

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

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

CASE NO. 13153

APPLICATION OF YATES PETROLEUM CORPORATION TO RE-OPEN CASE NO. 13153 TO PERMIT YATES TO WITHDRAW ITS ELECTION TO PARTICIPATE IN FURTHER OPERATIONS ON THE STATE "X" WELL NO. 1 AND HEREAFTER BE A "NON-CONSENTING WORKING INTEREST OWNER" IN THE WELL AND, PURSUANT TO THE PROVISIONS OF ORDER NO. R-12108-C, TO DETERMINE THE REASONABLENESS OF THE ACTUAL WELL COSTS TO BE REFUNDED BY PRIDE ENERGY CORPORATION TO YATES PETROLEUM CORPORATION PURSUANT TO THIS ORDER, LEA COUNTY, NEW MEXICO.

PRE-HEARING STATEMENT

This Pre-Hearing Statement is submitted by Holland & Hart LLP, as required by the Oil Conservation Division.

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APPEARANCES OF PARTIES

APPLICANT

Yates Petroleum Corporation
Attn: Charles Moran
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ATTORNEY

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OPPOSITION

Pride Energy Corporation

ATTORNEY

James Bruce, Esq.
Post Office Box 1056
Santa Fe, New Mexico 87504

STATEMENT OF CASE

APPLICANT

Applicant in the above-styled cause seeks an order (1) authorizing Yates Petroleum Corporation, Yates Drilling Company, ABO Petroleum Corporation and MYCO Industries, Inc. (hereinafter collectively referred to as "Yates") to withdraw their election to participate in further operations by Pride Energy Corporation to re-enter the State "X" Well No. 1 (**API No. 30-025-01838**) located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico and ordering that, as to any future operations on the State "X" Well No. 1, Yates be treated as a "non-consenting working interest owner" under Order No. R-12108-C; (2) ordering Pride to account for the well costs incurred to date and to refund to Yates its share of the AFE costs paid by Yates to Pride on October 13, 2004 that have not now been expended; and (3) determining the reasonableness of the actual well costs that Pride shall remit to Yates pursuant to the provisions of Order No. R-12108-C as the actual well costs that were incurred by Yates as part of its efforts to re-enter and return the State "X" Well No. 1 to production.

Yates owns 100% of the working interest in State of New Mexico Oil and Gas Lease No. V-5855 that covers the N/2 and SE/4 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico. The State "X" Well No. 1 is located on this tract.

On September 10, 2003, after Yates had commenced operations on the State X Well No. 1 pursuant to a Division-approved APD Pride filed an application seeking an order of the Oil Conservation Division (a) canceling the Yates drilling permit, (b) re-instating an earlier APD approved for Pride for a W/2 unit for this well, (c) halting Yates drilling operations, (d) pooling the W/2 of Section 12, and (e) designating Pride operator of the State "X" Well No. 1 and the acreage on which it is located.

Following hearings before the Oil Conservation Division and Commission, on December 9, 2004, the Oil Conservation Commission entered Order No. R-12108-C which (1) granted the application of Pride Energy Company in this case pooling the W/2 of Section 12 and naming Pride operator of the well; (2) authorized a 200% charge for risk to be applied against all working interest owners who did not voluntarily join in the well and (3) directed Pride to refund to Yates the actual well costs incurred from August 25, 2003 through October 7, 2004 while operating pursuant to a Division-approved Application for Permit to Drill.

Pride assumed operations of the State "X" Well No. 1 in August 2004 and provided Yates with an AFE as required by the pooling order. Yates paid to Pride \$376,647.43, which was its share of Pride's AFE costs. Accordingly, Yates became responsible for its share of the actual well costs but was no longer liable for the risk charges set by the Division's pooling order. Yates

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provided a schedule of the actual well costs it incurred while working on the well and Pride has objected to some of these costs.

On February 15, 2005, Pride commenced re-entry operations on the well. On or about February 27, 2005, Pride experienced problems with the well and, being unsuccessful in its efforts to correct these problems, on March 10, 2005, released the rig. On or about March 26, 2005, Pride ceased working on the well.

Based on the limited information on the well provided by Pride, on March 10, 2005, Yates wrote Pride and recommended that the State "X" Well No. 1 be plugged and abandoned. Yates received no written response to its March 10, 2005 letter and Pride has failed or refused to advise Yates of its decision concerning future operations on the State "X" Well No. 1. Therefore, on April 22, 2005, Yates again wrote Pride to (i) advise that Yates did not want to "spend any additional money pursuing the development of the well", (ii) renew its request that the well be plugged and abandoned, and (iii) request that, should Pride not plug the well, Yates be treated "as non-participating under the force pooling order and return our monies, less the reasonable costs incurred to date." Yates also requested that the parties meet to discuss and to try to resolve the cost issues.

State of New Mexico Oil and Gas Lease No. V-5855 expires on July 1, 2005 and all activity has stopped on the State "X" Well No. 1. Yates does not believe that the State X Well No. 1 can be completed as originally contemplated in the original authority for expenditure presented by Pride and therefore it has had to proceed with other plans to develop its lease to assure that it does not expire at the end of its term. Yates intends to protect its property interests in Section 12 and has contingency plans to drill at another location on the lease acreage if required to do so. However, Yates needs to know what Pride plans to do with the State "X" well. Accordingly, in its April 22, 2005 letter, Yates asked Pride to advise it of its plans for the well by 5:00 p.m. on April 25, 2005. No response has been received from Pride and Yates has had to file this application to bring the remaining issues concerning the State "X" Well No. 1 to a Division.

Pride has failed to inform Yates of its operations on the State X Well No. 1 and on other wells in which Yates has an interest. Not only has Pride lost the State X Well No. 1, Pride's recent operations have damaged the offsetting Q 13 Well No. 1. and this well may be permanently lost. During this time, Yates has also obtained information that gives it reason to believe that Pride may have improperly paid royalty to the State of New Mexico on another property in which Yates owns an interest and accordingly Yates may be faced with substantial royalty obligations including interest and penalties. All of this is a result of the imprudent operations of Pride.

Yates tried to develop its property interests in the N/2 of Section 12 and the Division and Commission determined that Pride should operate the well on the Yates tract and take over the re-entry operations. Pride has lost the well and it now appears to be planning to pursue operations on the well that are unwise, imprudent and costly. It has not provided data to which

Yates is entitled as a participating pooled party in the well. Pride holds large sums that it has been directed by the Commission to pay to Yates. It also holds additional sums that were paid by Yates pursuant to the Commission's order and the Pride AFE. Pride is not willing to admit that it has permanently lost this well nor is it willing to return the Yates funds it now holds. Yates wants out. Further, Yates believes that it is in this situation because of decisions of the Division and Commission and now asks the Division to permit it to withdraw from further participation in any efforts of Pride on the State X Well No. 1. Yates also asks the Division to direct Pride to pay Yates the sums it now is improperly holding and any other monies that the Division may determine are due to Yates.

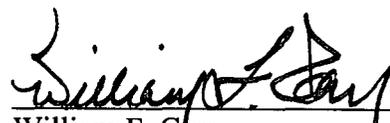
PROPOSED EVIDENCE

APPLICANT

WITNESSES (Name and Expertise)	ESTIMATED TIME	EXHIBITS
Charles Moran Landman	Approximately 20 Minutes	Approximately 5
Sam Brandon Petroleum Engineer	Approximately 20 Minutes	Approximately 6
Tom Wier Accountant	May Call	
John Amiet Geologist	May Call	

PROCEDURAL MATTERS

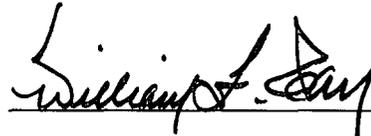
Yates has none at this time.



William F. Carr
Attorney for Yates Petroleum Corporation

CERTIFICATE OF SERVICE

I certify that I have caused a copy of the foregoing pleading to be delivered to James Bruce, Esq., attorney for Pride Energy Company, by Facsimile (FAX NO. (505) 982-2151) on this 13th day of May, 2005.



William F. Carr