



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
BETTY RIVERA
Cabinet Secretary

March 6, 2002

Lori Wrotenberg
Director
Oil Conservation Division

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210-2118
Attention: Robert Bullock

Administrative Order NSL-4706

Dear Mr. Bullock:

Reference is made to the following: (i) your application (*application reference No. pKRV0-206051433*) submitted to the New Mexico Oil Conservation Division ("Division") on March 1, 2002; and (ii) the Division's records in Santa Fe and Artesia: all concerning Yates Petroleum Corporation's ("Yates") request for an unorthodox Abo oil well location for the existing Grande Mike "AZK" State Well No. 1 (API No. 30-015-31941), which was recently drilled to test the wildcat Mississippian formation for gas underlying a standard 320-acre lay-down gas spacing and proration unit comprising the S/2 (lower one-third) of irregular Section 2, Township 16 South, Range 29 East, NMPM, Eddy County, New Mexico. Pursuant to Division Rule 104.C (2) (a), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, the well's location, being 1650 feet from the South line and 1550 feet from the West line (Unit S) of irregular Section 2, is considered to be "standard" for this unit.

This application has been duly filed under the provisions of Division Rule 104.F, as revised.

It is the Division's understanding after reviewing your application and its records that this well was permitted by Yates only as a Mississippian gas test within the aforementioned 320-acre unit (see the "*Application for Permit to Drill*" dated August 8, 2001); the well was subsequently spud on October 1, 2001, drilled to a total depth of 10,700 feet, whereby the Chester, Austin, Morrow, Atoka, and Cisco formations tested dry for gas production. However, the Abo formation was found to be oil productive within the perforated interval from 7,240 feet to 7,280 feet and successfully completed on February 1, 2002. However, pursuant to Division Rule 104.B (1), as revised, this Abo oil location is considered to be "unorthodox" for the standard 40-acre oil spacing and proration unit to be dedicated to this well comprising the NE/4 SW/4 (Unit S) of irregular Section 2.

It is further understood that all of irregular Section 2 with the exception of the SE/4 SE/4 (Unit P) is a single state lease issued by the New Mexico State Land Office (State Lease No. V-04949) in which Yates is the leasehold operator and all mineral interest is common; therefore, there are no adversely effected offsets to the subject 40-acre tract.

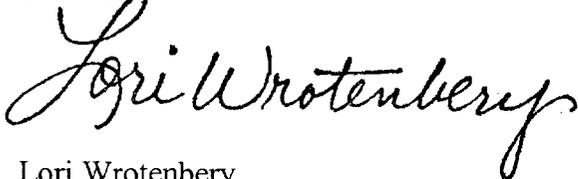
Administrative Order NSL-4706
Yates Petroleum Corporation
March 6, 2002
Page 2

By the authority granted me under the provision of Division Rule 104.F (2), the above-described unorthodox Abo oil well location is hereby approved.

PLEASE NOTE HOWEVER THAT IN THE FUTURE, Yates, as a prudent operator, shall take all necessary steps to locate wells at a location considered to be standard for all possible zones to be encountered and should be more cognizant of well location requirements for different producing horizons within the immediate area of operations. In the future, disregard to the Division's well spacing rules with respect to secondary intervals may subject all such future requests to the Division's hearing process.

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

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

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