

February 19, 1996

Yates Petroleum Corporation
c/o Campbell, Carr, Berge & Sheridan, P. A.
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Attn: William F. Carr

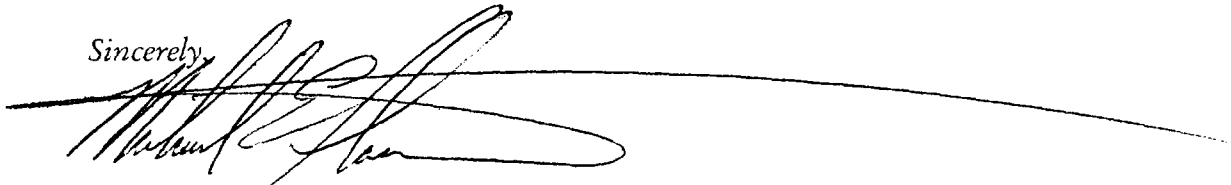
RE: Application for directional drilling and various unorthodox bottohole gas well locations: Zinnia Federal Unit Well No. 1 (API No. 30-015-27939) in Section 27, Township 20 South, Range 29 East, NMPM, Eddy County, New Mexico.

Dear Mr. Carr:

In reviewing the subject application dated February 8, 1996 further, along with the file of Case 11339, the OCD's well record, and the file of Administrative Order DHC-1143, I could not find who requested or required the current surface location of this well, was it moved at the request of the U. S. Bureau of Land Management and/or the potash lessee? Where was this well originally to have been drilled? Again, thank you for your cooperation in this matter.

Should you have any questions or comments, please contact me at (505) 827-8185.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

MES/kv

cc: Oil Conservation Division - Artesia
William J. LeMay, Director - OCD, Santa Fe
Case File 11,339
Randy Patterson, Yates Petroleum Corporation - Artesia, New Mexico

OIL CONSERVATION DIVISION

February 19, 1996

Campbell, Carr, Berge & Sheridan, P. A.
Attn: William F. Carr
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

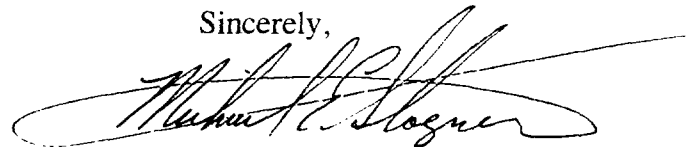
Re: Application of Yates Petroleum Corporation for directional drilling and various unorthodox bottomhole gas well locations: **Zinnia Federal Unit Well No. 1 (API No. 30-015-27939)** located in Section 27, Township 20 South, Range 29 East, NMPM, Eddy County, New Mexico.

Dear Mr. Carr:

Reference is made to your application on behalf of the operator, Yates Petroleum Corporation, dated February 8, 1996 and to the file on Case No. 11339. Please submit a copy of the directional survey run on this well. Once this information is submitted I can then began processing this application. Thank you for your cooperation in this matter.

Should you have any further questions or comments concerning this matter, please contact me at (505) 827-8185. Thank you.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: Oil Conservation Division - Artesia
Case File 11,339
William J. LeMay, Director - OCD, Santa Fe
Randy Paterson, Yates Petroleum Corporation - Artesia, New Mexico

CAMPBELL, CARR & BERGE, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE

MICHAEL H. FELDEWERT
TANNIS L. FOX
TANYA M. TRUJILLO
PAUL R. OWEN

JACK M. CAMPBELL
OF COUNSEL

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

February 16, 1996

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

RECEIVED

FEB 16 1996

Oil Conservation Division

Re: Yates Petroleum Corporation
Zinnia Federal Unit Well No. 1
Section 27, Township 20 South, Range 29 East,
Eddy County, New Mexico

Dear Mr. LeMay:

Yates Petroleum Corporation has requested that I submit the following information in response to your letter of February 9, 1996 as further explanation of the circumstances surrounding the drilling of the above-referenced well. The history of this well is set forth in my letter of February 8, 1996, in which I transmitted applications of Yates Petroleum Corporation for either administrative approval or a hearing to approve the directional drilling and the unorthodox locations for this well.

The application for permit to drill the Yates Zinnia AMZ Federal Well was approved by the Bureau of Land Management on April 26, 1994. Due to the well being located in close proximity to the Potash Area, the well had to be directionally drilled. Between the date the well was permitted and the spud date, a Federal Unit was formed which included the spacing unit dedicated to the well. The well's name was thereafter changed to the Zinnia Federal Unit Well No. 1. Drilling commenced on November 17, 1994 following notice to the BLM and continued until late February, 1995. The rig was released on February 25, 1995.

William J. LeMay, Director
Oil Conservation Division
February 16, 1996
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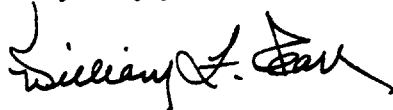
Although first sales from the well occurred on March 9, 1995, from March 4, 1995 through late June, 1995, Yates continued to work on this well in an attempt to establish production from either the Morrow, Strawn or Wolfcamp formations. On June 8, 1995, the Bureau of Land Management approved the recompletion of the well in the Wolfcamp formation. On that date, I was contacted concerning the filing of an application with the Oil Conservation Division seeking approval of the directional drilling of the well and bottomhole location in the subject formations. The details after that date are set out in my letter to you and Mr. Gum dated February 8, 1996. A copy of that letter is attached hereto for your easy reference.

As is obvious from the above, Yates worked closely with the Bureau of Land Management in drilling this well. However, it was not Yates Petroleum Corporation's intention to ignore or otherwise violate any of the rules of the Oil Conservation Division. We believed both the BLM and OCD were aware of what was being done on this well.

The extent to which this well has been operated outside OCD rules is absolutely unintentional. As you are aware, applications are pending before your agency which could be immediately approved thereby bringing this well into full compliance with OCD rules. If administrative approval is not available, the matter is scheduled for hearing on March 7th and that application should be approved soon thereafter.

We would ask you to consider the facts of this letter and my letter of February 8th, determination whether or not this well should be shut in. We submit that permitting the well to continue to produce in view of these facts and the pending applications before the Division is reasonable under these circumstances.

Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR YATES PETROLEUM CORPORATION
WFC:mlh
Enclosure
cc: Mr. Randy Patterson



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

February 9, 1996

Mr. Randy Patterson
Yates Petroleum Corporation
105 South 4th
Artesia, New Mexico 88210

Re: Shut In Order for Zinnia Federal Unit No. 1 (E-27-20S-29E) Eddy County, New Mexico

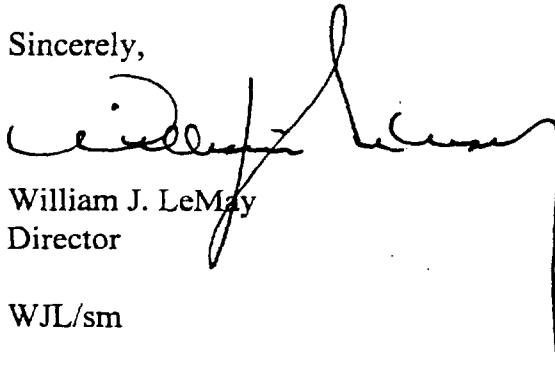
Dear Mr. Patterson:

The Oil Conservation Division (OCD), pursuant to the New Mexico Oil and Gas Act, has adopted rules regulating the drilling, production and sale of oil and gas. These rules require prior approval before certain operations occur. Violation of these rules may result in fines or penalties.

The drilling, production and sale of oil and gas from the Zinnia Federal Unit Well No. 1 prior to OCD approval violated or continue to violate OCD Rules 104, 111, 503, 504(B), 801 and 1104.

We have received the letter dated February 8, 1996, from Mr. Bill Carr regarding this well and the explanation for non-compliance with OCD Rules; however, we request a further explanation as to why you believe the Zinnia Federal Well No. 1 should not be shut in immediately and why no additional sales of product should be made until all required OCD approvals are obtained. Whether or not an oversight occurred, operations should still not be conducted prior to OCD approval. Please respond by February 16, 1996

Sincerely,



William J. LeMay
Director

WJL/sm

CAMPBELL, CARR & BERGE, P.A.
LAWYERS

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WILLIAM F. CARR
BRADFORD C. BERGE

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TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

February 8, 1996

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Application for Administrative Approval of Unorthodox Bottomhole Well
Locations and for Directional Drilling, Eddy County, New Mexico

Dear Mr. LeMay:

Yates Petroleum Corporation ("Yates") hereby seeks administrative approval pursuant to the provisions of Division Rule 104 F(2) adopted on January 18, 1996, of the following unorthodox bottomhole well locations for its Zinnia Federal Unit Well No. 1 which has been drilled at a surface location 1,980 feet from the North line and 910 feet from the West line of Section 27, Township 20 South, Range 29 East, N.M.P.M., Eddy County, New Mexico:

- (a) in the Strawn formation, East Burton Flat-Strawn Gas Pool, 2,065 feet from the North line and 2,480 feet from the West line of said Section 27 at a measured depth of 10,935 feet;
- (b) in the Wolfcamp formation, 2,055 feet from the North line and 2,277 feet from the West line of said Section 27 at a measured depth of 9,870 feet; and
- (c) in the Morrow formation 2,093 feet from the North line and 2,542 feet from the West line of said Section 27 at a measured depth of 11,942 feet.

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
February 8, 1996
Page 2

The bottomhole in the Strawn formation is necessary for geological reasons. As shown on the Isopach Map, attached hereto as Exhibit A, the bottomhole location in the Strawn A porosity zone is necessary to maximize the porosity thickness penetrated by the well. The bottomhole location will encounter ten feet more porosity of 3% or greater than a well drilled as a straight hole at this location.

This bottomhole location cannot be drilled with a straight hole due to its being within the Potash Area as shown on the plat attached hereto as Exhibit B. A plat of the spacing unit showing the surface and bottomhole locations for the Zinnia Federal Unit No. 1 is attached hereto as Exhibit C.

The unorthodox location in the Wolfcamp is the result of the recompletion of the directional well drilled to the unorthodox bottomhole location in the Strawn formation and the unorthodox location in the Morrow formation was the result of continuing the drilling after penetrating the Strawn formation to enable Yates to test the Morrow formation.

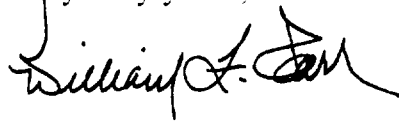
Yates Petroleum Corporation also seeks administrative approval pursuant to the provisions of Rule 111 (C) of the directional drilling of the Zinnia Federal Unit No. 1 Well from a surface location 1,980 feet from the North line and 910 feet from the West line to a bottomhole location in the Morrow formation 2,093 feet from the North line and 2,542 feet from the West line of said Section 27. The surface location for the well was not a satisfactory drill site due to its being in the Potash Area, as shown on Exhibit B, attached hereto, and administrative approval of the bottomhole locations are authorized by Rule 104.

This well is located within the Zinnia Federal Unit and the unorthodox locations do not encroach on any immediately adjacent existing spacing units in the same Strawn or Wolfcamp pools and/or formations. Therefore, since Yates is the operator of all adjoining spacing units, there are no affected parties to whom notification of this application is required to be made in accordance with Rule 1207 (A) (5).

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
February 8, 1996
Page 3

Your attention to this request is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a large initial "W" and a stylized "C".

WILLIAM F. CARR
ATTORNEY FOR YATES PETROLEUM CORPORATION

WFC:mlh
Enclosures

cc: Mr. Tim Gum, District Supervisor
Oil Conservation Division
District II
Post Office Drawer DD
Artesia, NM 88210

Ms. Janet Richardson
Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

YATES PETROLEUM CORPORATION (DAVID PETROLEUM CORP.)

ISOPACHOUS INTERVAL Porosity > 3%

CONTOUR INTERVAL 10'

SCALE 1" = 4000'

GEOLOGIST E. B. Neff DATE 8-1-94

Bone Spring
Wolfcamp
Strawn
Atoka
Morrow

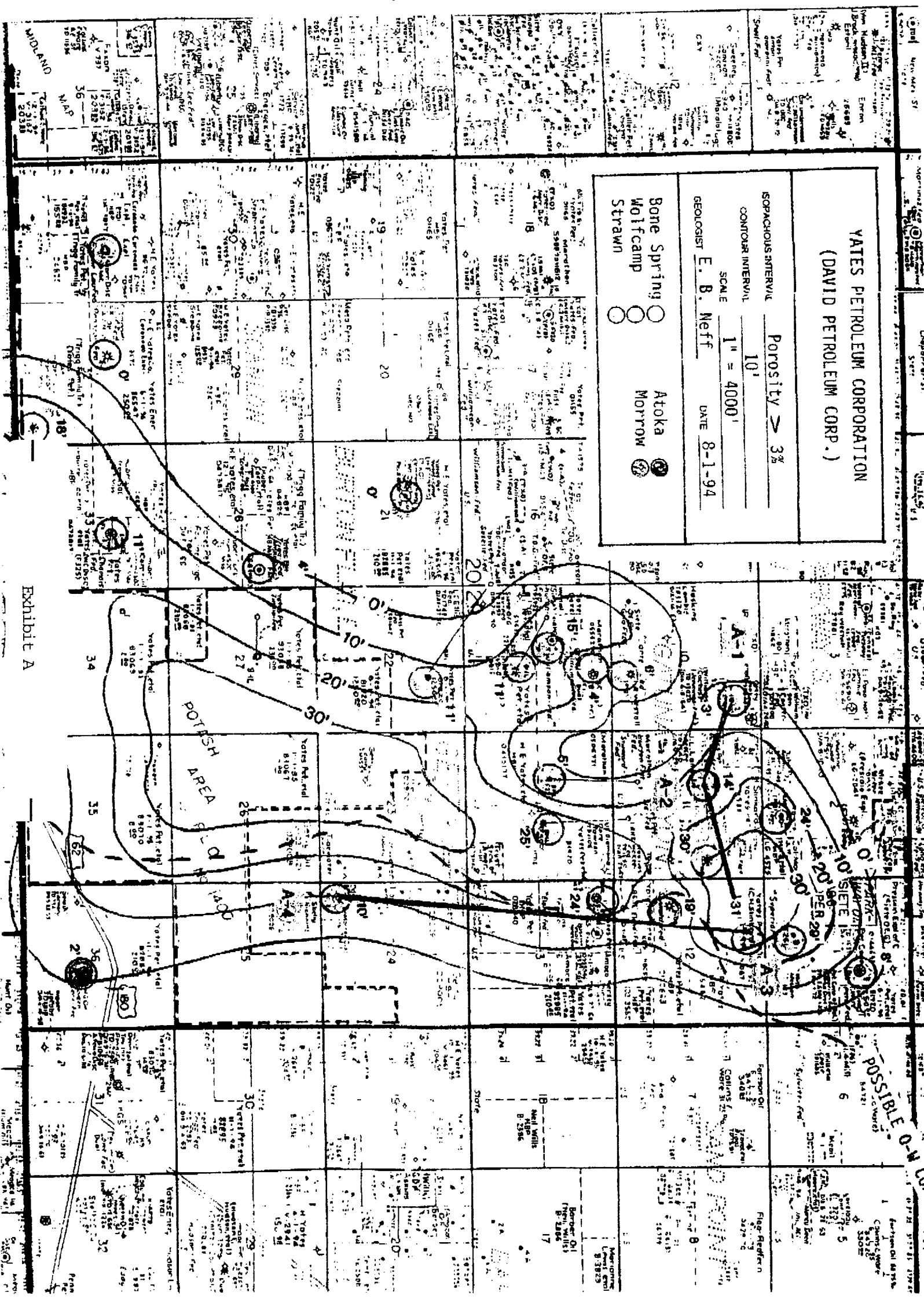


Exhibit A

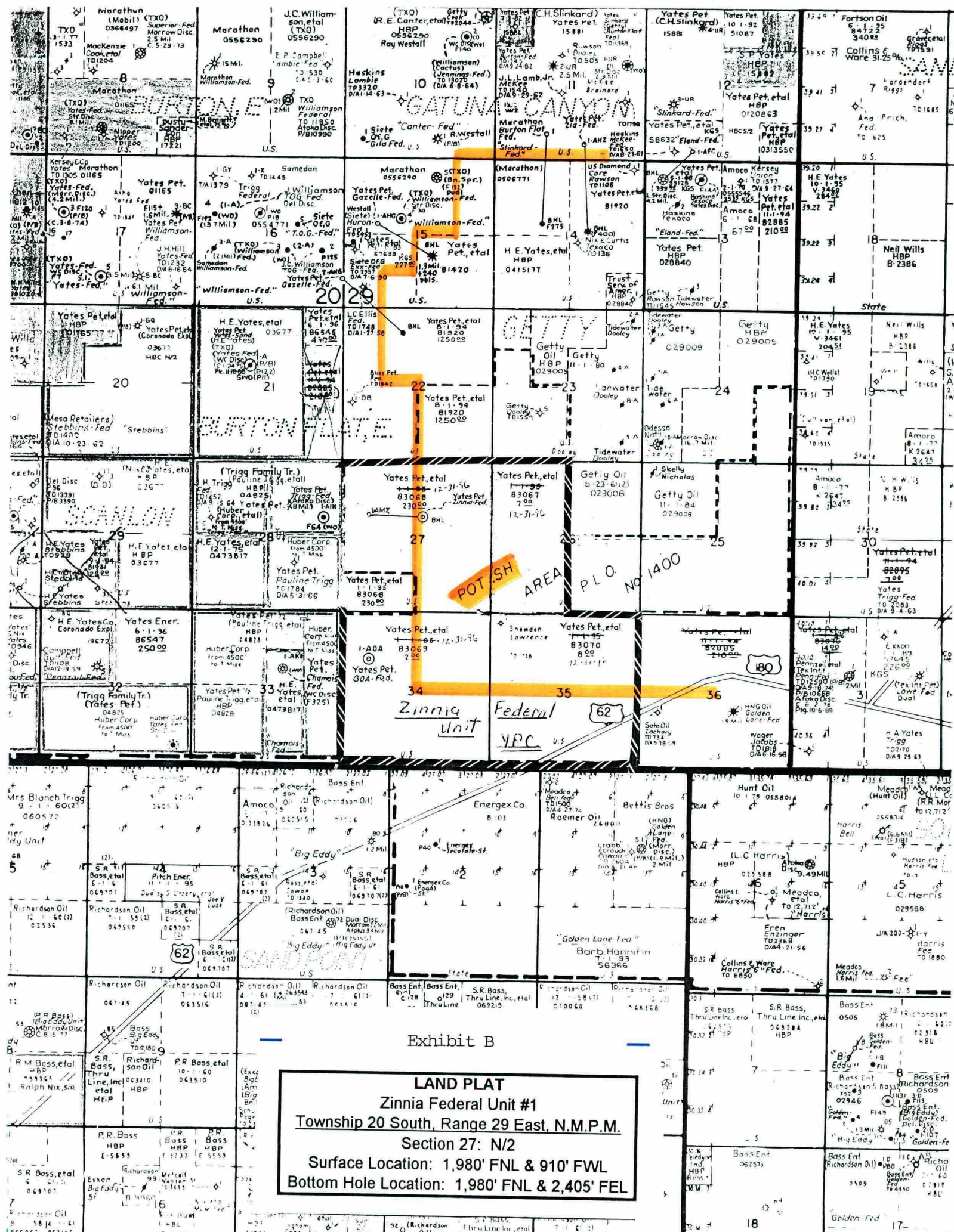


Exhibit B

LAND PLAT

Zinnia Federal Unit #1

Township 20 South, Range 29 East, N.M.P.M.

Section 27: N/2

Surface Location: 1,980' FNL & 910' FWL

Bottom Hole Location: 1,980' FNL & 2,405' FEL

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 ZINNIA "AMZ" FEDERAL		Well No. 1
Unit Letter E	Section 27	Township 20 SOUTH	Range 29 EAST	County EDDY COUNTY, NM	
Actual Footage Location of Well: SURFACE LOCATION					
1980 feet from the NORTH line and		910 feet from the WEST line			
Ground level Elev. 3273	Producing Formation		Pool	Dedicated Acreage: 320 Acres	

- Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- 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.

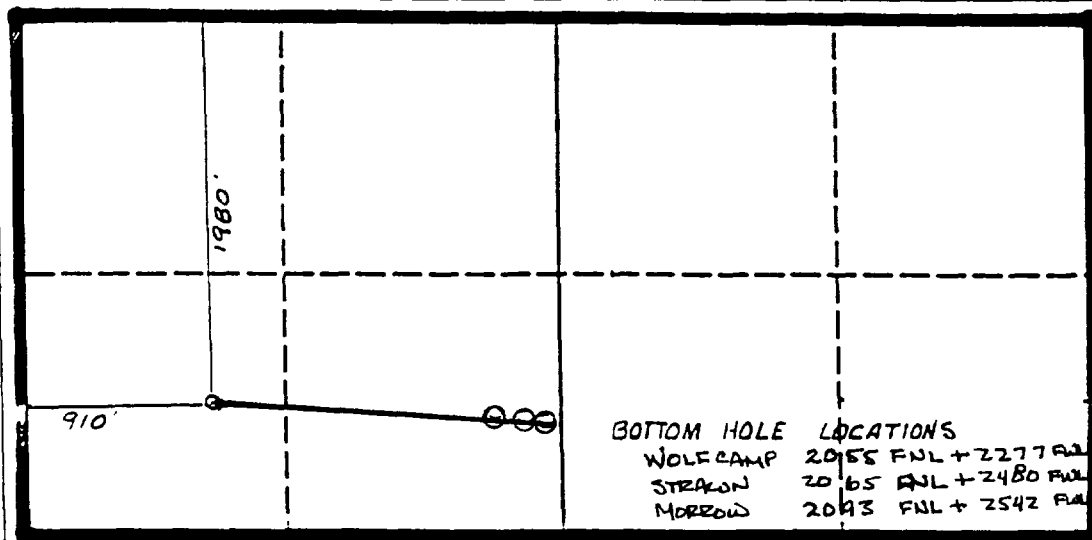


Exhibit C

OPERATOR CERTIFICATION

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

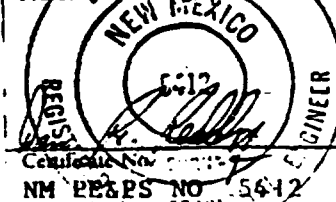
Signature *Ken Beardemph*
Printed Name **Ken Beardemph**
Position **Landman**
Company **Yates Pet. Corp.**
Date **3-1-94**

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes, 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
FEBRUARY 17, 1994

Signature *Ken Beardemph*
Professional Surveyor



Certificate No. **5412**
NM PEAPS NO. **5412**

0 330 660 990 1320 1650 1980 2310 2640 2000 1500 1000 500 0