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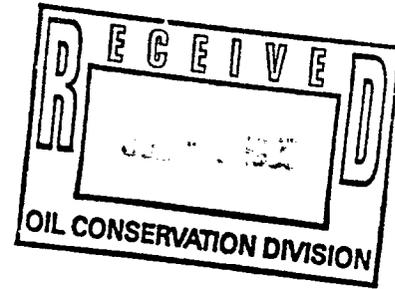
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July 6, 1995

HAND DELIVERED

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*

Case 11357

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.*

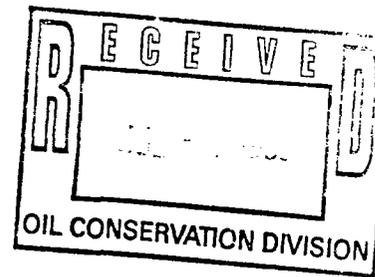
Dear Mr. Stogner:

On behalf of Conoco Inc., we hereby object to Yates Petroleum Corporation's request:

(a) in Case 11332 to rescind Order R-10372 as now docketed in Case 11332 set on the July 13, 1995 docket and to be taken under advisement in the absence of objection; and

(b) for Administrative approval to now directionally drill the referenced Aspden well.

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On April 7, 1995 Examiner Catanach heard Case 11235 which was a request by Yates Petroleum Corporation ("Yates") for an unorthodox well location for its Aspden Well No. 2 to be drilled in the North Dagger Draw-Upper Penn Oil Pool.

On May 24, 1995, the Division entered Order R-10372 in that case and approved Yates' requested unorthodox location and provided for an allowable of 175 BOPD. Yates did not timely file for a DeNovo hearing and that order is now final and unappealable.

Now, Yates seeks administrative approval to directional drill the subject well. However, on April 6, 1995, Yates' witness testified as follows:

By Kellahin:

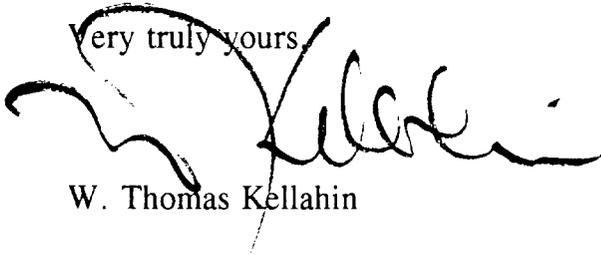
Q: Mr. Fant, if the wellbore is going to drift naturally to the north or northwest, have you examined what the practicality is of going ahead and intentionally deviating this wellbore so that its' at a standard bottomhole location in the Cisco formation?

A: (By Fant) We looked at the practicalities of it. There are two components....."One is the consideration of the ability to drill and the additional costs associated with drilling it. 25-50-percent increase in deviation---...." "Rod-pumping in deviated wells is approximately double the cost and so we would have waste occurring. We looked at that, and it was not justifiable from the expense standpoint." (Also see selected portions of transcript of Case 11235 enclosed).

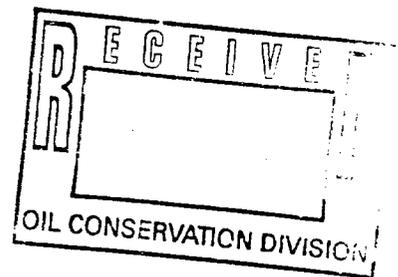
Yates's current request is contrary to and inconsistent with its prior sworn testimony in this matter. Yates now seeks to directionally drill a well which it had just testified could not be economically drilled. This action constitutes a collateral attack on a prior order entered by the Division in this matter. Yates is obligated to drill the subject well vertically and produce it within the production limitations of the order. Had Yates intended otherwise, it should have appealed Order R-10372 to the Commission.

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In addition, Yates has also requested the Division to vacate Order R-10372. That request is set for hearing on July 13, 1995 as NMOCD Case 11332. Yates cannot avoid the precedent established by the Division in this order by simply asking the Division to rescind it. The proper remedy which Yates should have pursued and did not was to have appealed this matter to the Commission. It chose not to do so and this order is final. Neither the Division nor Yates has the authority to rescind this order.

Very truly yours,

W. Thomas Kellahin

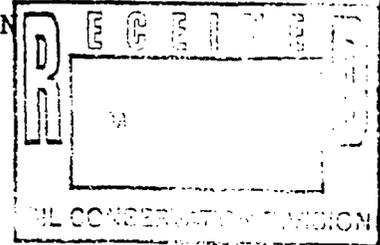
cc: Ernest Carroll, Esq.
Attorney for Yates Petroleum Corporation
cc: Conoco Inc.
Attn: Jerry Hoover



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)
APPLICATION OF YATES PETROLEUM)
CORPORATION)

CASE NO. 11,235

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

April 7th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Friday, April 7th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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 Examiner Hearing
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* * *

A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

1 A. No, sir, you wouldn't gain anything north.

2 EXAMINER CATANACH: Okay, I have nothing further.

3 MR. ERNEST CARROLL: I have nothing else.

4 EXAMINER CATANACH: Witness may be excused.

5 MR. ERNEST CARROLL: Next call Brent May.

6 BRENT MAY,

7 the witness herein, after having been first duly sworn upon
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. ERNEST CARROLL:

11 Q. Would you please state your name and place of
12 residence for the record?

13 A. Brent May, Artesia, New Mexico.

14 Q. Mr. May, how are you employed?

15 A. I'm employed with Yates Petroleum.

16 Q. And in what capacity?

17 A. As a petroleum geologist.

18 Q. Mr. May, are you familiar with the present
19 Application being heard by this Examiner today?

20 A. Yes, I am.

21 Q. And Mr. May, have you testified before this
22 Division, Commission, before and had your credentials as a
23 petroleum geologist accepted?

24 A. Yes, I have.

25 MR. ERNEST CARROLL: Mr. Examiner, I would tender

1 Q. When we're looking at other possible locations,
2 other than the one the BLM has approved, the 330-660
3 location, are there other locations within the 40-acre
4 tract that are better for you geologically?

5 A. Besides the -- I'm sorry, the 330?

6 Q. Yes, sir.

7 A. The standard location and anything north.
8 Basically anything to the north and west, geologically,
9 would be better than the 330 location.

10 Q. In addition, geologically you could move to the
11 east and north and meet the same criteria that you're to
12 attain at this proposed unorthodox location?

13 A. Depending on how far you moved each direction,
14 but that's possible.

15 Q. So the entire case is driven by a topographical
16 problem, as opposed to a geologic reason?

17 A. That is correct.

18 MR. KELLAHIN: No further examination, Mr.
19 Examiner.

20 EXAMINER CATANACH: Just a couple, Mr. May.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Can you approximate for me how much structural
24 position is being lost, moving to this proposed location
25 from a standard one?

1 A. From the standard, it would be -- Oh,
2 approximately maybe 20 to 30 feet.

3 Q. Can you do the same for me in terms of the
4 dolomite thickness?

5 A. It would be maybe around 30 feet, based off these
6 maps.

7 Q. Mr. May, is the proposed location -- is it a safe
8 location to drill, or is it risky, in your opinion?

9 A. Geologically?

10 Q. Yeah.

11 A. I feel that we're going to make a well there, but
12 there is added risk from the standard location, just
13 because we are losing structure, we are losing dolomite
14 thickness, and we are moving closer to the zero line on the
15 dolomite.

16 Another thing I might add, that the closer you
17 get to the zero line of the dolomite, the edge of the
18 dolomite is very hard to predict and can be very erratic.
19 We've seen -- I've seen the Canyon dolomite in some areas.
20 within a mile go from over 500 feet of dolomite to less
21 than 20.

22 Q. Is the proposed location not risky enough to
23 propose, say, directional drilling?

24 A. That I don't know, because I wouldn't know what
25 the additional cost for the directional drilling would be,

1 so I couldn't answer that question.

2 EXAMINER CATANACH: Okay, I have no further
3 questions.

4 MR. ERNEST CARROLL: I have no other questions.
5 We next call Bob Fant to the stand.

6 ROBERT S. FANT,
7 the witness herein, after having been first duly sworn upon
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. CARROLL:

11 Q. Would you please state your name and place of
12 residence?

13 A. My name is Robert Fant. I live in Artesia, New
14 Mexico.

15 Q. By whom are you employed?

16 A. Yates Petroleum.

17 Q. What capacity, sir?

18 A. I am a petroleum engineer.

19 Q. Mr. Fant, are you familiar with the present
20 Application of Yates Petroleum that is being heard by this
21 Examiner?

22 A. Yes, sir, I am.

23 Q. Mr. Fant, have you also testified before this
24 Division and had your credentials as a petroleum engineer
25 accepted?

1 A. We looked at the practicalities of it. There are
2 two components to that.

3 One is the consideration of the ability to drill
4 and the additional costs associated with drilling it. 25-
5 to 50-percent increase in deviation -- You can't put a
6 specific number on it, simply because it's not -- it's --
7 there are problems that you could get into when deviating a
8 well. Your -- The variables go up greatly.

9 The second component is operating costs.
10 Initially, these wells start off on submersible pump, and
11 honestly, that's not a problem with deviation. But as they
12 deplete, that is moved from submersible pump to an
13 artificial lift method of rod-pumping.

14 Rod-pumping in deviated wells is approximately
15 double the cost, and so we would have waste occurring. We
16 looked at that, and it was not justifiable from the expense
17 standpoint.

18 Q. As a petroleum engineer, when you look at cost
19 components, you are comparing them by looking at
20 hydrocarbon recovery volumes, are you not, sir?

21 A. They must be compared against that, yes, sir.

22 Q. And what is your assessment of the oil in place
23 that is to be produced by the encroaching well?

24 A. The oil in place at Dagger Draw, I am not going
25 to make a guesstimate of that. Nobody has been able to

1 Q. Dramatically so, do they not, sir?

2 A. Some wells do, some wells do not. But yes, it
3 depends on the lift equipment in place in the well and
4 whether or not the well flows. It depends on how the
5 particular well is produced. But they do decline, yes,
6 sir.

7 Q. Are you currently pumping all three existing
8 wells in the spacing unit?

9 A. Yes, sir, we are -- we are using artificial lift.

10 Q. As opposed to rod and pump, are these submersible
11 pumps?

12 A. I cannot specifically -- If I were to look in
13 here I might be able to tell you whether or not they are on
14 submersible pump or whether or not they are on rod pump,
15 but I cannot off the top of my head say. I don't deal in
16 the operations directly to deal with that.

17 Q. Do you know whether those wells are being
18 produced at their capacity?

19 A. I would have to say yes, they are, since we are
20 not producing the allowable.

21 MR. KELLAHIN: No further questions, Mr.
22 Examiner. Thank you.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Fant, are you able to estimate the drift that

1 this well might encounter in this formation?

2 A. It's very -- I would put it that the natural
3 tendency is, if you have a one-degree deviation going down
4 on the well, that most of that at the time is spent in what
5 we call the corkscrew effect. It's actually circling about
6 itself.

7 I estimate it to be less than, you know, 20 to 30
8 feet, in speaking with our drilling people, that if we ran
9 a continuous gyro, that it would be quite -- it would not
10 be small, but it would be -- it should be to the north and
11 west. So...

12 Q. So it's probably insignificant for purposes of
13 this --

14 A. Yes, sir, that is a fair statement.

15 Q. Okay. I just wanted to go over the production
16 figures again.

17 The Aspden Number 1, did you say the current rate
18 was 180 barrels a day?

19 A. The Aspden --

20 Q. Aspden 1.

21 A. I'm sorry, I misspoke myself earlier. I pulled,
22 again, early in the week.

23 On the 4th of April, the Aspden Number 1 was 161
24 barrels of oil.

25 Q. And the Boyd 2 was -- ?