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August 8, 1995

Case File 11235

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

- Re: NMOCD Case 11332
Application of Yates Petroleum Corporation to
Rescind Order R-10372 which authorized the
unorthodox well location for the Aspden "AOH"
Federal Com Well No. 2 in Case 11235
Eddy County, New Mexico
- Re: NMOCD Case 11235 (Order R-10372)
Application of Yates Petroleum Corporation for
an Unorthodox Well Location
Eddy County, New Mexico
- Re: Administrative Application
dated June 19, 1995 of Yates Petroleum
Corporation for approval to now drill the Aspden
"AOH" Well No. 2 as a directionally drilled well
Eddy County, New Mexico

Dear Mr. Stogner:

This letter is to take exception and reply to letter dated August 7, 1995 from Mr. W. Thomas Kellahin. In Mr. Kellahin's letter, this company and our attorneys, as well as me personally, are accused of violating OCD Rules and Procedures in our attempt to resolve the captioned cases.

There is obviously some disagreement about the Order No. R-10372, its fairness, and the precedent for future cases it may set. To my recollection, the NMOCD has always held against downspacing of a proration unit on which production has already been obtained. Non standard spacing units are an acceptable solution prior to the drilling of wells, however once production has been established, there are royalty inequities that cannot be reconciled if a proration unit is downspaced. In this particular case, the State of New Mexico would be placed in the position of their royalty being diminished by a ruling requiring downspacing. Therefore, in the past, and correctly so, the Commission has always ruled against down spacing.