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October 8, 2004

VIA HAND DELIVERY

Mark E. Fesmire, P. E.
Chairman
Oil Conservation Commission
New Mexico Department of Energy,
Minerals and Natural Resources
1221 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Oil Conservation Commission Order No. R-12108-A

Dear Mr. Fesmire:

Pursuant to paragraph 9 of Order No. R-12108-A entered by the Oil Conservation Commission on September 9, 2004, Yates Petroleum Corporation hereby furnishes an itemized schedule of the actual well costs incurred by Yates in conducting re-entry operations on the State "X" Well No. 1 pursuant to the Oil Conservation Division approved APD for this well.

In its Application for Rehearing filed on September 29, 2004, Yates has raised questions concerning the reasonableness of the limitations imposed by the Commission on its ability to recover these costs. See, Application for Rehearing at 13. Yates has been advised that the Commission will not consider its Application for Rehearing until its October hearing and therefore will not rule on the issues presented until after the date set by this Order for the submission of these costs. Yates therefore files the enclosed schedule of actual costs to comply with the provisions of Order No. R-12108-A.

The enclosed schedule of actual well costs identifies, and breaks down by supplier, the \$133,393.88 in costs incurred by Yates. Of these costs, Yates believes it should be authorized to recover \$94,412.86. It also shows that only \$36,716.24 of the costs incurred by Yates pursuant to the Division's APD may be recovered due to the time limitations imposed by Commission Order No. R-12108-A. Accordingly, \$57,696.92 of actual well costs incurred by Yates pursuant to the Division-approved APD for the subject well are disallowed by the arbitrary time frame imposed on the recovery of these costs by paragraph 9 of Order No. R-12108-A.



As the evidence presented by the parties to the Commission in Case 13153, de novo established, the Oil Conservation Division approved the Application for Permit to Drill filed by Yates Petroleum Corporation for its re-entry of the Limbaugh "AYO" State Well No. 1 (Pride Energy Company State "X" Well No. 1) on August 26, 2003. Finding 5(c). The N/2 of Section 12, Township 12 South, Range 34 East, NMPM, was dedicated to the well and this standard spacing unit is owned 100% by Yates and its related companies. The well is at a standard location. Pursuant to this APD, Yates commenced re-entry operations on this well.

The Division's files in this matter show that on September 10, 2003, Pride Energy Company, filed its application to, among other matters, cancel Yates APD. Pride also sought an Emergency Order from the Division prohibiting Yates re-entry operations. Yates responded on September 11, 2003 and on September 12, 2003, a Division Examiner denied Pride's application for an Emergency Order halting Yates operations on the well. Yates therefore continued with its re-entry operations pursuant to the APD approved by the Division.

The Examiner's September 12th order was appealed by Yates to the Oil Conservation Commission because it also denied Yates' motion for dismissal of the Pride application. The Director of the Commission remanded the matter to the Division on September 22nd. On that date, Pride filed its motion for reconsideration of its application for an order directing Yates to cease operations on the well. Yates responded on September 26th, and Pride replied on October 3, 2003. Another hearing was held before the Examiner on October 7th, at which time Yates advised the Examiner that it had removed its rig and had voluntarily suspended its operations on this well pending a decision by the Division on this matter.

Every action taken to re-enter this well was taken by Yates in good faith and in reliance upon a Division-approved APD.

In its Order, the Commission recognized that "Pride should reimburse Yates for reasonable costs incurred by Yates in connection with such operations." Findings 5(l) and 45. However, the Order disallows costs incurred after the date Pride served its application on Yates. By denying Yates the right to recover the costs incurred after the date Pride served its application seeking an order halting Yates operations on the well – a application that was ultimately denied by the Division – the Commission denies Yates the right to recover reasonable costs it incurred in connection with Division-approved re-entry operations on the State "X" Well No. 1. This action is arbitrary, unreasonable and capricious, and should be addressed by the Commission in a rehearing.

By copy of this letter, and pursuant to paragraph No. 9 of Order No. R-12108-A, the enclosed schedule of actual well costs has been furnished to Pride Energy Company,



attn: John W. Pride (by Facsimile and U. S. Mail) and to James Bruce, Esq., attorney for Pride Energy Company (by Facsimile and U. S. Mail).

Very truly yours,

A handwritten signature in black ink, appearing to read 'William F. Carr'.

William F. Carr

Enclosure

cc: Mr. Charles Moran
Yates Petroleum Corporation

David K. Brooks, Esq. (Via Hand Delivery)
Oil Conservation Commission

James G. Bruce, Esq. (Via Facsimile and U. S. Mail)
Pride Energy Company

John W. Pride (Via Facsimile and U. S. Mail)
Pride Energy Company

Schedule of Costs Incurred by Yates Petroleum Corporation, et. al.
Prepared in compliance New Mexico Oil Conservation Division Order # R-12108-A

T12S-R34E, N.M.P.M.
Sec. 12
Lea County, New Mexico

State X #1)

SERVICE DAY	SERVICE YEAR	PROPERTY	DESCRIPTION	VENDOR NAME	AMOUNT	Costs Incurred After August 25, 2003 and Before Notice of Hearing, September 10, 2003	All Costs Less Holland & Hart L.L.P.
28	2003	LIMBAUGH AYO STATE #1	STAKING, PERMIT & LEGAL FEES	GENERAL SURVEYING CO.	\$317.58	\$317.58	\$317.58
11	2003	LIMBAUGH AYO STATE #1	MISC VLVS FITTINGS SUPPLIES(A)	YATES PETROLEUM CORPORATION	\$2,781.31	\$0.00	\$2,781.31
8	2003	LIMBAUGH AYO STATE #1	MISC VLVS FITTINGS SUPPLIES(A)	YATES PETROLEUM CORPORATION	\$204.24	\$204.24	\$204.24
8	2003	LIMBAUGH AYO STATE #1	2" 5K LP API GATE VALVE, (B)	YATES PETROLEUM CORPORATION	\$593.34	\$593.34	\$593.34
8	2003	LIMBAUGH AYO STATE #1	STRCTRAL TBG, CSG, & RODS (A)	YATES PETROLEUM CORPORATION	\$81.00	\$81.00	\$81.00
11	2003	LIMBAUGH AYO STATE #1	CHRISTMAS TREE & WELLHEAD	ARTESIA FIELD SERVICE	\$168.18	\$0.00	\$168.18
2	2003	LIMBAUGH AYO STATE #1	SURFACE REPAIR & MAINT	RYDER SERVICES, INC.	\$63.45	\$63.45	\$63.45
6	2003	LIMBAUGH AYO STATE #1	SB-12 MIL PIT LINING	DUDLEY SALES & SERVICE	\$845.66	\$845.66	\$845.66
30	2003	LIMBAUGH AYO STATE #1	BASE PLATE KIT, CSGHD	WOOD GROUP PRESSURE CONTROL	\$3,350.04	\$3,350.04	\$3,350.04
5	2003	LIMBAUGH AYO STATE #1	TOOL&EPT RENTAL, INSPCT-COMPL.	E.L. FARMER & COMPANY	\$803.65	\$803.65	\$803.65
5	2003	LIMBAUGH AYO STATE #1	TOOL&EPT RENTAL, INSPCT-COMPL.	E.L. FARMER & COMPANY	\$1,160.25	\$1,160.25	\$1,160.25
11	2003	LIMBAUGH AYO STATE #1	TOOL&EPT RENTAL, INSPCT-COMPL.	E.L. FARMER & COMPANY	\$99.85	\$0.00	\$99.85
12	2003	LIMBAUGH AYO STATE #1	TOOL&EPT RENTAL, INSPCT-COMPL.	E.L. FARMER & COMPANY	\$1,266.33	\$0.00	\$1,266.33
7	2003	LIMBAUGH AYO STATE #1	WATER FOR COMPLETION	GANDY CORPORATION	\$973.20	\$973.20	\$973.20
3	2003	LIMBAUGH AYO STATE #1	BITS, TOOLS & SUPP. - COMPLETION	HOBBS ANCHOR, INC.	\$856.43	\$856.43	\$856.43
3	2003	LIMBAUGH AYO STATE #1	COMPLETION UNIT - SWABBING	KEY ENERGY SERVICES, INC.	\$15,192.14	\$15,192.14	\$15,192.14
23	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	L. RAMIREZ TRUCKING AND	\$0.00	\$0.00	\$10,504.25
3	2003	LIMBAUGH AYO STATE #1	TOOL&EQUIP. RENTAL, ETC. -COMPL.	MORGAN TOOLS CO LLC	\$1,186.57	\$1,186.57	\$1,186.57
3	2003	LIMBAUGH AYO STATE #1	TOOL&EQUIP. RENTAL, ETC. -COMPL.	MORGAN TOOLS CO LLC	\$696.95	\$696.95	\$696.95
3	2003	LIMBAUGH AYO STATE #1	ADDITIONAL LOC CHARGES-COMPL.	MORGAN TOOLS CO LLC	\$1,298.01	\$1,298.01	\$1,298.01
3	2003	LIMBAUGH AYO STATE #1	TOOL&EQUIP. RENTAL, ETC. -COMPL.	MORGAN TOOLS CO LLC	\$2,242.64	\$2,242.64	\$2,242.64
9	2003	LIMBAUGH AYO STATE #1	TOOL&EQUIP. RENTAL, ETC. -COMPL.	TWO-STATE EQUIPMENT, INC.	\$814.85	\$814.85	\$814.85
23	2003	LIMBAUGH AYO STATE #1	TOOL&EPT RENTAL, INSPCT-COMPL.	WEATHERFORD U.S., L.P.	\$3,916.14	\$0.00	\$3,916.14
23	2003	LIMBAUGH AYO STATE #1	TOOL&EPT RENTAL, INSPCT-COMPL.	WEATHERFORD U.S., L.P.	\$11,382.91	\$0.00	\$11,382.91
3	2003	LIMBAUGH AYO STATE #1	TOOL&EQUIP. RENTAL, ETC. -COMPL.	WEATHERFORD U.S., L.P.	\$6,944.77	\$0.00	\$6,944.77
12	2003	LIMBAUGH AYO STATE #1	TOOL&EQUIP. RENTAL, ETC. -COMPL.	PHILIP L. WEILER DIBIA WEILER	\$776.86	\$776.86	\$776.86
30	2003	LIMBAUGH AYO STATE #1	09/2003 ENGR. SERVICE	WILBANKS TRUCKING	\$0.00	\$0.00	\$475.88
2	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	YATES PETROLEUM CORPORATION	\$2,113.98	\$0.00	\$2,113.98
2	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	JONES, A. D. ESTATE	\$2,000.00	\$2,000.00	\$2,000.00
2	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	JONES, A. D. ESTATE	\$2,163.00	\$2,163.00	\$2,163.00
10	2003	LIMBAUGH AYO STATE #1	WATER FOR COMPLETION	JONES, A. D. ESTATE	\$500.00	\$500.00	\$500.00
15	2003	LIMBAUGH AYO STATE #1	STAKING, PERMIT & LEGAL FEES	GANDY CORPORATION	\$1,386.81	\$0.00	\$1,386.81
8	2003	LIMBAUGH AYO STATE #1	TOOL&EPT RENTAL, INSPCT-COMPL.	HOLLAND & HART L.L.P.	\$7,086.79	\$0.00	\$0.00
26	2003	LIMBAUGH AYO STATE #1	TOOL&EPT RENTAL, INSPCT-COMPL.	MCILROY SERVICE COMPANY	\$596.38	\$596.38	\$596.38
31	2003	LIMBAUGH AYO STATE #1	C.O.W.INS.	WEATHERFORD U.S., L.P.	\$1,776.43	\$0.00	\$1,776.43
11	2003	LIMBAUGH AYO STATE #1	STAKING, PERMIT & LEGAL FEES	HOLLAND & HART L.L.P.	\$4,858.50	\$0.00	\$4,858.50
10	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	J.S. WARD & SON, INC.	\$3,877.40	\$0.00	\$0.00
31	2003	LIMBAUGH AYO STATE #1	12/2003 ENGR. SERVICE	DUDLEY SALES & SERVICE	\$4,580.67	\$0.00	\$4,580.67
10	2003	LIMBAUGH AYO STATE #1	TOOL & EQP RNTL, TRUCKING & WLDG	ARTESIA BUILDING SUPPLY	\$1,860.00	\$0.00	\$1,860.00
13	2003	LIMBAUGH AYO STATE #1	DRILLING WATER, FASLINE RENTAL	GANDY CORPORATION	\$226.05	\$0.00	\$226.05
13	2003	LIMBAUGH AYO STATE #1	STAKING, PERMIT & LEGAL FEES	HOLLAND & HART L.L.P.	\$276.09	\$0.00	\$276.09
11	2003	LIMBAUGH AYO STATE #1	DRILLING, DAYWORK	HOLLAND & HART L.L.P.	\$0.00	\$0.00	\$0.00
16	2003	LIMBAUGH AYO STATE #1	STAKING, PERMIT & LEGAL FEES	BUTCH'S RAT HOLE & ANCHOR SVC.	\$1,199.85	\$0.00	\$1,199.85
17	2004	LIMBAUGH AYO STATE #1	STAKING, PERMIT & LEGAL FEES	HOLLAND & HART L.L.P.	\$430.22	\$0.00	\$0.00
16	2004	LIMBAUGH AYO STATE #1	ADDITIONAL LOC CHARGES-COMPL.	HOLLAND & HART L.L.P.	\$106.96	\$0.00	\$0.00
18	2004	LIMBAUGH AYO STATE #1	TOOL & EQP RNTL, TRUCKING & WLDG	MORGAN TOOLS CO LLC	\$654.86	\$0.00	\$654.86
5	2004	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	PHILIP L. WEILER DIBIA WEILER	\$384.43	\$0.00	\$384.43
30	2004	LIMBAUGH AYO STATE #1	SUPERVISION & OVERHEAD	DUDLEY SALES & SERVICE	\$766.90	\$0.00	\$766.90
12	2004	LIMBAUGH AYO STATE #1	STAKING, PERMIT & LEGAL FEES	HERITAGE INN, LLC	\$72.43	\$0.00	\$72.43
				HOLLAND & HART L.L.P.	\$7,230.00	\$0.00	\$0.00
					\$113,393.88	\$36,716.24	\$94,412.86

Costs Excluded by Order \$57,696.62