

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. 15029
ORDER NO. R-13765

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on July 25, 2013, in Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 29th day of October, 2013, 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) Case Nos. 15029 and 15030 were consolidated at the hearing for the purpose of testimony, but separate orders should be issued for each case.

(3) In Case No. 15029, COG Operating LLC ("COG" or "Applicant" or "Operator") seeks approval of a non-standard 200-acre oil spacing and proration unit and project area ("the Unit") in the Yeso formation, the West Maljamar-Yeso Oil Pool (Pool Code: 44500) comprised of the E/2 E/2 of Section 11 and the NE/4 NE/4 of Section 14 in Township 17 South, Range 32 East, NMPM, in Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit in the West Maljamar-Yeso Oil Pool.

(4) The Unit is to be dedicated to Applicant's proposed Flat Head Federal Com Well No. 8H (API No. Pending) ("the proposed well"), a horizontal well to be drilled from a surface location 1170 feet from the North line and 330 feet from the East

line (Unit A) of Section 14. The well will penetrate the Yeso formation in Unit A of Section 14 and continue horizontally to a standard terminus, or bottomhole location 330 feet from the North line and 330 feet from the East line (Unit A) of Section 11. The completed interval of the wellbore will be entirely within the prescribed setbacks from the outer boundary of the project area.

(5) Spacing in this pool is governed by statewide Rule 19.15.15.9.A NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of five adjacent quarter-quarter sections.

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

(6) COG Operating, LLC owned the majority interests in the proposed 200-acre non-standard oil spacing and proration unit or project area. As of the time of hearing, COG owned or controlled approximately 77.043% of the working interest in the project area, while the remaining 22.957% is owned by other parties who have not agreed to lease, farm-out, or otherwise commit their interest in the drilling of the well.

(7) COG's acreage is subject to a Term Assignment of Oil and Gas Lease between Marathon Oil Company and Hawkins Exploration Company entered into on October 6, 2008. The Term Assignment covers acreage located in Sections 4, 9, 10, 11, and 14 in Township 17 South, Range 32 East. COG's term-assigned acreage included the NW/4 of Section 14, within the horizontal well project area COG plans to develop in conjunction with Section 11.

(8) In order to earn and hold acreage under the Term Assignment, COG must comply with a 180-day continuous development provision. Since it acquired the acreage under the Term Assignment, COG has drilled 13 wells on the acreage.

(9) To avoid the loss of its acreage located in the NW/4 of Section 14, and the rest of the Term Assignment acreage not held, COG would have been required to commence drilling operations on or before June 16, 2013. COG originally designated the E/2 W/2 of Section 11 and E/2 NW/4 of Section 14 as a 240-acre Unit for the drilling of the Pan Head Fee Well No. 4-H. The Pan Head Fee Well No. 4H is the subject of Case No. 15030. COG also had planned to drill additional horizontal Yeso wells in similarly configured 240-acre standup units adjoining the non-standard unit dedicated to the Pan Head Fee Well No. 4-H in Section 11 and the N/2 of Section 14, including the E/2 E/2 of Section 11 and the E/2 NE/4 of Section 14 which were originally to be dedicated to the Flat Head Federal Com Well No. 8H.

(10) Devon owns leasehold interests in the NW/4 and the S/2 of Section 14. Devon's plans to develop its acreage with horizontal Yeso formation wells drilled on 160-acre non-standard spacing and laydown units conflicted with COG's plans to develop Section 11 and the N/2 of Section 14 with standup units. Moreover, COG could not be assured that Devon's wells would be drilled on time to avoid the loss of its acreage

in the NW/4 of Section 14 under the Term Assignment. As a consequence, both parties filed conflicting applications to establish non-standard spacing and proration units, and for compulsory pooling in Case Nos. 14951, 14952, 14953, 14954 filed by Devon Energy, and Case No. 14975 filed by COG.

(11) Following negotiations, COG and Devon entered into an agreement for the coordinated development of Sections 11 and 14. The terms of the agreement provide that COG may designate and drill four 200-acre standup units to include all the forty-acre tracts in Section 11 and the N/2 N/2 of Section 14, while permitting Devon to develop the remaining acreage in the S/2 N/2 and the S/2 of Section 14 with three 160-acre laydown units. The agreement also enabled the parties to dismiss their conflicting compulsory pooling applications in the cases referenced above.

(12) The development of Sections 11 and 14 as proposed by COG will reduce surface disturbance and the number of production facilities. COG will also avoid the loss of valuable leasehold property interests under its Term Assignment.

(13) The Applicant's proposed well is developmental drilling and is not an exploration project. The Yeso formation in this area has been extensively developed by the drilling of vertical wells and is also suitable for development by horizontal drilling.

(14) All quarter-quarter sections to be included in the Unit are expected to be productive in the Yeso formation, so that formation of the Unit as requested will not impair correlative rights.

(15) "Stand-up" (North-South or South-North) or "lay-down" (East-West or West-East) horizontal wells would be equally appropriate in this area.

(16) The designation of the horizontal well Unit in this matter does not conflict with any established development pattern in the area.

(17) CML Exploration Company, an offset operator, appeared at the hearing through counsel, but did not oppose the granting of this application.

(18) Devon Energy Production Company, L.P. ("Devon") also appeared at the hearing through counsel, and supported the granting of this application.

The Division concludes as follows:

(19) The Division supports the development plan proposed by the Applicant for Sections 11 and 14 of Township 17 South, Range 32 East, NMPM, Lea County, New Mexico, with orderly horizontal well drilling.

(20) This development plan will not leave any acreage stranded, and will prevent waste and protect correlative rights.

(21) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit or project area.

(22) 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.

(23) 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 at the proposed location.

(24) There are interest owners in the Unit, including owners of royalty and overriding royalty interests who have not agreed to pool their interests. There are unlocated owners in the Unit.

(25) 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.

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

(27) 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.

(28) 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. I.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 200-acre oil spacing and proration unit (the Unit) is hereby established in the Yeso formation, West Maljamar-Yeso Oil Pool (44500), consisting of the E/2 E/2 of Section 11 (Units A, H, I and P), and the NE/4 NE/4 of Section 14 (Unit A) in Township 17 South, Range 32 East, NMPM, in Lea County, New Mexico.

(2) Pursuant to the application of COG Operating LLC, all uncommitted interests, whatever they may be, in the oil and gas in the West Maljamar-Yeso Oil Pool underlying the Unit, are hereby pooled

(3) The Unit shall be dedicated to Applicant's proposed Flat Head Federal Com Well No. 8H (API No. Pending) ("the proposed well"), to be drilled from a surface location 1170 feet from the North line and 330 feet from the East line (Unit A) of Section 14. The well will penetrate the Yeso formation in Unit A of Section 14 and continue horizontally to a standard terminus, or bottomhole location 330 feet from the North line and 330 feet from the East line (Unit A) of Section 11. The completed interval of the wellbore will be entirely within the prescribed setbacks from the outer boundary of the project area.

(4) The operator of the Unit shall commence drilling the proposed well on or before November 1, 2014, and shall thereafter continue drilling the well with due diligence to test the Yeso formation.

(5) In the event the operator does not commence drilling the proposed well on or before November 1, 2014, Ordering Paragraphs (1) and (2) 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 drilled and 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 quarter-quarter sections included in the proposed unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections 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 of 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, 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:

- (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) are hereby fixed at \$6000 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.

(16) Except as provided in Paragraphs (13) and (15) 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 70-8A7-8A-28, as amended.

(17) 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 or overriding royalty interests.

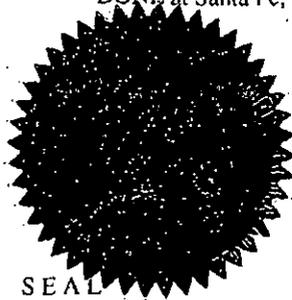
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(20) This Order is subject to approval by the United States Bureau of Land Management (BLM).

(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 designated above.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JAMI BAILEY
Director