



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

June 8, 2006

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: Ocean Munds-Dry
Legal Counsel for Yates Petroleum Corporation
omundsdry@hollandhart.com

Administrative Order NSL-5393

Dear Ms. Munds-Dry:

Reference is made to the following: (i) your application (*administrative application reference No. pTDS0-612359976*) on behalf of the operator, Yates Petroleum Corporation ("Yates") submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on May 3, 2006; (ii) your e-mail sent to Mr. Michael E. Stogner, Staff Engineer with the Division in Santa Fe on Wednesday afternoon, June 7, 2006 checking on the status of this application; and (iii) the Division's records in Artesia and Santa Fe, including the file in Division Case No. 13535, which resulted in the issuance of Division Order No. R-12408 on August 25, 2005: all concerning Yates' request for an exception to Rule 3 of the "*Special Rules and Regulations for the Ranger Lake-(Upper) Pennsylvanian Pool,*" as promulgated by Division Order No. R-1418-B, as amended, for its existing Ike State Unit Well No. 1 (*API No. 30-025-37402*), recently drilled 1750 feet from the North line and 900 feet from the West line (Lot 2/Unit E) of Section 30, Township 12 South, Range 35 East, Ike State Exploratory Unit (see Division Order No. R-12408), NMPM, Lea County, New Mexico.

Lot 3 and the SE/4 NW/4 (S/2 NW/4 equivalent) of Section 30, being a standard 76.91-acre oil spacing and proration unit within the Undesignated Ranger Lake-Upper Pennsylvanian Pool (**50730**), is to be dedicated to this well.

Your application has been duly filed under the provisions of the applicable provisions of the special pool rules governing the Undesignated Ranger Lake-Upper Pennsylvanian Pool, and Division Rules 104.F and 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

It is the Division's understanding, after reviewing your application and the Division records, that:

(A) This well was permitted by Yates to a proposed depth of 12,800 feet "*to drill/test the Mississippian and intermediate formations*" within a standard 307.72-acre stand-up gas spacing unit comprising Lots 1 through 4 and the E/2 W/2 (W/2 equivalent) of Section 30 (see the "*Application for Permit to Drill*" dated August 2, 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 August 31, 2005; and on November 12, 2005 a total depth of 12,866 feet was reached and production casing was set. Per your application, "*Yates was unable to make a commercial well in the Mississippian formation,*" pursuant Rule 3 of the special pool rules governing the designated and Undesignated Ranger Lake-Upper Pennsylvanian Pool, this location is considered to be both unorthodox and off-pattern.

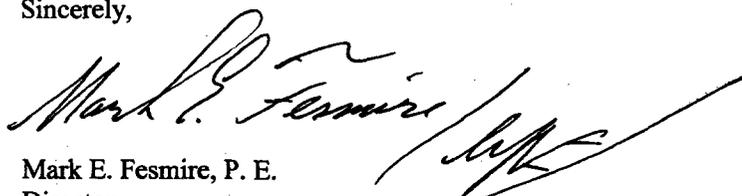
(B) In Division Case No. 13535, which case was called and taken under advisement by a duly appointed hearing officer on August 11, 2005, Yates addressed the location of this well within the 3,016.04-acre Ike State Exploratory unitized area comprising all or portions of Sections 25 and 36, Township 12 South, Range 34 East, NMPM and Sections 29, 30, 31, and 32, Township 12 South, Range 35 East, NMPM, all in Lea County, New Mexico, as the initial well to test the Atoka and Morrow formations as primary targets and the Mississippian (Austin) and upper Pennsylvanian as secondary intervals of interest [see Finding Paragraph (3) on page 3 of Division Order No. R-12408.

By the authority granted me under the provisions of Division Rule 104.F (2), the unorthodox oil well location within the Undesignated Ranger Lake-Upper Pennsylvanian Pool of Yates' above-described Ike State Unit Well No. 1 is hereby approved.

PLEASE NOTE THAT IN THE FUTURE, Yates, as a prudent operator, should 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. 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 – Hobbs
New Mexico State Land Office – Santa Fe
File: Case No. 13535