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August 9, 2004

Hand Delivered

Mark E. Fesmire
Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 13153 (de novo): Pride Energy Company/Yates
Petroleum Corporation

Dear Mr. Fesmire:

Enclosed are five copies of the pre-hearing statement of Pride Energy Company, together with five copies of its exhibits.

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 COMMISSION

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

APPLICATION OF PRIDE ENERGY COMPANY
FOR CANCELLATION OF A DRILLING PERMIT
AND RE-INSTATEMENT OF A DRILLING PERMIT,
AN EMERGENCY ORDER HALTING OPERATIONS,
AND COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

CASE NO. 13153 (de novo)
ORDER NO. R-12108

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Pride Energy Company as required by the Oil Conservation Commission.

APPEARANCES

APPLICANT

Pride Energy Company
P.O. Box 701950
Tulsa, Oklahoma 74170

Attention: John W. Pride
(918) 524-9200

APPLICANT'S ATTORNEY

James Bruce
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OPPONENT

Yates Petroleum Corporation
Yates Drilling Company
Abo Petroleum Corporation
Myco Industries, Inc.

OPPONENT'S ATTORNEY

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STATEMENT OF THE CASE

APPLICANT

This case involves force pooling, and the propriety of the Division canceling a validly issued drilling permit without notice and hearing.

A. Parties, Land, and Well.

The parties, their leasehold interests, and the well involved are as follows:

1. Pride Energy Company ("Pride") owns 100% of the working interest in State Lease V-6256, covering the SW¼ of Section 12, issued effective June 1, 2001.

2. Yates Petroleum Corporation ("Yates"), Yates Drilling Company, Abo Petroleum Corporation, and Myco Industries, Inc. collectively own 100% of the working interest in State Lease V-5855, covering the N½ and SE¼ of Section 12, issued effective July 1, 2000.

3. Both Pride and Yates desire to re-enter the existing State "X" Well No. 1, located 1980 feet from the north line and 660 feet from the west line of Section 12, which was drilled in 1957, and subsequently plugged and abandoned.

The ultimate issue is whether the W½ of Section 12 or the N½ of Section 12 will be dedicated to the well.

B. Drilling Permits.

A large part of this case has to do with Applications for Permit to Drill ("APD's") approved by the Division. The issues regarding the permits are summarized below:

1. On May 25, 2001 the Division's Hobbs office approved an APD for Yates to re-enter the State "X" Well No. 1 to test the Mississippian formation. Yates dedicated the N½ of Section 12 to the well. On April 18, 2002 the Division's Hobbs Office approved a one-year extension of Yates' N½ APD. Due to lack of activity, the APD expired on May 25, 2003, and the Division notified Yates in writing of the expiration. **During this period Pride took no action to disturb any drilling plans which Yates may have had.**

2. On July 15, 2003, after Yates APD had expired, Pride filed an APD with the Division's Hobbs office to re-enter the State "X" Well No. 1 to test the Mississippian formation. Pride dedicated the W½ of Section 12 to the well. The APD was approved by the Division on July 16, 2003. Pursuant to Division regulations the APD was valid for one year. In fact, the APD states on its face "Permit Expires 1 Year From Approval Date Unless Re-Entry Operations Underway."

3. In furtherance of its plans, Pride contacted Yates in writing and by phone in an effort to obtain the voluntary joinder of Yates et al. in its well proposal. Yates stated that they'd respond to the proposal, but never did.

4. On or about September 9, 2003, Pride determined that Yates was re-entering the State "X" Well No. 1. Pride immediately called the Division's Hobbs office, and was informed that its APD had been canceled. A cancellation

letter dated August 26, 2003 from the Division was faxed to Pride on September 9th. Pride was not given prior notice of the cancellation, and the letter was never received by Pride in the U.S. Mail.

5. The Division, in its letter of August 26th, states as reason for cancellation of Pride's APD that the N½ is leased to another operator, and no Form C-103's had been filed with the Division by Pride.

6. The Hobbs District Office then re-instated the expired Yates APD on the N½ of Section 12.

The actions of the Hobbs District office are illegal and contrary to Division regulations, for the following reasons:

- (a) Pride's APD is valid for one year. There is no Division regulation authorizing the Division's Hobbs office to unilaterally change that time period. Filing of Form C-103's is not necessary for the maintenance of the APD.
- (b) The Division's Hobbs office cannot unilaterally change or ignore duly adopted Division regulations.
- (c) The revocation of the APD was done without notice to Pride, and violates its due process rights.¹
- (d) Yates had previously had an approved APD affecting the NW¼ of Section 12 for **two years**, but had done nothing on this acreage. Furthermore, Yates had filed no Form C-103's during this period, yet its APD was not revoked by the Division's Hobbs office.

The actions of the Division's Hobbs office in revoking Pride's APD define the term "arbitrary and capricious." If its action is not reversed, there is no need for any of the Division's rules and regulations: All that is necessary is an arbitrary decision of a District Office acting as it sees fit.

¹ Pride has a property interest in its APD, not in the NW¼ of Section 12 where the well is located. It is that interest which is subject to due process considerations, since state action is involved. Uhden v. Oil Conservation Comm'n, 112 N.M. 528, 817 P.2d 721 (1991) ("the essence of justice is largely procedural"). Since Division procedures were not followed, Pride's APD was required to be re-instated.

C. Compulsory Pooling is Proper.

Yates position on pooling is confusing. It says that Pride has no right to pool the W½ of Section 12. However, since Yates owns the lease on the N½ and SW¼, and Pride owns the lease on the SW¼, a compulsory pooling proceeding is inevitable for at least one 320 acre well unit in Section 12. Therefore, pooling is proper either for a standup or laydown unit.

The pooling statute states in part:

When two or more **separately owned tracts of land** are embraced within a spacing or proration unit ... the owners thereof may validly pool their interests and develop their lands as a unit Where, however, such owner or owners have not agreed to pool their interests, ... the division, to avoid the drilling of unnecessary wells and to protect correlative rights ... **shall pool** all or any part of such lands ...

All operations for the pooled oil or gas, or both, **which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract** within the unit by the owners or owners of such tract ...

NMSA 1978 §70-2-17.C (emphasis added). The case law holds that the Division is authorized to establish a well at any location on a spacing unit, regardless of whether the owner of the land on which the well is located has consented thereto. **Texas Oil & Gas Corporation v. Rein**, 534 P.2d 1277 (Okla. 1974). Thus, Pride is entitled to proceed in this case even though the State "X" Well No. 1 is not on its lease. Yates' "interpretation" would gut the purpose of the statute.

D. Ownership of Wellbore.

Yates will assert that it owns the wellbore of the State "X" Well No. 1. It does not. That well was drilled and abandoned in 1957. The lease under which that well was drilled has long since expired. The leases of Yates and Pride are dated in 2000 and 2001, respectively. Case law holds that, at the expiration of a lease the wellbore reverts to the **surface owner** (in this case, the Commissioner of Public Lands). Thus, the wellbore is owned by the Commissioner. Although the mineral lessees have the right to use the wellbore for their mineral development operations, Yates does not "own" the wellbore. Thus, it is available for force pooling.

E. TMBR/Sharp Case.

Yates will also argue that it meets the requirements of Commission Order No. R-11700-B. The order does indeed state that, if there is common ownership in a well unit, once an APD is approved no further proceedings are necessary. **Order No. R-11700-**

B, Finding Paragraph 35. However, that assumes Yates' APD was properly re-instated.² As noted above, Pride's APD was improperly canceled, Yates' APD was improperly re-instated, and thus Yates' APD must be revoked.

In addition, even a validly issued APD does not prevent compulsory pooling. In the cases involved in Order No. R-11700-B, TMBR/Sharp Drilling, Inc. obtained an APD for a laydown 320 acre unit. Ocean Energy, Inc. subsequently attempted to obtain an APD for a conflicting standup unit, but was informed by the Division's Hobbs office that it would not approve the standup APD solely because the District Office had already issued the laydown APD. Now, the Division's Hobbs office, at the request of Yates, and without regulatory authority and contrary to the policy the Division established in 2002, approves an APD conflicting with Pride's properly approved APD. Such action is improper.

Moreover, in the TMBR/Sharp Drilling, Inc. case TMBR/Sharp had an approved APD, but Ocean Energy, Inc. was allowed to proceed with its pooling application. By the same token, Pride must be allowed to proceed with this pooling application.

F. Geology.

The geology in this case will show that the Mississippian reservoir in this area runs north-south. In addition, in order to be productive, a Mississippian well must be near a fault which runs immediately to the west of Section 12. Thus, the E½ of Section 12 is not prospective in the Mississippian. "Correlative rights" means the opportunity to produce the share of reserves under your acreage. The only way to protect Pride's correlative rights is to form a standup W½ unit.

G. Summary.

Pride seeks an order canceling a drilling permit improperly issued to Yates, and re-instating a drilling permit previously issued to Pride. In addition, Pride seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the W½ of Section 12. The Division properly canceled Yates' APD and re-instated Pride's APD, and approved

² Again, Pride notes that Yates had an APD covering the N½ of Section 12 (obtained without notice to Pride) for two years, which it allowed to lapse because of a complete lack of activity. Thus, the W½ was available for Pride to obtain an APD and to force pool. In addition, the Division's Hobbs office did not cancel Yates' APD because it failed to file C-103s during the first month or two of the permit. The Division must treat operators in an even-handed manner.

pooling of the W½ of Section 12. The Commission must affirm the Division's decision.

OPPONENT

PROPOSED EVIDENCE

APPLICANT

WITNESSES
John W. Pride

EST. TIME
20 min.

EXHIBITS
(a) land plat and well data
(b) APD
(c) letter from OCD
(d) proposal letter
(e) notice affidavit

Jeff Ellard
(geologist)

30 minutes

(a) structure map
(b) two cross sections
(c) two well logs
(d) well information

OPPONENT

WITNESSES

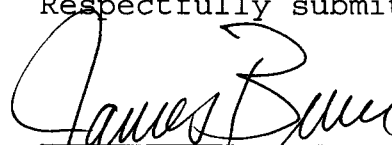
EST. TIME

EXHIBITS

PROCEDURAL MATTERS

-None-

Respectfully submitted,



James Bruce
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(505) 982-2043


Attorney for Pride Energy
Company

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record via hand delivery this 9th day of August, 2004:

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James Bruce

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
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**IN THE MATTER OF THE HEARING
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NEW MEXICO.**

**CASE NO. 13153
(DE NOVO)**

**PRE-HEARING STATEMENT OF
YATES PETROLEUM CORPORATION**

This Pre-hearing Statement is submitted by Holland & Hart LLP, as required by the Rule 1208.B of the Rules of the Oil Conservation Division.

APPEARANCES OF PARTIES

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STATEMENT OF CASE

In this case, Pride Energy Company ("Pride") asks the Oil Conservation Commission to cancel Yates Petroleum Corporation's¹ Application for Permit to Drill the State "X" Well No. 1 located 1980 feet from the North line and 660 feet from the West line of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico². This permit approved Yates' application to re-enter an existing wellbore on acreage that had been leased to Yates by the State of New Mexico. Yates was in the process of re-completing the well when Pride filed this application. Pride owns no interest in this wellbore.³

The Yates APD also authorized the dedication of a standard 320-acre spacing unit to the well comprised of the N/2 of Section 12. A single State of New Mexico Oil and Gas lease covers this acreage.⁴ Pride owns no interest in this lease nor in the acreage covered by the Yates APD. It has no right to use the surface of this tract.

Pride also asks the Commission to re-instate a drilling permit it obtained from the Division. This permit approved an application filed by Pride in which it also sought to re-enter the State "X" Well No. 1 on the Yates lease. Pride proposes to dedicate a W/2 spacing unit to the well. This unit is comprised of the State acreage it leases in the SW/4 and State acreage leased to Yates in the NW/4 of the Section. Pride admits that with this application it is trying to take away Yates right to re-enter and continue its recompletion operations on a well located on its acreage and force Yates to share half of its well with Pride.⁵

¹ In this Pre-Hearing Statement, Yates Petroleum Corporation, Yates Drilling Company, ABO Petroleum Corporation and MYCO Industries, Inc. are the Lessees of 100% of the working interest under State of New Mexico Oil and Gas Lease No. V-5855. These entities are collectively referred to as "Yates".

² On its Application for Permit to Drill, Yates has designated this well the Limbaugh "AYO" State Well No. 1. In this Pre-Hearing Statement Yates will refer to the well as the State "X" Well No. 1 since that is the name used by the Division in the examiner order entered in this case.

³ The Yates APD approved by the Division on August 26, 2003 was the third APD approved for Yates for this well. Although the previous APD's expired, Pride has known since 2001 that Yates has planned to re-enter this well on a N/2 unit within the term of its lease.

⁴ State of New Mexico Oil and Gas lease No. V-5855 covers the N/2 and the SE/4 of Section 12, Township 12 South, Range 34 East, NMPM.

⁵ At the examiner hearing in this case, John Pride testified as follows:

Q. "...Okay, and if I understand what you're asking for here today -- and correct me if I'm wrong -- you're asking the Division to cancel the APD for the well that is on Yates's acreage, that was issued to Yates, correct?

A. Yes

Q. Okay, You're asking them to cancel the north-half spacing unit that's been dedicated to this well --

A. Yes.

Q. which is comprised of a lease that's owned a hundred percent by Yates?

A. Yes.

Pride contends that the Division's approval of its Application for Permit to Drill gave it the exclusive right to drill on the W/2 of this spacing unit and the right to use the wellbore on the Yates acreage. Pride also contends that as long as it held its approved APD, Yates was prevented from developing the oil and gas rights Yates leases from the State with a N/2 spacing unit.

Pride claims it has "a property right in its APD... that is subject to due process considerations." Order No. R-13153, Finding 18(d). However, to acquire this APD, Yates rights to develop its minerals in the NW/4 of this section were impaired. Pride did not give notice to Yates of its Application for Permit to Drill nor of its proposed W/2 spacing unit. Pride's argument that it has rights in its permit is based on a violation of Yates, due process rights in these minerals.

Since Yates does not agree to a W/2 spacing unit, Pride seeks to invoke the police power of the state to commit Yates' interests in the NW/4 of the Section to a W/2 unit and thereby permit it to develop the minerals under this portion of the Yates lease. By using the administrative process in this way, Pride seeks to acquire one-half of the recoverable oil and gas located under the Yates acreage in the NW/4 of Section 12.⁶ Pride asks the Commission to require Yates pay 50% of the costs incurred by Pride in re-entering a well on Yates' acreage, and then require Yates to give to Pride 50% of the reserves produced from the Yates lease.

This case does not involve competing pooling applications. Yates filed no application since none is needed. It is attempting to develop its property interest in this section in accordance with the terms of its lease and pursuant to the General Rules of the Division. Yates plans to re-enter a well at a standard location on a standard 320-acre spacing unit comprised of one State of New

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- Q. You're asking the Division to exercise its compulsory pooling authority for a west-half spacing unit comprised of different ownership and different state leases; is that right?
- A. Yes.
- Q. And thereby take away Yates's right to re-enter and continue its recompletion operations on the well that is located on Yates's acreage?
- A. Yes.
- Q. And turn operations of this well at this point to Pride?
- A. Yes
- Q. and in essence, then, force Yates to share half of its well and its recompletion project with your company?
- A. Yes.

October 23, 2003 Examiner hearing in Case 13153, Transcript at 34-35.

⁶ In 1999, the Oil Conservation Commission changed its General Rules governing the development of deep gas. It maintained 320-acre spacing units but authorized a second well on each unit as long as the second well was located in the quarter section not containing the initial well. By doing this, the Commission recognized that deep gas wells drain only 160-acres. However, to avoid the ownership problems that could result from reducing the size of thousands of existing spacing units, it kept the existing 320-acre spacing pattern. The result is a fiction: the spacing units for these deep gas wells are based not on the acreage the well will drain (160-acres) but on the historical spacing unit size (320-acres).

Mexico Oil and Gas Lease. These actions are consistent with recent a Oil Conservation Commission order⁷ and State Land Office policy.⁸

Since Yates owned the entire N/2 spacing unit and believed it had the right to proceed with its operations, it did not present technical evidence at the examiner hearing. However, the Division concluded more is required. Therefore, Yates will appear and present testimony in opposition to the application because Pride is asking the Commission to prevent Yates from exercising its rights pursuant to its lease and under the law.

The Commission will not be required to consider the application of Pride for an emergency order halting Yates operations on this well because, when Pride filed its application, Yates voluntarily suspended its operations and removed the rig from this location.

ISSUES

This case presents legal as well as technical issues to the Commission. The legal issues are the result of recent decisions concerning the effect of an APD and how an approved APD impacts the rights of those who own interests in oil and gas leases. The technical case presents a very fundamental correlative rights issue.

LEGAL ISSUES:

THE USE, PURPOSE AND EFFECT OF AN APPLICATION FOR PERMIT TO DRILL:

The approval of an APD does not require that a well be drilled. Order No. R-12093-A, Finding No. 11. However, with its recent orders, the Division makes the approval of an APD, not the drilling of a well, the determinative event in the exercise of an oil and gas mineral owner's correlative rights. The Division has recently stated the APD is only used to verify that the applicant has met all regulatory requirements and that there are no regulatory issues that would prohibit the commencement of drilling. See Finding 33, Order No. R-11700-B. However, where more than one owner can propose a well that meets all regulatory requirements and is thereby entitled to drill, under current Division policy only the first person to apply gets the permit. The

⁷ The Commission recently stated "...where compulsory pooling is not required because of voluntary agreement or because of common ownership of the dedicated acreage, the practice of designating the acreage to be dedicated to the well on the application for permit to drill furthers administrative expedience. Once the application is approved, no further proceedings are necessary." Order No. R-11700-B, Finding 35, April 26, 2002.

⁸ The State land Office Oil and Gas Manual contains instructions concerning when the lessees of State of New Mexico oil and gas rights need to communitize lands. The manual provides that communitization is required "Whenever separate tracts of State land cannot be independently developed and operated in conformity with an established well spacing pattern for the field or area..." In this case, Yates owns a single tract of State land that it proposes to independently develop and operate in conformance with established well spacing rules. It therefore assumed that its re-entry was also in conformity with the policies of the State Land Office.

holder of the APD does not have to drill nor does this person even have to own an interest in the land. It must only assert that it has the right to drill and, even if wrong, upon Division approval, it is the only entity authorized by the Division to operate the property. See, Case Nos. 12731 and 12744 where TMBR/Sharp, the true owner of oil and gas leasehold rights was prevented from drilling while it was determined by the courts that the party that held the approved APD did not own an interest in the lands. This interpretation creates a race to the Division that impairs the property rights of those owners who do not win the race. It may result in acreage not being developed. While creating this problem, the Division has so far refused to correct it and hides behind the fact that it cannot determine title to oil and gas interests -- although indirectly that is exactly what it is doing. See Order No. R-11700-B, Finding No. 27.

DUE PROCESS OF LAW:

Procedural due process of law assures that constitutionally protected property rights cannot be impaired unless the owner of these rights is first provided notice of the proposed action and an opportunity for hearing. Interests in oil and gas minerals are constitutionally protected property rights. See, Duvall v. Stone, 54 N.M. 27, 32, 213 P.2d 212, 215 (1947); Uhden v. New Mexico Oil Conservation Commission, 112 N.M. 528, 530, 817 P.2d 721, 723 (1991). The Division's policy whereby it only approves one Application for Permit to Drill on a particular tract of land and thereby prevents any other owner of these interests from developing their lands while the permit is in place, even if no well is drilled, impairs the rights of all other owners in these lands. This is done without notice or hearing. The Division's current policy therefore violates fundamental principles of due process of law.

In this case, the Division examiner concluded that Pride had due process rights in its drilling permit and that these rights were violated by its cancellation and the approval of a permit for Yates. Order No. R-12108, Finding 23(e). Here the Division denies due process to Yates, the owner of constitutionally protected mineral property rights, by prohibiting Yates from developing them. However, it extends these rights to the holder of a permit it has issued without notice to Yates.

With this practice, the Division/Commission determines who can develop their oil and gas properties and who cannot. Each time it denies an APD in these circumstances to the owner of oil and gas leasehold interests, it is impairing constitutionally protected property rights. In the TMBR/Sharp case, (Case Nos. 12731 and 12744) it denied the owners of these rights the opportunity to produce their share of the reserves under their lands in favor of an operator that only owned a top lease that never became effective. With this policy, the Division is causing real harm to the owners of oil and gas interests. In this case, it is this policy that has put at risk 50% of the reserves that can be produced from the State "X" Well No. 1 from lands leased to Yates.

TECHNICAL ISSUES:

The Commission is a creature of statute and its powers are expressly defined and limited by the Oil and Gas Act. It is directed by law to prevent the waste and to protect correlative rights. There is no waste issue in this case. Both parties desire to do the same thing -- re-enter the State "X" Well No. 1.

This case therefore involves a correlative rights issue. The Oil and Gas Act define "Correlative rights" as follows:

"correlative rights" means the **opportunity** afforded, so far as it is practicable to do so, to the owner of each property in a pool to produce without waste his **just and equitable share** of the oil or gas or both in the pool, being an amount, so far as can be practicably determined and so far as can be practicably obtained without waste, **substantially in the proportion that the quantity of recoverable oil or gas or both under the property bears to the total recoverable oil or gas or both in the pool,...."**

Yates will present geological and engineering evidence that will establish that approval of Pride's application denies Yates' correlative rights for it denies Yates the opportunity to produce its just and equitable share of the recoverable reserves under its property. These reserves are owned by Yates -- not Pride.

In this case, the Commission will be asked to review technical evidence concerning the nature and extent of the productive Mississippian reservoir under Section 12. Pride's presentation to the Examiner was based on the existence of a fault it interpreted running through this section. It contends that because of this fault the recoverable Mississippian formation reserves under this acreage are located under the W/2 of this section. Pride proposes to access these reserves by re-entering the existing well on the Yates lease and, because Pride leases half of the dedicated acreage, it wants to take half of the production from the Yates well.

Yates will present 3-D seismic evidence that establishes that the fault, upon which Pride's case rests, does not exist. Yates geological evidence shows the productive Mississippian reservoir in Section 12 is found in an alluvial fan that runs across the N/2 of this section. Yates seeks to recover these reserves with a N/2 spacing unit that includes acreage it owns with a well on its land.

Regardless of the geological interpretations, both Yates and Pride desire to re-enter the existing well on the Yates lease in the NW/4 of this section. Yates engineering evidence includes drainage calculations for the offsetting well to the North. This data confirms that most if not all of the reserves produced by the State "X" Well No. 1 will come from the Yates lease.

PROPOSED EVIDENCE

The exhibits to be presented by Yates Petroleum Corporation in their case in chief have been pre-filed with the Commission and copies have been provided to Pride Energy Company. An Exhibit List is attached to this Pre-Hearing Statement as Exhibit A.

YATES WILL PRESENT THE FOLLOWING WITNESSES:

Charles Moran (Landman) 4 Exhibits Approximately 15 Minutes

Yates' land evidence will show that Yates is the lessee of State of New Mexico Oil and Gas Lease V-5855 that covers the N/2 and the SE/4 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico. That at the time Pride filed its application in this case, Yates had a rig on the State "X" Well No. 1 located in the NW/4 of its lease and was re-entering this well pursuant to an Application for Permit to Drill approved by the Oil Conservation Division. The State "X" Well is at a standard gas well location and Yates has dedicated to the well a standard 320-acre spacing unit comprised of one State of New Mexico lease. When Pride filed its application in this case, Yates voluntarily stopped its operations on this well pending a ruling on the Pride application. No activity has been conducted on the well since that time. The land testimony will establish that Pride owns no interest in the NW/4 of Section 12 and owns no interest in the State "X" Well No. 1.

John Amiet (Geologist) 8 Exhibits Approximately 25 Minutes

At the Examiner hearing on this application, Pride presented a geological interpretation based on the existence of a significant north-south trending fault running across the west half of this section. Pride concludes that productive reservoir is found next to this fault (Examiner Hearing Transcript at 54) and that fracturing along this fault enhances production from the reservoir (Examiner Hearing Transcript at 53). Pride's structural interpretation consisted of a commercial structure map of the Devonian formation -- 900 feet below the subject Mississippian formation.

Unlike Pride, Yates has performed its own geological study of this area and its evidence includes well data and 3-D seismic information. This evidence establishes that **the Pride fault does not exist**. Yates' geological evidence shows that in the Mississippian formation under Section 12, productive reservoir is found in an alluvial fan that follows regional dip and extends across the section from northwest to southeast. This productive reservoir is comprised of porosity that has eroded off a small geological high that is located north northwest of the State "X" Well No. 1. The size of this alluvial fan is limited by the size of this high. It extends across the north half of Section 12 where the productive reservoir is found. The best location for the initial well in this section is in the NW/4 where both parties propose to drill. The worst possible location in this section for a Mississippian well is in the SW/4 where Pride owns its interest. Geologically,

Pride's acreage will not contribute significant reserves, if any reserves, to the State "X" Well No. 1 located on the Yates lease in the NW/4 of the section.


David Boneau (Petroleum Engineer) 7 Exhibits Approximately 20 Minutes

Yates has prepared and will present a drainage calculation for the Pride Energy State 1-M Well. This well is the north offset to the proposed State "X" Well No. 1. It is producing commercial reserves from the Upper Mississippian formation in the same alluvial fan that it being produced in the proposed well in the NW/4 of Section 12. The drainage calculations prepared by Yates show that after 3 years this well has only drained 23 acres and that ultimately it will drain only 133 acres.

Both the geological evidence presented by Pride to the Division Examiner in 2003 and the results of Yates geological study agree that the State "X" Well No. 1 should not be able to achieve the producing rates experienced by the State 1-M. However, even if The State "X" Well No. 1 drained as many acres the offsetting well to the North, these reserves will be produced from Yates lands -- not lands leased to Pride. The reserves to be produced by the State "X" Well No. 1 are owned by Yates. To permit Pride to dedicate the W/2 of this section to the well on the Yates lease and thereby take 50% of the reserves to be produced from the Yates acreage denies Yates' correlative rights and violates the Oil and Gas Act.

PROCEDURAL MATTERS

Yates Petroleum Corporation has none at this time.



William F. Carr
Attorney for Yates Petroleum Corporation

CASE 13153 (DE NOVO)

EXHIBIT LIST

LAND:

Exhibit No. 1: Orientation Map

Exhibit No. 2: Chronology

Exhibit No. 3: Correspondence

Exhibit No. 4: APD

GEOLOGY:

Exhibit No. 5: Structure Map - Top of Austin (Upper Mississippian)

Exhibit No. 6: NW-SE Structural Cross Section A-A'

Exhibit No. 7: Structure Map -- With Alluvial Fan

Exhibit No. 8: Diagrams of Fan Systems

Exhibit No. 9: Austin Porosity Isopach

Exhibit No. 10: Log Section -- State No. 1-M

Exhibit No. 11: Photograph -- Permian Carbonate Debris-Flow Deposit

Exhibit No. 12: Seismic Line B-B'

ENGINEERING:

Exhibit No. 13: Plat (Exhibit E-1)

Exhibit No. 14: Drainage Calculation (Exhibit E-2)

Exhibit No. 15: Production Plot (Exhibit E-3)

Exhibit No. 16: Reserves and Economics (Exhibit E-4)

Exhibit No. 17: Log Section (Exhibit E-5)

Exhibit No. 18: Log Analysis (Exhibit E-6)

Exhibit No. 19: Drainage Area Map (Exhibit E-7)

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of August, 2004, I have caused to be hand delivered a copy of this Pre-Hearing Statement with copies of all exhibits to be used to present the direct testimony of Yates Petroleum Corporation in the above-captioned case to the following counsel of record:

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