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1 (10:53 a.m.)

2 EXAMINER DAWSON: So the next cases we will
3 hear are Case Numbers -- I'm supposing these will be
4 consolidated -- Case Number 16328, starting with number
5 58 on the list, going down to Case Number 16329, Case
6 Numbers 16330, 16331, 16333, 16334 and 16335.

7 Call for appearances, please.

8 MS. MUNDS-DRY: Thank you, Mr. Examiner.
9 And that is correct. We'd ask that these cases be
10 consolidated for hearing.

11 My name is Ocean Munds-Dry. I am senior
12 counsel for COG Operating, LLC.

13 And passing out your exhibits today is
14 Mr. Michael Rodriguez, who will be sitting with me at
15 counsel table. He's our legal intern for the summer.
16 And he goes back to school in a couple of weeks, so we
17 will be missing him when he leaves.

18 I have two witnesses.

19 EXAMINER DAWSON: Can your witnesses please
20 be sworn by the court reporter?

21 MS. MUNDS-DRY: I think we have one more.

22 EXAMINER DAWSON: Okay. Mr. Padilla, are
23 you going to make an appearance?

24 MR. PADILLA: Ernest L. Padilla for EOG
25 Resources, and we have no witnesses.

1 EXAMINER DAWSON: Okay. Thank you,
2 Mr. Padilla.

3 So your witnesses will please be sworn in
4 at this time.

5 (Mr. Kidwell and Mr. Bacon sworn.)

6 EXAMINER DAWSON: When you're ready,
7 Ms. Munds-Dry.

8 MS. MUNDS-DRY: Thank you. I'll call
9 Mr. Kidwell, please.

10 DANNY M. KIDWELL,
11 after having been first duly sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MS. MUNDS-DRY:

15 Q. Good morning.

16 A. Good morning.

17 Q. Would you please state your name for the record
18 and who you work for?

19 A. Danny Kidwell and COG Operating, LLC.

20 Q. And what do you do for Concho?

21 A. I'm a senior staff landman.

22 Q. Mr. Kidwell, have you previously testified
23 before the Division?

24 A. Yes, I have.

25 Q. And were your credentials as a petroleum

1 **landman accepted and made a matter of record?**

2 A. Yes, they were.

3 **Q. And are you familiar with the status of the**
4 **lands that are the subject of these applications today?**

5 A. Yes, I am.

6 MS. MUNDS-DRY: Mr. Examiner, we'd ask that
7 Mr. Kidwell be qualified as a petroleum landman.

8 EXAMINER DAWSON: Any objections?

9 MR. PADILLA: No objection.

10 EXAMINER DAWSON: Mr. Bruce? Oh, he's not
11 here.

12 MS. MUNDS-DRY: I mean, he's welcome to
13 chime in.

14 (Laughter.)

15 EXAMINER DAWSON: Mr. Kidwell will be
16 admitted to the record as an expert petroleum landman at
17 this time.

18 MS. MUNDS-DRY: Thank you, Mr. Examiner.

19 **Q. (BY MS. MUNDS-DRY) Mr. Kidwell, can you please**
20 **explain what COG seeks under these applications?**

21 A. We seek to form some 160-acre -- no -- 240-acre
22 standard spacing units.

23 **Q. And do we also seek to pool the uncommitted**
24 **interest owners in both the Bone Spring and the Wolfcamp**
25 **Formations for these wells?**

1 A. Yes, we do.

2 Q. If you would please turn to what's been marked
3 as COG Exhibit Number 1 and if you could -- there is
4 quite a stack of them, but if you could please review in
5 summary what the C-102s reflect in each of the plats.

6 A. Okay. The first one is for the Little Bear 2H
7 well. It reflects the spacing unit for the 2H being the
8 east half of the east half of Section 33 and the east
9 half of the east half of -- well, the east half of the
10 southeast quarter of Section 28.

11 Q. Thank you.

12 And the next page?

13 A. The next page --

14 Q. The 3H.

15 A. -- is the 3H, a standard spacing unit, again,
16 for the west half of the east half of Section 33 and the
17 west half of the southeast quarter of Section 28.

18 Q. Oh, and, Mr. Kidwell, I should have asked you.
19 For the 2H and the 3H, what formation will those wells
20 be completed in?

21 A. The Bone Spring.

22 Q. Thank you.

23 If you turn to the 4H.

24 A. The 4H, again, is the spacing unit -- 240-acre
25 spacing unit consisting of the east half of the west

1 half of Section 33, the east half of the southwest
2 quarter of Section 28. And that is also a Bone Spring.

3 Q. Thank you.

4 The 5H?

5 A. The 5H, again, a standard spacing unit
6 consisting of the west half of the west half of Section
7 33 and the east half -- I mean the west half of the
8 southwest quarter of Section 28. And that also is a
9 Bone Spring.

10 Q. And the 7H?

11 A. The 7H is a standard spacing unit consisting of
12 the west half of the east half of Section 33 and the
13 west half of the southeast quarter of Section 28. And
14 that's a Wolfcamp well.

15 Q. Thank you.

16 8H?

17 A. The 8H is a standard spacing unit consisting of
18 the east half of the west half of Section 33 and the
19 east half of the southwest quarter of Section 28. And
20 it's another Wolfcamp.

21 Q. And finally the 9H.

22 A. The 9H is a standard spacing unit, again,
23 consisting of the west half-west half of Section 33 and
24 the west half of the southwest quarter of Section 28.
25 And that is also a Wolfcamp.

1 Q. Thank you, Mr. Kidwell.

2 And have APDs been approved for these
3 wells?

4 A. Yes, they have.

5 Q. And has the Division designated pools for each
6 of the -- for all of the wells?

7 A. The one -- let's see. The 2H through the 5H is
8 the Bone Spring --

9 Q. I believe that's designated as the wildcat?

10 A. Yeah.

11 And then the 7H through the 9H is the
12 wildcat Wolfcamp.

13 Q. Thank you.

14 So, therefore, these wells in these spacing
15 units would all be governed by statewide horizontal well
16 rules?

17 A. Yes.

18 Q. What is the character of the lands subject to
19 these applications?

20 A. Federal.

21 Q. Have you identified the interest owners in the
22 proposed horizontal spacing units?

23 A. Yes, I have.

24 Q. If you turn to what's been marked as COG
25 Exhibit Number 2 -- I think for the sake of time, since

1 I know that there are cases after us and we're going to
2 be looking at lunch here shortly, if you could turn to
3 the second page and we'll go through the second page of
4 each of these documents, if you would, Mr. Kidwell. And
5 if you could review -- since we just reviewed the
6 spacing units, if you could review in total the unit
7 recapitulation for each of the wells and who we're
8 seeking to pool.

9 A. Okay. COG, under the 2H spacing unit, owns
10 35.416667 percent; EOG, 33.333 percent; ZPZ Delaware I,
11 LLC is 27.604167 percent; Marathon Oil Permian, LLC owns
12 3.645833 percent.

13 We're seeking to pool EOG Resources, Inc.
14 and Marathon Oil Permian, LLC. We have reached an
15 agreement with ZPZ.

16 Q. And, therefore, we no longer seek to pool ZPZ's
17 interest?

18 A. Right.

19 Q. If you could turn to the plat for the 3H and
20 then turn to the next page --

21 A. Okay.

22 Q. -- and give us the unit recap and who we seek
23 to pool there.

24 A. Okay. It lists the interest of all the
25 parties, which is COG, EOG, ZPZ, Marathon Oil Permian,

1 and we're seeking to pool EOG and Marathon Oil.

2 Q. Great.

3 A. And ZPZ, again, we've reached voluntary
4 agreement, so we're no longer seeking compulsory pooling
5 for them.

6 Q. Thank you.

7 And if you'll turn to the 4H plat and the
8 next page after that.

9 A. Okay. The spacing unit for the 4H is owned by
10 COG, 66.666667 percent; EOG Resources, 33.333333
11 percent. And we're seeking to pool EOG Resources, Inc.

12 Q. Thank you.

13 Next turn to 5H and review on the next page
14 there the unit recap for us.

15 A. Again, in this spacing unit, COG and EOG
16 Resources, same percentage as before. And we're seeking
17 to compulsory pool EOG.

18 Q. And the 7H? Same thing?

19 A. 7H shows the percentages each of the companies
20 owns, which is COG, EOG, ZPZ Delaware and Marathon Oil
21 Permian, LLC. Again, we're seeking to pool EOG
22 Resources, Inc. and Marathon Oil Permian, LLC. We're no
23 longer seeking to pool ZPZ. We've reached a voluntary
24 agreement.

25 Q. And the 8H?

1 A. Under this unit, COG and EOG are the only two
2 owners. COG, as you can see, there is an interest
3 there. And the only party we are seeking to pool is
4 EOG.

5 Q. And finally for the 9H, same as the 8H?

6 A. Same as the 8H.

7 Q. And you seek to pool EOG's interest?

8 A. Yes.

9 Q. Thank you for marching us through that as
10 quickly as we can.

11 If you can turn to what's been marked as
12 COG Exhibit Number 3 --

13 A. Okay.

14 Q. -- are these a copy of the well-proposal
15 letters that were sent to each of the interest owners we
16 seek to pool here today?

17 A. Yes, they are.

18 Q. And what was the date that the letters were
19 sent?

20 A. February 21st, 2018.

21 Q. And did the well-proposal letters include an
22 AFE showing the proposed costs for each of the wells?

23 A. Yes, they did.

24 Q. And what other efforts, if you could,
25 Mr. Kidwell, review for us -- what other efforts did you

1 undertake to reach voluntary agreement with each of the
2 uncommitted interest owners?

3 A. I've called them weekly. And we have -- we
4 have a verbal agreement with EOG, and it has -- it just
5 doesn't have ink on it yet. And once we get ink on it,
6 we will remove EOG from the pooling order.

7 Q. With respect to the other parties, are you also
8 still attempting to reach voluntary agreement with them?

9 A. Yes.

10 Q. And, likewise, if you reach agreement with
11 them, will you dismiss them from the order?

12 A. We'll dismiss them from the order.

13 Q. In your opinion, have you made a good-faith
14 effort to try to reach voluntary agreement with the
15 uncommitted interest owners?

16 A. Yes, we have.

17 Q. Have you estimated overhead and administrative
18 costs while drilling and producing each of the wells?

19 A. Yes, \$7,000 a month for drilling and \$700 a
20 month for producing.

21 Q. Are these costs in line with what COG and other
22 operators charge in this area for similar wells?

23 A. Yes, they are.

24 Q. Do you ask that these administrative and
25 overhead costs be incorporated into any order resulting

1 from this hearing?

2 A. Yes.

3 Q. And do you ask also that the costs be adjusted
4 in accordance with the accounting procedures?

5 A. Yes, I do.

6 Q. And with respect to any uncommitted working
7 interest owners, do you request that the Division impose
8 a 200 percent risk penalty?

9 A. Yes, we do.

10 Q. Did COG provide notice of this hearing to the
11 interest owners that we are seeking to pool?

12 A. Yes, we did.

13 Q. If you turn to what's been marked as COG
14 Exhibit Number 4, is this the notice packet which
15 includes an affidavit from Holland & Hart showing that
16 notice was -- was properly given to the interest owners?

17 A. Yes, it is.

18 Q. And does it also include a copy of the
19 Affidavit of Publication in the newspaper providing
20 notice of the hearing? We have to flip way back to get
21 there.

22 A. Yes.

23 Q. And were Exhibits 1 through 4 either prepared
24 by you or compiled under your direction and supervision?

25 A. Yes, they were.

1 MS. MUNDS-DRY: Mr. Examiner, we would move
2 the admission into evidence of COG Exhibits 1 through 4.

3 EXAMINER DAWSON: Any objection?

4 MR. PADILLA: None.

5 EXAMINER DAWSON: COG Exhibits 1 through 4
6 will be admitted to the record at this time.

7 (COG Operating, LLC Exhibit Numbers 1
8 through 4 are offered and admitted into
9 evidence.)

10 MS. MUNDS-DRY: With that, that concludes
11 my direct examination of Mr. Kidwell. Pass the witness.

12 MR. PADILLA: No questions.

13 EXAMINER DAWSON: Leonard, do you have any
14 questions?

15 EXAMINER LOWE: No.

16 EXAMINER DAWSON: David?

17 CROSS-EXAMINATION

18 BY EXAMINER BROOKS:

19 Q. The only thing is about overriding royalties.
20 You haven't said anything -- the witness didn't say
21 anything about overriding royalties. Are there any in
22 this unit?

23 A. We feel we'll have -- yes, there are. But we
24 feel we'll have voluntary compliance. If not, we'll
25 reopen the hearing.

1 Q. Is this all fee lands?

2 A. No. This is federal.

3 Q. Federal. Okay. So you do have a possible
4 issue there?

5 A. Yes.

6 Q. But you're not asking to address that issue?

7 A. Not at this time.

8 Q. Okay.

9 EXAMINER DAWSON: I don't have any
10 questions.

11 THE WITNESS: Okay. Thank you.

12 EXAMINER DAWSON: Thank you very much.

13 MS. MUNDS-DRY: Mr. Dawson, before I call
14 my next witness, I failed to mention at the beginning,
15 the application was filed in that transition time
16 between the old rules and the new rules. It was filed
17 actually on the day that the new rules -- the horizontal
18 well rules went into effect. So the application sought
19 a nonstandard spacing unit, and we would ask that that
20 portion of the application be dismissed, since it's no
21 longer required under the new rule.

22 EXAMINER BROOKS: Yeah.

23 MS. MUNDS-DRY: We encountered that at the
24 last hearing.

25 EXAMINER BROOKS: For the information of

1 counsel, our general counsel has ruled on this. The
2 time of the application going into effect was 12:01 on
3 July 26th. So anything filed on July 26th, unless you
4 were up here between 12:00 and 12:01, is under the new
5 rule.

6 MS. MUNDS-DRY: I was not here at 12:01
7 a.m.

8 EXAMINER BROOKS: I assume that is the
9 case.

10 MS. MUNDS-DRY: Thank you.

11 EXAMINER DAWSON: You can call your next
12 witness.

13 MS. MUNDS-DRY: Thank you.

14 Mr. Bacon.

15 CODY BACON,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. MUNDS-DRY:

20 Q. Good morning.

21 A. Good morning.

22 Q. Would you please state your name for the
23 record?

24 A. My name is Cody Bacon.

25 Q. And who do you work for?

1 A. I'm employed by COG Operating, LLC.

2 Q. And what do you do for Concho?

3 A. I'm a geologist.

4 Q. Have you previously testified before the
5 Division?

6 A. Yes, I have.

7 Q. And were your credentials accepted and made a
8 matter of record?

9 A. They were.

10 Q. Are you familiar with the applications that
11 have been filed in this case?

12 A. Yes, I am.

13 Q. And have you conducted a study of the lands
14 that are subject to the applications?

15 A. Yes.

16 MS. MUNDS-DRY: Mr. Dawson, we tender
17 Mr. Bacon as an expert in petroleum geology.

18 EXAMINER DAWSON: Any objections?

19 MR. PADILLA: No objection.

20 EXAMINER DAWSON: Mr. Bacon will be
21 admitted as an expert in petroleum geology at this time.

22 MS. MUNDS-DRY: Thank you.

23 Q. (BY MS. MUNDS-DRY) Mr. Bacon, would you please
24 turn to what's been marked as Exhibit Number 5 and if
25 you could review this for the examiner?

1 A. Sure. This is a location map of the Little
2 Bear project area. On the right, you'll see a map
3 legend showing that the red-dashed lines are COG's
4 Wolfcamp A horizontal locations. The solid red lines
5 are producing Wolfcamp A wells. The purple-dashed lines
6 are COG's 3rd Bone Spring horizontal locations. The
7 purple solid lines show producing 3rd Bone Spring wells.
8 And the yellow shading shows COG's acreage.

9 **Q. Thank you.**

10 **If you'll turn to what's been marked as COG**
11 **Exhibit Number 6 and review the structure map for the**
12 **examiners.**

13 A. Okay. This is the same map as we saw in the
14 previous exhibit except now the Wolfcamp structure has
15 been added. It is a 50-foot contour interval. You can
16 see that the red plus signs on the map are the control
17 points for the structure map. And the structure over
18 the area shows that the entire project area has a very
19 consistent structure. It's a gentle dip from north to
20 south, and there is no indication of any type of
21 faulting, pinch-outs or geologic impediments.

22 **Q. Mr. Bacon, this is showing the top of the**
23 **Wolfcamp?**

24 A. Correct.

25 **Q. And this is representative of both the Wolfcamp**

1 **and the Bone Spring in this area?**

2 A. That is correct.

3 **Q. If you'll turn to what's been marked as COG**
4 **Exhibit Number 7, what is this map showing us?**

5 A. This is a similar map as the overview map, but
6 now included is a cross-section line, A to A prime, in
7 green. It is a three-well cross section.

8 **Q. And are these three wells representative of the**
9 **area?**

10 A. Yes, they are.

11 **Q. Turn to what's been marked as COG Exhibit**
12 **Number 8 and review the cross section for the examiners.**

13 A. This is a stratigraphic cross section, A to A
14 prime, we saw on the previous exhibit. On the right
15 side, you'll see that the datum is the top of the
16 Wolfcamp. This three-well cross section has been
17 flattened on the Wolfcamp. Above that, you'll see
18 another line through all three wells that is the top of
19 the 3rd Bone Spring.

20 And on the left side, you'll see the
21 approximate lateral intervals in purple. That purple
22 bracket is the approximate lateral interval for 3rd Bone
23 Spring wells, and then the red bracket beneath that is
24 the approximate lateral interval for the Wolfcamp wells.

25 This cross section shows that the intervals

1 are consistent in thickness. There is no major
2 structural difference or major thickening or thinning
3 across the project area, and it just seems to be very
4 consistent.

5 Q. Based on your geologic study of this area, have
6 you identified any geologic impediments to drilling
7 horizontal wells in this area?

8 A. I have not.

9 Q. And in your opinion, can the area be
10 efficiently and economically developed by horizontal
11 wells?

12 A. Yes.

13 Q. And do you believe that each tract in the
14 proposed units will, on average, contribute more or less
15 equally to the production from the wells?

16 A. Yes.

17 Q. Will the completed intervals for each of the
18 wells comply with all the setback requirements under the
19 horizontal well rules?

20 A. Yes, they will.

21 Q. And in your opinion, will the granting of COG's
22 applications be in the best interest of conservation,
23 the prevention of waste and the protection of
24 correlative rights?

25 A. Yes.

1 Q. Thank you, Mr. Bacon.

2 MS. MUNDS-DRY: Mr. Examiner --

3 Q. (BY MS. MUNDS-DRY) Oh, let me ask you: Were
4 Exhibits 5 through 8 prepared by you or compiled under
5 your direction and supervision?

6 A. Yes, they were.

7 MS. MUNDS-DRY: Mr. Examiner, we would move
8 admission of COG's Exhibits 5 through 8.

9 EXAMINER DAWSON: Any objection?

10 MR. PADILLA: No.

11 EXAMINER DAWSON: COG Exhibits 5 through 8
12 will be admitted to the record at this time.

13 (COG Operating, LLC Exhibit Numbers 5
14 through 8 are offered and admitted into
15 evidence.)

16 MS. MUNDS-DRY: And that concludes my
17 direct examination of Mr. Bacon.

18 EXAMINER DAWSON: Mr. Padilla, do you have
19 any questions?

20 MR. PADILLA: No questions.

21 EXAMINER DAWSON: Leonard?

22 CROSS-EXAMINATION

23 BY EXAMINER LOWE:

24 Q. Your lateral interval is about 75 feet? Is
25 that what you're stating?

1 A. Yes, sir. It will be within that bracket.

2 Yes.

3 Q. Okay. That's all I've got.

4 EXAMINER DAWSON: David, do you have
5 questions?

6 EXAMINER BROOKS: I have no questions.

7 CROSS-EXAMINATION

8 BY EXAMINER DAWSON:

9 Q. I only have a couple of questions.

10 So it looks like COG has drilled most of
11 these wells from south to north? You're drilling them
12 going updip?

13 A. Yes, sir. In this project, yes.

14 Q. And that seems to be working out better for you
15 guys productionwise? You like the toe up on them?

16 A. I'm not a reservoir engineer, so I can't speak
17 too much on the performance of the wells. But yes, we
18 have been drilling these mostly north to south here.

19 Q. Okay. North to south or south to north?

20 A. Excuse me. South to north. Apologize.

21 Q. Yeah.

22 And in your assessment of the performance
23 of the wells, east-west versus north-south, it looks
24 like most of them have been drilled north-south -- or
25 south to north in this immediate area?

1 A. In this project area here, the north to
2 south -- if you'll look at the cross section, the
3 north-to-south continuity seems to be a lot more
4 consistent in the north-south direction in this project
5 area.

6 Q. Okay. And do you anticipate any of your
7 completions in the base of the Bone Spring -- will
8 that -- you don't anticipate that to interfere with any
9 of the Wolfcamp?

10 A. I would not. But I'm not a completions
11 engineer, but I wouldn't think so.

12 Q. Okay. And then your target zone in the
13 Wolfcamp is roughly about -- probably 100 feet down into
14 the Wolfcamp?

15 A. Yes, sir.

16 Q. That's all the questions I have. Thank you
17 very much.

18 A. Thank you.

19 MS. MUNDS-DRY: If there is nothing
20 further, we'd ask that Cases 16328, 16329, 16330, 16331,
21 16333, 16334, 16335 be taken under advisement.

22 EXAMINER DAWSON: Okay. At this time
23 16328, 16329, 16330, 16331, 16333, 16334 and 16335 will
24 be taken under advisement.

25 Thanks very much.

1 MS. MUNDS-DRY: Thank you, Mr. Examiners.
2 (Case Numbers 16328 - 16331 and 16333 -
3 16335 conclude, 11:18 a.m.)
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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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 16th day of August 2018.

21

22

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

25