



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

September 28, 2006

Yates Petroleum Corporation
c/o Ms. Ocean Munds-Dry
Holland & Hart LLP
P.O. Box 2208
Santa Fe, NM 87504

Administrative Order NSL-5465

Dear Ms. Munds-Dry:

Reference is made to the following:

(a) your application (**administrative application reference No. pTDS-0626330433**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on September 19, 2006, on behalf of Yates Petroleum Corporation (Yates), and

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

Yates has requested to drill its proposed Van Zandt BJN Com. Well No. 1 at an unorthodox Morrow gas well location, 660 feet from the North line and 2180 feet from the East line (Unit B) of Section 1, Township 10 South, Range 32 East, N.M.P.M., in Lea County, New Mexico. The E/2 of Section 1 will be dedicated to this well in order to form a standard 320-acre wildcat Morrow spacing unit. Wildcat Morrow locations are governed by statewide Rule 104.C(2), which provides for 320-acres units, with wells located at least 660 feet from the outer boundary of a quarter section.

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

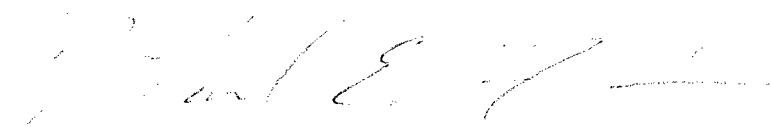
The proposed location is approximately 460 feet east of the western boundary of the NE/4 of Section 1. It is our understanding that the ownership of the W/2 of Section 1 toward which this location encroaches, and the E/2 of Section 1 where the well will be located, are common as to all working and royalty interests, so that there are no "affected persons" who must be notified of this application.

It is also our understanding that Yates is seeking this unorthodox location primarily for geologic reasons, because their analysis indicates that the proposed location will increase the chances of developing economic production.

By the authority granted me under the provisions of Division Rule 104.F(2), the above-described unorthodox Morrow gas well location for Yates' proposed Van Zandt BJN Com. Well No. 1 is hereby approved.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire", is written over a horizontal line.

Mark E. Fesmire, P.E.
Director

MEF/db

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