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 25, 2005

Yates Petroleum Corporation
c/o Permits West, Inc.
37 Verano Loop
Santa Fe, New Mexico 87505

Attention: Brian Wood

Re: *Administrative application (**application reference No. pMES0-501843249**) for a non-standard 90.80-acre Pictured Cliffs gas spacing unit comprising Lots 3 and 4 and the E/2 SW/4 (SW/4 quarter equivalent) of Irregular Section 19, Township 30 North, Range 13 West, NMPM, Undesignated Harper Hill-Fruitland Sand Pictured Cliffs Pool (**78160**), San Juan County, New Mexico, to be dedicated Yates Petroleum Corporation's proposed Vierson Federal Well No. 3 (**API No. 30-045-32462**), to be drilled at an unorthodox gas well location 1825 feet from the South line and 1520 feet from the West line (Unit K) of Irregular Section 9.*

Dear Mr. Wood:

My review of the Division's records indicate a plugged and abandoned well site approximately 1057 feet southwest of the proposed Vierson Federal Well No. 3, which was the Ladd Petroleum Corporation's Butte Well No. 1 (**API No. 30-025-09333**) located 1060 feet from the South line and 790 feet from the West line (Unit N) of Irregular Section 9 that was plugged and abandoned in 1987. Why can't Yates utilize this old well site and road to drill its proposed well?

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop

March 2, 2005

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

Yates Petroleum Corporation
c/o Permits West, Inc.
37 Verano Loop
Santa Fe, New Mexico 87505

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Dear Mr. Wood:

This is a follow-up to my letter dated January 25, 2005 (see copy attached) again requesting information to support this application the Division has determined to be incomplete. So that the Division can properly proceed with reviewing and issuing an order for the proposed unorthodox Pictured Cliffs gas well and resulting non-standard gas spacing unit please provide an adequate explanation as to why Yates can not utilize the old wellsite for and/or road leading to the plugged and abandoned Ladd Petroleum Corporation Butte Well No. 1 (**API No. 30-025-09333**), located 1060 feet from the South line and 790 feet from the West line (Unit N) of Irregular Section 19 that was plugged and abandoned in 1987?

In accordance with Division policy enacted about four years ago, the Division cannot proceed with your application until the required information is submitted in a timely manner. Please provide a satisfactory answer and if necessary supporting data to complete this application by March 11, 2005, otherwise your incomplete application will be denied and returned to you. Thank you for your assistance in this matter.

Your response and additional information can be faxed to (505) 476-3471, or mailed to the Division in Santa Fe. Thank you for your assistance in this matter.

Should you have any questions concerning this application, please contact Yates' legal counsel, Mr. William F. Carr in Santa Fe, at 505-988-4421.

Sincerely

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division – Aztec
U. S. Bureau of Land Management - Farmington
William F. Carr, Legal Counsel for Yates Petroleum Corporation – Santa Fe

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
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January 25, 2005

Yates Petroleum Corporation
c/o Permits West, Inc.
37 Verano Loop
Santa Fe, New Mexico 87505

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Re: *Administrative application (**application reference No. pMES0-501843249**) for a non-standard 90.80-acre Pictured Cliffs gas spacing unit comprising Lots 3 and 4 and the E/2 SW/4 (SW/4 quarter equivalent) of Irregular Section 19, Township 30 North, Range 13 West, NMPM, Undesignated Harper Hill-Fruitland Sand Pictured Cliffs Pool (**78160**), San Juan County, New Mexico, to be dedicated Yates Petroleum Corporation's proposed Vierson Federal Well No. 3 (**API No. 30-045-32462**), to be drilled at an unorthodox gas well location 1825 feet from the South line and 1520 feet from the West line (Unit K) of Irregular Section 9.*

Dear Mr. Wood:

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Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington

PERMITS WEST, INC.
PROVIDING PERMITS for LAND USERS
37 Verano Loop, Santa Fe, New Mexico 87508 (505) 466-8120

March 4, 2005

Michael Stogner
NM Oil Conservation Div.
1220 South St. Francis Dr.
Santa Fe, NM 87505
& via FAX 476-3471

Dear Mr. Stogner:

I am replying to your March 2 letter regarding Yates' Vierson Federal 3 (API 30-045-32462) NSL and NSP application. Rain and snow over the past month has made access via dirt roads to the P & A well impassable. Now that the roads are drying, I plan to visit the P & A well next week.

Sincerely,

Brian Wood

cc: May

Stogner, Michael

From: Stogner, Michael
Sent: Wednesday, March 09, 2005 8:02 AM
To: Brian Wood (E-mail)
Cc: Hayden, Steven; Perrin, Charlie; William F. Carr (E-mail)
Subject: Pending NSL application.

Re: *Administrative application (**application reference No. pMES0-501843249**) on behalf of Yates Petroleum Corporation ("Yates") for a non-standard 90.80-acre Pictured Cliffs gas spacing unit comprising Lots 3 and 4 and the E/2 SW/4 (SW/4 quarter equivalent) of Irregular Section 19, Township 30 North, Range 13 West, NMPM, Undesignated Harper Hill-Fruitland Sand Pictured Cliffs Pool (**78160**), San Juan County, New Mexico, to be dedicated Yates' proposed Vierson Federal Well No. 3 (**API No. 30-045-32462**), to be drilled at an unorthodox gas well location 1825 feet from the South line and 1520 feet from the West line (Unit K) of Irregular Section 9.*

Mr. Wood,

Yesterday I received your letter dated March 4th informing me that you would be visiting the sites of Yates' proposed Vierson Federal Well No. 3 and the old P & A'ed Ladd Petroleum Corporation's Butte Well No. 1 (30-045-09333), located 1060' FSL & 790' FWL (N) Sec. 19. If you haven't all ready none the site visit, please contact the Acting Supervisor of the Aztec District Office, Mr. Charlie Perrin, offering his staff the opportunity to accompany you and the BLM (I'm assuming you contacted the BLM) on your site visit.

Thank you.

M.S.

PERMITS WEST, INC.
PROVIDING PERMITS for LAND USERS
37 Verano Loop, Santa Fe, New Mexico 87508 (505) 466-8120

March 11, 2005

Mike Stogner
NM Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Subject: Yates Petroleum Corporation's Vierson Federal #3 (19-30n-13w)
Application Reference # pMES0-501843249

Dear Mr. Stogner:

As requested, I inspected Ladd's P&A Butte Well #1 on March 7, 2005. The well was plugged in 1987 and the 1/4 mile long road is blocked. The well site is 100' x 150' and located on a tear drop shaped badland hill. This is smaller than Yates' staked location of 130' x 170'.

Yates' NSL application is due to topography. The Ladd well site is in the Badland - Rock Land soil association which has the following limitations:

Road Fill = Very Poor
Foundation Support = Poor Bearing Capacity
Highway Location = Very Poor
Embankment = Poor Stability, Erodible

These limitations have led to a pseudo-karst environment (see pictures). There are numerous sinkholes in the road, one of which is 6' deep. There are more sinkholes on the pad, the two largest of which are 5' deep and 5' to 10' wide. Both of these are within 60' of the P&A marker.

To further complicate matters, Ladd plugged through Yates' target zone of the Pictured Cliffs. Thus, to avoid any possible formation damage, Yates would have to move away from the Ladd well bore. This would require >10' cuts and fills on unstable slopes. BLM is already sufficiently concerned about erosion to require Yates to mulch the staked well site when it is reclaimed.

Thus, Yates' NSL application is due to the following topographic constraints:
1) Using the Ladd site would result in an unsafe well site
2) Using the Ladd site would create more erosion in an erodible environment due to expanding the pad onto steep unstable slopes, laying an extra 1/4 mile of pipeline, and opening an extra 1/4 mile of road

Therefore, I am asking that Yates NSL and NSP application be approved.

Please call me if you have any questions. I thank you for your patience during the recent inclement weather.

Sincerely,

Brian Wood

cc: Aztec OCD
Bill Carr
Clifton May
Jim Lovato

TOP LEFT - Six foot high marker at sink hole.

MIDDLE LEFT - Six foot marker in sink hole in road.

LOWER LEFT - Looking W at P&A marker from old reserve pit. Edge of pit is 20' from marker & 6' lower.

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TOP LEFT - Looking North. From left to right are 5' deep x 10' wide sink hole, 5' deep x 5' wide sink hole, and P&A marker.

MIDDLE LEFT - Man in 5' deep sink hole 50' from P&A marker.

LOWER LEFT - Close up of 5' deep x 10' wide sink hole and 6' long marker. Hole is 60' from P&A marker.

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Table 7. Interpretation of soil properties for engineering uses, San Juan County, New Mexico

Soil Map Symbol and Soil Association	Suitability as a Source of— Topsoil	Road fill	Degree of Limitation for Septic Tank Filter Fields	*Corrosion Potential* (untreated steel pipe)	Soil Features Affecting— Foundation support	Highway location	Farm ponds: Reservoir area	Farm ponds: Embankment	Terraces, diversions, contour furrows, and pitting
6 Badland-Rock Land									
Badland	Poor	Very poor	Severe	High	Poor bearing capacity; low shear strength	Very poor; very shallow to shale; erodible; steep slopes	Subject to seepage; saline; very shallow	Poor stability erodible; saline	*
Rock Land	(Interpretations not made)								
Persayo silty clay loam	Poor; erodible	Poor	Severe; shallow to shale; slow permeability	High	Poor bearing capacity; shallow to shale; low shear strength	Shallow to shale; unstable material; very erodible; moderate slopes	Subject to seepage; shallow to shale; saline	Poor stability; subject to cracking	Unstable embankments channels subject to siltation; difficult to vegetate
7 Turley-Badland									
Turley clay loam	Poor; erodible high clay content	Poor	Severe; slow permeability	Moderate to high	Poor bearing capacity when wet; moderate to high shrink-swell	Plastic material; poor bearing capacity when wet	Good; low permeability	Difficult to work; plastic when wet; erodible	Erodible; difficult to vegetate; subject to channel erosion
Azfield loam	Surface 6 to 10 inches good; subsoil fair	Fair	Moderate	Low	*	**	Good with compaction	Stable material when compacted	**
8 Rock Land-Billings									
Rock Land	(Interpretations not made)								
Billings silty clay loam	Poor; erodible high silt and clay content	Poor	Severe; slow permeability	Moderate to high	Poor bearing capacity; moderate shrink-swell	Poor stability and bearing value	Cracks when dry; may need compaction	Poor stability; erodible	Subject to cracking on drying; low stability; erodible; subject to channel erosion
Christianburg-like clay	Poor; high clay content	Poor	Severe; very slowly permeable	High	Poor bearing capacity; high shrink-swell potential	Poor stability and bearing value; high shrink-swell	Good; very slowly permeable	Poor stability; erodible	Subject to cracking on drying; poor stability; erodible; subject to channel erosion and piping
Farb fine sandy loam	Poor; low fertility; erodible	Fair; material very limited	Severe; shallow to sandstone	Low	Sandstone at depths of 10 to 20 inches	Shallow to sandstone; outcrops of sandstone; moderate slopes	Shallow to sandstone; subject to seepage	Limited soil material; moderate permeability	*
9 Camborthid-Farb									
Typic Camborthids	Poor; low fertility; erodible	Fair; borrow material limited	Severe; 20 to 36 inches to sandstone	Low to moderate	Sandstone at depths of 20 to 36 inches	Good stability and bearing value	Subject to seepage; moderately deep to sandstone	Erodible; moderate permeability	Erodible; fair stability if compacted
Farb sandy loam	Poor; low fertility; erodible	Fair; material very limited	Severe; shallow to sandstone	Low	Sandstone at depths of 10 to 20 inches	Shallow to sandstone; outcrops of sandstone; moderate slopes	Shallow to sandstone; subject to seepage	Limited soil material; moderate permeability	*
10 Persayo-Billings									
Persayo silty clay loam	Poor; erodible	Poor	Severe; shallow to shale; slow permeability	High	Poor bearing capacity; shallow to shale; low shear strength	Shallow to shale; unstable material; very erodible; moderate slopes	Subject to seepage; shallow to shale; saline	Poor stability; subject to cracking	Unstable embankments channels subject to siltation; difficult to vegetate
Billings silty clay loam	Poor; erodible high silt and clay content	Poor	Severe; slow permeability	Moderate to high	Poor bearing capacity; moderate shrink-swell	Poor stability and bearing value	Cracks when dry; may need compaction	Poor stability; erodible	Subject to cracking on drying; low stability; erodible; subject to channel erosion
Christianburg-like clay	Poor; high clay content	Poor	Severe; very slowly permeable	High	Poor bearing capacity; high shrink-swell potential	Poor stability and bearing value; high shrink-swell	Good; very slowly permeable	Poor stability; erodible	Subject to cracking on drying; poor stability; erodible; subject to channel erosion and piping
11 Persayo-Rock Land									
Persayo silty clay loam	Poor; erodible	Poor	Severe; shallow to shale; slow permeability	High	Poor bearing capacity; shallow to shale; low shear strength	Shallow to shale; unstable material; very erodible; moderate slopes	Subject to seepage; shallow to shale; saline	Poor stability; subject to cracking	Unstable embankments channels subject to siltation; difficult to vegetate
Typic Camborthids	Poor; low fertility; erodible	Fair; borrow material limited	Severe; 20 to 36 inches to sandstone	Low to moderate	Sandstone at depths of 20 to 36 inches	Good stability and bearing value	Subject to seepage; moderately deep to sandstone	Erodible; moderate permeability	Erodible; fair stability if compacted
Rock Land	(Interpretations not made)								
12 Chipeta-Sheppard-Shiprock									
Chipeta clay	Poor; high clay content; erodible	Poor	Severe; shallow to shale; low permeability	High	Poor bearing capacity; low sheer strength; high shrink-swell	Shallow to shale; poor stability and bearing capacity; high shrink-swell	Subject to seepage; very shallow to shale; saline	Poor stability; erodible saline	*
Sheppard loamy sand	Poor; very sandy and erodible	Good if soil binder is added	Slight	Low	All features favorable except under-cutting by wind erosion	Wind erosion and drifting sand	Material too porous to hold water	Erodible and very permeable	*
Shiprock fine sandy loam	Poor; sandy and erodible	Good	Slight	Low	**	**	Rapidly permeable	Erodible; fair if compacted	Erodible; very permeable