

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:

APPLICATIONS OF CIMAREX ENERGY CO.
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

Case No. 14698 (Re-opened)
Case No. 14703 (Re-opened)
Case No. 14704 (Re-opened)
Case No. 14705 (Re-opened)
Order No. R-13490-C

ORDER OF THE DIVISION

BY THE DIVISION:

These re-opened cases came on for hearing on May 24, 2012 at 8:15 a.m. at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 22nd day of June, 2012, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

- (1) Due notice has been given, and the Division has jurisdiction of the subject matter of these cases.
- (2) These cases originally came on for hearing before Examiner Terry Warnell on September 1, 2011 and September 29, 2011, and were consolidated at that time, along with Case No. 14725 and Case No. 14726.
- (3) At the hearing on September 29, 2011, all six cases were taken under advisement. On December 14, 2011, the Division Director issued Order No. R-13490, a consolidated order disposing of all six cases.
- (4) On January 11, 2012, Cimarex Energy Co., the Applicant in Cases Nos. 14698, 14703, 14704 and 14705, and COG Operating, LLC, the Applicant in Cases Nos. 14725 and 14726, filed a Joint Motion to Stay Order No. R-13490 and Re-Open these

Consolidated Cases. On January 12, 2012, the Division Director issued Order No. R-13490-A, granting the Joint Motion.

(5) On March 16, 2012, the Division Director issued Order No. R-13490-B, dismissing Cases Nos. 14725 and 14726.

(6) Re-Opened Cases Nos. 14698, 14703, 14704, and 14705 were consolidated at the hearing on May 24, 2012 for the purpose of testimony, and a consolidated order should be entered for all of them.

(7) Cimarex Energy Co. ("Cimarex") seeks to pool all uncommitted interests from the surface to the base of the Yeso formation underlying the SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, Eddy County, New Mexico, to form four 40-acre oil spacing and proration units ("the Units") to be dedicated to four vertical wells ("the proposed wells"), as follows:

(a) The SE/4 SE/4 of Section 6, to be dedicated to its proposed Kansas 6 Fee Well No. 1 (API No. 30-015-39642), to be located 990 feet from the South line and 990 feet from the East line (Unit P) of Section 6;

(b) The NW/4 SE/4 of Section 6, to be dedicated to its proposed Colorado 6 Fee Well No. 1 (API No. 30-015-39346), to be located 2310 feet from the South line and 2120 feet from the East line (Unit J) of Section 6;

(c) The NE/4 SE/4 of Section 6 to be dedicated to its proposed Colorado 6 Fee Well No. 2 (API No. 30-015-39256), to be located 2310 feet from the South line and 990 feet from the East line (Unit I) of Section 6;

(d) The SW/4 SE/4 of Section 6 to be dedicated to its proposed Colorado 6 Fee Well No. 5 (API No. 30-015-39257), to be located 990 feet from the South line and 2310 feet from the East line (Unit O) of Section 6.

(8) In addition to Cimarex, COG Operating, LLC ("COG"), Yates Petroleum Corporation, Abo Petroleum Corporation, Myco Industries, Inc., and OXY Y-1 Company all entered appearances at or prior to the original hearings of these cases. At the hearings in September, 2011, COG opposed Cimarex's application, and sought a different compulsory pooling order through its applications in Cases 14725 and 14726.

(9) After the cases were re-opened, Cimarex and COG resolved their differences and jointly requested that the Division rescind Order No. R-13490 and issue a new compulsory pooling order for the SE/4 of Section 6 incorporating essentially the terms of this Order. No party who appeared in this case opposed issuance of the order proposed by Cimarex and COG.

(10) The Division concludes that the joint request of Cimarex and COG, unopposed by any other party, should be granted, and this Order should be issued in place of Order No. R-13490.

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

(12) There are interest owners in the Units who have not agreed to pool their interests. There are no un-locatable parties, and no title dispute; therefore, escrow deposits will not be required.

(13) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste, and afford to the owner of each interest in the Units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, Cimarex's applications in the re-opened cases should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within each of the Units.

(14) Cimarex should be designated the operator of the proposed wells and of the Units.

(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 wells.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$4,500.00 per month, per well, while drilling and \$450.00 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) Division Order No. R-13490 is rescinded and is completely replaced by this order.

(2) The stay instituted by Division Order No. R-13490-A is lifted.

(3) Pursuant to the applications of Cimarex Energy Co., all uncommitted mineral interests in all formations from the surface to the base of the Yeso formation in the lands described below are hereby pooled in the following manner:

Case No. 14698: The SE/4 SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, Eddy County, New Mexico, to form a standard 40-acre oil spacing and proration unit for all pools or formations developed on 40-acre spacing within

that vertical extent. This unit is to be dedicated to Cimarex's proposed Kansas 6 Fee Well No. 1 (API No. 30-015-39642).

Case No. 14703: The NW/4 SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, Eddy County, New Mexico, to form a standard 40-acre oil spacing and proration unit for all pools or formations developed on 40-acre spacing within that vertical extent. This unit is to be dedicated to Cimarex's proposed Colorado 6 Fee Well No. 1 (API No. 30-015-39346).

Case No. 14704: The NE/4 SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, Eddy County, New Mexico, to form a standard 40-acre oil spacing and proration unit for all pools or formations developed on 40-acre spacing within that vertical extent. This unit is to be dedicated to Cimarex's proposed Colorado 6 Fee Well No. 2 (API No. 30-015-39256).

Case No. 14705: The SW/4 SE/4 of Section 6, Township 19 South, Range 26 East, NMPM, Eddy County, New Mexico, to form a standard 40-acre oil spacing and proration unit for all pools or formations developed on 40-acre spacing within that vertical extent. This unit is to be dedicated to Cimarex's proposed Colorado 6 Fee Well No. 5 (API No. 30-015-39257).

(4) Cimarex Energy Co. (OGRID No. 215099) ("Cimarex" or "operator") is hereby designated the operator of the proposed wells and of the units (the "Units").

(5) The operator of the Units shall commence drilling the proposed wells on or before July 1, 2013 and shall thereafter continue drilling the wells with due diligence to test the Yeso formation.

(6) In the event the operator does not commence drilling any of the proposed wells on or before July 1, 2013, Ordering Paragraph (3) shall be of no effect as to such proposed well and the Unit dedicated thereto, unless the operator obtains a time extension from the Division Director for good cause.

(7) Should any proposed well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (3) shall be of no further effect as to that well, 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.

(8) Upon final plugging and abandonment any of the proposed wells and any other well drilled on the same Unit pursuant to NMAC 15.19.13 Sections 9-11, the pooled Unit created by this Order and dedicated to such well shall terminate, unless this Order has been amended to authorize further operations.

(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 Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units established by this Order.)

(10) After the effective date of this Order, the operator shall furnish the Division and each known pooled working interest owner in the first Unit to be drilled an itemized schedule of estimated costs of drilling, completing and equipping the subject well ("well costs") no sooner than 45 days before the time that the operator plans to spud the well.

(11) 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 for such well, 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" as to such well.

(12) After the well on the first Unit to be drilled is drilled and completed, operator may follow the procedure set forth in Ordering Paragraphs (10) and (11) for the remaining wells and Units, provided that only one well may be drilled at a time, and a pooled working interest owner must only make one election at a time.

(13) 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 for each proposed well 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.

(14) 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.

(15) The operator is hereby authorized to withhold the following costs and charges from production from each well, separately:

- (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.

(16) The operator shall distribute the costs and charges withheld from production of any well, proportionately, to the parties who advanced the well costs for such well.

(17) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$4,500.00 per month, per well, while drilling and \$450.00 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 of each well, 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.

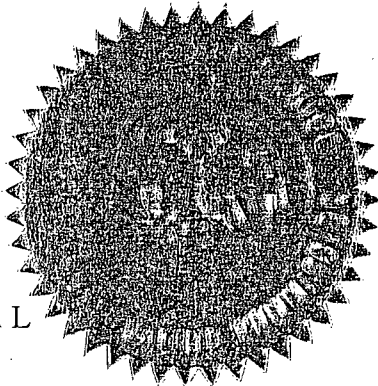
(18) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(19) 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.

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

(21) 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 black ink, appearing to read "Jami Bailey".

JAMI BAILEY
Director