



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

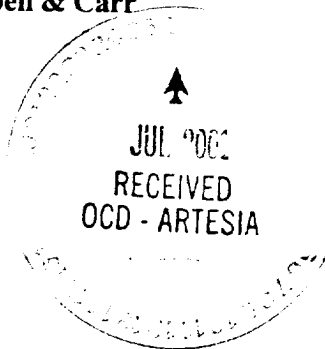
GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

June 4, 2001

Lori Wrotenbery
Director
Oil Conservation Division

Harvey E. Yates Company
c/o Holland & Hart LLP and Campbell & Carr
P. O. Box 2208
Santa Fe, New Mexico 87504-2208
Attention: **Michael H. Feldewer**

Telefax No. (505) 983-6043



Administrative Order NSL-4589

Dear Mr. Feldewert:

Reference is made to the following: (i) your original application on behalf of the operator, Harvey E. Yates Company ("HEYCO"), that was submitted to the New Mexico Oil Conservation Division ("Division") on February 28, 2001; (ii) the Division's initial response by letter dated March 26, 2001 from Mr. Michael E. Stogner, Chief Hearing Officer/Engineer in Santa Fe; (iii) your response by letter dated May 22, 2001; and (iv) the records of the Division: all concerning HEYCO's request for an unorthodox oil well location within the Undesignated Loco Hills-Cisco Pool for its Loco Hills Welch Well No. 5 (API No. 30-015-31232), which was recently drilled to test the Morrow formation underlying an existing standard lay-down 320-acre gas spacing and proration unit within the South Empire-Morrow Gas Pool comprising the S/2 of Section 4, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico, at a standard gas well location 1450 feet from the South line and 660 feet from the West line (Unit L) of Section 4. This 320-acre gas unit is currently dedicated to HEYCO's:

- (1) Loco Hills Welch Well No. 2 (API No. 30-015-23001) located at a standard gas well location 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 4; and
- (2) Loco Hills Welch Well No. 4 (API No. 30-015-30960) located at an unorthodox infill gas well location (**approval order unknown**) 1980 feet from the South line and 2310 feet from the East line (Unit J) of Section 4.

Under the rules currently governing the South Empire-Morrow Gas Pool completion of this well into the gas bearing Morrow interval would not be allowed since it would have been a third well within a non-standard deep gas unit [see Division Rule 104.D (3)].

It is our understanding that the Morrow interval tested non-commercial in this well; however, the shallower Cisco interval was found to be productive for oil and was therefore completed. Pursuant to Division Rule 104.B (1), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, this location is unorthodox for the standard 40-acre oil spacing and proration unit to be dedicated to the Cisco formation comprising the NW/4 SW/4 (Unit L) of Section 4.

It is further understood that the original location for the Loco Hills Welch Well No. 5 was to be 1650 feet from the South line and 660 feet from the West line of Section 4; however, a pipeline prevented HEYCO from drilling at this location. The location therefore was moved 200 feet south. However, nothing contained within this application indicates why a move 200 feet to the north, which would have resulted in a standard oil well location for this 40-acre unit, could not have been made in order to avoid this pipeline.

Currently, under Division Rule 505.A, the top unit depth bracket allowable for the Loco Hills-Cisco Pool is 275 barrels of oil per day and 550 MCF/D of casinghead gas.

This application has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

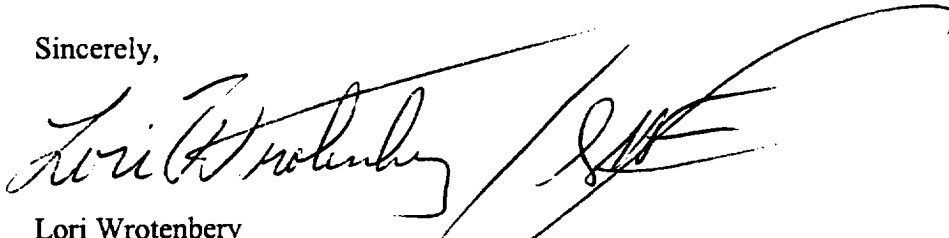
By the authority granted me under the provision of Division Rule 104.F (2), the above-described unorthodox Cisco oil well location is hereby approved; however, since the circumstances surrounding this unorthodox completion in the Cisco formation did not follow acceptable regulatory and industry practices, a production penalty should be assessed the Loco Hills-Cisco production.

This well being 60.6 % closer to the south line of this 40-acre tract than allowed (200 feet divided by 330 feet), an acreage factor of 0.40 shall be assigned this well and unit towards this pool's top depth bracket allowable.

Please note that in the future, HEYCO, as a prudent operator, should take all necessary steps to locate wells at a location considered to be standard for all possible zones to be encountered and should be more cognizant of well location requirements for different producing horizons within the immediate area of operations.

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

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

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