

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)

jamesbruc@aol.com

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May 16, 2006

Hand Delivered

David Catanach
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 13, 690/Pride Energy Company
State "X" Well No. 1/W $\frac{1}{2}$ §12-12S-34E. Lea County, New Mexico

Dear Mr. Catanach:

Enclosed is a hard copy of the proposed order e-mailed to you earlier today. Please note:

1. To address the objections raised by Yates regarding the order of the drilling of the proposed wells, the order provides for the drilling of the X-1 well first; and
2. Assuming the Division does not grant Yates' motion to dismiss, **Pride requests that a pooling order be issued in the next couple days due to its expiring lease and the need to submit the order to the Land Commissioner for communitization purposes.**

Very truly yours,



James Bruce

Attorney for Pride Energy Company

cc: William F. Carr w/encl.

**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. 13690
ORDER NO. R-**

**APPLICATION OF PRIDE ENERGY COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on May 11, 2006 at 8:15 a.m. at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this _____ day of May, 2006, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.
- (2) The applicant, Pride Energy Company ("Applicant"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Mississippian formation underlying the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico, to form a standard 320-acre spacing and proration unit for all formations and/or pools developed on 320 acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Four Lakes-Mississippian Gas Pool.
- (3) The above-described unit (the "Unit") is to be dedicated to the existing State "X" Well No. 1, located 1980 feet from the north line and 660 feet from the west line in the (Unit E) of Section 12, which is to be re-entered.
- (4) The application filed herein also seeks, pursuant to Division Rule 36, to include provisions in the order for subsequent operations and procedures for an optional infill well to be located in the SW/4 of Section 12.
- (5) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(6) The Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to re-enter the State "X" Well No. 1 at the above-described location.

(7) Yates Petroleum Corporation ("Yates") appeared at the Division hearing and objected to the granting of the application.

(8) In addition, on April 6, 2006 Yates filed a motion to dismiss the application filed herein, based on three issues:

- (a) The Applicant does not have the authority to re-enter the State "X" Well No. 1;
- (b) The Applicant did not make a good faith effort to obtain the voluntary joinder of Yates; and
- (c) There are outstanding issues between the parties regarding the first re-entry attempt on the State "X" Well No. 1.

These issues are addressed below.

(9) Authority to Re-Enter: The State "X" Well No. 1 is located on Yates' lease. Thus, **without pooling or a voluntary agreement**, the Applicant cannot enter onto Yates' lease to re-enter the well. However, Yates has not agreed to enter into a voluntary agreement with Pride regarding the development of the W $\frac{1}{2}$ of Section 12. Once a pooling order is issued, the applicant will have the authority to enter onto Yates' lease to commence re-entry operations, and the Commission so held in the original case involving this acreage. **Order No. R-12108-C.**

(10) Good Faith Effort: The evidence presented shows that:

- (a) Counsel for the Applicant wrote to counsel for Yates in early December 2005 inquiring whether Yates would agree to a voluntary agreement for the development of the W $\frac{1}{2}$ of Section 12. No response was received by the Applicant;
- (b) The Applicant filed a new APD for the re-entry of the State "X" Well No. 1 in February 2006;
- (c) The Applicant sent Yates a well proposal, with an AFE, on February 24, 2006;
- (d) The Applicant and Yates have exchanged approximately a dozen letters, including data requested by Yates on the re-entry operations and a proposed Joint

Operating Agreement. The parties' representatives have also spoken with each other several times. However, the parties have not yet reached voluntary agreement; and

(e) The Applicant's lease expires on May 31, 2006, and thus time is of the essence in this application.

(11) Outstanding Issues: The outstanding issues from the original pooling of this well have been decided in Division Order No. R-12547, and that point is moot.

(12) The evidence shows that the Applicant took steps normally required by the Division prior to seeking pooling. Yates has not proposed its own well, sought to obtain an APD, or filed a pooling application of its own. Therefore, its motion to dismiss should be denied.

(13) There are interest owners in the proposed Unit who have not agreed to pool their interests.

(14) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste, and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(15) Pride Energy Company should be designated the operator of the subject well and of the Unit.

(16) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% (pursuant to Division Rule 35.A) thereof as a reasonable charge for the risk involved in drilling the well.

(17) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5000.00 per month while drilling and \$600.00 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

(18) The provisions of Division Rule 36 on subsequent operations, regarding proposal by the operator (Rule 36.C), proposal by pooled working interest owner (Rule 36.D), refund of money advanced (Rule 36.E), and determination of reasonable costs (Rule 36.F) should be adopted herein by reference.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Pride Energy Company, all uncommitted mineral interests in all formations from the surface to the base of the Mississippian formation underlying the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit for all formations and/or pools developed on 320 acre spacing within that vertical extent, which include but are not necessarily limited to the Undesignated Four Lakes-Mississippian Gas Pool.

The above-described unit (the "Unit") is to be dedicated to the State "X" Well No. 1, to be re-entered at a location 1980 feet from the north line and 660 feet from the west line in the (Unit E) of Section 12, to test any and all formations from the surface to the base of the Mississippian formation.

(2) Pride Energy Company is hereby designated the operator of the subject well and of the Unit.

(3) The operator of the Unit shall commence re-entering/drilling the proposed well on or before July 1, 2006 and shall thereafter continue re-entering/drilling the well with due diligence to test the Mississippian formation.

(4) In the event the operator does not commence re-entering/drilling the proposed well on or before July 1, 2006, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the subject well not be re-entered/drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate, unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the subject well, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the subject well ("well costs").

(8) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(9) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(11) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(12) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5000.00 per month while drilling and \$600.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(14) Except as provided in Ordering Paragraphs (11) and (13) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(16) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(17) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS FURTHER ORDERED THAT:

(18) Either the operator or a pooled working interest owner may, after completion of the well provided for in Ordering Paragraph (1), propose the drilling of an infill well in the SW/4 of Section 12 pursuant to the provisions of Division Rule 36 (19.15.1.36 NMAC), which is incorporated herein by reference.

IT IS FURTHER ORDERED THAT:

(19) The motion to dismiss filed by Yates Petroleum Corporation is hereby denied.

(20) Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director

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