

**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.

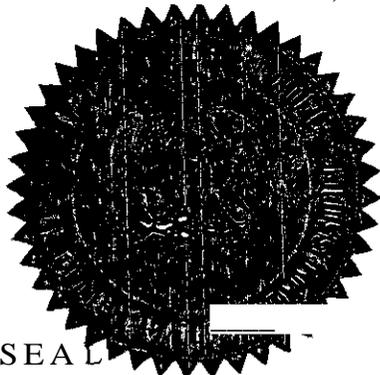
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

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

MARK E. FESMIRE, PE
Director