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December 5, 2006

HAND-DELIVERED

Ms. Florene Davidson
New Mexico Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87504

Re: NMOCD Case No. 13849; Application of COG Operating LLC for the Approval of the Third Amendment of the Grayburg-Jackson West Cooperative Unit Agreement Extending the Vertical Limits of the Unitized Formation to Include the Blinebry, Tubb and Drinkard Intervals of the Yeso Formation, to Amend Order No. R-3127 B to Correct Certain Findings and to Include Commingled Production, and for Extension of the Grayburg Jackson-Seven Rivers-Queen-Grayburg San Andres-Glorieta-Yeso (Paddock) Pool to Include the Blinebry, Tubb and Drinkard Intervals of the Yeso Formation, Eddy County, New Mexico

Dear Florene:

Enclosed for filing is an Application in the referenced matter. Also enclosed in hard copy and on disk is a proposed advertisement for the Division's use.

Please schedule the hearing for the January 4, 2007 Examiner hearing docket. Thank you for your assistance.

Very truly yours,

MILLER STRATVERT P.A.



J. Scott Hall

JSH/glb
Enclosures

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2006 DEC 5 PM 4 51

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

**IN THE MATTER OF THE APPLICATION OF
COG OPERATING LLC FOR THE APPROVAL OF
THE THIRD AMENDMENT OF THE GRAYBURG-JACKSON
WEST COOPERATIVE UNIT AGREEMENT EXTENDING
THE VERTICAL LIMITS OF THE UNITIZED FORMATION
TO INCLUDE THE BLINEBRY, TUBB AND DRINKARD
INTERVALS OF THE YESO FORMATION, TO AMEND
ORDER NO. R-3127 B TO CORRECT CERTAIN FINDINGS
AND TO INCLUDE COMMINGLED PRODUCTION, AND
FOR EXTENSION OF THE GRAYBURG JACKSON-SEVEN-
RIVERS-QUEEN-GRAYBURG-SAN ANDRES-GLORIETA-YESO
(PADDOCK) POOL TO INCLUDE THE BLINEBRY, TUBB
AND DRINKARD INTERVALS OF THE YESO FORMATION,
EDDY COUNTY, NEW MEXICO**

2006 DEC 5 PM 4 51

CASE NO. 13848

APPLICATION

Applicant, COG Operating LLC ("COG") through its undersigned attorneys, Kellahin & Kellahin and Miller Stratvert P.A., requests that the New Mexico Oil Conservation Division ("Division") enter an order amending Division Order R-3127-B, dated June 13, 2006, for the Grayburg-Jackson West Cooperative Unit Agreement (Order Nos. R-3127, R-3127-A and R-3127-B) to extend the vertical limits of the Unitized Formation to include all formations from the top of the Seven Rivers formation to the top of the Abo formation and for approval of production that has been commingled from the expanded Unitized Formation. Applicant also seeks the commensurate extension of the vertical limits of the Grayburg Jackson-Seven Rivers-Queen-Grayburg-San Andres-Glorieta-Yeso (Paddock) Pool (97558).

and contraction of the East Empire Yeso Pool to delete the Blinebry, Tubb and Drinkard intervals of the Yeso formation. Applicant specifically seeks to correct Finding (10)(b) and (c) and (12) of Order R-2137-B.

In support thereof, Applicant would show the Division:

1. Applicant is the Operator of the Grayburg-Jackson West Cooperative Unit, (“the Unit”) that is comprised of approximately 2,400 acres of State of New Mexico and fee lands located in Eddy County, New Mexico, more particularly described as follows (the “Unit Area”):

Township 17 South, Range 29 East, NMPM

Section 15:	W1/2SW1/4
Section 16:	All
Section 21:	All
Section 22:	W1/2W1/2, E1/2NW1/4, NE1/4SW1/4, NW1/4NE1/4
Section 27:	W1/2SW1/4
Section 28:	All

2. The Grayburg-Jackson West Cooperative Unit Agreement was originally approved by the Oil Conservation Commission on October 4, 1966 by Order No. R-3127, which was subsequently amended on March 4, 1968 by Order No. R-3127-A to include an additional 300 acres. The Unitized Formation under the Unit Agreement as originally described was that portion of the Grayburg San-Andres formation encountered between the depths of 2,200’ and 3,600’ underlying the Unit Area (“Initial Unitized Formation”). The Unit, as approved, was formed for the purposes of conducting primary and secondary recovery operations in the Unit Area. The original Unit Agreement was approved by the Commissioner of Public Lands on September 28, 1966 and the Amended Unit Agreement

which expanded the Unit to include additional lands was approved by the Commissioner on March 8, 1968.

3. On June 13, 2006, the Division entered Order No. R-3127-B in Case No. 13609 which approved, *inter alia*, the Second Amendment to the Unit Agreement extending the vertical limits of the Initial Unitized Formation and the Grayburg-Jackson Pool to include all formations from the top of the Seven Rivers formation to the base of the Glorieta-Yeso (Paddock) formation, being those depths from 1116' to 4636' below the Kelly Bushing as shown on the Schlumberger log of the Diamondbacks State No. 1 Well located 2040' FNL and 2140' FEL of Section 28, T17S, R29E, Eddy County, New Mexico (the "Unitized Formation, Second Amendment"). The horizontal boundaries of the Unit remained unchanged. On September 27, 2006, the Commissioner of Public Lands issued final approval of the Second Amendment of the Unit Agreement.

4. After the entry of Division Order R-3127-B, COG discovered, that, prior to the entry of such order:

- a. 48 wells were perforated and completed in the Paddock interval of the Yeso formation as well as the Grayburg-San Andres formation;
- b. 13 wells were perforated and completed solely in the Paddock interval of the Yeso formation;
- c. 5 wells were perforated and completed in the Paddock and Blinbry intervals of the Yeso formation as well as the Grayburg-San Andres formation;
- d. 4 wells were perforated and completed solely in the Blinbry and Paddock intervals of the Yeso formation;

- e. production from these formations was commingled downhole and at the surface;
- f. production from these wellbores was incorrectly reported solely as Unit production, although production came from the Initial Unitized Formation and lower formations, including the expanded Unitized Formation, Second Amendment;
- g. various reports indicating that the completion, perforated and producing intervals as being solely within the Initial Unitized Formation were filed with the Division, which were incorrect; and
- h. the deepening of certain wells was done without Division approval.

5. In addition, COG discovered that the reporting and payment of royalty attributable to state lands within the Unit was incorrect as a result of the above circumstances.

6. It is impractical to correct the commingled production reporting because the production was not independently measured from each formation before it was commingled. COG does not have sufficient data to apply to an engineering methodology that would permit an accurate estimate of past production by separate formations. The previous operator of the Unit, COG and the State Land Office ("SLO") have agreed upon a methodology to establish the value of the resulting underpayment due the State of New Mexico and such amount that has been paid to the SLO by the prior operator of the Unit. The parties have also entered into a Settlement Agreement to confirm the satisfaction of such underpayment.

7. COG has already taken action to correct the past reporting inaccuracies by filing amended forms C-103, C-104 and C-105 for the wells concerned. Such forms were prepared and delivered to the Division on September 14, 2006, for sixty-six of such wells. Corrected forms have also subsequently been prepared and submitted to the Division for three of the four wells which had been plugged and abandoned. Previous filings for the fourth plugged and abandoned well (#87) were correct; therefore, no amended filings were necessary. In addition, the nine wells within the Unit Area producing from the Blinebry interval of the Yeso formation were shut-in on September 6, 2006 and forms C-103 for those wells were among the records delivered to the Division on September 14, 2006. COG has also electronically filed its C-115 production reports for periods from June through August 2006, with a footnote concerning the possible need to amend production reports related to the Unit arising from the circumstances described herein.

8. In addition, by this Application COG seeks to:

- (a) (1) obtain the correction of Findings (10)(b) and (c) and (12) of Order R-2137-B to reflect that Unit wellbores had been drilled and produced from both the Paddock and the Blinebry intervals of the Yeso formation prior to the entry of Order R-3127-B, and (2) obtain the ratification of Order R-3127-B on the basis of such correction and this application;
- (b) expand the vertical limits of the Unitized Formation to the top of the Abo formation, thereby including the Blinebry, Tubb and

Drinkard intervals of the Yeso formation, ("Unitized Formation, Third Amendment"); and

- (c) obtain approval for past production attributable to the subject wells and the various pools within the Unitized Formation, Second Amendment and the Unitized Formation, Third Amendment that was commingled and reported solely as Unit Production instead of being previously allocated and reported separately for each pool.

9. Applicant proposes the expansion of the vertical limits of the Grayburg Jackson-Seven Rivers-Queen-Grayburg-San Andres-Glorieta-Yeso (Paddock) Pool to include the Blinebry, Tubb and Drinkard intervals of the Yeso formation as to the Unit Area, so that all intervals may be administered and operated as a single common source of supply.

10. Other than an amendment to the Grayburg-Jackson West Cooperative Unit Agreement describing the expanded Unitized Formation, Third Amendment, no other amendments to the Unit Agreement are proposed.

11. Working interest and mineral interest ownership in the Unit Area and in all depths is identical.

12. The Application of unit operations to the expanded Unitized Formation, Third Amendment in the Grayburg Jackson Seven Rivers-Queen-Grayburg-San Andres-Glorieta-Yeso (Paddock) Pool and the Blinebry, Tubb and Drinkard intervals of the Yeso formation will result with reasonable probability in the increased recovery of substantially more oil and/or gas from the Unitized Area than would otherwise be recovered. Expansion of the Unitized Formation, Third Amendment to include the

additional depths will also benefit the working interest owners and the royalty owners in the Unit Area.

13. Expansion of the Unitized Formation, Third Amendment within the Unit Area of the Grayburg Jackson West Cooperative Unit to include the Seven Rivers, Queen, Grayburg, San Andres, Grayburg-Jackson formations and the Glorieta-Yeso (Paddock) and the Blinebry, Tubb and Drinkard intervals of the Yeso formation and the concomitant extension of the Grayburg Jackson-Seven Rivers-Queen-Grayburg-San Andres-Glorieta-Yeso (Paddock) Pool to include the Blinebry, Tubb and Drinkard intervals of the Yeso formation is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Applicant COG Operating LLC requests that this Application be set for hearing before one of the Division's examiners on January 4, 2007 and that after notice and hearing, the Division enters its order granting the relief requested above.

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