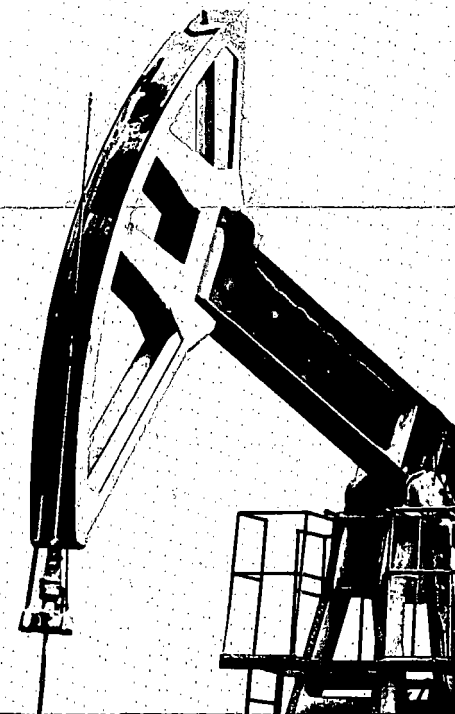


COG OPERATING LLC

FALABELLA 31 FEE NO. 8H

Eddy County, New Mexico



CONCHO

**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. 14795
ORDER NO. R-13535**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 15, 2012, and on March 29, 2012, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 11th day of April, 2012, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) COG Operating, LLC ("Applicant"), seeks approval of a non-standard 160-acre oil spacing and proration unit and project area ("the Unit") in the Penasco Draw-San Andres-Yeso Associated Pool, consisting of the E/2 of the E/2 of Section 31, Township 18 South, Range 26 East, NMPM, in Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit.

(3) The Unit is to be dedicated to Applicant's Falabella 31 Fee Well No. 4H ("the proposed well"), a horizontal well to be drilled from a non-standard surface location 150 feet from the South line and 1040 feet from the East line (Unit P) of Section 31. The well will penetrate the Yeso formation and continue horizontally to a standard terminus, or bottomhole location, 330 feet from the North line and 1040 feet from the East line (Unit A) of Section 31. The completed interval will be entirely within all applicable setbacks from the outer boundaries of the E/2 E/2 of Section 31.

**BEFORE THE OIL CONSERVATION
DIVISION
Santa Fe, New Mexico
Exhibit No. 1
Submitted by: COG OPERATING LLC
Hearing Date: August 4, 2016**

(4) Spacing in the Penasco Draw-San Andres-Yeso Associated Pool is governed by the Special Rules for that pool, as most recently amended by Order No. R-5353-H, effective October 1, 1981, which provide for standard 40-acre oil units, each comprising a governmental quarter-quarter section, with oil wells to be located at least 330 feet from unit outer boundaries. The Unit consists of four adjacent quarter-quarter sections.

(5) Applicant appeared at the hearing through counsel and presented geologic evidence by affidavit to the effect that:

(a) this area is suitable for development by horizontal drilling;

(b) all quarter-quarter sections to be included in the Unit are expected to be productive of oil in the Yeso, so that formation of the Unit as requested will not impair correlative rights.

(6) No other party appeared at the hearing. Cimarex Energy Co. of Colorado and OXY Y-1 Company filed entries of appearance, but did not appear at the hearing. Counsel for Applicant represented to the Division that all issues with these parties had been settled, and neither of these parties now opposes this Application.

The Division concludes that:

(7) 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.

(8) Applicant is an 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.

(9) There are interest owners in the Unit that have not agreed to pool their interests. There are no unlocated owners in the Unit, and there is no evidence of a title dispute. Hence there is no need to escrow funds.

(10) 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.

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

(12) 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 well.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,500 per month while drilling and \$550 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 160-acre oil spacing and proration unit (the Unit) is hereby established in the Penasco Draw-San Andres-Yeso Associated Pool (Pool Code 50270), consisting of the E/2 E/2 of Section 31, Township 18 South, Range 26 East, NMPM, in Eddy County, New Mexico.

(2) Pursuant to the application of COG Operating, LLC, all uncommitted interests, whatever they may be, in the oil and gas in the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Falabella 31 Well No. 4H ("the proposed well"), a horizontal well to be drilled from a non-standard surface location 150 feet from the South line and 1040 feet from the East line (Unit P) of Section 31. The well will penetrate the Yeso formation and continue horizontally to a standard terminus, or bottomhole location, 330 feet from the North line and 1040 feet from the East line (Unit A) of Section 31. The completed interval will be within all applicable setbacks from the outer boundaries of the E/2 E/2 of Section 31.

(4) The operator of the Unit shall commence drilling the proposed well on or before April 15, 2013, and shall thereafter continue drilling the well with due diligence to test the Yeso formation.

(5) In the event the operator does not commence drilling the proposed well on or before April 15, 2013, 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 of 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:

- (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) are hereby fixed at \$5,500 per month while drilling and \$550 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) 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.

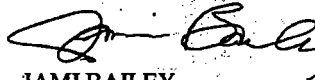
(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

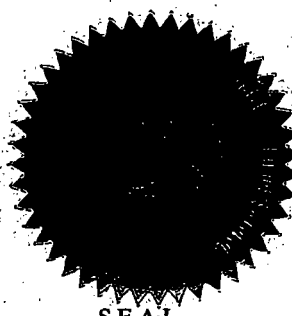
(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



JAMI BAILEY
Director



**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. 14795 Re-Opened
ORDER NO. R-13535-A**

**APPLICATION OF COG OPERATING, LLC TO AMEND ORDER NO. R-13535
TO COMPULSORY POOL ADDITIONAL MINERAL INTERESTS IN THE
APPROVED SPACING AND PRORATION UNIT AND TO CHANGE THE
WELL DEDICATED TO THE UNIT, EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 6, 2014, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 28th day of February, 2014, 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 this case.

(2) Pursuant to previous hearings, the Division, on April 11, 2012, issued Order No. R-13535, granting the application of COG Operating, LLC (the "Applicant") for approval of a non-standard spacing and proration unit and compulsory pooling. The Order established a non-standard 160-acre oil spacing and proration unit and project area (the "Unit") consisting of the E/2 of the E/2 of Section 31, Township 18 South, Range 26 East, NMPM, in Eddy County, New Mexico.

(3) Order No. R-13535 designated that the Unit be dedicated to the Falabella 31 Fee Well No. 4H (API No. 30-015-39513), a horizontal well to be drilled from a non-standard surface location 150 feet from the South line and 1040 feet from the East line (Unit P) of Section 31. The well would penetrate the Yeso formation and continue horizontally to a standard terminus, or bottomhole location, 330 feet from the North line

and 1040 feet from the East line (Unit A) of Section 31. The Director approved an extension to April 15, 2014, to commence drilling of the Falabella 31 Fee Well No. 4H.

(4) Subsequently, Applicant sought to amend Order No. R-13535 to compulsory pool additional owners with an interest in the lands pooled pursuant to an instrument of record in Eddy County, New Mexico. These interest owners were not identified in the original title record review and were subsequently omitted from previous notices provided to owners in this case, as required by Division Rule 19.15.4.12A.(1) NMAC. These additional interest owners are identified in the last two pages of Applicant's Exhibit No. 5 (16 parties in total).

(5) Applicant also requested the proposed well for the Unit to be the Falabella 31 Fee Well No. 8H (API No. 30-01539515, the "new proposed well") a horizontal well to be drilled from a non-standard surface location 150 feet from the South line and 380 feet from the East line (Unit P) of Section 31. The well will penetrate the Yeso formation and continue horizontally to a standard terminus, or bottomhole location, 330 feet from the North line and 380 feet from the East line (Unit A) of Section 31.

(6) At the hearing, Applicant appeared and presented evidence that it had given notice of the original application and the re-opened hearing to the recently identified interest owners, or their heirs, successors or assigns, by certified mail and by publication pursuant to 19.15.4.12.B NMAC. No appearance was entered for these mineral owners, nor any personal representative, heir or successor, and no person claiming to own or represent a claimant to an interest derived from these mineral owners has otherwise communicated with the Division.

(7) Applicant appeared at hearing through counsel and presented testimony to the effect that:

- (a) the Falabella 31 Fee Well No. 4H has not been drilled;
- (b) the proposed new well is closer to the East line of the Unit, but the completed interval will be within all applicable setbacks and has the same orientation and target zone as the Falabella 31 Fee Well No. 4H; and
- (c) the notification requirements for the location of the new proposed well have been satisfied with the prior notification completed for the Falabella 31 Fee Well No. 4H and with the proof of notification submitted in the hearing.

(8) Applicant also requested a change of overhead rates provided in Ordering Paragraph (15) from \$5,500 a month while drilling and \$550 a month while producing to \$5,450 a month while drilling and \$545 a month while producing. This change reflects the rates provided in notification to the recently identified interest owners.

The Division therefore concludes:

(9) Order No. R-13535 should be amended to compulsory pool the interests of recently identified owners and their heirs, devisees, personal representatives, successors and assigns, whoever they may be.

(10) The designation of the Applicant's new proposed well for the Unit will 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.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the Application of COG Operating, LLC (OGRID 229137), Order No. R-13535, issued in this case on April 11, 2012, is hereby amended to compulsory pool the recently identified owners and their heirs, devisees, personal representatives, successors and assigns, as well as all other owners of interests in the Unit established thereby, from the date said Order was originally issued.

(2) Ordering Paragraph (3) of Order No. R-13535 is amended to read in its entirety, as follows:

(3) The Unit shall be dedicated to Applicant's Falabella 31 Fee Well No. 8H (API No. 30-015-39515; the "proposed well"), a horizontal well to be drilled from a non-standard surface location 150 feet from the South line and 380 feet from the East line (Unit P) of Section 31. The well will penetrate the Yeso formation and continue horizontally to a standard terminus, or bottomhole location, 330 feet from the North line and 380 feet from the East line (Unit A) of Section 31. The completed interval will be within all applicable setbacks from the outer boundaries of the E/2 E/2 of Section 31.

(3) Ordering Paragraph (15) of Order No. R-13535 is amended to read in its entirety, as follows:

(15) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$5,450 per month while drilling and \$545 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.

(4) All other provisions of Order No. R-13535 remain in full force and effect.

(5) 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



JAMI BAILEY
Director



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