

Bank of America



Bank of America Private Bank
Oil & Gas Management
PO Box 830308
Dallas, TX 75283-0308

Fax 214.209.2924

November 2, 1999

Oil Conservation Division
State of New Mexico
2040 S. Pacheco
Santa Fe, NM 87505

RE: EGL Resources, Inc. Case #12278

Gentlemen,

Please be advised that this office has approved the replacement of the operator of the Arco State Lease in Lea County. Pride Petroleum has not evidenced acceptable practices with Revenue distributions from the lease nor has the joint interest account been acceptably managed. Three trusts of which Bank of America, N.A. is Trustee, owns a substantial portion of the working interest in this lease. Thank you for your consideration in these regards.

Very truly yours,

H. Greg Holcomb
Senior Vice President and
Mineral Property Manager

GH/

BEFORE EXAMINER SIGNATURE	
OIL CONSERVATION DIVISION	
EGL	EXHIBIT NO. 5
CASE NO. _____	

November 2, 1999

State of New Mexico
Oil Conservation Division
2040 South Pachecho Street
Santa Fe, NM 87505

Re: Case No. 12278
ARCO State #1 Well (1339)
Lea County, New Mexico



The
GRAYROCK
Corporation

11910 Greenville Avenue
Suite 302
Dallas, Texas 75243
TEL (972) 664-0664
FAX: (972) 664-0333

Gentlemen:

The Grayrock Corporation is a working interest owner in the captioned well and strongly supports the removal of Pride Energy Company as operator. Our vote for removal is based on Pride Energy's failure or refusal to operate the well in a prudent manner under the terms of that certain joint operating agreement dated December 8, 1980 that covers the subject property.

Pride acquired the interests of the previous operator and assumed operations of the ARCO State #1 well on June 1, 1998. Since that time, Pride has failed to timely (a) remit revenue payments to the working interest owners entitled to receive same and (b) bill the working interest owners in compliance with the terms of the operating agreement.

In August 1999, Pride began distributing oil revenues for the period of January 1999 through August 1999 and gas revenues for the period of December 1998 through July 1999, along with saltwater disposal credits for the period of June 1998 through July 1999. Billings have now been received through August 1999. Please note that these actions were initiated about the same time that the working interest owners unanimously voted to remove Pride as operator.

In light of the foregoing, The Grayrock Corporation respectfully requests that you uphold the removal of Pride Energy Company as operator and the approval of E.G.L. Resources, Inc. as successor operator as reflected on Form C-1 approved by the Oil Conservation Division on October 5, 1999 (copy attached).

Should you have questions, feel free to contact me at 972-664-0664, ext. 236.

Very truly yours,

THE GRAYROCK CORPORATION

John S. Nichols
President

Enclosure

District I
PO Box 1988, Hobbs, NM 88241-1988
District II
PO Drawer 8D, Aramis, NM 88211-0719
District III
1008 Elia Street S.E., Alamogordo, NM 87618
District IV
PO Box 1072, Santa Fe, NM 87504-1072

State of New Mexico
Energy, Agriculture & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C
Revised February 10, 1999

Instructions on
Submit to Appropriate District Office
5 C

☐ AMENDED REPORT

REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT

Operator name and Address E.G.L. Resources, Inc. P.O. Box 10686 Midland, Texas 79702		OCRID Number 173413	
APN Number 30 - 0 25 27321		Pool Name Vacuum, South (Wolfcamp)	
Property Code 24935		Pool Code 62360	
Acres State		Well Number 1	

II. Surface Location

UL or lot no.	Section	Township	Range	Lot Idg	Feet from the	North/South Line	Feet from the	East/West Line	County
P	16	18 S	35 E	P	330'	South	900'	East	Lea

Bottom Hole Location

UL or lot no.	Section	Township	Range	Lot Idg	Feet from the	North/South Line	Feet from the	East/West Line	County
S	P								

III. Oil and Gas Transporters

Transporter OGRID	Transporter Name and Address	FOD	O/G	FOD ULSTR Location and Description
021778	SINCO	2450210	O	
9171	GEM Gas Corporation	2450230	G	

IV. Produced Water

FOD	FOD ULSTR Location and Description
-----	------------------------------------

V. Well Completion Data

Spud Date	Ready Date	TD	PSTD	Perforation
2450250				
Hole Size	Casing & Tubing Size	Depth Set	Backs Cement	

VI. Well Test Data

Date New OG	Gas Delivery Date	Test Date	Test Length	Test Pressure	Gas Flow
Choke Size	OG	Water	Gas	AOF	Test Method

I hereby verify that the rules of the Oil Conservation Division have been accepted and that the information given above is true and complete to the best of my knowledge and belief.

Signature: *un-dug*
Printed Name: *W. Wesley Perry*
Title: *President*
Date: *10.5.99*

OIL CONSERVATION DIVISION

Approved By: *Drig. Signed By*
Title: *Paul Hartz*
Approval Date: *OCT 05 1999*
Geologist

If this is a change of operator or in the OCRIID number and name of the previous operator.

PRUDE Energy Company

Previous Operator Signature

Printed Name

Title

LoIn Energy Corporation

111 E. Travis
P.O. Box 309
LaGrange, Texas 78945

Phone 409-968-3495
Fax 409-968-6021

November 2, 1999

State of New Mexico
Energy, Minerals and Natural Resources Dept.
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: **Arco State # 1 (the "Well")**
Arco State # 2
Sec. 16- 18S-35E
Lea County, NM
Case No. 12278

Gentlemen:

On August 16, 1999, LoIn Energy Corporation ("LoIn") executed a Ballot for Removal of Operator and Election of New Operator (the "Ballot"). The Ballot was sent to LoIn by E.G.L. Resources, Inc. ("EGL") which called for the removal of the Operator, Pride Energy Company ("Pride") and for EGL to be the successor operator.

The Ballot was sent subject to that certain Operating Agreement dated February 20, 1980, by and between Cal- Mon Oil Company, as Operator and Atlantic Richfield, as non-operator, covering the SE/4, S/2SW4, NE/4SW4, Section 16, T-18-S, R-35-E, Lea County, New Mexico. LoIn agrees that this is the Operating Agreement that governs the Well.

Pride has violated the payment and accounting procedures pursuant to the Operating Agreement by failing to pay revenues and invoices for the joint account. Pride has also not furnished LoIn with Joint Interest Billings in accordance with the Operating Agreement. LoIn also believes that the Well can be operated more economically by EGL as evidenced by their willingness to reduce the overhead charge.

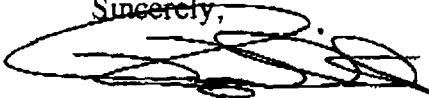
LoIn and the other working interest owners have voted to remove Pride as Operator, subject to Article V. Section B., Resignation or Removal of Operator and Selection of Successor, pursuant to the Operating Agreement.

Pride has been removed as Operator and has not contested or responded to LoIn regarding the Ballot and has not offered any explanation for not disbursing revenues or joint interest billings timely.

LoIn hereby respectfully requests that the Oil Conservation Division uphold the working interests owners decision to remove Pride as Operator and recognize EGL as successor operator.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Randy White", with a large, loopy flourish extending from the end of the signature.

Randy White

NIELSON & Associates, Inc.

P.O. Box 2850 Cody, Wyoming 82414

(307) 587-2445 FAX (307) 527-4943

November 1, 1999

The Oil Conservation Division
2040 So. Pacheco Street
Santa Fe, NM 87505

RE: Case #12278
Arco State #1 & #2
Lea County, NM

Ladies & Gentlemen:

Nielson & Associates, as a working interest owner in the above wells, recently voted in favor of EGL Resources, Inc. as new operator of the wells. The previous operator, Pride Energy Company, was not administratively complying with the terms of the Joint Operating Agreement to our satisfaction. Specifically, Pride paid both oil & gas revenues from the property on an extremely delayed schedule, often accumulating three or more months of production before disbursement. We expect to receive revenues within 30 to 60 days from the end of the production month, and preferably from the purchaser directly. The following is a synopsis of our actual revenues received under Pride's operating:


<u>Production Month</u>	<u>Check Date</u>	<u>Received in Mail Date</u>	<u>Total check Amount</u>
6/98,7/98,8/98			
9/98, 10/98	12/31/98	03/16/99	\$972.67
11/98	01/18/99	02/08/99	\$171.43
1/99,2/99,3/99	05/27/99	06/07/99	\$903.13
4/99,5/99,6/99	08/05/99	08/23/99	\$1127.06
12/98,1/99,2/99	05/05/99	09/30/99	\$116.49
7/99	9/10/99	10/07/99	\$383.08

On the joint interest billing side we believe that Pride has over charged for monthly administrative overhead based on the original JOA rate and escalated per COPAS. We never received a response to our letter asking for their overhead calculation. There were also several thousands of dollars in SWD credits that were consistently missing from the JIBs from June 1998 through June 1999.

We finally received these credits on a Pride Energy check dated 9/28/99. There were several months in which we did not receive a JIB at all, and had to request copies of such after seeing the charges on our accounts receivable statement several months later.

It is for these reasons that Nielson & Associates seeks a change in operator of the wells in hopes that revenues will be paid and expenses accounted for on a more consistent and timely basis.

Sincerely,



Amy C. Brosious
Controller

DON P. OLIVE
200 N. LORAIN, SUITE 1270
MIDLAND, TX 79705
(915) 683-8873

November 1, 1999

Oil Conservation Division
2040 South Pacheco Street
Santa Fe, NM 87505

RE: Case #12278

Dear Examiner:

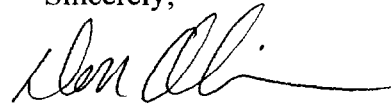
In response to case #12278 which concerns change of operations for the Arco State #1 in Lea County, New Mexico, the forthcoming documentation is a synopsis of my experience with Pride Energy Company ("Pride") as operator and consequently my reason for signing the ballot for change of operator.

- Pride took over operations effective 6/1/98. They changed purchasers immediately from Koch to Equiva. Equiva did not issue division orders and it was determined later that my interest in the well was represented to Equiva as being owned by Pride. Pride did issue division orders effective 6/1/98, but I received no oil or gas revenue until 12/31/98. Pride indicated they would net my revenue check and even thought the net revenue number was positive after operating expenses, no revenue was distributed. "Netting" without prior consent is not industry standard.
- In January 1999, letters were issued by Amarco Oil Corp. ("Amarco") to purchasers of oil and gas on the Arco State #1 documenting mine and others ownership in the well and our request to be distributed to individually. The gas purchaser did not comply but the oil purchaser did distribute for 3 months and then my distribution was stopped, assumably by Pride.
- Although an attempt was made in September of 1999 by Pride to update and reconcile my interest, there remains 3 months of gas revenue and one month of oil revenue not accounted for, as well as negative "corrections" to these months of non revenue that resulted in deductions from positive cash flow.
- Many of the working interest owners in the Arco State #1, including myself, are also working interest owners in the Arco State water disposal well operated by Maralo Inc., ("Maralo"). This water disposal well has a positive cash flow which is distributed by Maralo. Pride has received all cash flow for my interest but none has been distributed to me. I am charged for water disposal into this well from the Arco State #1.

- Pride charges interest on what they consider outstanding joint interest bills but does not pay interest on revenue they are holding.
- In addition to the \$848.30 monthly COPAS allowed overhead charge, which should be more than adequate to cover internal expense to operate one oil well, Pride has added a \$75.00 monthly "Supervision" charge and a \$20.00 monthly "Communication" charge, which are not specified in the Joint Operating Agreement. Supervision and communication are essentially what the COPAS overhead charges are designed for and intended to cover.
- In July 1999, Pride charged the working interest owners for a joint interest bill that Pride owed to the previous operator for it's own working interest.

When presented with the opportunity to elect a new operator for the Arco State #1, I quite willingly signed the ballot in hopes that we could return this property to a more profitable and less frustrating venture.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Olive", with a long horizontal flourish extending to the right.

Don P. Olive

POLARIS PRODUCTION CORP.
OIL & GAS PRODUCERS

415 WEST WALL STREET, SUITE 2010 1124
MIDLAND, TEXAS 79702

November 12, 1999

DAVIS PAYNE
PRESIDENT

TELEPHONE 915-684-8248
REPLY TO: P. O. BOX 1749

New Mexico Oil Conservation Division of
New Mexico Energy, Minerals and Natural Resources Department
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case No. 12278.
(Pride Energy, Arco-State Lse.
Lea County, New Mexico)

Dear Sirs:

As a Joint Interest Working Interest Owner in the Referenced Lease, this is to advise you that we support E.G.L. Resources, Inc. of P. O. Box 371, Midland, Texas, to be Operator of this Lease.

Pride Energy Company assumed operation of this Lease after acquiring the interest of Swift Energy and without the approval of the other joint working interest owners. A ballot was never circulated.

Pride has not timely made disbursement of proceeds from oil sales, and their accounting of other matters has not been complete. Further, they charged for "produced water" disposal when the joint operation owned a disposal well. And their "overhead" charge was approximately double that others charge for similar operations.

Therefore, we would appreciate the approval of the Form C-104 naming E.G.L. Resources, Inc. as Operator of this property.

Thank you for your consideration.

Yours very truly,

POLARIS PRODUCTION CORP.

Davis Payne

PREMIER OPERATING COMPANY

BOX 30804 TULSA, OK 74153

November 1, 1999

New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

RE: case 12278- Arco State #1

Dear Sir or Madam:

Premier Operating Company voted in favor of EGL Resources as operator of the Arco State #1 well located in T-18S, R-35E, Section 16 for the following reasons:

1. Pride Energy is not considered a prudent operator in our opinion,
2. Revenue was not dispersed in a timely manner, and
3. JIB's were not sent as per the "JOA".

Premier recently purchased our interest in the well. The previous owner supplied the information concerning revenue and JIB's to us.

Sincerely,



Virgil Landreth

Starck Family, LTD.
P. O. Box 10886
Midland, TX 79702

November 2, 1999

Oil Conservation Division
2040 South Pacheco St.
Santa Fe, NM 87505

RE: Case # 12278 Arco State #1
Section 16 T18S R35E
Lea County, NM

Dear Sir or Madam:

Please be advised that Starck Family, LTD. voted for E.G.L. Resources, Inc. for the following reasons in order of importance.

Pride failed to distribute oil and gas revenue in a timely manner for both the Arco State #1 and Arco State #2 SWD.

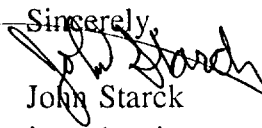
When questioned about the revenue distribution problems never could explain why they were not distributing revenue and repeatedly did not act on promises to rectify the problems. Pride even claimed no knowledge of substantial 1998 revenue that was paid to them by Maralo on the Arco State SWD for disbursement to the remaining SWD well owners.

Pride billed their share of prior Joint interest bills owed to Rhombus Energy Company for prior periods back to the joint interest. This effectively had the non operated owners paying bills that were entirely owed by Pride Energy which is to me an unforgivable oversight.

Pride is charging 75\$/mo Supervision and 20\$/mo telephone expense to the Arco State Lease. I have over 100 interests with over 40 other operators and am not treated this way by any other operator. The JOA provides for operators to allocate a portion of district or field office expenses to individual wells but Pride Energy has no such office and is clearly taking liberty by charging arbitrary phantom expenses to the joint account.

We believe that each of the above listed reasons by themselves is reason enough to be deemed and imprudent operator and as such voted out by the non operators as is provided for by the JOA. Cumulatively Pride's actions and or inactions are in our opinion beyond mere oversights and constitute and fraudulent operation and we urge the Commission to uphold their previous decision to approve the wishes of the former Non Operators to have EGL Resources, Inc. elected as operator of the Arco State #1 lease.

Sincerely,


John Starck

President