " " " "}} = \frac{17}{30} = .5666$$

| <u>DRY HOLE</u><br><u>TANGIBLE</u> | <u>WOLFCAMP</u> | <u>BONE SPRING</u><br><u>Wolfcamp dry</u> | <u>BONE SPRING</u><br><u>Wolfcamp Productive</u>   |
|------------------------------------|-----------------|---|--|
| Casing & Tubingheads               | \$14,500        | \$14,500                                  | ½ of the greater of depreciated or salvaged value. |
| Surface casing                     | 9,800           | 9,800                                     |  |
| Intermediate casing                | 30,820          | 30,820                                    | " " "  |
| <u>INTANGIBLE</u>                  |                 |   |  |
| Drilling Contractor                | 221,400         | 125,445                                   | Amortized cost x .5666                             |
| Road/Location/Damages              | 16,000          | 9,066                                     | " " "  |
| Mud/Cemicals/Water                 | 18,000          | 10,198                                    | " " "  |
| Mud Logging                        | 8,750           | 4,957                                     | " " "  |
| Electric Logs                      | 33,500          | 18,981                                    | " " "  |
| Cementing surface & Intermed.      | 23,500          | 23,500                                    | " " "  |
| Supervision                        | 11,200          | 6,346                                     | " " "  |
| DST's                              | 22,000          | -0-                                       | -0-  |
| Transportation/Supplies            | 5,000           | 2,833                                     | Amortized cost x .5666                             |
| Contingencies                      | <u>38,877</u>   | <u>22,027</u>                             | " " "  |
| TOTAL                              | \$453,347       | \$278,473                                 |  |

|                                      |          |          |   |
|--------------------------------------|----------|----------|---|
| <u>COMPLETION</u><br><u>TANGIBLE</u> |          |          |   |
| 5½" casing                           | \$90,885 | \$71,126 | Proportion to 9000', then same as dry hole. |
| 2-7/8" tubing                        | 46,750   | 36,587   | " " "                                       |
| Battery                              | 22,500   | 22,500   | " " "                                       |
| <u>INTANGIBLE</u>                    |          |          |   |
| Cement long string                   | 24,000   | 13,598   | Amortized cost x .5666                      |
| Transportation/Supplies              | 7,500    |          | allocated by completion interval.           |
| Completion Rig/Rentals               |          | "        | " "   |
| Stimulation/Perforating              | 22,800   |          | " " "                                       |
| Overhead                             | J.O.A.   | x .5666  | Amortized cost x .5666                      |

WRH  
2-20-91

|                           |
|---------------------------|
| BEFORE EXAMINER MORROW    |
| OIL CONSERVATION DIVISION |
| CONTRACT NO. 17           |