



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

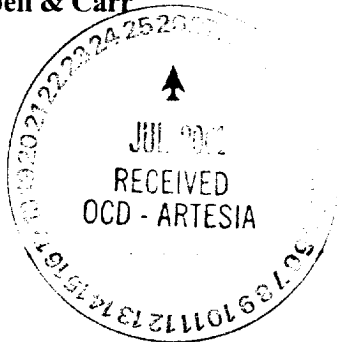
GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

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.

