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November 26, 1996

HAND DELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

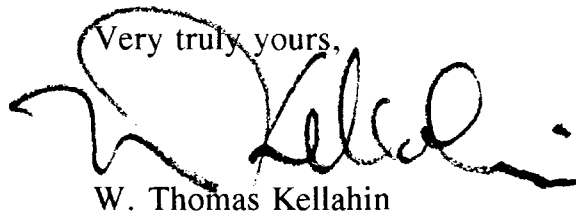
Re: Stonewall AQK State Com Well No. 1
Application of Yates Petroleum Corporation
for Compulsory Pooling and an Unorthodox Well Location
Eddy County, New Mexico

1/677

Dear Mr. LeMay:

On behalf of Yates Petroleum Corporation, please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for December 19, 1996. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Yates Petroleum Corporation
Attn: Mecca Mauritsen

CASE 11677: Application of Yates Petroleum Corporation for compulsory pooling and an unorthodox well location, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 20, T20S, R28E, NMPM, Eddy County, New Mexico, forming a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently may include but is not necessarily limited to the Burton Flat-Morrow Gas Pool and the Undesignated West Burton Flat-Atoka Gas Pool. Said unit is to be dedicated to its Stonewall AQK State Com Well No. 1 to be drilled and completed at an unorthodox well location 990 feet from the north and east lines (Unit A) of said Section 20. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Yates Petroleum Corporation as the operator of the well and a charge for risk involved in said well.

Said unit is located approximately 10 miles east-southeast from Locked, New Mexico.

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

IN THE MATTER OF THE APPLICATION
OF YATES PETROLEUM CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX
GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.

CASE NO. 11677

A P P L I C A T I O N

Comes now YATES PETROLEUM CORPORATION, by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17(c) (1978) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 20, T20S, R28E, NMPM, Eddy County, New Mexico, forming a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently may include but is not necessarily limited to the Burton Flat-Morrow Gas Pool and the Undesignated West Burton Flat-Atoka Gas Pool. Said unit is to be dedicated to its Stonewall AQK State Com Well No. 1 to be drilled and completed at an unorthodox well location 990 feet from the north and east lines (Unit A) of said Section 20. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Yates Petroleum Corporation as the operator of the well and a charge for risk involved in said well.

In support of its application, Yates Petroleum Corporation, ("Yates") states:

1. Yates has a working interest ownership in the oil and gas minerals from the surface to the base of the Morrow formation underlying the E/2 of Section 20, T20S, R28E, NMPM, Eddy County, New Mexico.

2. Yates desires to be designated operator of a spacing unit consisting of the E/2 of said Section 20 for the drilling and operating of a well to be drilled 990 feet from the north and east lines of said Section 20.

3. InterCoast Oil & Gas Company ("InterCoast") has obtained a farmout from Kerr-McGee Corporation and also seeks to be designated operator of this spacing unit.

4. This dispute originally involved N/2 of Section 20, T20S, R28E, Eddy County, New Mexico, containing two separate State leases divided between the NE/4 and the NW/4 of the section.

5. Any effort to obtain a voluntary agreement for the drilling of a "deep gas" test in this 320-acre spacing unit involves some 33 different owners.

6. Yates and its partners controls approximately 40 % of this proposed spacing unit.

7. InterCoast asserts it has the right the drill a Morrow well in this spacing unit based upon obtaining a farmout interest from Kerr-McGee Corporation.

8. On September 3, 1996, Yates received a letter from InterCoast dated August 30, 1996 which is referenced a "**Farmout Request**" and in which InterCoast requested Yates to farmout its interest in the NE/4 of said Section 20.

9. InterCoast's farmout request:

- (a) failed to include a written proposal to Yates by which Yates could pay its share of the costs of the well,
- (b) failed to afford Yates an opportunity to participate in the well,
- (c) failed to designate a 320-acre spacing unit,
- (d) failed to specify a footage location for the well,
- (e) failed to include an AFE,

10. InterCoast did not indicate to Yates that there was any urgency to this matter nor did InterCoast request a reply to the farmout request by any specific date.

11. InterCoast failed to put Yates on notice that InterCoast would institute compulsory pooling action against Yates in the absence of Yates' acquiescence to InterCoast's request.

12. On September 17, 1996, Janet Richardson, a landman with Yates, called Rock Quinn, a landman for InterCoast, and advised Mr. Quinn that Yates was not interested in farming out its interest to which Mr. Quinn responded that he would provide Yates with a proposed Authority for Expenditure ("AFE") and Joint Operating Agreement.

13. On Tuesday, September 24, 1996, InterCoast filed its compulsory pooling application for the N/2 of said Section 20 (NMOCD Case 11634) with the Division without first providing Yates with a written well proposal or an AFE.

14. At no time prior to filing its application for compulsory pooling, did InterCoast proposed to Yates the formation of the N/2 of Section 20 for the drilling of a Morrow gas well.

15. On September 30, 1996, Yates received a notice dated September 26, 1996, advising Yates that InterCoast had filed a compulsory pooling application to be heard on October 17, 1996.

16. InterCoast on its own motion continued its compulsory pooling case to the November 7, 1996 docket and then to the December 5, 1996 docket.

17. On October 9, 1996, more than 14 days after InterCoast filed its compulsory pooling application, Yates received InterCoast's first written proposal for the subject well which included a AFE.

18. On Monday, October 28, 1996 Mecca Mauritsen of Yates received a telephone call from Mr. Quinn of InterCoast during which he requested and Yates agreed to a meeting on this matter to be held on Wednesday, October 30, 1996. The next morning, Mr. Quinn called and canceled the meeting and thereby refused to undertake a good faith and reasonable effort to form a spacing unit on a voluntary basis.

19. Yates continued to request a meeting and on November 7, 1996, representatives of Yates and InterCoast meet and InterCoast agreed that:

(a) two wells should be drilled in Section 20 with the spacing units oriented E/2 and W/2; and

(b) InterCoast's pooling application seeking the N/2 dedication should be dismissed (NMOCD Case 11634).

20. However, InterCoast refused to allow Yates to operate the well in the E/2 of Section 20 despite the fact that this spacing unit (in which Yates is the largest owner) is in the Stonewall Unit which Yates has drilled and operated 21 wells since 1973.

21. On November 12, 1996, InterCoast filed its compulsory pooling application seeking to operate the E/2 of Section 20 (NMOCD Case 11666).

22. Yates has continued to attempt to obtain InterCoast's agreement that Yates should operate this well and this spacing unit but InterCoast has refused to discuss this matter further.

23. By its conduct, InterCoast has rejected Yates' proposal, has refused to discuss this matter with Yates, and has refused to consider Yates' effort to voluntarily form a spacing unit for this well to be operated by Yates.

24. That all reasonable efforts by Yates to form a voluntary agreement for this well has failed and it has been unable to obtain the voluntary agreement of all interest owners.

25. Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Yates needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

26. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for December 19, 1995.

27. In addition, notice is being set to all offsetting parties entitled to notice of the unorthodox well location as identified on Exhibit "A" attached.

WHEREFORE, Yates, as applicant, requests that this application be set for hearing on December 19, 1995 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for the drilling of the subject well at the proposed unorthodox gas well location upon terms and conditions which include:

- (1) Yates Petroleum Corporation be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200 %;
- (4) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;
- (5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

EXHIBIT "A"
YATES APPLICATION

Kerr-McGee Corporation
P. O. Box 25861
Oklahoma City, OK 73125
Attn: Dave Henke

InterCoast Oil & Gas Company
7130 S. Lewis Ave. Suite 700
Tulsa, Oklahoma 74136
Attn: Rock Quinn

Diamond Head Properties, L.P.
P. O. Box 2127
Midland, Texas 79702-2127

Petroleum Reserve Corporation
4815 S. Harvard Drive, Suite 305
Tulsa, OK 74135

Oxy USA, Inc.
Post Office Box 50250
Midland, TX 79710

Vision Energy, Inc.
Post Office Box 2459
Carlsbad, NM 88221

Petroleum Reserve Corp.
4815 S. Harvard, Suite 305
Tulsa, OK 73112

Claremont Oil Corp.
4815 S. Harvard, Suite 305
Tulsa, OK 73112

FXA Onshore Corp.
1612 S. Cincinnati Avenue
Tulsa, OK 74119

John McRae
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Denton, TX 76201

John D. Wallis
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Tulsa, OK 74119

Karen Loewenherz
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Tulsa, OK 74105

Milton Berry
4825 S. Peoria, #6
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Baker Recovery, Inc.
Post Office Box 1026
Tulsa, OK 74101

Mallon Oil Co.
999 18th Street, Suite 1700
Denver, CO 80202

