

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

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF HARVEY E. YATES
COMPANY FOR EXPANSION OF
OF A UNIT AREA, OTERO COUNTY,
NEW MEXICO.

CASE NO. 14000 (De Novo)
ORDER NO. R-10527-B

ORDER OF THE COMMISSION

THIS MATTER, having come before the New Mexico Oil Conservation Commission (Commission) on May 9 and June 19, 2008 at Santa Fe, New Mexico, on the Harvey E. Yates Company's application for expansion of a unit area in Otero County, and the Commission, having carefully considered the evidence and other materials the parties submitted, now, on this 30th day of July 2008,

FINDS:

1. Due public notice has been given, and the Commission has jurisdiction of this case and its subject matter.

2. The applicant, Harvey E. Yates Company, OGRID No. 10179, seeks approval of expansion of the Bennett Ranch Exploratory Unit Area. The proposed expanded unit area includes the following described 11,637.09 acres, more or less, of federal lands (10,556.39 acres) and state trust lands (1,080.7 acres) in Otero County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 12 EAST NMPM

Section 1-3:	All
Sections 10-15:	All
Sections 22-27:	All
Irregular Section 35:	All
Irregular Section 36:	All
Irregular Section 18:	All
Irregular Section 19:	All
Irregular Section 30:	All
Irregular Section 31:	All

3. The United States Department of the Interior, Bureau of Land Management regulations provide for the creation of exploratory units involving federal lands. See 43 C.F.R. Part 3180.

4. United States Department of the Interior, Bureau of Land Management regulations require that when state-owned lands are to be included in an exploratory unit with federal lands, the proponent of the exploratory unit must obtain the approval of the appropriate state officials. See 43 C.F.R. 3181.4.

5. The State Land Office conditioned its approval for this unit expansion, which includes state trust lands, upon the Oil Conservation Division's (Division) approval.

6. The Division denied the application for unit expansion on October 10, 2007.

7. The Harvey E. Yates Company filed an application for de novo review with the Commission on November 8, 2007.

8. The Harvey E. Yates Company first proposed the Bennett Ranch Exploratory Unit Area in 1995 as an exploratory unit that was necessary in order to best prospect and develop oil from the Silurian Fusselman formation in 8,8560.90 acres of state trust lands and federal lands within Otero County. The Harvey E. Yates Company used previous drilling records and three dimensional seismic to identify a structure possibly containing oil in the Fusselman formation. It was under that concept that, in 1995, the United States Department of the Interior, Bureau of Land Management and the State Land Office approved unitizing the Harvey E. Yates Company leases into the Bennett Ranch Exploratory Unit Area.

9. The three wells that the Harvey E. Yates Company has drilled in the Bennett Ranch Exploratory Unit Area since 1995 have been unproductive of oil from Silurian or Devonian age rocks. That drilling, however, along with three dimensional seismic has identified some potential for natural gas from Mississippian aged rocks and a better potential for natural gas from sands of the Pennsylvanian Canyon formation. Since the primary target has changed from 40-acre spaced oil in the Fusselman to possibly 640-acre spaced natural gas from the shallower Canyon formation, the locations of prospective drilling, and the exploration prospect acreage have changed.

10. Of the three wells, the Harvey E. Yates Company completed two of the wells as natural gas wells. During the drilling of the other well, the Harvey E. Yates Company encountered problems and therefore was unable to complete the well.

11. One of the completed wells is in the Canyon formation. The other is in the Mississippian formation. These wells are on 160 acre spacing. The Canyon reservoir appears to be productive over the southern part of the exploratory unit. The Mississippian reservoir appears to be productive over the northern part of the exploratory unit. Because of the limited number of wells that have been drilled the full extent of the Canyon and Mississippian reservoirs has not been determined.

12. A third possible reservoir, the Permo-Pennsylvanian, has been identified but not developed.

13. The Harvey E. Yates Company has requested to expand the exploratory unit to full sections so that it can comply with the 160 acre spacing requirement for natural gas wells.

14. If the exploratory unit is not expanded to include the additional acres, then a well drilled outside the existing exploratory unit would be a non-unit well. A non-unit well would have to have separate facilities from the wells located within the exploratory unit. If it is a unit well, however, facilities could be shared among wells. This would reduce surface disturbances and potential threats to groundwater.

15. Approval of the expanded exploratory unit will promote the orderly development of oil and gas resources.

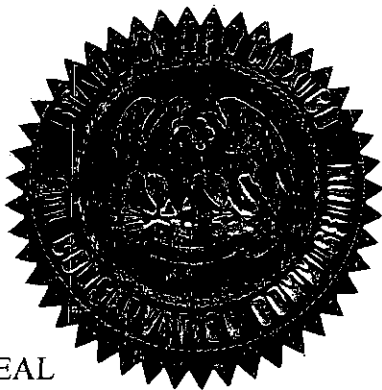
IT IS THEREFORE ORDERED that Harvey E. Yates' application for approval of expansion of the Bennett Ranch Exploratory Unit Area for Otero County, New Mexico is granted subject to the following conditions.

1. This order shall become effective upon approval of the expansion of the Bennett Ranch Exploratory Unit Area by the United States Department of the Interior, Bureau of Land Management and the Commissioner of Public Lands for the State of New Mexico; this order shall terminate *ipso facto* upon termination of the Bennett Ranch Exploratory Unit Area; and the last unit operator shall notify the Division immediately in writing of such termination.

2. Within the Bennett Ranch Exploratory Unit Area, the Division Director shall individually review exploratory wildcat drilling applications as defined in Subparagraph (b) of Paragraph (1) of Subsection A of 19.15.3.104 NMAC to ensure prevention of waste, protection of correlative rights, and protection of human health and the environment. For these exploratory wells, the Division Director shall have the option of requiring notice and public hearing prior to approval of the drilling permits.

DONE at Santa Fe, New Mexico on the 30th of July 2008.

COMMISSION



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STATE OF NEW MEXICO
OIL CONSERVATION

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MARK FESMIRE, CHAIR

A handwritten signature in black ink, appearing to read "Jami Bailey".

JAMI BAILEY, MEMBER

A handwritten signature in black ink, appearing to read "William Olson".

WILLIAM OLSON, MEMBER