

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION**

**APPLICATION OF NEARBURG EXPLORATION COMPANY, SRO2 LLC AND SRO3
LLC FOR AN ACCOUNTING AND LIMITATION ON RECOVERY OF WELLS
COSTS, AND FOR CANCELLATION OF APPLICATION FOR PERMIT TO DRILL,
EDDY COUNTY, NEW MEXICO.**

CASE NOS.15441, 15481, and 15482

COG's PRE-HEARING STATEMENT

COG Operating, LLC, ("COG"), submits this Pre-Hearing Statement pursuant to the rules
of the Oil Conservation Division.

APPEARANCES

APPLICANT IN CASE NO. 15441

Nearburg Exploration Company,
SRO2 LLC, And SRO3

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COG'S STATEMENT OF CASE

In Case No. 15441, Nearburg Exploration Company, SRO2 LLC, and SRO3 ("NEX") seek a determination that COG "did not have the right to drill" the SRO State Com 043H (API 30-015-41141) and the SRO State Com 044H (API 30-015-41142) located in the W/2 of Sections 17 and 20 of Township 26 South, Range 28 East (the "Subject Wells"). Division records reflect that these wells were drilled by COG in August and October of 2014 under applications to drill approved by the Division on February 26, 2013. Under Commission precedent, the question before the Division is whether COG had "a good faith claim to title and a good faith belief that it is authorized" to develop the state lease in the W/2 of Section 20 at the time the Subject Wells were drilled. *See* Order R-11700-B at pg. 5, ¶27 and ¶28 (*Tmbr/Sharp* cases).

In Case No. 15481, COG seeks an order (1) creating a 320-acre, more or less, non-standard spacing and proration unit comprised of the W/2 W/2 of Section 17 and the W/2 W/2 of Section 20, Township 26 South, Range 28 East, NMPM, Eddy County, New Mexico; and (2) pooling all uncommitted mineral interests in the Bone Spring formation, Hay Hollow; Bone Spring Pool (Pool code 30215), underlying this acreage. The W/2 W/2 of Section 17 and the W/2 W/2 of Section 20 is currently dedicated to the SRO State Com No. 43H Well. In Case No. 15482, COG seeks an order (1) creating a 320-acre, more or less, non-standard spacing and

proration unit comprised of the E/2 W/2 of Section 17 and the E/2 W/2 of Section 20, Township 26 South, Range 28 East, NMPM, Eddy County, New Mexico; and (2) pooling all uncommitted mineral interests in the Bone Spring formation, Hay Hollow; Bone Spring Pool (Pool code 30215), underlying this acreage. The E/2 W/2 of Section 17 and the E/2 W/2 of Section 20 is currently dedicated to the SRO State Com No. 44H Well.

These pooling applications have been filed by COG because in November of 2015, NEX filed a Complaint in the First Judicial District Court under a case styled *Nearburg Exploration Company, L.L.C., SRO2 LLC, and SRO3 LLC v. COG Operating LLC*, CV-2015-02541 which seeks, among other relief, that the Court declare NEX is “not subject to the Operating Agreement” governing the subject acreage and that no voluntary agreement exists authorizing COG to develop the acreage in the W/2 of Section 20. Despite good faith efforts by COG, the parties have been unable to resolve either the issues raised by NEX in its Complaint or the issues relating to the title to the disputed acreage. In an effort to resolve the title dispute, COG has filed a complaint in Eddy County District Court under which COG seeks to quiet title to the disputed acreage and seeks related specific performance and declaratory relief. *See COG Operating LLC, v. Nearburg Exploration Company, L.L.C., SRO2 LLC and SRO3 LLC*, CV-2016-00196. Since NEX continues to maintain that no voluntary agreement exists covering the lands currently dedicated to the SRO State Com No. 43H and No. 44H wells, compulsory pooling is required under the Oil and Gas Act “effective from first production” for the well “drilled” on the subject non-standard spacing and proration unit. *See NMSA 1978, § 70-2-17(C) and § 70-2-18(A).*

COG'S PROPOSED EVIDENCE

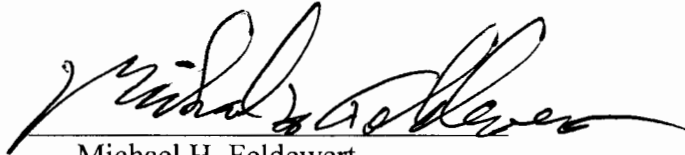
WITNESS Name and Expertise	ESTIMATED TIME	EXHIBITS
Ryan Owen Petroleum Landman	Approx. 30	Approx. 7
Henry Zollinger Petroleum Geologist	Approx. 10	Approx. 5

PROCEDURAL MATTERS

None at this time.

Respectfully submitted,

HOLLAND & HART LLP



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CERTIFICATE OF SERVICE

I hereby certify that on April 27, 2016, I served a copy of the foregoing document to the following counsel of record via electronic mail:

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A handwritten signature in black ink, appearing to read "Michael H. Feldewert", written over a horizontal line.

Michael H. Feldewert
Jordan L. Kessler