

**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. 14771  
ORDER NO. R-13589**

**APPLICATION OF CIMAREX ENERGY CO. OF COLORADO FOR  
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on May 10, 2012, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 17<sup>th</sup> day of July, 2012, 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) Cimarex Energy Co. of Colorado ("Applicant"), seeks an order pooling all uncommitted interests from the surface to the base of the Yeso formation in each of the following described tracts in Section 1, Township 19 South, Range 25 East, NMPM, in Eddy County, New Mexico, to form two standard 40-acre oil spacing and proration units ("the Units") for all formations or pools spaced on 40 acres within this vertical extent:

(a) the NW/4 SW/4 of Section 1, to be dedicated to Applicant's proposed Montana 1 Fee Well No. 1 (API No. 30-015-39608) to be drilled at a standard location 2310 feet from the South line and 330 feet from the West line (Unit L) of Section 1; and

(b) the SW/4 SW/4 of Section 1, to be dedicated to Applicant's proposed Montana 1 Fee Well No. 3 (API No. 30-015-39616) to be drilled

at a standard location 990 feet from the South line and 330 feet from the West line (Unit M) of Section 1.

The foregoing identified wells are hereinafter called "the proposed wells."

(3) Two or more separately owned tracts are embraced within each of the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in each of the Units that are separately owned.

(4) Applicant is an owner of an oil and gas working interest within each of the Units. Applicant has the right to drill and proposes to drill a proposed well to a common source of supply within each of the Units at the proposed location indicated above.

(5) There are interest owners in each of the Units that have not agreed to pool their interests. There are, however, no unlocated interest owners and no evidence of a title dispute. Hence, provision for an escrow is not necessary.

(6) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in each of the Units 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 each of the Units.

(7) Applicant should be designated the operator of the proposed wells and of the Units.

(8) Any pooled working interest owner who does not pay its share of estimated well costs for any well should have withheld from production from the Unit where such well is located its share of reasonable well costs of such well, plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(9) Reasonable charges for supervision (combined fixed rates) should be fixed at \$4,500 per month, per well, while drilling and \$450 per month, per well, 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) Pursuant to the application of Cimarex Energy Co. of Colorado, all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Yeso formation in each of the following described tracts in Section 1, Township 19 South, Range 25 East, NMPM, in Eddy County, New Mexico, are hereby pooled to form two standard 40-acre oil spacing and proration units ("the Units") for all formations or pools spaced on 40 acres within this vertical extent:

(a) the NW/4 SW/4 of Section 1, to be dedicated to Applicant's proposed Montana 1 Fee Well No. 1 (API No. 30-015-39608) to be drilled at a standard location 2310 feet from the South line and 330 feet from the West line (Unit L) of Section 1; and

(b) the SW/4 SW/4 of Section 1, to be dedicated to Applicant's proposed Montana 1 Fee Well No. 3 (API No. 30-015-39616) to be drilled at a standard location 990 feet from the South line and 330 feet from the West line (Unit M) of Section 1.

(2) The operator of the Units shall commence drilling a proposed well on at least one of the Units on or before December 1, 2012, and shall thereafter continue drilling the well with due diligence to test the Yeso formation.

(3) The operator of the Units shall commence drilling a proposed well on the other Unit on or before July 15, 2013, and shall thereafter continue drilling the well with due diligence to test the Yeso formation.

(4) In the event the operator does not commence drilling the first proposed well on or before the date provided in Ordering Paragraph (2), then Ordering Paragraph (1) shall be of no effect, unless extended by order of the Division after notice to all pooled working interest owners and opportunity for a hearing.

(5) In the event the operator, having drilled the first proposed well, does not commence drilling of a proposed well on the remaining Unit on or before the date provided in Ordering Paragraph (3), then Ordering Paragraph (1) shall be of no further effect as to the Unit on which a proposed well has not been commenced, and such pooled Unit 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.

(6) Should any proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect as to the Unit on which such well is located, and such Unit 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.

(7) Upon final plugging and abandonment of any proposed well and any other well drilled on the same Unit pursuant to Division Rule 19.15.13 NMAC, such pooled Unit shall terminate, unless this order has been amended to authorize further operations.

(8) Cimarex Energy Co. of Colorado (OGRID 162683) is hereby designated the operator of the proposed wells and of the Units.

(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 any of the Units, 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 each Unit, separately, an itemized schedule of estimated costs of drilling, completing and equipping the proposed well to be drilled on such Unit ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished for any well, any pooled working interest owner having an interest in the Unit on which such proposed well will be located shall have the right to pay its share of estimated well costs for such proposed well 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 for such proposed well. Pooled working interest owners who elect not to pay their share of estimated well costs of any proposed well as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners." as to such Unit.

(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 any 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 of the Units, separately:

- (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 on such Unit, 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 \$4,500 per month, per well, while drilling and \$450 per month, per well, 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 from each Unit separately 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.

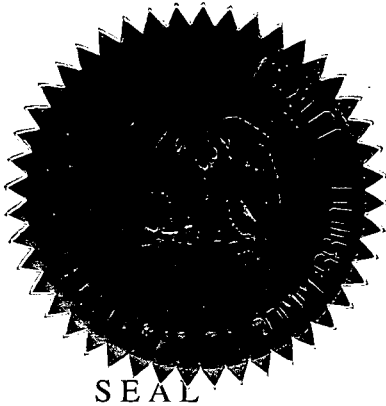
(16) Division Rule 19.15.13 regarding infill wells in a compulsory pooled spacing unit shall apply to each of the Units separately to the same extent and in the same manner as though each of the Units were pooled by a separate order.

(17) Should all the parties to this compulsory pooling order with respect to any of the Units reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect as to such Unit.

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

(19) 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

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY  
Director