

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF COG OPERATING LLC
FOR COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION,
LEA COUNTY, NEW MEXICO.

Case No. 13,376

STATEMENT OF MICHAEL M. GRAY

Michael M. Gray, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters set forth herein.

2. Pursuant to Division Rule 1207.A.(1)(b), the following information is submitted in support of the application filed herein:

(a) No opposition is expected because the interest owners have been contacted repeatedly regarding the Jade Viper 33 Fed. Com. Well No. 1, but have never responded to our communications.

(b) A map outlining the spacing unit being pooled, and marking the location of the subject well, is attached hereto as Exhibit A. Applicant seeks to dedicate the N $\frac{1}{4}$ of Section 33, Township 19 South, Range 33 East, N.M.P.M. to the Jade Viper 33 Fed. Com. Well No. 1 as to gas-bearing formations developed on 320 acre spacing, including the Undesignated Gem-Morrow Gas Pool.

(c) The parties being pooled, their working interests in the well unit, and their last known addresses, are as follows:

Moore & Shelton Company (0.364920%)
P.O. Box 3070
Galveston, Texas 77552

Mary T. Ard, Trustee (0.292214%)
Apartment 313
222 West Fourth Street
Fort Worth, Texas 76102

The above names and addresses were determined by a diligent search of all public records in Lea County, New Mexico.

(d) Copies of the letters mailed to the interest owners requesting them to participate in the well are attached hereto as Exhibit B. COG Operating LLC has made a good faith effort to obtain the voluntary joinder of the interest owners in the well.

EXHIBIT NUMBER |
CASE NUMBER
OIL CONSERVATION DIVISION

(e) Pursuant to Division rules, applicant requests that a 200% risk charge be assessed against the non-consenting interest owners if they elect not to participate in the well.

(f) A copy of the Authority for Expenditure for the well is attached hereto as part of Exhibit B. The well costs are fair and reasonable, and are comparable to those of other wells of this depth drilled in this area of Lea County.

(g) Overhead charges of \$6500/month for a drilling well, and \$650/month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by applicant and other operators in this area for wells of this depth. Applicant also requests a provision adjusting those rates as provided in the COPAS accounting procedure.

3. The well unit is in the oil-potash area of Southeast New Mexico, and the federal Bureau of Land Management (the "BLM") restricts well locations in this area. The unorthodox surface location was the location the BLM allowed for the proposed well. The well will be directionally drilled to an orthodox bottomhole location.

VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

Michael M. Gray, being duly sworn upon his oath, deposes and states that: He is a landman for COG Operating LLC; he is authorized to make this verification on its behalf; he has read the foregoing statement and knows the contents thereof; and the same are true and correct to the best of his knowledge, information, and belief.



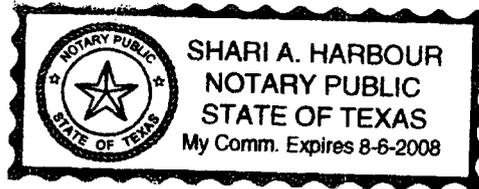
Michael M. Gray

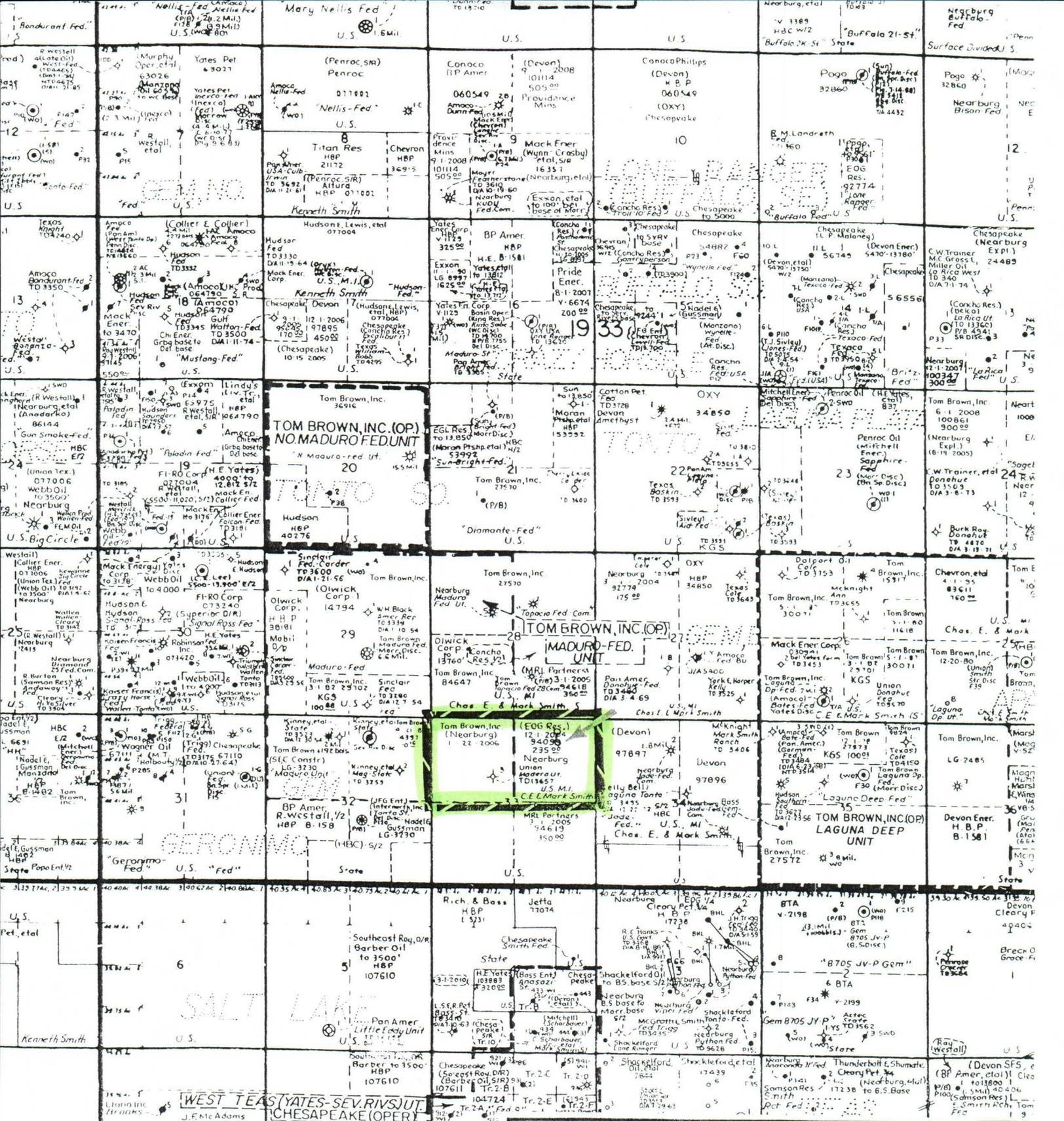
Subscribed and sworn to before me this 15th day of December, 2004 by Michael M. Gray.



Notary Public

My Commission Expires:
8-6-08





OCD Case No. 13376
COG Operating LLC
Jade Viper "33" Federal Com # 1
N/2 Section 33, T-19-S, R-33-E, NMPM
SHL 1650' FEL, 495' FNL
BHL 1650' FEL, 760' FNL
Lea County, New Mexico

A

COG OPERATING LLC

Fasken Center, Tower II
550 W. Texas Ave., Ste. 1300
Midland, Texas 79701
(432) 683-7443
FAX 683-7441

November 3, 2004

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Working Interest Owners
(See Enclosed List)

Re: Jade Viper "33" Federal Com #1 Well
T-19-S, R-33-E
Section 33: N/2
Surface Hole Location 495' FNL, 1,650' FEL
Bottom Hole Location 760' FNL, 1,650' FEL
Lea County, New Mexico

Dear Working Interest Owner:

By letter dated September 17, 2004, COG Operating LLC proposed the drilling of the Union Maduro Federal Com 3-Y well to be drilled in a unit consisting of the N/2 of Section 33-19S-33E. The well was proposed as a re-entry of the Union Oil Company of California Maduro Unit No. 3 well located 1,880' FNL and 1,980' FWL of Section 33 to be kicked off as a directional well to a bottom hole location 760' FNL and 1,650' FEL of Section 33 to test the Morrow formation at an approximate true vertical depth of 13,700'.

COG Operating LLC withdraws that proposal and now proposes to drill the Jade Viper "33" Federal Com #1 Well to test the identical bottom hole location from a surface hole location of 495' FNL and 1,650' FEL of Section 33. An Authority For Expenditure estimating the cost of the Jade Viper "33" Federal Com #1 Well is enclosed. The re-proposal of this well at the new surface hole location is necessitated for the following reasons:

1. Portions of Section 33, 19-S, 33-E contain measured potash reserves which are protected by the Bureau of Land Management.
2. The old well bore at the surface location 1,880' FNL and 1,980' FWL are within the known potash reserves outlined by the BLM.

B

November 3, 2004
Jade Viper "33" Federal Com #1 Well
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3. We do not expect the BLM to approve our application to re-enter the Union Oil Company of California Maduro Unit No. 3 Well to drill our directional hole to the bottom hole location.
4. We do expect the BLM to approve our application to drill the Jade Viper "33" Federal Com #1 Well as a new hole from the captioned surface location to the captioned bottom hole location.
5. Although the estimated costs for the Jade Viper "33" Federal Com #1 Well are approximately 15% higher than our revised estimate of the cost to re-enter and directionally drill the Maduro Well, the new location presents significantly less mechanical risk than the re-entry and long directional hole required in our initial well proposal.

Also enclosed for your review and execution is an Operating Agreement governing the drilling of the well and covering the N/2 of Section 33-19S-33E as the communitized contract area.

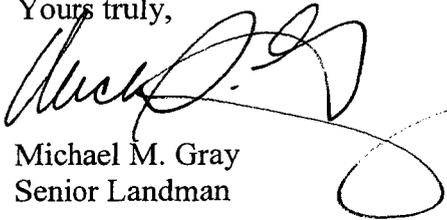
Most of the Working Interest Owners have already executed the Authority For Expenditure for the original well proposal. We request that you review the enclosed Authority For Expenditure for the Jade Viper "33" Federal Com #1 Well and the enclosed Operating Agreement. If you desire to participate in the Well, please execute and return the following:

1. The AFE for the Jade Viper "33" Federal Com #1 Well.
2. An executed signature page for the enclosed Operating Agreement dated October 18, 2004.
3. An executed and acknowledged signature page for Exhibit H, Memorandum of Operating Agreement.
4. If you have not completed the enclosed well information request, or have not provided us with your own well information requirements, please complete the enclosed well information requirement form. If you have already done so or furnished us with well requirements for the original well proposal, we will utilize those requirements for the Jade Viper "33" Federal Com #1 Well.

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Jade Viper "33" Federal Com #1 Well
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If you have any questions please call me at 432-685-4349 or e-mail me at
mgray@conchoresources.com.

Yours truly,

A handwritten signature in black ink, appearing to read "Michael M. Gray", with a large, stylized flourish extending to the right.

Michael M. Gray
Senior Landman

MMG:sh

Enclosures

Jade Viper "33" Federal Com #1 Well

WI OWNER

COG Operating LLC
550 W. Texas Ave., Suite 1300
Midland, TX 79701

Nearburg Exploration Company, L. L. C.
3300 N. A Street
Building 2, Ste 120
Midland, TX 79705

Mary T. Ard, Trustee of the Edward R. Hudson Trust
222 W. 4th Street
Apt. 313
Fort Worth, TX 76102

Edward R. Hudson, Jr., Trustee of the Edward R. Hudson, Jr.
Trust Nos. 1, 2, & 3
616 Texas Street
Fort Worth, TX 76102

Francis Hill Hudson, Trustee of Lindy's Living Trust
6300 Ridglea Place
Fort Worth, TX 76116

Delmar Hudson Lewis, Trustee of the Delmar Hudson Lewis Living Trust
6300 Ridglea Place
Fort Worth, TX 76116

Moore & Shelton Company, Ltd
Attn: Don Moore
P. O. Box 3070
Galveston, TX 77552

S&C Construction Company
P. O. Box 940443
Houston, TX 77094

Armstrong Energy Company
P. O. Box 1973
Roswell, NM 88202

Scolado, LLC
P. O. Box 660
Artesia, NM 88211

Guy's Oil & Gas, Ltd. Co.
P. O. Box 5115
Hobbs, NM 88241

Harvey E. Yates Company
P. O. Box 1933
Roswell, NM 88202

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: Jade Viper "33" Federal Com #1	PROSPECT NAME: Jade Viper
LOCATION: Sec33-T19S-R33E	COUNTY & STATE: Lea
SHL: 495' FNL & 1650' FEL	OBJECTIVE: 13700' TVD (13,800' MD) Morrow Test
BHL: 760' FNL & 1650' FEL	

<u>INTANGIBLE COSTS</u>	<u>BCP</u>	<u>ACP</u>	<u>TOTAL</u>
Title/Curative/Permit			0
Insurance	44,000		44,000
Damages/Right of Way	5,000		5,000
Survey/Stake Location	2,500		2,500
Location/Pits/Road Expense	40,000		40,000
Drilling / Completion Overhead	5,000	1,000	6,000
Turnkey Contract			0
Footage Contract			0
Daywork Contract 45:2 @ \$10000/day	450,000	20,000	470,000
Directional Drilling Services	40,000		40,000
Fuel & Power	45,000	2,000	47,000
Water	28,000		28,000
Bits	72,000	1,000	73,000
Mud & Chemicals	55,000		55,000
Drill Stem Test	5,000		5,000
Coring & Analysis			0
Cement Surface	10,000		10,000
Cement Intermediate	17,000		17,000
Cement Production		22,000	22,000
Cement Squeeze & Other			0
Float Equipment & Centralizers	6,000	6,000	12,000
Casing Crews & Equipment	4,000	6,000	10,000
Fishing Tools & Service			0
Geologic/Engineering	2,000	2,000	4,000
Contract Labor	5,000	10,000	15,000
Company Supervision	2,000	2,000	4,000
Contract Supervision	36,000	11,000	47,000
Testing Casing/Tubing	3,000	4,000	7,000
Mud Logging Unit	18,000		18,000
Logging	25,000	4,000	29,000
Perforating/Wireline Services		8,000	8,000
Stimulation/Treating		110,000	110,000
Completion Unit		30,000	30,000
Swabbing Unit			0
Rentals-Surface	20,000	10,000	30,000
Rentals-Subsurface	18,000	5,000	23,000
Trucking/Forklift/Rig Mobilization	40,000	4,000	44,000
Welding Services	2,000	1,000	3,000
Water Disposal			0
Plug to Abandon			0
Seismic Analysis			0
Miscellaneous	1,000	1,000	2,000
Contingency	100,050	26,000	126,050
TOTAL INTANGIBLES	1,100,550	286,000	1,386,550
TANGIBLE COSTS			
Surface Casing 1400' 13 3/8"	42,000		42,000
Intermediate Casing 5100' 8 5/8"	100,200		100,200
Production Casing/Liner 13,800' 5 1/2"		172,500	172,500
Tubing 13,000' 2 7/8"		73,200	73,200
Wellhead Equipment	9,000	14,000	23,000
Pumping Unit			0
Prime Mover			0
Rods			0
Pumps			0
Tanks		12,000	12,000
Flowlines		2,000	2,000
Heater Treater/Separator		18,000	18,000
Electrical System			0
Packers/Anchors/Hangers		8,000	8,000
Couplings/Fittings/Valves		10,000	10,000
Gas Compressors/Meters		3,000	3,000
Dehydrator			0
Injection Plant/CO2 Equipment			0
Miscellaneous		1,000	1,000
Contingency	15,120	31,400	46,520
TOTAL TANGIBLES	166,320	345,100	511,420
TOTAL WELL COSTS	1,266,870	631,100	1,897,970

COG Operating LLC

By: Erick W. Nelson

Date Prepared: 10/28/04

We approve:
0.292214 % Working Interest

Company: Mary T. Ard, Trustee of the Edward R. Hudson Trust
By: _____

Printed Name: _____
Title: _____
Date: _____

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

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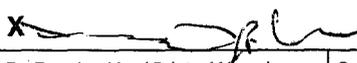
Printed Name: _____
Title: _____
Date: _____

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.

Confirmation Services	Package ID: 9171082133393121542577	E-CERTIFIED
	Destination ZIP Code: 76102	FIRST CLASS
	Recipient: <u>MARY T. ARD</u>	PBP Account #: 41592288
	Address: _____	Serial #: 2348158
		NOV 4 2004 2:49P

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<ul style="list-style-type: none"> ■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. ■ Print your name and address on the reverse so that we can return the card to you. ■ Attach this card to the back of the mailpiece, or on the front if space permits. 	<p>A. Signature <input checked="" type="checkbox"/> <u>Mary T. Ard</u> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) C. Date of Delivery <u>Mary T. Ard</u> NOV 2 2004</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes if YES, enter delivery address below: <input type="checkbox"/> No</p>
<p>1. Article Addressed to:</p> <p>Mary T. Ard, Trustee of the Edward R. Hudston Trust 222 W. 4th Street Apt. 313 Fort Worth, TX 76102</p>	<p>3. Service Type</p> <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.
<p>2. Article Number (Transfer from service label)</p>	<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>
<p>91 7108 2133 3931 2154 2577</p>	
<p>PS Form 3811, August 2001 Domestic Return Receipt 2ACPRI-03-F-1838</p>	

Confirmation Services	Package ID: 9171082133393121542614	E-CERTIFIED
	Destination ZIP Code: 77552	PRIORITY MAIL
	Recipient: <u>MOORE + SHELTON</u>	PBP Account #: 41592288
	Address: _____	Serial #: 2348156
		NOV 4 2004 2:49P

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<ul style="list-style-type: none"> ■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. ■ Print your name and address on the reverse so that we can return the card to you. ■ Attach this card to the back of the mailpiece, or on the front if space permits. 	<p>A. Signature  <input type="checkbox"/> Agent <input checked="" type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) C. Date of Delivery <u>Donald B. Moore</u> <u>11/10/04</u></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes if YES, enter delivery address below: <input type="checkbox"/> No</p>
<p>1. Article Addressed to:</p> <p style="text-align: center;">Moore & Shelton Company, Ltd. Attn: Don Moore P. O. Box 3070 Galveston, TX 77552</p>	<p>3. Service Type</p> <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.
<p>2. Article Number (Transfer from service label)</p> <p style="text-align: center;">91 7108 2133 3931 2154 2614</p>	<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>