



July 7, 2005

HAND-DELIVERED

Mark E. Fesmire, P.E.
Director
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 13531

2005 JUL 7 PM 2 14

Re: Application of Yates Petroleum Corporation for an Order (1) directing Pride Energy Company to reimburse Yates for the well costs incurred by Yates in its attempt to re-enter the State "X" Well No. 1 (API No. 30-025-01838) located in Section 12, Township 12 South, Range 34 East, NMPM, prior to the time Pride assumed operations of the well, (2) directing Pride Energy Company to account for and pay all sums it is now improperly holding pursuant to expired orders of the Division and Commission, and (3) requiring Pride Energy Company to plug and abandon the State "X" Well No. 1, Lea County, New Mexico.

Dear Mr. Fesmire:

Enclosed is the application of Yates Petroleum Corporation in the above-referenced case as well as a copy of a legal advertisement. Yates Petroleum Corporation requests that this matter be placed on the docket for the August 11, 2005 Examiner hearings.

Very truly yours,

William F. Carr

Enclosures

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

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

2005 JUL 7 PM 2 14

APPLICATION OF YATES PETROLEUM CORPORATION FOR AN ORDER (1) DIRECTING PRIDE ENERGY COMPANY TO REIMBURSE YATES FOR THE WELL COSTS INCURRED BY YATES IN ITS ATTEMPT TO RE-ENTER THE STATE "X" WELL NO. 1 LOCATED IN SECTION 12, TOWNSHIP 12 SOUTH, RANGE 34 EAST, NMPM, PRIOR TO THE TIME PRIDE ASSUMED OPERATIONS OF THE WELL, (2) DIRECTING PRIDE ENERGY COMPANY TO ACCOUNT FOR AND PAY ALL SUMS IT IS NOW IMPROPERLY HOLDING PURSUANT TO EXPIRED ORDERS OF THE DIVISION AND COMMISSION, AND (3) REQUIRING PRIDE ENERGY COMPANY TO PLUG AND ABANDON THE STATE "X" WELL NO. 1, LEA COUNTY, NEW MEXICO.

CASE NO. 13531

APPLICATION

YATES PETROLEUM CORPORATION, ("Yates") through its undersigned attorneys, hereby makes application to the Oil Conservation Division for an order (1) directing Pride Energy Company ("Pride") to reimburse Yates for the costs Yates incurred in its re-entry operations on 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 prior to the time Pride assumed operations of the well, (2) 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 now improperly held by Pride and (3) directing Pride to plug and abandon the State "X" Well. In support of its application, Yates states:

1. Yates Petroleum Corporation, Yates Drilling Company, ABO Petroleum Corporation and MYCO Industries, Inc. (hereinafter collectively referred to as "Yates") own 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 at a point 1980 feet from the North line and 660 feet from the West line of Section 12 ("the State X Well").

2. Pride Energy Company ("Pride") owns the working interest in the SW/4 of Section 12.

3. On August 25, 2003 Yates filed an APD for a re-entry of the State "X" Well No. 1 to test the Mississippian formation and dedicated thereto a standard spacing unit comprised of its acreage in the N/2 of the Section 12. This APD was approved by the Division on August 26, 2003.

4. Also on August 26, 2003, the Division cancelled an APD previously approved for Pride for a Mississippian formation spacing unit comprised of the W/2 of Section 12 on which Pride proposed to re-enter the State "X" Well. The Division stated the Pride APD was cancelled because the entire N/2 of the Section 12 was leased to Yates. On September 5, 2003, Yates moved a rig onto the location and

commenced re-working operations.

5. On September 10, 2003, after Yates had commenced operations on the well, Pride filed an application seeking an order of the Oil Conservation Division (a) canceling the Yates drilling permit, (b) re-instating its drilling permit, (c) halting drilling operations, (d) pooling the W/2 of Section 12, and (e) designating Pride operator of the State "X" Well No. 1 and the Yates acreage on which it is located. On that date, Pride also filed its request that the Division enter an emergency order requiring Yates to cease all operations on the subject well. No action on Pride's application for an emergency order was required because Yates agreed to voluntarily move the rig off location and stop its work on this well pending a decision by the Division on the Pride application.

6. Pride's application came on for hearing before a Division Examiner on October 23, 2003, and on March 2, 2004 the Division entered Order No. R-12108 granting Pride's application.

7. Yates appealed this order to the Oil Conservation Commission and on October 14, 2004, the Commission entered Order No. R-12108-B again granting Pride's application.

8. On September 13, 2003, Yates filed an application for *de novo* review of this decision of the Examiner pursuant to NMSA § 70-2-13 (1978).

9. A partial rehearing was granted by the Commission and on December 9, 2004, the Oil Conservation Commission entered Order No. R-12108-C which (a) granted the application of Pride Energy Company for an order pooling the W/2 of Section 12 and designating Pride operator of the State "X" Well No. 1; (b) authorized a 200% charge for risk to be applied against all working interest owners who did not voluntarily join in the well and (c) directed Pride to refund to Yates the actual well costs incurred from August 25, 2003 through October 7, 2004 while Yates was conducting re-entry operations on the well pursuant to a Division-approved Application for Permit to Drill.

10. 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.

11. On October 13, 2004, 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.

12. Yates also provided a schedule of the actual well costs it incurred while working on the well and Pride objected to some of these costs. A revised schedule of these costs is attached to this application as Exhibit A.

13. On February 15, 2005, Pride commenced re-entry operations on the well.

14. 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.

15. Based on the information Yates obtained from its efforts to re-enter the well and 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.

16. Yates received no definitive response to its March 10, 2005 letter and Pride failed or refused to advise Yates of its decisions concerning future operations on the State "X" Well No. 1. Therefore, on April 22, 2005, Yates again wrote Pride to (a) advise that Yates did not want to "spend any additional money pursuing the development of the well", (b) renew its request that the well be plugged and abandoned, and (c) request that, should Pride not plug the well, Yates be treated as non-participating working interest owner under the force pooling order and that Pride return Yates 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.

17. Yates' State of New Mexico Oil and Gas Lease No. V-5855 had an expiration date of July 1, 2005.

18. Pride failed or refused to advise Yates of its plans for the State "X" Well No. 1. Accordingly, to protect its property interests in Section 12, Yates is drilling a well in the SE/4 of the Section.

19. Yates filed an application with the Division on April 26, 2005 seeking an order permitting it to (a) withdraw its election to participate in any further operations on the State "X" Well No. 1 pursuant to Order No. R-12108-C and thereafter be treated as a non-consenting party under the Commission's pooling order, and (b) to otherwise bring the issues that remain concerning the State "X" Well No. 1 to a Division at its May 19, 2005 examiner hearing. This application was assigned Case No. 13153.

20. By subpoena, Yates also sought information on the activities conducted by Pride on this well and the costs related thereto.

21. Only limited information was provided by Pride pursuant to the subpoena and accordingly the hearing on Yates application was continued on several occasions.

22. Order No. R-12108-C pooled the W/2 of Section 12 and designated Pride operator of the State X Well No. 1. This order also provided in Order Paragraph No. 4 that "Should the subject well not be completed within 120 days after resumption of re-entry operations pursuant to this order, then this order shall be of no further effect, and the unit created by this order shall terminate, unless the operator obtains a time extension from the Division Director following notice and hearing."

23. Pride commenced operations on the well no February 15, 2005. It is Yates understanding that (a) Pride has taken no action on the State X Well No. 1 since it lost the well in March 2005, (b) that Pride has failed to complete the well within 120 days after resumption of re-entry operations, and (c) that

Pride has failed to obtain an extension of Order No. R-12108-C from the Division Director after notice and hearing as required by Order Paragraph No. 4 of Order No. R-12108-C. Therefore, this order is now of no further effect and the unit created by this order has terminated.

24. Since Pride has allowed Commission Order No. R-12103-C to expire by its own terms, Yates' interests are no longer pooled. Yates cannot be a participating working interest owner under Order No. R-12103-C, since this order is of no effect. Furthermore, without this order, there is no authority for Pride to continue to hold AFE funds that belong to Yates.

25. Yates has dismissed its application in Case No. 13153.

26. The Commission's order expired through no fault of Yates. Pride has never reimbursed Yates the costs it incurred prior to Pride's assumption of the operations of the well as provided by the Commission's prior order. Accordingly, Yates requests that the Division again order Pride to pay these costs to Yates.

27. Since Order No. R-12103-C has expired, Pride no longer has any right or authority to hold the AFE costs paid by Yates pursuant to Pride's AFE. Yates requests that Pride be immediately ordered to account to Yates and pay all of these funds not used prior to March 26, 2005.

28. Yates will obtain a new subpoena from the Division directing Pride to provide to Yates all accounting and supporting data on the State "X" Well No. 1. If an agreement cannot be reached between the parties concerning the reasonableness of the costs incurred by Pride, Yates requests that the reasonableness of these costs be determined by the Division after notice and hearing.

29. Yates is in this situation because of orders entered by the Division and Commission over the objections of Yates. These orders gave Pride the right to operate a well on property owned by Yates. As a result of these orders and Pride's actions and/or failures to act, (a) the State "X" Well No. 1 has now been lost, (b) Pride has failed to reimburse funds to Yates that were incurred while Yates was attempting to re-enter the well, (c) Pride is improperly holding funds paid by Yates pursuant to Pride's AFE and Commission orders, (d) Pride has failed or refused to provide information to Yates or to respond to Yates' questions concerning these operations, and (e) Yates was required to drill a well to protect its lease.

30. All Yates now asks the Division to do is to require Pride to clean up its mess, pay its bills and refund to Yates the monies it now is improperly holding.

WHEREFORE, Yates Petroleum Corporation requests that this matter be set for hearing before an examiner of the Oil Conservation Division on August 11, 2005 and that after notice and hearing the Division enter its order:

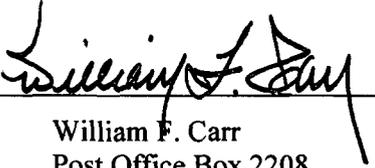
A. directing Pride Energy Company to reimburse Yates the reasonable well costs that Yates incurred in its re-entry operations on the State "X" Well No. 1 located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12, Township 12 South,

Range 34 East, NMPM, Lea County, New Mexico prior to the time Pride assumed operations of the well, and

- B. ordering Pride to account for the costs incurred in its re-entry efforts prior to March 26, 2005 and to refund to Yates its share of the AFE costs paid by Yates to Pride on October 13, 2004, that were not expended by that date and are now improperly held by Pride, and
- C. directing Pride to plug and abandon the State "X" Well.

Respectfully submitted,

HOLLAND & HART LLP

By: 

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR YATES PETROLEUM
CORPORATION

EXHIBIT A

**APPLICATION OF YATES PETROLEUM CORPORATION
FOR AN ORDER (1) DIRECTING PRIDE ENERGY COMPANY TO REIMBURSE YATES FOR
THE WELL COSTS INCURRED BY YATES IN ITS ATTEMPT TO RE-ENTER THE
STATE "X" WELL NO. 1 LOCATED IN SECTION 12, TOWNSHIP 12 SOUTH, RANGE 34
EAST, NMPM, PRIOR TO THE TIME PRIDE ASSUMED OPERATIONS OF THE WELL, (2)
DIRECTING PRIDE ENERGY COMPANY TO ACCOUNT FOR AND PAY ALL SUMS IT IS
NOW IMPROPERLY HOLDING PURSUANT TO EXPIRED ORDERS OF THE DIVISION
AND COMMISSION, AND (3) REQUIRING PRIDE ENERGY COMPANY TO PLUG AND
ABANDON THE STATE "X" WELL NO. 1,
LEA COUNTY, NEW MEXICO.**

State "X" Well No. 1

Section 12:Unit Letter E
Township 12 South, Range 34 East, NMPM
Lea County, New Mexico.

NOTICE LIST

Pride Energy Company
Post Office Box 0701950
Tulsa, Oklahoma 74170
Attention: John W. Pride

James G. Bruce, Esq.
Attorney for Pride Energy Company
Post Office Box 1056
Santa Fe, New Mexico 87504
By Facsimile: (505) 982-2151

Case No. 13531:

Application of Yates Petroleum Corporation for an Order (1) directing Pride Energy Company to reimburse Yates for the well costs incurred by Yates in its attempt to re-enter the State "X" Well No. 1 (API No. 30-025-01838) located in Section 12, Township 12 South, Range 34 East, NMPM, prior to the time Pride Energy Company assumed operations of the well, (2) directing Pride Energy Company to account for and pay all sums it is now improperly holding pursuant to expired orders of the Division and Commission, and (3) requiring Pride Energy Company to plug and abandon the State "X" Well No. 1, Lea County, New Mexico. Applicant seeks (1) an order directing Pride Energy Company ("Pride") to reimburse Yates for the costs Yates incurred in its re-entry operations on 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 prior to the time Pride assumed operations of the well, (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 now improperly held by Pride pursuant to expired orders of the Division and Commission, and (3) an order directing Pride to plug and abandon the State "X" Well. Said well and spacing unit are located approximately 12 miles west northwest of Tatum, New Mexico.



July 7, 2005

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Pride Energy Company
Post Office Box 0701950
Tulsa, Oklahoma 74170
Attention: John W. Pride

Re: Application of Yates Petroleum Corporation for an Order (1) directing Pride Energy Company to reimburse Yates for the well costs incurred by Yates in its attempt to re-enter the State "X" Well No. 1 (API No. 30-025-1838) located in Section 12, Township 12 South, Range 34 East, NMPM, prior to the time Pride assumed operations of the well, (2) directing Pride Energy Company to account for and pay all sums it is now improperly holding pursuant to expired orders of the Division and Commission, and (3) requiring Pride Energy Company to plug and abandon the State "X" Well No. 1, Lea County, New Mexico.

Ladies and Gentlemen:

This letter is to advise you that Yates Petroleum Corporation has filed the enclosed application with the New Mexico Oil Conservation Division seeking an order (1) directing Pride Energy Company to reimburse Yates for the well costs incurred by Yates in its attempt to re-enter the State "X" Well No. 1 located in Section 12, Township 12 South, Range 34 East, NMPM, prior to the time Pride assumed operations of the well, (2) directing Pride Energy Company to account for and pay all sums it is now improperly holding pursuant to expired orders of the Division and Commission, and (3) requiring Pride Energy Company to plug and abandon the State "X" Well No. 1, Lea County, New Mexico.

This application has been set for hearing before a Division Examiner on August 11, 2005. The hearing will be held in Porter Hall in the Oil Conservation Division's Santa Fe Offices located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. As an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

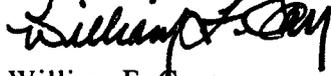
July 7, 2005

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HOLLAND & HART  LLP

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-hearing Statement three days in advance of a scheduled hearing. This statement must be filed at the Division's Santa Fe office at the above specified address and should include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,



William F. Carr

ATTORNEY FOR YATES PETROLEUM CORPORATION

cc: Charles Moran
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

James G. Bruce, Esq.
Attorney for Pride Energy Company
Post Office Box 1056
Santa Fe, New Mexico 87504
By Facsimile: (505) 982-2151

Well Name: Limbaugh AYO State #1 (Pride's Name: State X #1)

ACCT MONTH	ACCT YEAR	INVNBR	SERVICE MONTH	SERVICE DAY	SERVICE YEAR	PROPERTY	DESCRIPTION	VENDOR NAME	AMOUNT
8	2003	B-1903	8	28	2003	LIMBAUGH AYO STATE #1	STAKING, PERMIT & LEGAL FEES	GENERAL SURVEYING CO.	\$317.58
9	2003	093592	9	11	2003	LIMBAUGH AYO STATE #1	MISC VLVS,FITTINGS,SUPPLIES(A)	YATES PETROLEUM CORPORATION	\$2,781.31
9	2003	093385	9	8	2003	LIMBAUGH AYO STATE #1	MISC VLVS,FITTINGS,SUPPLIES(A)	YATES PETROLEUM CORPORATION	\$204.24
9	2003	093385	9	8	2003	LIMBAUGH AYO STATE #1	2" 5K LP API GATE VALVE, (B)	YATES PETROLEUM CORPORATION	\$593.34
9	2003	093385	9	8	2003	LIMBAUGH AYO STATE #1	STRCTRAL TBG, CSG,& RODS (A)	YATES PETROLEUM CORPORATION	\$81.00
9	2003	309025HS	9	11	2003	LIMBAUGH AYO STATE #1	CHRISTMAS TREE & WELLHEAD	ARTESIA FIELD SERVICE	\$168.18
9	2003	1023	9	2	2003	LIMBAUGH AYO STATE #1	SURFACE REPAIR & MAINT	RYDER SERVICES, INC.	\$63.45
9	2003	11126	9	6	2003	LIMBAUGH AYO STATE #1	SB-12 MIL PIT LINING	DUDLEY SALES & SERVICE	\$845.66
9	2003	95030	8	30	2003	LIMBAUGH AYO STATE #1	BASE PLATE KIT, CSGHD	WOOD GROUP PRESSURE CONTROL	\$3,350.04
9	2003	12-02301-03	9	5	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	E.L. FARMER & COMPANY	\$803.65
9	2003	12-02303-03	9	5	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	E.L. FARMER & COMPANY	\$1,160.25
9	2003	12-02355-03	9	11	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	E.L. FARMER & COMPANY	\$99.85
9	2003	12-02359-03	9	12	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	E.L. FARMER & COMPANY	\$1,266.33
9	2003	136576	9	7	2003	LIMBAUGH AYO STATE #1	WATER FOR COMPLETION	GANDY CORPORATION	\$973.20
9	2003	14627	9	3	2003	LIMBAUGH AYO STATE #1	BITS,TOOLS & SUPP. - COMPLETION	HOBBS ANCHOR, INC.	\$856.43
9	2003	418004458	9	3	2003	LIMBAUGH AYO STATE #1	COMPLETION UNIT - SWABBING	KEY ENERGY SERVICES, INC.	\$15,192.14
9	2003	4313	9	23	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	L. RAMIREZ TRUCKING AND	\$10,504.25
9	2003	13215	9	3	2003	LIMBAUGH AYO STATE #1	TOOL&EQIP.RENTAL,ETC.-COMPL.	MORGAN TOOLS CO LLC	\$1,186.57
9	2003	13216	9	3	2003	LIMBAUGH AYO STATE #1	TOOL&EQIP.RENTAL,ETC.-COMPL.	MORGAN TOOLS CO LLC	\$696.95
9	2003	13118	9	3	2003	LIMBAUGH AYO STATE #1	ADDITIONAL LOC CHARGES-COMPL.	MORGAN TOOLS CO LLC	\$1,298.01
9	2003	13119	9	3	2003	LIMBAUGH AYO STATE #1	ADDITIONAL LOC CHARGES-COMPL.	MORGAN TOOLS CO LLC	\$2,242.64
9	2003	4007	9	9	2003	LIMBAUGH AYO STATE #1	TOOL&EQIP.RENTAL,ETC.-COMPL.	TWO-STATE EQUIPMENT, INC.	\$814.85
9	2003	2W 0327388	9	23	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	WEATHERFORD U.S., L.P.	\$3,916.14
9	2003	2W 0327389	9	23	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	WEATHERFORD U.S., L.P.	\$11,382.91
9	2003	2W 0327398	9	23	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	WEATHERFORD U.S., L.P.	\$6,944.77
9	2003	86623	9	3	2003	LIMBAUGH AYO STATE #1	TOOL&EQIP.RENTAL,ETC.-COMPL.	PHILIP L. WEILER D/B/A WEILER	\$776.86
9	2003	95-2231	9	12	2003	LIMBAUGH AYO STATE #1	TOOL&EQIP.RENTAL,ETC.-COMPL.	WILBANKS TRUCKING	\$475.88
9	2003		9	30	2003	LIMBAUGH AYO STATE #1	09/2003 ENGR. SERVICE	YATES PETROLEUM CORPORATION	\$2,113.98
9	2003		9	2	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	JONES, A. D. ESTATE	\$2,000.00
9	2003		9	2	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	JONES, A. D. ESTATE	\$2,163.00
9	2003		9	2	2003	LIMBAUGH AYO STATE #1	LOCATION, RIGHT-OF-WAY	JONES, A. D. ESTATE	\$500.00
9	2003		9	10	2003	LIMBAUGH AYO STATE #1	WATER FOR COMPLETION	GANDY CORPORATION	\$1,386.81
10	2003	136985	9	8	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	MCILROY SERVICE COMPANY	\$596.38
10	2003	33828	9	8	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	WEATHERFORD U.S., L.P.	\$1,776.43
10	2003	2W 0329069	9	26	2003	LIMBAUGH AYO STATE #1	TOOL&EQPT RENTAL,INSPCT-COMPL.	J.S. WARD & SON, INC.	\$4,858.50
10	2003	C.O.W. INS	10	31	2003	LIMBAUGH AYO STATE #1	C.O.W.INS.		\$84,391.58