

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:

APPLICATION OF COG OPERATING, LLC CASE NO. 16019
FOR A NONSTANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 22, 2018

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, March 22, 2018, 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 C. Hankins, CCR, RPR
 New Mexico CCR #20
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1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

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 6

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1 (8:40 a.m.)

2 EXAMINER JONES: Are there any other notice
3 cases on the docket? I don't think there is, but if
4 anyone knows of one --

5 I'll start on the top of the docket then.
6 Call Case Number 16019, application of COG Operating,
7 LLC for a nonstandard oil spacing and proration unit and
8 compulsory pooling in Lea County, New Mexico.

9 Call for appearances.

10 MR. LARSON: Good morning, Mr. Examiner.
11 Gary Larson, with the Santa Fe office of Hinkle Shanor,
12 for the Applicant, COG Operating. I have two witnesses.

13 EXAMINER JONES: Any other appearances?
14 Will the witnesses please stand and the
15 court reporter swear the witnesses?

16 (Mr. Solomon and Mr. Sitek sworn.)

17 MR. LARSON: May I proceed?

18 EXAMINER JONES: Yes. Thanks.

19 MATT SOLOMON,
20 after having been first duly sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. LARSON:

24 Q. Good morning, Mr. Solomon.

25 A. Morning.

1 Q. Would you state your name for the record?

2 A. Matt Solomon.

3 Q. Where do you reside?

4 A. Midland, Texas.

5 Q. By whom are you employed and in what capacity?

6 A. COG Operating, LLC. I'm a staff landman.

7 Q. And what is the focus of your responsibilities
8 as a landman at COG?

9 A. I have an area in southeast New Mexico,
10 specifically Lea County.

11 Q. And are you familiar with the land matters that
12 pertain to COG's application?

13 A. I am.

14 Q. Have you previously testified at a Division
15 hearing?

16 A. I have.

17 Q. And at each of those hearings, did the Examiner
18 accept your qualifications as an expert in petroleum
19 land matters?

20 A. It did.

21 MR. LARSON: Mr. Examiner, I tender
22 Mr. Solomon as an expert in petroleum land matters.

23 EXAMINER JONES: He is so qualified.

24 Q. (BY MR. LARSON) Mr. Solomon, would you identify
25 the document marked as Exhibit Number 1?

1 A. Yes. This is the C-102 which we submitted in
2 our request for a nonstandard spacing and proration unit
3 for our Mortarboard Federal Com 13H.

4 **Q. Is Exhibit Number 1 a true and correct copy of**
5 **the C-102 for the Mortarboard Federal Com #13H?**

6 A. It is.

7 **Q. That's a bit of a mouthful. I'll refer to it**
8 **as the Mortarboard well.**

9 Directing your attention to the east half
10 of the southwest quarter of the well, which is not
11 included in the project area, does COG have other
12 development plans for that acreage?

13 A. We do. We are planning to do a mile-and-a-half
14 well to include that acreage, and that well will drill
15 from south to north.

16 **Q. And what formation is COG seeking to pool?**

17 A. Bone Spring.

18 **Q. Are there any depth exceptions in the Bone**
19 **Spring?**

20 A. No.

21 **Q. Would you next identify the document marked as**
22 **Exhibit 2?**

23 A. Yeah. This shows the proposed well that we're
24 seeking to drill in the dashed line. North of it, it
25 shows existing wells that we also drilled in the Bone

1 Spring Formation operated by Mewbourne.

2 Q. And was this exhibit prepared by Mr. Sitek who
3 will be providing the geology testimony?

4 A. That's correct.

5 Q. Would you identify the document marked as
6 Exhibit 3?

7 A. Yes. This document is a breakdown of the
8 working interest ownership in this proposed 1.5 mile
9 well. You can see, as shown on the second page of the
10 exhibit, the breakdown of the working interests in both
11 tracts and the overall working interest in the unit.

12 Q. And did you prepare this document?

13 A. I did.

14 Q. And does COG hold working interests within each
15 quarter-quarter section of the proposed project area?

16 A. It does.

17 Q. Would you identify the document marked as
18 Exhibit 4?

19 A. Yes. This is an example of the well-proposal
20 letter that we sent out to all working interest owners
21 or unleased mineral interest owners.

22 Q. And does it also include Federal Express
23 delivery information?

24 A. It does.

25 Q. And did you prepare and sign the well-proposal

1 **letters that were sent out?**

2 A. I did.

3 Q. And was the well-proposal letter sent to each
4 **of the interests identified in Exhibit 3?**

5 A. Correct.

6 Q. Did they all receive that letter?

7 A. They did.

8 Q. And after you sent the well-proposal letters
9 **did you communicate with the interest owners --**

10 A. We did.

11 Q. -- uncommitted interest owners?

12 A. We did.

13 Q. And what was the outcome of those
14 **communications?**

15 A. Two have now signed joint operating agreements
16 with us. That would be OneEnergy and Energen.

17 Q. And in your opinion, has COG made a good-faith
18 **effort to obtain voluntary joinders in the Mortarboard**
19 **well?**

20 A. It has.

21 Q. Would you next look at Exhibit Number 5?

22 A. Yes. This is the notice sent out by your firm
23 on our behest notifying people of this hearing.

24 Q. And was the hearing notice letter sent to each
25 **of the interests identified in Exhibit 3?**

1 A. It was.

2 **Q. Would you next identify the document marked as**
3 **Exhibit 6?**

4 A. Yeah. This is a map indicating the offset
5 interest to this proposed Mortarboard well.

6 **Q. Did you also prepare this document?**

7 A. I did.

8 **Q. And would you identify the document marked as**
9 **Exhibit 7?**

10 A. Yes. This is the letter prepared by your firm
11 on our behest notifying all those offset owners of this
12 application.

13 **Q. And did COG have good addresses for all of the**
14 **offset interests?**

15 A. It did.

16 **Q. Did they have a good address for Blackburn?**

17 A. It does.

18 **Q. Was that letter returned?**

19 A. It was.

20 **Q. And did COG publish notice of today's hearing?**

21 A. Yes, it did.

22 **Q. And which publication was the notice?**

23 A. It was in the "Hobbs News-Sun."

24 **Q. And what is the date of the publication?**

25 A. Date of publication was March 1st.

1 Q. Would you identify the document marked as
2 Exhibit 8?

3 A. Yeah. This is a correct copy of that
4 publication.

5 Q. It's the Affidavit of Publication?

6 A. Correct.

7 Q. And would you identify your final exhibit,
8 which is Number 9?

9 A. This is a copy of the AFE that was sent for
10 each well proposal to the working interest owners or
11 unleased mineral interest owners in the unit.

12 Q. And is Exhibit 9 a true and correct copy of
13 those AFEs that were sent to the uncommitted interests?

14 A. It is.

15 Q. And what is the total estimated well costs
16 indicated on the AFE?

17 A. A little more than \$10.5 million.

18 Q. And is the estimated cost consistent with the
19 costs incurred by COG for similar Bone Spring
20 mile-and-a-half wells?

21 A. It is.

22 Q. Do you have a recommendation for the amount COG
23 should be paid for supervision and administrative
24 expenses?

25 A. Yeah, the standard -- the standard rate of

1 7,000 and 700.

2 Q. And are those amounts similar to and consistent
3 with those charged for COG further Bone Spring
4 mile-and-a-half wells?

5 A. That's correct.

6 Q. And are they also the amounts set out in the
7 JOA for the Mortarboard well?

8 A. Correct.

9 Q. And do you also recommend the rates for
10 supervision and administrative expenses be adjusted
11 periodically pursuant to the COPAS accounting procedure?

12 A. I do.

13 Q. And is COG also requesting a 200 percent charge
14 for the risk of drilling and completing the Mortarboard
15 well?

16 A. It does.

17 Q. In your opinion, will the granting of COG's
18 application avoid the drilling of unnecessary wells,
19 protect correlative rights and serve the interests of
20 conservation and prevention of waste?

21 A. I do [sic].

22 MR. LARSON: Mr. Examiner, I'd move the
23 admission of Exhibits 1 through 9.

24 EXAMINER JONES: Exhibits 1 through 9 are
25 admitted.

1 (COG Operating, LLC Exhibit Numbers 1
2 through 9 are offered and admitted into
3 evidence.)

4 MR. LARSON: And I will pass the witness.

5 EXAMINER JONES: Mr. Brooks?

6 CROSS-EXAMINATION

7 BY EXAMINER BROOKS:

8 Q. What pool is this in?

9 A. We have been told that it is going to be an
10 Avalon wildcat pool, but we have not been assigned a
11 pool code yet.

12 Q. Okay. Yeah. You have to get those from Paul
13 Kautz. Nobody else knows anything about it.

14 The spacing would be statewide, right,
15 40-acre?

16 A. Correct.

17 Q. I think that's all I have.

18 CROSS-EXAMINATION

19 BY EXAMINER JONES:

20 Q. 40-acre Bone Spring oil and maybe wildcat. But
21 it's Upper Bone Spring.

22 EXAMINER BROOKS: Oh, I did -- I guess I
23 did --

24

25

1 RECROSS EXAMINATION

2 BY EXAMINER BROOKS:

3 **Q. OXY is uncommitted, and you're pooling them?**

4 A. That's correct. I've had continuing dialogue
5 with them right now. They are just reviewing our joint
6 operating agreement.

7 **Q. These all look like industry people. I don't**
8 **know about Coppedge. Coppedge, I don't know. But is**
9 **there anybody -- is there anybody that's not in the**
10 **business on here?**

11 A. Yeah. As you pointed out, James T. Coppedge is
12 an individual who lives in Indiana, but he is the only
13 one. David Arrington is the principal behind --

14 **Q. Yeah. I know who David Arrington is.**

15 A. Sure.

16 **Q. And you've gotten an actual notice to**
17 **Mr. Coppedge?**

18 A. Yes, we have.

19 **Q. Okay. Thank you.**

20 RECROSS EXAMINATION

21 BY EXAMINER JONES:

22 **Q. So all of the parties in yellow are still**
23 **uncommitted?**

24 A. Well, that has changed. Right now we do have
25 signed JOAs from OneEnergy Partners and from Energen.

1 Chevron has notified us that they intend to participate
2 under a forced pooling order.

3 Q. Okay. So all three may -- when they signed --
4 the two signed the JOAs. Does that mean you're
5 expecting them to also sign the AFE -- or the well
6 proposal?

7 A. Yes. Yeah. I mean, they can be released from
8 this forced pooling request.

9 Q. Okay. Now, which tract -- Tract 2 is the tract
10 that all of the parties -- except OXY. OXY owns 58
11 percent of Tract 1, and they're still a party.

12 A. Correct.

13 Q. Okay. So it's one little fee tract, and the
14 rest is all federal?

15 A. Correct.

16 Q. And the fee tract is even split between COG and
17 OXY. That's interesting.

18 A. The federal tract is, not the fee tract.

19 Q. Okay. Tract 1 is the big federal tract?

20 A. Correct.

21 Q. And the location of the well, is that -- this
22 is federal, and it's not permitted yet. So is it --
23 you've got location -- footage locations on your -- is
24 that -- did you schedule an on-site yet or anything?

25 A. Yes. That's been done.

1 Q. That's been done already?

2 A. Yeah.

3 Q. So you pretty much -- the location will not
4 change?

5 A. No.

6 Q. You don't expect it to change?

7 A. No.

8 Q. And you're going for a standard location --

9 A. Correct.

10 Q. -- completed location?

11 A. Correct.

12 Q. Okay. And Lot 3, I've got it -- our records
13 say 40 -- 40.01. I guess your records -- you don't say
14 what acreage you've got here. Is your acreage the same
15 as the state acreage or --

16 A. You know, our title -- our title shows that Lot
17 3 is actually 40.01.

18 Q. Okay. Sounds good. That's what our system
19 shows, and it's not always the same, so I just wanted to
20 ask.

21 So no nonstandard location, and you've
22 noticed everyone for NSL.

23 And all pooled parties are working
24 interests?

25 A. Except for Coppedge and Arrington. And I'm

1 sorry. Chevron as well. They're mineral interest
2 owners.

3 **Q. Are there any unleased mineral owners? They're**
4 **not -- it's all leases, obviously; is that correct?**

5 A. No. Coppedge is an unleased mineral interest
6 owner. Arrington is an unleased mineral owner, and
7 Chevron owns the minerals.

8 **Q. Chevron.**

9 A. Yes.

10 **Q. And you located everybody, sounds like?**

11 A. Yes.

12 **Q. Thanks very much.**

13 A. You're welcome.

14 REDIRECT EXAMINATION

15 BY MR. LARSON:

16 **Q. Your target interval is the Lower Bone Spring**
17 **rather than the Upper Bone Spring?**

18 A. It is.

19 EXAMINER JONES: Okay. The word "Avalon"
20 is a pool -- is a field name, basically.

21 THE WITNESS: It's 3rd Bone Spring.

22 MR. LARSON: I have nothing further from
23 this witness.

24 EXAMINER JONES: Thanks, Mr. Solomon.

25

1 BRIAN SITEK,
2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. LARSON:

6 Q. Good morning, Mr. Sitek.

7 A. Good morning.

8 Q. Would you please state your full name for the
9 record?

10 A. Brian Sitek.

11 Q. And where do you reside?

12 A. Midland, Texas.

13 Q. And by whom are you employed and in what
14 capacity?

15 A. COG Operating, LLC as a geologist.

16 Q. What is the focus of your responsibilities in
17 the geology department at COG?

18 A. The geology of southeast New Mexico.

19 Q. And are you familiar with the geological
20 aspects of the Mortarboard well and the matters
21 addressed in the application?

22 A. Yes.

23 Q. Have you previously testified at a Division
24 hearing?

25 A. No, I have not.

1 Q. And given that, would you summarize for the
2 Examiner your educational background and experience in
3 the oil and gas industry?

4 A. Sure. I earned my Bachelor's of Science degree
5 from the University of Kansas in geology in 2014 and my
6 Master's of Science in geology from the University of
7 Kansas in 2017. And I've been working for COG Operating
8 for about six months.

9 MR. LARSON: Mr. Examiner, I tender
10 Mr. Sitek as an expert in petroleum geology.

11 EXAMINER JONES: I worked with a petroleum
12 engineer from Kansas for many years.

13 THE WITNESS: Oh, yeah?

14 EXAMINER JONES: You have large cornfields
15 growing outside Kansas; is that right?

16 THE WITNESS: That's right.

17 EXAMINER JONES: So qualified.

18 MR. LARSON: Thank you.

19 Q. (BY MR. LARSON) Mr. Sitek, I'll direct your
20 attention to Exhibit Number 2. Will the completed
21 interval of the Mortarboard well comply with the
22 Division setback requirements?

23 A. Yes.

24 Q. Looking at the offset wells identified in
25 Sections 35 and 36 on Exhibit 2, are those all Bone

1 Spring wells?

2 A. Yes.

3 Q. And in your opinion, is the north-to-south
4 orientation of the Mortarboard well appropriate for the
5 proposed project?

6 A. It is.

7 Q. Would you identify the document marked as
8 Exhibit 10?

9 A. Yes. This is a structure map.

10 Q. And did you prepare this document?

11 A. Yes.

12 Q. And could you summarize what your map is
13 intended to depict?

14 A. So it shows the proposed location of the
15 Mortarboard well as the dashed line, and then it shows
16 structured contours of the top of the Wolfcamp. It has
17 black lines. And a cross section, A to A prime, and COG
18 acreage is shown in yellow.

19 Q. And did you prepare this exhibit?

20 A. I did.

21 Q. I'll next ask you to identify Exhibit Number
22 11.

23 A. This is a stratigraphic cross section, A to A
24 prime.

25 Q. And did you prepare this document?

1 A. I did.

2 Q. And what is your cross section intended to
3 depict?

4 A. It shows the targeted interval shown bracketed
5 in green and the top of the Wolfcamp shown in red and
6 the top of 3rd Bone Spring Sand in purple. And it shows
7 the continuity of the target interval across the area.

8 Q. Are there any geologic faults or impediments in
9 the target interval?

10 A. No.

11 Q. And in your opinion, are all quarter-quarter
12 sections to be included in the proposed project area
13 expected to be more or less equally productive?

14 A. Yes.

15 Q. And in your opinion, will the granting of COG's
16 application avoid the drilling of unnecessary wells,
17 protect correlative rights and serve the interest of
18 conservation and the prevention of waste?

19 A. Yes.

20 MR. LARSON: Mr. Examiner, I'll move the
21 admission of Exhibits 10 and 11.

22 EXAMINER JONES: Exhibits 10 and 11 are
23 admitted.

24 (COG Operating, LLC Exhibit Numbers 10 and
25 11 are offered and admitted into evidence.)

1 MR. LARSON: I'll pass the witness.

2 EXAMINER JONES: Mr. Brooks?

3 EXAMINER BROOKS: No questions.

4 CROSS-EXAMINATION

5 BY EXAMINER JONES:

6 Q. So you're drilling a toe-down well?

7 A. Yes.

8 Q. And is that for a reason, or why are you
9 putting your surface location there? That's probably a
10 land question, but --

11 A. You know, I'm not sure. I think it may be a
12 land issue. I'm not certain.

13 Q. Okay. Did you pick the location with the --
14 within the vertical extent of the Bone Spring? Is this
15 your location?

16 A. Yes.

17 Q. And you decided to drill your well a mile and a
18 half. Is that why -- why is that?

19 A. I believe we're drilling a well from south to
20 north a mile and a half in the section offsetting this.
21 I believe.

22 Q. Okay. So that well in the spacing unit
23 offsetting is going to develop the west half of the
24 northwest quarter of Section 12, is that correct, that
25 well you're talking about?

1 A. I think it'll be directly offsetting this well
2 to the south, so --

3 Q. To the south?

4 A. If I'm understanding you.

5 Q. So it's going to develop the west half of
6 southwest quarter, that other well. So you're drilling
7 your well to not to strand acreage?

8 A. Correct.

9 Q. Even though it's still federal down there.

10 Okay. And what about the acreage -- the
11 fee acreage over to the west? I mean, as far as wells
12 go, are you -- is that acreage prospective, too? I
13 guess if you can talk about it.

14 A. I'm not familiar with the -- our plans with
15 that acreage.

16 Q. Okay. Okay. Well, it doesn't fall within our
17 rules for stranded acreage as far as the current
18 horizontal well rules.

19 Why the 3rd Bone Spring Sand?

20 A. That's our most prospective unit in that area.

21 Q. So other wells have drilled in that?

22 A. Yeah. There are some wells just offsetting it
23 to the north that are drilled in a similar interval.

24 Q. Have you talked to the geologists or engineers
25 in the other companies that are being pooled, like

1 Chevron and any of these other companies' professionals?

2 A. I have not yet.

3 Q. Okay. Okay. So this is just -- are you
4 optimistic about this well? Is this well going to spawn
5 some more drilling in the area?

6 A. We -- based on offset production, we think this
7 will be a productive well.

8 Q. Productive well. Okay.

9 And where are you going to put your
10 mudloggers on this well? Are you going to put them on
11 at the -- at the beginning of the Delaware Formation?
12 Is that correct?

13 A. I think that's typically -- typically what we
14 do, yeah.

15 Q. Okay. Thanks very much.

16 A. Thank you.

17 MR. LARSON: Couple of follow-up questions,
18 Mr. Examiner.

19 EXAMINER JONES: Yes.

20 REDIRECT EXAMINATION

21 BY MR. LARSON:

22 Q. Mr. Sitek, look at Exhibit 1. There's been
23 discussion about a well coming from the south. Is that
24 going to be in the east half of the southwest quarter?

25 A. East half of the southwest quarter? Yes.

1 Q. And in your expert opinion, is Kansas going to
2 win the national championship?

3 A. Absolutely.

4 (Laughter.)

5 MR. LARSON: That's all I have,
6 Mr. Examiner.

7 THE WITNESS: Thank you.

8 EXAMINER JONES: Thank you very much.
9 Good luck on that basketball team.

10 Is that it for Case 16019?

11 MR. LARSON: Yes, it is.

12 EXAMINER JONES: Case 16019 is taken under
13 advisement.

14 (Case Number 16019 concludes, 9:03 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20 DATED THIS 10th day of April, 2018.

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters