



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

September 13, 2005

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

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

Attention: **William F. Carr**
Legal Counsel for Yates Petroleum Corporation

Administrative Order NSL-5277

Dear Mr. Carr:

Reference is made to the following: (i) your application (*administrative application reference No. pSEM0-523535237*) on behalf of the operator, Yates Petroleum Corporation ("Yates") submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on August 22, 2005; and (ii) the Division's records in Santa Fe and Artesia: all concerning Yates' request for an exception to Rule 4 of the "*Special Rules and Regulations for the Vada-Upper Pennsylvanian Pool*," as promulgated by Division Order No. R-3179, as amended, for its existing Gato Loco "BFT" Com. Well No. 1 (API No. 30-041-20912), recently drilled 1800 feet from the South line and 900 feet from the East line (Unit I) of Irregular Section 31, Township 8 South, Range 34 East, NMPM, Roosevelt County, New Mexico.

The SE/4 of Irregular Section 31, being a standard 160-acre oil spacing and proration unit within the Undesignated Vada-Upper Pennsylvanian Pool (62459), is to be dedicated to this well.

Your application has been duly filed under the provisions of Division Rules 104.F and 1207.A (2) and the applicable provisions of the rules governing the Vada-Upper Pennsylvanian Pool.

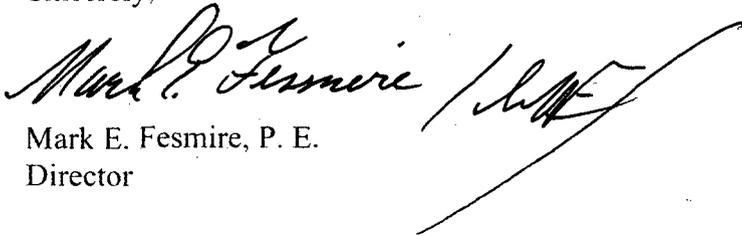
It is the Division's understanding, after reviewing your application and the records, that this well was permitted by Yates to a proposed depth of 11,400 feet "*to drill/test the Atoka and Intermediate formations*" within a standard 320-acre stand-up gas spacing unit comprising the E/2 of Irregular Section 31 (see the "*Application for Permit to Drill*" dated January 18, 2005). Pursuant to Division Rule 104.C (2) (a), this location is considered to be "standard" for a deep gas well within this unit. Division records further indicate the well was spud on June 4, 2005; and on July 25, 2005 a total depth of 11,890 feet was reached and production casing was set. Per your application, "[T]he proposed Gato Loco "BFT" Com. Well No. 1 has been re-completed up hole [into the] Pennsylvanian formation;" pursuant the special pool rules for the Vada-Upper Pennsylvanian Pool (Rule 4) this location is considered to be "unorthodox."

By the authority granted me under the provisions of: (i) Rule 5 of these special pool rules; and (ii) Division Rule 104.F 2), the unorthodox oil well location within the Vada-Upper Pennsylvanian Pool of the above-described Gato Loco "BFT" Com. Well No. 1 is hereby approved.

ONCE AGAIN, PLEASE NOTE THAT IN THE FUTURE, Yates, as a prudent operator, shall take all necessary steps to locate wells at a location considered to be standard for all possible zones to be encountered and should be more cognizant of well location requirements for different producing horizons within the immediate area of operations. Again, any future disregard to the Division's well spacing rules with respect to secondary or primary intervals may subject all such future requests for unorthodox well locations to the Division's hearing process.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad