

**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. 14264
ORDER NO. R-12873-A**

**APPLICATION OF CIMAREX ENERGY COMPANY FOR A NON-STANDARD
OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING AND
AN UNORTHODOX OIL WELL LOCATION, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 5, 2009 before Examiners William V. Jones and David K. Brooks.

NOW, on this 23rd day of February, 2009, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) In this case, Cimarex Energy Company ("applicant" or "Cimarex")

(a) seeks an order creating an 80.04-acre, more or less, non-standard oil spacing and proration unit (the "Unit"), for production from the Wolfcamp formation within the Denton-Wolfcamp Pool (17290), consisting of the W/2 NW/4 of Section 6, Township 15 South, Range 38 East, NMPM, Lea County, New Mexico;

(b) seeks to pool all uncommitted interests in the proposed non-standard Unit for purposes of drilling horizontally and producing the Harvard 6 Fee Well No. 2 (API No. 30-025-38513); and

(c) seeks approval of an unorthodox bottomhole location for the Harvard 6 Fee Well No. 2.

(3) On January 17, 2008, the Division issued Order No. R-12873 in Case No. 13995 - relating to the subject well and subject oil spacing and proration unit. Said order approved creation of this non-standard oil spacing unit and compulsory pooled all interests in the Wolfcamp formation, Denton-Wolfcamp Pool, for purposes of drilling and producing a horizontal oil well.

(4) The Harvard 6 Fee Well No. 2 has been drilled and completed and first reported production on January 12, 2008. The well was drilled as planned as a horizontal Wolfcamp oil well with a surface-hole location in Lot 4 and bottomhole location in Unit E. However, the terminus of the horizontal well is located 2595 feet from the North Line and 441 feet from the West line of Section 6 – so it encroaches on the NW/4 SW/4 of Section 6 and the NE/4 SE/4 of offsetting Section 1, Township 15 South, Range 37 East, NMPM.

(5) Since the date of Division Order No. R-12873, Cimarex has discovered additional mineral owners that were not mentioned in the case application, and the well was drilled to a non-standard bottomhole location. Therefore, Cimarex has herein applied to amend the previous order to add the additional mineral owners to the compulsory pooling and to seek approval for the non-standard bottomhole location.

(6) The applicant presented testimony and evidence by affidavit showing that:

(a) The W/2 NW/4 of Section 6 is included in a single fee tract with undivided mineral ownership.

(b) Cimarex made a good faith effort to obtain the voluntary joinder of interest owners and to locate all un-leased mineral owners. Most owners within this tract were unlocatable.

(c) Notice was provided to all known owners of uncommitted interests for purposes of compulsory pooling of the proposed unit.

(d) Notice of this proposed non-standard proration unit and the horizontal well spanning two normal 40-acre spacing and proration units was provided to all offsetting operators of wells producing from the Wolfcamp formation.

(e) Notice has been provided to all parties affected by the non-standard bottomhole location. Americo Energy Resources, LLC was provided notice as the affected party in offsetting Section 1. Cimarex is the operator of a standup 80-acre project area consisting of the W/2 SW/4 of Section 6. The affected parties within the NW/4 SW/4 of Section 6 are the same owners of the W/2 NW/4 of Section 6 – so no additional notice was provided.

(f) This horizontal well is a stepout and downdip from existing production. Cimarex drilled the horizontal section in the top portion of the Wolfcamp.

(g) The only nearby active Wolfcamp wells are located to the west. These vertical wells produce at low but steady rates and have production characteristics implying that horizontal wells may be appropriate for this area to recover additional oil in place and recover it at an accelerated pace. Using the horizontal drilling technique within an 80-acre unit is expected to yield higher economics than drilling vertical wells and will recover oil and gas that would not otherwise be recovered.

(h) Oil and gas will be produced in this horizontal wellbore from both of the 40-acre tracts within this 80-acre non-standard spacing unit.

(7) No other parties entered an appearance in this case or otherwise opposed the application.

(8) In order to prevent waste and protect correlative rights, the applicant's proposal to form a non-standard oil spacing and proration unit for oil production from the Wolfcamp formation within the Denton-Wolfcamp Pool (17290) consisting of the W/2 NW/4 of Section 6 should be approved.

(9) In order to prevent waste and protect correlative rights, the application for a non-standard bottomhole oil well location within this non-standard oil spacing and proration unit within the Denton-Wolfcamp Pool (17290) should be approved.

(10) Applicant has the right to drill within this Unit and has drilled vertically and horizontally to the Wolfcamp formation and completed a horizontal well designed to produce from the Wolfcamp within this Unit.

(11) 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.

(12) There are interest owners in this Unit that were not locatable or have not yet agreed to pool their interests.

(13) The applicant should be designated as the operator of the well and of this Unit.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6500 per month while drilling and \$650 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.*"

(15) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in this Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, the applicant's proposal should be approved to pool all uncommitted interests, whatever they may be, within this Unit.

IT IS THEREFORE ORDERED THAT:

(1) Division Order No. R-12873 is hereby replaced in its entirety by this order.

(2) Pursuant to the application of Cimarex Energy Company:

(a) An 80.04-acre, more or less, non-standard oil spacing and proration unit (the "Unit"), for production from the Wolfcamp formation within the Denton-Wolfcamp Pool (17290), consisting of the W/2 NW/4 of Section 6, Township 15 South, Range 38 East, NMPM, Lea County, New Mexico is hereby approved;

(b) All uncommitted interests are hereby pooled within this Unit for purposes of drilling horizontally and producing the Harvard 6 Fee Well No. 2 (API No. 30-025-38513), (the "proposed well") from the Wolfcamp formation; and

(c) The Harvard 6 Fee Well No. 2 is approved for Wolfcamp oil production from its existing non-standard bottomhole location within this Unit.

(3) Cimarex Energy Company (OGRID 215099) is hereby designated as the operator of the proposed well and of the pooled Unit.

(4) The above-described Unit shall be dedicated to the proposed well which has been drilled horizontally within this Unit to test the Wolfcamp formation at an approximate vertical depth of 9,368 feet.

(5) Upon final plugging and abandonment of the Harvard 6 Fee Well No. 2 (API No. 30-025-38513) and any other well drilled on the Unit pursuant to Division Rule 13, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(6) 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).

(7) 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").

(8) 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."

(9) 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 or, if later, within 30 days after the issuance of this order. 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.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated well 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 its share of the amount that estimated well costs exceed reasonable well costs.

(11) 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 who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and

(b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

(12) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6500 per month while drilling and \$650 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 is reasonable, attributable to pooled working interest owners.

(14) Except as provided above, all proceeds from production from the proposed 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 records clerk in Santa Fe of the name and address of the escrow agent within one (1) year from the date of issuance of this order.

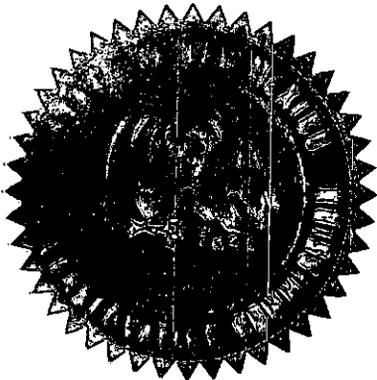
(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(17) 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.

(18) 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 "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director