



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

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

November 1, 2006

Yates Petroleum Corporation
c/o Ms. Ocean Munds-Dry
Holland & Hart LLP
P.O. Box 2208
Santa Fe, NM 87504

Administrative Order NSL-5474

Re: Yates Petroleum Corporation
Mocha State Unit Well No. 3
API No. 30-025-01867
Unit B, Section 35, Twsp 12S, Range 34E
Lea County

Dear Ms. Munds-Dry:

Reference is made to the following:

(a) your application (**administrative application reference No. pTDS-0626850877**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on September 22, 2006, on behalf of Yates Petroleum Corporation (Yates), and

(b) the Division's records pertinent to this application.

Yates has requested to re-enter and re-complete its Mocha State Unit Well No. 3 (API No. 30-025-01867) at an unorthodox Morrow gas well location, 554 feet from the North line and 2086 feet from the East line (Unit B) of Section 35, Township 12 South, Range 34 East, N.M.P.M., in Lea County, New Mexico. The E/2 of Section 35 will be dedicated to this well in order to form a standard 320-acre spacing unit in the undesignated South Ranger Lake-Morrow gas pool (Pool Code 97230). This location is governed by statewide Rule 104.C(2), which provides for 320-acres units, with wells located at least 660 feet from the outer boundary of a quarter section.

The proposed location is approximately 554 feet east of the western boundary, and 554 feet south of the northern boundary of the NE/4 of Section 35. It is our understanding that the ownership of the W/2 of Section 35 toward which this location encroaches to the west, and the E/2 of Section 1 where the well will be located, are common. We further understand that Everquest Energy Corporation and Marbob Energy Corporation are all of the owners of working interests in the Morrow formation in the S/2 of Section 26, toward which this unit encroaches to the north.

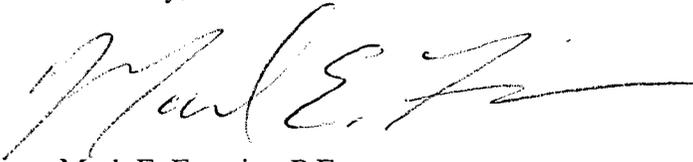
Your application on behalf of Yates has been duly filed under the provisions of Division Rules 104.F and 1210.A(2).

It is our understanding that Yates is seeking this unorthodox location primarily in order to utilize an existing wellbore, which will reduce the cost of drilling this prospect.

Pursuant to the authority granted me under the provisions of Division Rule 104.F(2), the above-described unorthodox location is hereby approved.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark E. Fesmire', written in a cursive style.

Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Hobbs
New Mexico State Land Office - Santa Fe