

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 PRIDE ENERGY COMPANY FOR)
CANCELLATION OF A DRILLING PERMIT AND)
REINSTATEMENT OF A DRILLING PERMIT AND)
AN EMERGENCY ORDER HALTING OPERATIONS)
AND COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 13,153

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS
COMMISSION HEARING

BEFORE: MARK E. FESMIRE, CHAIRMAN
JAMI BAILEY, COMMISSIONER
FRANK T. CHAVEZ, COMMISSIONER

November 10th, 2004
Santa Fe, New Mexico

2004 NOV 30 PM 2 42

This matter came on for hearing before the Oil Conservation Commission, MARK E. FESMIRE, Chairman, on Wednesday, November 10th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Commission Hearing
 CASE NO. 13,153

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* * *

A P P E A R A N C E S

FOR THE COMMISSION:

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By: WILLIAM F. CARR
and
OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 9:05 a.m.:

3 CHAIRMAN FESMIRE: The next business before the
4 Commission is Case Number 13,153. It's a re-hearing of the
5 Application of Pride Energy Company for cancellation of a
6 drilling permit and reinstatement of a drilling permit and
7 an emergency order halting operations and compulsory
8 pooling.

9 Counsel Brooks, would you bring the Commission up
10 to speed on the status of this case, please?

11 MR. BROOKS: Okay. This was an Application by
12 Pride Energy to cancel a drilling permit that had been
13 issued to Yates Petroleum Corporation and to reinstate a
14 drilling permit that had previously been issued -- earlier
15 been issued to Pride Energy and had been canceled by the
16 District Office, also requesting compulsory pooling of a
17 tract of land in Eddy County, New Mexico -- no, Lea County,
18 New Mexico, I'm sorry -- in which Pride sought operations.

19 The matter came before the Commission on *de*
20 *novo* -- Application for *de novo* review on August the 12th,
21 2004. It was heard at that time. The Commission concluded
22 to grant Pride's Application and entered an order of
23 compulsory pooling and appointed Pride as the operator.
24 That order was Order Number R-12,108-A. It was entered by
25 the Commission at its meeting on the 9th of September,

1 2004. Thereafter, Yates Petroleum Corporation filed a
2 motion for re-hearing.

3 One of the issues that was involved in this case
4 involved the fact that Yates had commenced operations on
5 the drilling of the particular well or re-entry of the
6 particular well that was authorized by the order prior to
7 the filing of the Application. The Commission had
8 recognized in issuance of Order R-12,108-A that Yates
9 should be entitled to reimbursement for certain expenses
10 that it had incurred in starting the procedures that were
11 authorized and directed to be conducted by Pride under the
12 terms of the order.

13 The Commission had set a particular time frame
14 for the expenses for which reimbursement was to be allowed,
15 and that time frame was up until the time that Yates had
16 been served with Pride's Application.

17 Yates filed a motion for re-hearing. One of the
18 points in that motion for re-hearing was to point out that
19 Yates had incurred additional expenses after the filing of
20 its -- after service of Pride's Application upon them and
21 during a time when the permit that Yates held had not been
22 suspended by any order, and the Commission felt that this
23 matter required to be reconsidered as to whether or not
24 those expenses incurred by Yates following the service of
25 the petition -- following the service of the Application on

1 Yates ought to be allowed for reimbursement, particularly
2 because the Commission had no evidence before it as to what
3 expenses were incurred and when they were incurred.

4 Accordingly, the Commission entered Order
5 R-12,108-B granting the motion for re-hearing but limiting
6 the issues to be considered upon re-hearing to those issues
7 with regard to the cost for reimbursement to Yates
8 Petroleum Corporation. And that matter for the re-hearing
9 was docketed for this meeting of the Commission.

10 CHAIRMAN FESMIRE: It's the intention of the
11 Chairman to hear the evidence in this re-hearing, then go
12 into executive session and make a decision before we start
13 the Maralo -- the next cause on the docket. I say that by
14 way of giving the parties here for the next case on the
15 docket -- and that would be -- Actually, the next cause
16 would be Case Number 13,237.

17 MR. BROOKS: Yes, we've been informed -- I
18 believe we've been informed that that case will be
19 continued by agreement of the parties.

20 CHAIRMAN FESMIRE: And then what about Case
21 Number 13,142?

22 MR. BROOKS: Let's see. 13,142 is the case that
23 is to be heard on which Carol Leach will be advising the
24 Commission.

25 CHAIRMAN FESMIRE: Okay. In essence, what we're

1 going to do is complete the Pride-Yates matter and then go
2 into the other cases on the docket. And I'm saying that to
3 give folks that are here for the second case a little
4 reprieve.

5 So in Cause Number 13,153 I'd like to get an
6 entry of appearance from the attorneys, and would you
7 estimate the time necessary to present your case this
8 morning?

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
10 representing Pride Energy Company. I have no witnesses,
11 I'm just going to make a few comments after Mr. Carr makes
12 his presentation.

13 CHAIRMAN FESMIRE: Okay. Mr. Carr?

14 MR. CARR: May it please the Examiner, my name is
15 William F. Carr. I'm with the Santa Fe office of Holland
16 and Hart, L.L.P. Appearing with me today is Ocean Munds-
17 Dry, an associate in our firm who's going to be working
18 with me on this and other matters before the agency. I've
19 done so well here lately, I think they feel like I need
20 some help, and Ocean is the help.

21 And so this morning we are going to present
22 Yates' case. It will be limited to the cost issue. I
23 would suspect that direct presentation is substantially
24 less than 30 minutes. We're going to simply review for you
25 the activities that were going on at this site and try and

1 line that up with what was going on at a regulatory level.

2 We're also, because it involves the costs, we're
3 going to, just at the end, note what has happened since the
4 order was entered, an AFE, a payment of an AFE cost, and
5 then the submission of the actual cost bill.

6 We will -- and I have included in the evidence a
7 substantial amount of paper that I don't intend to go
8 through. It is backup for the costs that were previously
9 submitted in your order. Pride has a time period within
10 which to object to those costs that has not run.

11 And so we're really not anticipating tying you up
12 today arguing over whether or not a liner should have been
13 there or not or what that was, but to adjust the time frame
14 and give you a heads-up as to where we are in that process.
15 Thirty minutes is my guess.

16 CHAIRMAN FESMIRE: Okay.

17 (Off the record)

18 CHAIRMAN FESMIRE: Mr Bruce, Mr. Carr, thank you
19 for estimating the time.

20 After the evidence is presented, the Commission
21 will go into executive session, and we will deliberate on
22 this case.

23 Those of you who are here for the following cases
24 can, I guess -- you know that we've got at least 30
25 minutes, and I'd probably be back in 30 minutes if you have

1 no interest in the Yates-Carr matter first.

2 Mr. Carr, I guess since you have the burden
3 you --

4 MR. CARR: Yes, sir --

5 CHAIRMAN FESMIRE: -- have the opportunity to --

6 MR. CARR: -- may it please the Commission, I
7 have two witnesses who need to be sworn.

8 CHAIRMAN FESMIRE: Okay. Would you please stand
9 and raise y our right hand?

10 (Thereupon, the witnesses were sworn.)

11 MR. CARR: At this time we call Charles Moran.

12 CHAIRMAN FESMIRE: Mr. Moran, for the record,
13 you've been previously sworn?

14 MR. MORAN: Yes, I have.

15 CHAIRMAN FESMIRE: Mr. Carr?

16 MR. CARR: May it please the Commission.

17 CHARLES E. MORAN,

18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Would you state your name for the record, please?

23 A. My name is Charles Moran.

24 Q. Mr. Moran, where do you reside?

25 A. In Artesia, New Mexico.

1 Q. By whom are you employed?

2 A. Yates Petroleum Corporation.

3 Q. And what is your position with Yates Petroleum
4 Corporation?

5 A. I am chief landman.

6 Q. Have you previously testified before the New
7 Mexico Oil Conservation Commission?

8 A. Yes, I have.

9 Q. At the time of that testimony, were your
10 credentials as an expert in petroleum land matters accepted
11 and made a matter of record?

12 A. Yes, they were.

13 Q. Are you familiar with the efforts of Yates to re-
14 enter what, for the purposes of this hearing, we're calling
15 the State "X" Well Number 1?

16 A. Yes, I am.

17 Q. Are you prepared to review for the Commission the
18 status of Yates' efforts to comply with the provisions of
19 Division Order Number R-12,108-A as they relate to the
20 costs incurred by Yates in its effort to re-enter the
21 subject well?

22 A. Yes, I am. I will review the time frame over
23 which these activities took place in context of the ongoing
24 activities and regulatory activities. I will also explain
25 what Yates has done to comply with the Commission's order

1 as it relates to the costs that were required to be paid by
2 Yates.

3 And then we will call an accounting witness to
4 discuss any matters previously submitted on the cost sheet
5 we had to turn in to the OCD.

6 MR. CARR: We tender Mr. Moran as an expert in
7 petroleum land matters.

8 CHAIRMAN FESMIRE: Any objection from the
9 Commission?

10 COMMISSIONER BAILEY: No objection.

11 COMMISSIONER CHAVEZ: No objection.

12 CHAIRMAN FESMIRE: He's so admitted.

13 Q. (By Mr. Carr) Mr. Moran, would you briefly state
14 what it is that Yates seeks with this Application?

15 A. Yates is seeking an order from the Commission
16 that amends Order Number R-12,108-A to permit Yates to
17 recover the costs incurred in its attempt to re-enter the
18 State "X" well, located in the northwest quarter of Section
19 12, Township 12 South, Range 34 East, NMPM.

20 We ask the Commission to permit Yates to recover
21 100 percent of our costs that Yates has previously expended
22 in its operations out there.

23 Q. What we're talking about is costs that have
24 been -- would not have been incurred but for the approval
25 of Yates' APD by the Division?

1 A. That is correct.

2 Q. And the result and the change out at the well was
3 the result of the Application filed by Pride?

4 A. Correct.

5 Q. Let's go to what has been marked for
6 identification as Yates Exhibit Number 1. Would you
7 identify these for the Commission?

8 A. Yates Exhibit Number 1 is just copies of the
9 relevant orders, that being Order Number R-12,108-A and
10 12,108-B.

11 Q. Let's go to the first order, the order that was
12 entered following the August Commission Hearing, and just
13 by way of background I'd ask you to just briefly identify
14 for the Commission the findings in that order that relate
15 to the issue before us today.

16 A. The findings that are relevant today in Order
17 12,108-A are Finding Number 44 where it said, "Yates
18 commenced operations to re-enter the subject well prior to
19 the filing of" the application subject of this case, and
20 "based on an APD reflecting Division approval."

21 And then Finding Number 45 which states, "Pride
22 should reimburse Yates for reasonable costs incurred by
23 Yates in connection with such operation."

24 Q. Mr. Moran, if we go to the order portion of the
25 Commission's order, how does that line up with the findings

1 you have just reviewed?

2 A. The Commission directed Yates to furnish Pride
3 and the Commission with an itemized schedule of cost
4 reflecting actual well costs incurred by Yates in
5 conducting their re-entry operations on the subject well
6 after the date of August 25th, 2003, and prior to the time
7 that Yates received notice of the filing of the original
8 Application in this case, which was date was September
9 10th, 2004.

10 Q. And so as the order stood, you were authorized to
11 recover costs from what, September the 5th when you moved
12 on through September the 10th when Pride filed its
13 Application?

14 A. Correct.

15 Q. The order entered by the Commission also
16 authorized Yates to deduct these costs against the AFE that
17 Pride was authorized to file; is that right?

18 A. That is correct.

19 Q. And it further directed Pride to pay these costs
20 to Yates if, in fact, it did not -- if it did not object?

21 A. That is correct.

22 Q. Why is this a problem for Yates?

23 A. It puts us in a very precarious situation because
24 of the fact that the order, 12,108-A, has a provision in it
25 that would allow us, if we don't pay the cost, to be

1 subject to a 200-percent penalty, and we do not in any way
2 want to be subject to that penalty.

3 And so in doing that, we were submitted an AFE by
4 Pride that had certain costs on it for a total of -- I've
5 got an exhibit, but we paid our proportionate part of that,
6 being half of those costs, so that there was no way that we
7 could be considered not consent under the order, because we
8 also knew that the order would allow us -- had granted us
9 authority to recover our costs.

10 Q. Mr. Moran, you were out on the well site pursuant
11 to an APD?

12 A. Yes, we were.

13 Q. You moved a rig on in early September?

14 A. We did.

15 Q. You got a notice of an application for permit to
16 drill on September the 10th?

17 A. Correct.

18 Q. A substantial portion of your re-entry costs were
19 incurred after that date; isn't that correct?

20 A. Yes, they were.

21 Q. And so what we're asking for here today is an
22 amendment of the order to just expand that time frame so
23 that the costs actually incurred pursuant to the APD can be
24 considered by Pride as costs that should be reimbursed to
25 Yates?

1 A. Yes.

2 Q. Let's go to Finding Number 11 in the order that
3 was entered in the re-hearing matter. That finding
4 provides that, "No evidence was offered at the hearing on
5 August 12, 2004, nor was evidence otherwise before the
6 Commission, of the amount or nature of expenses incurred
7 either within or subsequent to the time period for which
8 reimbursement is allowed by Order Number R-12,108-A." Do
9 you see that?

10 A. Yes.

11 Q. Are you here today to provide to the Commission
12 the evidence which was not in the record on August the 12th
13 concerning your re-entry operations and the status of the
14 relevant regulatory proceeding?

15 A. Yes, I am.

16 Q. Let's go to what's been marked for identification
17 as Yates Exhibit Number 2. Would you identify that,
18 please?

19 A. Yates Exhibit Number 2 is a chronology of the
20 time frames of what's relevant for discussion at today's
21 hearing.

22 Q. Attached to this chronology are a number of
23 documents, correct?

24 A. Correct.

25 Q. Are you intending to review those?

1 A. No, they're for just support information.

2 Q. Okay, let's go to the chronology itself, and I'd
3 ask you to review that.

4 A. Okay, the chronology, which is marked as Exhibit
5 Number 2, starts off with the date that we issued our
6 lease. The first relevant date is August 25th, 2003, the
7 date we submitted our APD.

8 On the 26th of August, 2003, we were granted an
9 APD to conduct work on the well.

10 On the 5th of September we moved a rig onto
11 location to conduct re-entry activities.

12 On the 10th of September, 2003, Pride filed the
13 Application for the pooling of the west half of Section 12
14 and canceling of Yates' APD and seeking an emergency order
15 prohibiting Yates' re-entry operations.

16 Q. Now, Mr. Moran, the way the order currently
17 stands we were notified on that date by Pride, were we not?

18 A. Correct.

19 Q. And it cuts off all costs as of that --

20 A. It cuts off all costs on that day.

21 Q. All right, go to the entries filed on September
22 the 10th.

23 A. Okay. On the 11th, we responded to Pride's
24 Application and moved the Division for an order dismissing
25 Pride's Application.

1 On the 12th, the Division deferred Pride's
2 application for an emergency order halting Yates'
3 operations on the State "X" well, and Yates continued its
4 re-entry operations pursuant to an approved APD by the
5 Division.

6 Q. And in that Examiner order, the Division did not
7 cancel Yates' APD?

8 A. They did not cancel Yates' APD.

9 Q. They did not order Yates to cease operation?

10 A. It was determined that we did not need to cease
11 operations.

12 Q. And in fact, there was a finding that said you
13 did not need to cease operations at that time, correct?

14 A. That is correct.

15 Q. And you continued -- at that time you continued
16 to -- or you continued your re-entry --

17 A. We were continuing our ongoing operations.

18 Q. Okay, then what happened?

19 A. Okay, on the 17th of September we filed an appeal
20 of the Examiner's decision to the Oil Conservation
21 Commission because it did not deny the motion to dismiss --
22 our motion to dismiss Pride's Application.

23 On the 22nd, the Director of the Division, the
24 Commission Chair, remanded the matter to the Division for
25 an Examiner Hearing.

1 Also on the 22nd, Pride filed a motion for
2 reconsideration of its Application.

3 Q. And Mr. Moran, that was a reconsideration of the
4 decision directing Yates to cease operations?

5 A. Correct.

6 Q. The Division had not entered that order at that
7 time?

8 A. They had not.

9 Q. And you were still conducting operations at that
10 time?

11 A. We were still out there conducting operations.

12 Q. All right, then what happened after Pride filed
13 its motion for reconsideration?

14 A. Okay, on the 26th we responded to their motion
15 for reconsideration.

16 On October 3rd, 2003, Pride replied to Yates's
17 motion.

18 And on the 7th of October, 2003, before the
19 hearing, we advised the Examiner at that time that we had
20 removed the rig and voluntarily suspended operations on
21 this well pending a final decision of the Division on this
22 matter, or on this Application.

23 Q. And so what we're doing is, we're asking for an
24 order that would allow us to claim the costs we actually
25 incurred in re-entry operations, up through the day we

1 suspended -- voluntarily suspended operations, being
2 October the 7th; is that correct?

3 A. Yes.

4 Q. Order R-12,108-B, the order that granted the
5 rehearing, provided in Finding 9, and I quote, "However,
6 the Motion for Rehearing raises an issue concerning the
7 right of Yates to reimbursement for costs incurred in
8 preparation to re-enter the State X Well...prior to the
9 time that Yates ceased operations to abide the decision of
10 the Oil Conservation Division."

11 Are you familiar with that paragraph?

12 A. I am familiar with that paragraph.

13 Q. At the time Yates ceased operations, was there
14 any decision of the Oil Conservation Division directing
15 Yates to remove itself from the well or cease its re-entry
16 operations?

17 A. No.

18 Q. That had been sought by Pride, correct?

19 A. Correct.

20 Q. And the Division had entered only one order and
21 found that Yates did not have to cease?

22 A. That is correct.

23 Q. The secession of operations was a purely
24 voluntary act by Yates?

25 A. That was voluntary so we could get this matter

1 resolved.

2 Q. Let's go to what has been marked as Exhibit
3 Number 3. Would you first identify what is contained in
4 this packet?

5 A. Contained in Exhibit Number 3 is a series of
6 three different letters.

7 Q. Okay, let's just go to the first letters.
8 They're stapled together. What are these?

9 A. The first group of letters are a letter received
10 from Pride to the various entities, with an AFE that they
11 submitted pursuant to the Order R-12,108-A, and that's
12 where they are proposing to commence drilling operations on
13 the well in question.

14 Q. And there's an AFE attached?

15 A. There is an AFE attached.

16 Q. And what is the cost in the AFE?

17 A. The cost in the AFE is \$753,294 and 80-some-odd
18 cents.

19 Q. And how does this compare to previous AFEs filed
20 in this matter?

21 A. This AFE is approximately \$125,000 more than the
22 AFE we received a year earlier from Pride.

23 Q. What is the second packet of letters, stapled-
24 together group of letters in this --

25 A. The second group of letters is a letter from

1 Yates Petroleum Corporation submitting the proportionate
2 part of the cost for the drilling of the well.

3 In that letter was included four separate checks
4 paying for the AFE'd amount that we'd received in the Pride
5 letter.

6 Q. And then the letter and attachment?

7 A. The third letter and attachment is a letter from
8 our attorney in this matter, directed to the Commission and
9 Pride, including a list of the costs we incurred in the
10 well, being submitted pursuant to Order Number 12,108-A.

11 Q. So what you did was, you paid your half of the
12 well costs based on the Pride AFE?

13 A. Yes.

14 Q. You also submitted this list of estimated well
15 costs?

16 A. Yes.

17 Q. And you included in the attached lists of
18 estimated well costs, costs that exceeded the time frame
19 that originally was set in the first order, being September
20 the 10th?

21 A. Yes.

22 Q. And you have included in this schedule all costs
23 incurred; is that fair to say?

24 A. That is what is intended by the schedule.

25 Q. You did not treat these costs as a deduction

1 against the AFE?

2 A. We did not.

3 Q. At that point in time you felt there was an issue
4 as to what costs were going to be allowed?

5 A. Correct.

6 Q. And you did not want to be, as you testified
7 earlier, in a nonconsent position if certain costs were
8 allowed?

9 A. Correct.

10 Q. So these are the costs you've incurred, and you
11 have paid the AFE?

12 A. Correct.

13 Q. Now, when the well is drilled, if it's drilled by
14 Pride, Yates would only leave 50 percent of the well; isn't
15 that right?

16 A. That is correct.

17 Q. Should Pride only have to reimburse Yates 50
18 percent of the costs, or should it reimburse the total
19 amount shown on the actual schedule of well costs?

20 A. I believe it should submit 100 percent of the
21 costs submitted on our schedule that we require to be
22 turned in to the Commission.

23 Q. If we're going to get this back to go where we're
24 just looking at the actual costs incurred and paying our
25 share, isn't that what is required?

1 A. Yes, it is.

2 Q. Let's take a look at Yates Exhibit Number 3, the
3 last letter -- the one that has the schedule of estimated
4 well costs attached to it.

5 A. I believe you want to look at the actual
6 schedule.

7 Q. The actual schedule, behind that letter. If you
8 go down that letter, under the column that says "Vendor
9 Name", you will find about a third of the way down L.
10 Ramirez Trucking, and a charge for \$10,000. Do you see
11 that?

12 A. I am looking for it. I know it's there. There
13 it is, \$10,504.

14 Q. And what is that a charge for?

15 A. That is a charge for the building of the well pad
16 out there.

17 Q. It says location and right of way --

18 A. Location --

19 Q. -- this is actual dirt work at the site?

20 A. This is dirt work being done on location.

21 Q. All right. If we go to the first letter, the
22 letter on the Pride stationery with the attached AFE --

23 A. Yes.

24 Q. -- are there also costs set out in this AFE for
25 location and road work?

1 A. Yes, there is. It is broken out into two parts.
2 Up in the upper part there's a location and road charge of
3 \$10,000 in the drilling intangibles section, and then in
4 the completion intangibles section, there's also a charge
5 for location and road totaling \$4000.

6 Q. So at the present time Yates has paid the \$10,000
7 for the dirt road, correct?

8 A. Yes.

9 Q. They have also paid half of the AFE costs that
10 include \$14,000 for the same item; is that not right?

11 A. That is correct.

12 Q. If, in fact, Pride was to reimburse Yates the
13 \$10,000 that is listed on this schedule, the schedule you
14 have submitted for the Ramirez work, would Pride then have,
15 in fact -- are they in a position of having paid more than
16 their share of the costs?

17 A. No, they are not, because they have AFE'd us for
18 half of those costs out there that -- already, that we
19 had -- that we paid again.

20 Q. And so actually what they can do under the AFE
21 is, after they reimburse that --

22 A. If they --

23 Q. -- to Yates, if they do --

24 A. If they actually incur those costs --

25 Q. But they would be incurring it by paying you, and

1 then that is a deduction against the AFE, correct?

2 A. Correct.

3 Q. And that gets you back to go?

4 A. Correct.

5 Q. Will Yates call an accounting witness to review

6 the costs set out on the schedule of actual well costs

7 submitted to Pride and to the Commission?

8 A. Yes.

9 Q. Were Exhibits 1 through 3 prepared by you or
10 compiled under your direction?

11 A. Yes, they were.

12 MR. CARR: May it please the Commission, at this
13 time we'd move the admission into evidence of Yates
14 Exhibits 1 through 3.

15 CHAIRMAN FESMIRE: Any objection, Mr. Bruce?

16 MR. BRUCE: No objection.

17 CHAIRMAN FESMIRE: Any objection from the
18 Commission?

19 COMMISSIONER BAILEY: No objection.

20 COMMISSIONER CHAVEZ: No.

21 CHAIRMAN FESMIRE: They're so admitted.

22 MR. CARR: That concludes my direct examination
23 of Mr. Moran.

24 CHAIRMAN FESMIRE: Mr. Bruce?

25 MR. BRUCE: Just a few questions, Mr. Moran.

CROSS-EXAMINATION

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BY MR. BRUCE:

Q. Mr. Moran, I think you were working off the final page of Exhibit 3, but is the final page of Exhibit 3 the same as Exhibit 4?

A. I believe them to be the same.

Q. Okay.

A. One is just a little bit bigger and no a fax-shrunk copy.

Q. And the cost, whether it's on Exhibit 3 or Exhibit 4, our cost -- which would normally be part of an AFE, correct?

A. Correct.

Q. And they would normally, if you had working interest partners -- Even if Yates had won this case, Yates Petroleum, it does have working interest partners --

A. Yes.

Q. -- Myco and Abo and Yates Drilling?

A. Right.

Q. So these are the type of costs that would normally be part of an AFE and would be shared by the working interest --

A. These are the costs that have actually been incurred and billed to these -- to the entities --

Q. Okay, and --

1 A. -- based on our belief that we had 100 percent of
2 the oil at the time.

3 Q. Okay. And Yates has paid Pride 50 percent of
4 Pride's AFE cost, approximately \$377,000?

5 A. \$378,000, yes, through four separate checks.

6 Q. Okay. And just to be clear, part of Exhibit 3 is
7 Mr. Carr's October 8th letter to the Commission. That was
8 when -- that was the first time that the schedule of well
9 costs was furnished not only to the Commission but to
10 myself on behalf of Pride?

11 A. Correct, that was pursuant to the order that
12 required us to submit the cost within 30 days from the
13 hearing --

14 Q. Okay.

15 A. -- or from receipt of the order, excuse me.

16 Q. And at that time, the backup data that Yates'
17 accountant is going to submit was not provided with the
18 schedule?

19 A. It was not.

20 CHAIRMAN FESMIRE: Mr. Bruce, are you contesting
21 any of the charges on the schedule or --

22 MR. BRUCE: Well, I might ask the -- I'm going to
23 get a couple of questions in about that. I may be
24 contesting a few of them. But this is the first time we've
25 seen the backup, and I do have a question for the

1 Commissioner, for the Commission's attorney, about how to
2 proceed from here on that matter, just looking at the terms
3 of the Commission's order.

4 But let me ask Mr. Moran a few more questions,
5 and maybe we can get to that.

6 Q. (By Mr. Bruce) And again, whether it's Exhibit 3
7 or 4, this includes all costs incurred by Yates, regardless
8 of the time frame?

9 A. It does.

10 MR. BRUCE: Okay. And Mr. Chairman, I want to
11 make clear that we are not contesting -- we are not going
12 to contest a cost incurred just because of when it was
13 incurred here.

14 Q. (By Mr. Bruce) Just a couple of other things,
15 Mr. Moran. Now, you said Pride's AFE had gone up. That's
16 not unusual over the last year, year and a half, AFE costs
17 have gone up?

18 A. No, they've gone high. I'd expect part of that
19 would be the pipe cost.

20 Q. And regarding the current status of the well,
21 it's your understanding that Pride has voluntarily
22 refrained from any activity on the well since the
23 Commission entered its order?

24 A. I believe they have voluntarily refrained.

25 Q. Then -- and if this is more properly addressed to

1 the next witness, Mr. Moran, let me know. I guess my
2 question -- there are certain things I see on this, and you
3 mentioned the one regarding the building of the well pad
4 and stuff like that, obviously costs that should not need
5 to be incurred again.

6 But are there costs on this list, Exhibit 4,
7 which regardless of when it is done will have to be
8 reincurred by Pride?

9 A. Some of them, possibly, possibly not. That would
10 be more appropriate for the accountant.

11 Q. Okay.

12 A. You know, the dirt work is the best example of a
13 double payment that we're going to be subject to.

14 Q. And let me ask you another one you have on here,
15 payment to the A.D. Jones Estate. That's A.D. Jones
16 Estate, Inc., the surface --

17 A. That is the surface owner.

18 Q. -- grazing lessee out there; is that correct?

19 A. Yes.

20 Q. Would that settlement with the surface owner be
21 assignable to Pride by Yates if Pride, in the end, is the
22 successful party in this Application -- in not this
23 Application but the overall pooling Application?

24 A. I am not familiar with the exact terms of the
25 settlement agreement -- surface-damage agreement with that

1 person, so I don't know that I'm prepared to answer that
2 question.

3 MR. BRUCE: Okay. Mr. Chairman, that, I think,
4 finishes my questions for Mr. Moran. And maybe before we
5 get the accountant up -- and Mr. Carr can comment on this
6 -- my point is that I'm sure a lot of these costs are
7 valid, and they should be reimbursed. Mr. Moran stated the
8 one about dirt work, and I can certainly see his point
9 here.

10 And this is getting to my closing argument, but
11 it's no secret -- I've discussed it with Mr. Carr -- at
12 this point both parties have paid half of the \$754,000.
13 And as you well know, if Pride is ultimately successful and
14 does operate this well, Pride has 50 percent and the Yates
15 entities have 50 percent.

16 And what I am getting at is, I don't want -- if
17 some of these costs need not be reincurred, then certainly
18 both parties should only pay 50 percent of them, however
19 that's ultimately figured out. If there are costs that
20 Pride would have to re-incur again, it would be my claim
21 that they should not be allowed and we should just go on
22 Pride's AFE.

23 And how that works out, in looking at the
24 Commission order, Yates had 30 days to provide the schedule
25 to Pride, which it did, and Pride and the Division have 45

1 days to object, which has not run. And my client has not
2 yet seen the backup data, and I don't have the answer yet
3 as to whether or not some of these costs may be duplicate
4 costs that Pride will have to incur regardless and which we
5 would object to.

6 That having been said, I would ask maybe the
7 Commissioner or the Commission's attorney how we should
8 proceed in that. You know, I don't want to unduly lengthen
9 this proceeding, and perhaps there are certain costs that
10 we could ferret out with the accountant that should be
11 paid. Others may be part of Pride's AFE they have to re-
12 incur, and under the Commission order, regardless, within
13 90 days of the completion of the well all the costs have to
14 be provided to the parties, and the parties have a right to
15 object. Maybe that's the time to ultimately dispute the
16 costs.

17 But I'll turn it over to Mr. Carr.

18 MR. CARR: May it please the Commission, first of
19 all, the costs that were incurred that are shown on this
20 schedule were incurred by Yates because of the APD that had
21 been approved, and we are holding these costs because of an
22 Application filed by Pride and the result of that hearing.

23 The time frames in any of these things, I
24 discussed with Mr. Bruce what you do about appealing a
25 decision when you've got these orders that address

1 different issues, and it seems to me that what we're here
2 for today is to address a single issue, and that is to
3 establish a time frame within which we can claim costs.

4 It would also seem to me that it is unfair to
5 expect Mr. Bruce or Mr. Pride to respond to that when the
6 data is only forthcoming today. I mean, we don't even know
7 what the time window is until you act. And it seems
8 appropriate to me that to make sense out of this, that what
9 should be done is, you should consider expanding the time
10 frame. And if you do, then with the data that Mr. Bruce
11 has we ought to handle this like we would any other
12 compulsory pooling situation. We can argue about the
13 costs, and if we can't resolve it they can object and we
14 can come back.

15 Our accounting witness is simply going to explain
16 to you how this matter was -- this schedule was prepared,
17 and identify a few things that might look like obvious
18 issues, including Mr. Carr's legal fees, and -- but
19 generally set some general parameters and also note that
20 there are certain costs that we think are not appropriate
21 that could be deleted from this if you go to the October
22 7th date.

23 I think beyond that, we're getting into something
24 where negotiations that should be conducted between the
25 parties are being conducted here before you, and I think

1 it's unfair to you, us, and inappropriate.

2 MR. BRUCE: Although I do want to question Mr.
3 Carr's legal fees.

4 (Laughter)

5 MR. BRUCE: I'm going to call Mr. Kellahin in as
6 an expert witness.

7 MR. CARR: And I'm going to subpoena Mr. Bruce so
8 we can have another table and an equally important
9 argument.

10 CHAIRMAN FESMIRE: Do we want this on the record?

11 MR. CARR: It's all right.

12 CHAIRMAN FESMIRE: Commissioner Bailey, did you
13 have any questions of Mr. Moran?

14 COMMISSIONER BAILEY: No.

15 CHAIRMAN FESMIRE: Commissioner Chavez?

16 COMMISSIONER CHAVEZ: I don't have any questions.

17 EXAMINATION

18 BY CHAIRMAN FESMIRE:

19 Q. Mr. Moran, looking at Exhibit 3 and 4, glancing
20 through what had, it seems to me that basically we're
21 talking about \$57,000; is that correct?

22 A. You're referring to the difference between
23 \$94,000 and \$36,000? It would be a little bit less,
24 because I think there are some costs that the accountant is
25 going to discuss that we are voluntarily going to remove.

1 Q. Okay. And how much would that be? Can you give
2 me a ballpark number?

3 A. \$8000, \$9000.

4 Q. So basically we're looking at about \$48,000
5 difference here.

6 Can you identify on Exhibit 4 where that
7 difference is? Is it all after a certain date?

8 A. It tends to be the information with the 2004
9 charges on there, and really I believe that the accountant
10 is more prepared to talk about that than I am.

11 Q. Okay, and this may be a question for the
12 accountant too, but is there anything in that \$48,000 area,
13 basically the charges incurred after the first of this
14 year, is there anything in there that Pride would not have
15 incurred if they had been doing the work anyhow?

16 The question I'm asking, that I framed
17 inarticulately there is, would these costs have been
18 incurred no matter who was the operator, and will they not
19 need to be incurred now?

20 A. Well, I mean the prime example of that is the
21 dirt work. We got out there and did the dirt work, and
22 it's sitting there, waiting --

23 Q. And it won't have to be redone, will it?

24 A. It won't be the significant cost that it was when
25 we incurred it. Depending upon if there's been any weeds

1 growing with all the rain we've had, the location should be
2 in good shape.

3 You know, the wellbore was entered into, so the
4 dryhole marker was cut off, and the hole was prepared for
5 re-entry operations. All those mechanical aspects that
6 were incurred by us should not have to be re-incurred,
7 because we in our operations got the wellbore cleaned out
8 to a certain depth in preparation to continue drilling
9 deeper.

10 Q. So anything that Yates did and billed for in that
11 \$48,000 was a benefit to the working interest owners; is
12 that correct?

13 A. Correct.

14 CHAIRMAN FESMIRE: No further questions.

15 Mr. Carr, do you have any redirect?

16 MR. CARR: No, I don't.

17 May it please the Commission, at this time we'd
18 like to call Tom Wier.

19 CHAIRMAN FESMIRE: Mr. Wier, you've been
20 previously sworn?

21 MR. WIER: Yes, sir.

22 CHAIRMAN FESMIRE: Would you spell your last name
23 for me, please?

24 MR. WIER: W-i-e-r.

25 CHAIRMAN FESMIRE: Mr. Carr?

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TOM WIER,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. State your name for the record, please?

A. Tom Wier.

Q. Where do you reside?

A. In Artesia, New Mexico.

Q. By whom are you employed?

A. Yates Petroleum Corporation.

Q. And what is your current position with Yates?

A. I'm a joint interest manager.

Q. Are you also the person for Yates in charge of accounts payable for the company?

A. Yes, sir.

Q. Have you previously testified before this Commission?

A. No, I haven't.

Q. Could you just briefly review for the Commission your work and educational background?

A. Worked for Yates Petroleum for 15 years, and while I was with Yates I became a CPA in the State of New Mexico in 1996, and I received my bachelor of business administration degree from Eastern New Mexico in 1989.

1 Q. Are you familiar with the costs incurred by Yates
2 in its efforts to re-enter what we're calling here today
3 the State "X" Well Number 1?

4 A. Yes, I am.

5 Q. And you are the person who prepared the actual
6 schedule of well costs that was submitted to the Commission
7 and to Pride, are you not?

8 A. Yes, I am.

9 Q. And are you prepared to review for the Commission
10 the costs set out on that schedule?

11 A. Yes, I am.

12 MR. CARR: We tender Mr. Wier as an expert
13 witness in accounting.

14 MR. BRUCE: No objection.

15 CHAIRMAN FESMIRE: Any objection from the
16 Commissioners?

17 COMMISSIONER BAILEY: No objection.

18 COMMISSIONER CHAVEZ: No objection.

19 CHAIRMAN FESMIRE: His credentials are so
20 admitted.

21 Q. (By Mr. Carr) Mr. Wier, let's go to what has
22 been marked Yates Exhibit Number 4. Would you first
23 identify this?

24 A. This is a schedule of the costs on the -- I guess
25 you're calling it the State "X" Number 1 well, and we ran a

1 query on the well and it pulled up all these charges. And
2 then I reviewed these charges against what we had billed
3 out on our JIBs, and they matched, so these are the total
4 costs incurred by Yates.

5 Q. And you're the person who actually pulled this up
6 out of your computer system?

7 A. Yes, I am.

8 Q. All right. I'd like you to look at this, and
9 we're going to -- if it please -- may it please the
10 Commission -- just address several things that we think
11 jump off as sort of obvious.

12 If you go to the column -- at the top it says
13 "Vendor Name" and it's the fourth column from the right --
14 and if you look at that there are a number of entries that
15 are set forth as Yates Petroleum Corporation, several right
16 at the top.

17 A. Yes.

18 Q. Would you explain what those are?

19 A. Those are -- Well, there's two material transfers
20 here, and these are items that was furnished from Yates
21 Petroleum's yard for this well.

22 Q. They total about how much, approximately?

23 A. \$3864.

24 Q. Have you checked to determine whether or not
25 these charges are, in fact, reasonable?

1 A. I talked to our yard manager, and he went to a
2 vendor called Tool Pusher Supply Company, and they did an
3 itemization of all these items and it came out to \$5900.38.

4 Q. So is it your belief that these are reasonable
5 charges --

6 A. Yes, it is.

7 Q. -- for these items?

8 In fact, at the time these costs were incurred it
9 was your belief that this was a 100-percent Yates well;
10 isn't that fair to say?

11 A. Yes, it is.

12 Q. If we go down the column --

13 CHAIRMAN FESMIRE: Mr. Carr, can I have that
14 total again, please?

15 THE WITNESS: What?

16 CHAIRMAN FESMIRE: The total of the Yates-
17 furnished --

18 THE WITNESS: Oh, okay, \$3864.18.

19 CHAIRMAN FESMIRE: And what was your -- You said
20 you talked to the yard manager at a supply company and they
21 priced it out for you?

22 THE WITNESS: Yes, and it came out to \$5938.72
23 from their quote.

24 CHAIRMAN FESMIRE: When was that?

25 THE WITNESS: Sir?

1 CHAIRMAN FESMIRE: When was that?

2 THE WITNESS: This -- He just recently got this
3 quote from them, so it's a little bit later than the time
4 frame that this actually happened.

5 CHAIRMAN FESMIRE: Mr. Carr, I apologize, I'll
6 listen harder.

7 Q. (By Mr. Carr) If you go down the column slightly
8 more than halfway -- I'm talking about the "Vendor Name"
9 column -- there was also an entry for Yates Petroleum
10 Corporation for engineering services, a little over \$2100.
11 Do you see that?

12 A. Yes, I do.

13 Q. And what is that a charge for?

14 A. This was for a drilling and completion supervisor
15 that supervised the activities that were done here in
16 September. His name was Mack Allen, and we charged --
17 Well, he was out there for 11 days, or that's what we
18 charged for him.

19 Q. How much a day is that?

20 A. What?

21 Q. How much per day?

22 A. \$192 per day.

23 Q. And is this a standard method of charging in-
24 house engineering services?

25 A. Yes, it is.

1 Q. If we look at the column on the far right, it is
2 entitled "All Costs Less Holland and Hart L.L.P.", correct?

3 A. Yes.

4 Q. And you have not included in any of these claims
5 legal fees; is that right?

6 A. That's true.

7 Q. Some of the entries -- if we go now to the left
8 part of the exhibit and we come over to the fourth and
9 fifth columns, it says "Service Month" and "Service "Day",
10 and then the next one is "Service Year", and if we look at
11 that and go down about halfway, we see certain costs that
12 occur after the October 7th date. Do you see that?

13 A. Yes, I do.

14 Q. The first one is a Holland and Hart charge, so
15 that isn't there, but we drop down and there is one that
16 shows service month being 10 -- October the 31st, for
17 C.O.W. insurance. What is that?

18 A. That's blowout insurance.

19 Q. And is the date shown, being October the 31st,
20 the date that that cost was incurred, or is that the
21 payment date?

22 A. That's when we submitted it to our insurance
23 company.

24 Q. And you had the insurance during the period of
25 time you were operating on the well?

1 A. Yes, that's -- it's for the time period when the
2 rig was over the hole.

3 Q. But below that entry, C.O.W. insurance, on
4 October the 31st, there are a number of charges. Those
5 were all incurred after the October the 7th date; is that
6 not right?

7 A. That's correct.

8 Q. And those are charges that Yates would not claim
9 if that date was established by the Commission; is that
10 right?

11 A. That's true.

12 Q. So if we take the number and we look at the
13 column on the far right, "All Costs Less Holland and Hart",
14 you now have a number of \$94,412.86, correct?

15 A. Yes, sir.

16 Q. If you delete those charges, what would that new
17 number be?

18 A. It would be \$84,391.58.

19 Q. And so that is the amount that would be included
20 in an adjusted schedule of costs?

21 A. Yes, it is.

22 Q. And following the entry of any amended order, if
23 the time frame is changed, Yates would make that adjustment
24 in this document; is that correct?

25 A. That's correct.

1 Q. Could you identify for me what has been marked
2 Yates Exhibit Number 5?

3 A. Those are copies of invoices that Yates paid for
4 the Limbaugh well.

5 Q. And these have not previously been submitted to
6 Pride or to the Commission, correct?

7 A. That's true.

8 Q. But this is information that they can use in
9 evaluating the costs that are set forth on the schedule?

10 A. Yes, it is.

11 Q. Were Exhibits 4 and 5 prepared by you or compiled
12 at your direction?

13 A. Yes, they were.

14 MR. CARR: May it please the Commission, we would
15 move the admission into evidence of Yates Exhibit Number 4
16 and 5.

17 CHAIRMAN FESMIRE: Any objection, Mr. Bruce?

18 MR. BRUCE: No, objection.

19 CHAIRMAN FESMIRE: Commissioners?

20 COMMISSIONER BAILEY: No objection.

21 COMMISSIONER CHAVEZ: No objection.

22 CHAIRMAN FESMIRE: They're so admitted.

23 MR. CARR: And that concludes my direct
24 examination of Mr. Wier.

25 CHAIRMAN FESMIRE: Thank you. Mr. Bruce?

1 MR. BRUCE: Just a few questions for Mr. Wier.

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

4 Q. Mr. Wier, what -- I'm kind of confused. What
5 amount is Yates seeking reimbursement for?

6 A. Well, if the order is that October 7th date, it
7 would be \$84,391.58.

8 Q. Okay. And if the Commission allows the
9 additional charges, it would be the \$94,412 amount?

10 A. I'm not sure how to answer that.

11 MR. CARR: I can answer that, if it's all right.
12 What we would be seeking is, if the Commission does not
13 amend its order, it cuts off everything after September the
14 10th. If they amend the order through October the 7th, as
15 we're requesting, then the amount claimed would be the
16 \$84,000 --

17 MR. BRUCE: \$84,000.

18 MR. CARR: -- and the remainder -- There are
19 items there that may or may not benefit the operation on
20 this property, and there will be an opportunity for Yates
21 and Pride, when we get actual well costs, to argue that
22 again and try and adjust that.

23 And so my hope was, and my understanding was
24 today, we were to limit this. And so we weren't intending
25 to get into all of that, and it seemed like the appropriate

1 thing to do was ask for a date and cut off the charges
2 after that date, with the exception of the insurance charge
3 that was a payment date, not a date the service was
4 incurred.

5 Q. (By Mr. Bruce) Okay. And Mr. Wier, do you
6 know -- I mean, when tools were taken out of Yates' yard
7 and used on the well site, are they still there?

8 A. They're still out there.

9 MR. BRUCE: Okay. I think that's all I have, Mr.
10 Chairman.

11 CHAIRMAN FESMIRE: Commissioner Bailey?

12 COMMISSIONER BAILEY: No questions.

13 CHAIRMAN FESMIRE: Commissioner Chavez?

14 COMMISSIONER CHAVEZ: No questions.

15 EXAMINATION

16 BY CHAIRMAN FESMIRE:

17 Q. Mr. Wier, I just want to make sure that I'm
18 understanding exactly what you're asking for. You're
19 asking the Commission to extend the date on their order
20 from September 20 --

21 MR. CARR: 10th.

22 Q. (By Chairman Fesmire) -- September 10th to
23 October 7th?

24 A. That's correct.

25 Q. And the total amount of funds expended by Yates

1 during that period that benefitted the well, that
2 benefitted the operation, is \$84,391.58?

3 A. That's correct.

4 Q. And that is different than what you have on
5 Exhibit 4, because of insurance costs?

6 A. No, these costs down here at the bottom were
7 costs incurred after that day, after the October 7th date.

8 Q. Okay --

9 A. If you look there where it says, "J.S. Ward and
10 Son, Inc." --

11 Q. Uh-huh.

12 A. -- about three-quarters of the way down,
13 everything below that was incurred after the October 7th
14 date, so we're dropping all those charges.

15 Q. Okay, and the reason for that is -- ?

16 MR. CARR: That's the date we said that --

17 THE WITNESS: That's the date that we're trying
18 to --

19 MR. CARR: -- these operations --

20 THE WITNESS: -- Yeah.

21 Q. (By Chairman Fesmire) Okay. And do you know
22 what that -- I can't tell from your spreadsheet. Do you
23 know, is that total up to that J.S. Ward and Sons, is that
24 the \$84,391.58?

25 A. Yes, it is, through the J.S. -- we're including

1 the J.S. Ward and Son invoice, and everything below that
2 we're taking out.

3 Q. Okay.

4 A. Plus any Holland and Hart invoice that's up here,
5 but they're not included in that column anyway, so --

6 MR. CARR: I was very happy to have my fee
7 included in the schedule, I want you to know.

8 CHAIRMAN FESMIRE: Mr. Bruce, would your client
9 be happy to pay --

10 MR. BRUCE: Can I call Mr. Carr to the stand
11 right now?

12 CHAIRMAN FESMIRE: Okay, I have no further
13 questions.

14 MR. CARR: That concludes our presentation. I
15 have a maybe one-sentence closing.

16 CHAIRMAN FESMIRE: Okay.

17 MR. BRUCE: And I just have a brief statement.

18 CHAIRMAN FESMIRE: Mr. Carr?

19 MR. CARR: My closing is, I would request that
20 the Commission amend Order 12,108-A to expand the date
21 during which we can claim recoverable costs through October
22 the 7th, 2004.

23 MR. BROOKS: 2003.

24 MR. CARR: 2003.

25 (Laughter)

1 MR. CARR: You caught me

2 CHAIRMAN FESMIRE: I'm sure Jim would have.

3 MR. BRUCE: Mr. Chairman, I have no objection to
4 the October 7th, 2003, date.

5 And my only -- I really only have two comments
6 and I've already mentioned one.

7 I think because it's a 50-50 deal, whenever the
8 final decision is made, we have to make sure that each
9 party is paying 50 percent of costs. And I think Pride
10 still has a few days to object to some of these costs,
11 which it may or may not do. I will get these documents to
12 my client. So whatever order is entered, I just want some
13 mechanism so that the -- both parties can look at the costs
14 and equalize them on the workover operation. And maybe
15 that's just under paragraph 12 of the Commission's order
16 when it provides within 90 days following completion the
17 schedule has to be furnished and the parties can challenge
18 well costs.

19 The one other thing -- and this is getting to
20 something I asked for -- to Mr. Moran -- there are right-
21 of-way costs to the A.D. Jones Estate, Inc., and so that
22 they need not be incurred again, if Pride is ultimately
23 successful I would like that any right-of-way agreement
24 Yates has with the A.D. Jones Estate to be assigned to
25 Pride so that it no longer has to pay money to the surface

1 lessee, the grazing lessee, for access to the --

2 CHAIRMAN FESMIRE: Mr. Bruce, can we -- I mean,
3 A.D. Jones Estate, Inc., isn't a party to this proceeding.

4 MR. BRUCE: Well, I will say that -- go ahead,
5 Mr. --

6 MR. CARR: Frankly, we don't know whether it is
7 or not. It's something you can't order.

8 CHAIRMAN FESMIRE: Right.

9 MR. CARR: But it is something that we're
10 interested in working with Pride on. We're not trying to
11 square off on any of this. We're trying to get the right
12 time frame in --

13 MR. BRUCE: I do know that in the agreements that
14 Pride has had with the A.D. Jones Estate, since they're
15 both active out there, that those agreements are generally
16 assignable with the written permission of both parties.

17 CHAIRMAN FESMIRE: Well, I think it would be to
18 Yates' best interest to do that anyhow, since if they
19 didn't they'd have to pay 50 percent again.

20 MR. CARR: We're getting used to that.

21 MR. BRUCE: So those are my only comments, Mr.
22 Chairman.

23 CHAIRMAN FESMIRE: Okay, the issue before the
24 Commission today, as I understand it -- and Mr. Brooks,
25 please correct me before we get too far on the record if

1 I'm wrong -- is the extension of the date. And you've
2 agreed to that extension; is that correct?

3 MR. BRUCE: I do not object.

4 MR. CARR: And my second closing would be, we
5 don't object to an appropriate time to evaluate the data
6 that's been presented here today either, because until you
7 actually rule, the time frame and the costs are really sort
8 of in a gray posture.

9 CHAIRMAN FESMIRE: Okay.

10 MR. BROOKS: I think actually the rehearing would
11 be broad enough to encompass the issue of the propriety of
12 the costs. I would respectfully advise, however, that --
13 as counsel has suggested, that that would be more
14 expediently done by entering an order that sets up a
15 framework for dealing with that, rather than trying to do
16 it on the basis the hearing today.

17 MR. BRUCE: And could I ask also, if so, rather
18 than -- as of now, there's about what, 12 or 14 days for
19 Pride to object -- if an order could extend that so that we
20 could -- all the parties perhaps could negotiate in the
21 meantime as to what the costs may be, maybe roll it into
22 the final well cost.

23 CHAIRMAN FESMIRE: Well, can we not do that by
24 amending the order --

25 MR. BRUCE: Yes.

1 CHAIRMAN FESMIRE: -- and just picking a date?

2 MR. CARR: Yes, sir.

3 CHAIRMAN FESMIRE: What date would be -- How much
4 longer would Pride need?

5 MR. BRUCE: Well --

6 MR. CARR: December 2nd, four weeks.

7 MR. BRUCE: That would be fine.

8 MR. CARR: Four weeks and one day.

9 CHAIRMAN FESMIRE: So the Commission could
10 basically dispose of the questions before it today by
11 amending that order to -- extending the date through
12 October 7th, and extending the date to respond -- for Pride
13 to respond to the costs -- to December 2nd; is that
14 correct?

15 MR. BRUCE: I think so.

16 MR. CARR: That's correct.

17 MR. BROOKS: That would be three weeks, not four
18 weeks, December 2nd

19 MR. CARR: I still think it's a good date.

20 (Laughter)

21 MR. BRUCE: I'm just worried about the two
22 intervening weekends coming up between the additional 14
23 days. There might not be enough time, that's all. Three
24 or four weeks would be fine.

25 CHAIRMAN FESMIRE: So December 2nd is still

1 satisfactory to you?

2 MR. CARR: Sure.

3 MR. BRUCE: Yes.

4 CHAIRMAN FESMIRE: Okay. With that, I think the
5 Commission will take this under advisement, and we'll go
6 into executive session.

7 MR. BROOKS: I believe there should be a
8 motion --

9 COMMISSIONER BAILEY: I move that we go into
10 executive session to consider this case.

11 COMMISSIONER CHAVEZ: I second the motion.

12 CHAIRMAN FESMIRE: With that, we'll go into
13 executive session.

14 (Off the record at 10:02 a.m.)

15 (The following proceedings had at 10:19 a.m.)

16 CHAIRMAN FESMIRE: Okay, we're going to go back
17 in session and back on the record.

18 Mr. Carr, Mr. Bruce, what we've decided to do is
19 ask Mr. Carr to submit an amended order extending the date
20 on those expenses -- on those costs -- to October 7th of
21 the correct year, 2003, and ask that the date for response
22 be extended to December 2nd in this order. We're going to
23 ask that you prepare the order, run it by Mr. Bruce and get
24 his approval, and get it to us, to signature, by Wednesday
25 of next week. Is that possible?

1 MR. CARR: Yes, it is.

2 CHAIRMAN FESMIRE: Mr. Brooks, did you have some
3 other instructions?

4 MR. BROOKS: Yes, what I would request -- do you
5 want to schedule the meeting on Wednesday or on Thursday,
6 Mark, Mr. Chairman?

7 CHAIRMAN FESMIRE: Does anybody have the date of
8 Wednesday of next week?

9 MR. BROOKS: Wednesday is the 17th, Thursday is
10 the 18th.

11 COMMISSIONER BAILEY: 17th is fine.

12 CHAIRMAN FESMIRE: 17th.

13 MR. BROOKS: On Wednesday the 17th, then, we'll
14 have a special meeting to sign it. In order that we can
15 get it in proper form here, we would request that you
16 submit to us in electronic format so we can make changes
17 that may be necessary, and we'll prepare it for signature
18 here.

19 What we are requesting is a complete new order,
20 like a Texas amended petition that would carry forward all
21 the existing provisions, and we'll be glad to give you an
22 electronic format to start from. It would be an order
23 that's complete in itself and tracks all the provisions,
24 but we need to get it tied up in such a manner so that all
25 the deadlines work, and you get your reimbursement the way

1 you're expected, and the adjustment that occurs at the end
2 works out so everybody is paid 50 percent of the actual
3 costs.

4 And that's why we're putting on you the burden of
5 working all those things out so they work that way, because
6 it's quite complicated. And I think we all are in accord
7 on where we want to get, but making all those provisions
8 work is going to be something of a challenge.

9 Okay?

10 CHAIRMAN FESMIRE: Sounds good to me.

11 We're going to need about five minutes to get
12 ready for the next couple of cases, so why don't we take a
13 -- sorry about this -- a five-minute break and start again
14 at about 10:28?

15 (Thereupon, these proceedings were concluded at
16 10:22 a.m.)

17 * * *

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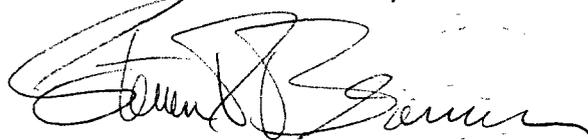
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL Noyember 13th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006