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 City, State, ZIP+4: Roswell, NM 88202-2107
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Mike Hanagan
 Manzano LLC
 P.O. Box 2107
 Roswell, NM 88202-2107

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2. Article Number (Copy to) 7001 1140 0002 9557 9436
 PS Form 3811, July 1999 Domestic Return Receipt

April 13, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mike Hanagan
Manzano, LLC
P.O. Box 2107
Roswell, New Mexico 88202-2107

Re: Application of Yates Petroleum Corporation to rescind or amend administrative order SWD-1021, Lea County, New Mexico.

Ladies and Gentlemen:

This letter is to advise you that Yates Petroleum Corporation has filed the enclosed application with the New Mexico Oil Conservation Division seeking an order rescinding or amending Administrative Order SWD-1021 which authorized Manzano to inject produced water into its Peter Grande State Well No. 1 located 330 feet from the South line and 400 feet from the West line of Section 1, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico. Yates seeks to protect Mescalero State Well No. 1 from produced water damaging the integrity of its Mescalero State Well No. 1 (API No. 30-25-33969) located in Section 2, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico. Manzano's well is only 730 feet from Yates' Mescalero State Well No. 1.

This application is set for hearing on May 11, 2006, at Porter Hall located in the Division's Santa Fe Office. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-hearing Statement four days in advance of a scheduled hearing at the Oil Conservation Division's Santa Fe Office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Sincerely,


Ocean Munds-Dry
ATTORNEY FOR YATES PETROLEUM CORPORATION

APPLICATION

Page 2

Holland & Hart LLP

Phone [505] 988-4421 Fax [505] 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. ☺

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION OF
YATES PETROLEUM CORPORATION,
TO RESCIND OR AMEND
ADMINISTRATIVE ORDER SWD-1021
LEA COUNTY, NEW MEXICO.**

CASE NO. _____

2006 APR 11 PM 4 59

APPLICATION

Yates Petroleum Corporation ("Yates"), through its undersigned attorneys, hereby makes application for an order rescinding or amending Administrative Order SWD-1021 that was entered on January 25, 2006, authorizing Manzano, LLC ("Manzano") to utilize its Peter Grande State Well No. 1 (API No. 30-025-36993) located 330 feet from the South line and 400 feet from the West line of Section 1, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico, in such manner as to permit the injection of produced water for disposal purposes into the San Andres formation through perforations from 4,350 feet to 4,470 feet and through plastic-line tubing set in a packer located within 100 feet of the top of the injection interval. In support of its application, Yates states:

1. Yates is the operator of the Mescalero State Well No. 1 (API No. 30-025-33969) located in Section 2, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico. Manzano's Peter Grande State Well No. 1 is 730 feet from Yates' Mescalero State Well No. 1.

2. Yates was sent timely notice by Manzano on January 4, 2006. However, due to an internal communication problem, Yates did not have review the application until February 6, 2006. The application was granted on January 25, 2006 and therefore Yates did not have an opportunity as an offset operator to timely object as prescribed in Division Rule 701.

3. Although the period for objection by offset operators has past, the Division retained jurisdiction "for the entry of such further orders as may be necessary for the prevention of waste and/or protection of correlative rights or upon failure of the operator to conduct operations (1) to protect fresh water or (2) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the injection authority granted herein." See Attachment A (Administrative Order SWD-1021).

4. The injection of produced water into the San Andres formation at Manzano's Peter Grande State Well No. 1 presents a threat to the oil production of Yates' Mescalero State Well No. 1. The authorized injection interval is from 4350 feet to 4470 feet in the San Andres formation. Yates' Mescalero well does not have cement behind production casing from 2995 feet to 7500 feet.

5. If Administrative Order SWD-1021 is not rescinded or amended, the injection of produced water will cause waste and will impair Yates' correlative rights.

6. Approval of this application will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

7. A copy of this application has been sent to Manzano, LLC.

WHEREFORE, Yates Petroleum Corporation requests that this application be set for hearing before an Examiner of the Oil Conservation Division on May 11, 2006 and after notice and hearing as required by law, the Division enter its order rescinding or amending Administrative Order SWD-1021.

Respectfully submitted,

HOLLAND & HART LLP

By: *Ocean Munds-Dry*

Ocean Munds-Dry

Post Office Box 2208

Santa Fe, New Mexico 87504

Telephone: (505) 988-4421

ATTORNEYS FOR YATES PETROLEUM
CORPORATION

CASE _____: Application of Yates Petroleum Corporation to rescind or amend Administrative Order SWD-1021, Lea County, New Mexico. Applicant in the above-styled cause seeks an order rescinding or amending Administrative Order SWD-1021 issued on January 25, 2006, which authorizes Manzano, LLC to utilize its Peter Grande State Well No. 1 (API No. 30-025-36993) located 330 feet from the South line and 400 feet from the West line of Section 1, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico, in such a manner as to permit the injection of produced water for disposal purposes into the San Andres formation through perforations from 4,350 feet to 4,470 feet and through plastic line tubing set in a packer located within 100 feet of the top of the injection interval. Yates seeks an order from the Division to protect its Mescalero State Well No. 1 (API No. 30-025-33969) located in Section 2, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico. Said wells are located approximately 20 miles west of Tatum, New Mexico.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

ADMINISTRATIVE ORDER SWD-1021

APPLICATION OF MANZANO, LLC FOR PRODUCED WATER DISPOSAL, LEA COUNTY, NEW MEXICO.

ADMINISTRATIVE ORDER OF THE OIL CONSERVATION DIVISION

Under the provisions of Rule 701(B), Manzano, LLC made application to the New Mexico Oil Conservation Division for permission to utilize for produced water disposal its Peter Grande State Well No. 1 (API No. 30-025-36993) located 330 feet from the South line and 400 feet from the West line of Section 1, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico.

THE DIVISION DIRECTOR FINDS THAT:

- (1) The application has been duly filed under the provisions of Rule 701(B) of the Division Rules and Regulations;
- (2) Satisfactory information has been provided that all offset operators and surface owners have been duly notified;
- (3) The applicant has presented satisfactory evidence that all requirements prescribed in Rule 701 will be met; and
- (4) No objections have been received within the waiting period prescribed by said rule.

IT IS THEREFORE ORDERED THAT:

The applicant is hereby authorized to utilize its Peter Grande State Well No. 1 (API No. 30-025-36993) located 330 feet from the South line and 400 feet from the West line of Section 1, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico, in such manner as to permit the injection of produced water for disposal purposes into the San Andres formation through perforations from 4,350 feet to 4,470 feet and through plastic-lined tubing set in a packer located within 100 feet of the top of the injection interval.

IT IS FURTHER ORDERED THAT:

The operator shall take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface.

While preparing for injection, the operator shall install a CIBP and cement within 200 feet below the lowermost permitted injection interval.

Prior to beginning commercial injection operations, the operator shall report the initial static fluid level in the well to the Division referencing this permit number.

After installing injection tubing, the casing shall be pressure tested from the surface to the packer setting depth to assure the integrity of said casing.

The casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge or an approved leak detection device in order to determine leakage in the casing, tubing, or packer.

The wellhead injection pressure on the well shall be limited to no more than 870 psi. In addition, the injection well or system shall be equipped with a pressure limiting device in workable condition which shall, at all times, limit surface injection pressure to the maximum allowable pressure for this well.

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the injected fluid from the injection formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

The operator shall notify the supervisor of the Hobbs district office of the Division of the date and time of the installation of disposal equipment and of any mechanical integrity test so that the same may be inspected and witnessed.

The operator shall immediately notify the supervisor of the Hobbs district office of the Division of the failure of the tubing, casing, or packer in said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

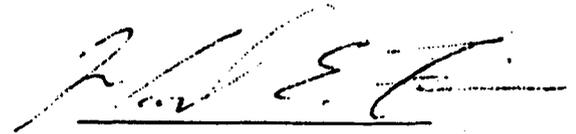
PROVIDED FURTHER THAT, jurisdiction is retained by the Division for the entry of such further orders as may be necessary for the prevention of waste and/or protection of correlative rights or upon failure of the operator to conduct operations (1) to protect fresh water or (2) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the injection authority granted herein.

The operator shall provide written notice of the date of commencement of injection to the Hobbs district office of the Division.

The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Rule Nos. 706 and 1120 of the Division Rules and Regulations.

The injection authority granted herein shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject well, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

Approved at Santa Fe, New Mexico, on January 25, 2006.



MARK E. FESMIRE, P.E.
Director

MEF/wvjj

cc: Oil Conservation Division – Hobbs
State Land Office – Oil, Gas, and Minerals Division

Affidavit of Publication

STATE OF NEW MEXICO)
) ss.
COUNTY OF LEA)

Joyce Clemens being first duly sworn on oath deposes and says that she is Advertising Director of **THE LOVINGTON DAILY LEADER**, a daily newspaper of general paid circulation published in the English language at Lovington, Lea County, New Mexico; that said newspaper has been so published in such county continuously and uninterruptedly for a period in excess of Twenty-six (26) consecutive weeks next prior to the first publication of the notice hereto attached as hereinafter shown; and that said newspaper is in all things duly qualified to publish legal notices within the meaning of Chapter 167 of the 1937 Session Laws of the State of New Mexico.

That the notice which is hereto attached, entitled

Legal Notice

was published in a regular and entire issue of **THE LOVINGTON DAILY LEADER** and not in any supplement thereof, for one (1) day, beginning with the issue of April 15, 2006 and ending with the issue of April 15, 2006.

And that the cost of publishing said notice is the sum of \$1.65 which sum has been (Paid) as Court Costs.

Joyce Clemens

Subscribed and sworn to before me this 20th day of April 2006

Debbie Schilling

Debbie Schilling

Notary Public, Lea County, New Mexico

My Commission Expires June 22, 2006

**LEGAL NOTICE
NOTICE OF
PUBLICATION**

**STATE OF
NEW MEXICO
ENERGY, MINERALS
AND
NATURAL RESOURCES
DEPARTMENT
OIL CONSERVATION**

**SANTA FE
NEW MEXICO**

The State of New Mexico through its Oil Conservation Division hereby gives notice pursuant to law and the Rules and Regulations of the Division of the following public hearing to be held at 8:00 A.M. on May 11, 2006, in the Oil Conservation Division Hearing Room at 1220 South St. Francis, Santa Fe, New Mexico, before an examiner duly appointed for the hearing. If you are an individual with a disability who is in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing, please contact: Roxane Davidson at 505-

476-3458 or through the New Mexico Relay Network, 1-800-658-1779 by May 1, 2006. Public documents including the agenda and minutes, can be provided in various accessible forms. Please contact Roxane Davidson if a summary or other type of accessible form is needed.

**STATE OF NEW MEXICO
TO:**
All named parties and persons having any right, title, interest or claim in the following cases and notice to the public.

(NOTE: All land descriptions herein refer to the New Mexico Public Land Meridian, whether or not so stated.)

CASE 19702:

Application of Yates Petroleum Corporation to rescind or amend Administrative Order SWD-1021, Lea County, New Mexico. Applicant in the above-styled cause seeks an order rescinding or amending Administrative Order SWD-1021 issued on January 25, 2006, which authorizes Manzano, LLC to utilize its Peter Grande State Well No. 1 (API No. 30-025-38893) located 336 feet from the South line and 400 feet from the West line of Section 1, Township 10 South, Range 32 East, NMPM, Lea County, New Mexico. In such a manner as to prevent the injection of produced water for disposal purposes into the San Andres formation through perforations from 4,350 feet to 4,470 feet and through plastic line tubing set in a packer located within 100 feet of the top of the injection interval. Yates seeks an order from the Division to protect its Mesalero State Well No. 1 (API No. 30-025-39088) located in Section 2, Township 10 South, Range 22 East, NMPM, Lea County, New Mexico. Said wells are located approximately 20 miles west of Tatum, New Mexico.

Given under the Seal of the State of New Mexico Oil Conservation Commission at Santa Fe, New Mexico on this 13th day of April 2006.

**STATE OF NEW MEXICO
OIL CONSERVATION
DIVISION**

Mark E. Ferguson, Director

Published in the Lovington Leader April 15, 2006