

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. 13706
ORDER NO. R-12565

APPLICATION OF YATES PETROLEUM CORPORATION FOR APPROVAL
OF A PILOT PROJECT INCLUDING AN EXCEPTION FROM RULE NO. (4)
OF THE SPECIAL RULES AND REGULATIONS FOR THE PECOS SLOPE-
PENNSYLVANIAN POOL FOR PURPOSES OF ESTABLISHING A PROGRAM
TO DETERMINE PROPER WELL DENSITY AND WELL LOCATION
REQUIREMENTS IN PENNSYLVANIAN WELLS, CHAVES COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 11, 2006, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 31st day of May, 2006, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) By Order No. R-11721 issued in Case No. 12751 on February 6, 2002, the Division, upon the application of Yates Petroleum Corporation, created the Pecos Slope-Pennsylvanian Pool. The pool initially comprised the W/2 of Section 26, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico. This order also promulgated special rules and regulations for this oil pool, described in part, as follows:

(a) Rule No. (2) requires 320-acre spacing and proration units;

- (b) Rule No. (4) designates well location requirements such that the initial and infill well on a unit shall be located 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 governmental quarter-quarter section line or subdivision inner boundary;
- (c) Rule No. (4) also provides for a well density limit of two wells per unit, provided that the infill well within the unit shall be located within the quarter section not containing the parent well; and
- (d) Rule No. (6) provides for an oil allowable of 694 barrels of oil per day/unit.

(3) The applicant, Yates Petroleum Corporation ("Yates"), seeks an exception to Rule No. (4) of the "*Special Rules and Regulations for the Pecos Slope-Pennsylvanian Pool*", to allow it to drill its proposed George "QJ" Federal Well No. 12 at a location 990 feet from the South line and 660 feet from the West line (Unit M) of Section 26, Township 6 South, Range 25 East, NMPM, and its proposed George "QJ" Federal Com Well No. 13 at a location 990 feet from the North line and 660 feet from the West line (Unit D) of Section 35, Township 6 South, Range 25 East, NMPM.

(4) The George "QJ" Federal Well No. 12 will be dedicated to an existing 320-acre spacing and proration unit comprising the W/2 of Section 26. This unit is currently dedicated to Yates' George "QJ" Federal Well No. 10 (API No. 30-005-63368) located in Unit N. The George "QJ" Federal Com Well No. 13 will be dedicated to an existing 320-acre spacing and proration unit comprising the W/2 of Section 35. This unit is currently dedicated to Yates' George "QJ" Federal Com Well No. 9 (API No. 30-005-63098) located in Unit C.

(5) The Pecos Slope-Pennsylvanian Pool currently comprises the W/2 of Section 26, the S/2 and NW/4 of Section 27 and the W/2 of Section 35, Township 6 South, Range 25 East, NMPM.

(6) There are currently only four wells producing from the pool, the aforesaid George "QJ" Federal Com Well No. 9 and George "QJ" Federal Well No. 10, the Yates George "QJ" Federal Well No. 2Y located in Unit P of Section 27, and the Yates Powers "OL" Deep Federal Well No 6 located in Unit K of Section 27.

(7) Yates currently owns or controls all of the acreage within the pool.

(8) Yates presented geologic evidence that demonstrates that:

- (a) the limits of this reservoir have reasonably been defined by drilling;
 - (b) this Cisco reservoir encompasses an area of approximately 500 acres, and comprises portions of the S/2 of Section 26, the N/2 of Section 35, the S/2 of Section 27 and the N/2 of Section 34. The reservoir trends northwest to southeast, and there is a gas cap present in the up-dip northwest area of the structure; and
 - (c) pressure and well performance data suggests that a porosity barrier exists and separates this reservoir into two separate and distinct producing areas.
- (9) Yates presented engineering evidence that demonstrates that:
- (a) the four wells producing from the pool have cumulatively produced approximately 394,000 barrels of oil and 0.87 BCF of gas; and
 - (b) ultimate recovery from the pool by primary means is estimated to be 450,000 barrels of oil and 1.0 BCF of gas.
- (10) Yates proposes to drill the George "QJ" Federal Wells. No. 12 and 13 to gather additional reservoir data, to produce remaining reserves that may be present at these well locations, and to ultimately utilize these wells as producing wells within a secondary recovery project that may be implemented in the near future.
- (11) Yates estimates that implementing possible secondary recovery operations within this Cisco reservoir may result in the recovery of an additional 300,000 barrels of oil that may otherwise not be recovered.
- (12) There are no interest owners and/or offset operators that will be adversely affected by the approval of this application.
- (13) Approval of the application will afford Yates the opportunity to recover additional oil reserves from the Cisco reservoir, both by primary and possible secondary recovery methods, thereby preventing waste, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

- (1) As an exception to the requirements of Rule No. (4) of the "*Special Rules and Regulations for the Pecos Slope-Pennsylvanian Pool*", the applicant, Yates Petroleum Corporation, is hereby authorized to drill its George "QJ" Federal Well No. 12

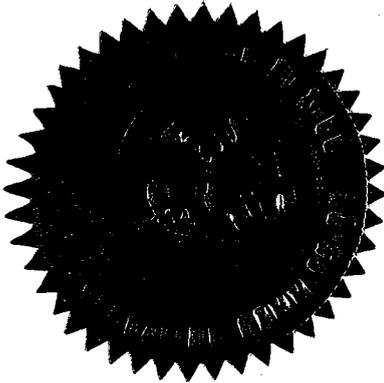
at a location 990 feet from the South line and 660 feet from the West line (Unit M) of Section 26, and its George "QJ" Federal Com Well No. 13 at a location 990 feet from the North line and 660 feet from the West line (Unit D) of Section 35, both in Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico to test the Pecos Slope-Pennsylvanian Pool.

(2) The George "QJ" Federal Well No. 12 shall be dedicated to an existing 320-acre spacing and proration unit comprising the W/2 of Section 26 that is currently dedicated to Yates' George "QJ" Federal Well No. 10 (API No. 30-005-63368) located in Unit N.

(3) The George "QJ" Federal Com Well No. 13 shall be dedicated to an existing 320-acre spacing and proration unit comprising the W/2 of Section 35 that is currently dedicated to Yates' George "QJ" Federal Com Well No. 9 (API No. 30-005-63098) located in Unit C.

(4) Jurisdiction is hereby 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director