

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, COMPULSORY POOLING
AND A NONSTANDARD LOCATION, LEA
COUNTY, NEW MEXICO.

CASE NO. 15112

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 26, 2014

Santa Fe, New Mexico

BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Richard Ezeanyim,
Chief Examiner, on Thursday, June 26, 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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APPEARANCES

FOR APPLICANT COG OPERATING, LLC:

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1 (9:35 a.m.)

2 EXAMINER EZEANYIM: Let's go back into the
3 record and then go to page 3. At this point I call Case
4 Number 15112. This case was continued from the May 29th
5 examiner hearing, and this is the application of COG
6 Operating, LLC for a nonstandard spacing and proration
7 unit, compulsory pooling and nonstandard location, Lea
8 County, New Mexico.

9 Call for appearances.

10 MS. KESSLER: Jordan Kessler from Modrall
11 Sperling in Albuquerque.

12 EXAMINER EZEANYIM: Any other appearances?
13 Do you have witnesses?

14 MS. KESSLER: Two witnesses.

15 EXAMINER EZEANYIM: No other appearances?
16 Would the two witnesses stand up, state
17 your names and be sworn?

18 MS. STUMPF: Allison Stumpf.

19 MR. LIERLY: Jeff Lierly.

20 EXAMINER EZEANYIM: What is your name?

21 MS. STUMPF: Allison Stumpf.

22 (Mr. Lierly and Ms. Stumpf sworn.)

23 EXAMINER EZEANYIM: Before we start,
24 Counselor, I know you are new to this place. We don't
25 choose the date to have the docket. If you look at the

1 docket, you see April 17th. That's three months ago.
2 So we don't put that. Just start with the second
3 sentence, "application of COG," because the case can be
4 continued. So if you put it in there -- I don't want to
5 read into the record that this case was scheduled for
6 April 17th. So we don't put those --

7 MS. KESSLER: Sure. Okay. Thank you.

8 EXAMINER EZEANYIM: -- just for your
9 information.

10 MS. KESSLER: Okay.

11 EXAMINER EZEANYIM: You may proceed.

12 MS. KESSLER: I'd call to call my first
13 witness, please, Mr. Jeff Lierly.

14 JEFF LIERLY,
15 after having been previously sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MS. KESSLER:

19 Q. Would you please state your name for the record
20 and tell the Examiner by whom you are employed and in
21 what capacity?

22 A. Jeff Lierly. I'm a landman for COG Operating,
23 LLC on the New Mexico basin asset.

24 Q. And have you previously testified before the
25 Division?

1 A. Yes, I have.

2 Q. And were your credentials at that time as a
3 petroleum landman accepted and made a matter of record?

4 A. Yes, they were.

5 Q. Are you familiar with the application that has
6 been filed by COG in this case?

7 A. Yes, I am.

8 Q. And are you familiar with the status of the
9 lands that are the subject of this application?

10 A. Yes, I am.

11 Q. And the APD that's been approved?

12 A. Yes, I am.

13 MS. KESSLER: Mr. Examiner, I tender this
14 witness as an expert in petroleum land matters.

15 EXAMINER EZEANYIM: What is the name of the
16 witness?

17 THE WITNESS: Jeff Lierly.

18 EXAMINER EZEANYIM: Mr. Lierly is so
19 qualified.

20 Q. (BY MS. KESSLER) Could you please turn to
21 what's been marked as COG Exhibit Number 1? And if you
22 could identify it and explain what COG's seeking under
23 this application.

24 A. This is our C-102 for our Tomcat Fee #1H well.
25 It's our 160-acre nonstandard proration and spacing unit

1 that we're pursuing that's comprised of the west
2 half-west half of Section 8, Township 19 South, Range 35
3 East, Lea County, New Mexico.

4 Q. And what is the acreage of the nonstandard
5 project area?

6 A. 160 acres.

7 Q. And you seek to pool the mineral interests
8 underlying the nonstandard spacing unit?

9 A. Yes. We're seeking to pool all mineral
10 interests in the Bone Spring Formation.

11 Q. Are there working interests committed, or are
12 you also seeking to pool them?

13 A. The working interest owners are committed.

14 Q. Are you seeking to dedicate that nonstandard
15 spacing unit to the Tomcat Fee #1H well?

16 A. Yes, we are.

17 Q. And what's the API number?

18 A. It's 3002541714.

19 Q. What is the character of the lands?

20 A. It's all fee.

21 Q. And what pool is involved in this application?

22 A. It's the Scharb-Bone Spring pool.

23 Q. Do you know the pool code for that?

24 A. 55610.

25 Q. And are there special rules for this pool?

1 A. There are.

2 Q. What are they?

3 A. It's 80-acre spacing units, and all portions of
4 the completed interval will have to be within 200 feet
5 of each quarter-quarter section line.

6 Q. And will the completed interval be in
7 compliance with the setback requirements as defined by
8 these rules?

9 A. Yes, they are.

10 Q. So even if the take point is located in a
11 different area, the completed interval is standard for
12 this particular acreage?

13 A. Yes. Our full, completed lateral will be
14 legal.

15 Q. Can you please turn to what's been marked as
16 COG Number 2? Does this identify the working interest
17 owners for the unit?

18 A. It identifies all interest owners. The working
19 interest owners are just in black, and then the, you
20 know, committed unleased interests are highlighted in
21 yellow.

22 Q. Have you proposed the well to these interest
23 owners?

24 A. Yes, we have.

25 Q. Did you also identify Exhibit 2 to the working

1 owners -- or the interest owners who are presently
2 uncommitted to this well and who you wish to pool?

3 A. For the entire proration unit, we have
4 approximately 7.73 percent uncommitted owners, and,
5 again, they're all identified in yellow.

6 Q. So approximately 92 percent of the interest
7 owners have voluntarily committed?

8 A. That's correct.

9 Q. And you also seek to pool mineral interest
10 owners?

11 A. Yes, that's correct.

12 Q. Does Exhibit 3 list all of the mineral interest
13 owners that you seek to pool?

14 A. Yes. It lists all the same owners as Exhibit
15 2, but it also has -- includes anyone that may have an
16 interest in any of the estates that were also listed on
17 Exhibit 2.

18 Q. So Exhibit 3 just spells out each person that
19 has an interest in an estate?

20 A. That's correct.

21 Q. Is Exhibit 4 a copy of the letter that COG sent
22 to all of the working interest owners and a copy of the
23 letter that COG sent to all of the unleased mineral
24 interest owners that you seek to pool?

25 A. Yes. It includes the initial well proposal and

1 an offer to lease the minerals and subsequent follow-up
2 letters of the same.

3 Q. So the subsequent letters reflect the
4 additional parties that were determined to be interest
5 owners; is that correct?

6 A. Additional parties and additional efforts to --
7 the new parties that we found from new title opinions
8 and then also additional efforts that were made to the
9 original parties.

10 Q. And those are Exhibits 5 and 6?

11 A. That's correct.

12 Q. Is the AFE cost proposal contained on page 7 of
13 Exhibit 4?

14 A. Yes, it is.

15 Q. And what are the estimated dry hole and
16 completion costs?

17 A. Estimated dry-hole costs are \$2,550,000 and
18 estimated completion costs are \$4,513,000.

19 Q. In addition to sending Exhibits 4, 5 and 6, can
20 you tell us a little bit about the efforts that COG has
21 undertaken to obtain voluntary joinder from the interest
22 owners?

23 A. In addition to sending the letters, we tried
24 contacting all owners through phone numbers or e-mail
25 addresses that we could find through public or

1 subscription-based search services. We also hired an
2 independent contractor to continue to pursue them under
3 the same circumstances, public and subscription-based
4 services, for approximately two months.

5 Q. Please turn to the AFE. That's page 7 on
6 Exhibit 4. Are the costs reflected on the AFE in line
7 with the costs that COG has incurred in drilling similar
8 wells in the area?

9 A. Yes, they are.

10 Q. In addition to this AFE, has COG estimated the
11 overhead and the costs while drilling this well and
12 while producing should it be successful?

13 A. Yes, we have.

14 Q. What are those costs?

15 A. 7,000 while drilling and 700 while producing.

16 Q. Is that in line with what COG and other
17 operators in the area charge for similar wells?

18 A. Yes, they are.

19 Q. Do you ask that these administrative and
20 overhead costs be incorporated into any order that's
21 resulting from this hearing?

22 A. We do.

23 Q. Do you ask as well that be adjusted in
24 accordance with the appropriate accounting procedures?

25 A. Yes, we do.

1 Q. And with respect to the interest owners who
2 remain uncommitted to the well, do you request that the
3 Division impose a 200 percent risk penalty in addition
4 to the costs?

5 A. Yes, we do.

6 Q. Let's talk about formation of the unit. Has
7 COG brought a geologist here today to testify about the
8 nonstandard unit?

9 A. Yes, we have.

10 Q. And did COG identify the operators or original
11 owner of the lease mineral tracts surrounding the
12 nonstandard proposed unit?

13 A. Yes, we did.

14 Q. Are those reflected in Exhibit 7?

15 A. Yes, they are. And COG Operating was actually
16 the only offset operator for the tract surrounding --

17 Q. Okay. So did you need to provide notice?

18 A. No.

19 Q. So let's turn to COG Exhibit Number 8. Is this
20 an affidavit with attached copies of the letters and
21 supplemental notice letters sent to the pool parties and
22 owners informing them of the proposed nonstandard unit?

23 A. Yes, it is.

24 Q. Were you able to locate all of the working
25 interest owners?

1 A. There were some that we were not able to.

2 Q. Did you give them notice of the hearing?

3 A. Yes, we did.

4 Q. And were you able to locate all of the mineral
5 interest owners?

6 A. We were able to -- excuse me. We located all
7 the working interest parties, yes, but there were some
8 mineral interest owners that we were unable to locate.

9 Q. Okay. So for the parties that you were not
10 able to locate, what efforts did you make to locate
11 them?

12 A. Additional -- in addition to what we mentioned
13 earlier, I mean, public and private searches or
14 subscription-based search engines, and then we also
15 published notice in the county newspaper.

16 Q. Okay. How many times was notice published?

17 A. Twice.

18 Q. And are those affidavits both included as part
19 of Exhibit Number 9?

20 A. Yes, they are.

21 Q. In your opinion, have you made a good-faith
22 effort to identify the interest owners and provide them
23 notice of the hearing?

24 A. Yes, we have.

25 Q. Were Exhibits 1 through 7 prepared by you or

1 compiled under your direction and supervision?

2 A. Yes. Yes, they were.

3 MS. KESSLER: Mr. Examiner, I'd move to
4 have Exhibits 1 through 7 -- or 1 through 9 admitted
5 into evidence, including Exhibits 8 and 9 which I
6 prepared.

7 EXAMINER EZEANYIM: Exhibits 1 through 9
8 will be admitted.

9 (COG Operating, Inc. Exhibit Numbers 1
10 through 9 were offered and admitted into
11 evidence.)

12 MS. KESSLER: Thank you.

13 EXAMINER EZEANYIM: You done?

14 MS. KESSLER: Yes.

15 CROSS-EXAMINATION

16 BY EXAMINER EZEANYIM:

17 Q. Let's start with what you're asking for. Are
18 you also asking for a nonstandard location approval?

19 A. No, we are not. No.

20 Q. Okay. Then what is the location of your well,
21 if you are not?

22 A. The location?

23 Q. Yeah. What is your surface location? What is
24 your penetration point, and what is your -- and when I'm
25 talking about location, I'm talking within the completed

1 interval.

2 A. Okay. Yes.

3 Q. So we see whether you are at a standard
4 location. Do you know?

5 A. Well, all of our -- the surface location is --

6 Q. I'm not interested in that. I'm interested in
7 the penetration point.

8 A. Everything will be standard.

9 Q. So what is the physical location of that well?

10 A. The first take point will be -- let's see --
11 460 from the north line and 760 from the west line.

12 Q. Where are you reading from? Is this in the
13 plat here?

14 A. Yes.

15 Q. Okay. What plat? Let me look at it. Where is
16 it?

17 A. Oh, it's not on the C-102. I'm just -- our
18 take points will be legal, so I was just --

19 Q. Okay. Very good. If you have them -- do you
20 have the surface location?

21 A. Yes.

22 Q. Okay. What is it?

23 A. It's 370 from the north line and 760 from the
24 west line.

25 Q. 370 from the south line?

1 A. North line.

2 Q. North line. And --

3 A. And 760 from the west line. And the
4 bottom-hole location is 330 from the south line and 660
5 from the west line.

6 Q. 330 from the west line?

7 A. 660 from the west line.

8 Q. No, no. 330 from where?

9 A. 330 from the south line and 660 from the west
10 line for the bottom-hole location.

11 Q. Okay. Do you have anything where you
12 penetrated the Bone Spring Formation? Is that Bone
13 Spring?

14 A. Yes, sir.

15 Q. Do you know where the -- where you penetrated
16 the Bone Spring, or do you know whether that penetration
17 is within the completed interval? Do you have that
18 location? You don't have it, right? We need to find
19 that.

20 A. Okay. That's something that we can do.

21 Q. Yeah, because we need to make sure of the
22 setback requirement.

23 MS. KESSLER: Mr. Examiner, the geologist
24 does have an exhibit that will address that question.

25 EXAMINER EZEANYIM: Will address what?

1 MS. KESSLER: Where the first take-away
2 point is and the location.

3 EXAMINER EZEANYIM: Okay. Very good.

4 Maybe I will -- because this is convoluted,
5 as you know. I made a comment this morning about the
6 special rule, Order Number R-2589. If you look at
7 R-2589, which is still the rule -- it was drilled [sic]
8 in 1963 -- your bottom-hole location is unorthodox. And
9 let me tell you why, because you know that and this is
10 why you said this. "COG picked a nonstandard location
11 in order to allow a producing area that is 330 feet from
12 the project area boundary." So that's appropriate. You
13 are asking for me to approve 330.

14 Remember what I said this morning about
15 that 330? If you amend the rule, you wouldn't be asking
16 for a nonstandard location. But the rule is not
17 amended, and we have to comply with it. The rule says
18 200 feet from the center of a quarter-quarter-section,
19 which gives you 460 from the unit boundary. Right? So
20 it's smaller than 330. To take away 200 from 660, that
21 would be 460, which is more than 330 and not the
22 standard. So you are right. You are asking for a
23 nonstandard-location approval because of that rule. And
24 the last time I checked, the rule had not been repealed.
25 It's still invoked.

1 Is this making sense to you guys now --

2 MS. KESSLER: Yes, sir.

3 EXAMINER EZEANYIM: -- what I said this
4 morning?

5 THE WITNESS: Yes.

6 MS. KESSLER: Yes.

7 EXAMINER EZEANYIM: Okay. Statewide rule
8 is what counts now as far as I'm concerned with this
9 1963 rule. Because in 1963, we said it had to be 460
10 from the unit boundary which proceeds [sic] to 200 feet
11 from the center of a section.

12 So don't say you are not asking. You are
13 right in your publication, your docket, when you say a
14 nonstandard location, nonstandard proration and also
15 compulsory pooling. You're right because of that rule.

16 MS. KESSLER: Although, Mr. Examiner, the
17 surface-hole location will be at 330 feet, but the first
18 take point will be within the -- within the parameters
19 set by the rule, so that is 460, as Mr. Lierly stated.

20 EXAMINER EZEANYIM: We are going to define
21 that, but I just wanted to state that, because now I am
22 going to discuss that with the geologist, who will tell
23 me where the well will land, the penetration point and
24 see how they comply with that rule.

25 What you should have been doing today,

1 instead of asking for an exception for me to give you a
2 requirement for 330, is to say, Amend this rule, like I
3 said this morning. If you amend the rule, you don't
4 have to ask for NSL, because it's all going to go back
5 to statewide rules. We have done it for Culebra Bone
6 Spring. We can do it here, too. Scharb Bone Spring, we
7 can do it, because at the point when they did this, it
8 was only vertical wells. Now with horizontal wells,
9 it's going to be unorthodox for us to comply with all
10 those.

11 So I will discuss this with the geologist,
12 but I still have questions for you.

13 THE WITNESS: Okay.

14 Q. (BY EXAMINER EZEANYIM) Let's go back to the
15 notice. I looked at your exhibit. And you gave notice
16 to everybody, but you failed to locate everybody, right?

17 A. We failed to locate --

18 Q. Two of them?

19 A. -- a few people that may have interests in one
20 of these estates just because the names were common, and
21 there was no geographic search parameters.

22 Q. Okay. Those you failed to locate, are they
23 working interests?

24 A. No. They're unleased mineral interests.

25 Q. I think you said that all working interests

1 agreed to participate, right?

2 A. Yes.

3 Q. The rest are revenue interest owners, right,
4 the rest of them?

5 A. Right.

6 Q. And therefore should you be asking for
7 penalties?

8 A. Yes.

9 Q. It's what you asked. It depends if we give it
10 to you.

11 The overhead is at 7,000 and 700, right?

12 A. That's correct.

13 Q. And the land is fee?

14 A. Yes.

15 Q. What is that API number?

16 A. 3002541714.

17 Q. You may step down.

18 EXAMINER EZEANYIM: Call your next witness.

19 MS. KESSLER: Ms. Allison Stumpf.

20 EXAMINER EZEANYIM: You've been sworn, so
21 you're still under oath.

22

23 ALLISON STUMPF,

24 after having been previously sworn under oath, was
25 questioned and testified as follows:

1 DIRECT EXAMINATION

2 BY MS. KESSLER:

3 Q. Please state your name for the record and tell
4 the Examiner by whom you're employed and in what
5 capacity.

6 A. Allison Stumpf. I'm employed by COG Operating,
7 and I'm a geologist for the New Mexico basin team.

8 Q. Have you previously testified before the
9 Division?

10 A. No.

11 Q. Can you please outline your educational
12 background?

13 A. Yes. I attended the University of Oklahoma and
14 graduated with my bachelor of science in geology in
15 2009, and I attended the University of Oklahoma and
16 received my master of science in geology in 2011.

17 Q. And could you tell us about your work history?

18 A. Yes. I started working at Concho in January of
19 2012. And I've worked the Texas Wolfberry Team for
20 about two years, and I recently switched to the
21 New Mexico Delaware Basin Team two months ago.

22 Q. Are you involved in any professional
23 associations?

24 A. Yes. I am involved in the American Association
25 of Petroleum Geologists and the West Texas Geological

1 Society.

2 Q. And how long have you been involved with those
3 organizations?

4 A. I've been involved with AAPG, the American
5 Association of Petroleum Geologists, for about six
6 years, and I've been involved in the West Texas
7 Geological Society for two and a half.

8 MS. KESSLER: Mr. Examiner, I would tender
9 Ms. Stumpf as an expert petroleum geologist.

10 EXAMINER EZEANYIM: Her qualifications are
11 accepted.

12 Q. (BY MS. KESSLER) Are you familiar with the
13 application that's been filed by COG in this case?

14 A. Yes.

15 Q. And have you conducted a geologic study of this
16 area?

17 A. Yes, I have.

18 Q. Would you please turn to what's been marked as
19 COG Exhibit Number 10? And beginning with the legend,
20 please identify what this exhibit is and explain it for
21 the Examiner. Walk us through it.

22 A. Exhibit 10 shows the Tomcat Fee lease map,
23 Section 8, 19 South, 35 East. The map legend shows that
24 the horizontal location is in red, with the surface-hole
25 location being the open square, and the bottom-hole

1 location being the open circle. The purple circle
2 represents 3rd Bone Spring Sand wells in the area, and
3 the COG project area and COG acreage is in yellow.

4 Q. Could you turn to Exhibit Number 11 and
5 identify the exhibit and walk us through it?

6 A. This map is a 3rd Bone Spring Sand subsea
7 structure map. The horizontal location is in red. The
8 offset 3rd Bone Spring Sand wells are in purple, and the
9 black lines on the map are the 3rd Bone Spring Sand
10 subsea structure contours. The contour interval is 100
11 feet. And the project area and COG acreage is in
12 yellow. And the structure is dipping to the south, and
13 there are no geological impediments.

14 Q. Now, could you turn to Exhibit Number 12 and
15 identify this map and walk us through it?

16 A. This map shows the cross-section line. The
17 horizontal location is in red. The cross section line,
18 A to A prime, is in blue, and the offset 3rd-Bone
19 Springs Sand wells are in purple. And the COG project
20 area and Concho acreage is in yellow.

21 Q. And please turn to Exhibit 13. Do you consider
22 these wells to be representative of wells in the area?

23 A. Yes. This is a structural cross section, A to
24 A prime. It goes from the northwest to the southeast.
25 The wells in this cross section are the Airstrip 6 State

1 #1, the Hooper 8 #1, and the Mescalero Ridge #2. And on
2 this cross section, you are looking at wells that have a
3 gamma ray track on the left and a resistivity track on
4 the right. And then also on the other side of the depth
5 track, you have gamma ray again and porosity.

6 Q. And is the target interval depicted on this
7 exhibit?

8 A. Yes. So the purple line is the top of the 3rd
9 Bone Spring Sand, and then the red line is the top of
10 the Wolfcamp Formation, which underlies the 3rd Bone
11 Spring Sand. Our lateral interval is on the center well
12 in the red brackets, and as you can see, this 3rd Bone
13 Spring Sand interval is continuous across the area.

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

16 A. The conclusions I've drawn is that there are no
17 geological impediments for horizontal drilling, that
18 each quarter-quarter section will produce equally and
19 that horizontal drilling is the most efficient method.

20 Q. Could you identify the final exhibit, Exhibit
21 14?

22 A. Yes. This is a wellbore diagram schematic of
23 the Tomcat Fee #1H. The solid blue lines on the outside
24 represent the north and south section line, and then the
25 dashed blue lines represent the 460-foot hard line from

1 the north and south section line.

2 The planned well path of the Tomcat Fee #1H
3 is in red, and as you can see on this cross-sectional
4 view of the well, that we plan to have no perforations
5 performed closer than 460 feet from the section lines.
6 So on this you can see that our first take point will be
7 part of the wellbore that meets that dashed blue line
8 from the north, and then our last take point will be no
9 closer than that 460 feet from the south line.

10 Q. So this interval is in compliance with the
11 special pool rules from the Scharb Bone Springs?

12 A. Yes.

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

17 A. Yes.

18 Q. Were Exhibits 10 through 14 prepared by you or
19 compiled under your direction or supervision?

20 A. Yes.

21 MS. KESSLER: I would move to have Exhibits
22 10 through 14 admitted into evidence.

23 EXAMINER EZEANYIM: Which ones?

24 MS. KESSLER: 10 through 14.

25 EXAMINER EZEANYIM: Exhibits 10 through 14

1 will be admitted.

2 (COG Operating, Inc. Exhibit Numbers 10
3 through 14 were offered and admitted into
4 evidence.)

5 MS. KESSLER: I have nothing further for
6 this witness.

7 EXAMINER EZEANYIM: Thank you very much.

8 CROSS-EXAMINATION

9 BY EXAMINER EZEANYIM:

10 Q. So let's start with that well diagram. If I
11 agree with what the well diagram is, so we are going to
12 dismiss your request to approve the NSL? We talked
13 about it. Because here it says you are applying for an
14 unorthodox well location.

15 MS. KESSLER: Yes.

16 EXAMINER EZEANYIM: And you think you can
17 drill that well 460 feet from the unit boundary?

18 MS. KESSLER: Yes, that is correct.

19 EXAMINER EZEANYIM: Now, this is a
20 horizontal well. Remember, a horizontal well has no
21 limit on how many wells you can drill. If you want to
22 drill a 160 or even a third well, with this rule, you
23 can do that.

24 MS. KESSLER: Okay.

25 EXAMINER EZEANYIM: And we cannot even

1 approve the nonstandard location because of where -- and
2 that's what I'm talking about here. The important thing
3 is to amend this rule, so we go back to statewide rules.
4 So with that 160-acre, you can drill four wells with
5 that setback requirement. But this rule, you can't do
6 that. I've seen an operator who has drilled four wells
7 in a 160. Assuming that the Scharb-Bone Spring pool is
8 prolific and you want to drill more wells, you can't
9 because of this preventive rule that we have now. So
10 you might want to look at it and see whether you might
11 come forward to amend that rule to the statewide rules.

12 So we are going to dismiss nonstandard
13 location because it's part of the docket [sic], right?

14 MS. KESSLER: Correct. Correct.

15 EXAMINER EZEANYIM: It's going to be 460
16 from the unit boundary?

17 MS. KESSLER: Yes, that's correct.

18 EXAMINER EZEANYIM: Okay. Very good.

19 So did you comply with Order Number R-2589?
20 You did?

21 MS. KESSLER: (Indicating.)

22 Q. (BY EXAMINER EZEANYIM) Let's go back to Exhibit
23 Number 10. That's the structure map. If you look at
24 that structure map -- not the structure map. This is
25 just to show me. Those dots, they are wells, right?

1 A. Correct.

2 Q. They are vertical wells?

3 A. Correct.

4 Q. So this is really the second horizontal well to
5 be drilled in that area?

6 A. Correct.

7 Q. Who drilled that horizontal well and did not --

8 A. Mewbourne Oil Company.

9 Q. Do you know what that well is doing? Did you
10 check it out?

11 A. I did.

12 Q. How is it performing?

13 A. It's been performing pretty well. It's been
14 online for about a year now, and its made about 22,000
15 cum oil.

16 Q. For how many months?

17 A. That would be from June 1st of 2013 to March of
18 2014.

19 Q. Okay. Very good.

20 Then why did we decide to drill
21 north-south?

22 A. Based on an internal review of proprietary
23 data, we found that north-south wells perform better
24 than east-west wells.

25 Q. In all cases? In all cases?

1 A. Yes.

2 Q. I mean, just -- there is no -- every case,
3 north-south is better than east-west? I mean, if that
4 is true, then my work is done. Just drill north-south.

5 A. Based on an internal review of Concho wells,
6 our north-south wells performed better than our
7 east-west.

8 Q. So based on Concho, north-south perform better
9 than east-west regardless of the geology?

10 A. Correct.

11 Q. How do you know that?

12 A. Well, it's proprietary data that we've
13 reviewed.

14 Q. Where did you get that data?

15 A. Well, we've drilled both north and south wells
16 and east and west wells, and just based on the way that
17 we drilled them and completed them, the north-south
18 wells tend to produce more oil.

19 Q. Not in all cases. And I know it's not in all
20 cases for all operators and not in all cases for COG.
21 The first question I asked you, Was that an east-west
22 well, you said it was doing well. So north-south -- are
23 you saying that this north-south is going to do better
24 than that? Okay. But that's not the point. The point
25 I'm trying to make here, when I look at that, it's not

1 yet developed by horizontal drilling. So to be able to
2 develop horizontal drilling, we need to start initially
3 to see which one is more beneficial. But you told me
4 north-south is better. If north-south is better, I
5 don't have to conduct a hearing anymore to determine
6 what orientation. It would be north-south everywhere,
7 whether they have pinch-outs or not.

8 But anyway, that's okay. I don't want to
9 make it hard for you, but I'm trying to find out, you
10 know, which is the best orientation to be able to cover
11 more hydrocarbons. That's what I'm really trying to
12 say. I know you have operated there, but I don't know
13 how you get that data. I don't want to see them. And
14 if COG thinks that they will drill it because of what
15 they see, well, that's okay.

16 Now, one of the questions is in that
17 section -- is there any plan to develop that section
18 with four horizontal wells north-south?

19 A. In Section 8?

20 Q. Yeah, in Section 8.

21 A. We don't operate the other part of the section,
22 so --

23 Q. You only own on the west half. You don't own
24 anything on the east half?

25 A. (Indicating.)

1 Q. Do you know who owns the east half?

2 A. No. Based on -- based on the vertical wells
3 that are there, those were all drilled in the '60s and
4 the '80s, and so the only information I have on that
5 area is who drilled those wells.

6 Q. Okay. Why did you say there is no geological
7 impact? Is that the information you have? How do you
8 know there is no geological impact if you drill from
9 north to south? You mentioned -- you stated that in
10 your testimony.

11 A. (Indicating.)

12 Q. So how do I know that?

13 A. Based on structure mapping and also cross
14 sections that were made over the area.

15 Q. Is this fee land? This is fee land, right?

16 MS. KESSLER: Correct.

17 EXAMINER EZEANYIM: Okay. You may step
18 down.

19 THE WITNESS: Thank you.

20 MS. KESSLER: That concludes our
21 presentation. If it would be helpful for me to
22 prepare -- I can prepare an order; I would be happy to.

23 EXAMINER EZEANYIM: Yeah. We can't say no
24 to that. You can do that. That's fine.

25 Okay. At this point Case 15112 will be

1 taken under advisement.

2 (Case Number 15112 concludes, 10:09 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. 15112
heard by me on 10/15/12

Oil Conservation Division, Examiner

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

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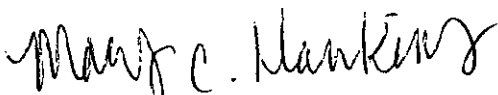
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