

**STATE OF NEW MEXICO
ENERGY, MINERAL AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE
OF CONSIDERING:**

**APPLICATION OF CIMAREX ENERGY
CO. FOR A NON-STANDARD OIL
SPACING UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO**

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CASE NO. 14418

**APPLICATION OF CIMAREX ENERGY
CO. FOR A NON-STANDARD OIL
SPACING UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO**

CASE NO. 14480

APPLICANT CIMAREX ENERGY CO.'S PROPOSED ORDER

As directed by the Commission Chair at the November 4, 2010 hearing in these consolidated cases, applicant Cimarex Energy Co. ("Cimarex") submits its Proposed Order.

ORDER OF THE COMMISSION

THIS MATTER, having come on for hearing before the Commission at 9:00 a.m. on November 4, 2010 at Santa Fe, New Mexico, the Commission,

FINDS THAT:

(1) Due public notice has been given, and the Commission has jurisdiction over these consolidated cases and the subject matters of the cases.

(2) Cimarex's application in Case No. 14418 seeks approval of a non-standard 160-acre oil spacing and proration unit and project area ("unit" or "project area") for oil production in the

Bone Spring formation consisting of the W/2 W/2 of Section 21, Township 19 South, Range 31 East, NMPM, in Eddy County, New Mexico.

(3) Cimarex's application in Case No. 14418 further seeks the pooling of all uncommitted interests in the Bone Spring formation in the following manner:

- (i) The NW/4 NW/4 of Section 21 from the surface to the base of the Bone Spring formation; and
- (ii) The W/2 W/2 of Section 21 from 2, 500 feet subsurface to the base of the Bone Spring formation.

(4) During the February 4, 2010 Examiner hearing in Case No. 14418, Cimarex withdrew the portion of its application seeking the pooling of all uncommitted interests in the NW/4 NW/4 of Section 21 from the surface to the base of the Bone Spring formation.

(5) This unit (the W/2 W/2 of Section 21) is to be dedicated to the Penny Pincher Federal Com No. 1 well, a horizontal well that Cimarex has drilled from a standard surface location 660 feet from the North line and 990 feet from the West line (Unit D) of Section 21. The well penetrates the Bone Spring formation at a standard oil well location 660 feet from the North line and 990 feet from the West line (Unit D) of Section 21, and continues South horizontally in the Bone Spring formation to a standard terminus, or bottom hole location, which is 330 feet from the South line and 330 feet from the West line (Unit M) of Section 21.

(6) Cimarex's application in Case No. 14480 seeks approval of (i) a standard 40-acre oil spacing and proration unit in the NE/4 NW/4 of Section 21, Township 19 South, Range 31 East, NMPM, in Eddy County, New Mexico, and (ii) a non-standard 160-acre oil spacing and proration unit and project area ("unit" or "project area") in the E/2 W/2 of Section 21, for oil production in the Bone Spring formation. The application further seeks the pooling of all

uncommitted interests in the NE/4 NW/4 of Section 21 and the E/2 W/2 of Section 21, from 2,500 feet subsurface to the base of the Bone Spring formation.

(7) The proposed unit (the E/2 W/2 of Section 21) is to be dedicated to the Penny Pincher Federal Com No. 2 Well, a horizontal well to be drilled from a standard surface location 330 feet from the North line and 1,980 feet from the West line (Unit C) of Section 21. The well will penetrate the Bone Spring formation at a standard oil well location 330 feet from the North line and 1,980 feet from the West line (Unit C) of Section 21 and continue South horizontally in the Bone Spring formation to a standard terminus, or bottomhole location, which is 330 feet from the South line and 1,980 feet from the West line (Unit N) of Section 21.

(8) On March 18, 2010, the Acting Director of the Oil Conservation Division issued Order No. R-13228, which approved Cimarex's application in Case No. 14418.

(9) The Commission Chair denied a motion filed on April 7, 2010 by Lynx Petroleum Consultants, Inc. ("Lynx"), Larry Scott, and Marbob Energy Corporation that requested a stay of Order No. R-13228.

(10) Cimarex has drilled and completed the Penny Pincher Federal Com No. 1 horizontal well, and it began reporting production from the well in August 2010.

(11) The spacing in this area is governed by statewide Rule 15.9.A, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The two 160-acre spacing and proration units proposed by Cimarex each consist of four adjacent quarter-quarter sections.

(12) Cimarex appeared at the hearing through counsel and presented the following testimony by its landman, geologist, and petroleum engineer:

- (a) Cimarex holds interests in each quarter-quarter section of the proposed units. It acquired its interest in the N/2 of the units through a farm-out agreement with Devon Energy Production Company, and acquired its interests in the S/2 of the units through assignments from Marbob Energy Corporation and EGL Resources, Inc. and joint operating agreements with Seven Rivers, Inc. and with CTV O&G NM, LLC, Thru Line O&G NM, LLC, Keystone O&G NM, LLC, Goliad O&G NM, LLC, and WD O&G NM, LLC;
- (b) In the 2nd Bone Spring Sandstone in Section 21, the orientation of the productive channels is basically North to South, and Cimarex has placed the Penny Pincher Federal No. 1 horizontal well, and will place the Penny Pincer Fed Com No. 2 well, in the thickest portion of the channels to encounter the most pay;
- (c) Based on Cimarex's experience in drilling and completing horizontal wells in the area, a 10% porosity cutoff is productive in the 2nd Bone Spring Sandstone, and that the porosity cut-off is continuous in the W/2 of Section 21;
- (d) Production from each quarter-quarter section to be included in the units in the W/2 of Section 21 is expected to be substantially similar in the 2nd Bone Spring Sandstone because the reservoir is continuous with identical pay thickness, porosity, and initial water saturation;

- (e) Production data from the Penny Pincher Federal Com No. 1 well demonstrate Cimarex has encountered pay in all quarter-quarter sections of the W/2 W/2 of Section 21; and
- (f) The production data from the Penny Pincher Federal Com No. 1 well further demonstrate that the well has exceeded Cimarex's projections.

(13) Lynx appeared at the hearing through legal counsel and opposed Cimarex's application. Larry Scott, who appeared on behalf of himself, Lynx, Harvey E. Yates Company, and several other interest owners, presented the following testimony:

- (a) Cimarex's data for the Penny Pincher Federal Com No. 1 well reveal that more pay is encountered in the S/2 than in the N/2 of the W/2 W/2 of Section 21;
- (b) Based on the production history of the offset wells in the area, the W/2 SE/4 is more prospective than the W/2 NE/4 of Section 21; and
- (c) Because of these disparities in net pay, the Commission should deny Cimarex's application or, alternatively, should allocate production based on the reserves in each quarter-quarter section.

CONCLUDES AS FOLLOWS:

(14) Lynx proposed a well several years ago in the S/2 of Section 21, but its Application for Permit to Drill (APD) expired more than two years ago.

(15) Lynx has no plans to drill a vertical or horizontal well in the S/2 of Section 21 in the immediate future.

(16) Cimarex holds interests in each quarter-quarter section of the W/2 Section 21.

(17) Cimarex has drilled a horizontal well in the W/2 W/2 of Section 21, and plans to drill a horizontal well in the E/2 W/2 of Section 21, to form non-standard 160-acre spacing and proration units and project areas.

(18) The North-South orientation of Cimarex's completed well and of its proposed well is and will be more productive than would an East-West orientation.

(19) The Commission has no authority to require tests on each individual 40-acre tract, or allocate production based on the results of such tests, because NMSA 1978, § 70-2-17 mandates that production from a compulsory pooled unit shall be allocated on an acreage basis.

(20) Approval of the proposed units will enable Cimarex to most efficiently produce the reserves underlying the units, thereby preventing waste, and will not impair correlative rights.

(21) Two or more separately owned tracts are embraced within the units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more of the tracts that are separately owned.

(22) Cimarex holds oil and gas working interests in the units, and has the right to drill horizontal wells to common sources of supply within the units.

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

(24) There are no unlocated interest owners in the units, and there is no evidence of any title disputes.

(25) To avoid the drilling of unnecessary wells, protect correlative rights, and prevent waste, and to afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense his or its just and fair share of hydrocarbons, Cimarex's applications should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the units.

(26) Cimarex Energy Co. of Colorado should be designated as the operator of the Penny Pincher Federal Com No. 1 and Penny Pincher Federal Com No. 2 horizontal wells and as the operator of the units.

(27) Any pooled working interest owner who did not pay his or its share of the estimated well costs for the Penny Pincher Federal Com No. 1 well should have withheld from production his or its share of reasonable well costs plus an additionally 200% thereof as a reasonable charge for the risk involved in drilling the well.

(28) Any pooled interest owner who does not pay his or its share of the estimated well costs for the Penny Pincher Federal Com No. 2 well should have withheld from production his or its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(29) 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 – Join Operations*".

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre oil spacing and proration unit is hereby established in the Bone Spring formation, consisting of the W/2 W/2 of Section 21, Township 19 South, Range 31 East, NMPM, in Eddy 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 Bone Spring formation underlying this unit in the W/2 W/2 of Section 21 are hereby pooled.

(3) The unit in the W/2 W/2 of Section 21 shall be dedicated to the Penny Pincher Federal Com No. 1 well, a horizontal well that Cimarex has drilled from a standard surface location 660 feet from the North line and 990 feet from the West line (Unit D) of Section 21. The well penetrates the Bone Spring formation at a standard oil well location 660 feet from the North line and 990 feet from the West line (Unit D) of Section 21, and continues South horizontally in the Bone Spring formation to a standard terminus, or bottom hole location, which is 330 feet from the South line and 330 feet from the West line (Unit M) of Section 21.

(4) A non-standard 160-acre spacing and proration unit is hereby established in the Bone Spring formation, consisting of the E/2 W/2 of Section 21, Township 19 South, Range 31 East, NMPM, in Eddy County, New Mexico.

(5) Pursuant to the application of Cimarex Energy Co., all uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying this unit in the E/2 W/2 of Section 21 are hereby pooled.

(6) The unit in the E/2 W/2 of Section 21 shall be dedicated to Cimarex's Penny Pincher Federal Com Well No. 2, a horizontal well to be drilled from a standard surface location 330 feet from the North line and 1,980 feet from the West line (Unit C) of Section 21. The well will penetrate the Bone Spring formation at a standard oil well location 330 feet from the North line and 1,980 feet from the West line (Unit C) of Section 21, and continue South horizontally in the Bone Spring formation to a standard terminus, or bottom hole location, which will be 330 feet from the South line and 1,980 feet from the West line (Unit N) of Section 21.

(7) Cimarex Energy Co. of Colorado (OGRID 162683) is hereby designated as the operator of the Penny Pincher Federal Com No. 1 and Penny Pincher Federal Com No. 2 wells and as the operator of the two non-standard 160-acre spacing and proration units.

(8) Cimarex Energy Co. of Colorado shall commence drilling the Penny Pincher Federal Com No. 2 well on or before November 30, 2011, and shall thereafter continue drilling with due diligence to test the Bone Spring formation.

(9) In the event that Cimarex Energy Co. of Colorado does not commence drilling the Penny Pincher Federal Com No. 2 well on or before November 30, 2011, Ordering Paragraphs (4) and (5) shall be of no effect, unless Cimarex Energy Co. of Colorado obtains a time extension from the Commission for good cause as demonstrated by satisfactory evidence.

(10) Should the Penny Pincher Federal Com No. 2 well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (4) and (5) shall be of no further effect, and the unit created by this order shall terminate, unless Cimarex Energy Co. of Colorado appears before the Commission and obtains an extension of the time for completion of the well for good cause as shown by satisfactory evidence.

(11) Upon final plugging and abandonment of the Penny Pincher Federal Com No. 1 well, the Penny Pincher Federal Com No. 2 well, and any other well drilled on the units pursuant to Division Rule 13.9, the pooled units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(12) 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 units, including unleased mineral interests, who are not parties to an operating agreement governing either or both of the units). After the effective date of this order, Cimarex Energy Co. of Colorado shall furnish the Commission and each known pooled working interest owner in the unit an itemized schedule of the estimated costs of drilling, completing and equipping the Penny Pincher Federal Com No. 2 well.

(13) Within 30 days from the date the schedule of estimated well costs for the Penny Pincher Federal Com No. 2 well is furnished, any pooled working interest owner shall have the right to pay his or its share of estimated well costs to Cimarex Energy Co. of Colorado in lieu of paying his or its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays his or 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”.

(14) Cimarex Energy Co. of Colorado shall furnish the Commission 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 Penny Pincher Federal Com No. 2 well. If no objection to the actual well costs is received by the Commission, and the Commission 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 Commission will determine reasonable well costs after public notice and hearing.

(15) Within 60 days following the determination of reasonable well costs, any pooled working interest owner who has paid his or its share of estimated costs in advance as provided above shall pay to Cimarex Energy Co. of Colorado his or its share of the amount that reasonable well costs exceed estimated well costs or shall receive from Cimarex Energy Co. of Colorado the amount, if any, that the estimated well costs that he or it has paid exceed his or its share of reasonable well costs.

(16) Cimarex Energy Co. of Colorado is hereby authorized to withhold the following costs and charges from production:

- (i) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (ii) as a charge for the risk involved in drilling the wells, 200% of the above costs.

(17) Cimarex Energy Co. of Colorado shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(18) Reasonable charges for supervision (combined fixed rates) 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*". Cimarex Energy Co. of Colorado 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 is reasonable, that are attributable to the pooled working interest owners.

(19) 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.

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

(21) Cimarex Energy Co. of Colorado shall notify the Commission in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(22) Jurisdiction over these consolidated cases is retained for the entry of such further orders as the Commission may deem necessary.

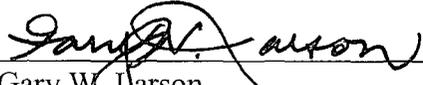
DONE at Santa Fe, New Mexico, on the day and year designated above.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

MARK E. FESMIRE, CHAIR

Respectfully submitted,

HINKLE, HENSLEY, SHANOR &
MARTIN, LLP



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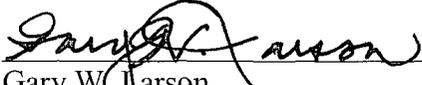
Attorney for Cimarex Energy Co.

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of November, 2010, I sent a true and correct copy of
the foregoing *Applicant Cimarex Energy Co.'s Proposed Order* via email to:

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Holland & Hart, LLP
Post Office Box 2208
Santa Fe, NM 87504
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Attorney for Lynx Petroleum Consultants, Inc.



Gary W. Larson