

**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. 14167
ORDER NO. R-13004**

**APPLICATION OF CIMAREX ENERGY CO. 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 September 4, 2008 at 8:15 a.m. at Santa Fe, New Mexico before Examiners David K. Brooks and Terry Warnell.

NOW, on this 6th day of October, 2008, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.
- (2) In this case, Cimarex Energy Co. ("applicant" or "Cimarex"):
 - (a) seeks an order creating a non-standard 80-acre oil spacing and proration unit (the "Unit" or "Project Area") for production from the Permo Upper Penn (Wolfcamp) formation within the Undesignated Caudill-Permo Upper Penn Pool (Pool Code 10830), comprised of the E/2 NE/4 of Section 17, Township 15 South, Range 36 East, NMPM, Lea County, New Mexico; and
 - (b) seeks to pool all uncommitted mineral interests in the non-standard Unit from the surface to the base of the Wolfcamp formation.
- (3) The above-described unit (the "Unit" or "Project Unit") is to be dedicated to the proposed Caudill West "17" Fee Well No. 2 which will be drilled vertically in the SE/4 NE/4 (Unit H) of Section 17 at an orthodox oil well location 2300 feet from the North line and 500 feet from the East line; 5-1/2 inch casing will be run and cemented, a

window milled, and the well will be drilled horizontally within the Permo Upper Penn formation in a northerly direction to a terminus approximately 10,900 feet total vertical depth (12,720 feet measured depth) at an orthodox bottomhole location 400 feet from the North line and 400 feet from the East line, within the NE/4 NE/4 (Unit A) of Section 17.

(4) The applicant presented testimony and evidence that:

(a) The E/2 NE/4 is comprised of Fee Lands.

(b) Notice was provided to owners of uncommitted interests for purposes of the compulsory pooling of the proposed Unit. Several parties were unlocatable, and Cimarex made a good faith effort to obtain the voluntary joinder of the interest owners.

(c) With regard to the non-standard spacing and proration unit, notice was provided to all offsetting operators or, if operated by Cimarex, to all diversely owned working interests.

(d) The horizontal well will be a stepout from existing production and will be downdip from older, vertical wells in the Caudill-Permo Upper Penn Pool. Cimarex will drill the horizontal section in the top portion of the Permo Upper Penn formation. The risks to the well will be greater because of thinner pay on the fringes of the pool, and potential water production.

(e) Nearby active Permo Upper Penn wells, located to the east, are vertical wells. In addition, applicant has drilled several horizontal wells to the southeast. The vertical wells produce at low but steady rates and have production characteristics indicating that horizontal wells may be appropriate to recover additional oil in place and recover it at an accelerated pace. Using horizontal drilling techniques within an 80-acre unit is expected to yield better economics than drilling vertical wells, and will recover oil and gas that would not otherwise be recovered.

(f) Oil and gas will be produced in the horizontal wellbore from both 40-acre tracts within the 80-acre non-standard Unit.

(5) No other parties entered an appearance in this case or otherwise opposed the application.

(6) Applicant has the right to drill within this Unit and proposes to drill vertically and horizontally to the Wolfcamp formation and complete a horizontal well designed to produce from the Wolfcamp formation within the Unit

(7) 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.

(8) There are interest owners in the proposed Unit who have not agreed to pool their interests. Some owners were not located.

(9) Applicant should be designated the operator of the subject well and of the Unit.

(10) 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.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

(11) 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, applicant's proposal should be approved to pool all uncommitted interests, whatever they may be, within the Unit.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Cimarex Energy Co., an 80-acre non-standard oil spacing and proration unit (the "Unit") for production from the Permo-Upper Penn (Wolfcamp) formation within the Undesignated Caudill-Permo Upper Penn Pool (Pool Code 10830), consisting of the E/2 NE/4 of Section 17, Township 15 South, Range 36 East, NMPM, Lea County, New Mexico is hereby approved. All uncommitted mineral interests are hereby pooled within this non-standard Unit for purposes of drilling horizontally and producing the Caudill West 17 Fee Well No. 2 (API No. 30-025-38691) (the "proposed well") from the Permo Upper Penn (Wolfcamp) formation.

(2) Cimarex Energy Co. (OGRID No. 215099) is hereby designated the operator of the proposed well and of the pooled Unit.

(3) The above-described Unit shall be dedicated to applicant's proposed well to be drilled horizontally at orthodox surface and bottomhole locations within the unit.

(4) The operator of the Unit shall commence drilling the proposed well on or before December 31, 2008 and shall thereafter continue drilling the well with due diligence to test the Permo Upper Penn (Wolfcamp) formation at an approximate vertical depth of 10,900 feet total vertical depth (12,720 feet measured depth).

(5) In the event the operator does not commence drilling the proposed well on or before December 31, 2008, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the subject well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Unit

created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(7) Upon final plugging and abandonment of the Caudill West 17 Fee Well No. 2 (API No. 30-025-38691), and any other well drilled on the Unit pursuant to Division Rule 36, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) 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.)

(9) 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 subject 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 who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; 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 \$6,000 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 Ordering Paragraphs (12) and (14), all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division (Attn: Records Clerk) of the name and address of the escrow agent within one (1) year from the date of issuance of this order.

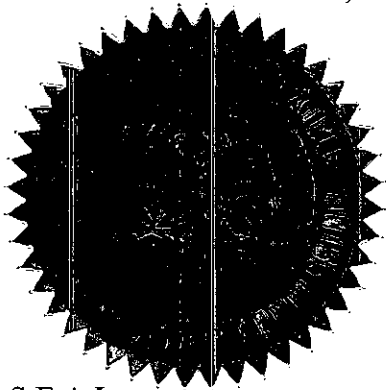
(17) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(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 forced pooling provisions of this order.

(20) Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, PE
Director