

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN

MICHAEL H. FELDEWERT
TANNIS L. FOX
TANYA M. TRUJILLO
PAUL R. OWEN

JACK M. CAMPBELL
OF COUNSEL

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

April 2, 1996

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

APR 15 1996
Oil Conservation Division

Re: Case 10711: Application of Yates Petroleum Corporation for Approval of a
Waterflood Project and Qualification for the Recovered Oil Tax Rate, Eddy
County, New Mexico

Dear Mr. LeMay:

By Order No. R-9896 entered in the above-referenced case, Yates Petroleum Corporation was authorized to institute a waterflood project on its Creek "AL" Federal Lease in portions of Sections 23, 24 and 25 of Township 18 South, Range 30 East, N.M.P.M., Eddy County, New Mexico. This waterflood project was to be operated in conjunction with the offsetting Hanson Operating Company Shugart Unit Waterflood Project. Both projects involved the injection of water into the Queen and Grayburg formations, Shugart-Yates-Seven Rivers-Queen-Grayburg Pool.

Paragraph 15 of Order R-9896 provides that the injection authority granted by this Order will terminate after one year unless extended for good cause shown. On three occasions Yates has requested and been granted extensions of this Order. The current extension ends on April 15, 1996.

To implement this waterflood project Yates has drilled and recompleted wells. However, as we previously advised the Division, additional recompletions and drilling are needed and a water line needs to be constructed. Yates intends to complete this work and implement this project. Although prices have improved, there is pending litigation concerning certain

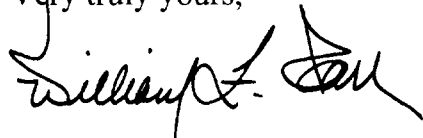
William J. LeMay, Director
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New Mexico Department of Energy,
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properties in the Shugart Unit Area which is causing further delay in the efforts of Yates and Hanson to implement this project.

Accordingly, Yates must request another extension of Order No. R-9896 until April 15, 1997. This extension will avoid an additional hearing at a later date to again approve this project. An additional extension of this Order will not adversely affect the interest of any owner and will result in the implementation of a waterflood project which will prevent the waste of oil.

Your attention to this request is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr", with a stylized flourish at the end.

WILLIAM F. CARR
ATTORNEY FOR YATES PETROLEUM CORPORATION

WFC:mlh

cc: Ms. Theresa Sloan
Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210