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William F. Carr

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May 23, 2002

VIA HAND DELIVERY

Ms. Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Oil Conservation Division Case 12758-A: Application of the New Mexico Oil Conservation Division for an Order Requiring Operators to Bring One Hundred Forty-Seven (147) Wells into Compliance with Rule 201.B, and Assessing Appropriate Civil Penalties; Lea, Roosevelt and Chaves Counties, New Mexico.

Dear Ms Wrotenbery:

In the above-referenced case the Oil Conservation Division seeks an order requiring the Murphy Kirkpatrick Federal No. 002 located in the NW/4 NE/4 of Section 14, Township 8 South, Range 37 East, NMPM, Roosevelt County, New Mexico be brought into compliance with Division Rules. At the May 2, 2002 examiner hearing the Division recommended that a fine of \$1000 be assessed against John A. Yates, Jr., operator of this well, if it is not connected to a pipeline by June 30, 2002.

This well was drilled in 1954 by Shell Oil Company, and has produced more than .75 BCF of natural gas. It was temporarily abandoned in 1987. John A. Yates, Jr. acquired the well in 1998. In response to communications from the Division, in January 2002, Mr. Yates re-entered the well and perforated additional zones. The well is now capable of production and is shut in waiting on a pipeline connection. Once connected, the well must be produced or the connection will be removed.

Mr. Yates has advised the Division that this work has been done (See Mr. Yates letter of February 21, 2002) and appropriate Division forms have been filed which reflect the current status of the well.

The well is completed in the San Andres formation, Bluit-San Andres Associated Pool. This pool is governed by the Special Rules for Associated Pools which provide for 320-acre gas well spacing units. The Yates lease covers only the W/2 E/2 of Section 14. The E/2 E/2 of this spacing unit is unleased federal land and is located within the wildlife habitat area of the prairie chicken. Mr. Yates is negotiating a compensatory royalty agreement with the BLM covering the E/2 E/2 of

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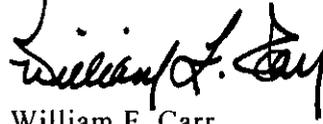
this section which will enable Yates to include this acreage in a standard spacing unit for this well. However, until this agreement is executed a standard spacing unit cannot be formed. To produce the well prior to the formation of this unit would violate Division Rule 104.B(2).¹

It is our belief that once an operator has performed work on a temporarily abandoned well which enables it to produce oil and gas, the Division should determine that it is "useable for beneficial purposes" under its rules. We believe this is especially true here where the only reason the well is not producing is the result of delays encountered in obtaining necessary regulatory approvals.

We therefore request that the Division determine that the Murphy Kirkpatrick Federal Well No. 2 has been returned to beneficial use and also request that all fines be suspended as long as Mr. Yates diligently pursues all agreements, permits and orders required to form a standard unit for the well and return it to production.

Your attention to this request is appreciated.

Very truly yours,



William F. Carr

cc: Mr. John A. Yates, Jr.
Mr. Randy Patterson
David K. Brooks, Esq.
Mr. Chris Williams

¹ Rule 104.B: "Any well that does not have the required amount of acreage dedicated to it for the pool or formation in which it is completed may not be produced until a standard spacing unit for the well has been formed and dedicated or until a non-standard spacing unit has been approved."