



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

July 13, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Yates Petroleum Corporation
c/o **Holland & Hart LLP**
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Attention: William F. Carr
Legal Counsel for Yates Petroleum Corporation

Re: *Application on behalf of Yates Petroleum Corporation ("Yates") submitted on July 6, 2004 (administrative application reference No. pSEM0-418948764) for administrative review by the Division for: (i) an unorthodox deep gas well location in both the Wolfcamp formation and the Palma Mesa-Pennsylvanian Gas Pool (82550) for Yates's existing Hanlad "AKZ" State Well No. 2 (API No. 30-005-62911) located 330' FSL & 1225' FWL (Unit M) of Section 13, Township 8 South, Range 27 East, NMPM, Chaves County, New Mexico; (ii) an exception to Division Rule 104.C (2) (b) in order to locate and complete two Pennsylvanian producing wells within the same quarter section of a standard 320-acre lay-down deep gas spacing unit comprising the S/2 of Section 13 within the Palma Mesa-Pennsylvanian Gas Pool; and (iii) a retroactive approval date of October 15, 2003 for any order issued to Yates in this matter*

Dear Mr. Carr,

Please refer to Yates Petroleum Corporation's administrative application (**administrative application reference No. pLR0-400627649**) and the record in Division Case No. 13229 (which was dismissed by Order No. R-12126). Your amended application for this well still contains provisions that can not be addressed administratively; therefore, this administrative application will also be set for hearing before an examiner on the next available scheduled for August 5, 2004. Division Case No. 12126 will be reopened and readvertised in the following manner:

"CASE 13229 (REOPENED AND READVERTISED): Application of Yates Petroleum Corporation for an unorthodox gas well location, an exception to Division Rule 104.C (2) (b), and a retroactive approval date for any order issued in this case, Chaves County, New Mexico. Applicant seeks an exception to Division Rule 104.C (2) for an unorthodox deep gas well location in the Wolfcamp formation and in the Palma Mesa-Pennsylvanian Gas Pool (82550) for Yates Petroleum Corporation's existing Hanlad "AKZ" State Well No. 2 (API No. 30-005-62911), located 330 feet from the South line and 1225 feet from the West line (Unit M) of Section 13, Township 8 South, Range 27 East [which well was the subject of Division Order No. R-9721, issued in Case No. 10489 on June 11, 1992, approving this well as an unorthodox gas well location in the Palma Mesa Siluro-Ordovician Gas Pool (82550) within a standard 320-acre deep gas spacing unit comprising the

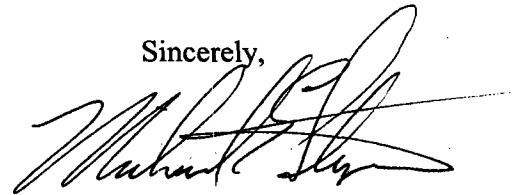
YATES PETROLEUM CORPORATION

JULY 13, 2004

PAGE 2

S/2 of Section 13], this well to be dedicated to the S/2 of Section 13 being a standard 320-acre lay-down deep gas spacing unit for both zones. This well is located approximately eight miles southwest of Elkins, New Mexico. APPLICANT FURTHER SEEKS an exception to Division Rule 104.C (2) (b) in order to recomplete the Hanlad "AKZ" State Well No. 2 as an infill Pennsylvanian gas well within the same quarter section (SW/4 of Section 13) as an existing well producing from the Palma Mesa-Pennsylvanian Gas Pool. The S/2 of Section 13, being a standard 320-acre lay-down deep gas spacing unit in the Palma Mesa-Pennsylvanian Gas Pool is currently dedicated to the applicant's Hanlad "AKZ" State Well No. 1 (API No. 30-005-61493), located at a standard deep gas well location 660 feet from the South and West lines (Unit M) of Section 13. FURTHERMORE, applicant seeks an effective date for any order issued in this case is made retroactive to October 15, 2003".

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe
Ms. Florene Davidson, NMOCD - Santa Fe

7/6/04

DATE IN 7.6.04	SUSPENSE 7/26/04	ENGINEER Stagner	LOGGED IN 7.7.04	TYPE NSL	APP NO. DSEM 0418948764
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] **[NSP-Non-Standard Proration Unit]** **[SD-Simultaneous Dedication]**
[DHC-Downhole Commingling] **[CTB-Lease Commingling]** **[PLC-Pool/Lease Commingling]**
[PC-Pool Commingling] **[OLS - Off-Lease Storage]** **[OLM-Off-Lease Measurement]**
[WFX-Waterflood Expansion] **[PMX-Pressure Maintenance Expansion]**
[SWD-Salt Water Disposal] **[IPI-Injection Pressure Increase]**
[EOR-Qualified Enhanced Oil Recovery Certification] **[PPR-Positive Production Response]**

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
- [A] Location - Spacing Unit - Simultaneous Dedication
☒ NSL ☐ NSP ☐ SD
- Check One Only for [B] or [C]
- [B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR
- [D] Other: Specify _____
- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or Does Not Apply
- [A] ☐ Working, Royalty or Overriding Royalty Interest Owners
- [B] ☒ Offset Operators, Leaseholders or Surface Owner
- [C] ☐ Application is One Which Requires Published Legal Notice
- [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] ☐ Waivers are Attached
- [3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

William F. Carr
 Print or Type Name

Signature

Title

Date

wearr@hollandhart.com
 e-mail Address

2004 JUL 6 PM 3 21

July 6, 2004

HAND-DELIVERED

Mr. Mark E. Fesmire, P.E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Application of Yates Petroleum Corporation for Administrative Approval of an Unorthodox Well Location for its Hanlad "AKZ" State Well No. 2 (**API No. 30-005-62911**) located 330 feet from the South line and 1225 feet from the West line (Unit M) of Section 13, Township 8 South, Range 27 East, N.M.P.M., Chaves County, New Mexico.

Dear Mr. Fesmire:

Yates Petroleum Corporation hereby seeks administrative approval pursuant to the provisions of Division Rule 104 F (2)-(4) adopted on August 12, 1999, of an unorthodox well location for its Hanlad "AKZ" State Well No. 1 to be drilled at an unorthodox gas well location 330 feet from the South line and 1225 feet from the West line (Unit M) of Section 13, Township 8 South, Range 27 East, N.M.P.M., Chaves County, New Mexico. An unorthodox gas well location for this well was approved in the Ordovician formation by Division Order No. R-972, dated September 16, 1992. Yates now seeks approval of this location up hole in the Wolfcamp and Strawn formations.

This location in the Wolfcamp and Strawn formations is unorthodox unorthodox because Rule 104.C(2)(a) of the General Rules of the Division provides in part that wells in the Wolfcamp or any older formation shall be "...no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary." A standard 320-acre spacing and proration unit comprised of the S/2 of Section 13 will be dedicated to the well.

The proposed unorthodox well location is located in the SW/4 of the Section and is 330 feet from the outer boundary of the quarter section on which it is located.

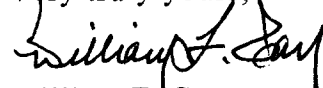
Attached hereto as **Exhibit 1** is a plat that shows the subject area, the 320-acre spacing unit comprised of the S/2 of Section 13, the proposed unorthodox location, and adjoining spacing units and wells. **Exhibit 2** is the C-102 originally filed for the well that shows the surveyed location of the well. The well only encroaches on properties to the South that are operated by Yates related companies. However, pursuant to Rule 104.F(4) of the General Rules of the Division, a copy of this application, including a copy of the plat described above has been sent to all affected parties by certified mail-return receipt requested. These affected parties are identified on **Exhibit 3** to this application and have been advised that if they have an objection to this application it must be filed in writing with the Division's Santa Fe office within twenty days from the date this notice was sent.

Yates Petroleum corporation also requests that the order issued in this matter be issued with an effective date of October 15, 2003.

I enclose in hard copy and have provided by E-mail a proposed administrative order of the Division.

Your attention to this application is appreciated.

Very truly yours,



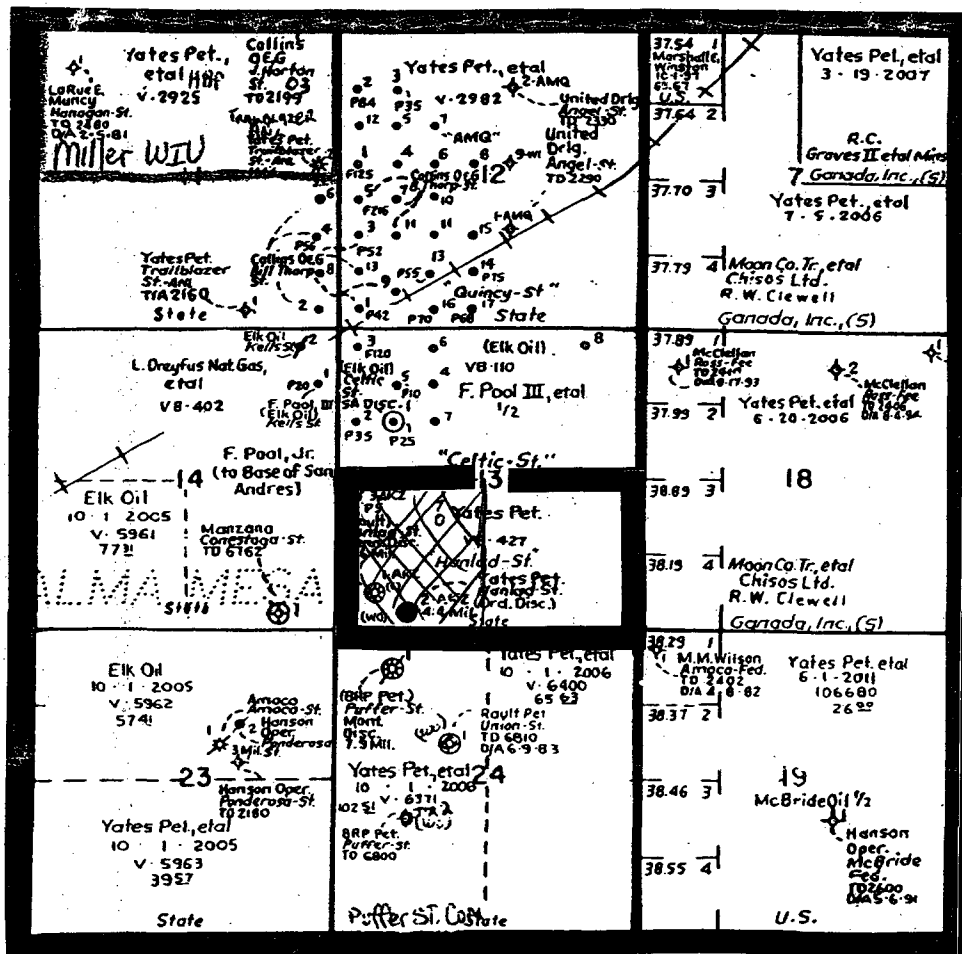
William F. Carr
Attorney for Yates Petroleum Corporation

Enclosures

cc: Chuck Moran
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210-2118

Exhibit 1

Yates Petroleum Corporation
Hanlad "AKZ" State #2
Section 13-T8S-R27E
Chaves County, New Mexico



Submit to Appropriate
District Office
State Lease - 4 copies
Fee Lease - 3 copies

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator YATES PETROLEUM CORPORATION			Lease HANLAD "AKZ" STATE		Well No. 2
Unit Letter M	Section 13	Township 8 SOUTH	Range 27 EAST	County CHAVES	
Actual Footage Location of Well: 330 feet from the SOUTH line and 1225 feet from the WEST line					
Ground level Elev. 3943'	Producing Formation ORDOVICIAN		Pool WILDCAT ORDOVICIAN	Dedicated Acreage: 320 Acres	

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?
☐ Yes ☐ No If answer is "yes" type of consolidation _____

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.

OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature
Clifton R. May
Printed Name
Clifton R. May
Position
Permit Agent
Company
Yates Petroleum Corporation
Date
September 24, 1992

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes or actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
9/23/92
Signature & Seal of Professional Surveyor
Herschel L. Jones
Certificate No. 3640
STATE OF NEW MEXICO
REGISTERED LAND SURVEYOR

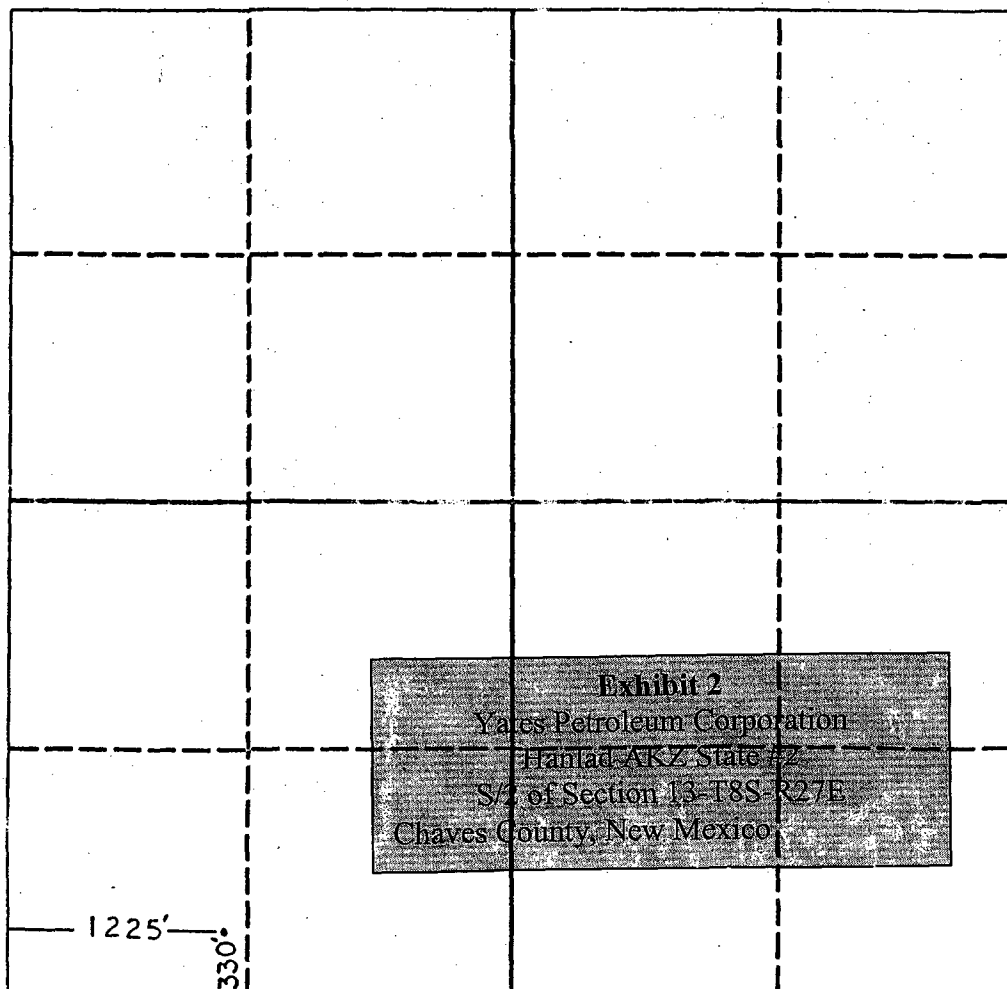


EXHIBIT 3

Yates Petroleum Corporation
Hanlad "AKZ" State Well No. 2 (API No. 30-005-62911)
330' FSL & 1225" FWL
S/2 of Section 13, Township 8 South, Range 27 East, N.M.P.M.,
Chaves County, New Mexico.

AFFECTED PERSONS - NOTIFICATION LIST

S/2 of Section 13, T-8-S, R-27-E

Working Interest Owners

Yates Drilling Company
Myco Industries
Abo Petroleum Corporation
104 South Fourth Street
Artesia, New Mexico 88210

Royalty Owner

State of New Mexico
Lease Number VB-0427

Section 24, T-8-S, R-27-E

Working Interest Owners

Yates Drilling Company
Myco Industries
Abo Petroleum Corporation
104 South Fourth Street
Artesia, New Mexico 88210

Royalty Owner

State of New Mexico
Lease Numbers VO-6371 (W/2) and VO-6400 (E/2)

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210-2118

Attention: William F. Carr

Administrative Order NSL-_____

Dear Mr. Carr:

Reference is made to your application dated July 6, 2004 for an unorthodox well location for in the Wolfcamp and Strawn formations, for the Yates Hanlad "AKZ" State Well No. 2 (API No. 30-005-62911) effective October 15, 2003. Said well was originally drilled to the Ordovician formation at an unorthodox gas well location approved by Division Order No. R-9721, Dated September 16, 1992 and is located 330 feet from the South line and 1225 feet from the West line (Unit M) of Section 13, Township 8 South, Range 27 East, NMPM, Chaves County, New Mexico.

A standard 320-acre spacing and proration unit in the Wolfcamp and Morrow formations comprising the S/2 of said Section 13 is to be dedicated to said well.

This application has been duly filed under the provisions of Rule 104 of the General Rules of the Oil Conservation Division.

By authority granted me under the provisions of Rule 104.F(2) of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the New Mexico Oil Conservation Commission in Case 11,351 on January 18, 1996, the following described unorthodox gas well location within this 320-acre unit in the Wolfcamp and Strawn formations effective October 15, 2003 is hereby approved:

Hanlad "AKZ" State Well No. 2

330' FSL & 1225' FWL (Unit M)

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

Sincerely,

Mark E. Fesmire, P.E.
Director

cc: New Mexico Oil Conservation Division – Artesia
U. S. Bureau of Land Management – Carlsbad



July 6, 2004

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO AFFECTED INTEREST OWNERS

Re: Application of Yates Petroleum Corporation for Administrative Approval of an Unorthodox Well Location for its Hanlad "AKZ" State Well No. 2 (API No. 30-005-62911) located 330 feet from the South line and 1225 feet from the West line (Unit M) of Section 13, Township 8 South, Range 27 East, N.M.P.M., Chaves County, New Mexico.

Ladies and Gentlemen:

Enclosed is a copy of the above-referenced application and attached plat which was filed with the New Mexico Oil Conservation Division on this date by Yates Petroleum Corporation for administrative approval of an unorthodox well location for its Hanlad "AKZ" State Well No. 2 located 330 feet from the South line and 1225 feet from the West line (Unit M) of Section 13, Township 8 South, Range 27 East, NMPM, Chaves County, New Mexico, effective October 15, 2003.

As an owner of an interest that may be affected by the proposed well, you may object to this application. Objections must be filed in writing at the Oil Conservation Division's Santa Fe office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505 within twenty days from this date. If no objection is received within this twenty-day period, this application for unorthodox well location may be approved.

Very truly yours,

William F. Carr
Attorney for Yates Petroleum Corporation

Enclosure

cc: Mr. Chuck Moran
Yates Petroleum Corporation