



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Jennifer A. Salisbury
Cabinet Secretary

November 19, 2001

Lori Wrotenbery

Director

Oil Conservation Division

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210-2118
Attention: Cy Cowan

Telefax No. (505) 748-4572

Administrative Order NSL-4664(SD)

Dear Mr. Cowan:

Reference is made to Yates Petroleum Corporation's ("Yates") initial application (application reference No. *pKRV0-123339590*) filed with the New Mexico Oil Conservation Division ("Division") on August 16, 2001 for:

(a) an infill gas well at an unorthodox gas well location within an existing non-standard 320-acre gas spacing and proration unit ("GPU") comprising the W/2 of Section 12, Township 22 South, Range 23 East, NMPM, Indian Basin-Upper Pennsylvanian Gas Pool (79040), Eddy County, New Mexico; and

(b) an exception to Division Rule 104.C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, for the Morrow formation underlying the W/2 of Section 12, being a standard 320-acre gas spacing unit for the Undesignated South Indian Basin-Morrow Gas Pool (96784).

Further reference is hereby made to the following: (i) the Division's initial response by letter from Mr. Michael E. Stogner, Chief Hearing Officer/Engineer in Santa Fe, New Mexico dated October 3, 2001; (ii) your voice mail message for Mr. Stogner on Wednesday, October 10, 2001; (iii) your telefax of October 12, 2001 with the requested supplemental data; (iv) Mr. Stogner's second letter dated October 15, 2001 requesting verification on the information provided and/or additional data to supplement this application; (v) your letter dated October 18, 2001 that contained additional information and a request to withdraw from Yates's original application that portion seeking a location exception for the Morrow interval; (vi) Mr. Stogner's third letter of October 24, 2001; (vii) your telefaxed message of October 29, 2001; (viii) your letter of October 31, 2001 and telefax of November 16, 2001, with attachments that serve to complete this application; and (ix) the Division's records in Santa Fe.

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The Division Director Finds That:

(1) Earlier this year (January/February) Yates drilled its Smith Federal Gas Com. Well No. 3 (API No. 30-015-30687) to a total depth of 8,010 feet at a location 1797 feet from the North line and 2159 feet from the West line (Unit F) of Section 12;

(2) The Indian Basin-Upper Pennsylvanian Gas Pool currently comprises the following described area in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

Section 3:	W/2
Section 4:	All
Sections 8 and 9:	All
Section 10:	W/2
Section 15:	W/2
Sections 16 through 30:	All
Sections 32 through 35:	All
Section 36:	W/2

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

Section 19:	All
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TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

Section 1:	W/2
Sections 2 through 5:	All
Sections 8 through 11:	All
Section 12:	W/2
Section 13:	W/2
Sections 14 through 17:	All
Section 21:	N/2
Section 22:	All;

(3) The Indian Basin-Upper Pennsylvanian Gas Pool is a prorated gas pool currently governed by: (i) Division Rule 605; and (ii) the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*," as promulgated by Division Order No. R-8170, as amended: which require standard 640-acre GPU's with wells to be located no closer than 1650 feet from the outer boundary of the GPU nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary;

(4) However, Division Order No. R-9922-D, issued in Case No. 12006 and dated

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December 7, 1998, adjusted the pool boundaries of the Indian Basin-Upper Pennsylvanian Gas Pool and the Indian Basin-Upper Pennsylvanian Associated Pool (which special pool rules requires 320-acre spacing) and approved a non-standard 320-acre gas spacing and proration unit for the W/2 of Section 12, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, for the Indian Basin-Upper Pennsylvanian Gas Pool [see Ordering Paragraph No. (3) on page 11 of Order No. R-9922-D]. Further, Division Order No. R-9922-D provided that any future well located within the W/2 of Section 12 is to be located no closer than 660 feet to the eastern boundary of this 320-acre unit;

(5) This non-standard 320-acre gas spacing and proration unit within the Indian Basin-Upper Pennsylvanian Gas Pool is currently dedicated to Yates's Smith Federal Gas Com. Well No. 2 (API No. 30-015-26834), located 2049 feet from the North line and 480 feet from the West line (Unit E) of Section 12 (unorthodox gas well approval order unknown); and

(6) The subject application for Yates's Smith Federal Gas Com. Well No. 3 has been duly filed under the provisions of: (i) Division Rule 104.F; (ii) Division Rule 605; (iii) Division Rule 1207.A (2); and (iv) the special rules governing the Indian Basin-Upper Pennsylvanian Gas Pool.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Division Rules 104.F (2), as revised, Division Rule 605.B (2) (b), and the applicable provisions of the special pool rules governing the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*," as promulgated by Division Order No. R-8170, as amended, the subject application initially filed by Yates Petroleum Corporation ("Yates") on August 16, 2001 for its existing Smith Federal Gas Com. Well No. 3 (API No. 30-015-30687) drilled in early 2001 at an unorthodox gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool 1797 feet from the North line and 2159 feet from the West line (Unit F) of Section 12, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, is hereby approved.

(2) The existing 320-acre non-standard gas spacing and proration unit within the Indian Basin-Upper Pennsylvanian Gas Pool [see Ordering Paragraph No. (3) on page 11 of Order No. R-9922-D, issued in Case No. 12006 and dated December 7, 1998] that comprises the W/2 of Section 12 is to be simultaneously dedicated to Yates's:

(a) existing Smith Federal Gas Com. Well No. 2 (API No. 30-015-26834), located 2049 feet from the North line and 480 feet from the West line (Unit E) of Section 12; and

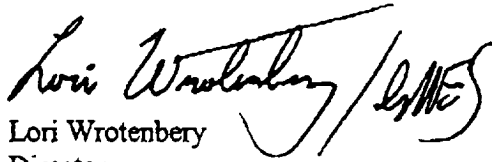
(b) above-described Smith Federal Gas Com. Well No. 3.

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(3) It Shall be Noted However That Yates, as a prudent operator, must recognize that a well location is unorthodox prior to its drilling and not wait a period of seven months after commencing drilling operations to seek the necessary regulatory exceptions. If, any future application by Yates for an unorthodox location is not filed in a more timely fashion, all such subsequent applications will be subject to the Division's hearing process until further notice.

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

Sincerely,


Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
William F. Carr, Legal Counsel for Yates Petroleum Corporation - Santa Fe
Randy Patterson, Yates Petroleum Corporation - Artesia