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July 11, 1995

VIA FACSIMILE AND FIRST CLASS MAIL

Mr. Michael Stogner, Hearing Examiner
New Mexico Oil Conservation Division
2040 S. Pacheco
P. O. Box 6429
Santa Fe, New Mexico 87505-5472

Re: NMOCD Case 11332
Application of Yates Petroleum Corporation to Rescind Order R-10372 which authorized the unorthodox well location for the Aspden "AOH" Federal Com Well NO. 2 in Case 11235 Eddy County, New Mexico

Re: NMOCD Case 11235 (Order R-10372)
Application of Yates Petroleum Corporation for an Unorthodox Well Location, Eddy County, New Mexico

Re: Administrative Application dated June 19, 1995, of Yates Petroleum Corporation for approval to drill the Aspden "AOH" Well No. 2 as a directionally drilled well, Eddy County, New Mexico

Dear Mr. Stogner:

I am in receipt of Tom Kellahin's letter of July 6, 1995, concerning the referenced issues. If Conoco appears at the hearing set for July 13, 1995, concerning Yates' request to rescind Order R-10372 we would request that you set it for hearing at the next available Examiner's hearing date, since I will be unable to be present at the hearing on July 13, 1995, due to being subpoenaed to appear in Federal Court on that date in Las Cruces.

I would also ask to be advised as to the Commission's position with respect to Conoco's posture on the administrative application of Yates to drill the Aspden well as a directional well. If the hearing is necessary, we would also ask that you set it at the next Examiner's hearing date, since that well has begun drilling.

I do not know that it is necessary to address the issues raised in Mr. Kellahin's letter, but I would like to address several of his assertions. The first assertion made is that Yates is obligated to drill the Aspden well as a vertical well, and this is nothing more than absurd. Furthermore, Mr. Kellahin is right that at the time that we had the hearing Yates had determined that a directional well was not economic. As has been explained to both Mr. Catanach and Mr. Rand Carroll, the solution suggested in the Division's order is a solution which will cause nothing but great havoc in the Dagger Draw area because it undoes and is contradictory to the position the Division has taken with respect to establishing a single proration unit and allowing the operator to drill only so many wells (up to one well on each forty acres) as is necessary to adequately produce the oil underlying each proration unit. By suggesting that each well could be dealt with as a separate non-standard proration unit is allowing a situation which will give rise to many conflicts concerning the full development of leases, prevention of drainage, compliance with concepts of implied covenants, and correlative rights. Yates is presently involved in a lawsuit concerning those very issues, and it has been determined by Yates that Conoco's very advocation of such a position was not well thought out and will be detrimental to the entire oil industry.

I would further point out with respect to Mr. Kellahin's second assertion, that being that this Division does not have authority to rescind any order entered by it, that such a position is contrary to the orders themselves, wherein the Division retains jurisdiction of the case to accomplish any proper matter. Under that set of circumstances the Division always has the authority to rescind or modify any order that it issues.

Very truly yours,

LOSEE, CARSON, HAAS & CARROLL, P.A.

Ernest L. Carroll

ELC:kth

xc: Mr. W. Thomas Kellahin
Mr. Randy Patterson