

HOLLAND & HART LLP
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WASHINGTON, D.C.

SUITE 1
110 NORTH GUADALUPE
SANTA FE, NEW MEXICO 87501-6525
MAILING ADDRESS
P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043
www.hollandhart.com

September 18, 2001

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

AFFECTED INTEREST OWNERS

Re: Application of Yates Petroleum Corporation for two non-standard gas spacing and proration units, Lea County, New Mexico.

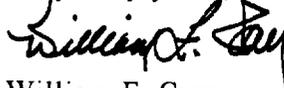
Ladies and Gentlemen:

This letter is to advise you that Yates Petroleum Corporation has filed the enclosed application with the New Mexico Oil Conservation Commission seeking the creation of two non-standard gas spacing and proration units in Irregular Section 3, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico comprising (i) Lots 1, 2, 7, and 8 (NE/4 equivalent) containing 178.590 acres, and (ii) Lots 3 through 6 (NW/4 equivalent) containing 177.21 acres.

Yates has requested that this application be set for hearing before the Oil Conservation Commission on October 12, 2001. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Prehearing Statement three days in advance of a scheduled hearing. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,



William F. Carr
ATTORNEY FOR YATES
PETROLEUM CORPORATION

Enc.

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE APPLICATION OF
YATES PETROLEUM CORPORATION, FOR TWO
NON-STANDARD GAS SPACING AND PRORATION
UNITS, LEA COUNTY, NEW MEXICO.**

CASE NO. 2738

APPLICATION

YATES PETROLEUM CORPORATION ("Yates"), through its undersigned attorneys, hereby makes application for an exception to the well spacing requirements of Rule 104.C(2) of the General Rules and Regulations of the Oil Conservation Division for the creation of the following two non-standard gas spacing and proration units for all formations developed on 320-acre spacing in the N/2 of Section 3, Township 16 South, Range 35 East, NMPM, which includes but is not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated Townsend-Morrow Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool and the Undesignated North Hume-Morrow Gas Pool:

- A. Lots 1, 2, 7, and 8 (NE/4 equivalent) to form a 178.59-acre gas spacing and proration unit, and
- B. Lots 3 through 6 (NW/4 equivalent) to form a 177.21-acre gas spacing and proration unit for all formations developed on 320-acre spacing.

In support of its application Yates Petroleum Corporation states:

1. Yates is a working interest owner in the N/2 of said section and proposed to drill its Daisy AFS State Well No. 2 at a standard gas well location 660 feet from the North and East lines (Lot 1/Unit A) of irregular Section 3 to a depth sufficient to test any and all formations from the surface to the base of the Mississippian formation.

2. Ocean Energy Resources, Inc. ("Ocean") is also a working interest owner in the N/2 of Section 3 and has proposed to drill its Townsend State Com Well No. 10 in the NW/4 of irregular Section 3 to a depth sufficient to test any and all formations from the surface to the base of the Mississippian formation.

3. Yates and Ocean have been unable to agree on the location of the well to be drilled on this acreage. Ocean proposes to drill in the NW/4 equivalent of the Section where it owns working interest and Yates owns none, and Yates proposes to drill in the NE/4 equivalent of the Section where it owns or represents 100% of the working interest and Ocean owns none.

4. Yates and Ocean each filed applications with the Oil Conservation Division seeking orders pooling the N/2 of Section 3 and naming themselves operator of the well each proposes to drill.

5. The applications were set for hearing as Division Cases 12535, 12567, 12569 and 12590 and heard on January 11 and February 8, 2001. The Division entered Order No. R-11566 on April 17, 2001 which granted the applications of Ocean and denied the applications of Yates.

6. Order No. R-11566, contains the following findings of the Division:

- (A) “Each applicant proposes to locate its well on a tract of land that is the equivalent to a quarter section in which it controls or owns the working interest.” Finding (8)
- (B) “By Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, Division Rule 104 was changed so that deep gas wells in southeast New Mexico developed on 320-acre spacing, which includes wells in the Morrow and Mississippian formations, could be located no closer than 660 feet to any quarter section line and that each 320-acre unit be allowed one infill gas well so long as the infill is located in the quarter section adjacent to the original well.” Finding (10)
- (C) “The geological evidence presented by both applicants shows that **both locations are viable Morrow prospects** and that each quarter section equivalent that comprises the proposed 355.80-acre lay-down gas spacing and proration unit has the potential of containing commercial quantities of gas in the Morrow interval.” Finding (12) (emphasis added)

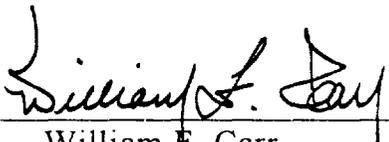
7. Approval of this application will result in wells being drilled on two “viable Morrow prospects” in the N/2 of Section 3 and will also afford to each owner the opportunity to produce without waste its just and reasonable share of the

reserves in the pool thereby preventing waste and protecting the correlative rights of all interest owners in these lands.

WHEREFORE, YATES PETROLEUM CORPORATION requests that this application be set for hearing before the Oil Conservation Commission on October 12, 2001 and, after notice and hearing as required by law, the Commission enter its order creating two non-standard gas spacing and proration units in the N/2 of Section 3 thereby enabling Yates and Ocean to each develop its respective interests in the NE/4 and NW/4 equivalents of this Section.

Respectfully submitted,

HOLLAND & HART LLP
AND
CAMPBELL & CARR

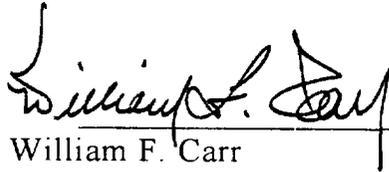
By: 

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR YATES
PETROLEUM CORPORATION

CERTIFICATE OF SERVICE

I hereby certify that a copy of this application was delivered by facsimile on this 18th day of September, 2001, to James Bruce, Esq., Attorney for Ocean Energy Resources, Inc.


William F. Carr

NOTIFICATION LIST

**APPLICATION OF
YATES PETROLEUM CORPORATION
FOR TWO NON-STANDARD GAS SPACING AND PRORATION UNITS,
SECTION 3, TOWNSHIP 16 SOUTH, RANGE 35 EAST, N.M.P.M.
LEA COUNTY, NEW MEXICO**

Ocean Energy Resources, Inc.
1001 Fannin, Suite 1600
Houston, Texas 77002-6794

Tom R. Cone
Post Office Box 778
Jay, Oklahoma 74346

Kenneth G. Cone
Post Office Box 11310
Midland, Texas 79702

Kenneth G. Cone, Trustee
Kenneth G. Cone Children's Trust
Post Office Box 11310
Midland, Texas 79702

Marilyn Cone, Trustee of the
DC Trust
Post Office Drawer 1629
Lovington, New Mexico 88260

Keith Pratt Daniels
Post Office Box 190766
Dallas, Texas 75219

Lynda Pratt Rast
1202 Marlee Lane
Arlington, Texas 76014

Phillip L. White
The Blanco Company
Post Office Box 2168
Santa Fe, New Mexico 87504-2168

The Long Trusts
Post Office Box 3096
Kilgore, Texas 75663

LWJ Partnership
Post Office Box 64244
Lubbock, Texas 79424

CASE 12738:

Application of Yates Petroleum Corporation for two non-standard gas spacing and proration units, Lea County, New Mexico. Applicant in the above-styled cause seeks an exception to the provisions of Division Rule 104.C (2) to create two non-standard gas spacing and proration units for all formations developed on 320-acre spacing which include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool, the Undesignated Townsend-Morrow Gas Pool, the Undesignated North Shoe Bar-Morrow Gas Pool and the Undesignated North Hume-Morrow Gas Pool comprising: (i) Lots 1, 2, 7 and 8 (NE/4 equivalent) to form a 178.59-acre non-standard gas spacing and proration unit ; and (ii) Lots 3 through 6 (NW/4 equivalent) to form a 177.21-acre non-standard gas spacing and proration unit. Said area is located approximately 6 miles west-northwest of Lovington, New Mexico.