

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

**APPLICATION OF COG OPERATING LLC
FOR A NON-STANDARD SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

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CASE NO. 15481

APPLICATION

COG Operating LLC, ("COG") through its undersigned attorneys, files this application with the Oil Conservation Division pursuant to the provisions of N.M. Stat. Ann. § 70-2-17, for 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.* In support of its application, COG states:

1. COG Operating LLC (OGRID No. 229137), as the successor to Marbob Energy Corporation, owns a working interest in State Lease V-7470 covering the W/2 of Section 17. Nearburg Exploration Company, LLC ("NEX") is the lessee of record for State Lease V-7450 covering the W/2 of Section 20.

2. In June of 2009, NEX executed a document entitled "Ratification And Joinder Of Unit Agreement And Unit Operating Agreement" committing NEX's working interests in the W/2 of Section 20 to the SRO State Exploratory Unit and the corresponding Unit Operating Agreement.

3. In August of 2009, NEX executed a “Term Assignment of Oil and Gas Lease” assigning its working interest in the W/2 of Section 20 to COG’s predecessor (Marbob) and reserving an overriding royalty interest.

4. In February of 2013, COG filed an application to drill the SRO State Unit 43H well (API No. 30-015-41141) from a surface location in the W/2 W/2 of Section 17 to a bottomhole location in the W/2 W/2 of Section 20. The Division placed this well in the Hay Hollow; Bone Spring Pool (Pool Code 30215).

5. In March of 2014, COG filed a sundry notice with the Division changing the name of the well to the SRO State Com #43H because the SRO State Unit was terminated effective March 1, 2014.

6. In August of 2014, COG drilled the SRO State Com #43H well.

7. On June 10, 2015, NEX informed COG by letter that it believes the “Term Assignment has expired by its own terms and has not been extended” and provided COG with an executed Communitization Agreement covering the 320-acre spacing unit for the SRO State Com #43H well naming COG as the Operator of the spacing unit. *See Attachment A.* NEX further requested that COG “furnish monthly lease operating expenses and monthly production and revenues/itemized revenue deductions received at the same time this information is provided to other working interest owners in the Wells.” *Id.*

8. 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.

9. 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.

10. Since NEX continues to maintain that no voluntary agreement exists covering the lands currently dedicated to the SRO State Com #43H well, 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).

11. Since NEX continues to maintain that no voluntary agreement exists covering the lands currently dedicated to the SRO State Com #43H well, compulsory pooling is necessary to prevent waste and to protect the correlative rights of the interest owners in the dedicated non-standard spacing and proration unit.

12. As per the Division’s normal practice, the compulsory pooling order issued by the Division should:

- apply to “all uncommitted interests, whatever they may be” in the Bone Spring formation, Hay Hollow; Bone Spring Pool, underlying the W/2 W/2 of Sections 17 and 20;

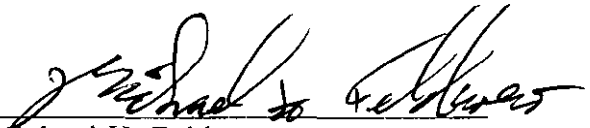
- remain in effect until “all parties to this compulsory pooling order reach voluntary agreement” or until a Court confirms that a voluntary agreement exists covering the subject acreage; and
- name *COG Operating LLC* as the operator of the non-standard spacing and proration unit currently dedicated to the SRO State Com #43H well.

WHEREFORE, COG requests that this application be set for hearing before an Examiner of the Oil Conservation Division on April 14, 2016, and, after notice and hearing as required by law, the Division enter an order:

- Creating a 320-acre, more or less, non-standard spacing and proration unit in the Bone Spring formation, Hay Hallow; Bone Spring Pool, comprised of the W/2 W/2 of Sections 17 and 20, Township 26 South, Range 28 East, NMPM, Eddy County, New Mexico;
- Pooling all uncommitted mineral interests in the non-standard spacing and proration unit;
- Designating COG Operating LLC operator of this non-standard spacing unit and the wells to be drilled thereon;
- Authorizing COG to recover its costs of drilling, equipping and completing the well; and
- Approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures.

Respectfully submitted,

HOLLAND & HART, LLP

By: 

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ATTORNEYS FOR COG OPERATING LLC

CASE 15481:

Application of COG Operating LLC for a non-standard spacing and proration unit and compulsory pooling, Eddy County, New Mexico. Applicant in the above-styled cause seeks an order (1) creating a non-standard, 320-acre, more or less, 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 mineral interests in the Bone Spring formation underlying this acreage. Said non-standard unit is dedicated to applicant's **SRO State Com #43H well**, which has been horizontally drilled from a surface location in the W/2 W/2 of Section 17 to a bottomhole location in the W/2 W/2 of Section 20. The completed interval for this well is within the 330-foot standard offset required by the rules. Also to be considered will be the actual cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, and designation of COG Operating LLC as operator of the well. Said area is located approximately 12 miles southwest of Malaga, NM.

Nearburg Exploration Company, L.L.C.

Oil and Gas Exploration
3300 North "A" Street
Building 2, Suite 120
Midland, TX 79705-5421
432-686-8235
FAX 432-686-7806

June 10, 2015

COG Operating LLC
Attn: Mr. Aaron Myers
One Concho Center
600 W. Illinois Avenue
Midland, Texas 79701

Hand Delivery

Re: Communitization Agreements
SRO State Comm #43H & 44H Wells
Eddy County, New Mexico
Sections 17 & 20, T-26-S, R-28-E, N.M.P.M.

Dear Aaron:

Pursuant to our correspondence to you dated May 28, 2015, Nearburg Exploration Company, L.L.C. ("Nearburg") is in receipt of revised Communitization Agreements for the SRO State Com #43H and the SRO State Com #44H, (collectively the "Agreements").

Nearburg owns an interest in the SRO State Com #43 H and SRO State Com #44H wells (collectively the "Wells") by way of Nearburg's State of New Mexico Lease #VO-7450-0001 covering the W/2 of Section 20, T-26-S, R-28-E, N.M.P.M., Eddy County, New Mexico (the "Lease"). The Lease was subject to a Term Assignment of Oil and Gas Lease from Nearburg in favor of Marbob Energy Corporation (now COG) recorded in Book 790, Page 530 of the records of Eddy County, New Mexico (the "Term Assignment"). The Term Assignment has expired by its own terms and has not been extended.

Nearburg requested and COG has advised us that we have been furnished with all emails and other written communications between COG and the New Mexico State Land Office (the "Office") regarding Nearburg and the Agreements. In addition COG has agreed to amend the Communitization Agreements on the above wells to be restricted to the 2nd Bone Spring interval as Nearburg proposed.

In an effort to further evaluate our working interest in the Wells, Nearburg requests it be provided with the following 8/8^{ths} information for the Wells:

- a) Daily production (including any FTP or FCP pressure data that is available) through the date Nearburg and COG resolve ownership of the Wells;

ATTACHMENT

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- b) Daily reports, when applicable, for any well repairs, workovers, etc. through the date Nearburg and COG resolve ownership of the Wells;
- c) A detailed accounting of the actual costs to drill, complete and equip the Wells;
- d) Actual lease operating expenses billed through your monthly joint interest billings;
- e) Actual revenues received through April 2015;
- f) Itemized revenue deductions for any transportation, taxes or other deductions.

We understand this information will be provided to Nearburg on or before June 17, 2015. In addition, Nearburg requests that going forward you furnish monthly lease operating expenses and monthly production and revenues/itemized revenue deductions received at the same time this information is provided to other working interest owners in the Wells.


Please acknowledge as provided below that Nearburg's execution and delivery of the enclosed Agreements does not extend or ratify the Term Assignment and Nearburg does not waive any rights held by it as owner and holder of the Lease and that Nearburg specifically reserves all rights relating to this situation.

We ask that you please provide the documentation requested above as soon as possible in order to expedite resolution of this matter.

If you have any questions or comments, or should you need anything further in regard to this matter, please do not hesitate to contact the undersigned at (432) 818-2914 or via email at rhoward@nearburg.com.

Sincerely,

Nearburg Exploration Company, L.L.C.


Randy Howard
Land Manager

Enclosures

Acknowledged this 10th day of June, 2015

COG Operating LLC

By: 

Its: 
Senior Landman