

September 22, 2006

HAND DELIVERY

Mr. Mark Fesmire, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Application of Yates Petroleum Corporation, for administrative approval of an unorthodox well location for its Mocha State Unit Well No. 3, to be re-entered and deepened at a location 554 feet from the North line and 2086 feet from the East line of Section 35, Township 12 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

Dear Mr. Fesmire:

Yates Petroleum Corporation ("Yates") hereby seeks administrative approval pursuant to the provisions of Division Rule 104 F (2)-(4), of an unorthodox well location for its Mocha State Unit Well No. 3 located 554 feet from the North line and 2086 feet from the East line of Section 35 (Unit B), Township 12 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

This well was originally drilled as the Lone Ranger Well No. 1 and was permitted as a Lower Pennsylvanian/Ranger Lake test. The well was drilled to a total depth of 10,425 feet by L.R. French Jr. in 1960 at which time it tested the Range Lake zone and was abandoned.

The non-standard location is required by geologic conditions. This proposed location is unorthodox because it is governed by the Division's Statewide Rules which provides for gas wells on 320-acre spacing units to be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. The proposed unorthodox well location is only 106 feet from the north and east boundaries of the spacing unit. Yates proposes to deepen the well to approximately 12,300 feet into the Upper Mississippian to test the Morrow sand. Included as **Exhibit A** is a prospective Morrow trend map generated from offset well logs and a cross-section. This Morrow sand was found in Yates' offsetting well, the Slick AZU State Com Well No. 1 also shown on the map. The Mocha State Well No. 1 is located in the NW/4 of Section 2,

Holland & Hart LLP

Phone [505] 988-4421 Fax [505] 983-6043 www.hollandhart.com

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Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. 

30-025-01887

5. Ranger Lake Morrow
9723



Township 13 South, Range 34 East NMPM and has accumulated 1,967 barrels of oil, 683 barrels of water, and 96,559 million cubic foot of gas from the Morrow. However, this well was damaged during completion which has affected production.

Exhibit B is Cross-Section A-A' and shows the Slick Morrow sand. The equivalent limes found in other wells in the are typified by the West Ranger Lake Unit 16 Well No. 2 and Amerada State Well No. 1 logs. The Slick No. 1 well production tested the Upper Morrow sand shown in the cross-section and recovered 100% water. Yates expects that the sands found in the Slick Well No. 1 will be at the Mocha Well No. 3 location. Using the Amerada well and Slick well logs, Yates surmises that the Morrow sand will be anywhere from 70 feet to 100 feet high in the Mocha Well No. 3.

Re-entering and deepening the Mocha State Unit Well No. 3 in the existing wellbore at the unorthodox location is more economically feasible than drilling a new well at an orthodox location saving Yates at least one million dollars to drill and complete the well. **Exhibit C** is the AFE for this well. This re-entry would be the most efficient and reasonable way to develop these potential deep reserves and would be in the best interest of conservation and the prevention of waste.

The proposed well location is within the boundaries of the Mocha State Unit and the ownership is common in the offsetting spacing units to the west. However, the well also encroaches the spacing unit to the north. **Exhibit D** is a list of affected parties as defined by Division Rules. As required by Rule 1210(A)(2), a copy of this application (with attachments) has been sent to those listed on Exhibit D in accordance with Rule 1207(A)(5) and they have been advised that if they have an objection to this application it must be filed in writing with the Division's Santa Fe office within twenty days from the date this notice was sent.

Also enclosed is a proposed administrative order prepared by Yates on behalf of the Division.

Your attention to this application is appreciated.

Sincerely,

Ocean Munds-Dry
ATTORNEY FOR YATES PETROLEUM
CORPORATION

Enclosures

cc: John Amiet (w/o attachments)

NEW MEXICO OIL CONSERVATION COMMISSION
WELL LOCATION AND ACREAGE DEDICATION PLAT

FORM C-128
 Revised 5/1/57

SEE INSTRUCTIONS FOR COMPLETING THIS FORM ON THE REVERSE SIDE

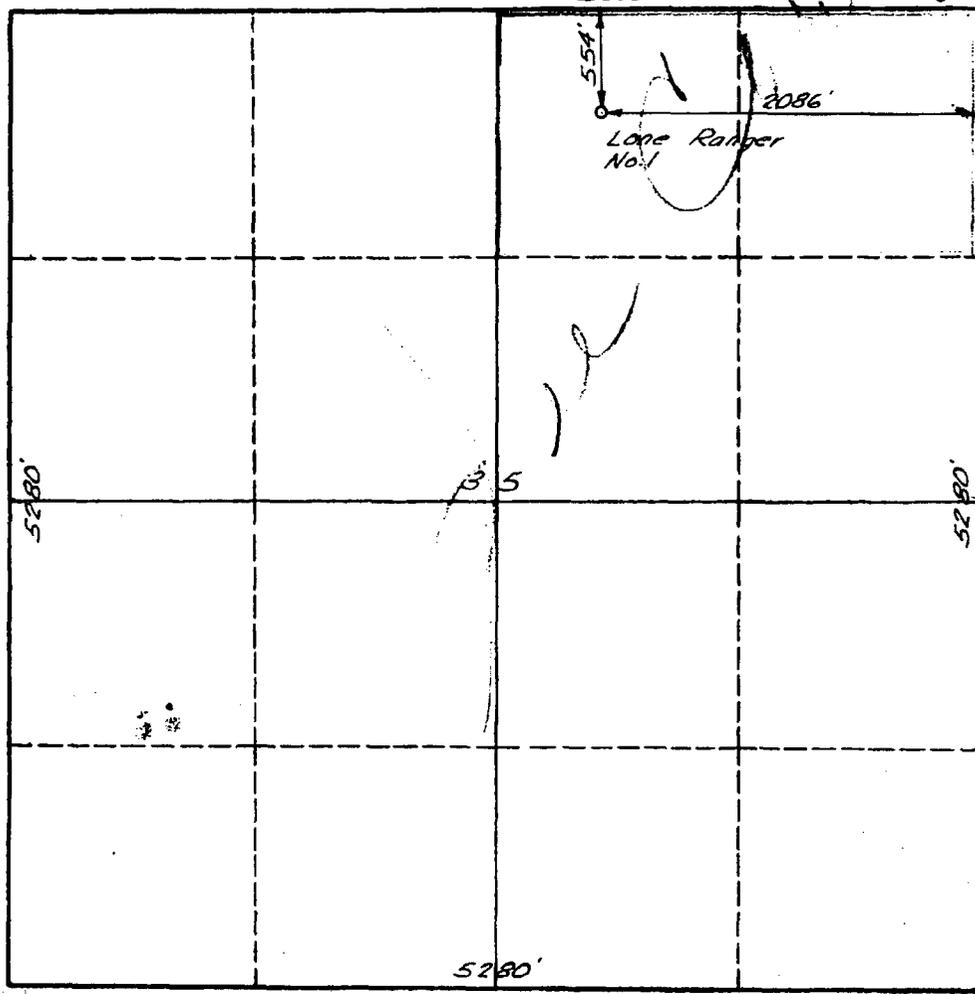
SECTION A

Operator L. R. French Jr.		Lease Lone Ranger NE 1/4 (160 Acres)		Well No. 8130
Unit Letter B	Section 35	Township 12 South	Range 34 East	County Lea
Actual Footage Location of Well: 554 feet from the North line and 2086 feet from the East line				
Ground Level Elev. 4150 (Est.)	Producing Formation Pennsylvanian	Pool Ranger Lake Pennsylvanian	Dedicated Acreage: 80 Acres	

1. Is the Operator the only owner in the dedicated acreage outlined on the plat below? YES XX NO ("Owner" means the person who has the right to drill into and to produce from any pool and to appropriate the production either for himself or for himself and another. (65-3-29 (e) NMSA 1935 Comp.)
2. If the answer to question one is "no," have the interests of all the owners been consolidated by communitization agreement or otherwise? YES NO . If answer is "yes," Type of Consolidation
3. If the answer to question two is "no," list all the owners and their respective interests below:

Owner	Land Description

SECTION B 5280' 26



CERTIFICATION

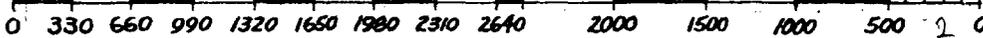
I hereby certify that the information in SECTION A above is true and complete to the best of my knowledge and belief.

L. R. French Jr.

Name L. R. French, Jr.
Position Production Clerk
Company 3-26-60
Date

36
 I hereby certify that the well location shown on the plat in SECTION B was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed 3/26/60
Registered Professional Engineer and/or Land Surveyor <i>Gene L. Jewett Jr.</i>
Certificate No. 1381



N/2 2 N/2 1
 S Ranger Lake Mountain



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

AUTHORITY FOR EXPENDITURE
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO. **06-423-0**
AFE DATE **9/6/2006**
AFEND (rev 8/98)

AFE Type:	Well Objective:	Well Type:
<input type="checkbox"/> New Drilling	<input type="checkbox"/> Oil	<input checked="" type="checkbox"/> Development
<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Exploratory
<input checked="" type="checkbox"/> Re-entry	<input type="checkbox"/> Injector	

AFE STATUS:

<input checked="" type="checkbox"/>	Original	_____
<input type="checkbox"/>	Revised	_____
<input type="checkbox"/>	Final	_____
<input type="checkbox"/>	Supplemental	_____

LEASE NAME	Mocha State Unit #3	PROJ'D DEPTH	12,300'
COUNTY	Lea	STATE	New Mexico
FIELD		HORIZON	Mississippian
LOCATION	Section 35, T12S-R34E, 554' N & 2,086' E		

DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: **Re-enter with pulling unit & drill out plugs in surface casing then splice 8 5/8" interm. casing at 2,700'. MIRT and drill out plugs down to 10,425' then deepen well to new TD of 12,300' to test multiple zones.**

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	4,000	4,000
920-110	Location, Right-of-Way	25,000	25,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 28 days @ \$19,000/day + \$45K for mob	612,000	612,000
920-140	Drilling Water, Fasline Rental	30,000	30,000
920-150	Drilling Mud & Additives	60,000	60,000
920-160	Mud Logging Unit, Sample Bags	9,000	9,000
920-170	Cementing - Surface Casing		
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	60,000	60,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	40,000	40,000
920-205	Control of Well-Insurance	4,000	4,000
920-210	Supervision & Overhead	23,000	23,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	30,000	30,000
920-350	Cementing - Production Casing		45,000
920-410	Completion Unit - Swabbing clean out plugs & splice casing		180,000
920-420	Water for Completion		25,000
920-430	Mud & Additives for Completion		
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		35,000
920-460	Tools & Equip. Rental, Etc. - Completion		40,000
920-470	Stimulation for Completion		200,000
920-480	Supervision & O/H - Completion		5,000
920-490	Additional LOC Charges - Completion	140,000	140,000
920-510	Bits, Tools & Supplies - Completion		1,500
920-500	Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS		1,037,000	1,568,500

TANGIBLE EQUIPMENT COSTS:		DRY HOLE	COMP'D WELL
930-010	Christmas Tree & Wellhead	5,000	25,000
930-020	Casing		
	5 1/2" @ 12,550'		196,000
930-030	Tubing 2 7/8" @ 12,350'		75,500
930-040	Packer & Special Equipment		
940-010	Pumping Equipment		
940-020	Storage Facilities		20,000
940-030	Separation Equip., Flowlines, Misc.		65,000
940-040	Trucking & Construction Costs		25,000
TOTAL TANGIBLE EQUIPMENT COSTS		5,000	406,500

TOTAL COSTS **1,042,000** **1,975,000**

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By	Jeremiah Mullen	Operations Approval	
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BY	DATE	

EXHIBIT C

Exhibit D
Yates Petroleum Corporation
Section 35, Township 12 South, Range 34 East
Lea County, New Mexico

Everquest Energy Corporation
10 Desta Drive Suite 300E
Midland, TX 79705

Marbob Energy Corporation
P.O. Box 227
Artesia, New Mexico 88211-0227

Yates Petroleum Corporation

Attention: John Amiet

Administrative Order NSL-_____

Dear Mr. Amiet:

Reference is made to your application dated September 19, 2006 for an unorthodox well location for Yates Petroleum Corporation's Mocha State Unit Well No.3 to be re-entered and re-completed in the Upper Mississippian. Said well will be located 554 feet from the North line and 2086 feet from the East line of Section 35, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico.

A 320-acre spacing and proration unit in Section 35 is to be dedicated to said well.

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

By authority granted me under the provisions of Rule 104.F(2), the above-described unorthodox well location within this 80-acre unit in the Strawn formation is hereby approved.

Sincerely,

Mark E. Fesmire, P.E.
Director

cc: Oil Conservation Division - Hobbs/Artesia

September 22, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

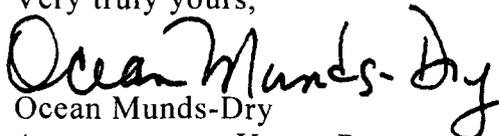
AFFECTED INTEREST OWNERS

Re: Application of Yates Petroleum Corporation for administrative approval of an unorthodox well location for its proposed Mocha State Unit Well No. 3 to be re-entered and deepened at a location 554 feet from the North line and 2086 feet from the East line of Section 35, Township 12 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

Ladies and Gentlemen:

Enclosed is a copy of the above-referenced application which was filed with the New Mexico Oil Conservation Division on this date by Yates Petroleum Corporation for administrative approval of an unorthodox well location for its Mocha State Unit Well No. 3, to be re-entered and deepened to the Upper Mississippian from a location 554 feet from the North line and 2086 feet from the East line of Section 35, Township 13 South, Range 34 East, NMPM, Lea County, New Mexico. A standard 320-acre spacing unit will be dedicated to the well.

As an owner of an interest that may be affected by the proposed well, you may object to this application. Objections must be filed in writing within twenty days from this date at the Division's Santa Fe office that is located at 1220 South Saint Francis Drive, Santa Fe, New Mexico. 87505. If no objection is received within this twenty-day period, this application for an unorthodox well location may be approved.

Very truly yours,

Ocean Munds-Dry
ATTORNEY FOR YATES PETROLEUM
CORP.

Enclosures

2006 SEP 28

PM 1 3



marbob
energy corporation

0877

September 26, 2006

New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

RE: Application of Yates Petroleum Corporation for administrative approval of an unorthodox well location for its proposed Mocha State Unit Well No. 3 to be re-entered and deepened at a location 554 feet from the North line and 2086 feet from the East line of Section 35, Township 12 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

Ladies and Gentlemen:

Marbob Energy Corporation is in receipt of Mrs. Munds-Dry's September 22, 2006 letter notifying us of the above referenced. Marbob Energy Corporation being an offset operator to the Mocha State Unit No. 3 well has no objection to the proposed Yates Petroleum application. Please accept this letter as notification of such. Should you need further information or have any questions concerning this matter, please do not hesitate to contact us. Your attention to this matter is greatly appreciated.

Sincerely,

Dean Chumbley
Land Department

/dc

cc: Ocean Munds-Dry, Holland & Hart
John Amiet, Yates Petroleum Corporation