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November 22, 2004

VIA HAND DELIVERY

Mr. Richard Ezeanyim
Chief Engineer and Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

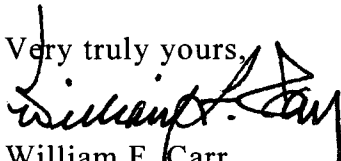
Re: Oil Conservation Division Case No. 13229: Application of Yates Petroleum Corporation for an unorthodox location, an exception to Division rule 104.C(2)(b), and a retroactive approval date for any order issued in this case, Chaves County, New Mexico.

Dear Mr. Ezeanyim:

Enclosed is a draft order granting the application of Yates Petroleum Corporation in the above-referenced case. I have also sent this draft order to you by e-mail.

As I explained to you last week, I experienced delays in getting this order to you because I could not find where the Division had created a Wolfcamp Pool for this well – even though it had produced from that formation in the mid-1990's. Enclosed is a letter from the Division that I believe explains this matter. As you will see, the Hanlad Well produced from the Wolfcamp in 1996 and Yates filed forms with the Division reporting this production. On November 20, 1996, the Division wrote Yates and directed them to report this production from the Ordovician formation even though it was coming from the Wolfcamp. The letter further directed Yates to keep the letter in the event the Taxation and Revenue Department performed an audit on the well.

If you have questions concerning the enclosed, please advise.

Very truly yours,


William F. Carr

Enclosures

cc: Charles Moran
Yates Petroleum Corporation

**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. 13229
ORDER NO. R-_____**

**APPLICATION OF YATES PETROLEUM CORPORATION FOR AN UNORTHODOX
GAS WELL LOCATION, AN EXCEPTION TO DIVISION RULE 104.C (2) (B), AND A
RETROACTIVE APPROVAL DATE FOR ANY ORDER ISSUED IN THIS CASE,
CHAVES COUNTY, NEW MEXICO.**

**YATES PETROLEUM CORPORATION'S PROPOSED
ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a. m. on September 16, 2004, at Santa Fe, New Mexico, before Examiner Richard Ezeanyim.

NOW, on this ____ day of November, 2004, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Yates Petroleum Corporation ("Yates") seeks an exception to Division Rule 104.C.(2) for an unorthodox deep gas well location in the Wolfcamp formation in the Palma Mesa-Pennsylvanian Gas Pool for Yates existing Hanlad "AKZ" State Well No. 2 (**API No. 30-005-62911**), located 330 feet from the South line and 1225 feet from the West line (Unit M) of Section 13, Township 8 South, Range 27 East (which is the subject of Division Order No. R-9721, issued in Case No. 10489 on June 11, 1992, approving this well as an unorthodox gas well location in the Palma Mesa Siluro-Ordovician Gas Pool (**82550**) within a standard 320-acre deep gas spacing unit comprising the S/2 of Section 13), this well to be dedicated to the S/2 of Section 13, being a standard 320-acre lay-down deep gas spacing unit for both zones. Applicant

also seeks an exception to Division Rule 104.C(2)(b) in order to recompleting the Hanlad "AKZ" State Well No. 2 as an infill Pennsylvanian gas well within the same quarter section (SW/4 of Section 13) as an existing well producing from the Palma Mesa-Pennsylvanian Gas Pool. The S/2 of Section 13, being a standard 320-acre lay down deep gas spacing unit in the Palma Mesa-Pennsylvanian Gas Pool, is currently dedicated to Yates' Hanlad "AKZ" State Well No. 1 (API No. 30-005-61493), located at a standard deep gas well location 660 feet from South and West lines (Unit M) of Section 13. Yates also requests that a retroactive effective date of October 15, 2003 or any order issued in this case.

(3) Division Rule 104.C(2) provides that in Southeast New Mexico, an initial and infill well may be drilled on a standard gas spacing and proration unit comprising 320 acres provided that: (i) the initial and infill well shall 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; (ii) the infill well shall be located within the quarter section not containing the initial well; and (iii) The Division-designated operator for the infill well is the same operator currently designated by the Division for the initial well.

(4) The evidence established that the Hanlad "AKZ" Well No. 1 was drilled in 1982 to the Pennsylvanian formation, Palma Mesa-Pennsylvanian Pool at a location 660 feet from the South and West lines (Unit M) of said Section 13. At the time the well was drilled, this location was a non-standard gas well location and this location was approved by Division Order No. R-7065 dated August 24, 1982. This well was subsequently re-completed in the Wolfcamp formation and the location approved by Order NSL-3309 dated October 13, 1993. In 2003 the well was returned to production in the Strawn clastics of the Pennsylvanian formation. At the time of the recompletion to the Strawn, the statewide rules for deep gas had been amended and this location was standard.

(5) The Hanlad "AKZ" Well No. 2 was originally drilled to the Ordovician formation at a non-standard gas well location 330 feet from the South line and 1225 feet from the West line (Unit M) of said Section 13. This location was approved by Division Order No. R-10489 entered in Case No. 10489 dated June 11, 1992. The well ceased to produce in the Ordovician formation and has been recompleted in the Wolfcamp and the Siluro Devonian formations.

(6) Since the Hanlad "AKZ" Well No. 1 produces from the Strawn formation and the Hanlad Well "AKZ" No. 2 well produces from the Wolfcamp formation and the Siluro Devonian formation, the wells are in compliance with Division Rules and the portion of this application seeking an exception to Division Rule 104.C(2)(B) is not needed and should be dismissed.

(7) At the time Yates re-completed the Hanlad "AKZ" Well No. 2 it tested the well in the Wolfcamp formation. Yates seeks a retroactive effective date for any order approving an

unorthodox well location in the Wolfcamp formation so the approval includes the test volumes produced from the well.

(8) The unorthodox location of the Hanlad "AKZ" Well No. 2 in the Wolfcamp formation only encroaches on properties operated by Yates and related companies and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation for an exception to Division Rule 104.C.(2) for an unorthodox deep gas well location in the Wolfcamp formation for Yates Hanlad "AKZ" State Well No. 2 (API No. 30-005-62911), located 330 feet from the South line and 1225 feet from the West line (Unit M) of Section 13, Township 8 South, Range 27 East (which is the subject of Division Order No. R-9721, issued in Case No. 10489 on June 11, 1992, approving this well as an unorthodox gas well location in the Palma Mesa Siluro-Ordovician Gas Pool (82550) within a standard 320-acre deep gas spacing unit comprising the S/2 of Section 13 is hereby approved. This well to be dedicated to the S/2 of Section 13, being a standard 320-acre lay-down deep gas spacing unit in the Wolfcamp formation.

(2) Yates application for an exception to Division Rule 104.C(2)(b) in order to recomplete the Hanlad "AKZ" State Well No. 2 as an infill Pennsylvanian gas well within the same quarter section (SW/4 of Section 13) as an existing well producing from the Palma Mesa-Pennsylvanian Gas Pool is unnecessary and this portion of Yates application is dismissed.

(3) This order shall be effective as of October 15, 2003.

(4) Jurisdiction is hereby 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director

S E A L

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
ARTESIA DISTRICT OFFICE

GARY E. JOHNSON
GOVERNOR

JENNIFER SALISBURY
CABINET SECRETARY

November 20, 1996

Yates Petroleum Corporation
105 South 4th Street
Artesia, New Mexico 88210
Attn: Michelle Taylor (Production Department)

Re: The Hanlad "AKZ" State # 2
Sec. 13, T8S-R27E, Unnit M
Eddy County, New Mexico

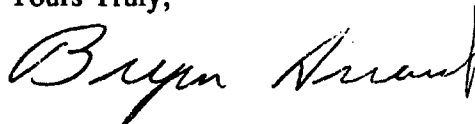
Dear Michelle,

This letter addresses the subject of leaving the Hanlad "AKZ" State # 2 well in the Palma Mesa; Ordovician Gas Pool. We have in our file, Sundry notices (C103's) and a Request for an Allowable (C-104), from Yates requesting to place said well in an undesignated Wolfcamp pool due to recompletion work that was recently preformed in the Wolfcamp formation. We would prefer to leave this well in the Palma Mesa; Ordovician Gas Pool for the following reasons: (1) There is no existing Wolfcamp production around this area. (2) The amount of oil and/or gas that has been sold by Yates from this zone is limited. (3) The probability of future Wolfcamp production from this well is small.

At least this is our feelings on this matter. In the event Taxation and Revenue preforms some type of audit on this well, you will have this letter as documentation from us. In testing the well for any recompletion, please check and see that all interest are the same in all testing zones.

Gives us a call if you need to visit with us about this or any other matters. Our apologies with the Bayer headache that this may have caused.

Yours Truly,



Bryan G. Arrant
District Geologist