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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

November 12, 1996

HAND DELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

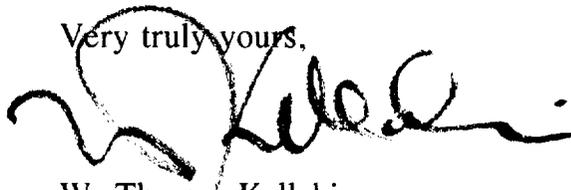
Re: Stonewall DD State Com Well No. 3
W/2 Section 20, T20S, R28E, NMPM
Application of Yates Petroleum Corporation
for an Unorthodox Gas Well Location,
Eddy County, New Mexico

11691

Dear Mr. LeMay:

On behalf of Yates Petroleum Corporation, please find enclosed our Application for an unorthodox gas well location which we request be set for hearing on the next available Examiner's docket now scheduled for December 5, 1996. Also enclosed is our proposed notice for the advertisement.

Very truly yours,



W. Thomas Kellahin

cc: Yates Petroleum Corporation
Attn: Mecca Mauritsen

Proposed notification/advertisement for OCD docket

Case 11671: Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant seeks approval to drill its proposed Stonewall DD State Com Well No. 3 at a point 990 feet from the north and west lines of Section 20, Township 20 South, Range 28 East, NMPM, to the base of the Morrow formation, said location being unorthodox for any and all gas producing formations from the top of the Wolfcamp to the base of the Morrow, including but not limited to the Burton Flat-Morrow Gas Pool and, if productive, to be dedicated to a 320-acre gas spacing unit consisting of the W/2 of said Section 20. Said location is located approximately 10 miles north from Carlsbad, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF YATES PETROLEUM CORPORATION
FOR AN UNORTHODOX GAS WELL,
EDDY COUNTY, NEW MEXICO

CASE: 116171

APPLICATION

Comes now YATES PETROLEUM CORPORATION ("Yates") by and through its attorneys, KELLAHIN and KELLAHIN, and applies to the New Mexico Oil Conservation Division ("NMOCD") for an unorthodox gas well location in order to drill its proposed Stonewall DD State Com Well No. 3 at a point 990 feet from the north and west lines of Section 20, Township 20 South, Range 28 East, NMPM, to the base of the Morrow formation, said location being unorthodox for any and all gas producing formations from the top of the Wolfcamp to the base of the Morrow and if productive to be dedicated to a 320-acre gas spacing unit consisting of the W/2 of said Section 20.

In support thereof, Applicant states:

1. Applicant, Yates, is the proposed operator of the Stonewall DD State Com Well No. 3 to be located 990 feet from the West and North lines of Section 20, T20S, R28E, Eddy County, New Mexico. See Exhibit "1" attached.

2. Yates proposes to drill this well to a depth sufficient to test for gas production from the Morrow formation and shallower formations.

3. The well location is within the current boundary of the Burton Flat-Morrow Gas Pool which has special rules and regulations which include:

Rule: 2(b) well shall be located no closer than 1980 feet to the end boundary nor closer than 660 feet to the side boundary.

Rule 2(a) A standard GPU in this spool contains 320 acres.

4. Yates proposes to dedicate the W/2 of Section 20 to the well if it is capable of gas production from the top of the Wolfcamp to the base of the Morrow formation.

5. This proposed location is the optimum location in the W/2 of said Section 20 at which to drill to test for Morrow gas production.

6. Approval of this application will afford the applicant the opportunity to produce its just and equitable share of the gas underlying this unit, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

7. Notification of this application has been sent to all adjoining and offsetting operators as set forth on Exhibit "B" attached.

WHEREFORE, Applicant requests that, after notice and hearing, this Application be approved as requested.

KELLAHIN and KELLAHIN



BY

W. Thomas Kellahin

P. O. Box 2265

Santa Fe, New Mexico 87504

(505) 982-4285

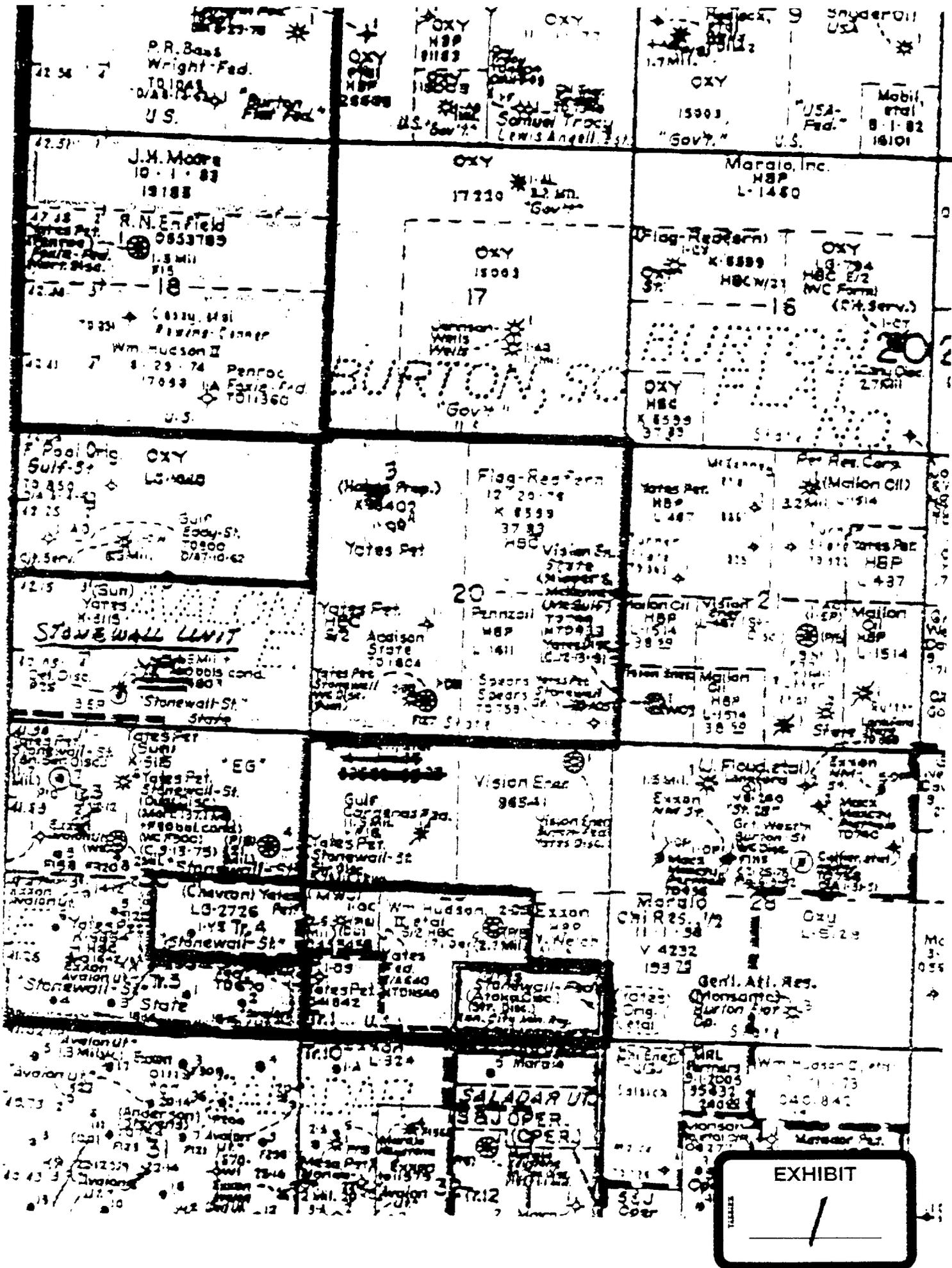


EXHIBIT
1

EXHIBIT "2"

**OXY USA Inc.
P. O. Box 50250
Midland, Texas 79710
Attn: Richard Foppiano**