



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

August 23, 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

Division Administrative Order NSL-5438

Dear Ms. Munds-Dry:

Reference is made to the following: (i) your original application (*administrative application reference No. pTDS0-618659927*) on behalf of the operator, Yates Petroleum Corporation ("Yates"), dated and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on July 5, 2006; (ii) the Division's initial response from Mr. Michael E. Stogner, Staff Engineer in Santa Fe, by letter dated August 7, 2006, erroneously withdrawing your request; (iii) your re-submittal of this application on August 10, 2006; and (iv) the Division's records in Hobbs and Santa Fe, including the file in Division Case No. 13223: all concerning Yates's request to drill (spud date: July 11, 2006) its Merle State Unit Well No. 5 (*API No. 30-025-37911*) at a location 330 feet from the North and West lines (Unit D) in Section 23, Township 10 South, Range 34 East, NMPM, Merle State Exploratory Unit (*see Division Order No. R-12114, issued in Case No. 13223 on March 2, 2004*), Lea County, New Mexico. Yates intends to drill this well to a depth of 12,400 feet in order to test: (i) the deeper Atoka, Morrow, and Austin formations for gas within the E/2 of Section 23, being a standard 320-acre stand-up gas spacing unit for either the Undesignated X-4 Ranch-Atoka Gas Pool (*97090*) or the Undesignated East X-4 Ranch-Atoka Gas Pool (*97365*), wildcat Morrow gas production, and the Undesignated X-4 Ranch-Mississippian Gas Pool (*97514*); and (ii) the shallower Wolfcamp and Abo formations for oil within the NE/4 NE/4 of Section 23, being a standard 40-acre oil spacing and proration unit for the Undesignated Southeast Lane-Abo Pool (*36676*) and wildcat Wolfcamp oil production.

Pursuant to Division Rule 104.B (1) this location in Unit "A" of Section 23 is considered to be standard for a 40-acre Abo and Wolfcamp oil test, but, pursuant to Division Rule 104.C (2) (a) is unorthodox within the deep 320-acre gas units.

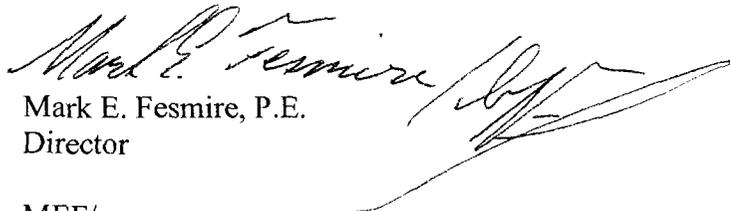
Your applications for Yates have been duly filed under the provisions of Division Rules 104.F and 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

It is the Division's understanding that Yates is seeking this location exception based on 3-D seismic data which indicates that a well drilled at the proposed location will be at a more favorable geologic position within the shallower oil bearing Abo formation than a well drilled at the closest location considered to be standard for the deeper gas bearing formations (660 feet from the North and East lines of Section 23).

By the authority granted me under the provisions of Division Rule 104.F (2) the above-described unorthodox Atoka, Morrow, and Austin deep gas well location within the proposed 320-acre standard gas spacing unit for Yates's Merle State Unit Well No. 5 is hereby approved.

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
