

**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. 15295  
(Reopened)  
ORDER NO. R-14003-A**

**APPLICATION OF COG OPERATING LLC FOR A NON-STANDARD SPACING  
AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW  
MEXICO**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on July 21, 2016, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 22<sup>nd</sup> day of August, 2016, 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) Pursuant to the application of COG Operating LLC ("COG" or "Applicant", OGRID 229137), in Case No. 15295, the Division issued Order No. R-14003 on June 24, 2015, creating a 200.72-acre, more or less, non-standard oil spacing and proration unit and project area in the WC-025 G-09 S243532D; Bone Spring Pool (Pool Code 98110) consisting of the W/2 SE/4 of Section 32, Township 24 South, Range 35 East, and the W/2 NE/4 and the NW/4 SE/4 of Section 5, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico, and pooling uncommitted interests in this spacing unit.

(3) Applicant now seeks to re-open Case No. 15295 to amend Order No. R-14003 to reflect the revised oil spacing and proration unit (the "Unit"), and the WC-025 G-09 S243532M: Wolfbone Pool. The proposed unit comprises the W/2 SE/4 of Section 32,

Township 24 South, Range 35 East, and the W/2 E/2 of Section 5, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico, totaling 240.72 acres, more or less.

(4) COG is operator of the Skull Cap Federal Com Well No. 22H (the "proposed well"; API No. 30-025-43299), a horizontal well to be drilled from a surface location 2590 feet from the South line and 1980 feet from the East line (Unit J) of Section 32, Township 24 South, Range 35 East to a terminus or bottomhole location 50 feet from the South line and 1980 feet from the East line (Unit O) of Section 5, Township 25 South, Range 35 East. The completed interval will be orthodox.

(5) The proposed oil well is within the WC-025 G-09 S243532M; Wolfbone Pool (pool code 98098). Spacing in this pool is governed by Division Rule 19.15.15.9(A) NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section, and 330-foot setbacks from the unit boundaries. The proposed Unit and project area consists of six (6) adjacent quarter-quarter sections.

(6) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) the surface location has not changed; however, the bottomhole location has changed;
- (b) The pool name has changed from WC-025 G-09 S243532D; Bone Spring Pool (Pool Code 98110) to the WC-025 G-09 S243532M; Wolfbone Pool (pool code 98098);
- (c) Applicant has a deeper target interval than the original application, in the Wolfbone formation.
- (d) The Wolfbone formation is defined vertically from the top of the Third Bone Spring Carbonate at 11,360 feet to 12,540 feet as displayed on the gamma ray and resistivity logs on the COG Operating LLC Viking Helmet State Com Well No. 2H (API 30-035-42783);

The dedicated acreage in the non-standard unit has changed from 200.72 acres, more or less to 240.72 acres, more or less;

- (e) Applicant is requesting to change the name of the proposed well from the Skull Cap State Com Well No. 2H to the Skull Cap Federal Com Well No. 22H;
- (f) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring and Wolfcamp formations within the pool; so that the Unit as requested will not impair correlative rights;

- (g) notice was provided to lessees or operators of surrounding tracts as affected parties of the proposed non-standard spacing unit;
  - (h) notice was provided to all locatable interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit in both the Bone Spring and Wolfcamp formations; and
  - (i) Applicant provided notice of this application for the unlocatable interests by publication before hearing in a newspaper of general circulation in Lea County, New Mexico, the county in which the property is located;
- (7) No one entered an appearance or otherwise opposed this application.

The Division concludes as follows:

(8) The request by the Applicant to amend Order No. R-14003 to reflect the change in the drilling plans and pool designation should be granted.

(9) The proposed non-standard unit should be approved in order to enable Applicant to complete its horizontal well to efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(10) 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.

(11) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill the proposed well to a common source of supply within the Unit at the proposed location.

(12) There are interest owners in the Unit that have not agreed to pool their interests.

(13) 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 a 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.

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

(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 proposed well.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 per month while drilling and \$700 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*."

(17) In order to protect correlative rights and prevent waste, COG's request for a different pool name than specified in Order No. R-14003, and compulsory pooling should be approved.

**IT IS THEREFORE ORDERED THAT:**

(1) The application of COG Operating LLC, to amend Order No. R-14003 to reflect the revised non-standard oil spacing and proration unit and project area in the WC-025 G-09 S243532M; Wolfbone Pool (Pool Code 98098) consisting of the W/2 SE/4 of Section 32, Township 24 South, Range 35 East, and the W/2 E/2 of Section 5, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico, and pooling uncommitted interests in this spacing unit ("the Unit") is hereby **granted**.

(2) Pursuant to the application of COG Operating LLC, a 240.72-acre, more or less, non-standard oil spacing and proration unit (the "Unit") is hereby established for oil production from the Wolfbone formation, within the WC-025 G-09 S243532M; Wolfbone Pool (pool code 98098), comprising the W/2 SE/4 of Section 32, Township 24 South, Range 35 East, and the W/2 E/2 of Section 5, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico.

(3) The Unit shall be dedicated to the COG Operating LLC, Skull Cap Federal Com. Well No. 22H ( "Proposed well"; API 30-025-43299), a horizontal well to be drilled from a surface location 2590 feet from the South line and 1980 feet from the East line (Unit J) of Section 32, Township 24 South, Range 35 East to a terminus or bottomhole location 50 feet from the South line and 1980 feet from the East line (Unit O) of Section 5, Township 25 South, Range 35 East. The location of the completed interval will be standard for oil production within the Unit.

(4) The operator of the Unit shall commence drilling the proposed well on or before July 31, 2017, and shall thereafter continue drilling the proposed well with due diligence to test the Wolfbone formation.

(5) In the event the operator does not commence drilling the proposed well on or before July 31, 2017, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the Unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the standard spacing units included in the proposed project area (or Unit), then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those standard spacing units in which the well is completed.

(7) 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.

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

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

(10) Within 30 days from the date the schedule of estimated well costs is furnished or within 30 days after the issuance of this order if such schedule has been previously 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 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.

(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 from each well:

- (a) The proportionate share of reasonable well costs attributable 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.

(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) for the well are hereby fixed at \$7000 per month while drilling and \$700 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.

(16) Except as provided in Paragraphs (10) and (12) above, all proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 7-8A-31, as amended).

(17) Any unleased mineral interests 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.

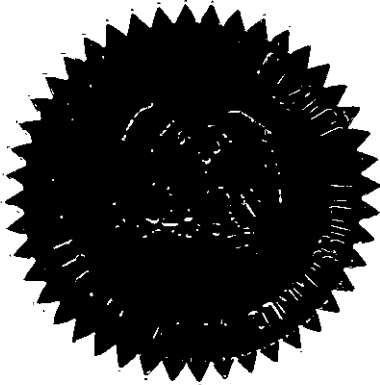
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(19) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this Order.

(20) Except as amended hereby, all other provisions of Division Order No. R-14003 shall remain in full force and effect.

(21) 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



S E A L

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, reading "David R. Catanach". The signature is fluid and cursive, with a long horizontal stroke at the end.

DAVID R. CATANACH  
Director