

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARINGS CALLED BY
THE OIL CONSERVATION DIVISION FOR THE
PURPOSE OF CONSIDERING:

APPLICATION OF CIMAREX ENERGY CO. FOR
COMPULSORY POOLING, EDDY COUNTY, NEW
MEXICO.

Case No. 14,698

APPLICATION OF CIMAREX ENERGY CO. FOR
COMPULSORY POOLING, EDDY COUNTY, NEW
MEXICO.

Case No. 14,703

APPLICATION OF CIMAREX ENERGY CO. FOR
COMPULSORY POOLING, EDDY COUNTY, NEW
MEXICO.

Case No. 14,704

APPLICATION OF CIMAREX ENERGY CO. FOR
COMPULSORY POOLING, EDDY COUNTY, NEW
MEXICO.

Case No. 14,705

APPLICATION OF COG OPERATING LLC FOR A
NON-STANDARD OIL SPACING AND PRORATION
UNIT, A NON-STANDARD LOCATION, AND
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

Case No. 14,725

APPLICATION OF COG OPERATING LLC FOR A
NON-STANDARD OIL SPACING AND PRORATION
UNIT, A NON-STANDARD LOCATION, AND
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

Case No. 14,726

Order No. R-

CIMAREX'S PROPOSED ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on September 1, 2011 at 8:15 a.m. at Santa Fe, New Mexico, before Examiner Terry G. Warnell.

NOW, on this _____ day of October, 2011, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of these cases and of the subject matter.

(2) Case Nos. 14698, 146703, 14704, 14705, 14726, and 14726 were consolidated at the time of hearing for the purposes of testimony.

(3) By its applications in Case Nos. 14698, 146703, 14704, 14705, Cimarex Energy Co. ("Cimarex"), seeks orders pooling all mineral interests from the surface to the base of the Glorieta-Yeso formation underlying, respectively, (i) the SE/4SE/4, (ii) the NW/4SE/4, (iii) the NE/4SE/4, and (iv) the SW/4SE/4, of Section 6, Township 19 South, Range 26 East, NMPM, Eddy County, New Mexico, to form standard 40-acre oil spacing and proration units for all pools or formations developed on 40-acre spacing within that vertical extent. The units will be dedicated initially to four vertical wells.

(4) By its competing applications in Case Nos. 14725 and 14726, COG Operating LLC ("COG"), seeks orders pooling all mineral interests in the Glorieta-Yeso formation underlying, respectively, (i) the W/2E/2, and (ii) the E/2E/2, of Section 6, Township 19 South, Range 26 East, NMPM, Eddy County, New Mexico, to form non-standard 160-acre oil spacing and proration units for all pools or formations developed on 40-acre spacing within that vertical extent. The units will be dedicated initially to two horizontal wells.

(5) Due to the factual relationship between the competing cases, one order should be entered as to all cases.

(6) All parties appeared at the hearing and presented testimony and supporting evidence. Cimarex presented evidence supporting its applications and opposing COG's applications. COG presented evidence supporting its applications and opposing Cimarex's applications.

(7) Both Cimarex and COG want to develop and operate the subject acreage in their well units in Section 6.

Evidence:

(8) Cimarex presented the following evidence:

(a) The E/2 of Section 6 (surface and minerals) is all private fee land.

(b) Cimarex owns or controls 55% of the working interest in the N/2SE/4 and SW/4SE/4 of Section 6, while COG owns or controls 45% of the working interest.

(Cimarex owns or controls 50% of the working interest in the SE/4SE/4 of Section)
6, while COG owns or controls 50% of the working interest.

(c) Cimarex began evaluating the prospect in late summer of 2010, and sent well proposals to the then working interest owners in April 2011. Cimarex never received any responses from the other working interest owners to its well proposals.

(d) COG derives its interest in the lands involved in Case Nos. 14703-14705 under a Development Agreement with Yates Petroleum Corporation ("Yates") executed in June 2011. COG admitted that it received copies of Cimarex's well proposals from Yates, and thus was aware of Cimarex's development plans.

(e) Cimarex has obtained a surface use agreement from the surface owners of the SE/4 of Section 6.

(f) Cimarex has Division-approved APDs for its proposed wells. COG does not have approved APDs.

(g) Both parties generally agree on the Yeso geology in the subject area. However, in developing its acreage in the Yeso trend Cimarex selectively perforates the Glorieta-Yeso zones, while COG's stimulation approaches are based on interval stimulation without consideration of net pay criteria. Such an approach results in lesser recoveries in COG's wells than in Cimarex's wells.

(h) A comparison of drilling and completion methods in the Yeso trend show that:

(i) Both Cimarex's and COG's vertical wells have higher recovery factors than the parties' horizontal wells; and

(ii) Due to different fracing techniques, Cimarex's vertical and horizontal Yeso wells have obtained substantially higher recovery factors and EURs than COG's wells.

Cimarex Exhibits 9-15. Thus, Cimarex's methods prevent waste and protect correlative rights.

(i) After drilling one or two horizontal wells on its leases, COG reverts to drilling vertical wells. **Cimarex Exhibits 11 and 12.**

(j) Cimarex's vertical well recoveries across the Yeso trend are approximately 150,000 MBOE/well. (COG used 30-40 year old Yeso wells in the area to contend that vertical wells would recover only 12.5 MBOE/well.)

(k) Under a full plan of development for the E/2 of Section 6, the following reserves would be produced:

(i) Thirty two (32) vertical wells will recover 4,800 MBOE, at a recovery cost of \$9.18/BOE; and

(ii) Four (4) horizontal wells will recover 1,308 MBOE/well, at a recovery cost of \$8.70/BOE (assuming COG's numbers are accurate).

Thus, the best chances of success and the best economics will result by Cimarex drilling vertical wells. Substantially more reserves will be recovered if vertical wells rather than horizontal are drilled in Section 6.

(l) Cimarex is currently completing several vertical wells in the Yeso trend approximately 1-1/2 miles north-northeast of Section 6, in Section 32, Township 18 South Range 26 East, NMPM. The completion reports on some of these wells will soon be filed with the Division.

(9) COG presented the following evidence:

(a) COG did not send proposals to Cimarex on its proposed horizontal wells until August 2011.

(b) COG never had any intention of agreeing to join in Cimarex's proposed vertical wells.

(c) COG has no surface use agreement with the surface owner in the SE/4 of Section 6.

(d) While COG contends that it will recover 327 MBOE/horizontal well, it could not identify any horizontal well in the Yeso trend that it has drilled which has recovered this amount of reserves.

(e) COG relied on horizontal wells drilled in the southern tier of Township 19 South, Range 25 East, NMPM to support its calculated horizontal well EURs. However, the nearest horizontal wells to Section 6, in Section 30, Township 19 South, Range 26 East, NMPM (the Coffin State and Crypt State wells) are uneconomic.

(f) COG is still drilling vertical wells in the Yeso trend.

Conclusions:

(10) The Division concludes as follows:

(a) Because Cimarex has taken the initiative in developing the prospects it must be named operator. **Order No. R-13091, Finding Paragraphs (21) and (22).**

(b) Using proven vertical drilling methods as proposed by Cimarex will minimize well costs and operating costs.

(c) Cimarex's proposed vertical wells use better completion techniques and will produce more reserves than COG's proposed horizontal wells, and therefore will better protect the correlative rights of all interest owners.

(11) Two or more separately owned tracts are embraced within the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the units that are separately owned.

(12) There are interest owners in the proposed units who have not agreed to pool their interests. There are no unlocatable parties; therefore, escrow deposits will not be required.

(13) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste, and afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, Cimarex's applications should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the well units.

(14) Cimarex should be designated the operator of the subject wells and of the units for its proposed wells.

(15) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the wells.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$4500.00 per month while drilling and \$450.00 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the applications of Cimarex Energy Co., all uncommitted mineral interests in all formations from the surface to the base of the Glorieta-Yeso formation are hereby pooled and in the following manner:

Case No. 14698: The SE/4SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, to form a standard 40-acre oil spacing and proration unit for any and all formations or pools developed on 40-acre spacing within that vertical extent. The unit will be dedicated to the Kansas 6 Fee Well No. 1 (API No. 30-015-39255).

Case No. 14703: The NW/4SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, to form a standard 40-acre oil spacing and proration unit for any and all formations or pools developed on 40-acre spacing within that vertical extent. The unit will be dedicated to the Colorado 6 Fee Well No. 1 (API No. 30-015-39346).

Case No. 14704: The NE/4SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, to form a standard 40-acre oil spacing and proration unit for any and all formations or pools developed on 40-acre spacing within that vertical extent. The unit will be dedicated to the Colorado 6 Fee Well No. 2 (API No. 30-015-39256).

Case No. 14705: The SW/4SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, to form a standard 40-acre oil spacing and proration unit for any and all formations or pools developed on 40-acre spacing within that vertical extent. The unit will be dedicated to the Colorado 6 Fee Well No. 5 (API No. 30-015-39257).

(2) The applications of COG Operating LLC in Case Nos. 14725 and 14726 are hereby denied.

(3) Cimarex Energy Co. is hereby designated the operator of the subject wells and of the well units (the "Units").

(4) The operator of the Units shall commence drilling the proposed wells on or before October 1, 2012 and shall thereafter continue drilling the wells with due diligence to test the Glorieta-Yeso formation.

(5) In the event the operator does not commence drilling the proposed wells on or before October 1, 2012, Ordering Paragraph (1) shall be of no effect unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the proposed wells not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Units created by this Order shall terminate, unless the operator appears before the Division Director and obtains an extension of time to complete the wells for good cause demonstrated by satisfactory evidence.

(7) Upon final plugging and abandonment of the proposed wells and any other wells drilled on the Units pursuant to NMAC 15.19.13 Sections 9-11, the pooled Units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units established by this Order.)

(9) After the effective date of this Order, the operator shall furnish the Division and each known pooled working interest owner in the Units an itemized schedule of estimated costs of drilling, completing and equipping the subject wells ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed wells. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated wells costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$4500.00 per month while drilling and \$450.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the wells, not in excess of what are reasonable, attributable to pooled working interest owners.

(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the wells and the Units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JAMI BAILEY
Director

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