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

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5: 02 APPLICATION OF COG OPERATING, LLC
FOR A NONSTANDARD SPACING AND
6 PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 15063

7 APPLICATION OF COG OPERATING, LLC
8 FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
9 POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 15064

10

11

REPORTER'S TRANSCRIPT OF PROCEEDINGS

12

EXAMINER HEARING

13

December 19, 2013

14

Santa Fe, New Mexico

15

16

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
MICHAEL McMILLAN, TECHNICAL EXAMINER
17 GABRIEL WADE, LEGAL EXAMINER

18

19 This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
20 Chief Examiner, Michael McMillan, Technical Examiner,
and Gabriel Wade, Legal Examiner, on Thursday, December
19, 2013, at the New Mexico Energy, Minerals and Natural
21 Resources Department, 1220 South St. Francis Drive,
Porter Hall, Room 102, Santa Fe, New Mexico.

22

23

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

1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

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1 (8:28 a.m.)

2 EXAMINER GOETZE: Moving right along, Case
3 15063, application of COG Operating, LLC for a
4 nonstandard spacing and proration unit and compulsory
5 pooling, Lea County, New Mexico.

6 Call for appearances.

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

11 Two things. I have two witnesses here
12 today, and, secondly, our pre-hearing statement asks
13 that this case be consolidated with Case 15064 for
14 purposes of hearing because it involves the same
15 acreage. So we'd ask that you call Case 15064 as well.

16 EXAMINER GOETZE: At this point, I believe
17 Mr. Bruce is here.

18 MR. BRUCE: Mr. Examiner, Jim Bruce
19 representing Kaiser-Francis Oil Company. We have no
20 witnesses and no objection to the consolidation of the
21 cases and no objection to the application.

22 EXAMINER GOETZE: Very well. Then we will
23 consolidate Case 15063 with Case 15064, which is
24 application of COG Operating, LLC for a nonstandard
25 spacing and proration unit and compulsory pooling, Lea

1 County, New Mexico.

2 Your witnesses?

3 MR. FELDEWERT: Mr. Examiner, I have two
4 witnesses here today.

5 EXAMINER GOETZE: Would you stand and state
6 your name for the record.

7 MR. DAGIAN: David DaGian.

8 MR. WALLACE: Mike Wallace.

9 EXAMINER GOETZE: Would the court reporter
10 swear these witnesses in, please?

11 (Mr. DaGian and Mr. Wallace sworn.)

12 EXAMINER GOETZE: Mr. Feldewert, proceed.

13 MR. FELDEWERT: Thank you, sir.

14 MIKE WALLACE,
15 after having been first duly sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. FELDEWERT:

19 Q. Would you please state your name, identify by
20 whom you're employed and in what capacity?

21 A. I'm Mike Wallace. I'm a landman for the
22 southeast New Mexico area.

23 Q. Mr. Wallace, have you previously testified
24 before this Division, and have your credentials as a
25 petroleum landman been accepted and made a matter of

1 public record?

2 A. I have.

3 Q. Are you familiar with the applications that
4 have been filed in Case Numbers 15063 and 15064?

5 A. I am.

6 Q. And are you familiar with the lands that are
7 the subject of these applications?

8 A. I am.

9 MR. FELDEWERT: Mr. Examiner, I would
10 tender Mr. Wallace as an expert witness in petroleum
11 land matters.

12 EXAMINER GOETZE: He is so qualified.

13 Q. (BY MR. FELDEWERT) Mr. Wallace, would you
14 please go to the exhibit package, turn to what has been
15 marked as COG Exhibit Number 1, and would you please
16 first identify this exhibit and explain to the Examiners
17 what the company seeks under this application?

18 A. This is a plat showing our acreage for the
19 Sebastian wells, Sebastian Fed Com 3H and 4H, for
20 Section 18, 24 South, 34 East. We seek two 160-acre
21 stand-up nonstandard spacing units for the 3H and 4H
22 wells, and we also seek to pool the mineral interests
23 for the --

24 Q. So to be specific, you seek to create a
25 160-spacing unit comprised of the east half of the east

1 half of Section 18 for the Sebastian 4H well?

2 A. That's correct.

3 Q. And the west half of Section 18 for the 3H
4 well?

5 A. That's correct.

6 Q. Now, what formation are you pooling?

7 A. The Bone Spring Formation, more specifically
8 the Red Hills Lower Bone Spring pool.

9 Q. And do you have a pool number?

10 A. Yes. It's 51020.

11 Q. And do either of these wells have an API number
12 yet?

13 A. They do not.

14 Q. Has the company filed, with the applications,
15 for these wells?

16 A. That's correct.

17 Q. Does this acreage involve federal lands?

18 A. It does.

19 Q. So have those applications been filed with the
20 BLM?

21 A. Yes.

22 Q. Is this acreage all federal lands, or is it a
23 mixture of fee, state or federal? What are the
24 circumstances?

25 A. It's federal and fee. The northeast quarter is

1 federal, and the southeast quarter is fee.

2 Q. If I then turn to what's been marked as COG
3 Exhibit Number 2, is this a tract map identifying the
4 interest owners in the proposed spacing units?

5 A. That is correct.

6 Q. And if I look at Exhibit Number 2, you have a
7 tract map for the 3H well, correct?

8 A. Yes, that's correct.

9 Q. Along with the second page that identifies
10 their interest in each tract?

11 A. That's correct.

12 Q. And then the third page of Exhibit Number 2 is
13 a similar tract map for the east half-east half of
14 Section 18 for the 4H well, right?

15 A. Yes.

16 Q. And the last page identifies respective
17 interests in each of these tracts?

18 A. That is correct.

19 Q. And if I look at the second page of Exhibit
20 Number 2, do the entries there at the middle identify
21 the interests held by the parties in the spacing unit as
22 a whole for the 3H well?

23 A. Yes. There is a tract-by-tract breakdown of
24 the parties and a unit recap at the end.

25 Q. And then I see the same thing with the last

1 page of Exhibit Number 2, correct?

2 A. Correct.

3 Q. And it looks to me like the parties involved
4 and the interests involved are the same.

5 A. Correct.

6 Q. Have you bolded on here the parties that you
7 seek to pool?

8 A. That is correct, yes.

9 Q. And, again, it's the same for both wells?

10 A. Yes.

11 Q. Looking at these bolded interest owners, are
12 there any interest owners here that the company has been
13 unable to locate?

14 A. We have not been able to locate Cloma Perkins.

15 Q. And has the -- what efforts did the company
16 undertake to identify Cloma Perkins?

17 A. We obtained probate from Tom Green County,
18 Texas for the Hoyt T. Midas Estate [phonetic; sic] where
19 all of these interests, except for the New Mexico
20 Department of Transportation, are derived from. We did
21 name and alias searches, address searches and everything
22 we could to find them.

23 Q. If I then turn to what's been marked as COG
24 Exhibit Number 3, is this an Affidavit of Publication in
25 the Lovington Leader that is directed to Cloma Perkins

1 or successors or devisees?

2 A. That's correct.

3 Q. Now, it also lists, on this Exhibit Number 3, a
4 June Cook. She's another pooled party, correct?

5 A. That is correct.

6 Q. Have you recently been able to locate June
7 Cook?

8 A. Yes. We could not locate her until this week,
9 and then we found her through an alias on the probate
10 documentation.

11 Q. Now, with respect to Mr. Joel Talley that's
12 listed on here, was Mr. Talley -- was a copy of the well
13 proposal sent to Mr. Talley?

14 A. Yes.

15 Q. If I turn to what's been marked as COG Exhibit
16 Number 4, is Exhibit Number 4 comprised of the
17 well-proposal letters that are sent to Mr. Talley for
18 both the proposed 3H well and the 4H well?

19 A. Yes, it is.

20 Q. And what is the status of the efforts to reach
21 an agreement with Mr. Talley?

22 A. We have a negotiated operating agreement. We
23 just have to get that executed. He's agreed to
24 participate.

25 Q. In fact, if I look at this Exhibit Number 4, if

1 I look at the second page, for example, for the 3H
2 well -- he has elected to participate in both the 3H
3 well, and then if you go on in this exhibit to the last
4 page, he's elected to participate in the 4H well,
5 correct?

6 A. That is correct.

7 Q. But you have yet to get JOA signed?

8 A. That is correct.

9 Q. So at this point, the company is still seeking
10 to pool him?

11 A. That is correct.

12 Q. If that joint operating agreement is signed,
13 then the company will dismiss him from this application?

14 A. Yes.

15 Q. The other party, looking at Exhibit Number 2,
16 which you are seeking to pool, is the New Mexico
17 Department of Transportation; is that correct?

18 A. Yes, it is.

19 Q. If I turn to what's been marked as COG Exhibit
20 Number 5, does Exhibit Number 5 contain the
21 well-proposal letters that were sent to the New Mexico
22 Department of Transportation for both the 3H well and
23 the 4H well?

24 A. Yes.

25 Q. Did the Department of Transportation elect to

1 participate in the well?

2 A. They elected not to participate.

3 Q. And that's reflected on the second page, for
4 example, of Exhibit 5?

5 A. Yes. Yes, that's correct.

6 Q. Did the company undertake efforts to lease the
7 acreage from the Department of Transportation?

8 A. Yes, we did. We had verbal conversations with
9 them. And we also had an offer in our well proposal,
10 and they do not want to lease, and they do not want to
11 participate.

12 Q. So that's why you're seeking to pool the
13 Department today?

14 A. Yes.

15 Q. Since we're on Exhibit Number 5, let's turn to
16 the AFE that was submitted, which is comprised of the
17 last page of this exhibit. Are the costs that are
18 reflected on this AFE consistent with what the company
19 has incurred and experienced with similar wells in this
20 area?

21 A. Yes, they are.

22 Q. And did the company's well-proposal letters
23 identify and estimate the overhead costs while drilling
24 and also while producing if you are successful?

25 A. Yes, that is correct.

1 Q. And if I look to, for example, Exhibit Number
2 4, the first page, about halfway down, the second bullet
3 point, does that identify the proposed overhead rates
4 and what are those?

5 A. Those are 7,000 per month for drilling and 700
6 per month for producing.

7 Q. And that's reflected on the first page of
8 Exhibit Number 4 --

9 A. Yes, it is.

10 Q. -- about halfway down, second bullet point?

11 A. Yes, that's correct.

12 Q. Are these overhead rates consistent with other
13 wells in the area?

14 A. Yes.

15 Q. And does the company request that these figures
16 be incorporated into any order and that they be adjusted
17 in accordance with the COPAS accounting procedures?

18 A. They do.

19 Q. Now, in the course of preparing for this
20 hearing, did the company identify the leased mineral
21 owners in the 40-acre tracts surrounding each of the
22 proposed nonstandard spacing units?

23 A. We did.

24 Q. Did the company include these known leased
25 mineral interest owners in the notice of this hearing?

1 A. Yes.

2 Q. If I turn to what's been marked as COG Exhibit
3 Number 6, is that an affidavit prepared by my office
4 providing that these parties were identified and
5 includes the attached letters providing notice of this
6 hearing?

7 A. Yes.

8 Q. Then a couple of final points: With respect to
9 the New Mexico Department of Transportation, you
10 submitted a well-proposal letter to them. Was timely
11 notice provided of this pooling hearing?

12 A. We inadvertently left them off the initial
13 notice, so we need to send them notice.

14 Q. So a subsequent letter is being sent to them?

15 A. Yes, that's correct.

16 Q. And with respect to Ms. June Cook, who you
17 recently identified, likewise, has she received a timely
18 notice of this particular pooling?

19 A. We need to send her one as well.

20 MR. FELDEWERT: So, Mr. Examiner, we would
21 ask that the -- we're going to continue with the
22 presentation, but we'd ask that the case be continued
23 until January 9th to allow timely notice to the
24 Department of Transportation and then also to Ms. June
25 Cook, who was recently identified this week.

1 Q. (BY MR. FELDEWERT) Mr. Wallace, were Exhibits 1
2 through 5 compiled by you or prepared under your
3 direction and supervision?

4 A. Yes.

5 MR. FELDEWERT: Mr. Examiner, at this time,
6 I would move the admission of Exhibits COG 1 through 6,
7 which includes my notice of affidavit.

8 EXAMINER GOETZE: Exhibits 1 through 6 are
9 so entered.

10 (COG Operating, LLC Exhibit Numbers 1
11 through 6 were offered and admitted into
12 evidence.)

13 EXAMINER GOETZE: Do you have any questions
14 for this witness, Mr. Bruce?

15 MR. BRUCE: No questions.

16 EXAMINER GOETZE: And the panel?

17 Mr. Wade?

18 EXAMINER WADE: No questions.

19 EXAMINER GOETZE: No questions.

20 Mr. McMillan?

21 EXAMINER McMILLAN: I don't have any
22 questions.

23 CROSS-EXAMINATION

24 BY EXAMINER GOETZE:

25 Q. Just one question. What is the portion of the

1 land that is with the Department of Transportation? Is
2 it a right-of-way, or what type of facility?

3 A. It was originally a right-of-way for -- there
4 is a state highway that runs across the southern border
5 of the section. The right-of-way was conveyed via a
6 deed and no minerals were retained, so they own
7 11.9 -- I'm pretty sure it's 11.99 acres along the
8 southern edge of Section 18.

9 Q. Okay. No further questions.

10 EXAMINER GOETZE: Done with this witness?

11 MR. FELDEWERT: Okay. Call the second
12 witness.

13 DAVID DAGIAN,
14 after having been previously sworn under oath,
15 was questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. FELDEWERT:

18 Q. Would you please state your name and then
19 identify by whom you are employed and in what capacity?

20 A. David DaGian, employed by COG Operating. I'm a
21 geologist working the Delaware Basin.

22 Q. Mr. DaGian, how do you spell your last name?

23 A. Capital D-A, capital G-I-A-N.

24 Q. Have you previously testified before this
25 Division?

1 A. No.

2 Q. Why don't you outline your educational
3 background?

4 A. I graduated from the University of Texas at
5 Austin in 2009 with a bachelor of science degree in
6 geology. I went to work for Jones Energy in Austin as a
7 geologist, working the Anadarko Basin in north Texas and
8 western Oklahoma until June of 2012, where I'm now
9 employed by COG Operating as a geologist.

10 Q. What have been your responsibilities at COG
11 since joining them in June 2012?

12 A. Mapping the Delaware Basin as a geologist.

13 Q. Are you a member of any professional
14 organization?

15 A. I'm a member of the AAPG and the West Texas
16 Geological Society and Young Professionals in Energy.

17 Q. How long have you been -- first of all, what
18 does AAPG stand for?

19 A. American Association of Petroleum Geologists.

20 Q. And how long have you been a member of that
21 organization?

22 A. I was a member all the way through college as a
23 student member, and I'm an associate member currently.
24 And I've been a member of the West Texas Geological
25 Society since July 2012, and I've been a member of the

1 Young Professionals in Energy since January 2010.

2 Q. Have you had the opportunity to testify as an
3 expert in petroleum geology in any other commissions --
4 or before any other commissions?

5 A. Yes, before the Oklahoma Corporation
6 Commission.

7 Q. And how many times, approximately, have you
8 testified as an expert petroleum geologist before the
9 Oklahoma Corporation Commission?

10 A. About 20 times.

11 Q. Are you familiar with the applications that
12 have been filed in these consolidated cases?

13 A. Yes.

14 Q. Have you conducted a geologic study of the area
15 that is the subject of this hearing?

16 A. Yes.

17 MR. FELDEWERT: I would tender Mr. DaGian
18 as an expert witness in petroleum geology.

19 EXAMINER GOETZE: This witness is so
20 qualified.

21 Q. (BY MR. FELDEWERT) Mr. DaGian, before we start
22 on your exhibits, what is the target of both the
23 Sebastian 3H and the Sebastian 4H wells?

24 A. The 2nd Bone Spring Sand.

25 Q. If I then turn to what's been marked as COG

1 Exhibit Number 7, would you please identify this map for
2 us and explain what that shows?

3 A. This is a nine-sectioned map showing Section 18
4 of 24 South, 34 East, displaying the Sebastian Federal
5 Com #3H and #4H proposed locations in the east half of
6 Section 18, with a subsea structure map of the 2nd Bone
7 Spring Sand, and the contour interval is 100 feet. And
8 the subsea values are displayed by the wells marked with
9 a red circle, and the subsea values in red offset that.

10 Q. Now, you also show a nearby 2nd Bone Spring
11 Sand well to the west?

12 A. Yes, that's correct, Section 13.

13 Q. With respect to the structure here, what does
14 this show in terms of its dip, structural dip?

15 A. The structure is dipping to the south, and this
16 is showing that the 2nd Bone Spring is contiguous across
17 the unit.

18 Q. Do you observe any faulting or any pinch-outs
19 or any geologic -- other geologic impediments to the
20 horizontal wells in this particular area?

21 A. No.

22 Q. Have you put together a cross section of this
23 section?

24 A. I have.

25 Q. If I turn to what's been marked as COG Exhibit

1 Number 8, does this exhibit identify the wells that
2 you've utilized for your cross-section analysis?

3 A. Yes.

4 Q. And do you believe that the wells you have
5 chosen are representative of the area?

6 A. Yes.

7 Q. All right. Then if I turn to what's been
8 marked as COG Exhibit -- let me keep my finger on this
9 and turn to what's been marked as COG Exhibit Number 9.
10 Is COG Exhibit Number 9 the cross section that
11 corresponds with the wells shown on Exhibit Number 8?

12 A. Yes.

13 Q. Why don't you walk us through Exhibit Number 9,
14 please?

15 A. This is a structural cross section of A to A
16 prime. We're going from west to east displaying the 2nd
17 Bone Spring Sand interval denoted by the orange top of
18 the 2nd Bone Spring.

19 Q. Let me stop you right there. On Exhibit Number
20 9; is that right?

21 A. Uh-huh.

22 Q. Okay. Go ahead.

23 A. And the 2nd Bone Spring Sand base has a black
24 line on the cross section and the lateral interval
25 denoted in the middle well in red, and then 10,800 TVD

1 to 10,900 TVD.

2 Q. And what have you observed with respect to the
3 sands across this area?

4 A. That the sands are continuous across the unit
5 and that there is no geologic impediment interfering
6 with our well.

7 Q. Do you believe -- in your opinion, is this an
8 area that can be efficiently and economically developed
9 using horizontal wells?

10 A. Yes.

11 Q. And in your opinion, will the proposed
12 nonstandard unit, on average, contribute more or less
13 equally to the production from the wellbore?

14 A. Yes.

15 Q. Finally, Mr. DaGian, will the completed
16 intervals for both of these wells comply with all the
17 setback requirements under the Horizontal Well Rules?

18 A. Yes.

19 Q. If I turn to what's been marked as COG Exhibit
20 Number 10, does this contain a well diagram for both the
21 3H well and the proposed 4H well demonstrating the
22 compliance with the setback requirements under the
23 Division rules?

24 A. Yes.

25 Q. Mr. DaGian, in your opinion, will the granting

1 of COG's application be in the best interest of
2 conservation and the prevention of waste and the
3 protection of correlative rights?

4 A. Yes.

5 Q. Were COG Exhibits 7 through 10 prepared by you
6 or compiled under your direction and supervision?

7 A. Yes.

8 MR. FELDEWERT: Mr. Examiner, at this time,
9 I would move the admission of Exhibits 7 through 10.

10 EXAMINER GOETZE: Exhibits 7 through 10 are
11 accepted.

12 (COG Operating, LLC Exhibit Numbers 7
13 through 10 were offered and admitted into
14 evidence.)

15 MR. FELDEWERT: Mr. Examiner, this
16 concludes our presentation, and as I mentioned earlier,
17 we would ask that this case be continued to the January
18 9th docket for us to address notice issues with the
19 Department of Transportation and then also with Ms. June
20 Cook.

21 EXAMINER GOETZE: Very good.

22 Mr. Bruce, any questions?

23 MR. BRUCE: Just one or two.

24 CROSS-EXAMINATION

25 BY MR. BRUCE:

1 Q. Mr. DaGian, in looking at this 2nd Bone Spring
2 development out here, does COG believe that stand-up
3 units are the way to develop the reservoir?

4 A. Yes.

5 Q. Are most of the other parties in this general
6 area drilling stand-up units?

7 A. To my knowledge, yes.

8 Q. Thanks.

9 EXAMINER GOETZE: Mr. Wade, any questions?

10 EXAMINER WADE: No.

11 EXAMINER GOETZE: Mr. McMillan?

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 Q. I assume that the gas was plugged down in 18,
15 right, because it looks like the borehole is getting --
16 the proposed borehole is getting very, very close to
17 that; is that correct?

18 A. I'll have to get back with you on that.

19 Q. Okay.

20 EXAMINER GOETZE: No more questions?

21 EXAMINER McMILLAN: No.

22 EXAMINER GOETZE: You've only got one
23 question. Good enough.

24

25

CROSS-EXAMINATION

1

2 BY EXAMINER GOETZE:

3 Q. I have a question regarding -- basically, this
4 area seems void of any Bone Spring activity. Is this
5 something that's new for you in this area, or are we
6 looking at adjacent properties that seem to be void of
7 any Bone Spring? So this is a new play for you folks?

8 A. It's not a new play for us.

9 Q. Okay. So this is a unique situation for COG
10 Operating in this play, as far as you know?

11 A. These wells will be very similar to what we've
12 done with the other wells.

13 Q. And then we're looking at just doing the Sand.
14 Are we looking at any other portions of the Bone Spring
15 as far as testing?

16 A. For these two wells, it's primarily the 2nd
17 Bone Spring Sand.

18 Q. So you won't have any other portions of the
19 Bone Spring that you're going to test while going in?

20 A. Not on these wells, no.

21 Q. I have no further questions.

22 EXAMINER GOETZE: In light of the request
23 by Mr. McMillan on his question and the continued effort
24 to get notices in, we will take this case and put it on
25 the docket for January 9th, and, at that time, hopefully

1 we'll finish it off.

2 MR. FELDEWERT: Mr. Examiner, would it be
3 appropriate to e-mail the answer to Mr. McMillan's
4 question to the Division?

5 EXAMINER GOETZE: That would be fine. We
6 don't want to make him come all the way out here again.

7 MR. FELDEWERT: Thank you.

8 EXAMINER GOETZE: On that note, we shall
9 end this docket, and that is it for 2013, ladies and
10 gentlemen.

11 (Case Numbers 15063 and 15064 conclude,
12 8:51 a.m.)

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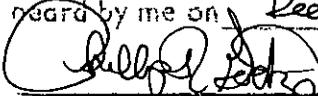
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15063 &
heard by me on Dec. 19th 2013 15064
 , Examiner
Oil Conservation Division

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.

19



20

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