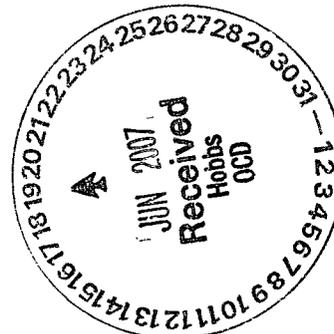




O'Briant and Associates, Inc. dba
SPORT ENVIRONMENTAL SERVICES
505 N. Big Spring Street, Suite 303, Midland, Texas 79701
Business: 432.683.1100 Fax: 432.683.5903

June 18, 2007



Mr. Larry Johnson, Environmental Engineer
New Mexico Oil Conservation Division
1625 N. French Drive
Hobbs, New Mexico 88240

Re: **Yates Energy Corporation Preliminary Delineation Work Plan
Reddy-Gulf State No. 002
Section 18, T-19-S, R-35-E
660 FNL and 1980 FWL
Lea County, New Mexico**

Dear Mr. Johnson,

Sport Environmental Services, on behalf of Yates Energy Corporation, submits this preliminary delineation work plan for the aforementioned Reddy-Gulf State No. 002 site.

Preliminary Mitigation Activities and Delineation Information

On May 16, 2007, Sport Environmental Services visited the Reddy-Gulf State Lease. The initial site investigation consisted of site photographs taken of NMOCD addressed items of concern (refer to *Exhibit A.*)

Yates Energy Corporation has performed limited clean-up at the wellhead. To prevent recurring releases, a new stuffing box was installed and a new polish liner put in place. Additional clean-up is still required and will commence once approved by the NMOCD.

Extensive sampling will not be conducted prior to the initial removal of visually contaminated soils. Soils which appear to be visually contaminated are scheduled to be excavated and stockpiled on a 20 mil liner located on-site. Soils are to be excavated with the use of a small gang performing hand digging due to proximity to the wellhead. Upon completion of soils excavation, analytical delineation will take place.

In conjunction with the removal of visually contaminated materials, a Soil Investigation, Risk Assessment and Sampling Plan will be prepared for NMOCD approval. The Sampling Plan will be designed to verify

Yates Energy Corporation
Reddy-Gulf State No. 002
NMOCD Preliminary Delineation Work Plan
June 18, 2007

a clean buffer perimeter and to address the potential of groundwater impact. The fate of the materials will be determined based upon analytical characteristics and NMOCD approval.

Enclosed please find the initial C-141 Form (*Exhibit B*) associated with the release notification.

If you have any questions or comments with regard to this matter, please contact me at either my office (432.683.1100) or my cell (432.553.8555).

Sincerely,



Debi Sport Smith, M.E., R.E.P.A.
Environmental Engineer
Registered Environmental Property Assessor

Cc: Fred Yates
Yates Energy Corporation
P.O. Box 2323
Roswell, NM 88202

James F. O'Briant (letter only)
O'Briant and Associates, Inc.
P. O. Box 10487
Midland, TX 79702

Mr. Buddy Hill
New Mexico Oil Conservation Division
1625 N. French Drive
Hobbs, NM 88240

File

Enclosures:

Exhibit A: Site Photographs taken May 16, 2007
Exhibit B: Initial C-141 Form Submittal

Yates Energy Corporation
Reddy-Gulf State No. 002
Unit E, Section 18-T19S-R35E
Lea County, New Mexico

Preliminary Delineation Work Plan
June 18, 2007

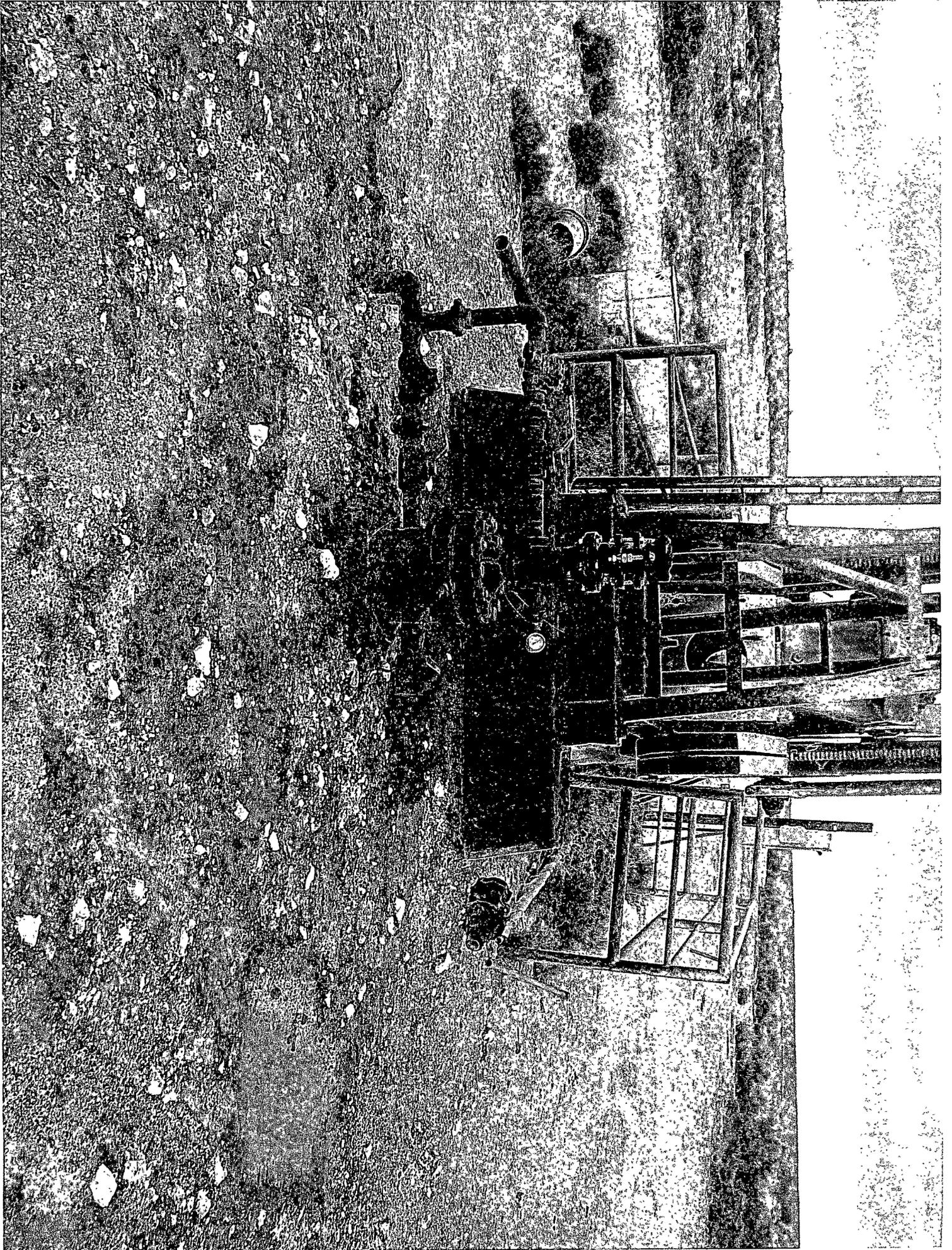
Exhibit A

SITE VISIT PHOTOGRAPHS

REDDY-GULF STATE No. 002

Photos taken during Preliminary
Contamination Delineation
(May 16, 2007)





Yates Energy Corporation
Reddy-Gulf State No. 002
Unit E, Section 18-T19S-R35E
Lea County, New Mexico

Preliminary Delineation Work Plan
June 18, 2007

Exhibit B

INITIAL C-141 FORM SUBMITTAL

REDDY-GULF STATE No. 002

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources
Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-141
Revised October 10, 2003

Submit 2 Copies to appropriate
District Office in accordance
with Rule 116 on back
side of form

Release Notification and Corrective Action

OPERATOR

Initial Report Final Report

Name of Company	Yates Energy Corporation	Contact	Fred Yates
Address	500 N. Main, Suite 1010 Roswell, NM 88202	Telephone No.	(505) 623-4935
Facility Name	Reddy-Gulf State #2	Facility Type	Oil and Gas Production Facility

Surface Owner	State	Mineral Owner	State	Lease No.	NM2417
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LOCATION OF RELEASE

API # 3002 52910410000

Unit Letter	Section	Township	Range	Feet from the	North/South Line	Feet from the	East/West Line	County
E	18	19-S	35-E	660	North	1980	West	Lea

Latitude 32.6659° N Longitude 103.4984° W

NATURE OF RELEASE

Type of Release	Oil and water.	Volume of Release	unknown	Volume Recovered	unknown
Source of Release	Leaking stuffing box.	Date and Hour of Occurrence		Date and Hour of Discovery	

Was Immediate Notice Given?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Not Required	If YES, To Whom?	
-----------------------------	---	------------------	--

By Whom?	Date and Hour
----------	---------------

Was a Watercourse Reached?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	If YES, Volume Impacting the Watercourse.	
----------------------------	---	---	--

If a Watercourse was Impacted, Describe Fully.*

Unknown

Describe Cause of Problem and Remedial Action Taken.*

Cause: Leaking stuffing box.
Remedial Action Taken: Initial wellhead clean-up performed. New stuffing box installed and new polish rod liner put in place. Additional clean-up still required.

Describe Area Affected and Cleanup Action Taken.*

The extent of contamination will be determined at the time of site clean-up. A Preliminary Delineation Work Plan will be submitted to the NMOCD for approval.

I hereby certify that the information given above is true and complete to the best of my knowledge and understand that pursuant to NMOCD rules and regulations all operators are required to report and/or file certain release notifications and perform corrective actions for releases which may endanger public health or the environment. The acceptance of a C-141 report by the NMOCD marked as "Final Report" does not relieve the operator of liability should their operations have failed to adequately investigate and remediate contamination that pose a threat to ground water, surface water, human health or the environment. In addition, NMOCD acceptance of a C-141 report does not relieve the operator of responsibility for compliance with any other federal, state, or local laws and/or regulations.

Signature: <u>Debi S. Smith</u>	OIL CONSERVATION DIVISION	
Printed Name: Debi S. Smith, M.E., R.E.P.A.	Approved by District Supervisor: <u>[Signature]</u>	
Title: Environmental Engineer/Consultant	Approval Date: <u>6-29-07</u>	Expiration Date: <u>9-10-07</u>
E-mail Address: <u>sportenvironmental@t3wireless.com</u>	Conditions of Approval:	Attached <input checked="" type="checkbox"/>
Date: June 4, 2007	Phone: (432) 683-1100	

SUBMIT FINAL C-141 w/

DOCUMENTATION BE

AP# 1465