

HEYCO

PETROLEUM PRODUCERS

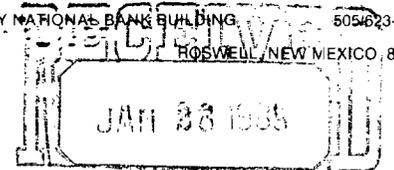


HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING, 5054623-6601

ROSWELL, NEW MEXICO, 88201



OIL CONSERVATION DIVISION
SANTA FE

January 25, 1985

Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. Dick Stamets
Division Director

Dear Mr. Stamets:

Please find attached a request for administrative approval for surface commingle production from the Young Deep "4" Federal #2 with the main battery located on the Young Deep Unit #1 pad in NW/4 NW/4 Section 10, T-18S, R-32E, Lea County, New Mexico.

In the attached request for administrative approval, you can see that the application to the Bureau of Land Management has additional information within the body in order to fulfill requirements of the State application.

If there are any questions concerning this matter, please do not hesitate to call.

Sincerely,

Ray F. Nokes
Reservoir Engineer

RFN:mlb

Enclosures



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Roswell District Office

P. O. Box 1397

Roswell, New Mexico 88201

IN REPLY
REFER TO:

NM-4364, Young Deep Unit
Bone Springs P.A.

January 23, 1985

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88201

Gentlemen:

Your application, dated October 16, 1984, for permission to surface commingle and off lease storage of production from the Young Deep "4" Federal Well No. 2 on noncommitted lease NM-4364 with production from the main battery located on the Young Deep Unit No. 1 pad, in the NW $\frac{1}{4}$ NW $\frac{1}{4}$, sec. 10, T. 18 S., R. 32 E., which presently includes the Young Deep Unit wells No. 6, 7, 8, and 11, is hereby approved.

As a condition of approval, you are required to test each well for a minimum of twenty-four (24) hours once per month. Any wells or leases proposed to be added to the approved commingling facilities must be approved by the Area Manager in Carlsbad prior to their being included in the facility. Any water-flooding operations you contemplate in the future must be conducted pursuant to either an approved lease line agreement or a secondary recovery unit agreement, as appropriate.

This approval should not be construed as granting any right-of-way or construction rights not granted by the lease instrument. Such approval must be obtained from the surface managing agencies concerned.

Please notify the Area Manager in Carlsbad when this action is initiated.

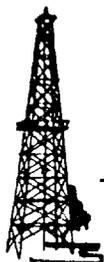
Sincerely yours,

District Manager

Associate

HEYCO

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HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/623-6601

ROSWELL, NEW MEXICO 88201

October 16, 1984

Bureau of Land Management
P. O. Box 1778
Carlsbad, New Mexico 88220

Attention: Mr. Bob Pitsche

Re: Young Deep "4" Federal #2
Lease #NM-4364, Sec. 4, T-18S, R-32E
Lea County, New Mexico
Request for Authority to Surface
Commingle Oil Production

Dear Mr. Pitsche:

In compliance with Part 644.3.3E, Chapter 3, Paragraph "F", Harvey E. Yates Company hereby submits an application to request permission to commingle produced oil at the surface with the main battery located on the Young Deep Unit #1 pad, Lease #NM-14789, in the NW/4 NW/4 of Section 10, Township 18 South, Range 32 East, Lea County, New Mexico.

Pursuant to the request of Mr. Armando Lopez of the Bureau of Land Management in Roswell, New Mexico, please find attached required information set forth in articles one through eight of paragraph "F".

If there is need for additional information, please contact my office at 505-623-6601, Ext. 227.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Ray F. Nokes".

Ray F. Nokes
Reservoir Engineer

RFN:mlb

cc: OCD-District II
Hobbs, NM

E. Extent of Approvals

Approval for combining production from various sources is a privilege which is granted to lessees for the purpose of aiding conservation. Failure to operate in accordance with the provisions outlined in the Area Supervisor's approval letter and/or subsequent stipulations or modifications required by the Supervisor will subject such approval to revocation. All approvals for combining production or for off-lease measurement and/or storage granted by the Supervisor simply provide that the method approved is a proper way to measure, store, and/or dispose of the Federal or Indian royalty portion of production. As such, the applicant should be advised that it does not relieve the lessee or operator from any legal obligations he may have regarding consent from other interest holders or State regulatory agencies.

F. Applications to Combine Production

The following items must be included with any application requesting approval to combine production:

- (1) A formal request for approval to combine production with an appropriate explanation and diagram(s) describing the proposed operation in detail.
- (2) A map showing the lease numbers and location of all leases and wells that will contribute production to the proposed commingling or common storage facility. All unitized or communitized areas, producing zones, or pools, etc. must be clearly illustrated or detailed by suitable means.
- (3) A schematic diagram which clearly identifies all equipment that will be utilized.
- (4) Estimated amounts and types of production involved.
- (5) Details of the proposed method for allocating production to contributing sources.
- (6) A statement that all interest owners have been notified of the proposal.
- (7) Evidence that Federal or Indian royalties will not be reduced through approval of the application.

Department of the Interior
GEOLOGICAL SURVEY
CONSERVATION DIVISION MANUAL

Onshore Oil and Gas Program Series Part 644 - Producing Operations

Chapter 3 - Handling of Production

644.3.3F

- (8) Detailed economic justification, when the application to combine production is based upon economic necessity, i.e. the applicant contends that such approval is necessary for continued operation of the Federal or Indian lease(s).

G. Mixing Different Gravity Hydrocarbons

When liquid hydrocarbons of diversified gravities are to be mixed and sales prices fluctuate with variances in gravity, the applicant must provide data comparing prices received for individual lease production to the price that would be received for the combined production. Production and sales data reported on the most recent Forms 9-329 and 9-361 must serve as the basis for such comparisons. If an application for approval to combine production involves newly developed leases which do not have a history of production, the applicant may provide the required comparisons using well test results as the basis for estimating monthly sales volumes, gravities, and values.

H. Requirements for Different Types of Operations Involving Combining of Production

Accepting approximate measurement or calculated apportionments of oil for Federal royalty allocation purposes is only appropriate where the leases involved are Federal leases with identical royalty rates. Calculated apportionment between Federal and non-Federal leases or Federal leases with different royalty rates may be approved only when it can be economically justified, i.e. necessary to allow the continued successful operation of the Federal lease(s).

All other situations involving the combining of production must require that all production be accurately measured and sampled for allocation purposes prior to being combined. Accordingly, combining of production at the surface between Federal leases with different royalty rates, or between Federal, Indian tribal, and non-Federal leases, can be approved only if Federal or Indian tribal production from all different sources is accurately measured and sampled for royalty purposes prior to being combined, unless justified as economically necessary in the interest of conservation.

Combining of production at the surface from two or more zones or pools on a single Federal or Indian tribal lease is authorized without requiring formal application or accurate measurement of

Article #1: Harvey E. Yates Company hereby requests permission to commingle Bone Springs oil production of the Young Deep "4" Federal #2 Lease #NM-4364 with the Bone Springs oil production currently being gathered in a central battery located in the NW/4 NW/4 of Section 10, T-18S, R-32E, Lea County, New Mexico. This central battery currently operates with a Lact unit for Bone Springs production from Young Deep Unit #6, 7, 8, and 11; see attached map.

Production will be transferred via closed system from the Young Deep "4" Federal #2 to the main production gathering header located on the north side of the Young Deep Unit #1 pad. Production will be tested each month by means of a 24 to 72 hour production test through a 4'x20' heater treater to determine oil, gas, and water production. Monthly production volumes will be extrapolated by multiplying the daily production rates determined by well tests, times the days the well produced during each month.

Article #2: See attached maps for identification of well location, lease numbers and additional maps of unit outline and participating acreage.

Article #3: See attached schematic of production facilities located at the main battery.

Article #4: Estimated production for the Young Deep "4" Federal #2 is based on previous monthly production. Production has fluctuated from 6294 BO and 5005 MCF gas to 7467 BO and 5638 MCF gas during the months of June through August. Production should average in this range for a 30.4 day month.

Article #5: Please see attached letter to Koch Oil Company for explanation of methodology to calculate and report production for the Young Deep "4" Federal #2 and the main battery production.

Article #6: By copy of this application and attached documentation, all interest owners have been notified of the proposed commingling order.

Article #7: All acreage under the participating area for the third revision is Federal minerals carrying a 1/8 (12.5%) royalty interest. Neither federal interests or revenue generated by production from the commingled leases will be changed by the approval of this application for commingling production from the Young Deep "4" Federal #2 and the Young Deep Unit production.

Article #8: The purposes of this commingle application is to facilitate the transportation of produced crude oil through a L.A.C.T. unit on a continuous automated schedule. In the past, due to large production volumes in the Young Deep Unit, truck transportation has been unable to keep up with production volumes from the individual wells. As a result in delays of transporting said oil, wells have been shut in until transport trucks were able to remove oil from stock tanks allowing room for further production.

FIELD Young Deep Unit

OPERATOR Harvey E. Yates Company
WELL NAME & NO. _____

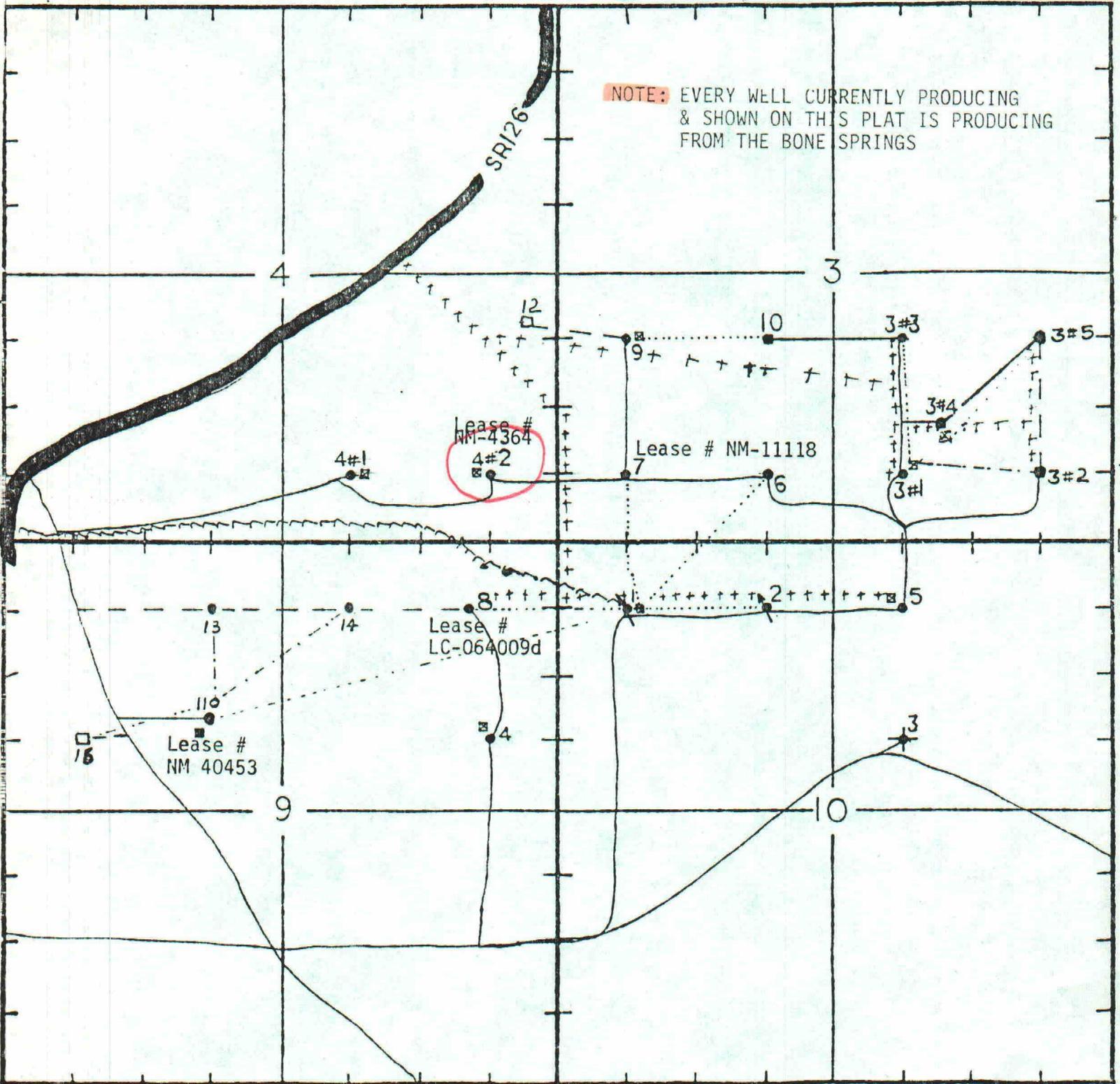
COUNTY Lea

STATE New Mexico

SURFACE USE PLAN

R 32 E

NOTE: EVERY WELL CURRENTLY PRODUCING & SHOWN ON THIS PLAT IS PRODUCING FROM THE BONE SPRINGS



Existing well

Proposed well

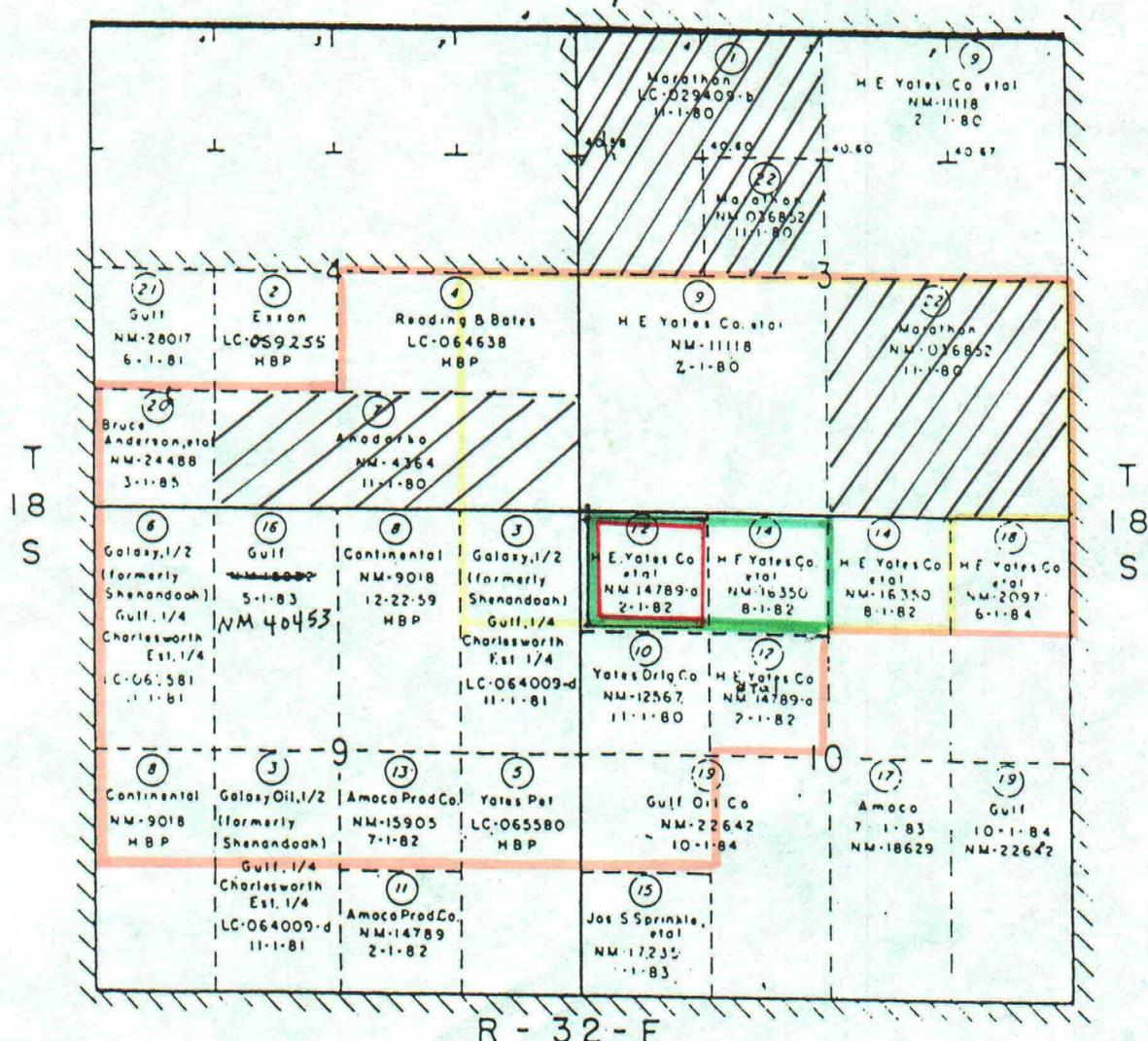
Tank battery

Proposed battery

Existing surface flowline

Proposed surface flowline

EXHIBIT 1
R - 32 - E



- Unit Outline
- Tract Number
- Federal Lands
2,242.45 ac., 100% of Unit Area
- Participating Area - Third Revision
- Participating Area - Second Revision
- Participating Area - First Revision
- Initial Participating Area
- Lands Not Committed to Unit

Scale: 1" = 2000'

EXHIBIT "A"

YOUNG DEEP UNIT AREA
LEA COUNTY, NEW MEXICO

