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PAGE NO: 1

Sec : 02 Twp : 11S Rng : 35E Section Type : NORMAL

<div>4 17.40 CS VA2143 0000 YATES PETROLEUM C U 04/01/05</div>	<div>3 17.41 CS VA2143 0000 YATES PETROLEUM C U 04/01/05</div>	<div>2 17.41 CS VA2143 0000 YATES PETROLEUM C U 04/01/05</div>	<div>1 17.42 CS VA2143 0000 YATES PETROLEUM C U 04/01/05</div>
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**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 13434
ORDER NO. R-12318**

**APPLICATION OF YATES PETROLEUM CORPORATION FOR A UNIT
AGREEMENT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on March 3, 2005, at Santa Fe, New Mexico, before Examiner Richard Ezeanyim.

NOW, on this 25th day of March, 2005, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Yates Petroleum Corporation ("Yates" or "Applicant"), seeks approval of its Chesney State Exploratory Unit Agreement for all oil and gas in all formations from the surface to the base of the Mississippian formation underlying the following-described 5899 acres, more or less, of State of New Mexico and Fee lands situated in Lea County, New Mexico:

TOWNSHIP 11 SOUTH, RANGE 35 EAST, NMPM

Section 1: All
Section 2: All
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 23: All

Section 24: All
Section 26: All
Section 27: All

(3) The Applicant presented testimony that demonstrates that:

(a) Sections 1 and 2 are irregular sections comprising 800 acres, more or less;

(b) Ninety-nine (99%) percent of the interests owners within the Unit area are committed to the Unit;

(c) Ninety-seven (97%) percent of the royalty interest is owned by the State of New Mexico, and three (3%) percent of the royalty interest is Fee lands;

(d) There are no overriding royalty interests in the Unit Area;

(e) The Commissioner of Public Lands has given preliminary approval for the proposed Unit;

(f) The initial well will be drilled at a standard gas well location 1650 feet from the North line and 990 feet from the West line of Section 26, Township 11 South, Range 35 East, NMPM, Lea County, New Mexico, and to an approximate depth of 13,100 feet;

(g) The primary target for this initial well will be the Middle Atoka formation, but all formations will be evaluated down to the base of the Mississippian formation; and

(h) Yates has conducted economic analysis of the unit area and found very few economic wells, therefore this area can best be developed and produced under a unit agreement.

(4) No other party appeared at the hearing or otherwise opposed this application.

(5) All of the proposed unit acreage appears prospective for recovery of oil and gas from the target formations under the concept proposed by the applicant. These acres should be unitized and should equally share in the benefits from future oil and gas recovery.

(6) The approval of the proposed unit agreement will serve to prevent waste and protect correlative rights within the lands assigned to the unit area.

IT IS THEREFORE ORDERED THAT:

(1) The Chesney State Exploratory Unit Agreement executed by Yates Petroleum Corporation is hereby approved for all oil and gas in all formations from the surface to the base of the Mississippian formation underlying the following-described 5899 acres, more or less, of State of New Mexico and Fee lands situated in Lea County, New Mexico:

TOWNSHIP 11 SOUTH, RANGE 35 EAST, NMPM

Section 1: All
Section 2: All
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 23: All
Section 24: All
Section 26: All
Section 27: All

(2) The plan contained in the Chesney State Exploratory Unit Agreement for the development and operation of the above-described unit area is hereby approved in principle; provided, however, notwithstanding any of the provisions contained in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation that is now, or may hereafter be, vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

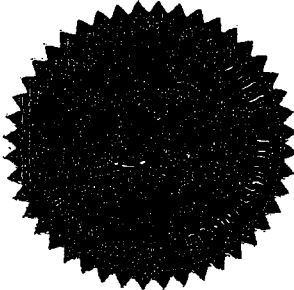
(3) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days of the effective date thereof; in the event of subsequent joinder by any other party, or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days thereafter, copies of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) All: (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (Hi) expansions or contractions of the unit area shall be submitted to the Division Director for approval.

(5) This order shall become effective upon the approval of the unit agreement by the New Mexico State Land Office. This order shall terminate upon the termination of the unit agreement. The last unit operator shall notify the Division immediately in writing of such termination.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director