

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. 15311
ORDER NO. R-14017

APPLICATION OF COG OPERATING LLC FOR A NON-STANDARD 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 May 28, 2015, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 16th day of July, 2015, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Case Nos. 15311, 15312, and 15313 were consolidated at the hearing for the purpose of testimony; however separate orders should be entered for each case.

(2) Due public notice has been given, and the Division has jurisdiction of these cases and of the subject matter.

(3) In Case No. 15311, COG Operating LLC (the "Applicant") seeks approval of a non-standard 320-acre oil spacing and proration unit and project area (the "Unit") for oil production from the Upper Bone Spring formation, WC-025 G-06 S263407P; Upper Bone Spring Pool (Pool code 97892) comprising the W/2 of the W/2 of Section 8, and the W/2 of the W/2 of Section 5, Township-26 South, Range 34 East, NMPM, in Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Upper Bone Spring formation.

(4) The Unit will be dedicated to Applicant's Gunner 8 Federal Com Well No. 9H (the "proposed well"; API No. 30-025-pending), a horizontal well to be drilled from a surface location 200 feet from the South line and 890 feet from the West line, Unit letter

M of Section 8 to a standard bottomhole location 330 feet from the North line and 990 feet from the West line, Unit letter D of Section 5. The completed interval of the proposed well will be orthodox for oil production from the Upper Bone Spring formation.

(5) The proposed oil well is subject to statewide Rule 19.15.15.9A. NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section, and 330-foot setbacks. The proposed Unit and project area consists of eight (8) adjacent quarter-quarter sections oriented from South to North.

(6) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) The Upper Bone Spring formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well North to South or South to North 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 formation of 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 surrounding 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) Yates Brothers, an interest owner in the Unit, appeared at the hearing through counsel. Chevron U.S.A. Inc., also an interest owner in the Unit, entered an appearance and pre-hearing statement, then withdrew its protest of this case on May 27, 2015, and was not present at the hearing.

The Division concludes as follows:

(8) The proposed Unit and project area will overlap and extend one quarter-quarter section further north (into a fee tract) than the project area of the existing Gunner 8 Federal Well No. 8H (API No. 30-025-40309) which was drilled only on federal acreage. The proposed well will be drilled at approximately the same true vertical depth (and same pool) as the existing well. The existing well has produced oil and gas since February of 2012.

(9) The owners of the Gunner 8 Federal Well No. 8H did not appear and oppose this application. No evidence was presented as to the effect that the proposed new well

may have on the production of the existing well or vice-versa. The number of horizontal wells is not limited within any spacing unit as per Rule 19.15.16.15 D. NMAC. There is no evidence that this new well would cause waste and it should be allowed in order to protect correlative rights. The allowable production within the seven (7) overlapped standard 40-acre spacing units should be governed as per Rule 19.15.16.14 B. (3) NMAC.

(10) The proposed 320-acre 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.

(11) 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.

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

(13) There are interest owners in the Unit that have not agreed to pool their interests.

(14) 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, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(15) COG Operating LLC should be designated the operator of the proposed well and the Unit.

(16) 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 proposed well.

(17) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 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 non-standard 320-acre oil spacing and proration unit (the "Unit") is hereby established for oil production from the Upper Bone Spring formation, WC-025 G-06 S263407P; Upper Bone Spring Pool (Pool code 97892) comprising the W/2 of the W/2

of Section 8, and the W/2 of the W/2 of Section 5, Township 26 South, Range 34 East, NMPM, in Lea County, New Mexico.

(2) Also pursuant to the application of COG Operating LLC, all uncommitted interests, whatever they may be, in the oil and gas in the Upper Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Gunner 8 Federal Com Well No. 9H (the "proposed well"; API No. 30-025-pending), a horizontal well to be drilled from a surface location 200 feet from the South line and 890 feet from the West line, Unit letter M of Section 8 to a standard bottomhole location 330 feet from the North line and 990 feet from the West line, Unit letter D of Section 5. The completed interval of the proposed well shall be orthodox for oil production from the Upper Bone Spring formation.

(4) The operator of the Unit shall commence drilling the proposed well on or before July 31, 2016, and shall thereafter continue drilling the proposed well with due diligence to test the Upper Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before July 31, 2016, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the unit and project area created by this order 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. If the proposed well is not completed in all of the quarter-quarter sections included in the proposed Unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

(7) 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.

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

(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 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 estimated costs of drilling, completing and equipping the proposed 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 from each 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.

(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) for the well are hereby fixed at \$7,000 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.

(16) Except as provided in Paragraphs (13) and (15) above, all proceeds from production from the proposed 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 70-8A7-8A-28, as amended).

(17) Any unleased mineral interests 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 compulsory pooling provisions of this Order.

(20) 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

David R. Catanach

DAVID R. CATANACH
Director