

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

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

Case 14861

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Technical Examiner
DAVID K. BROOKS, Legal Examiner

June 7, 2012

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, WILLIAM V. JONES,
Technical Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, June 7, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART
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1 EXAMINER JONES: Let's call Case 14861,
2 application of COG Operating, LLC, for a non-standard
3 spacing and proration unit and compulsory pooling in Eddy
4 County, New Mexico.

5 Call for appearances.

6 MR. RANKIN: Thank you, Mr. Examiner.
7 Adam Rankin of Holland & Hart on behalf of COG Operating.
8 I've got two witnesses today.

9 EXAMINER JONES: Any other appearances?
10 Will the witnesses please state your names?

11 MR. CLARK: Greg Clark.

12 MR. JOHNSON: Sean Johnson.

13 (Two witnesses were sworn.)

14 MR. RANKIN: Thank you. I call my first
15 witness, Sean Johnson.

16 MR. HALL: Excuse me, Mr. Examiner. If I
17 may, I wish to enter an appearance in this case for
18 Nearburg Producing Company.

19 EXAMINER JONES: Does Nearburg have any
20 witnesses or just an appearance?

21 MR. HALL: No, just an appearance.

22

23

24

25

1 SEAN JOHNSON

2 Having been first duly sworn, testified as follows:

3 DIRECT EXAMINATION

4 BY MR. RANKIN:

5 Q. Mr. Johnson, can you please state your name
6 and by whom you're employed and where you live?

7 A. Sean Johnson, landman for Concho Resources. I
8 live in Midland, Texas.

9 Q. Have you previously testified before the
10 Division and had your credentials as a petroleum landman
11 been accepted by the Division?

12 A. Yes.

13 Q. Now, are you familiar with application filed
14 in this case?

15 A. I am.

16 Q. Are you familiar with the status of the lands?

17 A. I am.

18 MR. RANKIN: Mr. Examiner, I'd like to
19 tender Mr. Johnson as an expert in petroleum land
20 matters.

21 EXAMINER JONES: He's so qualified.

22 Q. (By Mr. Rankin) Turning to Exhibit 1, can you
23 please review for the Examiners what this depicts?

24 A. Exhibit 1 is a land plat depicting Concho's
25 proposed non-standard spacing unit for the Stonewall 9

1 Fee 4H, located in the east half/east half of Section 9,
2 Township 19 South, Range 26 East, in Eddy County, New
3 Mexico.

4 The yellow in Section 9 indicates fee acreage
5 within the proposed non-standard spacing unit.

6 Q. You're seeking to pool the 160 acres within
7 that spacing area, all interests within the Yeso
8 formation; is that correct?

9 A. That's correct.

10 Q. Has the bottomhole location for this well --
11 that's changed since the application was filed with the
12 Division? The bottomhole location has shifted just
13 slightly; is that correct?

14 A. That has. We're in the process of filing a
15 sundry for the bottomhole location to make sure the
16 entire completed interval falls within the 330-foot
17 setback.

18 Q. And your geologist will discuss that issue
19 more directly; is that correct?

20 A. That's correct.

21 Q. Now, is there a pool that's involved in this
22 field?

23 A. Yes. This pool falls within the
24 Atoka-Glorieta-Yeso pool.

25 Q. Turning back to Exhibit Number 1, on the

1 second page of that exhibit, there's an additional
2 demonstration there; is that correct?

3 A. Yes. And that is a land plat depicting the
4 east half/east half of our proposed non-standard spacing
5 unit. And the page after that is a breakdown on a
6 tract-level basis showing the interest owners in the
7 tract and the percentage of which they own.

8 At the bottom of that is a recap of the entire
9 unit of the proposed well and what interests each owners
10 are contributing to the well.

11 Q. And there's three interests that you have yet
12 to be committed to the unit; is that correct?

13 A. That's correct.

14 Q. Going back to what we were just saying before
15 I just interrupted you, you're saying there's a pool
16 involved in this unit; is that correct?

17 A. That's correct.

18 Q. That's the Atoka?

19 A. Atoka-Glorieta-Yeso.

20 Q. Thank you. Turning to Exhibit Number 2, is
21 this a sample of the well proposal that was sent to all
22 interest owners; is that correct?

23 A. That's correct.

24 Q. And included with this sample well letter was
25 an AFE; is that correct?

1 A. That's correct.

2 Q. Are these costs depicted in the AFE consistent
3 with what COG has incurred for drilling similar
4 horizontal wells in the area?

5 A. Yes, they are.

6 Q. Has COG made an estimate of overhead and
7 administrative costs while drilling and also while
8 producing this well?

9 A. Yes.

10 Q. And what are those costs?

11 A. \$5,500 a month while drilling and \$550
12 producing.

13 Q. And these costs are consistent with what COG
14 and other operators in the area charge?

15 A. That is correct.

16 Q. Does COG request that these figures be
17 incorporated into an order?

18 A. Yes, we do.

19 Q. Does COG also request that overhead and
20 administrative costs also be adjusted in accordance with
21 COPAS accounting procedures?

22 A. Yes, we do.

23 Q. Does COG also request that, in accordance with
24 the Division rules, the maximum charge for risk of 200
25 percent be assessed against uncommitted interests?

1 A. Yes.

2 Q. Mr. Johnson, in your opinion, have you
3 undertaken a good-faith effort to negotiate in good faith
4 with all uncommitted interests?

5 A. Yes, we have.

6 Q. Turning to the non-standard unit, has COG
7 brought in a geologist to provide technical testimony in
8 support of the formation of this non-standard unit?

9 A. Yes, we have.

10 Q. Did COG identify the lease mineral interests
11 in the 40-acre tract surrounding the proposed
12 non-standard unit?

13 A. Yes.

14 Q. Did you also notice those interests?

15 A. Yes.

16 Q. Turning to Exhibit 3, is this a copy of an
17 affidavit prepared by myself, your attorney, indicating
18 that notice was provided in accordance with Division
19 rules?

20 A. Yes.

21 Q. On the second page, you'll see that this is
22 all the interest owners, including the surrounding 40s,
23 that were noticed?

24 A. Yes, that's correct.

25 Q. And following that page is a letter that was

1 sent; is that correct, also?

2 A. Yes.

3 Q. And all the green cards indicating that all
4 notice was received?

5 A. That's correct.

6 MR. RANKIN: Thank you, Mr. Johnson.

7 Mr. Examiner, I would move to admit
8 Exhibits Number 1 through 3.

9 EXAMINER JONES: Are these the exhibits or
10 the numbers of the first exhibit?

11 MR. RANKIN: Each tab is one exhibit, so
12 there should be three exhibits.

13 EXAMINER JONES: Exhibits 1 through 3 will
14 be admitted.

15 (Exhibits 1 through 3 were admitted.)

16 MR. RANKIN: Thank you. I have nothing
17 further for this witness.

18 EXAMINATION

19 BY EXAMINER JONES:

20 Q. Any non-locatable parties?

21 A. There was no non-locatable parties.

22 EXAMINER BROOKS: I assume you don't want
23 to examine the witness, Mr. Hall?

24 MR. HALL: I don't. Thank you.

25

1 EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. Okay. This is -- the east half/east half is
4 the proposed non-standard unit?

5 A. That's correct, sir.

6 Q. And the entire section is colored yellow on
7 Exhibit 1 just because Concho has leases in the entire
8 section?

9 A. That's correct. Yes, sir.

10 Q. Are all these parties lease owners, or are
11 some of them unleased mineral interests?

12 A. The ones that are indicated that we are
13 actually seeking under our application for force pooling,
14 they're actually unleased owners.

15 Q. That's all identified on the third page?

16 A. That's correct, indicated in yellow.

17 EXAMINER BROOKS: The third page of
18 Exhibit 1, or is it the fourth page?

19 MR. RANKIN: The third page of Exhibit 1.

20

21 EXAMINER BROOKS: Okay. No further
22 questions.

23 MR. RANKIN: No further questions from
24 myself.

25 I'd like to call my second witness, Mr. Greg

1 Clark.

2 (Examiner Brooks exited the hearing.)

3 (A discussion was held off the record.)

4 EXAMINER JONES: We're back on the record.

5 MR. RANKIN: My next witness is Mr. Clark.

6 GREG CLARK

7 Having been first duly sworn, testified as follows:

8 DIRECT EXAMINATION

9 BY MR. RANKIN:

10 Q. Mr. Clark, by whom are you employed and where
11 do you reside?

12 A. Employed by Concho, reside in Midland, Texas.

13 Q. Have you previously testified before the
14 Division as an expert in petroleum geology?

15 A. I have.

16 Q. And you've had those credentials accepted as a
17 matter of record by the Division?

18 A. Yes.

19 Q. Are you familiar with the applications that
20 are filed in this case?

21 A. Yes.

22 Q. Have you conducted a study of the lands
23 subject to this application?

24 A. I have.

25 MR. RANKIN: Thank you, Mr. Clark.

1 Mr. Examiner, I'd like to tender

2 Mr. Clark as an expert in petroleum geology.

3 EXAMINER JONES: Any objection?

4 MR. HALL: No objection.

5 EXAMINER JONES: Mr. Clark is so
6 qualified.

7 Q. (By Mr. Rankin) Mr. Clark, can you turn to
8 Exhibit Number 4, please, and review for the Examiner
9 what this structure map depicts?

10 A. This is a regional structure map. What it
11 depicts are various fields in the area that we feel are
12 correlative to the project area and where we want to
13 drill a horizontal well.

14 The wells that are colored in red are Paddock
15 producers, and the ones in blue are Blinebry producers.
16 If they have both red and blue, that means they've been
17 completed in both the Blinebry and the Paddock.

18 The structure shows that there's no major
19 faulting or major geologic structures that would keep us
20 separated from any of the producing fields that we're
21 using to be analogous in the area. And it shows a
22 northeast to southwest dip, and the yellow is the Concho
23 acreage.

24 Q. Turning to Exhibit Number 5, this is a
25 cross-section, is that correct, a cross-section map

1 depicting A to A prime?

2 A. That is correct. What we'll be seeing after
3 this exhibit is a cross-section that goes from A to A
4 prime from the south in the Cemetery area up to the north
5 to the Dayton area and showing the correlative rights
6 between the fields and the project area in which we want
7 to drill the well.

8 Q. Flipping over to Exhibit Number 7, to those
9 cross-sections, can you review for the Examiner what you
10 see?

11 A. This cross-section is a stratigraphic
12 cross-section, which means it's been flattened on top of
13 the Paddock, taking structure out, in order to show the
14 stratigraphic relationship between the fields through the
15 area in which we are proposing to drill the well.

16 The red triangles on the right are wells that
17 have been completed in the Paddock. The well to the
18 left, which is A South, and then the third well from
19 there, as you'll see, have not been completed in the
20 Paddock. They are currently producing Morrow gas wells
21 and have not been re-completed yet in the Paddock.

22 If you look at the bracket and the arrow, this
23 is the interval in which we plan to go horizontal with
24 our well.

25 Q. Mr. Clark, based on your analysis and review

1 of the geology in this area and the representative wells,
2 what are your conclusions based on your analysis?

3 A. I've concluded that there's no major geologic
4 impediments that would keep us from drilling this well in
5 a full section lateral. I feel like it could be
6 efficiently and economically produced by drilling a
7 horizontal well.

8 Q. Each of the sections, will they contribute
9 roughly equally?

10 A. I do feel that each of the sections will
11 contribute equally to the overall production of the well.

12 EXAMINER JONES: Each of the 40-acre
13 tracts?

14 THE WITNESS: Yes.

15 MR. RANKIN: To be more precise, yes,
16 Mr. Examiner.

17 Q. (By Mr. Rankin) Now, turning to Exhibit
18 Number 7, we've made reference to this earlier in
19 Mr. Johnson's testimony, but the bottomhole location of
20 this well was shifted to accommodate the standard setback
21 requirements of the Division; is that correct?

22 A. That's correct.

23 Q. Now, this is a wellbore schematic that shows
24 that the entire completed interval of this wellbore will
25 be within the standard 330-foot setbacks?

1 A. Yes. It shows it will be within the setbacks
2 from the north and the south of the section line.

3 Q. And flipping over to the next exhibit,
4 Mr. Clark, that's sort of an overview map showing that
5 your surface location hasn't changed, but you're just
6 going to directionally drill to get to a standard
7 location; is that correct?

8 A. That's correct. This is a map view showing
9 the horizontal completed interval will be within 330 feet
10 from the lease line setback.

11 Q. Thank you. Now, in your opinion and based on
12 your study and analysis of the geology of the area and
13 the proposed unit, do you believe that the granting of
14 COG's application will be in the best interest of
15 conservation and the prevention of waste and protection
16 of correlative rights?

17 A. I do.

18 Q. Were Exhibit Numbers 4 through 8 prepared by
19 you or under your supervision?

20 A. They were.

21 MR. RANKIN: Mr. Examiner, I'd move to
22 admit into the record Exhibits 4 through 8.

23 EXAMINER JONES: Exhibits 4 through 8 will
24 be admitted.

25 (Exhibits 4 through 8 were admitted.)

1 MR. RANKIN: Mr. Examiner, I have no
2 further questions of the witness.

3 EXAMINER JONES: Mr. Hall?

4 MR. HALL: I have no questions.

5 EXAMINATION

6 BY EXAMINER JONES:

7 Q. Mr. Clark, why did you choose to stay close to
8 the west line, instead of, for instance, in the middle or
9 the east line of the --

10 A. For the surface hole location?

11 Q. Actually, for the path of the well. It looks
12 like it's pretty close to the 330 from the east line --
13 from the west line. Am I reading that correctly on the
14 exhibit?

15 A. That is correct. The surface location is
16 actually, I think, 1,040 from the east line, which puts
17 it 280 feet from the east lease line -- or west lease
18 line, rather. And I believe that there could have been
19 some surface issues that dictated us putting it there.

20 But when we initially staked it, we also
21 staked it where the bottomhole location was the same, you
22 know, for it to be straight, and then realized that that
23 would put us outside of the 330 setbacks. So we changed
24 the bottomhole location to make sure that we'll
25 directionally drill -- by the time we hit the lateral,

1 we'll be 330 from the setback.

2 Q. I was going to ask that question. But
3 basically, within the 40-acres, you chose to stay close
4 to the west side; is that correct?

5 A. That is correct.

6 Q. How come?

7 A. In case we ever want to do any infield
8 drilling out there, we'll have appropriate spacing in
9 between wellbores.

10 Q. So some day you might drill at least one more,
11 maybe?

12 A. Yes, sir.

13 Q. And as far as your vertical -- this is all
14 your call but maybe just for my information -- as far as
15 placing it vertically at the exact spot on Exhibit 6 --

16 A. Yes, sir.

17 Q. -- it looks like there's a cleaner interval
18 right above there. Do you expect to frack up into that,
19 or --

20 A. The interval in which we're going to land, if
21 you look -- a good representation is -- let's look at the
22 second well from the left where we have that bracketed
23 interval. If you go right below that bracketed interval,
24 there's a silty zone there.

25 We feel that it could be a barrier early on in

1 trying to analyze this field if we were to go below that.
 2 So that's why we feel like we want to stay above that.
 3 We see good mud log shows, good log response, in terms of
 4 hydrocarbon indicators in this area. We've also known it
 5 to be produced in the area, and the other laterals in the
 6 Cemetery area have been landed in similar spots.

7 Q. But not going right above there, what do you
 8 think about --

9 A. We feel like we have enough frack height to
 10 get us up there, yes, sir.

11 Q. This is asking to pool the Glorieta-Yeso,
 12 which in this case would include all the members of the
 13 Yeso. But your main target is the Paddock, at least for
 14 this well?

15 A. That's correct.

16 EXAMINER JONES: I'm running out of
 17 questions here. I appreciate you coming.

18 THE WITNESS: Thank you.

19 MR. RANKIN: I have no further questions.

20 EXAMINER JONES: Mr. Hall?

21 MR. HALL: Nothing.

22 EXAMINER JONES: With that, we'll take
 23 Case 14861 under advisement. And this hearing is
 24 adjourned.

25 * * 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 _____

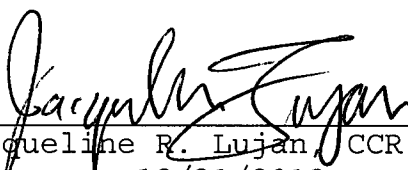
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on June 7, 2012, proceedings in the
above captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with any of the parties or
attorneys in this case and that I have no interest
whatsoever in the final disposition of this case in any
court.

WITNESS MY HAND this 19th day of June, 2012.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2012