

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 CASE NO. 15258
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 8, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
 GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, January 8, 2015, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT COG OPERATING, LLC:

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INDEX

PAGE

Case Number 15258 Called	3
COG Operating, LLC's Case-in-Chief:	
Witnesses:	
Pedie Monta:	
Direct Examination by Ms. Kessler	3
Cross-Examination by Examiner Wade	10
Cross-Examination by Mr. Bruce	12
Greg Clark:	
Direct Examination by Ms. Kessler	12
Proceedings Conclude	17
Certificate of Court Reporter	18
EXHIBITS OFFERED AND ADMITTED	
COG Operating, LLC Exhibit Numbers 1 through 6	10
COG Operating, LLC Exhibit Numbers 7 through 10	17

1 (9:57 a.m.)

2 EXAMINER McMILLAN: I would like to call
3 Case Number 15258, application of COG Operating, LLC for
4 a nonstandard spacing and proration unit and compulsory
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler
8 from Holland & Hart, Santa Fe office, for the Applicant.

9 EXAMINER McMILLAN: Any other appearances?

10 MR. BRUCE: Mr. Examiner, Jim Bruce of
11 Santa Fe representing Judson Properties, Limited. I
12 have no witnesses.

13 MS. KESSLER: Mr. Examiner, I have the same
14 witnesses for this case, if they need to be sworn in
15 again.

16 And I'd like to call my first witness,
17 please.

18 EXAMINER McMILLAN: Excuse me, sir.
19 Mr. Bruce, are there any objections to them?

20 MR. BRUCE: No. No.

21 PEDIE MONTA,
22 after having been previously sworn under oath, was
23 questioned and testified as follows:

24 DIRECT EXAMINATION

25 BY MS. KESSLER:

1 Q. Could you please state your name for the record
2 and tell the Examiners by whom you are employed and in
3 what capacity?

4 A. Pedie Monta, COG Operating, LLC, landman.

5 Q. Have you previously testified before the
6 Division?

7 A. Yes.

8 Q. And at that time, were your credentials
9 accepted and made a matter of public record?

10 A. Yes, they were.

11 Q. Are you familiar with the application filed in
12 this case?

13 A. Yes, I am.

14 Q. And are you familiar with the status of the
15 lands?

16 A. Yes, I am.

17 Q. Has an APD been approved?

18 A. Yes.

19 MS. KESSLER: Mr. Examiner, I would tender
20 this witness as an expert in petroleum land matters.

21 EXAMINER McMILLAN: So qualified.

22 Q. (BY MS. KESSLER) Would you please turn to COG
23 Exhibit Number 1 and identify what COG seeks under this
24 application?

25 A. COG seeks to create a 160-acre, more or less,

1 nonstandard spacing and proration unit comprised of the
2 west half-east half of Section 3, Township 19 South,
3 Range 26 East, for the drilling of the Lee 3 Fee #7H
4 well.

5 Q. And does this Form C-102 also identify 159.23
6 dedicated acres for this proration unit?

7 A. Yes, it does.

8 Q. And do you intend to follow up with the
9 Division regarding whether or not they are lots or
10 units?

11 A. Yes, I do.

12 MS. KESSLER: We will provide an updated
13 C-102 for the Division.

14 EXAMINER McMILLAN: Thank you.

15 Q. (BY MS. KESSLER) Do you intend to pool all
16 mineral interest owners --

17 A. Yes, I do.

18 Q. Did you provide the API number for this well?

19 A. Yes. The API number is 3001541663.

20 Q. What pool is associated with this application?

21 A. The pool code number is 3250, in the
22 Atoka-Glorieta-Yeso.

23 Q. And what is the character of the lands?

24 A. Fee.

25 Q. Do special pool rules apply?

1 A. No, they do not.

2 Q. So the statewide 330-foot setback?

3 A. That is correct.

4 Q. Is Exhibit Number 2 an ownership plat for the
5 this area?

6 A. It is.

7 Q. What interests do you seek to pool?

8 A. The uncommitted working interests, the unleased
9 mineral interests and the unmarketable title.

10 Q. And as a summary of the interests whom you seek
11 to pool, are the percentages included on page 2 of this
12 exhibit?

13 A. Yes, they are.

14 Q. And you do specify that the interests you seek
15 to pool are highlighted in yellow, correct?

16 A. Yes, they are.

17 Q. Have there been any title issues with this
18 tract or -- or with this acreage?

19 A. Yes, there has been.

20 Q. Can you describe those issues?

21 A. Some of the issues have been record title has
22 been in this state but probate proceedings have yet to
23 be administered. COG has leased what we believe are
24 several of the heirs of the estate.

25 Q. Do you believe that you've contacted and leased

1 the correct parties where title is unmarketable?

2 A. Yes, we do.

3 Q. What efforts have you undertaken to locate the
4 unlocatable parties?

5 A. We have utilized brokers to utilize the
6 Internet Web sites, as well as check the county records
7 to locate these parties.

8 Q. And have you reached tentative agreements with
9 three of the parties that are highlighted in yellow on
10 this exhibit?

11 A. Yes, we have.

12 Q. What three parties are those?

13 A. LAJ Corporation, Sigmar and Judson Properties.

14 Q. If those agreements are finalized, will that
15 agreement supersede any order that results from this
16 hearing?

17 A. Yes, they will.

18 Q. Is COG Exhibit Number 3 a well-proposal letter
19 that was sent to each of the parties whom you seek to
20 pool?

21 A. Yes.

22 Q. And did you have conversations with these
23 parties both before and after having sent the
24 well-proposal letter?

25 A. That is correct.

1 Q. What additional efforts did your company
2 undertake to reach a voluntary agreement with the
3 parties whom you seek to pool?

4 A. We have engaged in numerous conversations, as
5 well as negotiations with these parties and have yet to
6 reach agreements.

7 Q. COG Exhibit Number 4 is an AFE for this well,
8 correct?

9 A. That is correct.

10 Q. Was this sent along with the well-proposal
11 letter to the interest owners?

12 A. Yes, they were.

13 Q. And are the costs reflected on this AFE
14 consistent with what COG has incurred for drilling
15 similar horizontal wells in this area?

16 A. Yes, they are.

17 Q. Does the well-proposal letter identify the
18 required overhead and administrative costs while
19 drilling this well and also while producing it, should
20 you be successful?

21 A. Yes, they do. It's 5,450 a month while
22 drilling and \$545 a month while producing.

23 Q. Are these costs in line with what COG and other
24 operators in this area charge for similar wells?

25 A. Yes, they are.

1 Q. Do you ask that these administrative and
2 overhead costs be incorporated into any order resulting
3 from this hearing?

4 A. Yes, I do.

5 Q. Do you ask as well that it be adjusted in
6 accordance with the appropriate accounting procedures?

7 A. Yes, I do.

8 Q. And with respect to the uncommitted interest
9 owners, do you request that the Division impose a 200
10 percent risk penalty?

11 A. Yes, I do.

12 Q. Did COG identify the leased mineral owners in
13 the 40-acre tracts surrounding the nonstandard spacing
14 units?

15 A. Yes.

16 Q. This is illustrated in Exhibit 5, correct?

17 A. That is correct.

18 Q. And there is also a list of the parties to whom
19 you sent notice on the second page of this exhibit?

20 A. That is correct.

21 Q. Is Exhibit 6 an affidavit prepared by my office
22 with attached letters providing notice of the hearing to
23 affected parties?

24 A. Yes.

25 Q. And is the first page of Exhibit 6 a notice

1 of -- an Affidavit of Publication for the unlocatable
2 interests?

3 A. Yes, it is.

4 Q. Were Exhibits 1 through 5 prepared by you or
5 compiled under your direction or supervision?

6 A. Yes.

7 MS. KESSLER: Mr. Examiner, I would move
8 the admission of COG Exhibits 1 through 6, which
9 includes my affidavit.

10 EXAMINER McMILLAN: Exhibits 1 through 6
11 may be accepted as part of the record.

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

15 MS. KESSLER: That concludes my examination
16 of this witness.

17 EXAMINER WADE: If I may ask a question.

18 CROSS-EXAMINATION

19 BY EXAMINER WADE:

20 Q. I guess on Exhibit 2 -- I'm sure you went over
21 this, but I may have missed it. You did get agreement
22 as to everybody but the Leahys; is that correct?

23 A. No. Well, we have reached agreements with LAJ
24 Corporation, Sigmar, Inc. and Judson Properties, and we
25 are still in contact and in current negotiations with

1 the rest of the parties.

2 Q. With the rest of the parties?

3 A. Yes.

4 Q. Okay. And the purpose of the letter to the
5 Leahys in particular was just to show the content of the
6 letters was being sent to all parties, or have you sent
7 them to all parties?

8 A. Yes.

9 MS. KESSLER: That's correct.

10 Q. (BY MR. WADE) You just did not attach those to
11 the exhibits? So all the parties highlighted in yellow
12 on Exhibit 2 have received the same letter, the same
13 contact?

14 A. Yes.

15 EXAMINER McMILLAN: I would think Corinne
16 Grace would have a hard time replying.

17 MR. BRUCE: Contact her husband Michael.

18 Q. (BY EXAMINER WADE) And as to Exhibit 6, this is
19 to the unlocatable mineral interest owners, right?

20 MS. KESSLER: That's correct.

21 A. That is correct.

22 Q. (BY EXAMINER WADE) All right. No further
23 questions from me.

24 EXAMINER McMILLAN: I have no questions.

25 MR. BRUCE: Mr. Examiner --

1 EXAMINER McMILLAN: Yes. Excuse me.

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

4 Q. Mr. Monta, just a question.

5 A. Yes, sir.

6 Q. Judson Properties, they're currently an
7 unleased fee mineral; is that correct?

8 A. We have reached an agreement with them. They
9 have executed a lease. It's a matter of, I guess,
10 trading the bonus consideration for the executed lease.

11 Q. That's what I thought. I just wanted to
12 clarify that. Thank you.

13 EXAMINER McMILLAN: I have no further
14 questions at this time.

15 THE WITNESS: Thank you, Mr. Examiner.

16 MS. KESSLER: May I call my next witness?

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

20 DIRECT EXAMINATION

21 BY MS. KESSLER:

22 Q. Mr. Clark, could you please state your name for
23 the record and tell the Examiners by whom you're
24 employed and in what capacity?

25 A. Yes. Greg Clark, COG Operating, LLC,

1 geologist.

2 Q. Have you previously testified before the
3 Division?

4 A. I have.

5 Q. And at that time, were your credentials as a
6 petroleum geologist made a matter of public record?

7 A. And they were.

8 Q. Are you familiar with the application in this
9 case?

10 A. I am.

11 Q. And have you conducted a study of the lands
12 that are the subject of this application?

13 A. Yes.

14 Q. If you could turn to COG Exhibit Number 8,
15 which is a structure map.

16 A. Exhibit 7?

17 Q. Exhibit 7. I apologize. And walk us through
18 this exhibit, please.

19 A. Sure. This is a regional structure map on top
20 of the Paddock.

21 EXAMINER McMILLAN: Okay. He is so
22 qualified as an expert.

23 THE WITNESS: Oh, yes.

24 MS. KESSLER: I'm sorry, Mr. Examiner. I'd
25 tender him as an expert.

1 EXAMINER McMILLAN: So qualified.

2 THE WITNESS: Thank you.

3 Q. (BY MS. KESSLER) If you could begin with the
4 structure map, Mr. Clark.

5 A. Yes. This is a regional structure map on top
6 of the Paddock Formation. This is over the Delaware
7 Basin shelf slope complex. You'll see our acreage is in
8 yellow. The well we intend to drill is depicted in red
9 as Lee 3 Fee #7H.

10 You will see that regional structural dip
11 is from the northwest to the southeast basinward. We
12 have -- we have fields that are depicted in blue, and we
13 feel this area is structurally related to those fields.
14 We don't see any faulting, folding or major structural
15 impediments that would keep us from drilling this well
16 using a full-section horizontal well. And also, the
17 Paddock and Blinebry producers are depicted in red and
18 blue, and the contour interval for this is 25 feet.

19 Q. Is Exhibit Number 8 a cross-section map of this
20 area?

21 A. Yes, it is. It's the same regional map as
22 before with the structure face [sic] taken off. The
23 main purpose is to show the line of section, which will
24 be the next exhibit that I talk to, where it goes from
25 south to north, from A to A prime. And all the wells

1 are analogous and representative of the geology in the
2 area, and this cross section goes through the area in
3 which we intend to drill the Lee 3 Fee #7H, which
4 offsets the Lee 3 Fee #6H to the west which has been
5 drilled, completed and is currently producing.

6 Q. Exhibit Number 9 is a set of type logs for the
7 wells that you've just described, correct?

8 A. Yes. Yes. These are digital logs of the wells
9 in the line of section that was depicted on the previous
10 exhibit, with the south and A being on the left and
11 north and A prime being on the right.

12 The wells on the left and the well in the
13 middle were pilot holes that we drilled on those wells
14 where we have -- where we have drilled the lateral,
15 completed, and they are currently producing.

16 The well on the right, as you will see, has
17 a red rectangle in the depth track that is
18 representative of the perforated and completed interval
19 in that vertical well.

20 This cross section is a stratigraphic cross
21 section. It is flattened on top of the Paddock. The
22 structural component has been taken out in order to show
23 the stratigraphic relationship of the wells in the area.

24 You will see that there is no major
25 thickening or thinning within the Paddock Formation.

1 The log characteristics are very similar, and we don't
2 feel that there is anything stratigraphically that would
3 keep us from drilling this well as a full-section
4 horizontal.

5 Q. What conclusions have you drawn based on these
6 logs?

7 A. There are no geologic impediments either
8 structurally or stratigraphically that would keep us
9 from developing this area using a full-section
10 horizontal. This area can be efficiently and
11 economically developed using horizontal wells, and the
12 production from this nonstandard unit will, on average,
13 more or less produce equally to the production of the
14 well.

15 Q. Will the completed interval, which is
16 identified on Exhibit 10, comply with all setback
17 requirements under the Horizontal Well Rules?

18 A. Yes, it will.

19 Q. In your opinion, will the granting of COG's
20 application be in the best interest of conservation, for
21 the prevention of waste and the protection of
22 correlative rights?

23 A. Yes.

24 Q. Were COG Exhibits 7 through 10 prepared by you
25 or compiled under your direction or supervision?

1 A. Yes, they were.

2 MS. KESSLER: Mr. Examiner, I would move
3 the admission of Exhibits 7 through 10 into evidence.

4 EXAMINER McMILLAN: Exhibits 7 through 10
5 may now be part of the record.

6 (COG Operating, LLC Exhibit Numbers 7
7 through 10 were offered and admitted into
8 evidence.)

9 MS. KESSLER: That concludes my
10 examination.

11 EXAMINER McMILLAN: I have no questions.

12 MR. BRUCE: No questions, Mr. Examiner.

13 EXAMINER McMILLAN: Case Number 15258 will
14 be taken under advisement.

15 Thank you very much.

16 THE WITNESS: Thank you.

17 EXAMINER McMILLAN: Tell you what, let's
18 take a break until 10:20.

19 (Break taken, 10:14 to 10:25 a.m.)

20

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22

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24

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 _____.

_____, Examiner
Oil Conservation Division

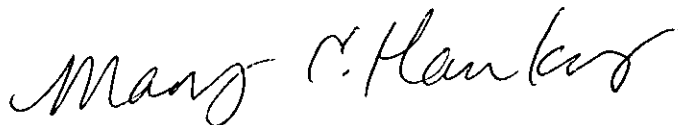
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

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

21 MARY C. HANKINS, CCR, RPR
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