

**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. 14153
ORDER NO. R-12992**

**APPLICATION OF CIMAREX ENERGY CO. FOR A NON-STANDARD OIL
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 July 24, 2008, at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 5th day of September, 2008, 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) Cimarex Energy Co. ("Applicant"), seeks approval of an 80-acre oil spacing and proration unit and project area for a horizontal well ("the Unit") in the Caudill; Permo Upper Penn Pool (10830) consisting of the SW/4 NE/4 and NW/4 SE/4 (Units G and J) of Section 21, Township 15 South, Range 36 East, NMPM, in Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit in the Wolfcamp formation. The well unit is non-standard because of the horizontal well.

(3) The Unit is to be dedicated to Applicant's proposed Caudill South 21 Well No. 3 (API No. 30-025-38690), (the "proposed well") to be drilled as a horizontal well from a standard surface location 2200 feet from the South line and 2220 feet from the East line (Unit J) of Section 21. The proposed well will penetrate the Wolfcamp formation at a standard oil well location 2200 feet from the South line and 2220 feet from

the East line (Unit J) of Section 21 and will be drilled to the North, horizontally in the Wolfcamp to a standard terminus, or bottomhole location, 1700 feet from the North line and 2200 feet from the East line (Unit G) of Section 21.

(4) Spacing in the Caudill; Permo Upper Penn Pool is governed by statewide Rule 104.B(1), which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The proposed 80-acre Unit consists of two adjacent quarter-quarter sections.

(5) Applicant appeared at the hearing through counsel and presented land and geologic evidence by affidavit as follows:

(a) The SW/4 NE/4 and NW/4 SE/4 (Units G and J) of Section 21 is a fee tract with common, undivided mineral ownership throughout the tract.

(b) Drilling a horizontal well is the most efficient and economic way to produce the oil from the Wolfcamp formation within the Unit

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) Approval of the proposed 80-acre non-standard oil unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights. The proposed well will produce from BOTH 40-acre Tracts comprising this Unit.

(8) 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.

(9) 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.

(10) There are interest owners in the Unit that were not locatable or have not agreed to pool their interests. Newspaper NOTICE was also published.

(11) 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.

(12) Applicant should be designated the operator of the proposed well and of the

Unit.

(13) 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.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 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 80-acre oil spacing and proration unit (the Unit) is hereby established in the Caudill; Permo Upper Penn Pool (10830) consisting of the SW/4 NE/4 and NW/4 SE/4 (Units G and J) of Section 21, Township 15 South, Range 36 East, NMPM, in Lea County, New Mexico.

(2) Pursuant to the application of Cimarex Energy Co., all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation, (Caudill; Permo Upper Penn Pool) underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Caudill South 21 Well No. 3 (API No. 30-025-38690), to be drilled as a horizontal well from a standard surface location 2200 feet from the South line and 2220 feet from the East line (Unit J) of Section 21. The proposed well will penetrate the Wolfcamp formation at a standard oil well location 2200 feet from the South line and 2220 feet from the East line (Unit J) of Section 21 and will be drilled horizontally in the Wolfcamp to a standard terminus, or bottomhole location, 1700 feet from the North line and 2200 feet from the East line (Unit G) of Section 21.

(4) The operator of the Unit shall commence drilling the proposed well on or before November 30, 2008, and shall thereafter continue drilling the well with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling the proposed well on or before November 30, 2008, 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 to completion, or be abandoned, within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect 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.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 36, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Applicant is hereby designated the operator of the proposed 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 \$6,000 per month while drilling and \$600 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 well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division (Attn: Records Clerk) of the name and address of the escrow agent within one (1) year from the date of issuance of this order.

(17) 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.

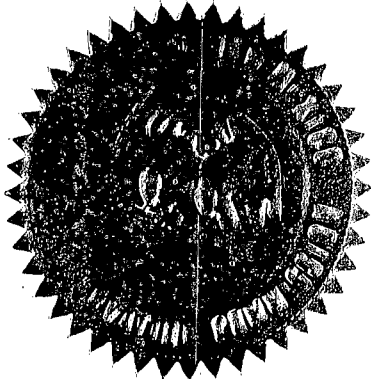
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(20) To the extent that the application seeks establishment of non-standard 80-acre units in any other formation spaced on 40 acres, other than the Wolfcamp, the evidence does not establish the necessity for such units in such other formations, and the application, as to such other formations, is denied.

(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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read 'Mark E. Fesmire', written in a cursive style.

MARK E. FESMIRE, P.E.
Director