

YATES DRILLING COMPANY

105 SOUTH FOURTH STREET — (505) 748-1471

FAX (505) 746-6480

TELEX 508891 (YPCART)

ARTESIA, NEW MEXICO 88210

OIL CONSERVATION DIVISION

RECEIVED

'94 MAY 23 AM 8 50

PEYTON YATES
PRESIDENT

S. P. YATES
VICE PRESIDENT

RANDY G. PATTERSON
SECRETARY

DENNIS G. KINSEY
TREASURER

May 19, 1994

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy
Minerals and Natural Resources
P. O. Box 2088
Santa Fe, NM 87504-2088

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: Yates Drilling Company's Application for
Positive Production Response Certification
Cactus Queen (Voluntary) Unit
Chaves County, New Mexico

Dear Mr. LeMay:

Yates Drilling Company hereby makes application for Certification of a Positive Production Response in its Cactus Queen (Voluntary) Unit. Attached hereto is Yates Drilling Company's report dated May 12, 1994, which complies with all requirements of Rule E2a of the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate promulgated by Division Order No. R-9708 on August 27, 1992. As you will note, this report contains all required plats, graphs and supporting data and demonstrates that a positive production response to Yates Drilling Company's waterflood operations in this unit was achieved by November 1, 1993. Also enclosed are (1) a copy of Division Order No. R-9075-B-1, which approved this Enhanced Oil Recovery Project for the Recovered Oil Tax Rate, and (2) a draft of a Certification of Positive Production Response.

Yates Drilling Company requests that, pursuant to the provisions of Rule E2(3)c, the Division certify that the Positive Production Response has occurred in this unit and notify the Secretary of the Taxation and Revenue Department of this Certification of a Positive Production Response effective November 1, 1993.

Your attention to this application is appreciated.

Very truly yours,

YATES DRILLING COMPANY

Douglas W. Hurlbut
Landman

DWH/jrw
Enclosure

**YATES DRILLING COMPANY
CACTUS QUEEN (VOLUNTARY) UNIT
CERTIFICATION OF POSITIVE PRODUCTION RESPONSE**

May 12, 1994

The subject unit was originally defined by New Mexico Oil Conservation Division Order No. R-9075-B. The subsequent expansion of the unit was approved by NMOCD Order No. R-9075-B-1. The NMOCD also found that the expansion area should qualify as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Finding 11, Order No. R-9075-B-1). This project was certified by the NMOCD as an "Enhanced Oil Recovery Project" with an effective date of April 30, 1993.

The expansion area of the unit consists of five (5) injection wells and four (4) producing wells for a total of nine (9) wells. All of these wells had been drilled and were producing by the end of 1984, except for the No. 15 well, which first produced in August, 1993. The nine (9) wells are identified as wells 7 -15 on the attached map know as EXHIBIT - 1.

Injection began into each of the five (5) injection wells during the month of June, 1993. Each of the wells have been continuously utilized as injection wells since that time. Cumulative injection through March, 1994 totals 370,779 barrels of water, for an average of 74,156 barrels of water injected per injection well. A table containing the monthly and total water injection volumes, broken down by well, is attached and identified as EXHIBIT - 2.

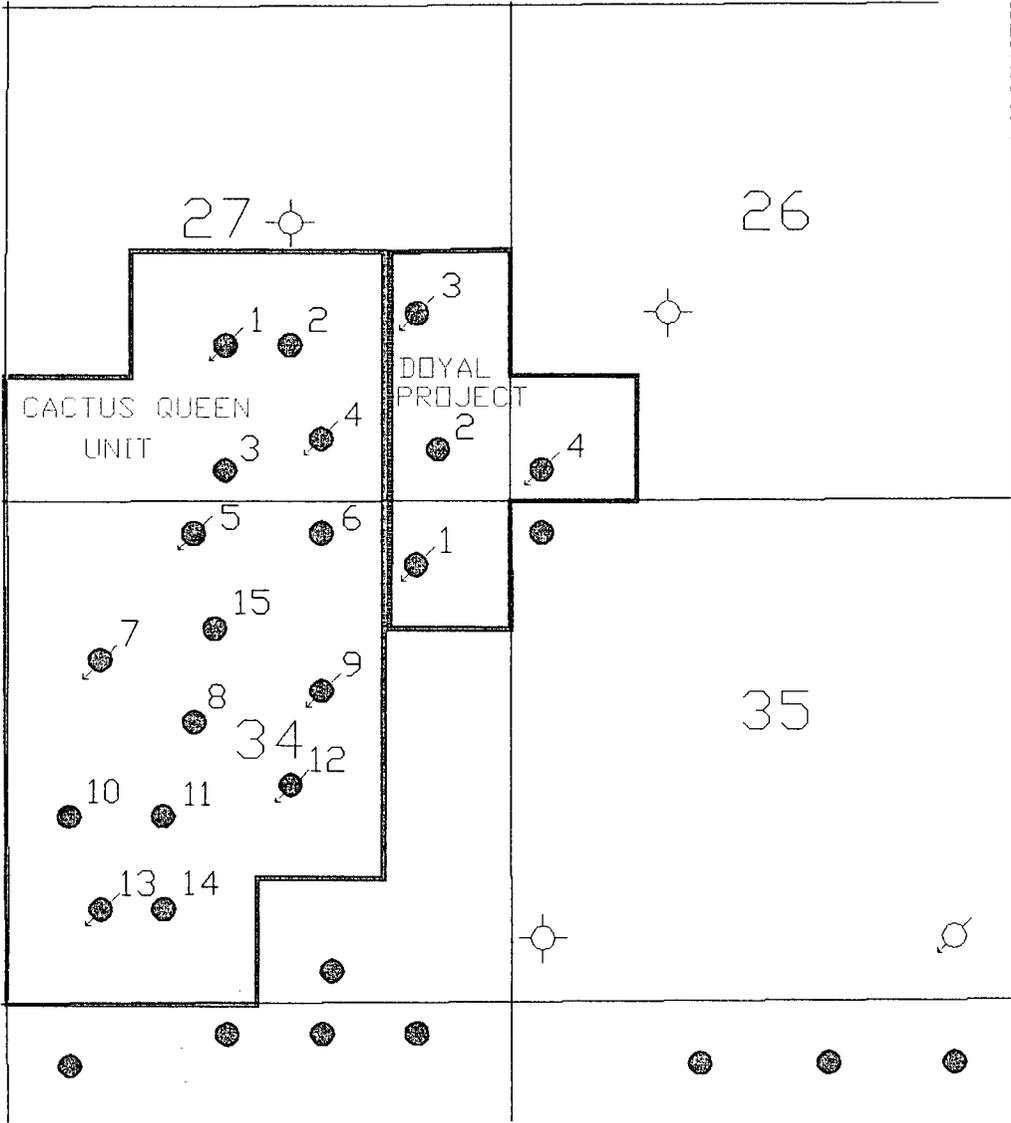
Production of oil from the expansion area has been continuous since the first well was drilled in 1983. Oil production from each of the original wells in this area declined as expected during primary production. Oil production peaked in 1984 while averaging 6,035 barrels per month. By 1992 the expansion area only averaged 340 barrels of oil per month. Production continued to decline after 1992, until it reached a low of 155 barrels for the month of June, 1993. Verification of the production decline and recent increase can be found in EXHIBIT - 3. This exhibit contains individual and summary oil production figures, by month, for each of the wells in the expansion area.

Significant positive production response, in each individual producing well, was first noticed during the period of September to November, 1993. In November, 1993 oil production from the area had increased to 1,361 barrels. Since November, 1993 production has continued to increase, evidenced by the 1,947 barrels of oil produced in March, 1994. A production curve identified as EXHIBIT - 4 is attached which shows the response that has been seen in the expansion area.

The data provided herein exhibits undeniable proof that the Cactus Queen (Voluntary) Unit has experienced positive production response. The project has been certified as an "Enhanced Oil Recovery Project." Accordingly, all oil production since November, 1993 should qualify for the "Recovered Oil Tax Rate" pursuant to the provisions of the "New Mexico Enhanced Oil Recovery Act."

Tobin L. Rhodes
Petroleum Engineer

T-12-S R-31-E



YATES DRILLING COMPANY

EXHIBIT - 1

CACTUS QUEEN (VOLUNTARY) UNIT

| | | |
|-------------|------------|---------|
| Toby Rhodes | | 5/13/94 |
| | 1' = 2000' | |

EXHIBIT - 2
Cactus Queen (Voluntary) Unit
Expansion Area Injection
Barrels of Water Injected

| | CCU #7 | CCU #8 | CCU #9 | CCU #10 | CCU #11 | CCU #12 | CCU #13 | CCU #14 | CCU #15 | TOTAL |
|---------------|---------------|----------|---------------|---------------|----------|---------------|---------------|----------|----------|----------------|
| Jun-93 | 8,196 | 0 | 6,140 | 7,099 | 0 | 6,154 | 6,267 | 0 | 0 | 33,856 |
| Jul-93 | 7,275 | 0 | 5,468 | 7,810 | 0 | 5,696 | 3,685 | 0 | 0 | 29,934 |
| Aug-93 | 9,650 | 0 | 5,830 | 7,221 | 0 | 6,577 | 6,768 | 0 | 0 | 36,046 |
| Sep-93 | 7,542 | 0 | 4,532 | 10,502 | 0 | 6,021 | 9,225 | 0 | 0 | 37,822 |
| Oct-93 | 10,927 | 0 | 4,741 | 9,749 | 0 | 4,422 | 11,235 | 0 | 0 | 41,074 |
| Nov-93 | 11,101 | 0 | 4,245 | 9,996 | 0 | 3,993 | 10,495 | 0 | 0 | 39,830 |
| Dec-93 | 10,029 | 0 | 5,518 | 10,805 | 0 | 5,803 | 8,206 | 0 | 0 | 40,361 |
| Jan-94 | 10,695 | 0 | 4,293 | 12,745 | 0 | 6,992 | 8,084 | 0 | 0 | 42,809 |
| Feb-94 | 6,744 | 0 | 2,950 | 9,103 | 0 | 4,700 | 7,242 | 0 | 0 | 30,739 |
| Mar-94 | 9,963 | 0 | 3,021 | 11,268 | 0 | 3,820 | 10,236 | 0 | 0 | 38,308 |
| TOTALS | 92,122 | 0 | 46,738 | 96,298 | 0 | 54,178 | 81,443 | 0 | 0 | 370,779 |

EXHIBIT - 3
Cactus Queen (Voluntary) Unit
Expansion Area Production
Barrels of Oil Produced

| | COU #7 | COU #8 | COU #9 | COU #10 | COU #11 | COU #12 | COU #13 | COU #14 | COU #15 | TOTAL |
|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|-------|
| Jul-83 | 0 | 0 | 0 | 345 | 0 | 0 | 0 | 0 | 0 | 345 |
| Aug-83 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sep-83 | 0 | 0 | 0 | 698 | 0 | 0 | 0 | 0 | 0 | 698 |
| Oct-83 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Nov-83 | 0 | 0 | 0 | 464 | 0 | 0 | 0 | 0 | 0 | 464 |
| Dec-83 | 0 | 0 | 0 | 402 | 0 | 0 | 0 | 604 | 0 | 1,006 |
| Jan-84 | 0 | 0 | 0 | 365 | 0 | 0 | 0 | 785 | 0 | 1,150 |
| Feb-84 | 0 | 0 | 0 | 181 | 0 | 0 | 702 | 697 | 0 | 1,580 |
| Mar-84 | 0 | 0 | 0 | 620 | 3,174 | 0 | 746 | 740 | 0 | 5,280 |
| Apr-84 | 0 | 2,222 | 0 | 220 | 2,791 | 0 | 574 | 569 | 0 | 6,376 |
| May-84 | 286 | 2,300 | 0 | 91 | 2,480 | 1,965 | 660 | 654 | 0 | 8,436 |
| Jun-84 | 214 | 2,809 | 0 | 71 | 1,942 | 1,203 | 500 | 496 | 0 | 7,235 |
| Jul-84 | 1,240 | 1,858 | 0 | 80 | 2,338 | 1,283 | 488 | 484 | 0 | 7,771 |
| Aug-84 | 1,124 | 1,684 | 720 | 80 | 2,317 | 1,193 | 483 | 479 | 0 | 8,080 |
| Sep-84 | 1,020 | 1,528 | 845 | 80 | 2,063 | 1,266 | 389 | 386 | 0 | 7,577 |
| Oct-84 | 1,128 | 1,691 | 809 | 40 | 1,543 | 1,211 | 323 | 320 | 0 | 7,065 |
| Nov-84 | 679 | 1,017 | 1,010 | 35 | 1,339 | 1,375 | 425 | 421 | 0 | 6,301 |
| Dec-84 | 971 | 1,455 | 557 | 40 | 1,166 | 758 | 311 | 308 | 0 | 5,566 |
| Jan-85 | 786 | 1,178 | 460 | 40 | 1,121 | 623 | 360 | 356 | 0 | 4,924 |
| Feb-85 | 710 | 1,063 | 420 | 26 | 746 | 568 | 199 | 197 | 0 | 3,929 |
| Mar-85 | 666 | 998 | 410 | 32 | 926 | 555 | 260 | 258 | 0 | 4,105 |
| Apr-85 | 381 | 570 | 244 | 0 | 844 | 330 | 198 | 197 | 0 | 2,764 |
| May-85 | 590 | 881 | 399 | 23 | 650 | 540 | 84 | 84 | 0 | 3,251 |
| Jun-85 | 578 | 863 | 314 | 23 | 649 | 426 | 215 | 215 | 0 | 3,283 |
| Jul-85 | 578 | 863 | 286 | 27 | 762 | 387 | 246 | 246 | 0 | 3,395 |
| Aug-85 | 570 | 850 | 280 | 24 | 700 | 377 | 217 | 218 | 0 | 3,236 |
| Sep-85 | 489 | 728 | 236 | 20 | 605 | 318 | 176 | 216 | 0 | 2,788 |
| Oct-85 | 500 | 745 | 232 | 18 | 536 | 312 | 168 | 206 | 0 | 2,717 |
| Nov-85 | 439 | 653 | 205 | 16 | 481 | 276 | 156 | 192 | 0 | 2,418 |
| Dec-85 | 414 | 648 | 205 | 15 | 624 | 277 | 148 | 183 | 0 | 2,514 |
| Jan-86 | 372 | 581 | 188 | 15 | 531 | 253 | 142 | 175 | 0 | 2,257 |
| Feb-86 | 322 | 503 | 133 | 13 | 436 | 179 | 102 | 125 | 0 | 1,813 |
| Mar-86 | 392 | 613 | 175 | 15 | 409 | 236 | 96 | 117 | 0 | 2,053 |
| Apr-86 | 376 | 587 | 157 | 7 | 410 | 211 | 101 | 123 | 0 | 1,972 |
| May-86 | 359 | 560 | 165 | 5 | 360 | 222 | 145 | 177 | 0 | 1,993 |
| Jun-86 | 348 | 542 | 155 | 5 | 281 | 169 | 115 | 140 | 0 | 1,755 |
| Jul-86 | 349 | 543 | 157 | 5 | 286 | 171 | 109 | 132 | 0 | 1,752 |
| Aug-86 | 268 | 416 | 130 | 4 | 211 | 142 | 93 | 113 | 0 | 1,377 |
| Sep-86 | 173 | 269 | 106 | 0 | 163 | 116 | 87 | 106 | 0 | 1,020 |
| Oct-86 | 343 | 534 | 150 | 0 | 283 | 164 | 96 | 116 | 0 | 1,686 |
| Nov-86 | 313 | 486 | 154 | 0 | 342 | 168 | 98 | 119 | 0 | 1,680 |
| Dec-86 | 307 | 476 | 173 | 5 | 348 | 188 | 125 | 151 | 0 | 1,773 |
| Jan-87 | 276 | 427 | 125 | 0 | 296 | 136 | 101 | 123 | 0 | 1,484 |
| Feb-87 | 264 | 409 | 113 | 0 | 303 | 123 | 61 | 74 | 0 | 1,347 |
| Mar-87 | 243 | 377 | 139 | 0 | 287 | 152 | 78 | 94 | 0 | 1,370 |
| Apr-87 | 142 | 22 | 136 | 0 | 221 | 149 | 69 | 70 | 0 | 809 |
| May-87 | 310 | 480 | 243 | 0 | 142 | 267 | 92 | 92 | 0 | 1,626 |
| Jun-87 | 224 | 348 | 156 | 0 | 210 | 172 | 63 | 63 | 0 | 1,236 |

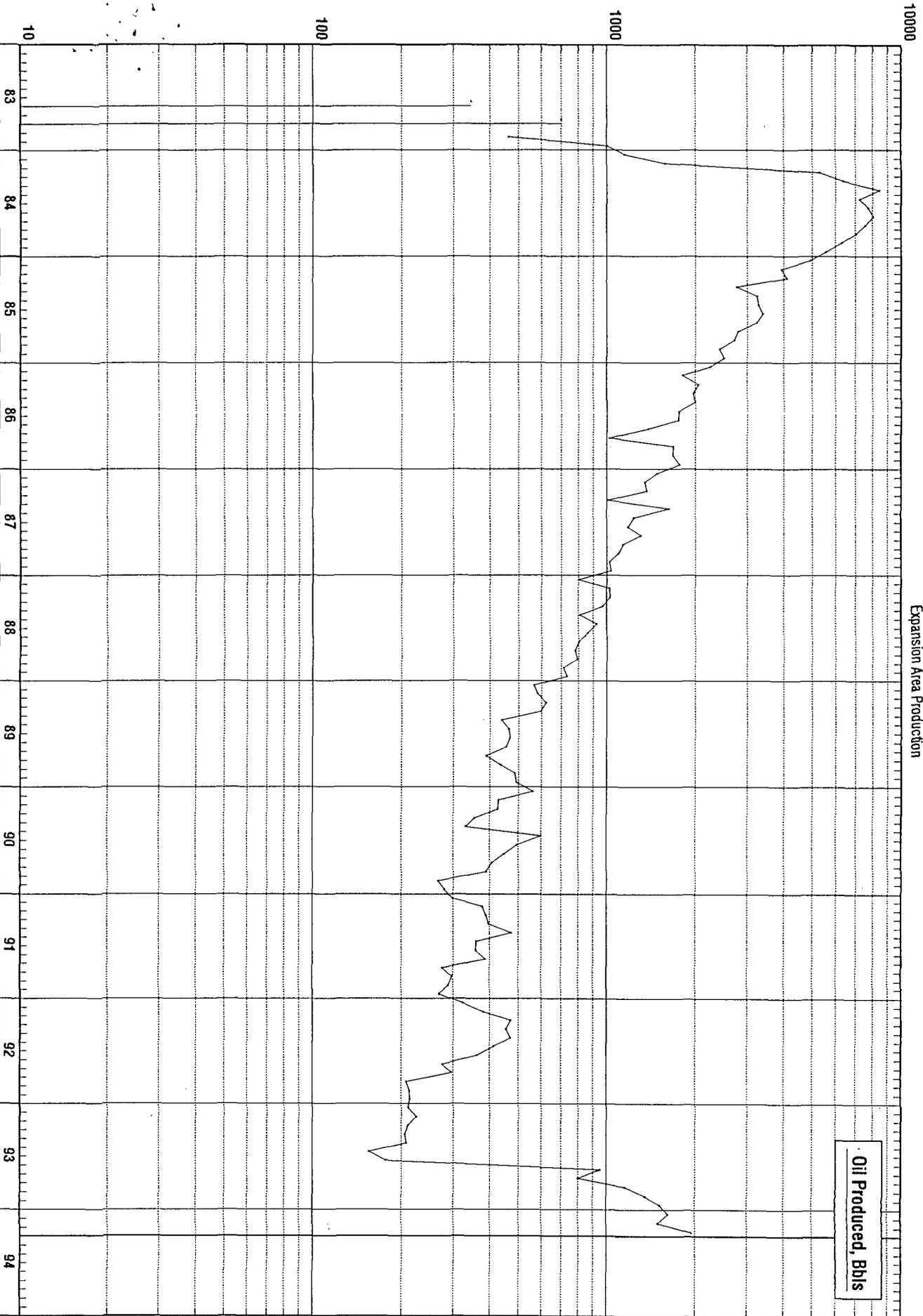
EXHIBIT - 3
Cactus Queen (Voluntary) Unit
Expansion Area Production
Barrels of Oil Produced

| | COU #7 | COU #8 | COU #9 | COU #10 | COU #11 | COU #12 | COU #13 | COU #14 | COU #15 | TOTAL |
|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|-------|
| Jul-87 | 219 | 339 | 104 | 0 | 234 | 115 | 84 | 84 | 0 | 1,179 |
| Aug-87 | 209 | 324 | 148 | 0 | 273 | 162 | 95 | 96 | 0 | 1,307 |
| Sep-87 | 216 | 334 | 111 | 0 | 199 | 122 | 77 | 77 | 0 | 1,136 |
| Oct-87 | 205 | 317 | 115 | 0 | 226 | 126 | 52 | 53 | 0 | 1,094 |
| Nov-87 | 158 | 244 | 129 | 0 | 207 | 142 | 70 | 71 | 0 | 1,021 |
| Dec-87 | 185 | 285 | 110 | 0 | 177 | 122 | 77 | 77 | 0 | 1,033 |
| Jan-88 | 124 | 190 | 127 | 0 | 130 | 141 | 44 | 44 | 0 | 800 |
| Feb-88 | 165 | 253 | 104 | 0 | 246 | 116 | 70 | 70 | 0 | 1,024 |
| Mar-88 | 173 | 265 | 126 | 0 | 193 | 140 | 65 | 65 | 0 | 1,027 |
| Apr-88 | 167 | 255 | 98 | 0 | 221 | 109 | 60 | 60 | 0 | 970 |
| May-88 | 118 | 181 | 102 | 0 | 189 | 114 | 54 | 53 | 0 | 811 |
| Jun-88 | 163 | 250 | 104 | 0 | 177 | 116 | 57 | 57 | 0 | 924 |
| Jul-88 | 144 | 222 | 109 | 0 | 185 | 123 | 39 | 40 | 0 | 862 |
| Aug-88 | 132 | 203 | 81 | 0 | 180 | 90 | 59 | 59 | 0 | 804 |
| Sep-88 | 136 | 209 | 98 | 0 | 140 | 109 | 58 | 28 | 0 | 778 |
| Oct-88 | 133 | 205 | 124 | 0 | 117 | 137 | 52 | 25 | 0 | 793 |
| Nov-88 | 118 | 181 | 92 | 0 | 79 | 101 | 96 | 46 | 0 | 713 |
| Dec-88 | 152 | 232 | 87 | 0 | 110 | 96 | 37 | 18 | 0 | 732 |
| Jan-89 | 88 | 135 | 91 | 0 | 87 | 101 | 42 | 20 | 0 | 564 |
| Feb-89 | 115 | 176 | 68 | 0 | 77 | 76 | 46 | 22 | 0 | 580 |
| Mar-89 | 122 | 186 | 71 | 0 | 78 | 79 | 58 | 27 | 0 | 621 |
| Apr-89 | 109 | 165 | 75 | 0 | 76 | 83 | 59 | 28 | 0 | 595 |
| May-89 | 86 | 129 | 43 | 0 | 60 | 47 | 50 | 23 | 0 | 438 |
| Jun-89 | 66 | 99 | 80 | 0 | 62 | 88 | 47 | 22 | 0 | 464 |
| Jul-89 | 71 | 106 | 80 | 0 | 48 | 87 | 52 | 24 | 0 | 468 |
| Aug-89 | 71 | 106 | 70 | 0 | 59 | 77 | 50 | 23 | 0 | 456 |
| Sep-89 | 70 | 104 | 52 | 0 | 48 | 54 | 41 | 19 | 0 | 388 |
| Oct-89 | 60 | 90 | 37 | 0 | 99 | 38 | 76 | 35 | 0 | 435 |
| Nov-89 | 100 | 151 | 38 | 0 | 85 | 39 | 51 | 23 | 0 | 487 |
| Dec-89 | 96 | 144 | 38 | 0 | 95 | 38 | 55 | 26 | 0 | 492 |
| Jan-90 | 97 | 145 | 81 | 0 | 91 | 81 | 45 | 21 | 0 | 561 |
| Feb-90 | 69 | 102 | 65 | 0 | 62 | 65 | 44 | 20 | 0 | 427 |
| Mar-90 | 85 | 125 | 49 | 0 | 53 | 50 | 44 | 20 | 0 | 426 |
| Apr-90 | 69 | 102 | 44 | 0 | 50 | 45 | 30 | 14 | 0 | 354 |
| May-90 | 46 | 69 | 49 | 0 | 58 | 50 | 40 | 19 | 0 | 331 |
| Jun-90 | 138 | 123 | 62 | 0 | 139 | 63 | 50 | 24 | 0 | 599 |
| Jul-90 | 118 | 105 | 63 | 0 | 98 | 64 | 32 | 15 | 0 | 495 |
| Aug-90 | 107 | 96 | 59 | 0 | 76 | 60 | 34 | 16 | 0 | 448 |
| Sep-90 | 101 | 90 | 68 | 0 | 43 | 68 | 24 | 12 | 0 | 406 |
| Oct-90 | 97 | 87 | 48 | 0 | 64 | 48 | 29 | 15 | 0 | 388 |
| Nov-90 | 59 | 53 | 28 | 0 | 57 | 29 | 26 | 14 | 0 | 266 |
| Dec-90 | 62 | 56 | 44 | 0 | 39 | 45 | 22 | 12 | 0 | 280 |
| Jan-91 | 66 | 59 | 35 | 0 | 68 | 36 | 23 | 12 | 0 | 299 |
| Feb-91 | 52 | 46 | 88 | 0 | 41 | 89 | 41 | 21 | 0 | 378 |
| Mar-91 | 92 | 81 | 56 | 0 | 46 | 56 | 38 | 20 | 0 | 389 |
| Apr-91 | 80 | 70 | 65 | 0 | 72 | 65 | 30 | 15 | 0 | 397 |
| May-91 | 97 | 85 | 80 | 0 | 97 | 81 | 22 | 11 | 0 | 473 |
| Jun-91 | 67 | 58 | 60 | 0 | 70 | 61 | 29 | 15 | 0 | 360 |

EXHIBIT - 3
Cactus Queen (Voluntary) Unit
Expansion Area Production
Barrels of Oil Produced

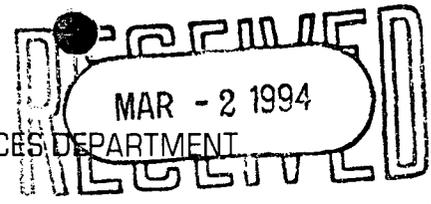
| | CCU #7 | CCU #8 | CCU #9 | CCU #10 | CCU #11 | CCU #12 | CCU #13 | CCU #14 | CCU #15 | TOTAL |
|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|----------------|
| Jul-91 | 66 | 57 | 62 | 0 | 63 | 63 | 31 | 16 | 0 | 358 |
| Aug-91 | 71 | 60 | 71 | 0 | 57 | 72 | 36 | 19 | 0 | 386 |
| Sep-91 | 51 | 44 | 48 | 0 | 44 | 49 | 26 | 14 | 0 | 276 |
| Oct-91 | 35 | 30 | 79 | 0 | 46 | 80 | 18 | 10 | 0 | 298 |
| Nov-91 | 42 | 36 | 69 | 0 | 44 | 69 | 19 | 10 | 0 | 289 |
| Dec-91 | 38 | 32 | 68 | 0 | 37 | 69 | 16 | 8 | 0 | 268 |
| Jan-92 | 38 | 32 | 87 | 0 | 44 | 87 | 23 | 12 | 0 | 323 |
| Feb-92 | 75 | 64 | 69 | 0 | 68 | 69 | 23 | 12 | 0 | 380 |
| Mar-92 | 111 | 94 | 56 | 3 | 87 | 56 | 43 | 22 | 0 | 472 |
| Apr-92 | 29 | 131 | 65 | 37 | 60 | 65 | 17 | 50 | 0 | 454 |
| May-92 | 32 | 148 | 86 | 0 | 73 | 87 | 11 | 33 | 0 | 470 |
| Jun-92 | 33 | 149 | 53 | 0 | 69 | 53 | 14 | 41 | 0 | 412 |
| Jul-92 | 29 | 132 | 58 | 0 | 47 | 58 | 9 | 29 | 0 | 362 |
| Aug-92 | 18 | 84 | 56 | 0 | 35 | 56 | 6 | 21 | 0 | 276 |
| Sep-92 | 21 | 97 | 63 | 0 | 29 | 64 | 5 | 17 | 0 | 296 |
| Oct-92 | 9 | 42 | 51 | 0 | 32 | 52 | 5 | 17 | 0 | 208 |
| Nov-92 | 17 | 74 | 32 | 0 | 36 | 32 | 5 | 17 | 0 | 213 |
| Dec-92 | 16 | 67 | 39 | 0 | 31 | 40 | 5 | 16 | 0 | 214 |
| Jan-93 | 15 | 62 | 37 | 0 | 40 | 38 | 5 | 14 | 0 | 211 |
| Feb-93 | 0 | 111 | 10 | 0 | 71 | 9 | 0 | 24 | 0 | 225 |
| Mar-93 | 0 | 121 | 0 | 0 | 69 | 0 | 0 | 21 | 0 | 211 |
| Apr-93 | 0 | 111 | 0 | 0 | 64 | 0 | 0 | 31 | 0 | 206 |
| May-93 | 0 | 123 | 0 | 0 | 58 | 0 | 0 | 27 | 0 | 208 |
| Jun-93 | 0 | 92 | 0 | 0 | 43 | 0 | 0 | 20 | 0 | 155 |
| Jul-93 | 0 | 59 | 0 | 0 | 59 | 0 | 0 | 59 | 0 | 177 |
| Aug-93 | 0 | 59 | 0 | 0 | 59 | 0 | 0 | 59 | 775 | 952 |
| Sep-93 | 0 | 48 | 0 | 0 | 42 | 0 | 0 | 68 | 640 | 798 |
| Oct-93 | 0 | 92 | 0 | 0 | 80 | 0 | 0 | 131 | 858 | 1,161 |
| Nov-93 | 0 | 151 | 0 | 0 | 131 | 0 | 0 | 213 | 866 | 1,361 |
| Dec-93 | 0 | 182 | 0 | 0 | 158 | 0 | 0 | 257 | 927 | 1,524 |
| Jan-94 | 0 | 198 | 0 | 0 | 171 | 0 | 0 | 280 | 975 | 1,624 |
| Feb-94 | 0 | 206 | 0 | 0 | 178 | 0 | 0 | 292 | 825 | 1,501 |
| Mar-94 | 0 | 311 | 0 | 0 | 269 | 0 | 0 | 439 | 928 | 1,947 |
| TOTALS | 24,963 | 45,708 | 15,302 | 4,192 | 43,091 | 23,673 | 12,494 | 15,531 | 6,794 | 191,748 |

EXHIBIT - 4
Cactus Queen (Voluntary) Unit
Expansion Area Production





STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

February 25, 1994

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

ANITA LOCKWOOD
CABINET SECRETARY

Yates Drilling Company
105 South Fourth Street
Artesia, NM 88210

Attention: Doug Hulbut
Toby Rhodes

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a secondary project, pursuant to the provisions of the *New Mexico Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within five years from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of the Taxation and Revenue Department not later than the thirtieth day after termination.

NAME OF PROJECT: Cactus Queen (Voluntary) Unit

OCD ORDER NO. R-9075-B-1

OPERATOR: Yates Drilling Company
ADDRESS: 105 South Fourth Street
Artesia, NM 88210

Attention: Doug Hulbut and

CERTIFICATION DATE: April 30, 1993

EOR Project Certification
Cactus Queen (Voluntary) Unit

PROJECT AREA:

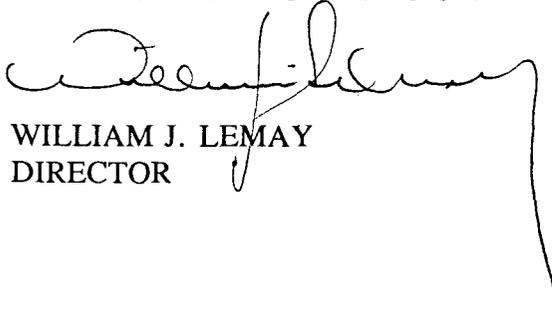
TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 27: NE/4 SW/4, S/2 SW/4 and W/2 SE/4

Section 34: W/2, W/2 NE/4 and NW/4 SE/4

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
DIRECTOR

S E A L

May 19, 1994

Attention: Doug Hurlbut
Tobin L. Rhodes
Yates Drilling Company
105 South Fourth Street
Artesia, NM 88210

**POSITIVE PRODUCTION RESPONSE CERTIFICATION
CACTUS QUEEN (VOLUNTARY) UNIT**

The New Mexico Oil Conservation Division hereby certifies that a positive production response to waterflood operations was obtained in the Cactus Queen (Voluntary) Unit expansion area. Production from that portion qualifies for the Recovered Oil Tax Rate authorized by the New Mexico *Enhanced Oil Recovery Act* (Laws of 1992, Chapter 3)

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of the Taxation and Revenue Department not later than the thirtieth day after termination.

NAME OF PROJECT: Cactus Queen (Voluntary) Unit Project
OCD ORDER NO: R-9075-B-1
OPERATOR: Yates Drilling Company
ADDRESS: 105 South Fourth Street
Artesia, NM 88210
Attn: Doug Hurlbut and Tobin L. Rhodes
POSITIVE PRODUCTION
RESPONSE DATE: November 1, 1993

PROJECT AREA

Township 12 South, Range 31 East, NMPM
Section 27: NE/4SW/4, S/2SW/4 and W/2SE/4
Section 34: W/2, W/2NE/4 and NW/4SE/4

APPROVED BY: STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

S E A L



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

April 28, 1995

Department of Taxation and Revenue
P.O. Box 630
Santa Fe, New Mexico 87509-0630

Attention: Mr. John Chavez, Secretary

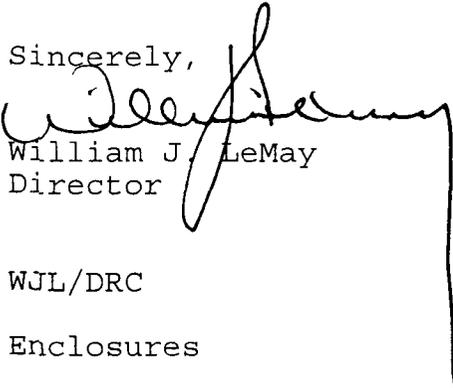
RE: Certification of a Positive
Production Response,
Yates Drilling Company
Cactus Queen (Voluntary) Unit
Waterflood Project Expansion Area

Dear Secretary Chavez:

Enclosed is a copy of Division Order No. R-10346 which was issued on April 13, 1995. This order certifies that a positive production response has occurred within the Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area which is currently operated by Yates Drilling Company. In addition, this positive production response has occurred within the five year time limit as described within the "New Mexico Enhanced Oil Recovery Act". The Division has determined that all wells within the Expansion Area producing from the Southeast Chaves-Queen Gas Area Associated Pool are eligible for the recovered oil tax rate. These wells are shown on Exhibit "A" to Order No. R-10346.

For your convenience we have also enclosed a summary page showing all pertinent data. If additional information is required please advise.

Sincerely,


William J. LeMay
Director

WJL/DRC

Enclosures

POSITIVE PRODUCTION RESPONSE DATA
CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT EXPANSION AREA

NAME OF PROJECT

Cactus Queen (Voluntary) Unit Waterflood Project
Expansion Area

OPERATOR

Yates Drilling Company
105 South Fourth Street
Artesia, New Mexico 88210
Attention: Mr. Douglas W. Hurlbut

POOL

Southeast Chaves-Queen Gas Area Associated Pool

OCD ORDER NO. APPROVING WATERFLOOD PROJECT & DATE

R-9075-B-1, January 26, 1993

PROJECT AREA (EXPANSION AREA)

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM
Section 34: SW/4, SW/4 NE/4, S/2 NW/4,
and NW/4 SE/4

DATE WATER INJECTION COMMENCED

June, 1993

DATE CERTIFIED PROJECT TO TAXATION & REVENUE

February 25, 1994 (Effective Date: April 30, 1993)

DATE POSITIVE PRODUCTION RESPONSE OCCURRED

November 1, 1993

CURRENT NUMBER OF WELLS WITHIN PROJECT AREA

Injection: 5
Production: 4

**STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 11223
Order No. R-10346**

**APPLICATION OF YATES DRILLING COMPANY
FOR CERTIFICATION OF A POSITIVE PRODUCTION
RESPONSE PURSUANT TO THE "NEW MEXICO ENHANCED
OIL RECOVERY ACT", CHAVES COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 6, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 13th day of April, 1995, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Yates Drilling Company, seeks certification, pursuant to the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, of a positive production response within the "Expansion Area" of the Cactus Queen (Voluntary) Unit Waterflood Project, Chaves County, New Mexico, hereinafter referred to as the Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area or "Expansion Area".

(3) By Order No. R-9075-B-1, dated January 26, 1993, the Division:

- a) authorized Yates Drilling Company to expand its Cactus Queen (Voluntary) Unit Waterflood Project to include the "Expansion Area" described below:

- b) qualified the "Expansion Area" as an enhanced oil recovery project pursuant to "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT
EXPANSION AREA

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 34: SW/4, SW/4 NE/4, S/2 NW/4,
NW/4 SE/4

(4) The Division certified that the Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area was approved as a qualified secondary recovery project to the New Mexico Taxation and Revenue Department on February 25, 1994, with an effective date of April 30, 1993.

(5) Evidence and testimony presented by the applicant indicates that water injection commenced within the "Expansion Area" in June, 1993, through five initial injection wells.

(6) As of March, 1994, the water injection rate within the "Expansion Area" was approximately 1,235 barrels per day. Cumulative injection as of February, 1995, was approximately 794,000 barrels of water.

(7) The Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area currently contains five injection wells and four producing wells.

(8) The production data submitted as evidence in this case indicates that a positive production response occurred within the Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area on November 1, 1993.

(9) The positive production response has occurred within the five year time limit described in Division Order No. R-9708.

(10) The producing wells shown on Exhibit "A" attached hereto should be eligible for the reduced tax rate.

(11) The applicant should be required to notify the Division:

- a) of the change in status of any of the producing wells shown on Exhibit "A";
- b) in the event new producing wells are drilled within the unit;

- c) of changes in operations within the unit which may affect the certification and resulting reduced tax rate granted herein.

(12) Pursuant to the provisions of Division Order No. R-9708, the Division Director should notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, the application of Yates Drilling Company for certification of a positive production response within its Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area, Chaves County, New Mexico, is hereby approved.

(2) All Southeast Chaves-Queen Gas Area Associated Pool producing wells within the following described area, which currently number four, as shown on Exhibit "A" attached hereto, shall be eligible for the recovered oil tax rate:

**CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT
EXPANSION AREA**

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 34: SW/4, SW/4 NE/4, S/2 NW/4,
NW/4 SE/4

(3) Pursuant to the provisions of Division Order No. R-9708, the Division Director shall notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

(4) The applicant shall notify the Division:

- a) of the change in status of any of the producing wells shown on Exhibit "A";
- b) in the event new producing wells are drilled within the unit;
- c) of changes in operations within the unit which may affect the certification and resulting reduced tax rate granted herein.

CASE NO. 11223
Order No. R-10346
Page -4-

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

William J. Lemay M.E.S.

WILLIAM J. LEMAY
Director

CASE NO. 11223
Order No. R-10346
Page -5-

EXHIBIT "A"
CASE NO. 11223
DIVISION ORDER NO. R-10346
CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT
EXPANSION AREA PRODUCING WELLS

| <u>API NO.</u> | <u>COVUWPEA WELL NO.</u> | <u>WELL LOCATION - UL-S-T-R</u> |
|----------------|--------------------------|---------------------------------|
| 30-005-20952 | 8 | F-34-12S-31E |
| 30-005-20942 | 11 | K-34-12S-31E |
| 30-005-20920 | 14 | N-34-12S-31E |
| 30-005-21116 | 15 | F-34-12S-31E |



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

December 11, 1996

Yates Drilling Company
105 South Fourth Street
Artesia, New Mexico 88210

Attn: Ms. Karen J. Leishman

*RE: Injection Pressure Increase
Cactus Queen Unit EOR Waterflood Project
Lea County, New Mexico.*

Dear Ms. Leishman:

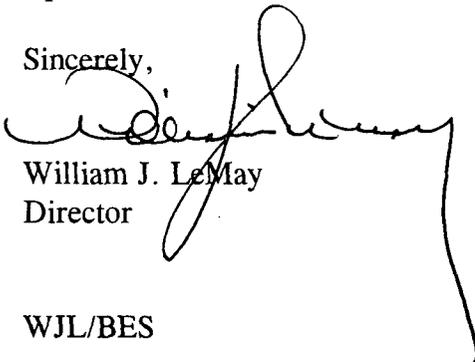
Reference is made to your request dated November 4, 1996 to increase the surface injection pressure on one well in the above referenced project. This request is based on a step rate test conducted on October 7, 1996 on this well. The results of the test have been reviewed by my staff and we feel an increase in injection pressures on this well is justified at this time.

You are therefore authorized to increase the surface injection pressure on the following well:

| <i>Well and Location</i> | <i>Maximum Injection Surface Pressure</i> |
|--|---|
| Cactus Queen Unit Well No.14 Section 34, Township 12 South, Range 31 East, NMPM | 1219 PSIG |
| Located in Chaves County, New Mexico. | |

The Division Director may rescind this injection pressure increase if it becomes apparent that the injected water is not being confined to the injection zone or is endangering any fresh water aquifers.

Sincerely,



William J. LeMay
Director

WJL/BES

cc: Oil Conservation Division - Artesia
Files: Case File No.10642; EOR-4; PSI-X 1st QTR 97



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

December 4, 1996

Yates Drilling Company
105 South Fourth Street
Artesia, New Mexico 88210

Attn: Ms. Karen J. Leishman

**RE: Injection Pressure Increase
Cactus Queen Unit EOR Waterflood Project
Lea County, New Mexico.**

Dear Ms. Leishman:

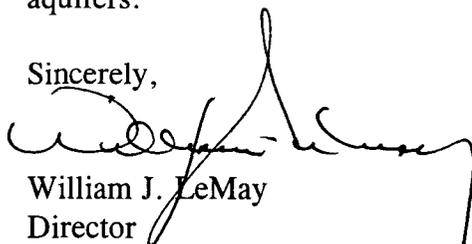
Reference is made to your request dated November 4, 1996 to increase the surface injection pressure on one well in the above referenced project. This request is based on a step rate test conducted on October 7, 1996 on this well. The results of the test have been reviewed by my staff and we feel an increase in injection pressures on this well is justified at this time.

You are therefore authorized to increase the surface injection pressure on the following well:

| <i>Well and Location</i> | <i>Maximum Injection Surface Pressure</i> |
|---|---|
| Cactus Queen Unit Well No.2 Section 34, Township 12 South, Range 31 East, NMPM | 1219 PSIG |
| Located in Chaves County, New Mexico. | |

The Division Director may rescind this injection pressure increase if it becomes apparent that the injected water is not being confined to the injection zone or is endangering any fresh water aquifers.

Sincerely,



William J. LeMay
Director

WJL/BES

cc: Oil Conservation Division - Artesia
Files: Case File No.10642; EOR-4; PSI-X 1st QTR 97



ADMINISTRATIVE ORDER NO. WFX-691

APPLICATION OF YATES DRILLING COMPANY TO EXPAND ITS WATERFLOOD PROJECT IN THE SOUTHEAST CHAVES-QUEEN GAS AREA ASSOCIATED POOL IN CHAVES COUNTY, NEW MEXICO

**ADMINISTRATIVE ORDER
OF THE OIL CONSERVATION DIVISION**

Under the provisions of Division Order No. R-9075-B, as amended, Yates Drilling Company has made application to the Division on July 17, 1996 for permission to expand its Cactus Queen (Voluntary) Unit Waterflood Project in the Southeast Chaves-Queen Gas Area Associated Pool in Chaves County, New Mexico.

THE DIVISION DIRECTOR FINDS THAT:

- (1) The application has been filed in due form.
- (2) Satisfactory information has been provided that all offset operators have been duly notified of the application.
- (3) No objection has been received within the waiting period as prescribed by Rule 701(B).
- (4) The proposed expansion of the above referenced waterflood project will not cause waste nor impair correlative rights.
- (5) The subject well is located within an approved Enhanced Oil Recovery Project area and shall qualify for applicable tax credits under such project.
- (6) The application should be approved.

IT IS THEREFORE ORDERED THAT:

The applicant, Yates Drilling Company, be and the same is hereby authorized to inject water into the Queen formation at approximately 2760 feet to approximately 2765 feet through 2 3/8-inch plastic lined tubing set in a packer located at approximately 2710 feet in the following described well for purposes of secondary recovery to wit:

Cactus Queen Unit Well No.14
990' FSL and 1650' FWL - Unit Letter 'N',
Section 34, Township 12 South, Range 31 East,
Chaves County, New Mexico
Maximum Injection Pressure: 552 psig

IT IS FURTHER ORDERED THAT:

The operator shall take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface.

Prior to commencing injection operations into the well, the casing shall be pressure tested from the surface to the packer setting depth to assure the integrity of said casing.

The casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge at the surface or left open to the atmosphere to facilitate detection of leakage in the casing, tubing or packer.

The injection well or system shall be equipped with a pressure limiting device which will limit the wellhead pressure to no more than .2 psi per foot of depth to the uppermost injection interval.

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the injected fluid from the Queen formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

The operator shall notify the supervisor of the Hobbs district office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity tests so that the same may be inspected and witnessed.

The operator shall immediately notify the supervisor of the Hobbs district office of the Division of the failure of the tubing, casing or packer in said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

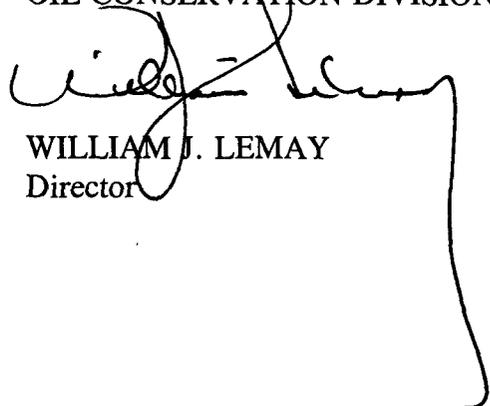
The subject well shall be governed by all provisions of Division Order No. R-9075-B, as amended and Rules 702-706 of the Division Rules and Regulations not inconsistent herewith.

PROVIDED FURTHER THAT, jurisdiction of this cause is hereby retained by the Division for the entry of such further order or orders as may be deemed necessary or convenient for the prevention of waste and/or protection of correlative rights; upon failure of the operator to conduct operations in a manner which will ensure the protection of fresh water or in a manner inconsistent with the requirements set forth in this order, the Division may, after notice and hearing, terminate the injection authority granted herein.

The injection authority granted herein shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject well, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

DONE at Santa Fe, New Mexico, on this 26th day of August, 1996.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

S E A L

WJL/BES

cc: Oil Conservation Division - Hobbs
File: Case No.9810; EOR-4



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

April 28, 1995

Department of Taxation and Revenue
P.O. Box 630
Santa Fe, New Mexico 87509-0630

Attention: Mr. John Chavez, Secretary

RE: Certification of a Positive
Production Response,
Yates Drilling Company
Cactus Queen (Voluntary) Unit
Waterflood Project Expansion Area

Dear Secretary Chavez:

Enclosed is a copy of Division Order No. R-10346 which was issued on April 13, 1995. This order certifies that a positive production response has occurred within the Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area which is currently operated by Yates Drilling Company. In addition, this positive production response has occurred within the five year time limit as described within the "New Mexico Enhanced Oil Recovery Act". The Division has determined that all wells within the Expansion Area producing from the Southeast Chaves-Queen Gas Area Associated Pool are eligible for the recovered oil tax rate. These wells are shown on Exhibit "A" to Order No. R-10346.

For your convenience we have also enclosed a summary page showing all pertinent data. If additional information is required please advise.

Sincerely,

William J. LeMay
Director

WJL/DRC

Enclosures

POSITIVE PRODUCTION RESPONSE DATA
CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT EXPANSION AREA

NAME OF PROJECT

Cactus Queen (Voluntary) Unit Waterflood Project
Expansion Area

OPERATOR

Yates Drilling Company
105 South Fourth Street
Artesia, New Mexico 88210
Attention: Mr. Douglas W. Hurlbut

POOL

Southeast Chaves-Queen Gas Area Associated Pool

OCD ORDER NO. APPROVING WATERFLOOD PROJECT & DATE

R-9075-B-1, January 26, 1993

PROJECT AREA (EXPANSION AREA)

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM
Section 34: SW/4, SW/4 NE/4, S/2 NW/4,
and NW/4 SE/4

DATE WATER INJECTION COMMENCED

June, 1993

DATE CERTIFIED PROJECT TO TAXATION & REVENUE

February 25, 1994 (Effective Date: April 30, 1993)

DATE POSITIVE PRODUCTION RESPONSE OCCURRED

November 1, 1993

CURRENT NUMBER OF WELLS WITHIN PROJECT AREA

Injection: 5
Production: 4

**STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 11223
Order No. R-10346**

**APPLICATION OF YATES DRILLING COMPANY
FOR CERTIFICATION OF A POSITIVE PRODUCTION
RESPONSE PURSUANT TO THE "NEW MEXICO ENHANCED
OIL RECOVERY ACT", CHAVES COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 6, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 13th day of April, 1995, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Yates Drilling Company, seeks certification, pursuant to the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, of a positive production response within the "Expansion Area" of the Cactus Queen (Voluntary) Unit Waterflood Project, Chaves County, New Mexico, hereinafter referred to as the Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area or "Expansion Area".

(3) By Order No. R-9075-B-1, dated January 26, 1993, the Division:

- a) authorized Yates Drilling Company to expand its Cactus Queen (Voluntary) Unit Waterflood Project to include the "Expansion Area" described below:

- b) qualified the "Expansion Area" as an enhanced oil recovery project pursuant to "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT
EXPANSION AREA

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 34: SW/4, SW/4 NE/4, S/2 NW/4,
NW/4 SE/4

(4) The Division certified that the Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area was approved as a qualified secondary recovery project to the New Mexico Taxation and Revenue Department on February 25, 1994, with an effective date of April 30, 1993.

(5) Evidence and testimony presented by the applicant indicates that water injection commenced within the "Expansion Area" in June, 1993, through five initial injection wells.

(6) As of March, 1994, the water injection rate within the "Expansion Area" was approximately 1,235 barrels per day. Cumulative injection as of February, 1995, was approximately 794,000 barrels of water.

(7) The Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area currently contains five injection wells and four producing wells.

(8) The production data submitted as evidence in this case indicates that a positive production response occurred within the Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area on November 1, 1993.

(9) The positive production response has occurred within the five year time limit described in Division Order No. R-9708.

(10) The producing wells shown on Exhibit "A" attached hereto should be eligible for the reduced tax rate.

(11) The applicant should be required to notify the Division:

- a) of the change in status of any of the producing wells shown on Exhibit "A";
- b) in the event new producing wells are drilled within the unit;

- c) of changes in operations within the unit which may affect the certification and resulting reduced tax rate granted herein.

(12) Pursuant to the provisions of Division Order No. R-9708, the Division Director should notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, the application of Yates Drilling Company for certification of a positive production response within its Cactus Queen (Voluntary) Unit Waterflood Project Expansion Area, Chaves County, New Mexico, is hereby approved.

(2) All Southeast Chaves-Queen Gas Area Associated Pool producing wells within the following described area, which currently number four, as shown on Exhibit "A" attached hereto, shall be eligible for the recovered oil tax rate:

**CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT
EXPANSION AREA**

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 34: SW/4, SW/4 NE/4, S/2 NW/4,
NW/4 SE/4

(3) Pursuant to the provisions of Division Order No. R-9708, the Division Director shall notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

(4) The applicant shall notify the Division:

- a) of the change in status of any of the producing wells shown on Exhibit "A";
- b) in the event new producing wells are drilled within the unit;
- c) of changes in operations within the unit which may affect the certification and resulting reduced tax rate granted herein.

CASE NO. 11223
Order No. R-10346
Page -4-

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

William J. Lemay / WJL

WILLIAM J. LEMAY
Director

CASE NO. 11223
Order No. R-10346
Page -5-

EXHIBIT "A"
CASE NO. 11223
DIVISION ORDER NO. R-10346
CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT
EXPANSION AREA PRODUCING WELLS

| <u>API NO.</u> | <u>CQVUWPEA WELL NO.</u> | <u>WELL LOCATION - UL-S-T-R</u> |
|----------------|--------------------------|---------------------------------|
| 30-005-20952 | 8 | F-34-12S-31E |
| 30-005-20942 | 11 | K-34-12S-31E |
| 30-005-20920 | 14 | N-34-12S-31E |
| 30-005-21116 | 15 | F-34-12S-31E |



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

February 25, 1994

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

ANITA LOCKWOOD
CABINET SECRETARY

Department of Taxation and Revenue
P.O. Box 630
Santa Fe, NM 87509-0630

Attention: Dick Minzner, Secretary

**RE: Certification of EOR Project
Yates Drilling Company
Cactus Queen (Voluntary) Unit**

Dear Secretary Minzner:

Enclosed is a copy of the certification issued to Yates Drilling Company for its Cactus Queen (Voluntary) Unit EOR project, certified by this Division on April 30, 1993, to be a qualified Enhanced Oil Recovery Project. If the operator applies for certification of positive production response within five years from that date, this project will be eligible for the *Recovered Oil Tax Rate* as provided in Laws of 1992, Chapter 38.

Only oil production from that portion of the lands identified in the certification which is actually developed for enhanced recovery will be eligible for the reduced tax rate. At the time positive production response is certified, we will identify for you the specific lands and wells within the project which qualify for the *Recovered Oil Tax Rate*.

Sincerely,

A handwritten signature in cursive script, appearing to read "William J. LeMay".

William J. LeMay
Director

WJL/amg

Enclosures



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

February 25, 1994

ANITA LOCKWOOD
CABINET SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Yates Drilling Company
105 South Fourth Street
Artesia, NM 88210

Attention: Doug Hulbut
Toby Rhodes

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a secondary project, pursuant to the provisions of the *New Mexico Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within five years from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of the Taxation and Revenue Department not later than the thirtieth day after termination.

NAME OF PROJECT: Cactus Queen (Voluntary) Unit
OCD ORDER NO. R-9075-B-1
OPERATOR: Yates Drilling Company
ADDRESS: 105 South Fourth Street
Artesia, NM 88210
Attention: Doug Hulbut and
CERTIFICATION DATE: April 30, 1993

EOR Project Certification
Cactus Queen (Voluntary) Unit

PROJECT AREA:

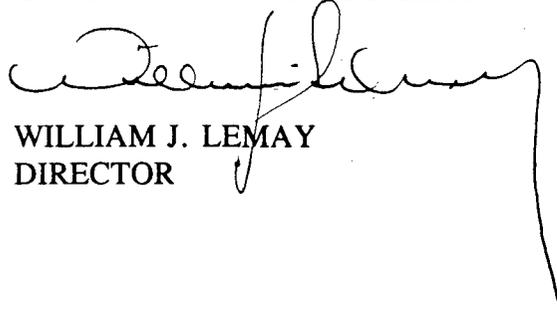
TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 27: NE/4 SW/4, S/2 SW/4 and W/2 SE/4

Section 34: W/2, W/2 NE/4 and NW/4 SE/4

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
DIRECTOR

SEAL

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
WILLIAM P. SLATTERY

PATRICIA A. MATTHEWS
MICHAEL H. FELDEWERT
DAVID B. LAWRENZ
TANYA M. TRUJILLO

JACK M. CAMPBELL
OF COUNSEL

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

January 26, 1994

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

RECEIVED
JAN 26 1994

Re: Yates Drilling Company's Cactus Queen (Voluntary) Unit Waterflood Project
Area, Chaves County, New Mexico
Certification of Qualification for EOR Credit Under the New Mexico
Enhanced Oil Recovery Act

Dear Mr. LeMay:

On April 30, 1993 I wrote the Division on behalf of Yates Drilling Company concerning Certification of its Cactus Queen (Voluntary) Unit Waterflood Project for EOR Credit under the New Mexico Enhanced Oil Recovery Act. As you are aware, by Order No. R-9075-B-1 the Oil Conservation Division authorized Yates Drilling Company to expand its Cactus Queen (Voluntary) Waterflood Project as originally defined by Division Order No. R-9075-B and found that the expanded area should be qualified as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Finding 11, Order No. R-9075-B-1). This Order also provided that to be eligible for the EOR credit, prior to commencing injection operations Yates Drilling must request a "Certificate of Qualification" from the Division.

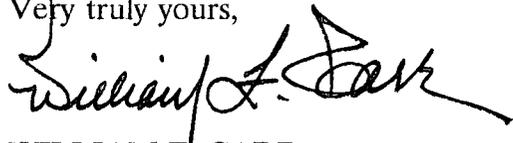
At the time my April 30, 1993 letter was delivered to you, there were discussions about the format to be used for certification of projects of this nature and we were advised that this project would be certified effective in late April or early May, although we would not receive the actual Certification until after that time.

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
January 26, 1994
Page 2

Yates Drilling Company has contacted me concerning the status of this Certification. Pursuant to recent conversations with Bob Stovall, I am enclosing a draft of a Certification for this project which is modeled after other certifications issued by the Division in recent months. As you will note, this draft provides for a certification date of April 30, 1993 which was the date of my previous letter.

If you need anything further from Yates Drilling Company to proceed with this matter, please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a large initial "W" and "C".

WILLIAM F. CARR
ATTORNEY FOR YATES DRILLING COMPANY
WFC:mlh

Enclosures

cc: Doug Hurlbut (w/enclosures)
Toby Rhodes

Yates Drilling Company
105 South Fourth Street
Artesia, New Mexico 88210
Attn: Doug Hurlbut
Toby Rhodes

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a **secondary** project, pursuant to the provisions of the New Mexico *Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within **five years** from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of Taxation and Revenue not later than the thirtieth day after termination.

| | |
|-----------------------|---|
| NAME OF PROJECT: | Cactus Queen (Voluntary) Unit |
| OCD ORDER NO.: | R-9075-B-1 |
| OPERATOR: ADDRESS: | Yates Drilling Company 105 South Fourth Street Artesia, New Mexico 88210 Attn: Doug Hurlbut Toby Rhodes |
| CERTIFICATION DATE: | April 30, 1993 |

EOR Project Certification
Cactus Queen (Voluntary) Unit

PROJECT AREA

Township 12 South, Range 31 East, N.M.P.M.

Section 27: NE/4 SW/4, S/2 SW/4 and W/2 SE/4
Section 34: W/2, W/2 NE/4 and NW/4 SE/4

APPROVED

William J. LeMay
Director

seal