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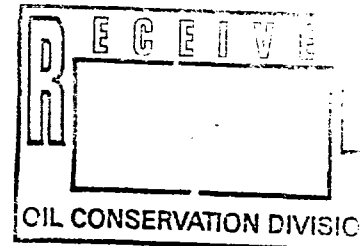
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September 22, 1995

HAND-DELIVERED



Michael E. Stogner
Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: Oil Conservation Division Case No. 11283:
Application of Yates Petroleum Corporation for an Amendment to Order R-9976-A Authorizing a Change in an Unorthodox Gas Well Location, Chaves County, New Mexico.

Oil Conservation Division Case No. 11355:
Application of Tide West Oil Company for an Unorthodox Infill Gas Well Location and Simultaneous Dedication, Chaves County, New Mexico.

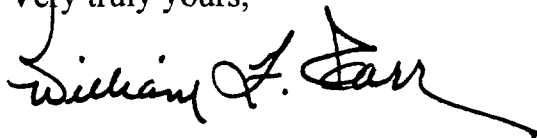
Dear Mr. Stogner:

Enclosed for your consideration is the proposed Order of Yates Petroleum Corporation in the above-referenced cases and a letter from Yates which provides the data you requested on the BLM's requirement that the Catterson location be moved from the original location approved by Order No. R-9976-A.

Michael E. Stogner
Hearing Examiner
September 22, 1995
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If you need anything further from Yates to proceed with your consideration of these matters, please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

WILLIAM F. CARR

WFC:mlh

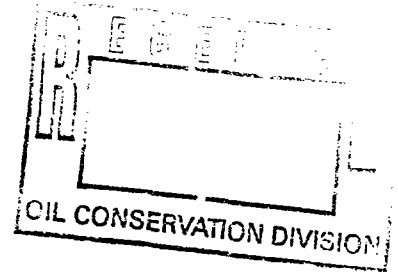
cc: Mr. Randy Patterson (w/enclosure)
Yates Petroleum Corporation
W. Thomas Kellahin, Esq. (w/enclosure)
Attorney for Tide West Oil Company

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:



APPLICATION OF YATES PETROLEUM
CORPORATION FOR AN AMENDMENT
TO ORDER R-9976-A AUTHORIZING A
CHANGE IN AN UNORTHODOX
GAS WELL LOCATION,
CHAVES COUNTY, NEW MEXICO.

CASE 11283

APPLICATION OF TIDE WEST OIL COMPANY
FOR AN UNORTHODOX INFILL GAS WELL
LOCATION AND SIMULTANEOUS DEDICATION,
CHAVES COUNTY, NEW MEXICO.

CASE 11355

**YATES PETROLEUM CORPORATION'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION

This cause came on for hearing at 8:15 a.m. on August 10, 1995, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of September, 1995, 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 11283, Yates Petroleum Corporation ("Yates"), seeks Amendment of Division Order No. R-9976-A to authorize a change in the unorthodox infill gas well location of its Catterson "SS" Federal No. 7 Well ("Catterson Well") which has been drilled and completed in the Pecos Slope-Abo Gas Pool at a location 2310 feet from the South line and 660 feet from the East line of Section 21, Township 7 South, Range 26 East, N.M.P.M., Chaves County, New Mexico.

(3) The applicant in Case 11355, Tide West Oil Company ("Tide West"), seeks approval of an unorthodox gas well location for its Chaves "A" Federal Well No. 2 ("Chaves Well") to be drilled at an unorthodox location 2310 feet from the North line and 660 feet from the East line of Section 21, Township 7 South, Range 26 East, N.M.P.M., Chaves County, New Mexico and the simultaneous dedication of the NE/4 of Section 21 to the Chaves Well and the existing Tide West Chaves "A" Federal Well No. 1 located in the NW/4 NE/4 of said Section 21.

(4) Yates does not oppose the application of Tide West in Case 11355.

(5) The Catterson Well was drilled as part of Yates Enhanced Gas Recovery Project in the Pecos Slope-Abo Gas Pool to determine if infill development of this pool will prevent waste, which was approved by Division Order No. R-9976, dated September 24, 1993.

(6) The Catterson Well was originally approved at an unorthodox gas well location 2310 feet from the South line and 790 feet from the East line (Unit I) of said Section 21 by Order No. R-9976-A, dated June 23, 1994. Although this well location is 50% closer to the offsetting spacing unit in the NE/4 of Section 21, Merit Energy Corporation ("Merit"), the offset operator to the North, waived objection to this location by letter dated June 18, 1994. (Yates Petroleum Corporation's Exhibit 2).

(7) Tide West acquired its ownership interest in the NE/4 of Section 21 from Merit in July, 1994.

(8) The Catterson Well was drilled in January, 1995. It was not drilled at the previously approved unorthodox location because the Bureau of Land Management required the well be moved to a new location 130 feet closer to the East line of this spacing unit but

no closer to the Tide West operated tract in the NE/4 of Section 21 than the previously approved unorthodox well location. (Testimony of Porter).

(9) Yates filed an application for administrative approval of the new unorthodox well location for the Catterson Well and on March 24, 1995 provided notice of this application by certified mail to Merit and to Sanders Petroleum Corporation, the offset operator to the East toward which the well had been moved. (Yates' Exhibit 3).

(10) Sanders Petroleum Corporation waived objection to the new unorthodox well location. (Testimony of Porter).

(11) On March 30, 1995, Merit advised Yates that it had conveyed its interest in the NE/4 of Section 21 to Tide West and on that date Yates advised the Division that its application for administrative approval of the well location for the Catterson Well would have to be delayed until the newly offset owner, Tide West, had been provided notice of this application as required by Division rules. This notification to the Division was confirmed by Yates' letter dated March 31, 1995. (Yates' Exhibit 4).

(12) On March 31, 1995, Yates sent a copy of its application for administrative approval of the location of the Catterson Well to Tide West by certified mail. (Yates' Exhibit 4).

(13) Tide West objected to this location by letter dated April 14, 1995.

(14) Yates has attempted to contact Tide West concerning this well location on at least five occasions but Tide West has refused to discuss this matter with Yates. (Testimony of Porter).

(15) The case was originally docketed on May 18, 1995 but the hearing was continued to August 10, 1995 because:

- (A) Tide West's request for a continuance to enable it to review data it had obtained from Yates by subpoena;

- (B) Delays Tide West was experiencing in obtaining BLM approval of its Application for Permit to Drill its offsetting proposed well in the NE/4 of Section 21; and
- (C) Requests of counsel for both parties to continue the hearing to permit them to attempt a voluntary resolution of this dispute. (Testimony of Porter).

(16) Tide West appeared at the hearing and requested that:

- (A) the allowable assigned to the Catterson Well commence on the date of the Order entered in Case 11238;
- (B) the allowable assigned to the Catterson Well be penalized by 50% of the average monthly rate it is currently capable of producing into the pipeline under normal operating conditions;
- (C) all production prior to the date of the Order entered in Case 11238 be overproduction which would be subtracted from the allowable assigned to the well; and
- (D) the 50% allowable penalty terminate as of the date of first gas sales from the Tide West Chaves "A" Federal Well No. 2.

(17) Although the case was heard on August 10, 1995, due to errors in the legal advertisement for this case it was continued and readvertised for the September 7, 1995 Examiner hearing at which time it was taken under advisement.

(18) The proposed unorthodox location for the Catterson Well should be approved without penalty:

- (A) it is no closer to the acreage operated by Tide West in the NE/4 of Section 21 than the unorthodox location for this well approved by Division Order No. R-9976-A;

- (B) while Tide West seeks a 50% production penalty on this well, the evidence demonstrated that through July 1995 Yates had only produced 44% of the gas the Catterson Well was capable of producing; and
- (C) Tide West has proposed a well as close to the common lease line with Yates as the Catterson Well.

(19) To classify all production from the Catterson Well prior to the effective date of the Order entered in Case 11238 would penalize Yates for all delays in obtaining an Order in this case including those delays set forth in Findings 15 and 17 of this Order.

(20) Approval of the application of Yates and at the same time approving the application of Tide West for an offsetting unorthodox well location will result in the recovery of hydrocarbons that otherwise may be left in the ground, thereby preventing waste, and will protect correlative rights by affording both operators the opportunity to produce their fair share of the reserves in this pool.

(21) The applications of Yates Petroleum Corporation in Case 11283 and of Tide West Oil Company in Case 11355 should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation in Case 11283 is granted and Division Order No. R-9976-A is hereby amended to authorize the unorthodox infill gas well location of its Catterson "SS" Federal No. 7 Well at a point 2310 feet from the South line and 660 feet from the East line of Section 21, Township 7 South, Range 26 East, N.M.P.M., Chaves County, New Mexico.

(2) The applicant in Case 11355, Tide West Oil Company, is hereby authorized to drill its Chaves "A" Federal Well No. 2 at an unorthodox gas well location no closer than 2310 feet from the North line and 660 feet from the East line of Section 21, Township 7 South, Range 26 East, N.M.P.M., and to simultaneously dedicate the NE/4 of said Section 21 of this well and the existing Chaves "A" Federal Well No. 1 located in the NW/4 NE/4 of said Section.

Case Nos. 11283 and 11355

Order No. R-_____

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(3) Jurisdiction of this cause is 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LeMAY
Director

S E A L

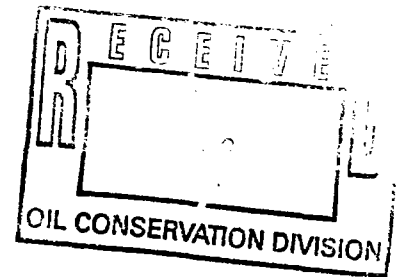
MARTIN YATES, III
1912 - 1989
FRANK W. YATES
1936 - 1988



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RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

August 11, 1995



To Whom It May Concern:

On May 5, 1994 General Surveying staked the Catterson "SS" Federal #7 at 2310' FSL and 790' FEL, Section 21-T7S-R26E. An application to drill was filed with the Bureau of Land Management, Roswell Resource Area Office dated August 10, 1994. On August 24, 1994 John Crane with the BLM and I went to the Catterson location for a pre-site. At that time Mr. Crane instructed me that the location should be moved east approximately 130' to get the southwest corner of the pad out of and away from the major drainage in that area. Moving 130' will make the well 2310' FSL and 660' FEL.

When I returned to my office I visited with the Engineer and the Geologist about the move. The Engineer did not have a problem with the move. However, the Geologist really didn't want to move further east. I looked for alternative locations but due to drainage was unable to find one. On October 14, 1994 the Catterson "SS" Federal #7 was re-staked at 2310' FSL and 660' FEL by General Surveying.

A new application to drill dated October 17, 1994 was sent to the Roswell Resource Area Office of the BLM. This application received approval by BLM on November 16, 1994. I released Sweatt Construction to build location on December 28, 1994.

The above is a true and factual account of my involvement with the permitting and drilling of the Catterson "SS" Federal #7, 2310' FSL and 660' FEL, Section 21-T7S-R26E.

YATES PETROLEUM CORPORATION

Clifton R. May
Regulatory Agent