



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

January 17, 2005

Yates Petroleum Corporation
c/o **Holland & Hart LLP**
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Attention: William F. Carr

Administrative Order NSL-5155 (BHL) (SD)

Dear Mr. Carr:

Reference is made to the following: (i) your initial application on behalf of the operator, Yates Petroleum Corporation ("Yates"), filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe on May 22, 2003 (*administrative application reference No. pKRV0-314336892*); (ii) the Division's initial response by e-mail from Mr. Michael E. Stogner, Engineer/Hearing Officer in Santa Fe on July 17, 2003 requesting additional information to support this application; (iii) Mr. Stogner's follow-up letter and e-mail on July 30, 2003; (iv) your telephone conversation with Mr. Stogner on August 5, 2003; (v) Mr. Stogner's letter dated August 12, 2003 **denying** this application; (vi) your amended application resubmitted to the Division on February 9, 2004; and (vii) the Division's records in Artesia and Santa Fe: all concerning Yates's request for exception to Division Rules 111.A (13) and 111.C (2) and RULE 4 of the "*Special Rules and Regulations for the North Dagger Draw-Upper Pennsylvanian Pool*," as promulgated by Division Order No. R- 4691, as amended.

The Division Director Finds That:

- (1) The subject application has been duly filed under the provisions of: (i) Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999; (ii) Division Rule 111.C (2); (iii) Division Rule 1207.A (2); and (iv) RULE 5 of the special rules governing the North Dagger Draw-Upper Pennsylvanian Pool (**15472**);
- (2) By Order No. R-4691 issued in Case No. 5117, dated December 11, 1973 and made effective January 1, 1974, the Division created and defined the North Dagger Draw-Upper Pennsylvanian Pool (**15472**) for the production of oil from the Cisco and Canyon formations. The horizontal limits for this pool, as currently designated, include the following lands in Eddy County, New Mexico:

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM

Section 12: E/2
Section 13: E/2
Section 22: SE/4
Section 24 through 26: All
Section 27: NE/4
Section 34: E/2
Section 35 and 36: All

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM

Section 3: SW/4
Section 8: NE/4 and S/2
Sections 9 and 10: All
Section 11: S/2
Section 14: NW/4
Sections 15 through 22: All
Section 23: N/2 and SE/4
Section 24: NW/4
Section 27: N/2 and SW/4
Sections 28 through 30: All
Section 31: N/2 and SW/4
Section 32: N/2
Section 33: N/2

TOWNSHIP 20 SOUTH, RANGE 24 EAST, NMPM

Sections 1 and 2: All
Section 3: N/2 and SE/4
Section 10: NE/4
Section 11: N/2
Section 12: NW/4

TOWNSHIP 20 SOUTH, RANGE 25 EAST, NMPM

Section 5: NW/4
Section 6: N/2;

- (3) The special rules for the North Dagger Draw-Upper Pennsylvanian Pool require 160-acre spacing and proration units each comprising a single governmental quarter section (or equivalent) and designated well location requirements such that each well drilled in this pool is to be no closer than 660 feet to the outer boundary of a unit nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary;
- (4) Further, under Division Order No. R-4691, as amended, the North Dagger Draw-Upper Pennsylvanian Pool is subject to production limitations and restrictions;

- (5) The NE/4 of Section 28, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, being a standard 160-acre oil spacing and proration unit within the North Dagger Draw-Upper Pennsylvanian Pool, is currently dedicated to Yates':
- (a) Hinkle "ALD" Well No. 1 (API No. 30-015-28033) located at a standard oil well location 1980 feet from the North and East lines (Unit G) of Section 28; and
 - (b) Hinkle "ALD" Well No. 2 (API No. 30-015-28345) located at a standard oil well location 800 feet from the North line and 1650 feet from the East line (Unit B) of Section 28;
- (6) It is the Division's understanding that: (i) Yates initially drilled its Hinkle "ALD" Well No. 3 (API No. 30-015-28415) vertically at a standard oil well location 1980 feet from the North line and 660 feet from the East line (Unit H) of Section 28 to a depth of 8,150 feet (MD) in December, 1997; (ii) in August, 2000 Yates drilled a horizontal drainhole off of this wellbore at a approximate depth of depth of 7,641 feet to the north; (iii) the resulting lateral drainhole ended at a depth of 8,612 feet (MD) (TVD) at a subsurface location approximately 1067 feet from the North line and 570 feet from the East line (Unit A) of Section 28; (iv) the lateral completion subsequently collapsed however; and the well was re-completed at the base of the vertical hole within the North Dagger Draw-Upper Pennsylvanian Pool;
- (7) The directional survey on this well shows that the wellbore drifted during drilling and is currently being produced at a depth of 7,592 (MD) from a subsurface location 1956 feet from the North line and 575 feet from the East line of Section 28;
- (8) The directional survey also shows the wellbore was closest to the: (i) east line of the dedicated spacing unit, or East line of Section 28, by 182 feet at a measured depth of 8,232 feet, at a subsurface location 1432 feet from the North line and 478 feet from the East line of Section 28; (ii) south line of the dedicated spacing unit, or the east/west quarter section line between the NE/4 and SE/4 of Section 28, by 42 feet at a measured depth of 3,120 feet, at a subsurface location 2022 feet from the North line and 606 feet from the East line of Section 28; (iii) to the north line of the SE/4 NE/4 (Unit H) of Section 28, or the east/west quarter-quarter section line between Units "A" (NE/4 NE/4) and "H" of Section 28, by 253 feet occurred at the end of the lateral drainhole as described above in Finding sub-Paragraph No. (6) (iii); and (iv) to the west line of the SE/4 NE/4 (Unit H) of Section 28, or the north/south quarter-quarter section line between Units "G" (SW/4 NE/4) and "H" of Section 28, by 1.5 feet at a measured depth of approximately 420 feet, at a subsurface location 1985 feet from the North line and 661.5 feet from the East line of Section 28;

- (9) It cannot be determined however if the drilling window for the collapsed lateral drainhole has been effectively sealed;
- (10) It appears that the applicant has satisfied all of the appropriate requirements prescribed in Division Rules 111.C (2), 104.F, and 1207.A (2) and RULE 5 of the special pool rules governing the North Dagger Draw-Upper Pennsylvanian Pool; therefore, the subject application should be approved based on the known survey points closest to the four sides of the SE/4 NE/4 (Unit H) of Section 28; and
- (11) The provisions contained within this order and all other applicable provisions of Division Rule 111 and Division Order No. R-4691, as amended, should govern the subject 160-acre oil spacing and proration unit.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Division Rule 104.F (2) and RULE 5 of the *"Special Rules and Regulations for the North Dagger Draw Upper-Pennsylvanian Pool,"* as promulgated by Division Order No. R- 4691, as amended, the above-described application of Yates Petroleum Corporation ("Yates") for exception to Division Rules 111.A (13) and 111.C (2) and RULE 4 of the special pool rules for its Hinkle "ALD" Well No. 3 (API No. 30-015-28415), located at a surface location 1980 feet from the North line and 660 feet from the East line (Unit H) of Section 28, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, and an unorthodox subsurface oil well location within the SE/4 NE/4 (Unit H) of Section 28.

(2) The existing 160-acre oil spacing and proration unit comprising the NE/4 of Section 28 is to be dedicated to this well.

(3) The applicable drilling window within the North Dagger Draw-Upper Pennsylvanian Pool (15472) for the above-described Hinkle "ALD" Well No. 3 shall include that area within the SE/4 NE/4 (Unit H) of Section 28 that are no closer then:

- (a) 478 feet to the East line of Section 28;
- (b) 618 feet to the southern boundary of the subject 160-acre unit;
- (c) 658.5 feet to the western boundary of the SE/4 NE/4 of Section 28, or the north/south quarter-quarter section line between Units "G" (SW/4 NE/4) and "H" of Section 28; nor

(d) 253 feet to the northern boundary of the SE/4 NE/4 of Section 28, or the east/west quarter-quarter section line between Units "A" (NE/4 NE/4) and "H" of Section 28.

It Is Further Ordered That:

(4) North Dagger Draw-Upper Pennsylvanian Pool production from the above-described Hinkle "ALD" Well No. 3 is to be simultaneously dedicated with the following two wells all located in the NE/4 of Section 28:

(a) Hinkle "ALD" Well No. 1 (API No. 30-015-28033) located at a standard oil well location 1980 feet from the North and East lines (Unit G) of Section 28; and

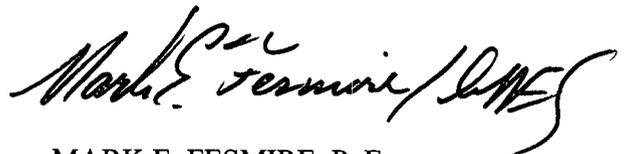
(b) Hinkle "ALD" Well No. 2 (API No. 30-015-28345) located at a standard oil well location 800 feet from the North line and 1650 feet from the East line (Unit B) of Section 28.

(5) The operator shall comply with all applicable requirements and conditions set forth in Division Rule 111 and Division Order No. R-4691, as amended.

(6) 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



MARK E. FESMIRE, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Artesia