

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

**CASE NO. 15188
ORDER NO. R-13902**

AMENDED APPLICATION OF CIMAREX ENERGY COMPANY FOR A NON-STANDARD GAS SPACING AND PRORATION UNIT, COMPULSORY POOLING AND TWO NON-STANDARD LOCATIONS, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 18, 2014, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 15th day of October, 2014, 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) The Applicant, Cimarex Energy Company of Colorado ("Cimarex" or "Applicant"), seeks an order for approval of a standard 320-acre, more or less, gas spacing and proration unit in the Wolfcamp formation, Wildcat Wolfcamp Gas Pool (**Pool Code 97949**), comprised of the W/2 of Section 14, Township 25 South, Range 28 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the unit, and approval of the unorthodox location of the well.
- (3) At the hearing, the examiner pointed out that a 320-acre, more or less, gas spacing and proration unit in the Wolfcamp formation is standard and, therefore, that portion of the application seeking approval of the 320-acre gas unit in the Wolfcamp formation should be **dismissed**.
- (4) The above-described unit (the "Unit") is to be dedicated to applicant's Riverbend 14 Fed. Com Well No. 2H ("the proposed well"); (**API No. 30-015-41589**), a horizontal well to be drilled from a surface location 75 feet from the North line and 1980 feet from the West line (Unit C) of Section 14, to a bottomhole location 330 feet from the South line and 1980 feet from the West line (Unit N) to a depth sufficient to test the

Wolfcamp formation. The completed interval of the proposed well in the Wolfcamp formation is unorthodox.

(5) Spacing in the Wildcat Wolfcamp Gas Pool is governed by statewide Rule 19.15.15.10.B NMAC, which provides for standard 320-acre units, each comprising any two contiguous quarter sections of a single section, with wells to be located no closer than 660 feet to the outer boundary of the section on which the well is located, and no closer than 10 feet to a quarter-quarter section line or subdivision inner boundary. The location of the Riverbend 14 Fed. Com. Well No. 2H is unorthodox with respect to the statewide rules.

Applicant appeared at the hearing through counsel and presented the following testimony:

(6) Notice of this application was provided to all working interest owners in the Proposed Unit and all parties affected by the unorthodox location within the Wolfcamp formation by certified mail, return receipt requested, and by publication.

(7) Applicant has successfully drilled several horizontal wells in the area and the Wolfcamp formation in this area is suitable for development by horizontal drilling.

(8) The proposed orientation of the horizontal well north to south is appropriate for the proposed Unit.

(9) The proposed Unit is comprised of two federal oil and gas leases and, therefore, requires a Communitization Agreement to produce from the Unit.

(10) Approximately eighty-three percent (83%) of the working interest owners have ratified or joined the proposed Communitization Agreement and have also entered into a joint operating agreement for the proposed Unit.

(11) The Communitization agreement cannot be approved by the United States Bureau of Land Management (BLM) until all working interest owners have ratified or otherwise approved the Communitization Agreement, or made subject to the agreement through a compulsory pooling order.

(12) The approval of the unorthodox location of the well is sought in order to access the most productive zones in the Wolfcamp formation.

(13) Read & Stevens, Inc., Carolyn Beall, Betty Read Yong, and Diamond Star Production Company, LLC, (collectively called the "Read Group") appeared through counsel at the hearing and contends that these non-operators have validly elected to participate in the drilling of the well and cannot be pooled, because they have executed Cimarex's authorization for expenditure (AFE), and Communitization Agreement. The Read Group also contends that Cimarex has not engaged in good faith negotiations of the terms of the new joint operating agreement.

(14) CL&F appeared at the hearing through counsel and stated that CL&F owns approximately ten percent (10%) interest in the proposed unit through a federal lease, which expires on December 31, 2014. The counsel requested that any compulsory pooling order entered in this case by the Division include a provision that the well be commenced by November 7, 2014, and complete the well within 120 days after commencement.

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

The Division concludes as follows:

(16) The request by CL&F that the Oil Conservation Division (OCD) require Cimarex to commence the drilling of the proposed well before November 7, 2014, and complete the well within 120 days after commencement, is outside the normal and reasonable requirements of OCD. Accordingly, CL&F's request should be **denied**.

(17) Approval of Cimarex's application will enable the Applicant to drill a horizontal well that will effectively produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(18) Two separately owned tracts are included 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.

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

(20) Applicant has made a good faith effort to seek voluntary agreement to pool interests but there are interest owners in the Unit that have not agreed to pool their interests.

(21) 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 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.

(22) Applicant should be designated the operator of the proposed well and the Unit.

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

(24) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 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."

IT IS THEREFORE ORDERED THAT:

(1) The portion of the application seeking approval of a standard 320-acre, more or less, gas spacing and proration unit (the "Unit") in the Wolfcamp formation, consisting of the W/2 of Section 14, Township 25 South, Range 28 East, NMPM, in Eddy County, New Mexico, is hereby **dismissed**.

(2) Pursuant to the application of Cimarex Energy Company, all uncommitted interests in the Wolfcamp formation, the Wildcat Wolfcamp Gas Pool (**Pool Code 97949**) underlying the W/2 of Section 14, Township 25 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled..

(3) The Unit shall be dedicated to the Applicant's Riverbend 14 Fed. Com. No. 2H well (**API No. 30-015-41589**), a horizontal well to be drilled from a surface location 75 feet from the North line and 1980 feet from the West line (Unit C) of Section 14, to a bottomhole location 330 feet from the South line and 1980 feet from the West line (Unit N) of Section 14, to a depth sufficient to test the Wolfcamp formation.

(4) The unorthodox location of this well is hereby approved.

(5) The request by CL&F that the Oil Conservation Division require Cimarex to commence the drilling of the proposed well before November 7, 2014, and complete the well within 120 days after commencement, is hereby **denied**.

(6) The operator of the Unit shall commence drilling the proposed well on or before October 15, 2015, and shall thereafter continue drilling the proposed well with due diligence to test the Wolfcamp formation.

(7) In the event the operator does not commence drilling the proposed well on or before October 15, 2015, Ordering Paragraph (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(8) 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.

(9) Cimarex Energy Company of Colorado (**OGRID 162683**) is hereby designated the operator of the proposed well and the Unit.

(10) 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 such 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 to be drilled ("well costs").

(11) 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."

(12) 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 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.

(13) 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.

(14) 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; and
- b. as a charge for the risk involved in drilling the proposed well 200% of the above costs.

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

(16) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 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 from operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(17) Except as provided in Paragraphs (14) and (16) 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 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 70-8A-28, as amended).

(18) 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 or overriding royalty interest.

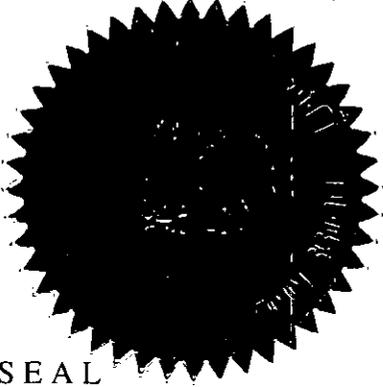
(19) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(21) This order is subject to approval of compulsory pooling of federal lands by the United States Bureau of Land Management.

(22) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JAMI BAILEY
Director