

**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 THE:**

**APPLICATION OF COG OPERATING LLC FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO**

**CASE NO. 14644
ORDER NO. R-13409**

ORDER OF THE DIVISION

BY THE DIVISION:

This matter came on for hearing at 8:15 a.m. on May 12, 2011, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 10th day of June, 2011, 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 ("COG" or "Applicant"), seeks an order pooling all uncommitted interests from 650 feet to 5000 feet below ground level within a 43.23-acre oil spacing and proration unit ("the proposed Unit") consisting of Lot 2 or Unit E (SW/4 NW/4 equivalent) of Section 30, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico, for any formation or pool spaced on 40-acre spacing within that vertical extent, including but not limited to, the Undesignated Northeast Red Lake-Glorieta-Yeso Pool (96836).

(3) The proposed Unit is to be dedicated to applicant's Maple State Well No. 11 (API No. 30-015-37936) and Maple State Well No. 12 (API No. 30-015-38204) "the proposed wells", both to be drilled at standard oil well locations within the proposed Unit. The Maple State Well No. 11 is proposed to depths of 4800 feet, while the Maple State Well No. 12 is proposed to depths of 4750 feet.

(4) This case was presented with testimony from a landman, whose testimony shows the following:

- a. The proposed Unit consists only of State lands.
- b. Depths from 650 to 5000 feet on these lands have identical ownership and are owned by COG and by Lime Rock Resources A LP.
- c. Lime Rock has to-date chosen not to commit its interests to the proposed Unit.

(5) COG sees potential to increase production and recover additional hydrocarbons by drilling in the proposed Unit, targeting primarily the Yeso Sand formation.

(6) The application in this case asked for pooling of non-committed owners down to 5000 feet. However, the proposed wells are planned and were proposed to potential partners, no deeper than 4800 feet. The allowed depth to compulsory pool should only be as deep as the deepest proposed well.

(7) Notice of the compulsory pooling application was provided to those parties not already committed to the drilling of these wells.

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

(9) 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.

(10) 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 wells to a common source of supply within the Unit.

(11) There are interest owner(s) in the Unit that have not agreed to pool their interests. There are no un-locatable parties and no evidence of a title dispute; therefore, escrow deposits will not be required.

(12) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to each interest owner 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 proposed Unit.

(13) COG Operating LLC (OGRID 229137) should be designated the operator

of the proposed wells and of the Unit.

(14) 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.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3631.69 per month while drilling and \$701.35 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) Pursuant to the application of COG Operating LLC, all uncommitted interests are hereby pooled from 650 feet to 4800 feet below ground level within a 43.23-acre oil spacing and proration unit ("the Unit") consisting of Lot 2 or Unit E (SW/4 NW/4 equivalent) of Section 30, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico, for any formation or pool spaced on 40-acre spacing within that vertical extent, including but not limited to, the Undesignated Northeast Red Lake-Glorieta-Yeso Pool (96836).

(2) The proposal of COG Operating LLC to pool all oil and gas interests within Lot 2 of Section 30 between 4800 and 5000 feet is hereby denied.

(3) The proposed Unit is to be dedicated to applicant's Maple State Well No. 11 (API No. 30-015-37936) and Maple State Well No. 12 (API No. 30-015-38204) "the proposed wells", both to be drilled at standard oil well locations within the proposed Unit.

(4) COG Operating LLC (OGRID 229137) is hereby designated the operator of the wells and of the Unit.

(5) The operator of the Unit shall commence drilling the first of these proposed wells on or before June 15, 2012, and shall thereafter continue drilling with due diligence to the proposed depth or a depth sufficient to test the Yeso formation.

(6) In the event the operator does not commence drilling the first of these proposed wells on or before June 15, 2012, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(7) Should at least one of the proposed wells not be completed within 120 days after commencement of drilling of that well, then Ordering Paragraph (1) 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 that well for good cause shown by satisfactory evidence.

(8) Upon final plugging and abandonment of the proposed wells and any other well drilled on the Unit pursuant to Division Rule 19.15.13, Sections 9 through 11 NMAC, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(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 wells ("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 \$3631.69 per month while drilling and \$701.35 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.

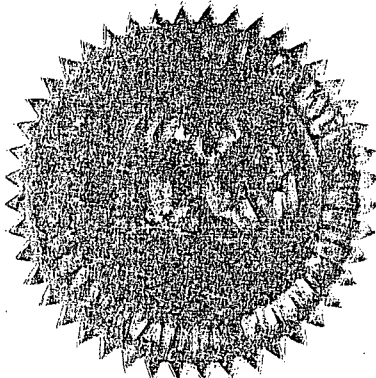
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working 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 forced 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Jami Bailey".

JAMI BAILEY
Director