



June 16, 2006

HAND-DELIVERED

Florene Davidson,
Commission Clerk
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

2006 JUN 16 PM 4 23

Re: Application of Pride Energy Company for compulsory pooling, Lea
County, New Mexico.

Dear Ms. Davidson:

Enclosed is Yates Petroleum Corporation's Motion for Stay and Emergency Order in the
above referenced case. A copy of this Motion and request for emergency Order has
been served on all parties who appeared in the case as required by Subsection B of Rule
19.15.14.1221 NMAC and Subsection A of Rule 19.15.14.1208 NMAC.

Very truly yours,

William F. Carr

Enclosures

cc: Mr. Chuck Moran
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210-2118

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

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

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

2006
JUN 16 PM 3:11
CASE NO. 13690

**YATES PETROLEUM CORPORATION'S
MOTION FOR STAY AND EMERGENCY ORDER**

Yates Petroleum Corporation ("Yates")¹, through its attorneys, Holland & Hart, LLP, pursuant to the provisions of Division Rule 19.15.14.1221, hereby moves the Oil Conservation Division for an order staying order paragraphs 9 and 10 of Order No. R-12555 (copy attached hereto) that require Yates to (1) make an election on whether or not to participate in the re-entry of the State "X" Well No. 1, and (2) pay to Pride its share of the AFE costs for the Re-entry of the State "X" Well No. 1 to prevent gross negative consequences to Yates. In support of its Motion, Yates states:

1. Yates owns 100% of the working interest in the NW/4 of Section 12, Township 12 South, Range 34 East, N.M.P.M., Lea County, New Mexico.
2. Pride Energy Company ("Pride") is the owner of the oil and gas rights under the SW/4 of said Section 12.
3. On March 2, 2004 the Division entered Order No. R-12108 granting an application filed by Pride to take operations of this spacing unit from Yates, pool the W/2 of the section for a re-entry attempt in this wellbore, and designate Pride operator of this pooled unit. Order No. R-12108 also directed Pride to reimburse Yates the costs it

¹ Yates Petroleum Corporation, Yates Drilling Company, ABO Petroleum Corporation and MYCO Industries, Inc. are hereinafter collectively referred to as "Yates."

4. This case involves an application filed by Pride seeking, for the second time, to invoke the pooling power of the State to force pool the W/2 of this section for the re-entry of the State "X" Well No. 1.

5. Pursuant to the original pooling order, Yates provided Pride a schedule of the actual well costs it incurred while working on the well. Pride objected to some of these costs.

6. On October 13, 2004, Yates signed Pride's AFE and, pursuant to the Commission's original pooling order, paid Pride \$376,647.43 for its share of the AFE costs.

7. Pride's first re-entry attempt in the State "X" Well No. 1 was unsuccessful and the original pooling expired and the pooled unit created thereby terminated.

8. Pride did not spend all of the sums covered by its AFE on its first re-entry attempt.

9. At the time this application was filed, Pride had not refunded Yates' share of these unexpended costs. Furthermore, Pride had not paid to Yates the sums Yates had incurred while working on this well that the Division had ordered be refunded to Yates.

10. In late 2005, in an attempt to resolve the issues concerning the refund to Yates of these costs, Yates filed an application seeking an order: (1) directing Pride to reimburse Yates for the costs Yates incurred in its re-entry operations on the State "X" Well No. 1 prior to the time Pride assumed operations of the well; and (2) an order directing Pride to account to and refund to Yates all of the portion of the estimated share of well costs for the State "X" Well No. 1 improperly held by Pride. This application was styled Case 13531 and was heard by a Division Examiner on January 5, 2006.

11. At the time Pride filed the pooling application in this case, the Division had not ruled on Yates' application seeking an order requiring the payment of the funds Pride owed Yates.

12. Yates therefore filed a motion seeking dismissal of Pride's second compulsory pooling application asserting, among other things, that Yates objected to this application and the entry of another order pooling its interest until the Division resolved all the issues pending before it related to the first pooling order covering these same lands and interests. In its Motion to Dismiss Yates stated:

"Yates also objects to the entry of another pooling order by the Division until it resolves the issues pending before it related to the Division's first pooling order covering these same lands and interests. At this time, Pride is holding \$84,391.58 that the Division and Commission directed Pride to refund to Yates for the costs it incurred while attempting a re-completion of the well prior to the entry of the pooling orders in the original pooling case. (Order Nos. R- 12108-A and R-12108-C) In addition, Pride is withholding \$32,203.91 of unused AFE costs. Yates is in this situation because of orders entered by the Division and Commission over the objections of Yates."

13. No action was taken by the Division on Yates' Motion to Dismiss until May 8, 2006, three days prior to the Division hearing on Pride's pooling application. On that date, the Division entered Order No. R-13531 granting Yates' application and ordering Pride to pay to Yates the funds it was improperly withholding for costs associated with its first re-entry attempt in the State "X" Well No. 1.

14. On May 25, 2006, the Division entered Order No. R-12555 and again pooled Yates interests in the W/2 of Section 12. In this order it found that "Division records further show that Division Order No. R-12547 was issued in Case No. 13531 on May 8, 2006, therefore there are no outstanding issues relating to Pride's first re-entry attempt on the State "X" Well No. 1. Consequently, Yates' Motion to Dismiss should be dismissed." (Finding 13).

15. Pride paid to Yates the sums owed pursuant to Order No. R-12547 entered in Case 13531 and pursuant to the Division's new pooling order, Pride immediately sent a new AFE to Yates for Pride's proposed re-entry attempt. At that time, to use the

Division's own words in denying Yates' Motion to Dismiss, there were "no outstanding issues relating to Pride's first re-entry attempt on the State "X" Well No. 1."

16. Pursuant to Pride's new AFE and order paragraphs (9) and (10) of Division Order No. R-12555, Yates must now pay to Pride half of its AFE sum – or \$1,029,045.80 - or be subject to a 200% charge for the risk on its 50% share of the costs associated with Pride's second re-entry attempt.

17. On June 5, 2006, Pride filed an application for hearing de novo in Case 13531 to enable it to again challenge the costs associated with its first attempt to re-enter the State "X" Well and thereby created new outstanding issues concerning its first botched attempt to re-enter the State "X" Well No. 1. With this application, Pride has employed a "bait and switch" strategy that puts Yates in the same position it was in when the Division denied Yates Motion to Dismiss. Yates now is also in the same position it was in before the Division when it objected "to the entry of another pooling order by the Division until it resolves the issues pending before it related to the first pooling order covering these same lands and interests."

18. Pride is again conducting re-entry efforts on the State "X" Well No. 1 pursuant to the provisions of a Division pooling order. Because of Pride's actions and the orders it obtained from the Division and Commission, Yates is again being asked to pay Pride almost \$1 million while Pride challenges an order of the Division that directs Pride to pay sums that the Division has determined it owes to Yates for Pride's first re-entry attempt.

19. The fact that Pride has commenced work on this well and now renews its challenge to costs associated with its first re-entry attempt does not prevent the Division or Commission from acting to protect the interests of Yates. As long as there are issues concerning the cost associated with the first re-entry attempt the Division should not require Yates pay an additional \$1 million to avoid the risk charge set by the new pooling order. To do this, the Commission must stay order paragraphs (9) and (10) of Order No. 12555 until all issues related to Pride's first re-entry attempt on the State "X" Well No. 1 are resolved.

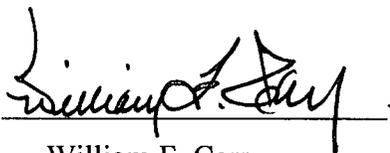
20. Yates therefore seeks an order staying the provisions of Order paragraphs (9) and (10) of Order No. R-12555.

21. Because Yates is required to pay its share of AFE costs to Pride by June 23, 2006, to avoid the charge for risk imposed by Order No. R-12555, Yates request that an emergency order be entered staying Order paragraphs (9) and (10) of Order No. R-12555.

22. To do otherwise would force pool Yates again before resolving the outstanding issues from the first case which Yates asserts would require an arbitrary and unreasonable action by the Division and, under these facts, have gross negative consequences on Yates.

WHEREFORE, Yates Petroleum Corporation, et al. moves the Division/Commission for an order staying order paragraphs (9) and (10) of Order No. R-12555, until all issues concerning the costs of Pride's first re-entry attempt on the State "X" Well No. 1 pursuant to Division Order No. R- 12108, as amended, are resolved and order that at that time a new 30-day election period begin.

Respectfully submitted,
HOLLAND & HART, LLP

BY  -
William F. Carr

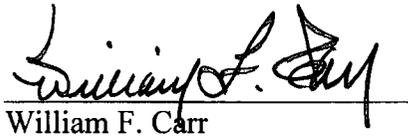
ATTORNEYS FOR YATES PETROLEUM
CORPORATION

CERTIFICATE OF SERVICE

I certify that on June 16, 2006 I served a copy of the foregoing Motion to Dismiss by Hand Delivery or Facsimile to:

David K. Brooks, Esq.
Oil Conservation Commission
1221 South Saint Francis Drive
Santa Fe, New Mexico 87505

Pride Energy Company
c/o James Bruce, Esq.
369 Montezuma, No. 213
Santa Fe, New Mexico 87501
Fax No. (505) 982-2151


William F. Carr

**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-12555**

**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 at 8:15 a.m. on May 11, 2006, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 25th 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 its subject matter.

(2) The applicant, Pride Energy Company ("Pride" or "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 gas spacing and proration unit for all formations and/or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Undesignated Four Lakes-Mississippian Gas Pool.

(3) The above-described spacing and proration unit (the "Unit") is to be dedicated to the existing State "X" Well No. 1 (API No. 30-025-01838) located at a standard gas well location 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12, which is to be re-entered by Pride to test the Mississippian formation.

(4) The applicant also seeks authority to drill an infill well within the Unit, the State "X" Well No. 2 (API No. 30-025-37800), to be located at a standard gas well location 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 12.

(5) Yates Petroleum Corporation, an interest owner in the proposed Unit, appeared at the hearing in opposition to the application.

(6) The W/2 of Section 12 was previously pooled by Division Order No. R-12108-C dated December 9, 2004. In that action, the Division, upon the application of Pride, pooled the interest of Yates within the W/2 of Section 12, and authorized Pride to re-enter the State "X" Well No. 1 for the purpose of testing the Mississippian formation.

(7) The evidence presented in this case demonstrates that Pride re-entered the State "X" Well No. 1 in a timely fashion, but due to mechanical problems, was forced to move off of the well prior to the well being completed. Consequently, the pooling provisions of Division Order No. R-12108-C are no longer in effect.

(8) In the present case, Pride seeks again to pool the W/2 of Section 12 in order to make another attempt to re-enter and complete the State "X" Well No. 1, and also seeks authority to drill an infill well within the unit.

(9) Within the proposed Unit, Pride owns 50% of the working interest, and the remaining 50% is owned by Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation, and Myco Industries, Inc. (hereinafter referred to collectively as "Yates").

(10) On April 6, 2006, Yates filed a Motion to Dismiss Pride's Application in Case No. 13690. In its motion, Yates contends that:

- (a) Pride does not own an interest in the NW/4 of Section 12, and therefore does not have the right to re-enter the State "X" Well No. 1;
- (b) Pride failed to make a good faith effort to reach a voluntary agreement with Yates for the development of this acreage; and
- (c) no order should be entered in this case prior to resolution by the Division of certain outstanding monetary issues pending before the Division relating to Pride's first attempt to re-enter the State "X" Well No. 1. These issues are contained within Case No. 13531, which was heard by the Division on January 5, 2006.

(11) On April 12, 2006, Pride filed a Response in Opposition to Yates' Motion to Dismiss.

(12) The Division made no ruling on Yates' motion prior to the hearing on May 11, 2006. At the hearing, Yates renewed its motion to dismiss. The Examiner deferred ruling on the motion until such time as an order is entered in this case.

(13) The evidence presented at the hearing demonstrates that Pride, by virtue of owning a 50% working interest in the proposed Unit, will, if its application is granted, have the right to re-enter the State "X" Well No. 1. In addition, Pride has made a good faith effort to secure the voluntary participation of Yates in the proposed re-entry of the State "X" Well No. 1. Division records further show that Division Order No. R-12547 was issued in Case No. 13531 on May 8, 2006, therefore, there are no outstanding issues relating to Pride's first re-entry attempt on the State "X" Well No. 1. Consequently, Yates' Motion to Dismiss should be denied.

(14) Pride presented evidence and testimony that demonstrates that:

- (a) it seeks an expedited pooling order in this case due to the fact that its lease in the SW/4 of Section 12 will expire on May 31, 2006;
- (b) in December 2005, Pride contacted Yates regarding its desire to continue to develop the W/2 of Section 12. On February 24, 2006, Pride sent Yates an Authority for Expenditure ("AFE") for the re-entry of the State "X" Well No. 1. Subsequent to that time, Pride and Yates have had further discussion regarding the development of the W2 of Section 12, but have been unable to reach an agreement;
- (c) Pride first proposed the drilling of the State "X" Well No. 2 to Yates by letter dated May 4, 2006;
- (d) Pride proposes that it be allowed to drill the proposed State "X" Well No. 2 prior to re-entering the State "X" Well No. 1; and
- (e) re-entry costs for the State "X" Well No. 1 are estimated to be approximately \$1,973,700 for a completed well.

(15) Yates objects to the pooling of the W/2 of Section 12 for the drilling of the State "X" Well No. 2 for the following reasons:

- (a) Pride first proposed to Yates the drilling of the State "X" Well No. 2 on May 4, 2006, only days before the hearing in this matter; and
- (b) Pride filed a compulsory pooling application that included its proposal to drill the State "X" Well No. 2 prior to conducting good faith negotiations with Yates regarding the drilling of this well.

(16) The evidence presented demonstrates that Pride has conducted good faith negotiations with Yates regarding the re-entry of the State "X" Well No. 1, but has been unable to reach a voluntary agreement.

(17) The evidence further demonstrates that Pride has failed to conduct good faith negotiations with Yates regarding the drilling of the proposed State "X" Well No. 2. Consequently, any order that pools the interest within the W/2 of Section 12, at this time, should exclude authorization for Pride to drill the State "X" Well No. 2.

(18) 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.

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

(20) 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.

(21) The applicant should be designated the operator of the State "X" Well No. 1 and of the Unit.

(22) 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% thereof as a reasonable charge for the risk involved in re-entering the well.

(23) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000.00 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.*"

IT IS THEREFORE ORDERED THAT:

(1) Yates Petroleum Corporation's Motion to Dismiss Case No. 13690 dated April 6, 2006 is hereby denied.

(2) Pursuant to the application of Pride Energy Company, 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, are hereby pooled to form a standard 320-acre gas spacing and proration unit for all formations and/or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Undesignated Four Lakes-Mississippian Gas Pool.

(3) The above-described spacing and proration Unit shall be dedicated to the existing State "X" Well No. 1 (API No. 30-025-01838) located at a standard gas well location 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12, which is to be re-entered by Pride to test the Mississippian formation.

(4) The operator of the Unit shall commence re-entry and drilling operations on the State "X" Well No. 1 on or before September 1, 2006, and shall thereafter continue drilling the well with due diligence to test the Mississippian formation.

(5) In the event the operator does not commence re-entry and drilling operations on the State "X" Well No. 1 on or before September 1, 2006, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the State "X" Well No. 1 not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (2) 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 drill and complete the well for good cause demonstrated by satisfactory evidence.

(7) 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.

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

(9) 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 re-entering, drilling, completing and equipping the subject well ("well costs").

(10) 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."

(11) 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 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.

(12) 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.

(13) 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 re-entering and drilling the well, 200% of the above costs.

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

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000.00 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.

(16) 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.

(17) 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.

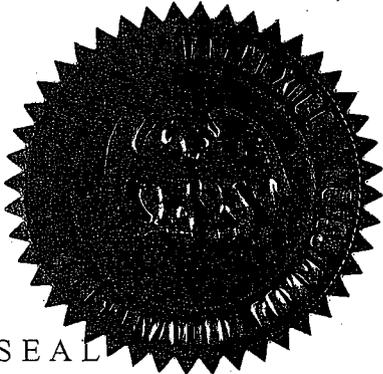
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(20) That portion of Pride Energy Company's application seeking authorization to drill the proposed State "X" Well No. 2 as an infill well within the W/2 of Section 12 is hereby denied. Any subsequent operations conducted on the pooled Unit shall only be authorized after notice and hearing.

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

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, PE
Director

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

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

CASE NO. 13690

EMERGENCY ORDER GRANTING TEMPORARY STAY

This matter having come before the Division Director on the Motion of Yates Petroleum Corporation, et al., for a Stay and Emergency Order, and the Division Director having considered the motion and arguments of the parties, the Division Director finds that Yates's motion is well-taken, and:

IT IS THEREFORE ORDERED THAT Order paragraphs (9) and (10) of Oil Conservation Division Order No. R-12555 is stayed until such time as until all issues concerning the costs of Pride's first re-entry attempt on the State "X" Well No. 1 pursuant to Division Order No. R- 12108, as amended, are resolved and at which time the parties can approach the Director, the Division or the Commission for further action.

Mark E. Fesmire, P.E.
Director
Oil Conservation Division