

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION

4 IN THE MATTER OF THE HEARING CALLED
5 BY THE OIL CONSERVATION DIVISION FOR
6 THE PURPOSE OF CONSIDERING:

CASE 15493
case 15494

7
8 Application of COG Operating, LLC
9 for a non-standard spacing and
10 proration unit and compulsory pooling,
11 Eddy County, New Mexico

10

11

12 REPORTER'S TRANSCRIPT OF PROCEEDINGS

13 EXAMINER HEARING

14 MAY 26, 2016

15 SANTA FE, NEW MEXICO

16

17 BEFORE: MICHAEL McMILLAN, EXAMINER
18 DAVID BROOKS, EXAMINER

18

19 This matter came on for hearing before the New
20 Mexico Oil Conservation Division, Michael McMillan and
21 David Brooks, Examiners, on May 26, 2016, at the New
22 Mexico Energy, Minerals, and Natural Resources Department,
23 Wendell Chino Building, 1220 South St. Francis Drive,
24 Porter Hall, Room 102, Santa Fe, New Mexico.

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23 REPORTED BY: Mary Therese Macfarlane
24 New Mexico CCR 122
25 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

I N D E X

CASE NOS. 15493 and 15494 CALLED	
APPLICANT'S CASE	
WITNESSES:	
STUART DIRKS	
EXAMINATION BY MS. KESSLER:	5
EXAMINATION BY EXAMINER McMILLAN:	11
GREG CLARK	
EXAMINATION BY MS. KESSLER:	14
EXAMINATION BY EXAMINER McMILLAN:	18

1	E X H I B I T I N D E X		
2	EXHIBIT	1ST MENTION	ADMITTED
3	COMPANY EXHIBIT 1	6	11
4	COMPANY EXHIBIT 2	6	11
5	COMPANY EXHIBIT 3	7	11
6	COMPANY EXHIBIT 4	8	11
7	COMPANY EXHIBIT 5	9	11
8	COMPANY EXHIBIT 6	9	11
9	COMPANY EXHIBIT 7	9	11
10	COMPANY EXHIBIT 8	9	11
11	COMPANY EXHIBIT 9	11	11
12	COMPANY EXHIBIT 10	11	11
13	COMPANY EXHIBIT 11	11	11
14	COMPANY EXHIBIT 12	15	18
15	COMPANY EXHIBIT 13	15	18
16	COMPANY EXHIBIT 14	16	18
17	COMPANY EXHIBIT 15	16	18
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1 P R O C E E D I N G S

2 (Time noted: 8:13 a.m.)

3 EXAMINER McMILLAN: Okay. Well, I've got
4 to introduce myself. I'm Michael McMillan.

5 With that in mind, what I would like to do
6 now is call Case No. 15493, Application of COG Operating,
7 LLC for a non-standard spacing and proration unit and
8 compulsory pooling, Eddy County, New Mexico.

9 Call for appearances.

10 MS. KESSLER: Mr. Examiner, Jordan Kessler
11 of the Santa Fe Office of Holland & Hart on behalf of the
12 Applicant.

13 I would also ask that that case be called
14 in conjunction with the following case, which is Case No.
15 15494. They will be consolidated for hearing.

16 EXAMINER McMILLAN: Okay. Case No. 15494,
17 Application of COG Operating, LLC for a nonstandard
18 spacing and proration unit and compulsory pooling in Eddy
19 County, New Mexico, shall be combined with Case No. 15493.

20 MS. KESSLER: I have two witnesses today,
21 Mr. Hearing Examiner.

22 (WHEREUPON the presenting witnesses were
23 duly sworn.)

24 STUART DIRKS,

25 having been duly sworn testified as follows:

1 EXAMINATION

2 BY MS. KESSLER:

3 Q. Would you please state your name for the record
4 and tell the examiners by whom you are employed.

5 A. My name is Stuart Dirks. I'm employed by COG
6 Operating as a landman.

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

9 A. Yes, I have.

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

12 A. Yes, they were.

13 Q. Are you familiar with the applications filed in
14 these consolidated cases?

15 A. Yes, I am.

16 Q. Are you familiar with the status of the lands in
17 the subject area?

18 A. Yes, I am.

19 MS. KESSLER: Mr. Examiner, I would tender
20 Mr. Dirks as an expert witness in petroleum land matters.

21 EXAMINER McMILLAN: So qualified.

22 Q. (BY MS. KESSLER) Mr. Dirks, can you briefly
23 please state what COG seeks under these consolidated
24 applications.

25 A. We seek the formation of two 160-acre

1 non-standard spacing and proration units to be dedicated
2 to our proposed Clydesdale 1 Fee No. 5H and No. 7H wells,
3 and we seek to pool all the uncommitted interests in the
4 Yeso formation in our proposed units.

5 Q. Would your please turn to Exhibit 1 and identify
6 this exhibit for the examiners.

7 A. Exhibit 1 is our C-102 for the Clydesdale 5H.

8 Q. And what lands are within the proposed
9 non-standard unit area?

10 A. The north half of the south half of Section 1 of
11 Township 19 South, Range 25 East.

12 Q. And that's in Eddy County?

13 A. Yes.

14 Q. And if you could turn to Exhibit 2 and identify
15 this exhibit, please.

16 A. This is our C-102 for our Clydesdale 7H well.

17 Q. What lands are within that proposed non-standard
18 unit area?

19 A. The south half of the south half of Section 2 of
20 19 South 25 East in Eddy County.

21 Q. Has the Division identified a pool and pool code
22 for each of these wells?

23 A. Yes, they have.

24 Q. What is that pool?

25 A. It is on the C-102: Penasco Draw San

1 Andres-Yeso. And the, uh, pool code is in there.

2 Q. Is that --

3 A. 50270.

4 Q. And that's for both wells, correct?

5 A. Yes.

6 Q. Is that pool governed by Division statewide
7 rules?

8 A. Yes, it is.

9 Q. Will the completed interval for each of the
10 sells comply with setback requirements?

11 A. Yes, they will.

12 Q. And are the spacing that's -- both comprised of
13 fee acreage?

14 A. Yes, they are.

15 Q. And does Exhibit 3 contain a Lease Tract Map
16 which identifies COG's interests and the parties you seek
17 to pool for the 5H well?

18 A. Yes, it is.

19 Q. What type of interest do you see to pool?

20 A. We seek to pool all the uncommitted interests,
21 which are comprised of leasehold interests, unleased
22 mineral interests, nonparticipating royalty interests, and
23 unmarketable title.

24 Q. For Exhibit 3 are the parties whom you seek to
25 pool not bolded?

1 A. That's correct.

2 Q. Okay. So the parties with whom you have reached
3 an agreement are in bold?

4 A. Correct. Well, with the exception of R. R.
5 Eagle (phonetic) Company. We came to an agreement with
6 them yesterday evening. I think that was too late to get
7 it on the exhibit.

8 Q. And is Exhibit 4 a Lease Tract Map for the 7H
9 well identified as the parties COG seeks to pool for the
10 7H well?

11 A. Yes, it is.

12 Q. Why type of interests do you seek to pool for
13 the 7H well?

14 A. The same as the 5H. We seek to pool uncommitted
15 interests. We also have uncommitted leasehold interests
16 here, unleased mineral interests, nonparticipating oil
17 interests, and unmarketable title.

18 Q. And once again the parties whom you seek to pool
19 are not bolded, correct?

20 A. That's correct.

21 Q. Did each of the working-interest owners receive
22 a well proposal for each of the two wells?

23 A. Yes, they did.

24 Q. And did the well proposal letters include an
25 AFE?

1 A. Yes, they did.

2 Q. Are the well proposal letters sent to working
3 interest owners included as Exhibit 5 and 6?

4 A. Yes, they are.

5 Q. And did you also send the proposal to the
6 nonparticipating royalty interest owners for the 5H and
7 7H?

8 A. Yes, we did.

9 Q. And is an example copy of each of those letters
10 included as Exhibits 7 and 8 respectively?

11 A. Yes, they are.

12 Q. In addition to sending these proposal letters,
13 what other effort did you undertake to reach an agreement
14 with the parties that you seek to pool?

15 A. Lots of phone calls, lots of emails, and then
16 word of mouth, family members identifying other family
17 members.

18 Q. Okay. And you mentioned that you took -- the
19 well proposal letters contain an AFE; is that correct?

20 A. Yes, they did.

21 Q. Are the costs reflected on those AFEs consistent
22 with what COG has incurred with similar horizontal wells
23 in that area?

24 A. Yes, they are.

25 Q. And do your well proposal letters identify the

1 owner having administrative costs for drilling and
2 producing the wells?

3 A. Yes, they do.

4 Q. What are those costs?

5 A. \$5,450 a month drilling, \$545 a month producing.

6 Q. Are those overhead rates consistent with what
7 other operators in the area are charging for similar
8 wells?

9 A. Yes.

10 Q. Do you ask that those administrative costs be
11 incorporated into an Order resulting from this hearing?

12 A. Yes.

13 Q. Do you ask that the costs be adjusted in
14 accordance with the appropriate accounting procedures?

15 A. Yes, we do.

16 Q. With respect to uncommitted cost-bearing
17 interest owners, do you request that the Division impose a
18 200 percent risk penalty?

19 A. Yes.

20 Q. Did COG identify the offset operators or lessees
21 of record surrounding the two proposed non-standard
22 spacing units?

23 A. Yes, we did.

24 Q. And were those offsets included in Notice of
25 this hearing?

1 A. Yes, they were.

2 Q. Is Exhibit 9 an affidavit prepared by my office
3 with attached letters, providing notice of this hearing to
4 the parties to be pooled and the offset parties?

5 A. Yes.

6 Q. Were all of the parties whom you seek to pool
7 locatable?

8 A. No, they were not.

9 Q. All right. Are Exhibits 10 and 11 Affidavits of
10 Publication for the 5H well and the 7H well, respectively?

11 A. Yes, they are.

12 Q. Were Exhibits 1 through 8 prepared by you or
13 compiled under your direction on supervision?

14 A. Yes, they were.

15 MS. KESSLER: Mr. Examiner, I would move
16 admission of Exhibits 1 through 11, which include my
17 affidavit.

18 EXAMINER McMILLAN: Exhibits 1 through 11
19 may now be accepted as part of the record.

20 MS. KESSLER: That completes my examination
21 of this witness.

22 EXAMINATION

23 BY EXAMINER McMILLAN:

24 Q. Okay. Are there any the depth severances?

25 A. No, sir, there are not.

1 Q. Is this for both wells, both applications?

2 A. That's correct.

3 Q. Okay. Now, the pool is the Penasco Draw San
4 Andres-Yeso, correct?

5 A. Yes.

6 Q. So your application says you're pooling all
7 mineral interests, all interests in the Yeso Formation.

8 A. Yes, sir.

9 Q. What about the San Andres?

10 A. We are not at this time planning to produce out
11 of the San Andres.

12 EXAMINER McMILLAN: I'll have to ask the
13 geologist to explain, because it's nonrespective.

14 MS. KESSLER: Mr. Examiner, I believe that
15 the parties to be pooled are within the Yeso Formation,
16 which is where the well will be drilled.

17 EXAMINER McMILLAN: But the pool is
18 comprised of both San Andres and the Yeso Formation.

19 THE WITNESS: Mr. Examiner, the interest is
20 the same. There is no depth severance within that pool.

21 EXAMINER McMILLAN: Okay. So
22 essentially -- okay. Then -- okay.

23 Q. And the well is proposed, right?

24 A. Yes, sir.

25 Q. And the project area is going to be standard,

1 it's going to be orthodox, right?

2 A. I'm sorry?

3 Q. The project area will be orthodox, correct?

4 A. That's right. Yes, sir.

5 Q. Okay. So what day, by the way, is May 10th? Is
6 it within the 10 working days?

7 MS. KESSLER: Yes. Today is the 26th, so
8 it was within the 10 business days, yes.

9 EXAMINER BROOKS: That was when it was
10 published?

11 MS. KESSLER: Yes.

12 EXAMINER McMILLAN: I want to make sure we
13 don't have to continue the case.

14 EXAMINER BROOKS: Yes, it would -- let's
15 see. What was the day of the week? I've forgotten.

16 It would have been a Tuesday.

17 So Wednesday, Thursday, Friday, Monday,
18 Tuesday, Wednesday, Thursday, Friday, Monday, Tuesday.

19 EXAMINER McMILLAN: Okay. Tuesday is it.

20 EXAMINER BROOKS: It should be ten working
21 days. Unless there is a holiday, 10 business days is the
22 equivalent to 14 regular days.

23 EXAMINER McMILLAN: All right. I have no
24 questions. Thank you very much.

25 THE WITNESS: Thank you.

1 MS. KESSLER: I will call my next witness.

2 GREG CLARK,

3 having been previously sworn, testified as follows:

4 EXAMINATION

5 BY MS. KESSLER:

6 Q. Please state your name for the record and tell
7 the examiners by whom you are employed and in what
8 capacity.

9 A. My name is Greg Clark. I'm employed by COG
10 Operating, LLC, as a petroleum geologist.

11 Q. Have you previously testified before the
12 Division?

13 A. Yes, I have.

14 Q. Were your credentials as a petroleum geologist
15 accepted and made a matter of the record?

16 A. Yes, they were.

17 Q. Are you familiar with the applications filed in
18 these consolidated cases?

19 A. I am.

20 Q. Have you conducted a geologic study of the lands
21 that are the subject of this hearing?

22 A. Yes.

23 MS. KESSLER: Mr. Examiner, I will tender
24 Mr. Clark as an expert petroleum geologist.

25 EXAMINER McMILLAN: So qualified.

1 Q. (BY MS. KESSLER) Mr. Clark, what is the
2 targeted interval for these two wells?

3 A. The targeted interval will be the Paddock member
4 of the Yeso Formation.

5 Q. Have you prepared a structure map and cross
6 section of the target field for the examiners?

7 A. I have.

8 Q. Please turn to Exhibit 12 and identify this
9 exhibit.

10 A. This is a Regional Base Map depicting the two
11 wells, which are the Clydesdale 1 Fee No. 5H and No. 7H in
12 which we would like to drill. You will see that our
13 acreage is outlined in yellow. You will see that the
14 wells that we are asking to pool are in red with the
15 surface hole location being a square and the bottom hole
16 location being a circle. You will also see that the
17 current procedures are depicted by red as a Paddock
18 producer or blue as a Blinebry producer.

19 Q. What is Exhibit 13?

20 A. Exhibit 13 is a regional map of the top of the
21 Paddock subsea structure. The contouring interval is 25
22 feet. Again you will see the locations in which we are
23 requesting to drill depicted in red. You will see in the
24 structure map that there's an overall trend of dip,
25 regional dip that goes from the northwest to the southeast

1 basinward. The purpose of this map is to show that
2 there's no major faulting, major folding or any geologic
3 impediments that would keep us from developing this area
4 using full-section horizontal wells.

5 Q. Is Exhibit 14 a locator map with line of section
6 drawn on it?

7 A. Yes, it is.

8 Q. Do you consider the wells on the line A and
9 A-prime representative of wells in this area?

10 A. I do.

11 Q. Turning to Exhibit 15, will you please identify
12 this exhibit and walk us through it.

13 A. Yes. As depicted on the previous exhibit this
14 is the actual cross section that goes from A to A-prime,
15 from a southeast to northwest direction. You will see
16 that this cross section is a stratigraphic cross section
17 which has been flattened on top of the Paddock. The
18 purpose of this is to a -- take out the structural
19 components so we can show the stratigraphic relationship
20 of the wells throughout the field area that also encompass
21 the area in which we are requesting to drill the
22 Clydesdale 1 Fee No. 5- and No. 7H.

23 You will see that the landing interval is
24 depicted in red.

25 You will see in yellow is the Glorieta

1 Formation, in green is the Paddock Formation, and below
2 that is the Blinebry Formation.

3 The well on the very right of the cross
4 section is a pilot well that we drilled in order to drill
5 the Pinto horizontal well, and the other three wells are
6 deep marrow (phonetic) gas wells that have not yet been
7 completed or recompleted into the Paddock Formation.

8 The Tract 1 on the logs is the gamma ray
9 and the Tract 2 are the porosity curves, and the overall
10 purpose, and what you can see out of this, is that there
11 is no major thickening or thinning within the Paddock.

12 You will see that the log characteristics
13 are very similar, and that we feel, based off of this,
14 that we will be able to drill this well without any major
15 pinch-outs or change in rock character that would make
16 everything pretty uniform within this area in which we
17 intend to drill the Clydesdale 1 Fee 5H and 7H.

18 Q. Mr. Clark, what conclusions have you drawn based
19 on the geologic study of this area?

20 A. There are no geologic impediments from
21 developing this area using full-section horizontal wells.
22 This area can be efficiently and economically developed
23 using horizontal wells, and the non-standard units will
24 contribute more or less equally on average to the total
25 production of the well.

1 Q. As Mr. Dirks mentioned, the completed interval
2 for each of these two wells will comply with the
3 Division's statewide 330-foot setback; is that correct?

4 A. Yes, that is correct.

5 Q. Is the granting of COG's application in the best
6 interests of conservation, prevention of waste, and the
7 protection of correlative rights?

8 A. Yes.

9 Q. Were Exhibits 12 through 15 prepared by you or
10 compiled under your direction?

11 A. Yes, they were.

12 MS. KESSLER: Mr. Chairman, I would move
13 the admission of Exhibits 12 through 15.

14 EXAMINER McMILLAN: Exhibits 12 through 15
15 will now be accepted as part of the record.

16 MS. KESSLER: That concludes my
17 presentation.

18 EXAMINER McMILLAN I've got a question for
19 you on Exhibit 12.

20 EXAMINATION

21 BY EXAMINER McMILLAN:

22 Q. Exhibit 12.

23 A. Okay.

24 Q. 12 and 14 are the same thing.

25 But I'm just curious: In terms of

1 reserves, looking I guess at the south half of the north
2 half, those are east-west wells, and the Section 6, that's
3 the north/south wells.

4 Is there any difference in reserves?

5 A. From the north/south v. the east/west we are not
6 seeing any difference in reserves. SH max is in a
7 northwest to southeast direction, so as long as we're
8 staying either oblique or perpendicular to SH max, we feel
9 that the wells will perform similarly, and that's what we
10 have seen as a result of the production from the wells
11 that currently exist.

12 Q. Okay. I'm just curious. I'm doing a quick look
13 at 15. Is the very top the Paddock perspective, too?

14 A. Yes.

15 Q. Okay. So that would just be another well
16 you've drilled in there?

17 A. Drilling at the very top of the Paddock?

18 Q. Yeah.

19 A. At this time we don't feel we would need another
20 well in order to effectively produce our reserves within
21 the Paddock Formation in the current interval in which we
22 intend to land the well.

23 EXAMINER McMILLAN: Okay.

24 EXAMINER BROOKS: No questions.

25 THE SPECIAL MASTER: Okay. I have no

1 further questions. Thank you.

2 THE WITNESS: All right. Thank you.

3 EXAMINER McMILLAN: Case No. 15493 and Case
4 No. 15494 may now be taken under advisement.

5 And we are going to take a five-minute
6 break, because Will Jones is going to be here for the next
7 case. We will come back at 10 till.

8 (Time noted: 8:41 a.m.)

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1 STATE OF NEW MEXICO)
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 3 COUNTY OF TAOS)
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7 REPORTER'S CERTIFICATE

8 I, MARY THERESE MACFARLANE, New Mexico Reporter
 CCR No. 122, DO HEREBY CERTIFY that on Thursday, May 26,
 9 2016, the proceedings in the above-captioned matter were
 taken before me, that I did report in stenographic
 10 shorthand the proceedings set forth herein, and the
 foregoing pages are a true and correct transcription to the
 11 best of my ability and control.

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

15
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 17
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 19 _____
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 NM Certified Court Reporter No. 122
 20 License Expires: 12/31/2016
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