

**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:**

**CASE NO. 13698
ORDER NO. R-12542**

**APPLICATION OF YATES PETROLEUM CORPORATION FOR APPROVAL
OF A UNIT AGREEMENT, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came for hearing on April 27, 2006, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 1st day of May, 2006, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Oil Conservation Division ("Division") has jurisdiction of this case and its subject matter.

(2) The applicant, Yates Petroleum Corporation ("Yates" or "Applicant"), seeks approval of its Manchester State Exploratory Unit Agreement for all oil and gas in all formations from the surface to the base of the Morrow formation underlying the following-described 2,240 acres, more or less, of State of New Mexico lands situated in Eddy County, New Mexico;

TOWNSHIP 19 SOUTH, RANGE 23 EAST. NMPM

Section 20: All
Section 29: All
Section 31: E/2
Section 32: All

(3) The Applicant presented testimony by affidavit as follows.

(a) Yates and affiliated companies own 84% of the working interests. All of the working interest is committed to the Unit.

(b) One hundred percent of the royalty interest is owned by the State of New Mexico.

(c) The State Land Office has given preliminary approval for this Unit.

(d) The initial well will be drilled at a standard gas well location 760 feet from the North line and 660 feet from the West line of Section 20, Township 19 South, Range 23 East, NMPM, Eddy County, New Mexico, and to an approximate depth of 7,750 feet.

(e) The primary target for this initial well will be the Morrow, with another possible target in the upper Pennsylvanian and in the upper Wolfcamp carbonates. The Wolfcamp is being developed with horizontal wells in prospects outside this proposed unit.

(4) No other party appeared at the hearing or otherwise opposed this application.

(5) All of the proposed unit acreage appears prospective for recovery of oil and gas from the target formations under the concept proposed by the applicant. These acres should be unitized and should equally share in the benefits from future oil and gas recovery.

(6) The approval of the proposed unit agreement will serve to prevent waste and protect correlative rights within the lands assigned to the unit area.

IT IS THEREFORE ORDERED THAT:

(1) The Manchester State Exploratory Unit Agreement executed by Yates Petroleum Corporation is hereby approved for all oil and gas in all formations from the surface to the base of the Morrow formation underlying the following-described 2,240 acres, more or less, of State of New Mexico lands situated in Eddy County, New Mexico:

TOWNSHIP 19 SOUTH, RANGE 23 EAST, NMPM

Section 20: All
Section 29: All
Section 31: E/2
Section 32: All

(2) The plan contained in the Manchester State Exploratory Unit Agreement for the development and operation of the above-described unit area is hereby approved in principle; provided, however, notwithstanding any of the provisions contained in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation that is now, or may hereafter be, vested in the

Division to supervise and control operations for the unit and production of oil and gas therefrom.

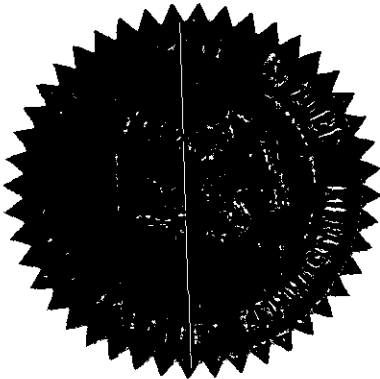
(3) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days of the effective date thereof; in the event of subsequent joinder by any other party, or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days thereafter, copies of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) All: (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the unit area shall be submitted to the Division Director for approval.

(5) This order shall become effective upon the approval of the unit agreement by the New Mexico State Land Office. This order shall terminate upon the termination of the unit agreement. The last unit operator shall notify the Division immediately in writing of such termination,

(6) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



MARK E. FESMIRE, P.E.
Director