

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

**IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION DIVISION 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.**

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**CASE NO. 13153
(Rehearing)**

**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

APPLICANT:

Pride Energy Company

ATTORNEY:

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

OPPOSITION PARTY:

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

ATTORNEYS:

William F. Carr, Esq.
Holland & Hart, LLP
Post Office Box 2208
Santa Fe, New Mexico 87504-2208
(505) 988-4421

STATEMENT OF CASE

This matter will be considered on re-hearing, pursuant to Commission Order R-12108-B. The Commission has limited the hearing to the issue of cost reimbursement to be allowed to respondent Yates Petroleum Corporation.

In this case, pursuant to a Division-approved Application for Permit to Drill, Yates Petroleum Corporation¹ re-entered 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 Mexico. 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.

Yates was in the process of re-completing the well on September 10, 2003, when Pride Energy Company filed its application to, among other matters, cancel Yates' APD. Pride also sought an Emergency Order from the Division prohibiting Yates re-entry operations. Yates responded on September 11, 2003 and on September 12, 2003, a Division Examiner denied Pride's application for an Emergency Order halting Yates operations on the well. Yates therefore continued with its re-entry operations pursuant to the APD approved by the Division.

The Examiner's September 12th order was appealed by Yates to the Oil Conservation Commission because it also denied Yates' motion for dismissal of the Pride application. The Chairman of the Commission remanded the matter to the Division on September 22nd. On that date, Pride filed its motion for reconsideration of its application for an order directing Yates to cease operations on the well. Yates responded on September 26, and Pride replied on October 3, 2003. Another hearing was held before the Examiner on October 7. At that hearing, Yates advised the Examiner that it would not be required to consider the application of Pride for an emergency order halting Yates operations on this well because it had removed its rig and had voluntarily suspended its operations on this well pending a decision by the Division on this matter.

In granting Yates rehearing application, the Commission found that the Motion for Rehearing raised an issue concerning the right of Yates to reimbursement for costs incurred in preparation to re-enter the State X Well No. 1 (API No. 30-025-07838) (the subject well) "prior to the time Yates ceased operations to abide by the decision of the Oil Conservation Division." Yates decision to cease operations on this well was not to "abide by an order of the Division." It was a voluntary action by Yates. There was no Division order directed at Yates re-entry activity when they removed the rig.

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."

Yates voluntarily agreed to cease operations until the issues raised by Pride's motion could be decided by the Division.

The case was heard by the Division and appealed to the Commission. The Commission entered Order No. R-12108-A on August 12, 2004 granting Pride's application. In this order the Commission recognized that Yates commenced operations to re-enter the subject well prior to the filing of the Pride application, based on an APD reflecting Division approval. **Finding 44.** It then stated "Pride should reimburse Yates for reasonable costs incurred by Yates in connection with such operation." **Finding 45.**

Order Paragraph 9 provided, in part, that the costs that Yates would be allowed to recover were limited to the "actual well costs incurred by Yates in conducting re-entry operations on the subject well after August 25, 2003 and prior to the time when Yates received notice of the filing of the original application in this case."

In its application for Rehearing, Yates pointed out that a substantial portion of these costs were incurred after it received actual notice of Pride's application. It also argued that these are costs that are the direct result of Pride's application and the Commission's decision to rescind the APD pursuant to which Yates conducted re-entry operations of the well.

Pursuant to order Paragraph 9 of Order No. R-12108-A, on October 8, 2004, Yates submitted a itemized schedule of all of the actual well costs it incurred in conducting re-entry operations on the subject well and has asked Pride to identify any item about which it has concern. On October 13, 2004, Yates sent Pride its checks totaling \$376,647.43 for its share of Pride's AFE costs for the well.

At the Commission hearing on this issue, Yates will call land and accounting witnesses to review the costs incurred in their re-entry operations of the subject well as reflected on the schedule previously submitted to Pride and the Commission. Yates will request that the Commission enter an order permitting it Yates to recover these costs.

PROPOSED EVIDENCE

The exhibits to be presented by Yates Petroleum Corporation at the November 10, 2004 hearing will consist of the Schedule of Costs previously filed with Pride and the Commission and supporting data.

YATES WILL PRESENT THE FOLLOWING WITNESSES:

Charles Moran (Landman) Approximately 3 Exhibits Approximately 10 Minutes

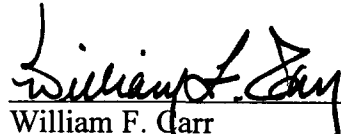
Yates' land evidence will review the dates re-entry work was conducted on the State "X" Well No. 1 and review the status of the regulatory proceedings during this time. This witness will also confirm that Yates has complied with Commission Order No. R-12108 by timely providing its schedule of actual well costs to Pride and the Commission on October 8, 2004, and by timely paying its 50% share of Pride's AFE costs.

Tom Wier (Accountant) Approximately 2 Exhibits Approximately 25 Minutes

Mr. Wier will review the costs set out on Yates' schedule of actual well costs and sponsor data from the records of Yates that supports these costs.

PROCEDURAL MATTERS

Yates Petroleum Corporation has none at this time.



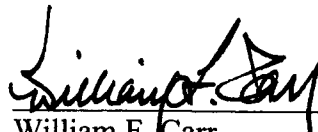
William F. Carr
Attorney for Yates Petroleum Corporation

CERTIFICATE OF SERVICE

I hereby certify that on this 4th day of November, 2004, I have caused to be hand delivered, or delivered by Facsimile, a copy of this Pre-Hearing Statement to the following counsel of record:

David K. Brooks, Esq.
Oil Conservation Commission
Energy, Minerals and Natural
Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

James G. Bruce, Esq.
Post Office Box 1056
Santa Fe, New Mexico 87504-1056
Attorney for Pride Energy Company



William F. Carr