

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 NONSTANDARD SPACING AND  
PRORATION UNIT AND COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15150

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 29, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, Phillip Goetze,  
Chief Examiner, on Thursday, May 29, 2014, 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.

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1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

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 6  
 7

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1 (1:48 p.m.)

2 EXAMINER GOETZE: Next case, Case 15150,  
3 application of COG Operating, LLC for a nonstandard  
4 spacing and proration unit and compulsory pooling, Eddy  
5 County, New Mexico.

6 Call for appearances.

7 MR. RANKIN: Mr. Examiner, Adam Rankin on  
8 behalf of COG. I've got two witnesses today. And I  
9 would call my first witness, who is already seated.

10 EXAMINER GOETZE: Well, let's have your  
11 second witness stand up and identify themselves and  
12 swear in.

13 MR. CLARK: Greg Clark.

14 (Mr. Clark sworn.)

15 EXAMINER GOETZE: I assume there are no  
16 other appearances?

17 You may continue, sir.

18 MR. RANKIN: Thank you very much.

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

22 DIRECT EXAMINATION

23 BY MR. RANKIN:

24 Q. Mr. Scott, you have been previously sworn, and  
25 your credentials as an expert in petroleum land matters

1 has been accepted; is that correct?

2 A. Yes.

3 MR. RANKIN: Mr. Examiner, I would ask that  
4 the record reflect that Mr. Scott's credentials as an  
5 expert in petroleum land matters have previously been  
6 accepted today and made a matter of record.

7 EXAMINER GOETZE: Very good. So accepted.

8 Q. (BY MR. RANKIN) Mr. Scott, would you briefly  
9 explain what COG is seeking with today's application?

10 A. We are seeking to create 160-acre spacing and  
11 proration unit in order to pool the east half-west half  
12 of Section 10, 19 South, 26 East, pooling all the  
13 mineral interest owners in order to dedicate a unit for  
14 the Bragg 10 Fee 2H.

15 Q. And is the proposed proration unit identified  
16 in Exhibit Number 1?

17 A. Yes. If you look at the yellow, it identifies  
18 Concho's acreage. The square box shows the surface-hole  
19 location. The circle shows the bottom-hole location,  
20 and the red line indicates a south-north orientation  
21 horizontal well.

22 Q. And has the Division approved similar  
23 horizontal spacing units in the area?

24 A. Yes.

25 Q. And are those indicated on this map as well?

1 A. Yes.

2 Q. And in this case, is there an API number for  
3 this well; do you know?

4 A. We have -- from my understanding, we have  
5 submitted application for an API, and it's still in the  
6 process of being approved.

7 Q. And in Section 10, are these lands subject to  
8 this application? Are they all fee lands?

9 A. Yes.

10 Q. Mr. Scott, would you please identify and walk  
11 through what's been marked as Exhibit Number 2 for the  
12 Hearing Examiner?

13 A. The plat shows the east half-west half of the  
14 lands we want to pool, and the tracts are identified on  
15 the plat. Ownership is identified below, listing each  
16 tract.

17 On the second page, it shows the unit  
18 working interests that we seek to pool. Those parties  
19 are the last four on this unit working interest, and  
20 they are the heirs and devisees of Hattie Merchant,  
21 heirs or devisees of Wallace Merchant, heirs or devisees  
22 of Lon D. Merchant, and the heirs or devisees of Elsie  
23 Merchant. We feel we have identified all the heirs or  
24 devisees of all four of these parties, and we have  
25 acquired leases. Out of an abundance of caution, we

1 want to force pool interests just in case there is a  
2 long-lost relative that comes forward later on.

3 Q. Mr. Scott, these interests that you're seeking  
4 to pool today, are they working interests or royalty  
5 interests?

6 A. They are mineral interest owners who we have  
7 pooled -- who we have leased their heirs or devisees.  
8 This is for marketable title, lies currently due to  
9 failure of proper probate or a good mineral deed or  
10 assignment of interest.

11 Q. So you're not seeking to assess production  
12 costs against these interest owners, is that correct,  
13 because of the nature of their interest?

14 A. No.

15 Q. Did COG provide notice of these -- of this  
16 application to the leaseholders [sic] you are seeking to  
17 pool?

18 A. Yes.

19 Q. Is that indicated in Exhibit Number 4?

20 A. Yes.

21 Q. And does Exhibit Number 4 include an affidavit  
22 from your attorney indicating that notice was provided  
23 in accordance with Division rules?

24 A. Yes.

25 Q. And included in that exhibit is a list of all

1 the parties who received notice?

2 A. Yes.

3 Q. And a sample letter providing notice to those  
4 parties?

5 A. Yes.

6 Q. Does that include as well a letter that went  
7 out to the offset interest owners surrounding the  
8 proposed proration unit?

9 A. Yes.

10 Q. As well as a list of -- a copy of all the  
11 certified receipts?

12 A. Yes.

13 Q. I see in our exhibit packet, we actually  
14 included the well-proposal letters that were sent out  
15 with this well, is that correct, Exhibit Number 4? I'm  
16 sorry. Exhibit Number 3, stepping back one.

17 A. Yes, it is.

18 Q. So I guess for the record we might as well --  
19 maybe go ahead and walk through that. Does this AFE --  
20 does this well proposal include an estimate for costs as  
21 well for the well?

22 A. It does not -- oh, estimated costs for the  
23 well? Yes, it does.

24 Q. And does the AFE include an estimate for  
25 overhead and administrative costs while drilling the

1 well and also for while producing the well?

2 A. No, it doesn't. We have all the working  
3 interest owners already committed to this well. They've  
4 agreed to the overhead costs. That is attached to the  
5 COPAS of the operating agreement signed by all committed  
6 parties -- all committed working interest owners.

7 Q. So all the working interest owners have already  
8 agreed to all the costs, and that's all covered by the  
9 agreement?

10 A. Yes.

11 Q. And Exhibit Number 5, Mr. Scott, is that a copy  
12 of the Notice of Publication that identified all the  
13 heirs and devisees that you're seeking to pool?

14 A. Yes.

15 Q. And that was published in the Artesia Daily  
16 Press?

17 A. Yes.

18 Q. Mr. Scott, were Exhibits 1 through 5 prepared  
19 by you or under your direct supervision?

20 A. Yes.

21 MR. RANKIN: Mr. Examiner, I would move to  
22 admit Exhibits 1 through 5 for the record.

23 EXAMINER GOETZE: Exhibits 1 through 5 are  
24 admitted.

25 (COG Operating, Inc. Exhibit Number 1



1 through 5 were offered and admitted into  
2 evidence.)

3 MR. RANKIN: I have no further questions.  
4 Pass the witness.

5 EXAMINER GOETZE: Very good.

6 CROSS-EXAMINATION

7 BY EXAMINER GOETZE:

8 Q. So basically we're looking at an estate lost in  
9 probate court, mineral interests, so we're just going to  
10 be pooling those folks under this order?

11 A. Yes.

12 Q. Okay. Very good. That's my only question.

13 EXAMINER GOETZE: I'm done with this  
14 witness.

15 THE WITNESS: Thank you.

16 MR. RANKIN: Mr. Greg Clark.

17 GREG CLARK,

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

20 DIRECT EXAMINATION

21 BY MR. RANKIN:

22 Q. Mr. Clark, would you please state your full  
23 name for the record?

24 A. Greg Clark.

25 Q. And by whom are you employed?

1 A. Concho.

2 Q. And in what capacity?

3 A. Petroleum geologist.

4 Q. And have you previously testified before the  
5 Division?

6 A. I have.

7 Q. And have you had your credentials as an expert  
8 in petroleum geology accepted and made a matter of  
9 record?

10 A. Yes.

11 MR. RANKIN: Mr. Examiner, I would tender  
12 Mr. Clark as an expert in petroleum geology.

13 EXAMINER GOETZE: He's so qualified. We  
14 also know him as Mr. Paddock, so --

15 MR. RANKIN: He's making a name for himself  
16 (laughter).

17 EXAMINER GOETZE: Yes, he is.

18 THE WITNESS: Thank you (laughter).

19 Q. (BY MR. RANKIN) Mr. Clark, have you conducted a  
20 study of the lands that are subject to this application?

21 A. I have.

22 Q. Will you please review for the Examiner your  
23 analysis of the geology and the lands that are subject  
24 to this application?

25 A. Yes.

1           Q.   Exhibit 6, is that -- please review for the  
2   Examiner what is depicted in Exhibit 6.

3           A.   I will. This is a regional structure map on  
4   top of the Paddock. We have producing fields that are  
5   produced in the Paddock handle [sic] or the Blinebry,  
6   are highlighted in the blue boxes with the black text.  
7   You'll see that Concho's acreage is in yellow, and in  
8   red is the Bragg 10 Fee #2H in which we intend to drill  
9   our horizontal well.

10                   The overall structural component that  
11   you'll see is a northwest to southeast dipping  
12   structure. As you'll see, there are no major folds,  
13   faults or geologic impediments that would keep us from  
14   drilling this well with a full-section horizontal. And  
15   also Paddock producers are highlighted in red, and  
16   Blinebry producers are highlighted in blue. And the  
17   contour interval is 25 feet with every 250 feet bolded.

18          Q.   And, Mr. Clark, what does Exhibit Number 7  
19   show?

20          A.   This is a map with the same area with the  
21   structure taken off. The intent is to show the line of  
22   section which will be the next exhibit. The line of  
23   section goes from A to A prime, which is from a  
24   south-to-north direction. We've included these wells so  
25   they would cover the area in which we intend to drill

1 the Bragg 10 Fee #2H, and we feel these wells are  
2 representative of the area in which we have mapped.

3 Q. And do you have an exhibit showing the actual  
4 cross section?

5 A. Yes, I do.

6 Q. Is that Exhibit Number 8?

7 A. Yes.

8 Q. Can you review for the Examiner what that  
9 shows?

10 A. I will. This is a stratigraphic cross section  
11 with the datum being flattened on top of the Paddock.  
12 The structural component has been taken out in order to  
13 show the stratigraphic relationship between the wells in  
14 the area. That's also covering -- represent the area in  
15 which we intend to drill the horizontal well in question  
16 here today.

17 You'll see that the gamma ray, which is in  
18 the left track of the logs, and then the porosity logs,  
19 neutron and density area, in the right track are very  
20 similar in terms of characteristics. There is no major  
21 thickening or thinning in the stratigraphic nature of  
22 this interval, so we feel that all of these wells are  
23 representative of the area in which we intend to drill  
24 the horizontal well.

25 You'll see on the left log, we have the

1 lateral interval defined. That's where we intend to  
2 land, of the lateral in the Paddock. And the well on  
3 the right, you'll see that there is the red polygon  
4 within the depth track. That represents a perforated  
5 interval in that vertical well that has been produced  
6 from the Paddock.

7           The other two wells on the left and the  
8 well in the middle, the Bragg 10 Fee 1H pilot hole and  
9 the Lee 3 Fee 6H pilot holes, were, as stated, pilot  
10 holes for the horizontal wells which we drilled.  
11 Therefore, they would not have been completed in the  
12 Paddock.

13       Q.   And what conclusions have you drawn about the  
14 ability of a horizontal well in this proposed proration  
15 unit?

16       A.   We do not see geologically any impediments that  
17 would keep us from drilling and developing this area  
18 using full-section horizontal. We also feel that a  
19 horizontal well will efficiently and economically be  
20 viable, and that each 40 in this nonstandard unit will,  
21 on average, produce more or less equally to the total  
22 production of the well.

23       Q.   And, Mr. Clark, is it your opinion that the --  
24 is it a fact that the proposed well will be located  
25 within the 330 setbacks provided?

1 A. Yes. Yes.

2 Q. Is that demonstrated or depicted in Exhibit  
3 Number 9?

4 A. Yes, it is.

5 Q. In your opinion, Mr. Clark, will the granting  
6 of COG's application be in the best interest of  
7 conservation, the prevention of waste and the protection  
8 of correlative rights?

9 A. Yes, it will.

10 MR. RANKIN: Mr. Examiner, I would ask that  
11 Exhibits -- let me get the correct numbers here -- 6  
12 through 9 be admitted into the record.

13 EXAMINER GOETZE: Exhibits 6 through 9 are  
14 entered as exhibits into the record.

15 (COG Operating, Inc. Exhibit Number 6  
16 through 9 were offered and admitted into  
17 evidence.)

18 MR. RANKIN: I have no further questions of  
19 this witness.

20 CROSS-EXAMINATION

21 BY EXAMINER GOETZE:

22 Q. As usual, your presentation is quite thorough  
23 and to the point. I have very few questions. I am just  
24 interested -- and it's not really pertinent to this  
25 case. You folks drilled two pilots down into the

1 Blinebry. Did you get anything significant, worthwhile  
2 to look at?

3 A. Yes. The purpose of where we TD'd those pilot  
4 holes was in reference to an operating agreement that we  
5 had worked out with other people, or therefore we would  
6 have probably drilled them deeper. But that was to the  
7 limit of where -- in essence, where our rights were, so,  
8 you know, we were drilling just to evaluate as good as  
9 we could the whole section.

10 Q. Very good. I just wanted to see what was down  
11 below, if it was something worthwhile chasing, but we'll  
12 leave that for another day.

13 A. Yes, sir.

14 EXAMINER GOETZE: I have no further  
15 questions for this witness.

16 MR. RANKIN: Thank you, Mr. Examiner. No  
17 further witnesses in this case.

18 EXAMINER GOETZE: And on that note, Case  
19 15150 is taken under advisement.

20 (Case Number 15150 concludes, 2:02 p.m.)

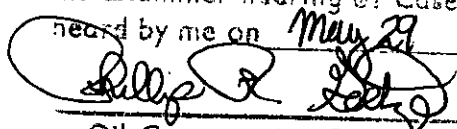
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 15150  
heard by me on May 29, 2014  
, Examiner  
Oil Conservation Division

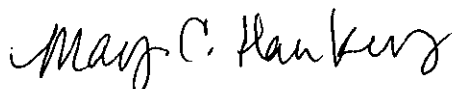
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3

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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