



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT FOR REVIEW

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

July 5, 2001

Lori Wrotenbery
Director
Oil Conservation Division

Yates Petroleum Corporation
c/o Holland & Hart LLP and Campbell & Carr
P. O. Box 2208
Santa Fe, New Mexico 87504-2208
Attention: William F. Carr

Telefax No. (505) 983-6043

Administrative Order NSL-4597

Dear Mr. Carr:

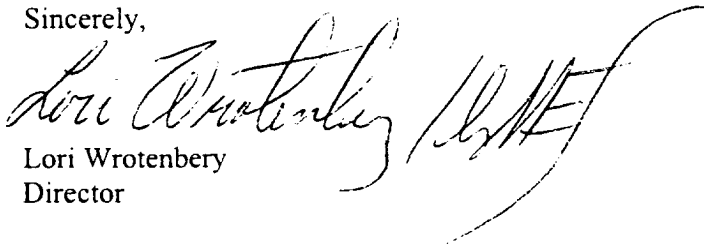
Reference is made to the following: (i) your application dated May 22, 2001 on behalf of the operator, Yates Petroleum Corporation ("Yates"); and (ii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe: all concerning Yates's request to drill its Koala "AXZ" State Well No. 1 (API No. 30-025-35410) at an unorthodox gas well location in both the wildcat Atoka and Morrow formations 990 feet from the North line and 330 feet from the East line (Unit A) of Section 19, Township 12 South, Range 35 East, NMPM, Lea County, New Mexico. It is our understanding that the primary objective for this well is the deeper Devonian interval, in which the NE/4 NE/4 of Section 19 is to be dedicated to form a standard 40-acre oil spacing and proration unit [pursuant to Division Rule 104.B (1), this location is standard]. However, pursuant to Division 104.C (2) (a), this location is considered to be an unorthodox gas well location for both the Atoka and Morrow intervals in which the E/2 of Section 19 is to be dedicated thereby in order to form a standard 320-acre stand-up gas spacing and proration unit.

The geologic interpretation submitted with this application indicates that a well drilled at the proposed location will be at a more favorable geologic position within the Devonian interval than a well drilled at an alternate location considered to be standard within the proposed 320-acre Atoka/Morrow gas spacing and proration unit.

The application has been duly filed under the provisions of Division Rule 104.F.

By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox Atoka/Morrow gas well location within the proposed 320-acre stand-up unit comprising the E/2 of Section 19 for Yates's proposed Koala "AXZ" State Well No. 1 is hereby approved.

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Hobbs /
New Mexico State Land Office - Santa Fe