



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

September 21, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Yates Drilling Company
105 S. 4th Street
Artesia, New Mexico 88210

Attention: Tony Krakauskas, CPL
tonyk@ypcnm.com

Administrative Order NSL-5461 (BHL)

Dear Mr. Krakauskas:

Reference is made to the following: (i) your initial application (*administrative application reference No. pTDS0-610050634*) that was submitted to the New Mexico Oil Conservation Division's ("Division") office in Santa Fe, New Mexico on April 10, 2006; (ii) Mr. Michael E. Stogner's, Staff Engineer with the Division in Santa Fe, telephone conversation with Ms. Karen Leshman on June 29, 2006; (iii) Mr. Stogner's telephone conversation with you on Thursday morning, September 21, 2006 and his follow-up e-mail a few minutes later; (iv) your electronic response on the same morning containing the necessary information to complete your application; and (v) the Division's records in Artesia and Santa Fe: all concerning Yates Drilling Company's ("YDC") application for an exception to Division Rule 104.B (1) and request for an unorthodox subsurface oil well location within a standard 40-acre oil spacing and proration unit comprising the SW/4 SW/4 (Unit M) of Section 34, Township 17 South, Range 29 East, NMPM, Eddy County, New Mexico, for all oil bearing intervals from the top of the Bone Spring formation to the top of the Wolfcamp formation, which presently includes but is not necessarily limited to the Loco Hills-Bone Spring Pool (39510).

Your application has been duly filed under the provisions of Division Rules 104.F, 111.A (7) and (13), 111.C (2), 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 YDC initially drilled its Millennium "34" Federal Well No. 1 (API No. 30-015-31833), formerly the Millennium "34" Federal Com. Well No. 1, in mid-2001 as a conventional vertical well to a total depth of 11,430 feet and subsequently completed as a gas well within the Grayburg-Atoka Gas Pool (77720) and Grayburg-Morrow Gas Pool (77840) at a standard location within the W/2 of Section 34, being a standard 320-acre stand-up deep gas spacing unit for both pools.

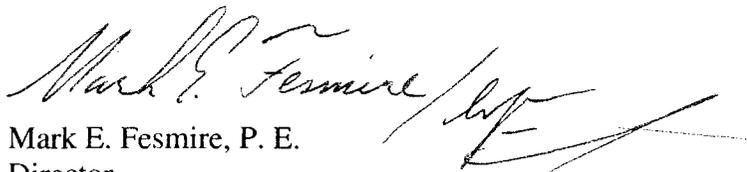
It is further understood that YDC recently recompleted this well by plugging back into the Loco Hills-Bone Spring Pool with perforations between 6,964 feet to 7,040 feet. From the directional survey, the actual subsurface location of this wellbore within the SW/4 SW/4 (Unit M) of Section 34: (i) at the top of the Bone Spring formation at a reported depth of 3,824 feet is at an unorthodox oil well location approximately 1102 feet from the South line and 991 feet from the West line of Section 34; and (ii) at the top of the Wolfcamp formation at a reported depth of 8,016 feet is at an unorthodox oil well location approximately 1249 feet from the South line and 1027 feet from the West line of Section 34.

By the authority granted me under the provisions of Division Rules 111.D, 111.C (2) and 104.F (2), the unorthodox subsurface path (location) of the above-described Millennium "34" Federal Well No. 1 from the top of the Bone Spring formation to the top of the Wolfcamp formation within the standard 40-acre oil spacing and proration unit for any and all formations and/or pools within this vertical extent comprising the SW/4 SW/4 (Unit M) of Section 34 is hereby approved.

Further, YDC shall comply with all applicable provisions of Division Rule 111.

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
