

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 YATES PETROLEUM
COMPANY FOR AN ORDER (1) DIRECTING
PRIDE ENERGY COMPANY TO REIMBURSE
YATES FOR THE WELL COSTS INCURRED BY
YATES IN ITS ATTEMPT TO RE-ENTER THE STATE
"X" WELL NO.1 LOCATED IN SECTION 12, TOWNSHIP
12 SOUTH, RANGE 34 EAST, NMPM, PRIOR TO THE
TIME PRIDE ASSUMED OPERATIONS OF THE WELL,
AND (2) DIRECTING PRIDE ENERGY COMPANY TO
ACCOUNT FOR AND PAY ALL SUMS IT IS NOW
IMPROPERLY HOLDING PURSUANT TO EXPIRED
ORDERS OF THE DIVISION AND COMMISSION, AND (3)
REQUIRING PRIDE ENERGY COMPANY TO PLUG AND
ABANDON THE STATE "X" WELL NO. 1, LEA COUNTY,
NEW MEXICO.

CASE NO. 13531 (De Novo)
ORDER NO. R-12547-A

ORDER OF THE COMMISSION

THIS MATTER, having come before the New Mexico Oil Conservation Commission (Commission) on August 16, 2007 at Santa Fe, New Mexico, upon Pride Energy Company's request for de novo hearing on Yates Petroleum Company's application, and the Commission, having carefully considered the evidence and other materials the parties submitted, now, on this 13th day of September 2007,

FINDS THAT:

1. Yates Petroleum Corporation (Yates) is the lessee under State of New Mexico Oil and Gas Leases No. V0-5855, which covers the N/2 and SE/4 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico.

2. Pride Energy Company (Pride) is the lessee of the SW/4 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico pursuant to State of New Mexico Oil and Gas Lease No. V0-6256.

3. On May 25, 2001, Yates obtained an Application for Permit to Drill (APD) to re-enter the State "X" Well No. 1 (API No. 30-025-01838) located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico.

4. The Division extended the APD in 2002, but canceled the APD on May 30, 2003.

5. On July 16, 2003, the Division approved an APD covering the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico for Pride.

6. Yates filed a new APD covering the N/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico in August 2003. On receipt of the new APD, the Division canceled Pride's APD and approved the Yates APD for the State "X" Well No. 1.

7. On September 5, 2003, Yates moved a rig onto the well location and commenced re-working activities on the well.

8. Thereafter, Pride filed an application seeking, among other matters, an order rescinding Yates' APD, pooling the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico and naming Pride operator of the State "X" Well No. 1.

9. On October 7, 2003, Yates voluntarily ceased operations on the State "X" Well No. 1 pending a decision on Pride's application by the Oil Conservation Division.

10. The Oil Conservation Division granted Pride's application in Order No. R-12108. Order No. R-12108 pooled the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico and designated Pride operator of the State "X" Well No. 1 and the spacing unit. The Commission affirmed Order No. R-12108 in Order No. R-12108-A.

11. Pursuant to the provision of the pooling order, R-12108 and R-12108-A, Yates paid its share of Pride's authorization for expenditure (AFE) costs and thereby became a participating pooled working interest owner in the State "X" Well No. 1.

12. Order No. R-12108-A in Finding 45 also required Pride to reimburse Yates for reasonable costs Yates incurred in connection with its re-entry operations, pursuant to a Division-approved APD, on the State "X" Well No. 1.

13. Yates sought a rehearing on the question of what costs were to be reimbursed. Following a rehearing held on November 10, 2004, the Commission entered Order No. R-12108-C, dated December 9, 2004, which authorized the reimbursement of "actual well costs incurred by Yates in conducting re-entry operations on the subject well after August 25, 2003 and prior to October 7, 2004, the time when Yates voluntarily ceased operations on the subject well". Order No. R-12108-C, Order Paragraph 9.

14. Pride commenced re-entry operations on the State "X" Well No. 1 on February 15, 2005.

15. The parties disagreed on the costs that Pride was to reimburse Yates. Yates subsequently filed the application in this case seeking an order directing Pride to reimburse these costs. On May 8, 2006, the Oil Conservation Division entered its order in this case directing Pride to reimburse costs and overpayments made pursuant to Pride's AFE for its first attempt to recomplete this well. Order No. R-12547, Order Paragraph 3.

16. Pride reimbursed these costs to Yates and filed its application for hearing *de novo* in this case.

17. Pride advised that it only objects to Division Order No. R-12547 where it requires Pride to reimburse costs Yates incurred that Pride had to duplicate and the Oil Conservation Division's denial of its request for attorney fees. In addition, Pride objects to paying 100% of the costs Yates incurred instead of its proportionate share of 50%.

18. There is no dispute that some of the costs Yates incurred while conducting operations on the State "X" Well No. 1 were incurred a second time by Pride when it became operator.

19. Pride does not assert that the amount of the charges are unreasonable, it just objects to paying certain costs incurred in the re-entry attempts twice - once by paying the costs as the operator and the second by reimbursing its proportionate share of re-entry costs Yates incurred prior to Pride filing a pooling application and being designated operator.

20. However, if Pride did not have to reimburse Yates for its share of the disputed costs, which are \$25,442.21, Yates would have to solely bear the costs Yates incurred while conducting the re-entry operations on the State "X" Well No. 1 and then pay half those costs a second time when it paid its share of Pride's AFE cost pursuant to Commission pooling orders.

21. It is reasonable for Pride, the party who sought the change of operator, to bear its proportionate share of the costs Yates incurred in its re-entry operations.

22. The \$25,442.21 Yates incurred in the re-entry operation was a just and reasonable cost incurred in developing this re-entry even though Pride had to pay those costs a second time when it requested and was granted designation as operator.

23. Yates' reasonable well costs are \$84,391.58, which includes the \$25,442.21 Yates incurred in the re-entry operation. As such each party shall bear its proportionate share of those costs as ordered in Order No. R-12547.

24. The Commission finds for Yates in this matter; it also finds that there is no precedent or authority for the allocation of attorney fees. Each party shall bear its own attorney fees.

IT IS THEREFORE ORDERED THAT:

Yates' costs of \$84,391.58, including the \$25,442.21 Yates incurred in re-entering the State "X" Well No. 1 prior to Pride's designation as operator, are reasonable costs and each party shall bear its proportionate share of those costs as ordered in Order No. R-12547. Pride's request for attorney fees is denied and each party shall bear its own attorney fees.

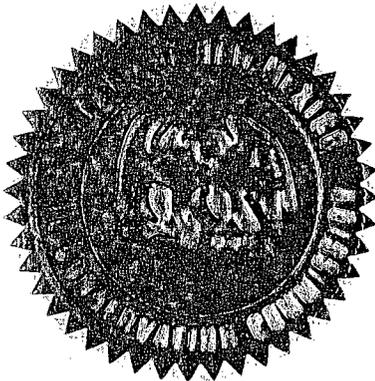
DONE at Santa Fe, New Mexico on the 13th of September 2007.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JAMI BAILEY, CPG, Member

WILLIAM OLSON, Member


MARK E. FESMIRE, P. E., Chair



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