

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson

Governor

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Reese Fullerton

Deputy Cabinet Secretary

Mark Fesmire

Division Director

Oil Conservation Division



March 18, 2009

Ms. Ocean Munds-Dry

Holland & Hart, LLP

P.O. Box 2208

Santa Fe, NM 87504

Administrative Order NSL-6007

Re: Yates Petroleum Corporation

Merle State Unit Well No. 19H

API No. 30-025-39341

Unit E, Section 14-10S-34E

Lea County, New Mexico

Dear Ms. Munds-Dry:

Reference is made to the following:

(a) your application (**administrative application reference No. pKAA09-04857814**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on February 17, 2009, and

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

Yates Petroleum Corporation (Yates) has requested to drill the above-referenced well as a horizontal oil well in the Wolfcamp formation, at a location that will be unorthodox under Division Rule 16.14.B(2). The proposed surface location, point of penetration and terminus of the well are as follows:

Surface Location: 1600 feet from the North line and 1100 feet from the West line (Unit E) of Section 14, Township 10-S, Range 34-E, NMPM Lea County, New Mexico

Point of Penetration: 1211 feet from the North line and 1378 feet from the West line (Unit C) of said Section 14.

Terminus: 1450 feet from the South line and 2000 feet from the East line (Unit B) of Section 11-10S-34E.

Oil Conservation Division * 1220 South St. Francis Drive

* Santa Fe, New Mexico 87505

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The SE/4 SW/4 and W/2 SE/4 of Section 11 and the NE/4 SW/4 of Section 14 will be dedicated to the proposed well to form a project area comprising 4 standard 40-acre, more or less, wildcat Wolfcamp oil spacing units. Spacing for wildcat oil wells in the Wolfcamp is governed by statewide Rule 15.9.A, which provides for 40-acre units, with wells located at least 330 feet from a unit outer boundary. This location is unorthodox because a portion of the producing interval will be less than 330 feet from the southern and eastern boundaries of the project area, and therefore outside the producing area.

Your application on behalf of Yates has been duly filed under the provisions of Division Rules 15.13 and 4.12.A(2).

It is our understanding that you are seeking this location for geologic reasons. It is further understood notice of this application to offsetting operators or owners is not required due to common ownership.

Pursuant to the authority conferred by Division Rule 15.13.B, the above-described unorthodox location is hereby approved.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 5.9.

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

Sincerely,



Mark E. Fesmire, P.E.
Director

MEF/db

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