

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. 13,690

APPLICATION OF PRIDE ENERGY COMPANY )  
 FOR COMPULSORY POOLING, LEA COUNTY, )  
 NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 11th, 2006

Santa Fe, New Mexico

2006 MAY 12 AM 11 41

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 11th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Examiner Hearing  
 CASE NO. 13,690

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## A P P E A R A N C E S

## FOR THE DIVISION:

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## FOR THE APPLICANT:

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Attorney at Law  
P.O. Box 1056  
Santa Fe, New Mexico 87504

## FOR YATES PETROLEUM CORPORATION:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
110 N. Guadalupe, Suite 1  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 1:20 p.m.:

3 EXAMINER CATANACH: At this time we'll call Case  
4 Number 13,690, which is the Application of Pride Energy  
5 Company for compulsory pooling in Lea County, New Mexico.  
6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
8 representing the Applicant. I have one witnesses.

9 MR. CARR: May it please the Examiner, William F.  
10 Carr for Yates Petroleum Corporation. I have one witness I  
11 may call in this matter.

12 EXAMINER CATANACH: Okay. Will the witnesses  
13 please stand to be sworn in?

14 (Thereupon, the witnesses were sworn.)

15 MR. BRUCE: I do not have an opening argument  
16 except --

17 MR. CARR: I do.

18 MR. BRUCE: -- except to respond to something  
19 that Mr. Carr wishes to raise.

20 EXAMINER CATANACH: Do you have an opening  
21 statement, Mr. Carr?

22 MR. CARR: Yes, sir, I do.

23 EXAMINER CATANACH: Okay, you may proceed.

24 MR. CARR: May it please the Commission -- or the  
25 Division, as you know, this matter has been going on for

1 some time, and I think this is round seven.

2 Today there's really, we believe, only one issue  
3 before you, and that is an Application of Pride Energy  
4 Company to compulsory pool the west half of a section for  
5 the second time, to again attempt a re-entry of the State X  
6 Well Number 1.

7 Yates opposed the Application and several weeks  
8 ago filed a motion to dismiss. And in that motion to  
9 dismiss, we raised certain issues concerning the nature of  
10 the good faith negotiations prior to filing, whether or not  
11 prior to the entry of an order Pride would have a right to  
12 go onto the acreage to re-enter the well, and whether or  
13 not it is arbitrary for the Commission -- or the Division,  
14 to once again pool the same spacing unit for another re-  
15 entry well.

16 There were still sums being held that we  
17 contend -- and I think the Division has agreed -- to be  
18 repaid by Pride to Yates.

19 We would ask that the Division rule on that  
20 motion, either now or when it disposes of the case by  
21 order, because we believe some real issues are presented  
22 whether or not what was done constituted a good-faith  
23 effort to reach voluntary agreement prior to filing the  
24 case.

25 We believe there are statutory conditions that

1 anyone who seeks a pooling order must meet, and they must  
2 meet them before they actually file the application,  
3 because when you don't, the negotiations that proceed  
4 thereafter are not like arm's-length deals because, really,  
5 in a sense there's a gun to your head, there's a pooling  
6 case staring you in the case. And we believe that the  
7 issues that we raise are appropriate, we've argued them,  
8 and we would request that the Division rule on those.

9 We also argued that it was arbitrary for you to  
10 once again pool Yates because there were still sums being  
11 withheld by Pride as to the re- -- first re-entry attempt.  
12 The totals were set forth and discussed in a prior  
13 argument. They total about \$116,000.

14 And while the Division has since ruled that those  
15 funds should be repaid, they have not. And if -- and we  
16 don't know Mr. Pride and Pride Energy Company stands on  
17 that.

18 But the problem we have is that now in this  
19 proceeding, the only way we can avoid being in a situation  
20 where you again tell us we have to pay the AFE costs again,  
21 which are about a million dollars, to avoid a 200-percent  
22 risk charge -- I mean, we're going to have to pay that  
23 money, and we still have moneys that are being withheld.

24 And until the first case is completely resolved,  
25 we think it is premature to pool us again.

1 EXAMINER CATANACH: Thank you, Mr. Carr.

2 MR. BRUCE: Mr. Examiner, I think when you'll see  
3 the negotiations, they have been substantial among the  
4 parties, and we will go into that in our testimony, which  
5 we will try to keep as brief as possible. But after all  
6 else failed, Pride did send a well proposal out on February  
7 24th to Yates, and this particular Application was filed  
8 about a month later. There have been substantial  
9 negotiations and other issues, that Pride has an expiring  
10 lease.

11 I think when it comes to the facts involved,  
12 Yates and Pride have entered into significant -- or  
13 negotiations sufficient to meet the requirements of the  
14 pooling statute and prior Division rulings on this matter.

15 Basically in the past, the Division has stated  
16 that if you send out a well proposal to someone and get  
17 them to join in the -- offer a chance to join in the well,  
18 that is sufficient, and you'll see a lot more has gone on  
19 between the parties, and we think the motion to dismiss  
20 should be denied, especially considering the expiring  
21 lease.

22 As Mr. Moran and Mr. Pride know, in the event  
23 this case was dismissed, I refiled, which would be set for  
24 the May 25th hearing.

25 I don't think the matters stated by Yates are

1 sufficient to justify a dismissal of this case, but  
2 certainly there's no need to -- it's going to come to  
3 hearing one way or another, because there's a half section  
4 of land that needs a well on it, and we have an expiring  
5 lease.

6 And we'd just ask that the motion to dismiss be  
7 denied so that the parties can go about their way and  
8 decide what to do with this acreage.

9 Thank you.

10 EXAMINER CATANACH: Can I ask you a question  
11 about the expiring lease? Do you know when that is?

12 MR. BRUCE: May 31.

13 EXAMINER CATANACH: Is it a problem for your  
14 client, Mr. Bruce, if we delay ruling on the motion to  
15 dismiss, if we dispose of that in the order in this case?  
16 Is that a problem?

17 MR. BRUCE: I think -- I would rather have you  
18 dispose of it in the order, yes, as long as the order is  
19 forthcoming.

20 I don't -- because of the deadline, we would ask  
21 for an expedited order.

22 EXAMINER CATANACH: Okay. Well, that would be my  
23 inclination, to just dispose of that issue in the order, so  
24 we'll do it that way.

25 So you may proceed.



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JOHN W. PRIDE,

the witness herein, after having been first duly sworn upon  
his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name for the record?

A. John Pride.

Q. And where do you reside?

A. Tulsa, Oklahoma.

Q. What is your relationship to Pride Energy?

A. I'm a partner and owner, part owner.

Q. Have you previously testified by the Division?

A. Yes.

Q. And were your credentials as a landman accepted  
as a matter of record?

A. Yes.

Q. And are you familiar with the land matters  
involved in this Application?

A. Yes.

Q. Have you also been involved in the operations  
affecting the west half?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Pride as  
an expert petroleum landman.

EXAMINER CATANACH: Any objection?

1 MR. CARR: No objection.

2 EXAMINER CATANACH: Mr. Pride is so qualified.

3 Q. (By Mr. Bruce) Briefly, Mr. Pride, what does  
4 Pride Energy seek in this case?

5 A. We seek an order pooling the west half of Section  
6 12, Township 12 South, Range 34 East, from the surface to  
7 the base of the Mississippian formation.

8 Q. Okay. And looking at Exhibit 1, does that set  
9 forth the operating rights or working interest ownership in  
10 the west half of Section 12?

11 A. Yes, it does.

12 Q. And these are both state tracts; is that correct?

13 A. Correct.

14 Q. And again, for the record, with respect to the  
15 southwest quarter, when does Pride Energy's lease on that  
16 acreage expire?

17 A. May 31st, 2006.

18 Q. And who do you seek to pool in this Application?

19 A. The Yates group of companies. There's four of  
20 them listed there.

21 Q. Okay. Now let's discuss the efforts made to  
22 obtain the voluntary joinder with respect to the west half  
23 of Section 2. Does Exhibit 2 contain copies of  
24 correspondence, not only from Pride to Yates but also from  
25 Yates to Pride, over the last four or five months?

1 A. Yes.

2 Q. Okay. Mr. Carr referred to the -- you know,  
3 there was the cost hearing, and as that was moving forward,  
4 at that point did I on behalf of Pride write to Yates'  
5 attorney asking them at least if Yates was willing to enter  
6 into an operating agreement or do something else with  
7 respect to the west half?

8 A. Yes.

9 Q. And that is the first page of Exhibit 2, is it  
10 not?

11 A. Yes, it is.

12 Q. Now eventually, due to conversations with --  
13 between Mr. Carr and myself, did it become apparent that at  
14 that point Yates did not want to enter into a JOA?

15 A. Yes.

16 Q. And did you on behalf of Pride Energy then send  
17 out well proposals regarding the west half of Section 12?

18 A. Yes.

19 Q. And those are the letters dated February 24th?

20 A. Correct.

21 Q. Okay. Subsequently, on -- if you -- and Mr.  
22 Examiner, these should all be in order by date, latest to  
23 most recent -- and in early March did Mr. Moran, the  
24 landman for Yates Petroleum, then write to you requesting  
25 certain information?

1 A. Yes.

2 Q. And did you respond to his information request on  
3 April 19th, 2006?

4 A. Yes.

5 Q. And that letter is included in this package,  
6 right?

7 A. Yes, it is.

8 Q. A couple of days later, Mr. Moran wrote to you  
9 again asking for additional information?

10 A. That's correct.

11 Q. And did you subsequently respond to Mr. Moran's  
12 information request by letter dated April 24th, 2006?

13 A. Yes.

14 Q. And included -- that April 24th letter included  
15 additional well information that Mr. Moran had requested?

16 A. Yes, it did.

17 Q. Then there's a series of letters starting on  
18 April 28th and going through early May, where there were  
19 other alternatives being considered with respect to the  
20 development of the west half, were there not?

21 A. Yes.

22 Q. Both Yates and Pride Energy sent letters with  
23 respect to entertaining acreage trades and other matters,  
24 and perhaps farmouts of certain acreage?

25 A. Yes.

1 Q. And those -- and the very final letter in this  
2 package is a letter dated May 8th, 2006, from Mr. Moran  
3 again, to you. With respect to this letter, did either you  
4 -- have either you or your brother Matthew Pride been in  
5 touch by phone or personally with Mr. Moran to discuss  
6 additional issues with respect to a potential JOA?

7 A. Yes.

8 Q. So it continues -- negotiations have continued up  
9 to this date, have they not?

10 A. Yes.

11 Q. One other thing, the second to the last letter is  
12 a letter dated May 4th from you to Mr. Moran's attention,  
13 proposing a second well, is it not?

14 A. Yes.

15 Q. And that State X Well Number 2 is a well in the  
16 southwest quarter on Pride Energy's acreage; is that  
17 correct?

18 A. Correct.

19 Q. And again, that lease is expiring, so if  
20 necessary you would have to enter onto that lease and  
21 commence drilling that well --

22 A. Yes.

23 Q. -- to save your acreage?

24 A. Yes.

25 Q. Let's move on to Exhibit 3, which is just a two-

1 page exhibit. Are those the first pages of APDs on the  
2 State X Well Number 1 re-entry and on the State X Well  
3 Number 2?

4 A. Yes.

5 Q. Okay, so you did that as part of the procedure of  
6 moving with a compulsory pooling if necessary?

7 A. Yes.

8 Q. In your opinion, has Pride a good-faith effort to  
9 obtain the voluntary joinder of the Yates group in the west  
10 half of Section 12?

11 A. Yes.

12 Q. And again, you were talking earlier today with  
13 Mr. Moran. Have you agreed to provide some additional  
14 information to Mr. Moran regarding matters involved in this  
15 pooling?

16 A. Yes.

17 Q. Let's move on to Exhibit 4, again a two-page  
18 exhibit. What do the two pages reflect, Mr. Pride?

19 A. The AFEs for the State X 1 and also the X 2.

20 Q. Okay. And what are the well costs, the dryhole  
21 and completed well costs of each of those wells?

22 A. For the State X 1 the dryhole cost is \$1,263,200,  
23 completed well cost is \$1,973,700. And in the State X  
24 Number 2, dryhole cost is \$1,645,840, completed well cost  
25 is \$2,394,000.

1 Q. And these are both Mississippian tests, are they  
2 not?

3 A. Yes.

4 Q. And it's apparent in the letters that Mr. Moran  
5 has sent you that -- how to phrase this -- Yates didn't  
6 look forward to re-entering the X 1 again; is that a fair  
7 comment?

8 A. I think so.

9 Q. Why does Pride Energy desire to re-enter the X 1  
10 again, rather than do a new drill in the northwest quarter?

11 A. Well, there is a significant savings when you're  
12 re-entering a wellbore. We have a cement plug that's  
13 currently set in that wellbore at approximately 5500 feet.  
14 The approximate value or savings to drill a new well to  
15 that equivalent depth, as well as setting the casing,  
16 cemented it in and all the other expenses, are  
17 approximately between \$300,000 to \$400,000.

18 Q. Are the costs set forth on Exhibit 4 for the two  
19 wells in line with the cost of other wells drilled to this  
20 depth in this area of New Mexico?

21 A. Yes.

22 Q. Do you request that Pride Energy be appointed  
23 operator of the wells?

24 A. Yes.

25 Q. And do you have a recommendation for the amounts

1 which Pride should be paid for supervision and  
2 administrative expenses?

3 A. Well, for supervision \$5000 per month during the  
4 drilling of the well, and then \$600 per month for a  
5 producing well.

6 Q. And are these amounts equivalent to those  
7 normally charged by operators in this area for wells at  
8 this depth?

9 A. Yes, and added to that, it's the -- identical  
10 rates charged for the 1 M well, which is adjacent to this  
11 well, which Yates owns an interest in that and agreed to  
12 three years ago, approximately.

13 Q. That well is in the southwest quarter of Section  
14 1, immediately to the north?

15 A. Correct.

16 Q. Do you request that these overhead rates be  
17 adjusted periodically as provided by the COPAS accounting  
18 procedure?

19 A. Yes.

20 Q. And was the Yates group notified of this hearing?

21 A. Yes.

22 Q. And is that reflected in the affidavit submitted  
23 as Exhibit 5?

24 A. Yes.

25 Q. Were Exhibits 1 through 5 prepared by you or



1 under your supervision or compiled from company business  
2 records?

3 A. Yes.

4 Q. And in your opinion, is the granting of this  
5 Application in the interest of conservation and the  
6 prevention of waste?

7 A. Yes, it is.

8 Q. Just a couple other things. Because of the --  
9 within the constraints of -- I believe you have said that  
10 you want to provide Mr. Moran or Yates Petroleum with some  
11 additional information, but would you request an expedited  
12 order due to your expiring lease?

13 A. Yes.

14 Q. And do you request, as stated in the Application,  
15 that the pooling order provide for drilling of two wells?

16 A. Yes.

17 Q. Or I should say one re-entry and one new drill?

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, I would move the  
20 admission of Pride's Exhibits 1 through 5.

21 EXAMINER CATANACH: Any objection?

22 MR. CARR: No objection.

23 EXAMINER CATANACH: Exhibits 1 through 5 will be  
24 admitted.

25 Mr. Carr?

## CROSS-EXAMINATION

1  
2 BY MR. CARR:

3 Q. Mr. Pride, are you familiar with the Application  
4 filed in this case seeking the pooling order that we're  
5 discussing here today?

6 A. Yes.

7 Q. As we read the Application, it says that Pride is  
8 requesting the pooling of the west half of Section 12 for  
9 the purpose of re-entry of the State X Well Number 1. Is  
10 that what you're seeking here today?

11 A. We're seeking pooling of -- for -- or permission  
12 to drill two wells on that west half there, X 2 being --  
13 other well.

14 Q. If we look at the Application that we're  
15 considering here today, there is no reference in that  
16 Application to the X 2 well, is there?

17 A. I don't have that before me. I see Number 5  
18 says, Applicant also requests that the order entered herein  
19 provide for the drilling of an infill well pursuant to  
20 Division Rules.

21 Q. Do you understand that the Division has adopted  
22 special rules for the drilling of an infill well?

23 A. I'm not certain what you're referring to.

24 Q. Well, the Application says that you're seeking --  
25 requesting that the order entered herein provides for the

1 drilling of an infill well pursuant to Division Rules.

2 Do you know the Division Rules have special  
3 provisions for an infill well?

4 A. I'm sure they do, I'm not sure.

5 Q. Are you familiar with those?

6 A. No.

7 Q. When we look at this Application, other than that  
8 reference to an infill well drilled pursuant to the Rules,  
9 is there any reference in the Application to the State X  
10 Number 2 well?

11 A. It refers to as the infill well, that's the well  
12 we're referring to.

13 Q. Do you understand when you seek a pooling order  
14 that the person seeking the order first has to propose the  
15 well to the other parties in the spacing unit?

16 A. We have.

17 Q. And when you say you have proposed the Number 2  
18 well, what did you do?

19 A. We sent a letter, along with an AFE, proposing  
20 the well.

21 Q. The Number 2?

22 A. Yes.

23 Q. And is that letter included in your exhibit  
24 packet?

25 A. I don't think the letter was included in the

1 exhibit packet.

2 MR. BRUCE: Yes.

3 THE WITNESS: Was it?

4 MR. BRUCE: May 4th.

5 THE WITNESS: A May 4th letter.

6 Q. (By Mr. Carr) Toward the back of the exhibit  
7 packet?

8 A. Yes.

9 Q. And this is a copy of a letter that's dated May  
10 4th, and it is from you to Yates, to the attention of Chuck  
11 Moran?

12 A. Correct.

13 Q. Is this the first time you proposed the State X  
14 Number 2 well?

15 A. Yeah, this is the only time that I actually  
16 proposed it in writing to them.

17 Q. And that proposal was on May the 4th, correct?

18 A. May 4th is when this letter was written. I had  
19 sent them a copy of the approved APD prior to this, but  
20 followed up with letter --

21 Q. How much prior?

22 A. -- and an AFE.

23 Q. How much prior?

24 A. I'm not sure, I don't remember exactly when the  
25 -- how much --

1 Q. Was it a few days?

2 A. I'm not sure exactly how many.

3 Q. You also attached an AFE to this proposal --

4 A. Yes.

5 Q. -- is that right?

6 A. Correct.

7 Q. And that AFE is included in your materials --

8 A. Yes.

9 Q. -- as Exhibit Number 4?

10 A. Yes.

11 Q. And it's also dated May the 4th?

12 A. Yes.

13 Q. When was the Application to pool these lands  
14 actually filed?

15 A. I don't have the date before me.

16 Q. We could look at the Applications and tell, could  
17 we not?

18 A. I suppose so.

19 Q. Would you agree with me that the Application was  
20 filed about four weeks prior to the time you first proposed  
21 the State X Number 2 well to Yates?

22 A. I suppose so, I don't have the --

23 Q. And in this circumstance, we were a week before  
24 hearing before you even identified the infill well; isn't  
25 that right?

1 A. As far as identifying, yes. It was referred to.

2 Q. And so what you're trying to do in this  
3 Application is get an order for the State X Number 1, which  
4 is addressed in the Application, and you also want to  
5 infill -- you want to pool for an infill well?

6 A. Yes, the X 2.

7 Q. And if that -- what you're seeking was  
8 inconsistent with the Division Rules for obtaining approval  
9 of an infill well in a pooled unit, are you the person I  
10 should talk to about that, or should I talk to someone  
11 else? Are you familiar with the rules governing infill  
12 well on pooled units?

13 A. Depends on what they are.

14 Q. Are you aware of what they might be?

15 A. I'm not --

16 Q. If you don't know you can say so, if you don't  
17 know you can say so.

18 A. I don't know all the details of them.

19 Q. We have two AFEs for the well in your Exhibit  
20 Number 4, and they are significantly different in total  
21 amounts. Could you tell me why?

22 A. Well, as I mentioned earlier, the State X 1 is a  
23 re-entry of an existing wellbore. There's a cement plug  
24 set at approximately 5500 feet, and the two amounts would  
25 reflect approximately the value of the existing wellbore

1 and the X 1, which is going to be around \$400,000, give or  
2 take, here.

3 Q. When was the AFE for the X 1 prepared?

4 A. This one was dated February 24th of '06.

5 Q. Has there been an increase in drilling costs or  
6 other costs that might also factor into the increase for  
7 the Number 2?

8 A. There has been increases in drilling cost, yes.

9 Q. If I look at the AFE for the Number 1 X, we don't  
10 see anything for costs associated with reclamation, pits,  
11 things of that nature.

12 How is Pride going to handle that?

13 A. At the end of the well we're going to do what's  
14 required by the State and reclaim the land.

15 Q. And then would you bill people who have  
16 participated in the well at that time?

17 A. Yes, at the end of the well.

18 Q. But you're not including those in the AFE cost?

19 A. Well, no, not at the -- reclaiming for the AFE.

20 Q. And that well -- reserve pits, I guess?

21 A. Yes.

22 Q. When the -- when you get to the point that you're  
23 -- what kind of problems did you have with your first re-  
24 entry attempt on the Number 1 X well?

25 A. Well, we had a third-party equipment that we were

1     renting -- it was Weatherford's, actually -- and it broke,  
2     just without any particular cause or reason, and it dropped  
3     the drill string down the hole, and --

4           Q.     In your opinion, is the wellbore at this point in  
5     time one that you realistically can re-enter?

6           A.     Yes, we have left it in a state where it can be  
7     re-entered.

8           Q.     And you think a re-entry is wiser than attempting  
9     just to drill a new well in the northwest quarter of 12?

10          A.     In the northwest quarter, there would be a  
11     substantial savings re-entering and utilizing what we have.

12          Q.     When you complete the well this time, assuming  
13     it's pooled and you're out there and you're at that point,  
14     how are you going to supervise the completion of the well?  
15     Will you be doing that in person or with a company  
16     employee, or will you have a third-party --

17          A.     We'll have a company person on there, during our  
18     completions.

19          Q.     I'm sorry, I couldn't hear you.

20          A.     We will have a company man on location during our  
21     completions.

22          Q.     And do you know who that will be?

23          A.     Most likely it will be a Leon Beard.

24          Q.     And is that the person, if Yates participates in  
25     the well, they could talk to about what's going on at the



1 time of the completion?

2 A. We'll we'll be sending daily reports to Yates,  
3 and they can talk to us, if they've got specific questions,  
4 in the office, would

5 Q. And --

6 A. -- probably be the best approach.

7 Q. -- if it's Mr. Beard, what sort of experience  
8 does he have?

9 A. He's a gentleman that's approximately 60 years  
10 old. He's probably had 40 years experience in the field,  
11 in downhole completions and fishing jobs, re-works,  
12 recompletions.

13 Q. Is there stuff in the hole right now you're going  
14 to have to fish out before --

15 A. Nothing in the hole, we've left it with a cement  
16 plug, ready to drill off of and continue drilling.

17 Q. When you talk about the completion practices and  
18 Mr. Beard being out there, is that the time when you might  
19 make a decision as to whether or not you're going to frac  
20 the well?

21 A. Yes, that's part of the completion, yes.

22 Q. And that's the time that decision is made?

23 A. Yes.

24 Q. What kind of input would Yates -- or the Yates  
25 companies, as a 50-percent owner, have in those decisions?

1 Would they be consulted?

2 A. "Those decisions" meaning -- ?

3 Q. Whether or not to frac or --

4 A. Yes.

5 Q. -- or what to do the well as a completion?

6 A. We're open for their input, certainly.

7 Q. And at this point in time as you look at the re-  
8 entry, have you made a determination as to any kind of  
9 completion fluids that you -- or muds that you would intend  
10 to be re-using in the re-entry attempt?

11 A. Okay, drilling muds, we're going to use what is  
12 recommended by the drilling mud companies. As far as the  
13 completion fluids, we're going to seek a recommendation  
14 from the vendors that do the fracs.

15 Q. And so those decisions have not been made at this  
16 point in time?

17 A. No, they're never made at this point --

18 Q. And you --

19 A. -- wait until -- as far as the completion fluids,  
20 until you get to the point of actually frac'ing the well or  
21 completing it.

22 Q. And is that normal, to rely on the vendors to  
23 make those kinds of determinations?

24 A. We will seek their input, and then we will  
25 discuss it among ourselves, and we will welcome Yates'

1 input as well.

2 Q. And will they be notified so that they will have  
3 an opportunity to participate in the discussion?

4 A. If they would like to be, yes.

5 Q. What were the overhead and administrative costs  
6 that you were proposing?

7 A. The administrative overhead, as far as producing  
8 well, is \$600, and the overhead during drilling operations  
9 is \$5000 per month.

10 Q. Yates has usually used in the area of \$5400 while  
11 drilling and \$540 while producing. You don't want to  
12 accept those figures?

13 A. They're very close. The reason we came up with  
14 the numbers we had, as I mentioned earlier, is that these  
15 are the identical numbers that Yates agreed to in the State  
16 1 M adjacent unit nearly three years ago. So I was  
17 assuming that it would be acceptable and satisfactory to  
18 them to use the same numbers, and they're very, very close,  
19 so...

20 Q. Are you willing to consider \$5400 and \$540, if we  
21 can work this out?

22 A. We'd consider it. It's not -- Like I said, I'm  
23 not unreasonable, by no means, for such a small amount.

24 Q. We find ourselves with a pooling application  
25 before us with about three weeks until a lease expires.

1 Are you aware that in January Mr. Moran offered to come to  
2 Tulsa to meet with you, to work out all these issues?

3 A. Yes.

4 Q. And are you aware of why there was no response to  
5 that offer?

6 A. Well, there was a whole slew of issues, other  
7 than what we're discussing here today.

8 And I don't think it's really time to get into  
9 all that right at the time.

10 Q. But there was -- when that offer was made, you  
11 didn't agree or invite them to discuss --

12 A. We were not really at a point to discuss all  
13 those issues, nor did we feel, from our company's  
14 standpoint, that it was the appropriate time to do so.

15 Q. In the context of discussing just the re-entry of  
16 the State X Number 1, on the 19th of April I believe Yates  
17 requested from Pride a joint operating agreement; are you  
18 aware of that?

19 A. What --

20 Q. Thank you -- Mr. Moran corrects me. He says that  
21 on that date you indicated you were prepared to give them a  
22 joint operating agreement for the well. Do you recall  
23 that?

24 A. In what form did we -- is that a letter or --

25 MR. MORAN: It's in his April 19th letter.

1 Q. (By Mr. Carr) Let's look at the April 19th  
2 letter.

3 MR. MORAN: It's in the last item on that --

4 Q. (By Mr. Carr) Uh-huh. I'm throwing you a curve  
5 here, Mr. Pride, I think it's the April 24th letter.

6 A. Okay.

7 Q. Okay? And if you'll look at -- Do you have that  
8 letter in front of you?

9 A. Yes, I do.

10 Q. And if you'll look at item 8, it says the JOA,  
11 see copy of JOA being sent to you. That was on the 24th of  
12 April?

13 A. Yes.

14 Q. Do you know why it took until May the 4th to send  
15 that to us, if time was of the essence?

16 A. Well, we had to create a whole new JOA for this  
17 particular --

18 Q. And then it was just sent by regular mail?

19 A. It was sent -- it was quite lengthy, so I did not  
20 fax it, we just sent it mail.

21 Q. Has the JOA been provided now -- is a complete  
22 JOA -- Back up.

23 Has a complete JOA been provided by Pride --

24 A. Yes.

25 Q. -- to Yates?

1           Are -- At this point in time in your  
2 negotiations, are you aware that Yates is requesting and  
3 waiting for some corrective pages?

4           A.   Mr. Moran did respond to our JOA, requesting a  
5 number of corrections -- or, not corrections, request of  
6 changes to the JOA, which my brother Matthew has also been  
7 in correspondence to Mr. Moran regarding those, and I  
8 believe they have at least verbally agreed all to accept  
9 maybe two of the issues regarding the JOA.

10          Q.   I have some questions about who is actually going  
11 to be the operator of the well. Can you tell me what  
12 entity will actually be the operator of the re-entry of the  
13 State X Number 1?

14          A.   Pride Energy Company.

15          Q.   And is Pride Energy Company a corporation?

16          A.   No, it's a general partnership.

17          Q.   In the JOA under where the notary, under your  
18 name, provides, you know, what -- who you are, it states,  
19 President of Pride Oil and Gas Company, Inc., a general  
20 partner of Pride Energy Company.

21          A.   Yes.

22          Q.   So the operator of the well is Pride Energy  
23 Company --

24          A.   Correct.

25          Q.   -- as I understand it? Pride Oil and Gas Company

1 is the general partner. Is that a company?

2 A. Pride Oil and Gas Company, Inc., is a C  
3 corporation which owns 50 percent of the general  
4 partnership Pride Energy Company. That is the operating  
5 company.

6 Q. And you have other partners?

7 A. One other partner.

8 Q. And who is that?

9 A. Well, the specific general partner would be Pride  
10 Production Company, Inc., which is a 50-percent owner of --  
11 the other 50-percent owner of Pride Energy Company.

12 Q. Just want to be sure. The operator is Pride  
13 Energy Company?

14 A. Correct.

15 Q. That is a partnership?

16 A. General partnership, yes.

17 Q. And the two partners are other Pride entities  
18 which are corporations?

19 A. They're C corporations, the two partners.

20 Q. Now are the corporations authorized to do  
21 business in New Mexico?

22 A. We're doing business as the Pride Energy Company,  
23 the general partnership.

24 Q. And so is that partnership registered with the  
25 Secretary of State to do business in New Mexico?

1           A.    Far as I know.

2           Q.    And if that's what's required for a partnership,  
3 it's your understanding that that's been done?

4           A.    Yes.

5           Q.    Now, you talked about providing information to  
6 partners in the well if you're in a re-entry attempt. How  
7 are you going to do that?

8           A.    We will send the via e-mail, if that's what they  
9 would prefer. If they want fax, we can do that as well.

10          Q.    You can provide daily reports?

11          A.    Yes.

12          Q.    And who prepares those daily reports?

13          A.    Our field guys prepares the rough draft, and then  
14 they send them into our office, and then we have personnel  
15 there in the office that print them out on our software.

16          Q.    Do you have any internal procedures to be certain  
17 that what you print out is, in fact, accurate?

18          A.    Oh, yeah, I check them myself.

19          Q.    Now, when we -- You're aware that within the last  
20 few days the Oil Conservation Division entered an order in  
21 our dispute concerning some well costs? Are you aware the  
22 order was entered?

23          A.    I could not hear you.

24          Q.    Are you aware that within the last few days the  
25 Oil Conservation Division has entered an order concerning



1 the dispute between Yates and Pride over the original well  
2 costs on the original re-entry of --

3 A. No, I haven't -- I'm not aware.

4 Q. You're not aware that that order has been  
5 entered?

6 MR. BRUCE: I didn't receive mine in the mail.

7 Q. (By Mr. Carr) If you were ordered to pay  
8 \$116,000 in costs, could you?

9 A. We could.

10 Q. If you are -- if you get this order and go  
11 forward with the re-entry in the State X Well Number 1, can  
12 you go forward with the well without a 50-percent partner  
13 in this re-entry attempt?

14 A. Yes.

15 Q. And are you going to do that whether or not you  
16 have the participation of Yates?

17 A. Yes.

18 Q. And do you have a rig available now that can, in  
19 fact --

20 A. Yes.

21 Q. -- do the job --

22 A. We do.

23 MR. CARR: That's all I have, thank you.

24 MR. BRUCE: Just a couple of questions, Mr.  
25 Pride.

## REDIRECT EXAMINATION

BY MR. BRUCE:

Q. Certainly you said you would provide well information to Yates. That's -- provided they voluntarily join in the well and pay their share --

A. That's correct --

Q. -- of the well costs?

A. -- yes. Yes.

MR. BRUCE: And that's all I have.

## EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Pride, what is your plan with regards to developing this west half? Are you going to re-enter the State X Number 1 first? Is that your plan?

A. No, our plan is to drill the X 2 first.

Q. X 2 will be drilled first. Is it definite that the Number 1 well will be re-entered at some point?

A. I wouldn't say it's definite, but I would say it's likely.

Q. And what's the timing on that? Do you have any idea what the timing might be?

A. Once we drill the X 2, I can give you a better answer, probably.

Follow up on that. The X 2 and the X 1 are -- our targets are a little bit different, based on their

1 location geologically. So it's very likely, I should say,  
2 that the X 1 will be drilled in addition to the X 2 because  
3 of the geological location of them and the formations that  
4 look productive somewhat.

5 Q. You guys spent quite a bit of money on the X  
6 Number 1 well in attempting your re-entry; is that correct?

7 A. Yes.

8 Q. You stated that it was a tool failure,  
9 Weatherford tool failure --

10 A. Yes.

11 Q. -- that caused that unsuccessful re-entry  
12 attempt?

13 A. They dropped the drill pipe down the hole.

14 Q. Is Weatherford liable for any of that?

15 A. Theoretically, yes, but it would take a lawsuit  
16 to get it to -- get them to -- you know, to stand up and  
17 pay for part of it.

18 Q. You're not contemplating doing that, or -- have  
19 you even thought about it or --

20 A. We've thought about it, but we haven't actually  
21 pursued it.

22 Q. Is a lease extension possible at all in the west  
23 half?

24 MR. BRUCE: No, Mr. Examiner, the State does  
25 not -- I think there are certain provisions where you can

1 extend a state lease, but I don't think this is one of  
2 those situations.

3 Q. (By Examiner Catanach) What would you propose in  
4 terms of drilling deadlines for the two wells? Under a  
5 pooling order we have drilling deadlines. Would you have  
6 any idea how to address when you guys can re-enter the  
7 State X Number 1? I mean, would that be six months after  
8 the order, or do you have any idea?

9 A. What is generally provided?

10 Q. Well, in a normal situation when there's only one  
11 well, you basically have 90 days to commence drilling on  
12 that well. You can get an extension, but in this situation  
13 with two wells, I mean, I don't know how you address the  
14 drilling deadlines, so you might want to -- you might want  
15 to propose something in writing.

16 MR. BRUCE: Mr. Examiner, I was going to hold on.  
17 I would like -- I've seen a couple of orders, I think Mr.  
18 Carr and I had a fight over one of them up in the San Juan  
19 Basin, that Lance case, and I was going to ask permission  
20 to provide a draft order.

21 EXAMINER CATANACH: Okay, that would be helpful.

22 I don't have any other questions. Is there any  
23 other questions of this witness?

24 MR. CARR: But I have a statement.

25 MR. BRUCE: I have a short statement.

1 EXAMINER CATANACH: Okay, so you're not putting  
2 on your witness, Mr. Carr?

3 MR. CARR: No, I'm not going to call Mr. Moran.

4 EXAMINER CATANACH: Okay. Okay, you may proceed.

5 MR. CARR: In the course of this hearing, I think  
6 the question that you have to ask and we all have before us  
7 is, what are we doing here?

8 We know you can pool and then drill a well. And  
9 we know under the Rules you can drill before you pool, and  
10 there's some consequences of that. But what are we doing  
11 here?

12 Mr. Pride, in response to your last question,  
13 practically, stated, We're going to drill the 2 X first.

14 Look at the Application in this case. It's an  
15 application for an order for compulsory pooling. It says,  
16 Applicant proposes to re-enter the State X Well Number 1,  
17 located 1980 from the north line and 660 from the west line  
18 of Section 12 and deepen the well to test the Mississippian  
19 formation, and seeks to dedicate the west half of Section  
20 12 to the well to form a standard 320-acre gas spacing and  
21 proration unit for any formations and/or pools developed on  
22 320-acre spacing within that vertical extent, including the  
23 Undesignated Four Lakes-Mississippian Gas Pool.

24 Frankly, I thought that's why we were here, to  
25 pool the west half, to re-enter the State X Number 1.

1           Look at the correspondence that was provided by  
2 Mr. Pride. It talks about a re-entry of the State X Well  
3 Number 1.

4           The Application clearly must -- from the legal  
5 end, must define why we are here. And we have raised  
6 objections to going forward with the State X Number 1 until  
7 the issues concerning the first re-entry are resolved, and  
8 we raise questions about whether or not what you have seen  
9 is a good faith effort to reach voluntary agreement for the  
10 State X Number 1.

11           When I read this Application and I go to the  
12 fifth paragraph it says, Applicant also requests that the  
13 order entered herein provide for the drilling of an infill  
14 well pursuant to Division Rules.

15           Well, of course it does. You don't have to order  
16 that. The drilling of infills are governed by Division  
17 Rules. We adopted them a year ago in pooling cases. And  
18 they provide that after you have pooled and after you have  
19 completed -- I would submit on this Application the only  
20 thing they can do is the State X Number 1 -- then there is  
21 a provision in the Rules of the Division for subsequent  
22 operations. And those Rules provide that after the  
23 completion of the initial well, either the operator or  
24 another working interest may propose an infill well. And  
25 you give notice and you elect to participate, or you do

1 not. And if you don't, you're pooled and you're under the  
2 risk charges set in the original order. But there is a  
3 definite procedure. And that's all their Application asks  
4 for.

5 But now we have the State X Number 2 well. Mr.  
6 Pride admits the first time they proposed it was May 4th, a  
7 week ago. The Application to pool was filed a month ago.  
8 How could there be a representation to you that there were  
9 good faith negotiations for the drilling of the Number 2, a  
10 well geologically different, a well that's a new drill, not  
11 a re-entry, and then somehow think you can use the  
12 Division's infill drilling rules to substitute wells in a  
13 pooling application? I will tell you, you can't do that.

14 There have been no negotiations on the Number 2,  
15 there was nothing on the table when the filed, there was  
16 nothing about the Number 2 a week after it was filed, or  
17 two weeks or three weeks. We have it before us today.

18 If they seek an order pooling the Number 2, we  
19 here and now, based on this argument, as you to dismiss  
20 that Application. They're outside the Rule. The Rule  
21 doesn't authorize and isn't a vehicle for bait and switch.  
22 You don't switch the Rule -- you don't switch the well  
23 under a rule that sets out a clear and orderly procedure  
24 that's been adopted by this Commission for the subsequent  
25 development of a property.

1 I said at the beginning, I thought this was just  
2 a pooling case. Well, maybe it's not. Maybe you have to  
3 decide our motion and see if, in fact, there was a good-  
4 faith effort and if those things occurred before the  
5 Application was filed as to the State X Number 1. And if  
6 you find it hasn't, I suggest you should dismiss the  
7 Application.

8 I think you have to decide here today -- With  
9 Pride still holding \$116,000 of Yates' money, if it isn't a  
10 good example of an arbitrary and unreasonable, capricious  
11 action by an agency to say, Sure, they've got \$116,000 of  
12 your dollars, now pay them another million or we're going  
13 to take 200 percent out of your share of a property that's  
14 a constitutionally protected property right -- I think you  
15 should look at that and deny the Application. You should  
16 dismiss it for not having gotten here properly. You should  
17 deny it, because if you don't it's arbitrary.

18 And finally here today, I think this is a case  
19 when you're asked as an Examiner to enforce the Rules  
20 governing infill development. This case seeks an order  
21 pooling the State X Number 1. If they want to pool the  
22 State X Number 2, they have to, after at least proposing  
23 the well, file an application, or come talk to us about the  
24 State X Number 2. It isn't a re-entry, it's a new drill.  
25 That's a different kind of a well, it's in a different



1 quarter section and the geology is different.

2 And today we find out -- We came here talking  
3 about the State X Number 1, and they're talking about a  
4 different well in a different quarter section. We submit  
5 that as to the State X Number 2 they have not complied with  
6 the statute, and if that's what they're here seeking, their  
7 Application must be dismissed.

8 We also would point out that this has gone on for  
9 a very, very long time. A year ago, Yates was in a  
10 different position in this section with Pride. We had an  
11 expiring lease, and we went out and drilled a well on our  
12 acreage. I guess Mr. Pride can do that now and then come  
13 back after he proposes a well in the southwest and seek a  
14 pooling order, but it isn't properly before you today.

15 EXAMINER CATANACH: Mr. Carr, what are you  
16 referencing when you're reading the --

17 MR. CARR: I am reading Exhibit A that was  
18 adopted by Order Number R-12,438. It's Division Rule  
19 19.15.1.36. The title of the Rule is Compulsory Pooling,  
20 Subsequent Operations. It was adopted by the Division --  
21 by the Commission, last year.

22 I'm particularly citing subpart B, which defines  
23 how subsequent operations are conducted, and subpart C,  
24 which explains the time frames when an operator proposes an  
25 infill well on a tract previously pooled.

1 EXAMINER CATANACH: Thank you.

2 Mr. Bruce?

3 MR. BRUCE: Mr. Examiner, as Exhibit 2 shows,  
4 Yates was first approached December 9th, almost five months  
5 ago now, about signing a JOA and not traveling down this  
6 process.

7 They never responded.

8 And yes, we have an expiring lease, and Pride  
9 Energy wants to drill the X 1 and the X 2 wells.

10 Couple of things about this case is, if you go  
11 through this correspondence, Yates wants a new well, they  
12 don't want to re-enter the X 1. And now when Pride Energy  
13 proposes a new well they object to that.

14 In fact, if you look at the orders that have been  
15 issued under the infill Rule 36, the infill well rule,  
16 you'll find that Yates has provided more info on the infill  
17 well than is normal.

18 Normally nobody has any information whatsoever on  
19 that infill well when it goes before the Division. It's  
20 just an item that somewhere down the road you can provide  
21 an AFE to someone, and they have to make their election  
22 under the original pooling order.

23 Here, unlike every other case I've seen, and the  
24 few orders I've seen, Pride actually provided an AFE on the  
25 second well, on the infill well, to Yates, so it knows

1 what's -- what is happening going in.

2 And I looked at the order -- at the Rule 36. I  
3 don't think it matters, really, one way or the other which  
4 well is drilled first. And here we are dealing with an  
5 expiring lease, and if necessary Pride will go on to its  
6 lease and commence that well. And it can come back if  
7 necessary, it can switch the order of the wells.

8 If Yates has any questions about the X 2 well,  
9 they can certainly ask Mr. Pride. Mr. Pride and Yates have  
10 obviously provided each other with a bunch of information  
11 or a bunch of correspondence with respect to the X 1. If  
12 they want more information on the X 2, they can ask it.

13 And Yates can come back again in a couple of  
14 months when Pride re-pools and just changes the order of  
15 the wells. It's not going to get them anywhere. We don't  
16 think it's legally required. But so be it, that's the  
17 decision of the Division.

18 Certainly Pride must move forward at this point.  
19 They tried to negotiate with Yates, and it met with nothing  
20 but delay, and now it has to move forward to save its  
21 lease, which will -- it will do so, and we'd request that  
22 you approve this Application.

23 Thank you.

24 EXAMINER CATANACH: I just have one question for  
25 Mr. Bruce. If the Division pools a west half unit to be

1 dedicated to the X Number 1, does that save the lease? Do  
2 you know?

3 MR. BRUCE: Operations -- Well, there's two  
4 things, Mr. Examiner. It doesn't -- no, it doesn't, just  
5 the pooling order does not save it. Operations will have  
6 to be conducted on the X 1 -- Number 1.

7 And number two, Yates is the record title owner  
8 of that state lease, and we need to get Yates' signature on  
9 a com agreement, and that com agreement is necessary also,  
10 in order to save that lease.

11 So really, it's not the Division's orders so  
12 much, it's Land Office-approved com agreement and actual  
13 operations on the X 1 well.

14 EXAMINER CATANACH: Well, if Yates doesn't sign a  
15 com agreement, if they're pooled into west half unit,  
16 doesn't that suffice, as far as --

17 MR. BRUCE: I think the pooling order, if it was  
18 entered timely, would --

19 EXAMINER CATANACH: Okay.

20 MR. BRUCE: -- but it would have to -- but it's  
21 not just -- it has to be -- the com agreement then has to  
22 be submitted to the Land Office with pooling order, and the  
23 Commissioner of Public Lands has to approve the com  
24 agreement.

25 EXAMINER CATANACH: Okay. Anything further?

1 MR. CARR: Nothing further.

2 EXAMINER CATANACH: There being nothing further,  
3 Case 13,690 will be taken under advisement.

4 And this hearing is adjourned.

5 (Thereupon, these proceedings were concluded at  
6 2:14 p.m.)

7 \* \* \*

8  
9  
10  
11  
12 I do hereby certify that the foregoing is  
13 a complete record of the proceedings in  
14 the Examiner hearing of Case No. \_\_\_\_\_  
15 heard by me on \_\_\_\_\_, 1961.  
16 \_\_\_\_\_, Examiner  
17 Oil Conservation Division  
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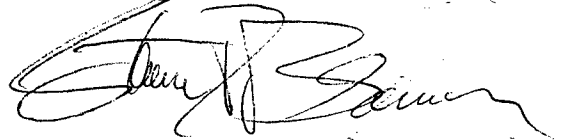
## CERTIFICATE OF REPORTER

STATE OF NEW MEXICO    )  
                                  )   ss.  
COUNTY OF SANTA FE    )

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL May 11th, 2006.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006