

**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. 15352
ORDER NO. R-14045**

**APPLICATION OF COG OPERATING, LLC FOR A NON-STANDARD
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 23, 2015, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 24th day of August, 2015, 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) Cases No. 15350, 15351, 15352 and 15353 were consolidated at the hearing for the purpose of testimony; however, separate orders shall be written for each case.

(3) In Case No. 15352, COG Operating, LLC (the "Applicant" or "COG") seeks approval of a non-standard 160-acre oil spacing and proration unit and project area (the "Unit") in the Lea; Bone Spring Pool (Pool code 37570) consisting of the E/2 W/2 of Section 36, Township 19 South, Range 34 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted record title interests in the Unit for the Bone Spring formation.

(4) The Unit will be dedicated to Applicant's West Pearl 36 State Com. Well No. 5H (the "proposed well"; API No. 30-025-42147), a horizontal well to be drilled from a surface location 170 feet from the South line and 1770 feet from the West line

(Unit letter N) of Section 25, to a terminus 330 feet from the South line and 1980 feet from the West line (Unit letter N) of Section 36, with both sections located in Township 19 South, Range 34 East, NMPM. The completed interval of the proposed well in the Bone Spring formation will be orthodox.

(5) The proposed well is within the Lea; Bone Spring Pool. Spacing in this pool is governed by statewide Rule 19.15.15.9A. NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of four adjacent quarter-quarter sections.

(6) Applicant appeared at the hearing through counsel and presented land and geologic evidence to the effect that:

- (a) The Bone Spring formation, including the 3rd Bone Spring sand, in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the proposed horizontal well North to South or South to North is appropriate for the Unit;
- (c) Applicant has established communitization agreements within Section 36 which consists of only state land held under three state leases;
- (d) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring, so that formation of the Unit as requested will not impair correlative rights;
- (e) Applicant provided notice of this application to surrounding operators by certified mail, return receipt requested; and
- (f) Applicant provided notice of this application to all uncommitted record title interest owners by certified mail, return receipt requested, and by publication.

(7) Applicant testified that an existing well, the West Pearl 36 State Well No. 2H (API No. 30-025-40425), was completed in the 3rd Bone Spring sand of the Bone Spring formation in a project area comprising the N/2 N/2 of Section 36, Township 19 South, Range 34 East, NMPM. This well was completed in 2012 and holds the lease in the north half of the section. Applicant stated the well has shown poor production performance in the 3rd Bone Spring sand with the West to East orientation of the completion which supported Applicant's decision to complete four new wells with North to South orientations in Section 36.

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

The Division concludes as follows:

(9) Approval of the proposed non-standard 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.

(10) 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.

(11) Applicant is 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.

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

(13) 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.

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

(15) Because the parties whose interests will be pooled by this Order do not own any working interests, there is no necessity to provide in this Order for allocation of costs, risk charges, or overhead charges.

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre oil spacing and proration unit and project area (the "Unit") is hereby established in the Lea; Bone Spring Pool (Pool code 37570) consisting of the E/2 W/2 of Section 36, Township 19 South, Range 34 East, NMPM, Lea 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 Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's **West Pearl 36 State Com. Well No. 5H** (the "proposed well"; API No. API No. 30-025-42147), a horizontal well to be drilled from a surface location 170 feet from the South line and 1770 feet from the West line (Unit letter N) of Section 25, to a terminus 330 feet from the South line and 1980 feet from the West line (Unit letter N) of Section 36, with both sections located in

Township 19 South, Range 34 East, NMPM. The completed interval of the proposed well in the Bone Spring formation will be orthodox.

(4) The operator of the Unit shall commence drilling the proposed well on or before August 31, 2016, and shall thereafter continue drilling the proposed well with due diligence to test the Bone Spring formation at an approximate true vertical depth of 10,900 feet below surface.

(5) In the event the operator does not commence drilling the proposed well on or before August 31, 2016, 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 the Unit.

(9) Any unleased mineral interests 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.

(10) All proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 70-8A-31, as amended).

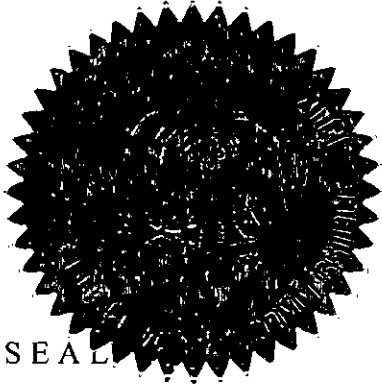
(11) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order, this Order shall thereafter be of no further effect.

(12) 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.

(13) The operator shall comply with Division Rules 19.15.16.14(B)(3) NMAC and 19.15.20 NMAC, regarding oil allowable and the allocation of allowables to the wells within overlapping project areas, for production from the 40-acre spacing unit (the NE/4 NW/4 of Section 36) common between the project area of the West Pearl 36 State Well No. 2H (API No. 30-025-40425) and the Unit of the proposed well until such time that one of the referenced wells is no longer producing.

(14) 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 cursive script that reads "David R. Catanach".

DAVID R. CATANACH
Director