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TELEPHONE: (505) 988-4421
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February 8, 1996

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

VIA FACSIMILE AND MAILED

Mr. Tim Gum, District Supervisor
Oil Conservation Division
District II
Post Office Drawer DD
Artesia, NM 88210

Re: Yates Petroleum Corporation
Zinnia Federal Unit Well No. 1
Section 27, Township 20 South, Range 29 East,
Eddy County, New Mexico

Gentlemen:

Enclosed are copies of the Amended Application in Case 11339 and an administrative application under revised Rule 104 which I filed on this date seeking authorization for directional drilling and unorthodox bottomhole locations for the Zinnia Federal Unit Well No. 1.

This has been a marginal well since it was drilled in January, 1995 and, although Yates timely made all appropriate filings with the Bureau of Land Management, approval of

William J. LeMay, Director
Mr. Tim Gum, District Supervisor
Oil Conservation Division
February 8, 1996
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directional drilling and unorthodox bottomhole locations was not sought from the Oil Conservation Division until June, 1995.

It was not Yates intention to operate outside Division rules. On June 8, 1995, the date the BLM approved our Sundry Notice allowing recompletion of this well in the Wolfcamp formation, I was contacted about the need for Division approval of the directional drilling and the unorthodox bottomhole locations. On June 19th our original application was filed seeking a hearing in July, 1995. We continued the hearing in this case and advised the Division we would seek administrative approval of this application as soon as the new Rule 104 was finalized which allows for administrative approval of unorthodox well locations based on geological considerations. It was my understanding that the Division did not object to this planned course of action since this well was in a Federal unit, since a delay could not adversely affect correlative rights, and since it soon might be approved administratively.

This well will be in compliance with Division rules when our administrative application is approved or when an order is entered following a hearing on our amended application. As you will note, following my conversation with Mr. Gum on February 6, 1996, Yates has confirmed the actual bottomhole locations by formation and amended our prior application accordingly.

Yates requests that this well not be shut-in. Shutting it in would only further undercut its already poor economics. The prevention of waste will not be promoted by such action and, since the unorthodox bottomhole locations are interior locations in the Zinnia Federal Unit, there also is no correlative rights issue. The failure to obtain OCD approval for directional drilling and the unorthodox bottomhole locations was an oversight on our part, not an intentional effort to ignore OCD rules and regulations. Applications have been filed to correct this situation.

William J. LeMay, Director
Mr. Tim Gum, District Supervisor
Oil Conservation Division
February 8, 1996
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I hope this letter explains the circumstances surrounding the drilling of this well. If you have additional questions, please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

WILLIAM F. CARR
ATTORNEY FOR YATES PETROLEUM CORPORATION

WFC:mlh
Enclosures

cc: Mr. Randy Patterson
Ms. Janet Richardson
Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

February 7, 1996

DRAFT

Mr. Randy Patterson
Yates Petroleum Corporation
105 South 4th
Artesia, New Mexico 88210

Re: Shut In Order Zinnia Federal Unit No. 1 (E-27-20S-29E) Eddy County, New Mexico

Attention: Randy Patterson

Dear Mr. Patterson:

The Oil Conservation Division is empowered by New Mexico State statutes to adopt rules and regulations concerning the drilling for production and sale of oil and gas. The rules require prior approval before operations begin and violation of such may result in fines or penalties.

The drilling for production and sale of oil and gas from the Zinnia Federal Unit Well No. 1 are in direct violation of OCD rules and regulations. Rules that were violated are Nos. 104, 111, 503, 504(B), 801 and 1104. The following list is how the required rules were violated.

1. Federal approved APD 4/26/95. This drilling program required prior state approval for directional drilling and an unorthodox bottomhole location. Approval has not been granted to date.
2. Total depth of 12,550 feet reached 2/21/95.
3. Date to first production and gas sales 3/9/95.
4. C-104 received 3/27/95 for Strawn completion and yet to be approved.
5. DHC order approval 8/14/95.
6. C-104 received 9/27/95 for Wolfcamp completion and yet to be approved.
7. Case No. 11339 (DD & NSL) placed on docket 7/13/95.
8. To date, 2209 BO and 20,568 MCF produced and sold without approved allowable.

Please respond why you believe that the Zinnia Federal Well No. 1 should not be shut in immediately and no additional sales of product be made until all required approvals are received.

Sincerely,

William J. LeMay
Director

WJL/TG/sm

NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

TO: BILL LEMAY
RAND CARROLL

FROM: TIM W. GUM *[Signature]*

DATE: FEBRUARY 5, 1996

SUBJECT: YATES PETROLEUM CORP
ZINNIA FEDERAL UNIT #1
E 27-20S-29E EDDY COUNTY

[Handwritten notes]
FEB 6 1996
[Stamp]

Issues to be addressed:

1. Well drilled without DD and NSL orders.
2. Well currently producing without approved C-104. Two zones currently commingled (has DHC order but no approved C-104).
3. Two different transporters taking product without approved C-104s.

Per our previous telephone conversations the following data is offered:

1. 4/26/94 APD approved and file copy noted "Pending DD and NSL orders".
2. 12/17/94 11 a.m. Spud and set conductor pipe.
3. 12/28/94 10:30 a.m. MI rotary tools.
4. 2/21/95 Reached TD of 12,550.
5. 2/28/95 MI pulling unit.
6. 3/9/95 Date of first production and gas sales.
7. 3/21/95 BLM completion (3160), C-104 (yet to be approved) for strawn perms (10,965-216'). Rate of 36 BO & 11 BW & 153 MCFPD.
8. 5/2/95 Surface commingling approved by BLM and not by State (State not notified!!).
9. 6/8/95 WC recompletion approved.
10. 8/17/95 Federal office approved DHC (WC and Strawn), State approval 8/14/95.
11. 9/11/95 Perf WC 10,188-216.
12. 9/27/95 BLM completion (3160) for WC zone 10,188-216. C-104 filed (not yet approved). Rate of 135 BO & 34 BW & 1081 MCFPD.
13. 12/7/95 WC and Strawn allocations submitted.
14. Liquid transporter (Amoco) reports moving 2209 BO since 4/95. Gas transporter (Yates) reports moving 20,568 MCF 3/95 thru 12/95.
15. Case No. 11339, (DD & NSL) first on docket 7/13/95.
16. Actual BH location greater than 50' from location asked for in advertisement.
17. 2/2/96 p.m. Bill Carr call.

Recommendations:

Santa Fe issue shut in order for knowingly and willfully violating three of OCD's Rules and Regulations (DD, NSL orders and C-104 requirements).

Issue letter to all transporters and operators that approved C-104s are needed to move products.

Rules that apply: 503, 504(B), 801 and 1104.
NM State statutes that apply: 70-2-12(A) and 70-2-16(B).

YATES PET, COMP.

ZINWIA FED UNIT-1

SEC 27-7205-R-29E

EDDY CO U/M

SURFACE LOC

910' FWL X 1980' FWL

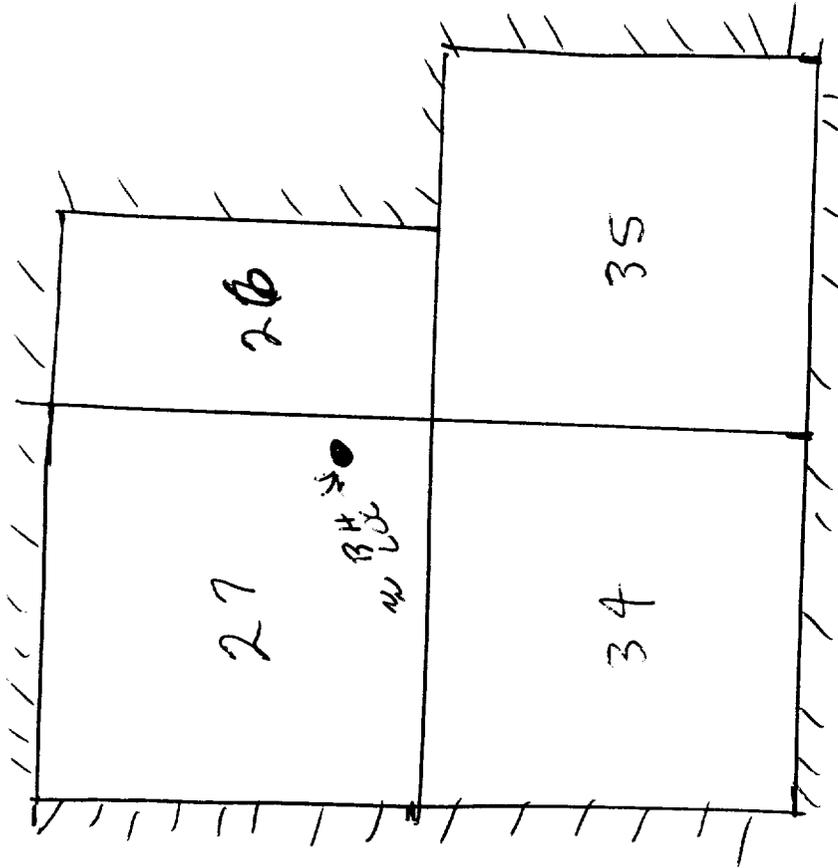
BOTTOM HOLE LOC

2114' FNL X 2562' FWL

SEC 27

FEDERAL UNIT

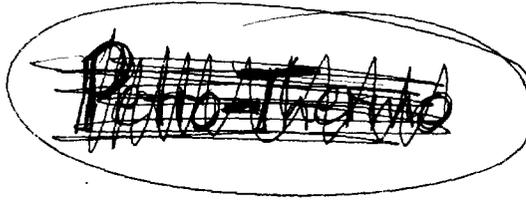
EFFECTIVE 12/27/99.



NOT TO SCALE

TWO
5/5/96

OIL CONSERVATION DIVISION
ARTESIA, NEW MEX. 86210



TO: Rand Carroll
FROM: Jim Zuma
DATE: 2/5/96

Yates (Zuma #1)

NUMBER OF SHEETS (INCLUDING TRANSMITTAL SHEET) 4

IF YOU HAVE ANY PROBLEMS WITH THIS TRANSMISSION, PLEASE CALL 505-748-1283.
FAX NUMBER (505) 748-9720

NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

TO: BILL LEMAY
RAND CARROLL

FROM: TIM W. GUM *[Signature]*

DATE: FEBRUARY 5, 1996

SUBJECT: YATES PETROLEUM CORP
ZINNIA FEDERAL UNIT #1
E 27-20S-29E EDDY COUNTY

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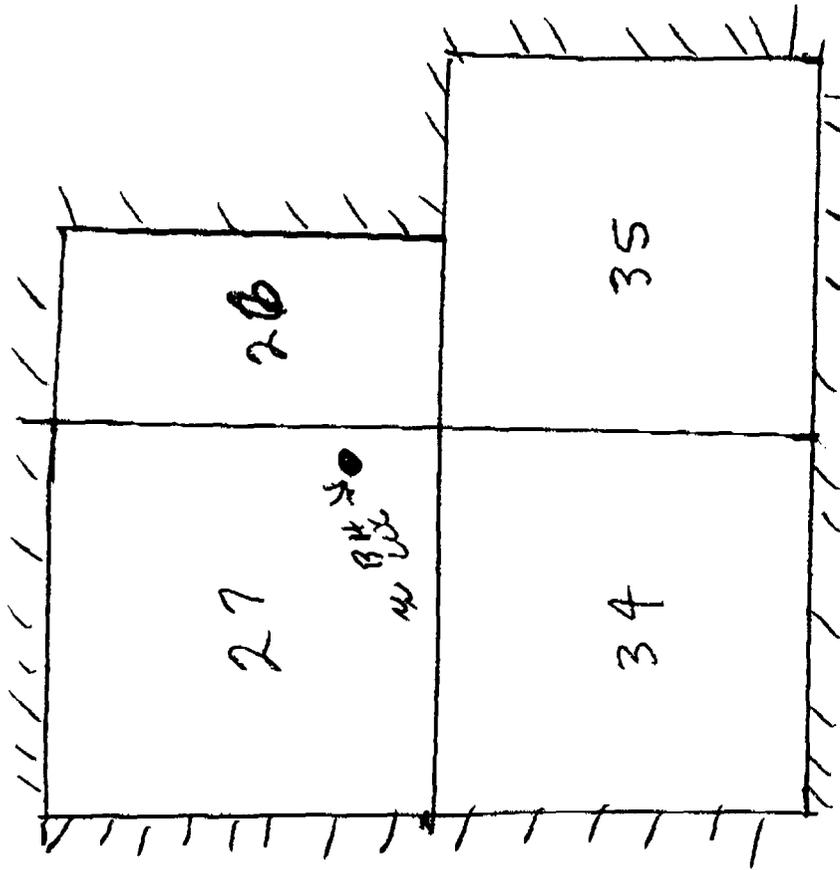
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YATES
NET, CORR.
ZINNIA FED UT-1
SEC 27-7205-R-29E
EDDY CO NM

SURFACE LOC
910' FWL X 1980' FWL
BOTTOM HOLE LOC
2114' FWL X 2562' FWL
SEC 27

FEDERAL UNIT
EFFECTIVE 12/27/94.

Tree
Sketch



NOT TO SCALE