



New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



November 14, 2008

Yates Petroleum Corporation
Attn: Mr. Chuck Moran
105 South Fourth Street
Artesia, NM 88210

Administrative Order NSL-5964

**Re: Federal FR Well No. 4
API No. 30-015-36536
2620-foot FSL and 850-foot FEL
Unit I, Section 21-16S-30E
Eddy County, New Mexico**

Dear M:

Reference is made to the following:

(a) your application (**administrative application reference No. pKVR08-29854669**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on October 24, 2008, and

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

Yates Petroleum Corporation (Yates) has requested to drill the above-referenced well as a directional well from the surface location described in the caption of this letter to an unorthodox bottom hole gas-well location in the Devonian formation, 2170 feet from the South line and 670 feet from the East line (Unit I) of Section 21, Township 16 North, Range 30 East, in Eddy County, New Mexico. The E/2 of Section 21 will be dedicated to this well in order to form a standard 320-acre wildcat Devonian gas spacing unit.

Spacing in the Devonian is governed by statewide Rule 104.C(2), which provides for 320-acre units with wells to be located at least 660 feet from unit or quarter section boundaries. The proposed bottom hole location is less than 660 feet from the northern boundary of the SE/4 of Section 21.



Yates anticipates that it may subsequently complete this well as a gas well in the Woodford, Chester, Morrow, Atoka, Strawn, Upper Penn or Wolfcamp formations. This location would, at this time, be wildcat in any or these formations, and would be governed by Rule 104.C(2). Yates has requested approval of this location, based on an E/2 unit dedication, in each of these formations

In addition, Yates anticipates that it may subsequently complete this well as a gas well in the Abo formation, which, pursuant to statewide Rule 104.C(3), would require a 160-acre spacing unit comprising the SE/4, with minimum 660-foot setbacks from the quarter-section boundaries, or as an oil well in the Wolfcamp, Glorieta, San Andres or Yates formations, which, pursuant to statewide Rule 104.B(1), would require a 40-acre spacing unit comprising the NE/4 SE/4, with minimum 330-foot setbacks from the quarter-section and quarter-quarter section boundaries. This location would, at this time, be wildcat in any of these formations, except in the Grayburg/San Andres, where it is included in the undesignated Square Lake-Grayburg/San Andres Consolidated Pool (57570). That pool, however, is spaced under state-wide rules. Yates has requested approval of this location in each of these formations.

The points of penetration of the proposed well would be different for different formations. However, based on the drilling plan submitted, the points of penetration in all formations will be within the NE/4 SE/4 of Section 21. For 320-acre gas, E/2 units, the points of penetration will encroach toward the quarter section line internal to the unit, and may encroach diagonally towards the N/2 of Section 22. For a 160-acre, SW/4 gas unit there would be encroachments toward the NE/4 of Section 21 and possibly the NW/4 of Section 22. For 40-acre, oil units the only encroachment would be toward the SW/4 NE/4 of Section 21.

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

It is our understanding that you are seeking the proposed surface due to the presence of sand dunes, and you are seeking the proposed bottom hole location for geologic reasons, as the most prospective location for a successful completion in the Devonian. You are seeking approval of the resulting non-standard locations in the other subject formations in order to avoid the cost of drilling unnecessary wells.

It is also understood that you have given due notice of this application to all operators or owners who are "affected persons," as defined in Rule 1210.A(2), in all adjoining units towards which the well would encroach in any of the subject formations.

Pursuant to the authority conferred by Division Rule 104.F(2), the above-described unorthodox location is hereby approved in all of the subject formations, SUBJECT, HOWEVER, to the following limitation: If the applicable spacing for any formation covered by this order is changed prior to the time that the subject well is completed in that formation, THIS APPROVAL SHALL NOT APPLY TO THE FORMATION after the effective date of such change.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 40.

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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". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Artesia
United States Bureau of Land Management - Carlsbad