

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Tony Delfin
Acting Cabinet Secretary

David R. Catanach, Division Director
Oil Conservation Division



September 16, 2016

Mr. William Carr, Senior Attorney
COG Operating, LLC
1048 Paseo De Peralta
Santa Fe, NM 87501

RE: Request for Extension to Commence Drilling of the Viking Helmet State Com. Well No. 1H Pursuant to Division Order No. R-14054/Case No. 15373

Dear Mr. Carr:

Reference is made to your request on behalf of COG Operating, LLC ("COG") received by the Division on August 23, 2016, for the Viking Helmet State Com. Well No. 1H (API No. 30-025-42782) with a surface location in Unit A of Section 29, Township 24 South, Range 35 East, NMPM.

It is our understanding that COG still intends to drill the proposed well but is unable to meet the obligation date of September 30, 2016, included in Ordering Paragraph (4) of Order No. R-14054. COG has stated that additional time is required to compile production data from recently completed wells in the vicinity which will assist COG in determining the economic viability of the proposed location for this well.

The Division has reviewed your request and hereby extends the final date to commence the drilling of this well to September 30, 2017. All other provisions of Order No. R-14054 remain in full force and effect.

If you have any questions, please contact Michael McMillan at 505.476.3448.

Sincerely,

A handwritten signature in cursive script that reads "David R. Catanach".

DAVID R. CATANACH
Director

DRC/mam

cc: Oil Conservation Division – Hobbs District Office
Case No. 15373
Well File API 30-025-42872



WILLIAM F. CARR
Senior Counsel

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August 23, 2016

Mr. David Catanach, Director
Oil Conservation Division
New Mexico Department of Energy, Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: **Order No. R-14054/Case No. 15373**: Application of COG Operating LLC for a non-standard oil spacing and proration unit and compulsory pooling, Lea County, New Mexico.

Dear Mr. Catanach:

Division Order No. R-14054 granted COG Operating LLC's application for a non-standard spacing unit and compulsory pooling on October 7, 2015. The order authorized the drilling of COG's Viking Helmet State Com Well No. 1H in the E/2 E/2 of Section 29, and the E/2 NE/4 of Section 32, Township 24 South, Range 35 East, NMPM, Lea County, New Mexico. A copy of the order is attached for your convenience.

Ordering Paragraph 5 of Order No. R-14054 requires COG to commence drilling the proposed well on or before September 30, 2016, unless COG obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence. COG still plans to drill the well as soon as possible but is waiting on more sustained production data from recently drilled and completed wells in the area to determine the economic viability of this location. Therefore, COG respectfully requests an extension until September 30, 2017 to commence drilling the Viking Helmet State Com Well No. 1H.

Thank you for your time and attention to this matter.

Very truly yours,

William F. Carr
Senior Counsel
Concho Resources

Enclosure
cc: Mike Wallace

**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. 15373
ORDER NO. R-14054**

**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 at 8:15 a.m. on September 17, 2015 at Santa Fe, New Mexico, before Examiner Michael McMillan.

NOW, on this 7th day of October, 2015, 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. 15373 and 15374 were consolidated at the hearing for the purpose of testimony; however, separate orders should be issued for each case.

(3) In Case No. 15373, COG Operating LLC ("COG" or "Applicant") seeks approval of a non-standard 240-acre oil spacing and proration unit ("Unit") in the Bone Spring formation, WC-025, G-09, S243532M; Lower Bone Spring Pool (pool code 98098), comprising the E/2-E/2 of Section 29, and the E/2, NE/4 of Section 32, Township 24 South, Range 35 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit.

(4) The Unit will be dedicated to the Applicant's Viking Helmet State Com. Well No. 1H (the "proposed well"; API No. 30-025-42782); a horizontal well to be drilled from a surface location 190 feet from the North line and 380 feet from the East line (Unit A) of Section 29, to a standard terminus 2310 feet from the North line and 380

feet from the East line (Unit H) of Section 32. The completed interval of the proposed well in the Bone Spring formation is orthodox.

(5) The proposed well is within the WC-025 G-09 S243532M; Lower Bone Spring Pool (pool code 96836). Spacing in this pool is governed by statewide Rule 19.15.15.9A. NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The proposed Unit consists of six adjacent quarter-quarter sections.

(6) Applicant appeared at the hearing through counsel and presented land and geologic evidence to the effect that:

- (a) The Bone Spring formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well North to South or South to North is appropriate for the proposed Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that formation of the Unit as requested will not impair correlative rights;
- (d) notice was provided to all parties being pooled and to surrounding affected parties.

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

The Division concludes that:

(8) Proper notice of this application was provided and no protests were received.

(9) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair 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 and proposes 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 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.

(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 \$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) A non-standard 240-acre, more or less, oil spacing and proration unit (the "Unit") is hereby established for the Bone Spring formation, WC-025-G-09 S243532M; Lower Bone Spring pool (pool code 98098) consisting of the of the E/2 E/2 of Section 29 and the E/2 NE/4 of Section 32, Township 24 South, Range 35 East, NMPM, 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 Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Viking Helmet State Com. Well No. 1H (the "proposed well", API No. 30-025-42872), a horizontal well to be drilled from a surface location 190 feet from the North line and 380 feet from the East line (Unit A) of Section 29, to a standard terminus 2310 feet from the North line and 380 feet from the East line (Unit H) of Section 32, Township 24 South, Range 35 East. The completed interval of the proposed well in the Bone Spring formation will be orthodox.

(4) The operator of the Unit shall commence drilling the proposed well on or before September 30, 2016, and shall thereafter continue drilling the proposed well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before September 30, 2016, 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 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 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 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 \$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 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 7-8A-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 all parties subject to the compulsory pooling provisions of this Order.

(20) 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

David R. Catanach

DAVID R. CATANACH
Director