

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:

ORIGINAL

CASE 15423, 15424, 15425 & 15426

APPLICATION OF COG OPERATING, LLC FOR A NON-STANDARD
OIL SPACING UNIT AND COMPULSORY POOLING IN EDDY
COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 17, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Examiner, on December 17, 2015, at the New Mexico Energy,
Minerals, and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall, Room
102, Santa Fe, New Mexico.

REPORTED BY: Mary Therese Macfarlane
New Mexico CCR 122
California CSR 3547
PAUL BACA COURT REPORTERS
500 Fourth Street NW, Suite 105
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR THE APPLICANT:

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I N D E X

CASE NUMBER 15423, 15424, 15425 & 15426 CALLED

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1	E X H I B I T I N D E X	
2	EXHIBIT	ADMITTED
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1 (Time Noted 10:17 a.m.)

2 THE HEARING EXAMINER: Let's go ahead,
3 then.

4 Let's call -- do you want to call four
5 cases together?

6 MS. KESSLER: Please.

7 THE HEARING EXAMINER: Let's call Cases No.
8 15423, 15424, 15425 and 15426. All four cases are the
9 Application of COG Operating, LLC for a non-standard unit
10 and compulsory pooling in Eddy County, New Mexico.

11 Call for appearances.

12 MS. KESSLER: Jordan Kessler on behalf of
13 the Applicant, Mr. Examiner.

14 THE HEARING EXAMINER: Any other
15 appearances?

16 (Note: No response.)

17 MS. KESSLER: I have two witnesses today.

18 THE HEARING EXAMINER: Mr. Greg Clark and
19 Mr. Stuart Dirks, please stand.

20 (Whereupon the presenting witnesses were
21 administered the oath.)

22 STUART DIRKS,
23 having been duly sworn, testified as follows:

24 EXAMINATION

25 BY MS. KESSLER:

1 Q. Please state your name for the record and tell
2 the examiner by whom you are employed and in what
3 capacity.

4 A. My name is Stuart Dirks. I am employed by COG
5 Operating, LLC, as a landman.

6 Q. Have you previously testified before the
7 Division?

8 A. Yes, I have.

9 Q. Were your credentials as a petroleum landman
10 accepted and made a matter of record?

11 A. Yes, they were.

12 Q. Are you familiar with the application filed in
13 this consolidated case?

14 A. Yes, I am.

15 Q. Are you familiar with status of the land in the
16 subject area?

17 A. Yes, I am.

18 MS. KESSLER: Mr. Examiner, I would tender
19 Mr. Dirks as an expert petroleum landman.

20 THE HEARING EXAMINER: He is an expert in
21 that subject, as well as others.

22 THE WITNESS: Thank you.

23 Q. (BY MS. KESSLER) Mr. Dirks, can you please turn
24 to Exhibit 1 and identify what COG seeks with respect to
25 the Custer 1H well.

1 A. Exhibit 1 is the C-102 for our Custer 16 State
2 Com No. 1H well in Section 16, Township 19 South, Range 26
3 East in Eddy County. We seek the formation of a 160-acre
4 non-standard spacing and proration unit comprising the
5 west half of the west half of 16 for the drilling of the
6 Custer 16 State Com No. 1H, and we seek the pooling of all
7 uncommitted interests in the Yeso formation in our
8 proposed unit and ask that COG, LLC be named the operator.

9 Q. If you would turn to Exhibit 2 and explain what
10 COG seeks with respect to the Custer 16 2H well.

11 A. The Custer 16 is State Com No. 2H, also in
12 Section 16, Township 19 South, Range 26 East. We seek the
13 formation of 160-acre non-standard spacing and proration
14 unit comprising the east half of the west half of Section
15 16 for our Custer 16 State Com No. 2H well. And we seek
16 the pooling of all uncommitted interests in the Yeso
17 Formation in our proposed unit and ask that COG Operating,
18 LLC, be named operator.

19 Q. Please identify Exhibit 3 and explain what it is
20 COG seeks with respect to the Custer 3H well.

21 A. Exhibit 3 is the C-102 for the Custer State Com
22 3H well, also in Section 16, Township 19 South, Range 26
23 East, and we seek the formation of 160-acre non-standard
24 spacing appropriation unit comprising the west half of the
25 east half of Section 16 for our Custer 16 State Com No. 3H

1 well, and we seek the pooling of all uncommitted interests
2 in the Yeso Formation in our proposed unit and ask that
3 COG Operating, LLC, be named the operator.

4 Q. And finally if you could turn to Exhibit 4 and
5 explain what COG seeks with respect to the Custer 4H well.

6 A. Exhibit 4 is our C-102 for the Custer 16 State
7 Com No. 4H well, also in Section 16 of Township 19 South,
8 Range 26 East. We seek the formation of a 160-acre
9 non-standard spacing and proration unit comprising the
10 east half of the east half of Section 16 for the drilling
11 of our Custer 16 State Com No. 4H well, and we seek the
12 pooling of the uncommitted interests in the Yeso Formation
13 in our proposed unit and ask that COG Operating be named
14 the operator.

15 Q. Has there been identified a pool code for these
16 four wells?

17 A. Yes.

18 Q. What is the pool code?

19 A. It is on Exhibit 1. It is the
20 Atoka-Glorieta-Yeso, and the pool code is 3250, I believe.
21 Yes, there it is. 3250.

22 Q. Is that pool governed by Division statewide
23 rules?

24 A. Yes.

25 Q. And will the completed intervals for each of the

1 four wells comply with the setback requirement?

2 A. Yes, they will.

3 Q. Are the spacing units comprised of state land?

4 A. Yes, they are.

5 Q. Are there any depth severance issues within this
6 acreage?

7 A. There is no depth severance in the Yeso
8 formation.

9 Q. Do COG Exhibits 5, 6, 7 and 8 identify COG's
10 interest and the interests of the parties who you seek to
11 have pooled for each of the wells?

12 A. Yes, they do.

13 Q. Are the parties whom you seek to pool italicized
14 on these exhibits?

15 A. Yes, they are.

16 Q. What type of interest are they?

17 A. They are working interests.

18 Q. Did you recently reach an agreement with the
19 Yates entities?

20 A. Yes, we did.

21 Q. However, with respect to MYCO you have not yet
22 received a signed agreement; is that correct?

23 A. That is correct.

24 Q. So they will remain on this exhibit, and you do
25 seek to pool them for now; is that correct?

1 A. Yes, that's correct. As a precaution until we
2 receive the signatures.

3 Q. And in the event that you do receive those
4 signatures, will they be dismissed from the pooling
5 applications?

6 A. Yes, they will.

7 Q. Did each of the working interest owners receive
8 a Well Proposal for each well?

9 A. Yes, they did.

10 Q. Did those Well Proposal letters include the AFE?

11 A. Yes, they did.

12 Q. Are examples of the Well Proposal letter for the
13 1H, 2H and 3 -- 1H, 2H, 3H and 4H, included in Exhibits 9,
14 10, 11 and 12 respectively?

15 A. Yes, they are.

16 Q. In addition to sending these Well Proposal
17 letters and the AFE, what effort did you undertake to
18 reach an agreement with the parties you seek to pool?

19 A. As stated below, we have reached agreement with
20 the Yates entities, which leaves only OXY. Our first
21 written offer to OXY was March of 2014. Since then we
22 have had numerous telephone conversations, emails, further
23 letters. In May we flew to Houston to meet with them face
24 to face in their office to see if we could work something
25 out.

1 Q. But no agreement has been reached?

2 A. No agreement.

3 Q. You mention that each of the Well Proposal
4 letters contains an AFE. Is that correct?

5 A. That's correct.

6 Q. Are the costs reflected on this AFE consistent
7 with what COG has incurred for drilling similar horizontal
8 wells in the area?

9 A. Yes, they are.

10 Q. Do the Well Proposals also identify the overhead
11 and administrative costs while drilling this well and
12 producing?

13 A. Yes.

14 Q. What are those?

15 A. \$5,455 a month drilling and \$545 a month
16 producing.

17 Q. Do you ask these administrative and overhead
18 costs be incorporated into any Order resulting from this
19 hearing?

20 A. Yes.

21 Q. Do you ask it be adjusted in accordance with
22 appropriate accounting procedures?

23 A. Yes.

24 Q. With respect to the uncommitted interest owners,
25 do you request that the Division impose a 200 percent risk

1 penalty?

2 A. Yes.

3 Q. Did COG identify the offsite operators or
4 lessees of record in the 40-acre tracts surrounding the
5 proposed non-standard spacing well?

6 A. Yes, we did.

7 Q. Were those offset operators or lessees included
8 in notice of this hearing?

9 A. Yes, they were.

10 Q. Is Exhibit 13 an affidavit prepared by my office
11 with attached letters providing notice of this hearing for
12 each of the four pooling applications, to both the parties
13 to be pooled and the offset operators and lessees?

14 A. Yes.

15 Q. Was it necessary to publish notice or were all
16 of the parties whom you seek to pool locatable?

17 A. They were all locatable.

18 MS. KESSLER: Mr. Examiner, I would move
19 into evidence Exhibits 1 through 13 -- excuse me.

20 Q. Mr. Dirks, did you prepare Exhibits 1 through
21 12?

22 A. Yes.

23 MS. KESSLER: Mr. Examiner, I would then
24 ask for Exhibits 1 through 13, which includes my
25 affidavit, to be included in the record.

1 THE HEARING EXAMINER: Who did all that
2 work for Exhibit 13?

3 MS. KESSLER: That would be me and Ms. Lisa
4 Marie.

5 THE HEARING EXAMINER: Okay. Exhibits 1
6 through 13 will be admitted in all four cases.

7 EXAMINATION

8 BY THE HEARING EXAMINER:

9 Q. So you flew to Houston to meet with OXY. Where
10 are they spending their money now? Are they spending it
11 on their water floods?

12 A. My latest communication with them was last week,
13 and they said they probably wouldn't participate because
14 they didn't have the budget, which was the last word I got
15 from them.

16 Q. When would you flood these wells?

17 A. The 1H is scheduled for the first quarter.

18 Q. First quarter. Get started as soon as possible
19 before something happens. Okay.

20 Well, and this is all -- the 4H is not a
21 Com well?

22 A. It's lease basis. It's all on one lease.

23 Q. So it's interesting that's -- that lease is kind
24 of narrower than the Standup lease there.

25 A. Actually there are two leases in the section, so

1 it's kind of like this.

2 Q. Okay.

3 A. From east to west.

4 Q. Okay. Okay. But are you in three Com wells and
5 one non Com well?

6 Any of these locations you think -- we've
7 got -- I think I have API numbers for two of them and not
8 for the other two.

9 A. Yes, that's correct. We have not got them all
10 yet.

11 Q. So the two that you have API numbers for you
12 probably want to get -- they will be the first ones
13 drilled; is that correct?

14 A. Yes, that's correct.

15 Q. And the locations that are on your exhibits will
16 be -- for the other two wells will be -- they won't be
17 changed, you don't think?

18 A. I don't believe so.

19 Q. Does the state -- the state doesn't issue any
20 approval drilling permits pretty quickly.

21 A. That's true. They usually don't.

22 Q. Is there a reason why they haven't done these
23 other two?

24 A. That I don't know.

25 Q. Is Yeso in Eddy County and so this is a real

1 popular area, or are you guys the only ones concentrating
2 on it, or do you have other operators?

3 A. In this specific area we are the only ones, but
4 you get further northeast and southwest there are others.

5 Q. Okay. So this is the Cemetery area?

6 A. It's a little bit north of Cemetery. It's still
7 in what we call our Lakewood area.

8 Q. Lakewood. Okay. Thanks a lot.

9 A. Thank you.

10 MS. KESSLER: Mr. Examiner, I'd like to
11 call my next witness, please.

12 THE HEARING EXAMINER: Okay.

13 GREG CLARK,

14 having been previously sworn, testified as follows:

15 EXAMINATION

16 BY MS. KESSLER:

17 Q. Would you please state your name for the record
18 and tell the examiner by whom you are employed and in what
19 capacity.

20 A. Greg Clark with COG Operating, LLC, as a
21 geologist.

22 Q. Have you previously testified before the
23 Division?

24 A. I have.

25 Q. Were your credentials as an expert in petroleum

1 geology accepted and a made a part of the record?

2 A. Yes, they were.

3 Q. Are you familiar with the applications that have
4 been filed in this consolidated case?

5 A. Yes, I am.

6 Q. Have you conducted a geologic can study of the
7 lands that are the subject of this application?

8 A. I have.

9 MS. KESSLER: Mr. Examiner, I would tender
10 Mr. Clark as an expert in petroleum geology.

11 THE HEARING EXAMINER: He is so qualified.

12 Q. (BY MS. KESSLER) Turning to Exhibit 14,
13 Mr. Clark, what is the targeted interval for these four
14 wells?

15 A. It will be the Paddock member of the Yeso
16 formation.

17 Q. Have you prepared a Structure Map that controls
18 this target interval?

19 A. Yes, I have.

20 Q. Is Exhibit 14 a lease map of this area?

21 A. Yes, it is.

22 Q. Can you please walk us through this exhibit.

23 A. Sure. This is just a basic map showing wells
24 that have been drilled, both vertical and horizontal. The
25 Paddock Producers are depicted by red circles and the

1 Blinebry Producers are depicted in blue.

2 You see the Concho acreage is in yellow and
3 the wells that we would like to drill are represented by
4 the red line, with the square being the surface hole
5 location and the circle being the bottom hole location.

6 Q. Is Exhibit 15 a Structure Map of this area?

7 A. It is.

8 Q. Please also walk us through that.

9 A. Exhibit -- yes. This is a Regional C.1
10 Structure Map to pool on the Paddock formation. You will
11 see it trend, geological trend regional dip going from the
12 northwest to the southwest basinward.

13 We are on the Delaware Basin Yeso shelf
14 edge complex in the Greater Delaware Basin area, and you
15 see that depicted in blue are producing fields that are
16 producing in the Yeso. You will see the wells that are
17 depicted in red are Paddock producers or Blinebry
18 producers. You also see the Concho acreage in yellow,
19 with the wells that we would like to drill again depicted
20 in red, with the surface hole being the square and the
21 bottom hole location being the circle.

22 The contour interval on this structure is
23 five feet, and you see that you will start steepening as
24 you start getting closer to the shelf edge towards the
25 Delaware Basin. The main purpose of this map is to show

1 there are no major geologic features; i.e. fault complex
2 folding, that would keep us from drilling this area using
3 horizontal wells in the full section.

4 Q. What is Exhibit 16?

5 A. Exhibit 16 is the same regional map with the
6 structure taken off in order to show the line of cross
7 section that I will be showing next that goes from A to A
8 prime, which is south to north, that we will be covering,
9 and representing the geology of the area in which we
10 intend to drill these wells.

11 Q. And could you please identify Exhibit 17.

12 A. Yes. This -- again, this is cross section that
13 was displayed on the previous exhibit. It goes again from
14 A to A prime, which is south to north, and covers the area
15 in which we want to drill these wells, and is best
16 represented by the wells that I have depicted here. This
17 is a stratigraphic cross section, which means it has been
18 hung on the top of the Paddock's datum and the structure
19 has been taken out in order to show the stratigraphic
20 relationship between the wells in the area, which we feel
21 is representative of where we want to drill the wells in
22 question.

23 You will see that the lateral interval is
24 depicted on the well to the left with the red bracket and
25 labeled at lateral intervals, and this will be landed in

1 the Paddock formation. And if you look at the logs you
2 will see that there is very similar log characteristics:
3 No major changes in porosity or lithology, and a very
4 consistent thickness throughout the interval.

5 The well to the left isn't a producer
6 therefore it has not been perforated from the Yeso, and
7 then the next three wells are COG pilot holes in which we
8 drilled and logged in order to determine where we wanted
9 to drill existing horizontal wells that have landed in a
10 similar stratigraphic interval.

11 Q. What conclusions have you drawn gone based on
12 your geologic study of this area?

13 A. There are no geologic impediments that would
14 keep us from developing this area using horizontal wells.
15 The area can be efficiently and economically developed
16 using horizontal wells, and the non-standard unit on
17 average will produce more or less equally to the total
18 production of the well.

19 Q. Turning to Exhibit 18, will the completed
20 interval for each of these four wells comply with the
21 Division's 330-foot statewide setback?

22 A. Yes, they will.

23 Q. Does Exhibit 18 demonstrate compliance for the
24 4H well?

25 A. It does.

1 Q. And the other three wells are similar?

2 A. Yes. This is also representative of how we
3 intend to complete the wells in relationship to the
4 setbacks for all four wells that we want to drill.

5 Q. Is it in your opinion the COG's application for
6 these wells is in the interest of prevention of waste and
7 protection of correlative rights?

8 A. Yes.

9 Q. Were Exhibits 14 through 18 compiled under your
10 direction and supervision?

11 A. Yes.

12 MS. KESSLER: Mr. Examiner, I move into
13 evidence Exhibits 14 through 18.

14 THE HEARING EXAMINER: Exhibits 14 through
15 18 are admitted in all four cases.

16 EXAMINATION

17 BY THE HEARING EXAMINER:

18 Q. So this is kind of in the area where it really
19 starts to drop off. You're starting to get more on the
20 upper slope of the shelf?

21 A. Yes, sir.

22 Q. Upper slope?

23 A. Yes. And as you can see -- you know, we have
24 drilled some wells pretty similar in structure in
25 reference to the 1H. So we have wells to the north there

1 that are structurally on trend with the most frontally
2 down dip wells that we have drilled.

3 Q. Okay.

4 A. And they are also -- they are a little bit lower
5 than the Cemetery area, but they are on structural strike
6 with, as I mentioned, the wells in the Lakewood area.

7 Q. Do you get any figures of the high energy
8 sediment as you drop off the slope, or is it....

9 A. No. No, you're still in good dolomitic
10 environment.

11 Q. Okay. So we are looking at dolomite here?

12 A. Yes, sir.

13 Q. So basically if you were going back in time from
14 the top -- from the bottom of the Paddock moving up, how
15 would that have been laid down? Is there some kind of a
16 sequence that you could talk about?

17 A. Yeah. Actually the Glorieta is what I depicted
18 on top of the major sequence.

19 Q. Okay.

20 A. That goes to the base of the Yeso. So you're
21 defined at the base of the Yeso by a big cycle, and then
22 the Glorieta is the top of that, also. So in between you
23 do have a slightly coarsening-up sequence, and when you
24 get to the top of the Glorieta is where you are seeing
25 more silt coming into the stratigraphic framework.

1 Q. Okay. So the Glorieta is full of -- it's pretty
2 tight and not productive out there?

3 A. It can be productive in some areas.

4 Q. Okay.

5 A. But there's not as much pay, as we calculate it,
6 as you see in the Paddock.

7 Now, it tends to show there is a little
8 more water in the Glorieta because of pore spaces, but we
9 think some of that is actually held back by capillary
10 pressure.

11 Q. Okay. So is there -- which one of these four
12 wells will be the best well?

13 A. Well, that's going to be very hard to determine
14 until we drill them, but, you know, we want to drill
15 systematically. And it gets a little riskier as you start
16 going to the east, so, you know, we hope they are all
17 good, but the 1H is where we are going to drill our first
18 well.

19 Q. Okay. 1H being the one --

20 A. The west half of the west half.

21 Q. Okay. Okay. Is there anything else you would
22 like to say about this?

23 A. Not unless you have some more questions.

24 THE HEARING EXAMINER: No, I don't. Thank
25 you very much.

1 THE WITNESS: Thank you.

2 THE HEARING EXAMINER: Is that all in these
3 four cases?

4 MS. KESSLER: Yes, Mr. Examiner.

5 THE HEARING EXAMINER: Okay. Let's take
6 Cases 15423, -24, -25 and -26 under advisement.

7 (Time noted 10:34 a.m.)
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____
_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
2) SS.
3 COUNTY OF TAOS)
4

5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico
7 Reporter CCR No. 122, DO HEREBY CERTIFY that on Thursday,
8 August 17, 2011, the proceedings in the above-captioned
9 matter were taken before me, that I did report in
10 stenographic shorthand the proceedings set forth herein,
11 and the foregoing pages are a true and correct
12 transcription to the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by
14 nor related to nor contracted with (unless excepted by the
15 rules) any of the parties or attorneys in this case, and
16 that I have no interest whatsoever in the final
17 disposition of this case in any court.

18
19 
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