

**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. 14473
ORDER NO. R-13270**

**APPLICATION OF YATES PETROLEUM CORPORATION FOR APPROVAL
OF A UNIT AGREEMENT, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on May 27, 2010 at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 15th day of June, 2010, 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) The applicant, Yates Petroleum Corporation, seeks approval of its Herradura Exploratory Unit Agreement for all oil and gas in all formations from the surface to the base of the Bone Spring formation underlying the following-described 7,681.37 acres, more or less, of State, Federal, and Fee lands situated in Eddy County, New Mexico:

Township 23 South, Range 25 East, NMPM

Section 35: All
Section 36: All

Township 24 South, Range 25 East, NMPM

Section 1: Lots 1 through 4, S/2 N/2, S/2

Section 2: Lots 1 through 3, NE/4 NW/4, S/2 N/2, S/2
Section 3: S/2 N/2, S/2
Section 4: Lots 1 and 2, S/2 NE/4, SE/4
Section 9: NE/4, S/2
Section 10: All
Section 11: All
Section 15: All
Section 16: All
Section 17: All
Section 18: Lots 1 through 4, E/2 W/2, E/2

(3) The Applicant presented testimony by affidavit as follows.

a. Yates Petroleum Corporation is the designated Unit operator and all of Yates's interests are committed to the Unit. Yates, Devon Energy Production Company, and Chesapeake Exploration, LP are the majority working interest owners.

b. The State of New Mexico lands consist of 73 percent of the acreage and Federal lands consist of 21 percent. The remainder of the acreage is Fee owned. The State Land Office has given preliminary approval for this Unit and the Bureau of Land Management has designated this as a logical unit area.

c. All (100%) of the royalty interests within the Unit area have been committed to the Unit.

d. The initial well, the Herradura Unit Well No. 1H, is planned to be drilled horizontally from a standard surface location within the NE/4 NE/4 of Section 16, Township 24 South, Range 25 East, NMPM, Eddy County, New Mexico, in a northerly direction to a bottomhole location within the NE/4 NE/4 of Section 9. The vertical hole will be drilled to an approximate depth of 6500 feet to test all formations from the surface to within the Bone Spring formation.

e. The primary target is oil production from the Bone Spring formation Avalon shale.

(4) No other party appeared at the hearing or otherwise opposed this application.

(5) All of the proposed unit acreage appears prospective for recovery of oil and gas from the target formations under the concept proposed by the applicant. These acres should be unitized and should equally share in the benefits from future oil and gas recovery.

(6) The approval of the proposed unit agreement will serve to prevent waste and protect correlative rights within the lands assigned to the unit area.

IT IS THEREFORE ORDERED THAT:

(1) The Herradura Exploratory Unit Agreement executed by Yates Petroleum Corporation is hereby approved for all oil and gas in all formations from the surface to the base of the Bone Spring formation underlying the following-described 7,681.37 acres, more or less, of State, Federal, and Fee lands situated in Eddy County, New Mexico:

Township 23 South, Range 25 East, NMPM

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Section 10: All
Section 11: All
Section 15: All
Section 16: All
Section 17: All
Section 18: Lots 1 through 4, E/2 W/2, E/2

(2) The plan contained in the Herradura Exploratory Unit Agreement for the development and operation of the above-described unit area is hereby approved in principle; provided, however, notwithstanding any of the provisions contained in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation that is now, or may hereafter be, vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

(3) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days of the effective date thereof; in the event of subsequent joinder by any other party, or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days thereafter, copies of the unit agreement reflecting the subscription of those interests having joined or ratified.

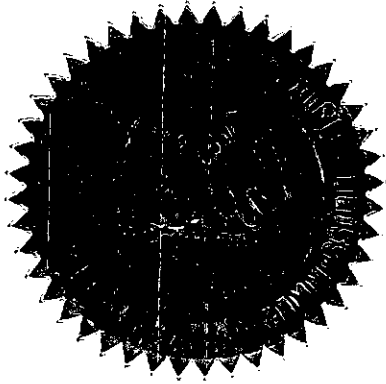
(4) All: (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the unit area shall be submitted to the Division Director for approval.

(5) This order shall become effective upon the approval of the unit agreement by the New Mexico State Land Office and the Bureau of Land Management. This order

shall terminate upon the termination of the unit agreement. The last unit operator shall notify the Division immediately in writing of such termination.

(6) Jurisdiction of this case 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Acting Director