



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Bill Richardson
Governor
Joanna Frakes
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

May 6, 2003

Harvey E. Yates Company
c/o Holland & Hart LLP
P. O. Box 2308
Santa Fe, New Mexico 87504-3208
Attention: Michael H. Feldewart
mfeldewart@hollandhart.com

Administrative Order NSL-4876 (BHL)

Dear Mr. Feldewart:

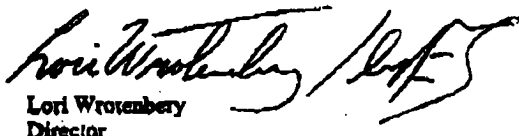
Reference is made to the following: (i) your application on behalf of the operator, Harvey E. Yates Company ("HEYCO"), that was submitted to the New Mexico Oil Conservation Division ("Division") on April 10, 2003 (*administrative application reference No. pKRV0-310048697*); and (ii) the Division's records in Santa Fe: all concerning HEYCO's proposed Cholla "1" Federal Well No. 4 to be directionally drilled from a surface location 2260 feet from the North line and 400 feet from the East line (Unit H) of Section 1, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, to a targeted bottomhole location at a depth of 12,700 feet to be 2130 feet from the North line and 890 feet from the East line (Unit H) of Section 1.

It is the Division's understanding that HEYCO intends to test both the Strawn and Morrow formations for gas production underlying Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of Section 1, being a standard 320.06-acre stand-up gas spacing unit for the Strawn formation, if found to be gas bearing and under the provisions of Division Rule 104.C (2), and Undesignated East Cedar Lake-Morrow Gas Pool (74605). It is further understood from the information provided that the proposed surface location satisfies certain surface issues with the federal surface management agency (U. S. Bureau of Land Management) and the subsurface location will allow HEYCO to penetrate the Strawn carbonate build-up at a location appearing to be more geologically favorable within the E/2 of Section 1 than a location considered to be standard for deep gas within southeast New Mexico (see Division Rule 104.C (2) (a)).

In accordance with Division Rules 111.A (7), 111.C (2), and 104.F (2) the planned directional drilling to the above-described subsurface gas well location for HEYCO's proposed Cholla "1" Federal Well No. 4 within both the Strawn and Morrow formations underlying the E/2 equivalent of Section 1 is hereby approved.

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

Sincerely,


Lori Wrotenbery
Director

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cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad

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Holland & Hart LLP