



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

March 16, 2004

Joanna Prukop
Cabinet Secretary
Acting Director
Oil Conservation Division

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210-2118

Attention: Cy Cowan

Administrative Order NSL-5013

Dear Mr. Cowan:

Reference is made to the following: (i) your application (*administrative application reference No. pMES0-404559472*) filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe on January 29, 2004; (ii) my initial response by letter dated February 16, 2004 requesting verification of notice; (iii) your reply by telefax on February 23, 2004 with proof of proper notification; and (iv) the Division's records in Santa Fe.

The Division Director Finds That:

(1) Yates Petroleum Corporation ("Yates"), as operator, proposes to drill its Desiree "BDS" Well No. 1 (API No. 30-015-33036) at a location that is 660 feet from the South line and 2236 feet from the East line (Unit O) of Section 34, Township 17 South, Range 26 East, NMPM, Eddy County, New Mexico;

(2) Pursuant to Yates's request, although this well will be drilled to a proposed depth of 9,000 feet, it is the operator's intent to essentially test all intervals from the top of the San Andres formation down to and including the Chester formation for deep and shallow gas production;

(3) Yates therefore seeks an exception to all applicable gas well location set-back requirements governing any and all formations and/or pools from the top of the Santa Andres formation to the base of the Chesterian series for its above-described Desiree "BDS" Well No. 1 to be dedicated to the following described spacing units:

- (a) the S/2 of Section 34 to form a standard 320-acre lay-down deep gas proration and/or spacing unit for the: (i) wildcat Wolfcamp formation [see Division Rule 104.C (2)]; (ii) Undesignated Kennedy Farms-Upper Pennsylvanian Gas Pool (79525) [see Division Rule 104.C (2)]; (iii) Undesignated Kennedy Farms-Atoka Gas Pool (79480) [see Division Rule 104.C (2)]; (iv) Undesignated Kennedy Farms-Morrow Gas Pool (79520) [see Division Rule 104.C (2)]; (v) Undesignated Atoka-Pennsylvanian (Prorated) Gas Pool (70800) [see Rule 2 (b) of the "Special Rules for the Atoka-Pennsylvanian Gas Pool," as promulgated by Division Order No. R-8170, as amended]; (vi) wildcat Chester formation [see Division Rule 104.C (2)]; and
- (b) the SE/4 to form a standard 160-acre shallow gas spacing unit for any and all formations and/or pools developed on 160-acre spacing within this vertical extent [see Division Rule 104.C (3)];

(4) The subject application has been duly filed under the provisions of Division Rules 104.F (2), 605.B, and 1207.A (2), and the applicable rules governing the prorated Atoka-Pennsylvanian Gas Pool;

(5) It is further understood that Yates is seeking this location exception based on topography; and

(6) The subject application, which serves to prevent waste and protects correlative rights and being in the best interest of conservation, should be approved.

It Is Therefore Ordered That:

(1) Yates Petroleum Corporation is hereby authorized to drill its proposed Desiree "BDS" Well No. 1 (API No. 30-015-33036) at an unorthodox gas location 660 feet from the South line and 2236 feet from the East line (Unit O) of Section 34, Township 17 South, Range 26 East, NMPM, Eddy County, to a depth of 9,000 feet in the Chester formation.

(2) This well is to be dedicated to the following described gas proration and/or spacing units in Section 34:

(a) the S/2 to form a standard 320-acre lay-down deep unit for any and all formations and/or pools encountered developed on 320-acre spacing pursuant to Division Rule 104.C (2), which presently includes but not necessarily limited to the Undesignated Kennedy Farms-Upper Pennsylvanian Gas Pool, Undesignated Kennedy Farms-Atoka Gas Pool, Undesignated Kennedy Farms-Morrow Gas Pool, and Undesignated Atoka-Pennsylvanian (Prorated) Gas Pool; and

(b) the SE/4 to form a standard 160-acre shallow gas spacing unit for any and all formations and/or pools encountered developed on 160-acre spacing pursuant to Division Rule 104.C (3).

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Michael E. Stogner
Engineer/Hearing Officer

MS/mes

cc: New Mexico Oil Conservation Division – Artesia
William F. Carr, Legal Counsel for Yates Petroleum Corporation - Artesia