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2005 FEB 11 AM 11 54

February 11, 2005

Mr. William Jones
Hearing Examiner
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Leanin L Federal Exploratory Unit, Case No. 13397

Dear Mr. Jones:

In this case Yates Petroleum Corporation is seeking approval of the Leanin L Federal Exploratory Unit that is comprised of 2560 acres of federal land located in Sections 8, 9, 10, and 17 of Township 15 South, Range 29 East, NMPM, Chaves County, New Mexico. The proposed unitized interval is from the top of the Queen formation to the base of the Chester Lime. The Bureau of Land Management has designated the unit area as logically suited for development pursuant to a unit plan (Attachment D to Exhibit 1). Contrary to what I stated to you earlier this week, the proposed Unit Agreement is on a standard federal form.

Following the February 3rd hearing on this application, you contacted me with questions concerning certain discrepancies between our application, the advertisement for this case, the proposed unit agreement, and the affidavit of Yates' geologist, Tim Miller, that I presented at the hearing. Your questions relate to the size of the unit, the formations included within proposed unitized interval, and the depth of the initial unit well. We have discussed your questions with Yates Petroleum Corporation and the Bureau of Land Management and this letter responds to each of these issues.

Unit Area Size

Although all acreage in the proposed unit area is included in our application and the legal advertisement for this case, the application and legal advertisement also include, in addition to the tracts identified above, a portion of Section 3, Township 15 South, Range 29 East. The inclusion of this tract increased the size of the unit to 2640 acres. I have confirmed that the Bureau of Land Management required that Yates delete the acreage in Section 3 and this reduced the total acreage in the unit area to 2560 acres of

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federal lands. This acreage is correctly identified in the unit agreement and in Mr. Miller's affidavit.

Formations in the Unitized Interval

I have reviewed your questions concerning the unitized interval with Mr. Miller and he confirms that Yates intends to unitize from the top of the Queen to the base of the Chester Lime as stated in the legal advertisement for this case. The reference to other horizons in his affidavit is incorrect. We have confirmed with the BLM that they do not object to our application limiting the unitized interval the base of the Chester Lime and that no further amendment of this unit agreement will be required.

Initial Test Well


We have also confirmed that the BLM does not require that the initial test well be drilled to the total depth of the unitized interval and that drilling to the Strawn or a depth of 10,300 feet as set out in Article 9 of the Unit Agreement complies with and properly reflects the understanding and agreement between the BLM and Yates. If you desire to confirm this understanding, please call Mr. John Simitz, petroleum geologist for the Roswell office of the BLM at (505)627-0272.

We hope with these clarifications the Leanin L Federal Exploratory Unit can be approved. All aspects of Yates' proposal was covered in the legal advertisement for this case, correct notice was given, the plan as proposed conforms to all BLM requirements, and a sufficient number of the owners of all interests in the unit area are committed to this agreement.

Also, please note that the first lease in the proposed unit expires on February 28, 2005. We would therefore request that you expedite your consideration of the Leanin L Federal Exploratory Unit.

Thank you for your time and attention to this matter. If you would like to discuss this matter further and/or have additional questions, please do not hesitate to contact me at (505)988-4421.

Sincerely,

A handwritten signature in black ink that reads "Ocean Munds-Dry". The signature is written in a cursive, flowing style.

Ocean Munds-Dry

OM
Enclosure