



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joann Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

November 2, 2006

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

Administrative Order NSL-4597-A

Re: Koala AXZ State Well No. 1
API No. 30-025-35410
Unit A, Section 19, Twsp 12S, Range 35E
Lea County

Dear Ms. Munds-Dry:

Reference is made to the following:

(a) your application (**administrative application reference No. pTDS-06-27853801**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on October 4, 2006, on behalf of Yates Petroleum Corporation (Yates), and

(b) the Division's records pertinent to this application, including records concerning Administrative Order NSL-4597.

Yates has requested to deepen and complete its Koala State Well No. 1 (API No. 30-025-35410) at an unorthodox Mississippian gas well location, 990 feet from the North line and 330 feet from the East line (Unit A) of Section 19, Township 12 South, Range 35 East, N.M.P.M., in Lea County, New Mexico. The E/2 of Section 19 will be dedicated to this well in order to form a standard 320-acre wildcat Mississippian gas spacing unit (Pool Code 97338). This location is 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.

The proposed location, as stated in your application, is only 330 feet from the eastern boundary of the NE/4 of Section 19. The actual bottom-hole location in the Mississippian is problematic in this case because the well was drilled as a directional well with a proposed bottom-hole location 665 feet from the east line of Section 19. Documents in the well file indicate that the bottom-hole location of the deepest existing perforations at a measured depth of 1052 feet is 575 feet from the east line of Section 19. Thus it seems likely that the actual bottom hole location will be more than 330 feet from the eastern boundary of the unit, but may be less than 660 feet from that boundary.

It is our understanding that the ownership of the W/2 of Section 20 toward which this location encroaches, and the E/2 of Section 19 where the well will be located, is common. Accordingly, there are no "affected persons" to whom notice of this application is required.

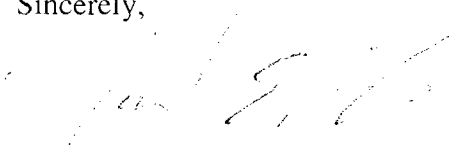
Your application on behalf of Yates has been duly filed under the provisions of Division Rules 104.F and 1210.A(2).

The Division previously approved the unorthodox location of this well in the Atoka and Morrow formations in Order NSL-4597. It is our understanding that Yates is seeking this unorthodox location in the Mississippian based on the same geologic interpretation that supported Order NSL-4597, and that this interpretation indicates that the proposed location is more likely to result in an economic well than would a standard location for this completion.

Pursuant to the authority granted me under the provisions of Division Rule 104.F(2), the above-described unorthodox location is hereby approved. In view of the uncertainty as to the actual bottom-hole location, this approval applies provided the actual bottom-hole location is not less than 330 feet from the East line of Section 19.

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