

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:

CASE NO. 14930  
ORDER NO. R-13665

APPLICATION OF COG OPERATING, LLC FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 29, 2012, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 17<sup>th</sup> day of December, 2012, 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 this case and of the subject matter.

(2) COG Operating LLC ("Applicant" or "Operator"), seeks to pool all uncommitted interests from the surface to the base of the Glorieta-Yeso formation underlying the SW/4 SW/4 (Unit M) of Section 4, Township 19 South, Range 26 East, NMPM, in Eddy County, New Mexico ("the Unit").

(3) The Unit is to be dedicated to Applicant's Sherman 4 Fee Well No. 1 (**API No. 3001539589**) which has been vertically drilled at a standard oil well location 612 feet from the South line and 380 feet from the West line (Unit M) of Section 4 to a depth sufficient to test the Glorieta-Yeso formation.

(4) Applicant appeared at the hearing through counsel and presented evidence from a landman to the effect that:

(a) the well was originally drilled under voluntary agreements reached with all of the known interest owners at the time, but that Applicant has

recently discovered an additional mineral interest that is not currently subject to a voluntary agreement;

(b) Applicant has engaged in diligent efforts to obtain valid addresses for the potential owners of this additional mineral interest, but has not been successful; and

(c) notice by publication in a newspaper of general circulation in the area has been provided to the potential owners of this additional mineral interest.

(5) No other party appeared at the hearing, or otherwise opposed the granting of this application.

**The Division concludes that:**

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

(7) Applicant is an owner of an oil and gas working interest within the Unit and has the right to drill, and has drilled, a well to a common source of supply within the Unit.

(8) There are interest owners in the Unit that Applicant has been unable to locate after exercise of reasonable diligence. Accordingly, provisions should be made to escrow funds for the account of such owners.

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

(10) COG Operating LLC should be designated the operator of the proposed well and of the Unit.

(11) 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 well.

(12) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 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."

(13) Because the proposed well has already been drilled, there is no necessity to include provisions regarding the commencement of drilling in this Order.

**IT IS THEREFORE ORDERED THAT:**

(1) Pursuant to the application of COG Operating LLC, all uncommitted interests, whatever they may be, from the surface to the base of the Glorieta-Yeso formation underlying the SW/4 SW/4 (Unit M) of Section 4, Township 19 South, Range 26 East, NMPM, in Eddy County, New Mexico are hereby pooled.

(2) The Unit shall be dedicated to Applicant's Sherman 4 Fee Well No. 1 (**API No. 3001539589**) which has been vertically drilled at a standard oil well location 612 feet from the South line and 380 feet from the West line (Unit M) of Section 4.

(3) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(4) COG Operating LLC (**OGRID 229137**) is hereby designated the operator of the well and of the Unit.

(5) 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 Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit. 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."

(6) 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 well. 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.

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

- (a) The proportionate share of reasonable well costs attribute to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$600 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 well, not in excess of what are reasonable, attributable to pooled working interest owners.

(10) Except as provided in Paragraphs (7) and (9) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division (Attention: Records Clerk) of the name and address of the escrow agent no later than one year from the date of issuance of this Order.

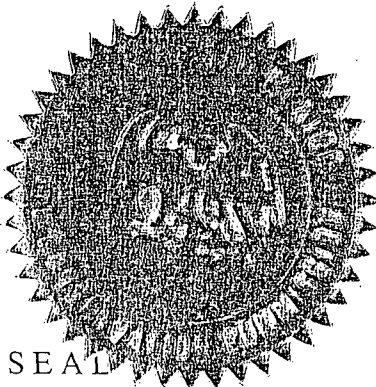
(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(12) 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.

(13) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

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

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



STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Jami Bailey".

JAMI BAILEY  
Director