

ORIGINAL

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

APPLICATION OF COG OPERATING, LLC
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 14848

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Chief Examiner
TERRY WARNELL, Technical Examiner

May 24, 2012

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, DAVID K. BROOKS,
Chief Examiner, and TERRY WARNELL, Technical Examiner,
on Thursday, May 24, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
St. Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

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8 INDEX

9 WITNESSES:

10 KATAYOUN "KATIE" MOHEBKHOSRAVI:

11	Direct Examination by Mr. Feldewert	3
12	Cross-Examination by Examiner Brooks	12

13 GREG CLARK:

14	Direct Examination by Mr. Feldewert	13
15	Cross-Examination by Examiner Brooks	19

16	Proceedings Concluded	21
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17	Certificate of Court Reporter	22
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20 EXHIBITS OFFERED AND ADMITTED

21	COG Exhibit Numbers 1 through 4	11
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22	COG Exhibit Number 5 through 8	18
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1 (9:47 a.m.)

2 EXAMINER BROOKS: We will now call Case
3 Number 14848, application of COG Operating, LLC for a
4 nonstandard spacing and proration unit and compulsory
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: Mr. Examiner, Michael
8 Feldewert, with the Santa Fe office of the law firm of
9 Holland & Hart, appearing on behalf of the Applicant,
10 COG Operating, LLC.

11 We have two witnesses here today.

12 EXAMINER BROOKS: Okay. Will the witnesses
13 stand to be sworn? Please identify yourselves for the
14 record.

15 MR. CLARK: Greg Clark.

16 MS. MOHEBKHOSRAVI: Katayoun Mohebkhosravi.
17 I simply go by Katie.

18 (Witnesses sworn.)

19 EXAMINER BROOKS: You may proceed,
20 Mr. Feldewert.

21 MR. FELDEWERT: We'll call our first
22 witness.

23 KATAYOUN "KATIE" MOHEBKHOSRAVI,
24 after having been previously sworn under oath, was
25 questioned and testified as follows:

1 DIRECT EXAMINATION

2 BY MR. FELDEWERT:

3 Q. Would you please tell the Examiners your full
4 name, by whom you are employed and in what capacity?

5 A. My name is Katayoun Mohebkhosravi. As I
6 mentioned before, I go by Katie Moheb, M-O-H-E-B.

7 MS. MCGRAW: I can't understand you.
8 You're speaking very fast.

9 THE WITNESS: Okay. Okay.

10 A. I go by Katie Moheb. That's my name. And I
11 work for COG Operating, otherwise known as Concho, and
12 I'm a landman for our New Mexico Shelf Team.

13 Q. Have you previously testified before this
14 Division?

15 A. No.

16 Q. Would you review for the Examiner your
17 educational background, please?

18 A. I graduated from the University of Tulsa in May
19 of 2011 in energy management, international business and
20 Spanish.

21 Q. And in connection with that degree, was there a
22 focus on oil and gas matters?

23 A. Yes, in energy management. The curriculum is
24 focused on land.

25 Q. And once you graduated in May of 2011, what did

1 you do?

2 A. After graduating in May, I went to work for
3 Williams, which is now WPX, and I worked on our Bakken
4 team. I also did some work with the BLM in Oklahoma.

5 Q. And your work with the BLM in Oklahoma, did
6 that involve -- what did that involve?

7 A. Mostly it just involved sales and leases.

8 Q. When you worked for Williams in 2011, what were
9 your job responsibilities? How were you employed?

10 A. I was employed as a landman.

11 Q. Did you also have some experience in Texas?

12 A. Yes. During my first internship with Williams,
13 I worked in the Barnett, with the land department.

14 Q. How long were you with Williams?

15 A. Until November of 2011, and I joined COG
16 Operating at that point.

17 Q. And what department are you in with COG
18 Operating?

19 A. I'm with our land department in the New Mexico
20 Shelf.

21 Q. And does that involve the Permian Basin?

22 A. Yes.

23 Q. And have you held that position since November
24 of 2011?

25 A. Yes, I have.

1 Q. Are you a member of any professional
2 organizations?

3 A. I am a member of AAPL, the American Association
4 of Professional Landmen, the Permian Basin Landmen's
5 Association and the Young Professionals in Energy.

6 Q. How long have you been a member of the AAPL?

7 A. I believe since 2010, as a student member.

8 Q. Are you familiar with the application that's
9 been filed in this case?

10 A. Yes.

11 Q. And are you familiar with the status of the
12 lands in the subject area?

13 A. Yes.

14 MR. FELDEWERT: Mr. Examiner, I will tender
15 Ms. Moheb as an expert witness in petroleum land
16 matters.

17 EXAMINER BROOKS: She is so qualified.

18 Q. (BY MR. FELDEWERT) Would you then go to the
19 exhibit package in front of you? Turn to what's been
20 marked as COG Exhibit Number 1. First identify it, and
21 then please explain to the Examiners what COG seeks
22 under this application.

23 A. Okay. This is a map of COG's leasehold in
24 Section 33, the east half of the west half of Section
25 33, and Township 18 South, Range 26 East in our Lakewood

1 area. And this is what's dedicated as the Tarpan 3H.

2 And we are seeking a nonstandard unit, 160-acre
3 nonstandard unit, in the Glorieta-Yeso.

4 We're also seeking --

5 Q. Go ahead.

6 A. We're also seeking pooling of the mineral
7 interest in the Glorieta-Yeso, in this nonstandard unit.

8 Q. In the nonstandard unit that you're seeking
9 specifically for the Tarpan 3H, that's in the east half
10 of the west half of Section 33?

11 A. Yes, sir.

12 Q. Have you identified what pool is involved with
13 this application?

14 A. Yes. That would be the Atoka-Glorieta-Yeso.

15 EXAMINER BROOKS: I'm sorry?

16 A. Atoka-Glorieta-Yeso.

17 Q. (BY MR. FELDEWERT) And is the west half of
18 Section 33 all fee lands?

19 A. Yes, it is.

20 Q. Have you identified the interest owners of the
21 proposed nonstandard spacing units?

22 A. Yes, we have.

23 Q. Turn to what's been marked as COG Exhibit
24 Number 2.

25 A. Yes.

1 Q. Is this an exhibit that identifies the interest
2 owners in this particular section?

3 A. Yes.

4 Q. Now, looking at this exhibit, that's comprised
5 of three pages, correct?

6 A. Yes.

7 Q. And do you provide, then, a breakdown of the
8 interest in this section by tract first?

9 A. Yes, by tract. And then on the third page,
10 you'll have the total interest of the fee owners.

11 Q. So on the last page, you identify, on the
12 bottom, the percentage interest for the east half of the
13 west half of the section which is your proposed
14 nonstandard spacing and proration?

15 A. Yes, that's correct.

16 Q. How many of the interest owners that are shown
17 on the third page of Exhibit Number 2 remain uncommitted
18 to your proposed well?

19 A. One. OXY-Y1.

20 Q. And have you been in contact with OXY-Y1 about
21 this proposal?

22 A. Yes.

23 Q. If I turn to what's been marked as COG Exhibit
24 Number 3, is this a well proposal letter submitted to
25 OXY-Y1?

1 A. Yes, it is.

2 Q. And it contains with it not only the well
3 proposal but a proposed -- but an AFE, correct?

4 A. Yes.

5 Q. In addition to sending this letter, what
6 additional efforts has the company undertaken to obtain
7 voluntary joinder of OXY in this project?

8 A. Well, in addition to sending out our initial
9 proposals and contacting them by telephone, we met with
10 OXY-Y1 in Houston about two weeks ago to discuss the
11 Tarpan 3H and other Lakewood wells. We found that it's
12 a pretty complex system, and we believe that they're
13 considering voluntary participation at this point.

14 Q. At this point, they have not indicated to you
15 whether or not they are going to participate, correct?

16 A. Yes. We have not received anything back from
17 them in terms of the operating agreement or signed AFE.

18 Q. Now, take a look at the AFE, which was
19 submitted with the well proposal letter, second page of
20 Exhibit Number 3. Are these costs consistent with what
21 COG has incurred for drilling similar horizontal wells?

22 A. Yes, they are.

23 Q. And in addition to these costs, has the company
24 made an estimate of the overhead and administrative
25 costs to be incurred while drilling this well and also

1 while producing, if you were successful?

2 A. Yes.

3 Q. And what are those figures?

4 A. It's 5,500 while drilling and 550 while
5 producing.

6 Q. Are these costs consistent with what COG and
7 other operators in this area charge for similar wells?

8 A. Yes.

9 Q. And do you request these figures be
10 incorporated into any order and then adjusted in
11 accordance with the COPAS accounting procedures?

12 A. Yes, we do.

13 Q. And in the event that OXY-Y1 does not
14 voluntarily participate, are you asking that the
15 Division impose a 200 percent risk penalty that's
16 provided by the Division rules?

17 A. Yes, we do.

18 Q. Now, I want to briefly, then, turn to your
19 application for the nonstandard spacing units. First
20 off, has the company brought a geologist to provide
21 technical testimony to support this nonstandard spacing
22 unit?

23 A. Yes, we have.

24 Q. In the course of your work, did the company
25 identify the leased mineral interest owners of the

1 40 acres surrounding the proposed nonstandard spacing
2 units?

3 A. Yes.

4 Q. And did the company include these known leased
5 mineral interest owners in the notice of this hearing?

6 A. Yes.

7 Q. Turn to what's been marked as COG Exhibit
8 Number 4. Is this an affidavit, with the attached
9 letters, providing notice of this hearing to the
10 affected parties?

11 A. Yes.

12 Q. Were Exhibits 1 through 3 prepared by you or
13 compiled under your direction or supervision?

14 A. Yes.

15 MR. FELDEWERT: Mr. Examiner, then at this
16 point, I would move for admission into evidence COG
17 Exhibits 1 through 4.

18 EXAMINER BROOKS: 1 through 4 will be
19 admitted.

20 (COG Exhibit Numbers 1 through 4 were
21 offered and admitted into evidence.)

22 MR. FELDEWERT: And that concludes my
23 examination of this witness.

24 EXAMINER BROOKS: Thank you.

25

CROSS-EXAMINATION

1

2 BY EXAMINER BROOKS:

3 Q. Where is OXY Y-1's interest located?

4 A. They are in the east half of the west half
5 throughout.

6 Q. Okay. So they're in all the tracts?

7 A. If you'll see -- tract by tract, it's about
8 25 percent for each of them. And that's through all of
9 the tracts equally.10 Q. Now, this diagram, Exhibit 2, this is the east
11 half/west half -- this is just the east half/west half?

12 A. Yes, it is. It's kind of spread out.

13 Q. And it's not exactly to scale?

14 A. Exactly. Whatever it printed, I think it came
15 out --

16 Q. The shape of the actual tract is --

17 A. Yes, but this is just the east half of the west
18 half.

19 Q. And OXY-Y1 is an oil and gas lease owner?

20 A. Yes.

21 Q. And are there any unleased mineral interests in
22 this?

23 A. No, there are not.

24 Q. Now, are there any -- I take it, there are not,
25 because there was no publication noticed --

1 A. No.

2 Q. -- on unlocated owners?

3 A. No.

4 Q. Now, Exhibit 4, is that the offset owners?

5 A. Yes, it is.

6 Q. And those people do not own any interest in the
7 unit, right?

8 A. Well, the first --

9 Q. Well, OXY-Y1 does.

10 A. Exactly. OXY-Y1, Abo, Yates and Myco.

11 Q. But they also own offset interests?

12 A. Yes, that's true.

13 Q. Very good.

14 EXAMINER BROOKS: Mr. Warnell.

15 EXAMINER WARNELL: No questions.

16 EXAMINER BROOKS: Call your next witness.

17 MR. FELDEWERT: Thank you, Mr. Examiner.

18 GREG CLARK,

19 after having been previously sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FELDEWERT:

23 Q. Would you please state your name for the record
24 and identify by whom you are employed and in what
25 capacity?

1 A. Greg Clark, employed by Concho, senior
2 geologist.

3 Q. Have you previously testified before this
4 Division?

5 A. Yes.

6 Q. And were your credentials as a petroleum
7 geologist accepted and made a matter of public record?

8 A. Yes.

9 Q. Are you familiar with the application that's
10 been filed in this case?

11 A. Yes.

12 Q. And have you conducted a study of the area that
13 is the subject of this application?

14 A. Yes, I have.

15 MR. FELDEWERT: Mr. Examiner, I would
16 tender Mr. Clark as an expert witness in petroleum
17 geology.

18 EXAMINER BROOKS: He is so qualified.

19 Q. (BY MR. FELDEWERT) Mr. Clark, would you turn to
20 what's been marked as COG Exhibit Number 5?

21 A. Yes.

22 Q. Please identify it, and then describe for the
23 Examiner what's there.

24 A. This is a regional structure map on top of the
25 Paddock that identifies offsetting producing fields that

1 are in relationship to the Tarpan 33 Fee #3H. You'll
2 see wells that are colored in red that represent Paddock
3 producers, and then you'll see colors in blue that
4 represent Blinebry producers in the outlying areas.

5 If you look at the structure, what you see
6 here is, you see a dip that goes from the northeast to
7 the southwest. It shows no major faulting or no major
8 geologic features that separate us from what we feel are
9 analogous fields in the area.

10 There are also horizontal wells that are
11 represented in the area that are Yeso horizontal wells,
12 and they are in -- they are bolded.

13 And the yellow represents the Concho
14 acreage with respect to the Tarpan 33 Fee #3H.

15 Q. Any more with respect to this exhibit?

16 A. No.

17 Q. Would you turn to what's been marked as COG
18 Exhibit Number 6?

19 A. Yes.

20 Q. First identify and then explain what it shows
21 to the Examiner.

22 A. This also is a regional map, as the previous
23 exhibit, with the structure layer taken off. What we
24 have on here is an orientation of the next exhibit,
25 which is a cross-section, which goes from producing

1 fields and producing wells that we feel are analogous to
2 the area and to which is analogous to the Tarpan 33 Fee
3 #3H, in which we are proposing today.

4 Q. If I keep my finger on this exhibit and flip
5 over to COG Exhibit Number 7, would you please identify
6 it and then orient us as to how it relates to the
7 previous exhibit, Number 6?

8 A. Yes. This is a stratigraphic cross-section.
9 It's flattened on top of the Paddock. We have taken the
10 structural component out of the cross-section in order
11 to show the stratigraphic relationship of the regional
12 area to the well, in which we are here today for. If
13 you -- on the left of the cross-section is A. To the
14 right is A prime, which also represents south to north.
15 If you go back to the map, you will see where A and A
16 prime is depicted, and that is the direction of the
17 cross-section.

18 Q. Now, the Section 33 wells shown on your
19 cross-section, are they then located on Exhibit Number
20 7, on the right-hand side of that exhibit?

21 A. They are. They are the two right-hand side
22 wells.

23 Q. What is your targeted area for this proposed
24 well?

25 A. The targeted area would be the Paddock that is

1 represented in this cross-section by not only the arrow
2 on the left-hand side of the cross-section, but the
3 second well from the left is the lateral interval in
4 which we will be landing the horizontal well for the
5 Tarpan 33 #3H.

6 The red-colored boxes on the right of the
7 wells are showing wells that have been perfed and
8 completed in the Yeso. The wells that do not have any
9 completion in the Yeso are Morrow producers and have yet
10 to be completed in the Yeso.

11 Q. And you're talking about the red vertical
12 lines, correct?

13 A. That is correct, on the right side of the logs.

14 Q. What conclusions have you drawn from your study
15 of this area, Mr. Clark?

16 A. I have concluded that there are no major
17 geologic impediments that would keep us from producing
18 this well in the horizontal -- with the horizontal well.
19 I've also concluded that drilling these wells
20 horizontally would be the most efficient and economic
21 way of developing these wells, and I also feel that each
22 part of the completed horizontal will contribute equally
23 to the overall production of the well.

24 Q. If I then turn to what's been marked as COG
25 Exhibit Number 8, first off, Mr. Clark, will the

1 completed interval for this well comply with all the
2 setback requirements under the Horizontal Well Rule?

3 A. Yes.

4 Q. And does COG Exhibit Number 8 reflect the well
5 diagram that would show compliance with the setback
6 requirements?

7 A. It does.

8 Q. And is this an accurate representation of how
9 you propose to drill this well?

10 A. Yes.

11 Q. In your opinion, will the granting of COG's
12 application be in the best interest of conservation, the
13 prevention of waste and the protection of correlative
14 rights?

15 A. Yes.

16 Q. And were COG Exhibits 5 through 8 prepared by
17 you or compiled under your direction and supervision?

18 A. They were.

19 MR. FELDEWERT: Mr. Examiner, at this time,
20 I would move into admission COG Exhibits 5 through 8.

21 EXAMINER BROOKS: 5 through 8 are admitted.

22 (COG Exhibit Numbers 5 through 8 were
23 offered and admitted into evidence.)

24 MR. FELDEWERT: That concludes my
25 examination of this witness.

1 EXAMINER BROOKS: Okay.

2 CROSS-EXAMINATION

3 BY EXAMINER BROOKS:

4 Q. Looking at Exhibit Number 5, it looks like
5 there are not a whole lot of wells in this immediate
6 area, right? Are these in the Yeso?

7 A. Yes, sir. There are some vertical wells.

8 Q. Okay. So these that you show are only the
9 horizontals?

10 A. No, sir. If you look at where the directional
11 lateral part of the well is not bolded, all you see is a
12 circle, those are vertical wells. So whenever you see
13 the bolded directional path, those are the horizontal
14 wells.

15 Q. Right.

16 A. Yes, sir.

17 Q. And the horizontal wells in the adjacent
18 section were drilled east and west?

19 A. Yes, sir.

20 Q. Is there any reason that would suggest whether
21 wells should be drilled east-west or north-south in this
22 particular region?

23 A. Geologically we feel that drilling these wells
24 east-west or north-south, neither direction would be a
25 better preference. We feel that the horizontal maximum

1 stress direction is in the northeast to southwest
2 direction. So as long as you're not drilling parallel
3 to your maximum horizontal stress direction, then you'll
4 have effective frack links when they're completing these
5 wells.

6 Q. Okay. So it's really six of one, half a dozen
7 of the other, as they say?

8 A. It's to east-west or north-south. Sure. Your
9 maximum stress direction is like this (indicating). So
10 as long as you're oblique or perpendicular to the
11 maximum stress direction, you'll have effective
12 completion.

13 Q. Okay. The one-mile horizontal seems to be
14 pretty much of an industry standard in southeastern
15 New Mexico these days. Is that -- that an area that can
16 be economically or practically drained [sic] by one
17 horizontal well in this -- this pool --

18 A. In my professional opinion, yes, sir.

19 Q. Okay. Thank you.

20 EXAMINER BROOKS: Mr. Warnell.

21 EXAMINER WARNELL: No questions.

22 MR. FELDEWERT: Mr. Examiner, that
23 concludes our presentation.

24 EXAMINER BROOKS: Very good. If there is
25 nothing further, then Case Number 14848 will be taken

1 under advisement.

2 (The hearing concluded, 10:07 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. 14848
heard by me on 5-24-12
David K. Beach, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

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

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

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

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Mary C. Hankins

MARY C. HANKINS, CCR, RPR
Paul Baca Professional Court Reporters
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2012