

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:**

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

Case No. 13,950

PRE-HEARING STATEMENT

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

APPEARANCES

APPLICANT

OXY USA WTP Limited Partnership

APPLICANT'S ATTORNEY

William R. Carr

OPPONENT

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

OPPONENT'S ATTORNEY

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

Attention: Peggy Korr-Werthington
(432) 636-1100

Richard Montgomery
P.O. Box 50468
Midland, Texas 79710
(432) 623-8900

STATEMENT OF THE CASE

APPLICANT

Applicant OXY USA WTP Limited Partnership ("OXY") seeks an order denying Bold Energy, LP's ("Bold's") Application for Permit to Drill ("APD") for its OXY Checker State Well No. 2 (the "No. 2 Well"), to be located in the SW¼NW¼ of Section 8, Township 10 South, Range 26 East, NMPM. The W½ of Section 8 will be dedicated to the No. 2 Well.

OPPONENT

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

The facts of this case are as follows:

1. Bold is a working interest owner in the W½ of Section 8, and desires to drill the proposed No. 2 Well to a depth sufficient to test the Wolfcamp and Canyon formations.

2. The W½ of Section 8 is currently dedicated, in the Wolfcamp and Canyon formations, to the OXY Checker State Well No. 1, located in the NW¼SW¼ of Section 8, operated by OXY.

3. The W½ of Section 8 is subject to an Operating Agreement governing the ownership of the working interest owners, dated March 1, 1997, under which OXY is the operator. However, the agreement allows a non-operator to propose a well, and drill it if the operator non-consents the well. A well drilled by a non-operator must be turned over to the operator after completion.

4. OXY claims that under a March 27, 1997 letter agreement (attached to its application as Exhibit A), Bold does not have the right to propose and drill a well in the W½ of Section 8 despite the terms of the Operating Agreement. Bold disputes OXY's legal theory. Regardless, OXY's argument is moot due to the following matters:

a. OXY has executed an instrument terminating the March 27, 1997 letter agreement. Exhibit 1.

b. OXY requested that a new well proposal for the No. 2 Well be sent to it. That was done. Exhibit 2.

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

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

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

b. By Letter dated December 29, 2006 Bold notified OXY of its desire to drill and operate the No. 2 Well, as required by Division Rule 10-1E(2), but OXY objected in January 2007.

c. OXY then informed Bold that it desired termination of the March 27, 1997 letter agreement. (The agreement required OXY to pay all well costs but limited costs to \$900,000.00, and thus is extremely unfavorable to OXY. However, Bold never asserted rights under the letter agreement, believing it had terminated pursuant to its own terms.) Despite the willingness of all other working interest owners to terminate the agreement, OXY delayed signing such an agreement until May 8, 2007. Exhibit 1.

d. Because a termination agreement has been executed by OXY, the statement in its application that "the parties have been unable to agree on" termination is incorrect. Application, paragraph 13.

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

f. Rather than allowing Bold to drill the well, it filed its application herein on June 11, 2007 to further delay the drilling of the well.

g. At the May 10th hearing in this matter, OXY testified that it preferred to drill a Morrow test well. However, in the two months since the hearing it has not proposed a well.

6. All working interest owners other than OXY, collectively owning 35.1% of the working interest in the W¼ of Section 8, have agreed to participate in the drilling of the well.

Based on the foregoing, OXY's application is meritless, and Bold is entitled to the approval of its APD. If OXY asserts further contractual issues, those matters should be left to the District Court (if OXY desires to pursue that avenue). Because it is undisputed that Bold owns a working interest in the well unit, the Division should simply exercise its regulatory authority to approve Bold's APD. Magnolia Petroleum Co. v. Railroad Commission, 175 U.W. 30 189 (Tex. 1943). Anything less impairs the correlative rights of Bold and the other working interest owners in the W¼ of Section 8.

PROPOSED EVIDENCE

APPLICANT

WITNESSES

DEPT. TIME

ATTORNEYS

STIPULATION OF INTEREST

Reference is here made for all purposes to those certain leases (the "Leases") and lands (the "Lands") described below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Americata Oil and Gas, Inc.

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Date: Not Available

Lands: All of Section 8, as to all depths below three thousand feet sub-surface, and Section 9, as to all depths below five thousand feet sub-surface, Township 19 South, Range 29 East, N44E34E, Eddy County, New Mexico

Under that certain Letter Agreement (the "1997 Agreement") dated March 27, 1997, Threshold Development Company, 8000 Street Financial Company, Leland Hoopes and Henry A. Boins, ("Farmers") turned out to OXY USA Inc., an interest in Section 8, as to all depths below three thousand feet sub-surface, and Section 9 as to all depths below five thousand feet sub-surface in Township 19 South, Range 29 East, Eddy County, New Mexico.

OXY USA Inc. has performed pursuant to the 1997 Agreement, and recorded assignments, as therein provided, subject to certain after payout rights of the Farmers. Assignments reflecting after payout rights as provided for in the 1997 Agreement as set forth in B were executed, delivered or filed of record in Book 629, Page 558 and Book 629, Page 559 of the Public Records of Eddy County, New Mexico.

Through various conveyances, the ownership of the rights in the Leases and Lands are now vested in Bala Energy LP, Monarch Resources, Inc., Herbert F. Boins, Thomas D. Boins, Fuel Products, Inc. and OXY USA WTP Limited Partnership (collectively, the "Owners").

Now, therefore, for good and valuable consideration, the receipt and authenticity of which are hereby acknowledged, the Owners identified above do hereby covenantly stipulate as follows:

a) Payout has occurred for all wells drilled under the 1997 Agreement.

b) Pursuant to the 1997 Agreement:

- (i) The OXY Checker State Com No. 1 well was drilled in the NW 1/4 of Section 8, T-19-S, R-29-E, N44E34E, to a total depth of 11,470' sub-surface, and the NW 1/4 of said Section 8 was established as the named spacing unit for such well (the "NW 1/4 Unit").
- (ii) The OXY Zeno State No. 1 well was drilled in the NE 1/4 of Section 8, T-19-S, R-29-E, N44E34E, to a total depth of 11,760' sub-surface, and the NE 1/4 of said Section 8 was established as the named spacing unit for such well (the "NE 1/4 Unit").
- (iii) The OXY Crispin State No. 1 well was drilled in the SE 1/4 of Section 8, T-19-S, R-29-E, N44E34E, to a total depth of 11,500' sub-surface, and the SE 1/4 of said Section 8 was established as the named spacing unit for such well (the "SE 1/4 Unit").
- (iv) The OXY Sparkling State No. 1 well was drilled in the SW 1/4 of Section 8, T-19-S, R-29-E, N44E34E, to a total depth of 11,550' sub-surface, and the SW 1/4 of said Section 8 was established as the named spacing unit for such well (the "SW 1/4 Unit").

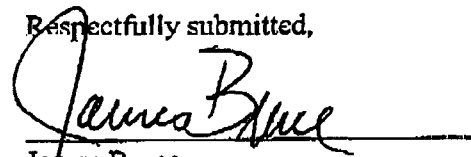
OPPONENT

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
Peggy Kerr-Worthington (landman)	15 min.	Approx. 5
John Worrall (geologist)	10 min.	Approx. 3
Joseph Castillo (engineer)	15 min.	Approx. 4

PROCEDURAL MATTERS

-None-

Respectfully submitted,


James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982 2043Richard Montgomery
P.O. Box 50468
Midland, Texas 79710
(432) 683-8900

Attorney for Bold Energy, LP

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 5th day of July, 2007 by facsimile transmission:

William F. Carr
Holland & Hart LLP
P.O. Box 2208
Santa Fe, New Mexico 87504
(505) 983-6043
James Bruce

- c) A like undivided interest in or to all personal property, fixtures and improvements appurtenant to or located on or near the Lands, or used or held for use in connection with the production, treatment, storage or transportation of oil, gas, casinghead gas, condensate, distillate or other liquid or vaporous hydrocarbons or other materials from the Leases for which ownership is stipulated herein; such personal property, fixtures and improvements shall include, but shall not be limited to, all hydraulic fracturing in tanks, and all wells, tanks, boilers, buildings, plants, fixtures, machinery and other equipment, pipelines, powerlines, telephone lines, roads and other appurtenances pertaining to the Leases for which ownership is stipulated herein; and
- d) A like undivided interest in or to all rights, duties and obligations arising, either to or arising from any valid oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases or production therefrom or attributable thereto.

This Stipulation is expressly made subject to:

- a) A proportionate part of the covenants, provisions, royalties and terms of the Leases;
- b) The terms and conditions of all existing orders, rules and regulations issued and issued or to be issued, and other governmental agencies having jurisdiction;
- c) Any valid and subsisting oil, casinghead gas and gas sales, purchase or exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases;
- d) A proportionate part of all overriding royalty interests, restrictions, reservations, covenants, conditions, encumbrances, conditions, stipulations, interests, obligations, agreements and other matters, if any, which are of record in the state and county above stated and which burden or affect the purposes, rights or interests herein assigned; and
- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA Inc. as Operator, and Threshold Development Company, et al., as Lessee, which the contract and for which is the Lands. Provided, however, that this Stipulation shall have no effect on the rights of the parties pursuant to the Operating Agreement as to existing or existing operations, including without limitation elections pertaining to the lands to participate, or not participate in any proposed operation, or otherwise to the duties or obligations of the parties pursuant thereto.

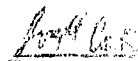
This instrument shall be in the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

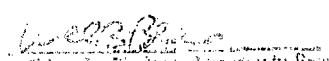
This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as the original for all purposes. This instrument shall not be binding on any executing party, until signed by all parties.

Dated this 30th day of May, 2007, to be effective, however, as of the date the well drilled under the Lease (1997) later a gas well reached pay out status.

BOLD ENERGY, LP

OXY USA WTP LIMITED PARTNERSHIP
by OXY USA INC., General Partner


Joseph Castell
President


William D. Blaine, Secretary to Board

MONARCH ENERGY, L.P.

Leland A. Hodges
President

Thomas M. Kiser

Carlynn Kiser-Pugh

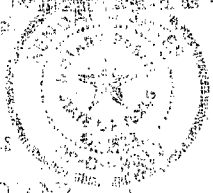
Herman F. Boles
Herman F. Boles

Norma Jose Boles
Norma Jose Boles

STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 17th day of March, 2007, by Herman F. Boles, as President, on behalf of BOLE ENERGY, L.P., a Limited Partnership.

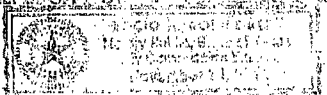


Vendel L. Smith
Notary Public

STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 9th day of March, 2007, by Willie E. Johnson, as Attorney in Fact, on behalf of OKY USA, INC., as the Partner of OKY USA, LIMITED PARTNERSHIP, a Delaware Limited Partnership.



Doris A. Denny
Notary Public

STATE OF TEXAS

COUNTY OF

The foregoing instrument was acknowledged before me this 9th day of March, 2007, by Willie E. Johnson, as the Partner of OKY USA, INC., as the Partner of OKY USA, LIMITED PARTNERSHIP, a Delaware Limited Partnership.

Notary Public

STATE OF TEXAS

COUNTY OF

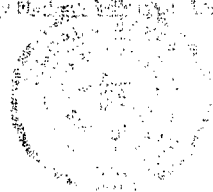
The foregoing instrument was acknowledged before me this 9th day of March, 2007, by Willie E. Johnson, as the Partner of OKY USA, INC., as the Partner of OKY USA, LIMITED PARTNERSHIP, a Delaware Limited Partnership.

Notary Public

STATE OF TEXAS

COUNTY OF

The foregoing instrument was acknowledged before me this 9th day of March, 2007, by Willie E. Johnson, as the Partner of OKY USA, INC., as the Partner of OKY USA, LIMITED PARTNERSHIP, a Delaware Limited Partnership.



Vendel L. Smith
Notary Public

05/09/2007 WED 10:40 FAX 05-1171 BOLD BOATY

005/009

MAY 09 07 09:30

05-1171 BOLD BOATY

917 977 987

p.4

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Bold Energy, LP
415 W. Wall, Suite 500
Midland, Texas 79701

Main: 432-685-1100
 Fax: 432-685-1104

Send One Side Return Receipt

May 11, 2007

Oxy USA WTP L.P.
6 Desta Drive, Suite 600
Midland, Texas 79705

Attn: Mr. David R. Evans

Subject: Well Proposal Oxy Checker State #2 - 1929' FNL & 660' FNL
 Section 8, T19S, R29E
 Turkey Track (Canyon), Eddy County, NM

Gentlemen:

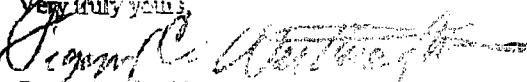
Pursuant to Article VI.B.1 of the Joint Operating Agreement dated March 1, 1997, Bold proposes the drilling of a 10,100' Canyon/Wolfcamp test to be located on the lands described above. The cost estimate is for a dual completion in the Canyon and Wolfcamp formations which will be included in the initial production. Bold requests your participation in the proposed well by either joining in the cost of drilling and gaining the benefits from production or going non-consent. The current non-consent penalty under the JOA is 10-14/30000. Should Oxy agree to allow Bold to drill this well, we will work rapidly to commence operations and drill and complete the proposed well.

An Authorization for Expenditure is attached for a completed well cost of \$2,473,575.

If you elect to participate, please sign this letter and AFE with your election shown. Please fax your election to me at 432-685-1104 and return an original in the mail.

Once you have had an opportunity to review, please do not hesitate to call me at 432-685-1104. If any questions regarding this proposal.

Very truly yours,


 Peggy C. Worthington
 VP of Land

 IN BLANK) AGREED TO PARTICIPATE OR GO NON-CONSENT (PLEASE WRITE RESPONSE

Oxy USA WTP L.P.

By: _____

Date: _____

EXHIBIT 

