



REC'D 6 1993

December 3, 1993

New Mexico Oil Conservation Division
P.O. Drawer DD
Artesia, New Mexico 88211

Attn: Ray Smith

Re: Desert Rose Federal #1
Hess, East (Morrow) Field
Bandana Point (Strawn) Field
1740' FSL & 660' FEL
Section 27-23S-23E
Eddy County, New Mexico

Dear Mr. Smith:

I received your letter of December 1, 1993 concerning the Desert Rose #1 packer failure and am enclosing a copy of the letter sent to Santa Fe requesting approval for downhole commingling. To date, we have not received a response from Santa Fe.

Please contact me at 505-623-4935 if there is anything I can do to help speed this application.

Very Truly Yours,
YATES ENERGY CORPORATION

Kirk Ross
Engineer

cc: file
Desert.oed



October 11, 1993

New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088
Attn: William Lemay

Re: Downhole commingling
Desert Rose Federal #1
Hess, East (Morrow) Field
Bandana Point (Strawn) Field
1740' FSL & 660' FEL
Section 27-23S-23E
Eddy County, New Mexico

Dear Mr. Lemay:

Yates Energy Corporation respectfully requests administrative approval to downhole commingle the Strawn and Morrow formations in the subject well.

Previous authority to surface commingle the subject zones was granted in 1991 by Order #PC-781. As per that order, we are required to perform annual packer leakage tests. While performing the 1993 test, communication was discovered between the tubing and annulus, indicating either a packer failure or tubing leak. The Artesia office of the OCD notified us 9/15/93 that we have 30 days to repair the leak.

Yates Energy is making this request based on economics. We assert that the costs associated with the repair may not be returned from the remaining gas reserves. If you will notice, gas production has declined to less than 75 MCFPD (for September 1993), and remaining reserves are estimated at only 50 MMCF. Repair costs could be in excess of \$10,000, making the project uneconomic when the time value of money is considered. Also of importance, the well will have to be killed with fluid to repair the leak and there is a possibility that the Morrow formation would be permanently damaged as a result. If however, we were allowed to commingle this production downhole, we would be able to produce the remaining reserves, thus preventing waste.

Current reservoir pressures in both reservoirs are estimated to be reasonably equal and no crossflow between zones is

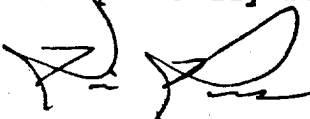
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anticipated. Neither reservoir produces formation water so there will be no compatibility problems. In addition, all ownerships are common for both zones.

Attached are production decline curves showing a stabilized decline on both zones. We have determined that the future allocation could be based on a split of 41% for the Morrow zone and 59% for the Strawn. We have also attached a plat showing that OXY USA Inc. is the only offset operator. Correspondence has been sent to OXY notifying them of our intent and requesting a waiver. The waiver will be forwarded to you after receipt. We have also notified the BLM of our intent.

We also request that you waive your requirement of a current bottomhole pressure test and a current 24 hr deliverability test due to the fact that the tests would be impossible to run under the current circumstances. Please review the attached information at your earliest convenience. Should you require additional information, please advise.

Respectfully Submitted,



Kirk Ross
Engineer

attachments

cc: OCD-Artesia
BLM-Carlsbad