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MAY 25 1990

O. C. B.
ARTESIA, NM



May 24, 1990

Oil Conservation Division
P. O. Drawer DD
Artesia, NM 88210

Attention: Darryl Moore

Dear Mr. Moore:

Yates Energy Corporation (YEC) would like to apply for a New Oil Discovery Allowable on the YEC Thornbush Federal #1, located in Section 1, T18S, R31E, Eddy County, New Mexico. The YEC Thornbush Federal #1, which was originally drilled as a 9100' Bone Spring test, was completed in a shallow zone at a depth of 4637'. This zone is situated in that interval where the San Andres carbonates and the Delaware sands inter-finger with each other; therefore, making proper pool identification extremely difficult. Based on the fact that our perforated interval is in a carbonate, I have chosen to call this interval part of the San Andres formation. For purposes of identifying and defining the proper allowable for this oil pool, I have constructed several maps and cross-sections of the wells in the immediate area. Also, included is a set of electric logs on the YEC Thornbush Federal #1 with the tops and bottoms of the producing formations identified and all available reservoir data and reservoir liquid characteristics that I have on the immediate area for the San Andres formation.

The data that I have indicates that the nearest San Andres pool is located just over 1 mile northwest of our YEC Thornbush Federal #1. The Hudson Lowe Federal #1, located in Section 35, T17S, R31E, Eddy County, New Mexico, was completed in 1963 for an IPF of 66 BOPD + 0 BW (see cross-section A-A'). The well has a total cumulative production of 42 MBO and is producing at a rate of 4 BOPD + 75 BWPD. The YEC Thornbush Federal #1, which is also included on cross-section A-A', was completed at an approximate rate of 129 BOPD + 16 BWPD + 300-500 MCFPD from a separate stratigraphically lower porosity unit in the San Andres formation. Based on the structural position of both these wells and their current producing capabilities and fluid characteristics, it is quite evident that these two wells are located within two different oil pools. Because of this information and the fact that the YEC Thornbush Federal #1 is capable of producing significantly more oil than 80 BOPD, YEC recommends that this well be considered for the new oil discovery allowable. It should also be noted that during this time of marginal oil prices, it is extremely important that all operators benefit from a maximum oil allowable for each area. This greater oil allowable would generate more revenue for both the state and the operator; thereby, providing capital for future exploratory efforts.