

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

**IN THE MATTER OF THE HEARINGS CALLED
BY THE OIL CONSERVATION COMMISSION
FOR THE PURPOSE OF CONSIDERING:**

**APPLICATION OF BOLD ENERGY, LP FOR
APPROVAL OF AN APPLICATION FOR
PERMIT TO DRILL AND TO ALLOW TWO
OPERATORS IN A WELL UNIT, EDDY
COUNTY, NEW MEXICO.**

Case No. 13,877 (*de novo*)
Order No. R-12747-A

**APPLICATION OF OXY USA WTP LIMITED
PARTNERSHIP FOR DENIAL OF AN
APPLICATION FOR PERMIT TO DRILL,
EDDY COUNTY, NEW MEXICO.**

Case No. 13,950

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Bold Energy, LP as required by the Oil Conservation Division.

APPEARANCES

BOLD ENERGY, LP

Bold Energy, LP
Suite 500
415 West Wall Street
Midland, Texas 79701

Attention: Peggy Kerr Worthington
(432) 686-1100

ATTORNEY

James Bruce
P.O. Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Richard R. Montgomery
P.O. Box 50468
Midland, Texas 79710
(432) 683-8900

OXY USA WTP LIMITED PARTNERSHIP

OXY USA WTP Limited Partnership

ATTORNEY

William F. Carr

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STATEMENT OF THE CASE

BOLD ENERGY, LP

In Case No. 13,877 (*de novo*) Bold Energy, LP (“Bold”) seeks approval of its Application for Permit to Drill (“APD”) the OXY Checker State Well No. 2 (the “No. 2 Well”), to be located in the SW¼NW¼ of Section 8, Township 19 South, Range 29 East, NMPM. The W½ of Section 8 will be dedicated to the No. 2 Well.

In Case No. 13,950, OXY USA WTP Limited Partnership (“OXY”) seeks an order denying the APD for the No. 2 Well.

Bold has been attempting to drill a well in the W½ of Section 8 since November 2006, but has been continually obstructed in this effort by OXY. The Commission needs to put an end to this obstructionism, and Bold asks that its application be granted, and OXY’s application be denied.

The facts are as follows:

1. Bold is a working interest owner in the W½ of Section 8, and desires to drill the No. 2 Well to a depth sufficient to test the Wolfcamp and Canyon formations.
2. The W½ of Section 8 is currently dedicated, in the Wolfcamp and Canyon formations, to the OXY Checker State Well No. 1, located in the NW¼SW¼ of Section 8, operated by OXY.
3. The W½ of Section 8 is subject to an Operating Agreement governing the ownership of the working interest owners, dated March 1, 1997, under which OXY is the operator. However, the agreement allows a non-operator to propose a well, and drill it if the operator non-consents the well. A well drilled by a non-operator must be turned over to the operator after completion.
4. OXY claims that under a March 27, 1997 letter agreement, Bold does not have the right to propose and drill a well in the W½ of Section 8 despite the terms of the Operating Agreement. Bold disputes OXY’s legal theory. Regardless, OXY’s argument is moot due to the following matters:
 - a. OXY has executed an instrument terminating the March 27, 1997 letter agreement.
 - b. OXY requested that a new well proposal for the No. 2 Well be sent to it. That was done.

Thus, the March 27, 1997 letter agreement has no bearing on this matter. In addition, Bold has complied with Ordering Paragraph (2) of Order No. R-12747-A, and Bold’s APD is entitled to be approved.

5. The factual situation justifying approval of Bold's APD is further aggravated by the following delaying actions taken by OXY:

a. Bold first proposed the No. 2 Well on November 27, 2006. OXY failed to execute the submitted AFE within thirty days from receipt of the notice, as outlined in Article VI.B of the March 1, 1997 Operating Agreement.

b. By letter dated December 29, 2006, Bold notified OXY of its desire to drill and operate the No. 2 Well, as required by Division Rule 104.E(2), but OXY objected in January 2007.

c. OXY then informed Bold that it desired termination of the March 27, 1997 letter agreement. (The agreement required OXY to pay all well costs, but limited costs to \$900,000.00, and thus is extremely unfavorable to OXY. **However**, Bold never asserted rights under the letter agreement, believing it had terminated by its own terms.) Despite the willingness of all other working interest owners to terminate the agreement, OXY delayed signing such an agreement until May 8, 2007.

d. Because a termination agreement has been executed by OXY, the statement in its application in Case No. 13,950 that "the parties have been unable to agree on" termination is incorrect.

e. OXY requested that it be sent a new proposal on the No. 2 Well. That was done on May 11, 2007. OXY has also non-consented that well proposal.

f. Rather than allowing Bold to drill the well, it filed its application in Case No. 13,950 on June 11, 2007 to further delay the drilling of the No. 2 Well.

g. At the May 10th hearing in this matter, OXY testified that it preferred a Morrow test well. However, in the eight months since November 2006, and in the three months since the May hearing, it has not proposed a well in the W½ of Section 8.

6. All working interest owners other than OXY, collectively owning 56.5% of the working interest in the W½ of Section 8, have agreed to participate in the drilling of the No. 2 Well.

Based on the forgoing, OXY's application is meritless, and Bold is entitled to approval of its APD. If OXY asserts further contractual issues, those matters should be left to the District Court (if OXY desires to pursue that avenue). Because it is undisputed that Bold owns a working interest in the well unit, the Commission should simply exercise its regulatory authority to approve Bold's APD. **Magnolia Petroleum Co. v. Railroad Commission, 170 S.W. 2d 189 (Tex. 1943)**. Anything less impairs the correlative rights of Bold and the other working interest owners in the W½ of Section 8.

OXY USA WTP LIMITED PARTNERSHIP

PROPOSED EVIDENCE

BOLD ENERGY, LP

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
Peggy Kerr (landman)	25 min.	Approx. 12
John Worrall (geologist)	25 min.	Approx. 8
Joseph Castillo (engineer)	30 min.	Approx. 7

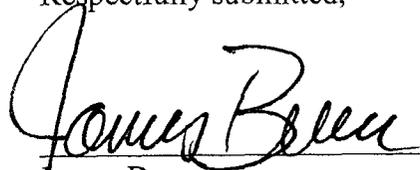
OXY USA WTP LIMITED PARTNERSHIP

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
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PROCEDURAL MATTERS

-None-

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Richard R. Montgomery
P.O. Box 50468
Midland, Texas 79710
(432) 683-8900

Attorneys for Bold Energy, LP

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 9th day of August, 2007 by hand delivery:

William F. Carr
Holland & Hart LLP
P.O. Box 2208
Santa Fe, New Mexico 87504


James Bruce

Number	Exhibit Documents	Dates	Comments
1	Bold's AFE submitted	11/27/2006	
2	Oxy's response to Bold's AFE proposal	12/27/2006	AFE's signed by Monarch, Boles, and Bold. Oxy responded by fax stating Bold could not propose well
3	Gray Surface Specialties Letter to Oxy regarding 104 Ruling	12/28/2006	
4	Bold's Letter to Oxy objecting to Fax of 12/27/2006	12/29/2006	
5	Oxy's objection letter to Gray Surface Specialties Permit request	1/8/2007	Sec. 8 (All rights below 3,000'), Sec. 9 (All rights below 5000') T19S, R29E, Eddy County
6	F/O Agreement Threshold, Assignor, to Oxy, Assignee	3/27/1997	
7	Exhibit C - JOA	3/1/1997	
8	Termination Agreement (signed by Oxy)	1/15/2007	Monarch, Oxy, Boles, T. Beall, Fuel and Bold
9	Termination Agreement (signed by ALL parties)	5/8/2007	
10	Stipulation signed by Oxy	5/8/2007	Monarch, Boles, T. Beall, Fuel and Bold
11	Revised Stipulation adding net revenue interests signed by all WI parties with exception of Oxy		All Working Interest Parties (53.455%) agree to participate. Signed by Monarch, Fuels, T. Beall, Boles and Bold. Oxy did not respond
12	Bold's AFE submitted 5/11/2007	5/11/2007	