

**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 HEARING:**

2006 DEC 28 PM 1 31

**APPLICATION OF COG OPERATING LLC
FOR APPROVAL OF THE THIRD AMENDMENT
OF THE GRAYBURG-JACKSON WEST COOPERATIVE
UNIT AGREEMENT EXTENDING THE VERTICAL LIMITS
OF THE UNITIZED FORMATIONS TO INCLUDE THE
BLINEBRY, TUBB AND DRINKARD INTERVAL OF THE
YESO FORMATION, TO AMEND ORDER NO. R-3127-B
TO CORRECT CERTAIN FINDINGS AND INCLUDE
COMMINGLED PRODUCTION AND FOR EXTENSION
OF THE GRAYBURG JACKSON-SEVEN RIVERS-QUEEN-
GRAYBURG SAND ANDRES-GLORIETA-YESO (PADDOCK)
POOL TO INCLUDE THE BLINEBRY, TUBB AND DRINKARD
INTERVALS OF THE YESA FORMATION,
EDDY COUNTY, NEW MEXICO**

CASE 13848

PRE-HEARING STATEMENT

**COG Operating LLC ("COG") submits this pre-hearing statement as required by
the New Mexico Oil Conservation Division.**

APPEARANCES OF THE PARTIES

APPLICANT

**COG Operating LLC
550 West Texas Ave
Suite 1300
Midland, Texas 79701
Attn: David W. Copeland,
Vice President and
General Counsel
423-683-7443**

ATTORNEY

**Thomas Kellahin, Esq.
Kellahin & Kellahin
706 Gonzales Rd.
Santa Fe, New Mexico 87501
505-982-4285**

OPPONENT

ATTORNEY

None

STATEMENT OF THE CASE

1. Applicant is the Operator of the Grayburg-Jackson West Cooperative Unit ("the Unit"), that is comprised of approximately 2,400 acres of State of New Mexico and fee lands located in Eddy County, New Mexico, more particularly described as follows (the "Unit Area"):

Township 17 South, Range 29 East, NMPM

Section 15:	W1/2SW1/4
Section 16:	All
Section 21:	All
Section 22:	W1/2W1/2, E1/2NW1/4, NE1/4SW1/4, NW1/4NE1/4
Section 27:	W1/2SW1/4
Section 28:	All

The Grayburg-Jackson West Cooperative Unit Agreement was originally approved by the Oil Conservation Commission on October 4, 1966 by Order No. R-3127, which was subsequently amended on March 4, 1968 by Order No. R-3127-A to include an additional 300 acres. The Unitized Formation under the Unit Agreement as originally described was that portion of the Grayburg San-Andres formation encountered between the depths of 2,200' and 3,600' underlying the Unit Area ("Initial Unitized Formation").

2. The Unit was acquired along with other properties from Chase Oil Corporation and its affiliates on February 27, 2006 by COG Oil & Gas LP, a Texas limited partnership of

which COG is the sole General Partner. COG became the record operator of the Unit effective March 1, 2006, as successor to Mack Energy Corporation ("Mack Energy").

3. On June 13, 2006, the Division entered Order No. R-3127-B in Case No. 13609 which approved, *inter alia*, the extension of the vertical limits of the Initial Unitized Formation and the Grayburg-Jackson Pool to include all formations from the top of the Seven Rivers formation to the base of the Glorieta-Yeso (Paddock) formation, being those depths from 1116' to 4636' below the Kelly Bushing as shown on the Schlumberger log of the Diamondbacks State No. 1 Well located 2040' FNL and 2140' FEL of Section 28, T17S, R29E, Eddy County, New Mexico (the "Expanded Unitized Interval"). The horizontal boundaries of the Unit remained unchanged. On September 27, 2006, the Commissioner of Public Lands issued final approval of the Second Amendment of the Unit Agreement expanding the Initial Unitized Formation within the Unit Area to be and include the Expanded Unitized Interval.

4. After the entry of Division Order R-3127-B, COG discovered, that, prior to the entry of such order, the following activities were done in apparent violation of Commission rules and regulations:

- a. 48 wells were perforated and completed in the Paddock interval of the Yeso formation as well as the Grayburg-San Andres formation;
- b. 13 wells were perforated and completed solely in the Paddock interval of the Yeso formation;
- c. 5 wells were perforated and completed in the Paddock and Blinbry intervals of the Yeso formation as well as the Grayburg-San Andres formation;
- d. 4 wells were perforated and completed solely in the Blinbry and Paddock intervals of the Yeso formation;

- e. production was commingled from these formations downhole and at the surface;
- f. production from these wellbores was incorrectly reported solely as Unit production, as production came from the Initial Unitized Formation and lower formations, including the Expanded Unitized Interval;
- g. various reports indicating that the completion, perforated and producing intervals as being solely within the Initial Unitized Formation were filed with the Division, which were incorrect; and
- h. the deepening of certain wells was done without Division approval.

5. In addition, COG discovered that the reporting and payment of royalty attributable to the Unit and due to the State of New Mexico was incorrect as a result of the above circumstances.

6. It is impractical to correct the commingled production reporting because the production was not independently measured from each formation or interval before it was commingled. While there may be an engineering methodology that would permit an accurate estimate of past production by separate formations, COG does not have sufficient data to undertake that effort; however, Mack Energy, the previous operator of the Unit, COG and the New Mexico State Land Office ("SLO") have agreed upon a methodology to establish the value of the resulting underpayment due the State of New Mexico and \$615,444.30 that has been paid to the SLO by Mack Energy, and such parties have entered into a Settlement Agreement to confirm the satisfaction of such underpayment.

7. COG has already take action to correct the past reporting inaccuracies by filing amended forms C-103, C-104 and C-105 for the seventy wells concerned. Such forms were prepared and delivered to the Division on September 14, 2006, for sixty-six of such wells.

Corrected forms have also subsequently been prepared and submitted to the Division for three of the four wells which had been plugged and abandoned. Previous filings for the fourth plugged and abandoned well (#87) were correct; therefore, no amended filings were necessary. In addition, the nine Yeso (Blinebry) wells within the Unit Area were shut-in on September 6, 2006, and forms C-103 for those wells were among the records delivered to the Division on September 14, 2006. COG has also electronically filed its C-115 production reports for June and October 2006, with a footnote concerning the possible need to amend production reports related to the Unit arising from the circumstances described in COG's subject Application.

8. By its Application COG seeks to:

- (a) (1) obtain the correction of Findings (10)(b) and (c) and (12) of Order R-2137-B to reflect that Unit wellbores had been drilled and produced from both the Paddock and the Blinebry intervals of the Yeso formation prior to the entry of Order R-3127-B, and (2) obtain the ratification of Order R-3127-B on the basis of such correction. its Application and related hearing;
- (b) expand the vertical limits of the confirmed Expanded Unitized Interval to the top of the Abo formation, thereby including the Blinebry, Tubb and Drinkard intervals of the Yeso formation within the unitized formation; and
- (c) obtain approval for past production attributable to the subject wells and the various pools within and below the Expanded Unitized Interval that, instead of being allocated and reported for each pool, was commingled and reported solely as Unit production.

9. Applicant also proposes the expansion of the horizontal and vertical limits of the Grayburg-Jackson San Andres Pool (28509) to include the Blinebry, Tubb and Drinkard intervals of the Yeso formation as to the Unit Area, so that all intervals may be administered and operated as a single common source of supply.

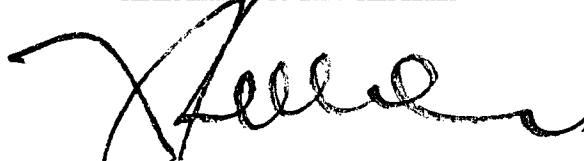
PROPOSED EVIDENCE

WITNESSES	EST. TIME	EST. EXHIBITS
Brent Robertson (Land)	30-40 min	@ 10-12
Ricky Cox (Geology)	20-30 min	@ 6-8
Gayle Burleson (Engineering)	30-40 min	@ 6-8

PROCEDURAL MATTERS

None

KELLAHIN & KELLAHIN



W. Thomas Kellahin
706 Gonzales Rd
Santa Fe, New Mexico 87501
Phone 505-982-4285
Fax 505-982-2047
E-mail: tkellahin@comcast.net