

**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. 15520
ORDER NO. R-14213**

**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 August 4, 2016, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 20th day of September, 2016, 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] COG Operating LLC (the "Applicant") seeks approval of a 160-acre non-standard, oil spacing and proration unit and project area (the "Unit") for oil production from the Bone Spring formation, undesignated Antelope Ridge; Bone Spring, North Pool (Pool code 2205) comprising the W/2 W/2 of Section 13, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Bone Spring formation within the Unit.

[3] The Unit will be dedicated to Applicant's Banter State Com Well No. 4H (the "proposed well"; API No. 30-025-42519), a horizontal well that Applicant has drilled from a surface location 190 feet from the North line and 660 feet from the West line (Unit D) of Section 13, Township 23 South, Range 34 East, to a bottomhole location, 343 feet from the South line and 670 feet from the West line (Unit M) of Section 13.

[4] The well is within the undesignated Antelope Ridge; Bone Spring, North Pool and is subject to statewide Rule 19.15.15.9A. NMAC, which provides for standard 40-acre spacing units, each comprising a governmental quarter-quarter section, and 330-foot setbacks from the unit boundaries. The proposed Unit and project area consists of four adjacent quarter-quarter sections oriented north to south.

[5] The completed interval of the proposed well is standard for oil production from the Bone Spring formation, Undesignated Antelope Ridge; Bone Spring, North Pool.

[6] Applicant appeared through counsel and presented the following land and geologic evidence:

- (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 is appropriate for the Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that the Unit as requested will not impair correlative rights;
- (d) notice was provided for formation of the non-standard spacing unit to lessees or operators of adjoining tracts;
- (e) notice was provided for compulsory pooling within the Unit to all interest owners subject to pooling proceedings; and
- (f) all parties subject to pooling were located.

[7] Applicant also presented the following land evidence:

- [a] The only uncommitted interest in the proposed Unit that Applicant has identified is that attributed to OXY Y-1 Company ("the OXY Y-1 interest"). Yates Petroleum Corporation ("Yates") claims in a pending lawsuit that it is entitled to an assignment of the OXY Y-1 interest pursuant to an existing operating agreement, and has agreed that if it recovers that interest, it will commit the same to the subject well.
- [b] Applicant has agreed to recognize the OXY Y-1 interest as a committed interest if Yates tenders the corresponding share of well costs when it recovers title to the interest.

[8] Yates Petroleum Corporation entered an appearance, but did not oppose this application, provided that the OXY Y-1 interest is recognized as committed to the well if that interest is recovered by Yates.

The Division concludes as follows:

[9] The proposed non-standard unit should be approved in order to enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting 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 has drilled the well to a common source of supply within the Unit at the above-described location.

[12] There is at least one interest owner in the Unit that has not agreed to pool its interest.

[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 a 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 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 well.

[16] Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 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 160-acre non-standard oil spacing and proration unit (the "Unit") is hereby established for oil production from the Bone Spring formation, undesignated Antelope Ridge; Bone Spring, North Pool (Pool code 2205) comprising the W/2 W/2 of Section 13, Township 23 South, Range 34 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 Banter State Com Well No. 4H (the "proposed well"; API No. 30-025-42519), a horizontal well drilled from a surface location 190 feet from the North line and 660 feet from the West line (Unit D) of Section 13, Township 23 South, Range 34 East, to a bottomhole location 343 feet from the South line and 670 feet from the West line (Unit M) of Section 13, Township 23 South, Range 34 East, NMPM.

(4) The completed interval of the well is orthodox.

(5) 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.

(6) COG Operating LLC (OGRID 229137) is hereby designated the operator of the well and the Unit.

(7) 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 actual costs of drilling, completing and equipping the proposed well ("well costs").

(8) Within 30 days from the date the schedule of well costs is furnished, any pooled working interest owner shall have the right to pay its share of actual 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 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 well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(9) 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.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of actual costs in advance as provided

above shall receive from the operator the amount, if any, that the actual well costs it has paid exceed its share of reasonable well costs.

(11) The operator is hereby authorized to withhold the following costs and charges from production from the 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.

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

(13) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$7000 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.

(14) Except as provided in Paragraphs (10) and (12) above, all proceeds from production from the 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 70-8A-28, as amended).

(15) 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.

(16) 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.

(17) 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.

(18) Without limiting the generality of Ordering Paragraphs (15) and (16), if Yates Petroleum Corporation ("Yates") prevails in its lawsuit against OXY Y-1 Company and is awarded title to the interest in the Unit credited to OXY Y-1 Company, Yates may file with the Division a certified copy of the judgment of the court in said case, and upon payment to operator of the share of well costs corresponding to such interest, shall be entitled to receive from operator the share of proceeds attributable to such interest from date of first production from the Unit, less the corresponding share of reasonable operating costs and charges for supervision, but without deduction of risk charge.

(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 that reads "David R. Catanach".

DAVID R. CATANACH
Director