

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:

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

CASE NO. 15256

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

February 5, 2015

Santa Fe, New Mexico

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BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, February 5, 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
New Mexico CCR #20
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(505) 843-9241

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APPEARANCES

FOR APPLICANT COG OPERATING, LLC:
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FOR INTERESTED PARTIES PATTERSON PETROLEUM, LLC AND CML
EXPLORATION, LLC:
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INDEX

	PAGE
Case Number 15256 Called	3
COG Operating, LLC's Case-in-Chief:	
Witnesses:	
Joseph Scott:	
Direct Examination by Ms. Kessler	4
Cross-Examination by Examiner Goetze	12
Cross-Examination by Examiner Wade	13
Cody Bacon:	
Direct Examination by Ms. Kessler	14
Cross-Examination by Examiner Goetze	18
Proceedings Conclude/Certificate of Court Reporter	19/20

EXHIBITS OFFERED AND ADMITTED

COG Operating, LLC Exhibit Numbers 1 through 9	12
COG Operating, LLC Exhibit Numbers 10 through 13	17

1 (8:19 a.m.)

2 EXAMINER GOETZE: If there are no other
3 changes to the agenda, then let's continue with Case
4 15256, application of COG Operating, LLC for a
5 nonstandard spacing and proration unit and compulsory
6 pooling, Lea County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Jordan Kessler from Holland &
9 Hart in Santa Fe for the Applicant.

10 EXAMINER GOETZE: Very good.

11 MR. BRUCE: Mr. Examiner, Jim Bruce
12 representing Patterson Petroleum, LLC and CML
13 Exploration, LLC, and I have no witnesses.

14 EXAMINER GOETZE: Good.

15 Do you have any witnesses?

16 MS. KESSLER: Two witnesses today.

17 EXAMINER GOETZE: Witnesses, would you
18 please stand, identify yourself to the court reporter,
19 and you'll be sworn in.

20 MR. SCOTT: Joseph Scott.

21 MR. BACON: Cody Bacon.

22 (Mr. Scott and Mr. Bacon sworn.)

23 EXAMINER GOETZE: Proceed with your first
24 witness.

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JOSEPH SCOTT,

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

DIRECT EXAMINATION

BY MS. KESSLER:

Q. Can you please state your name for the record and tell the Examiner by whom you're employed and in what capacity?

A. Joseph Scott, COG Operating, LLC. I'm the landman.

Q. Have you previously testified before the Division?

A. Yes.

Q. And were your credentials as a petroleum landman accepted and made a matter of public record?

A. Yes.

Q. Are you familiar with the application that's been filed in this case?

A. Yes.

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

A. Yes.

Q. Has an APD been approved for this well?

A. Yes.

MS. KESSLER: Mr. Examiner, I would tender

1 Mr. Scott as an expert in petroleum land matters.

2 EXAMINER GOETZE: Mr. Bruce?

3 MR. BRUCE: No objection.

4 EXAMINER GOETZE: You are so qualified.

5 Q. (BY MS. KESSLER) Would you please turn to
6 Exhibit Number 1 and outline what COG is seeking under
7 this application?

8 A. We seek to create a 200-acre nonstandard
9 spacing unit in order to pool the west half-west half of
10 Section 11, 17 South, 32 East, and the northwest-
11 northwest of Section 14, as well as 17 South, 32 East,
12 pooling all the mineral interest owners as to the Yeso
13 Formation to create the spacing unit for the Pan Head
14 Fee 12H.

15 Q. And is there an API number for this well?

16 A. Yes.

17 Q. What is that number?

18 A. 3002540899.

19 Q. And what pool is involved with this
20 application?

21 A. This is the Maljamar-Yeso West, Pool Code
22 44500.

23 Q. Thank you.

24 And what is the character of the lands?

25 A. They're fee lands.

1 Q. Are there special pool rules?

2 A. No. It meets the 330 setback rule.

3 Q. Okay. If you could turn to Exhibit 2, please,
4 and identify this exhibit.

5 A. This shows, in yellow, the spacing unit we seek
6 to pool. Each tract is identified -- identified as the
7 owners and the percentages in the tract.

8 On the next page of the exhibit, it shows
9 the working interest ownership for the spacing unit, and
10 it also shows some uncommitted royalty interest owners
11 due to the pooling language in the lease.

12 Q. And what type of interest do you seek to pool?

13 A. I seek to pool working -- uncommitted working
14 interest owners, unmarketable title and the royalty
15 interest owners with the leases that do not have pooling
16 language.

17 Q. And you mentioned that those parties you seek
18 to pool are highlighted in yellow on page 2; is that
19 correct?

20 A. That is correct.

21 Q. Will you turn to COG Exhibit Number 3? Is this
22 a well-proposal letter you sent to the working interest
23 owners that you seek to pool?

24 A. Yes.

25 Q. What date was that letter sent?

1 A. September 17th, 2014.

2 Q. And did you send a second well-proposal letter
3 with an updated AFE on October 31st, 2014?

4 A. What exhibit is that?

5 Q. Exhibit Number 4.

6 A. Oh, yes. That is correct, October 31st, 2014.

7 Q. And, again, that was because there was an
8 updated AFE?

9 A. Yes.

10 Q. Turning back to Exhibit Number 2, what
11 additional efforts did the company undertake to reach
12 voluntary agreement with the parties you were able to
13 locate?

14 A. I'd like to go down the list for the unit
15 working interests to start with.

16 Frank Young, we have identified his heirs
17 or devisees, and we have taken leases. The title
18 opinion that we received shows that interest is
19 unmarketable, so out of an abundance of caution, we are
20 force pooling Frank Young.

21 Lazy S Minerals, LLC, we have taken a lease
22 from them, but the title opinion has a cloud of title.
23 So, again, out of an abundance of caution, we're pooling
24 them.

25 The next one, Range Operating New Mexico,

1 Inc. and Vanguard Petroleum, there is a dispute as to
2 who owns that interest. The title opinion shows it as
3 Range, but Range is saying they assigned it to Vanguard.
4 Vanguard is saying they own it. So we seek to pool both
5 parties.

6 EnergyQuest II, LLC and Halcon Resources
7 Operating Company, Inc., the title opinion shows a
8 merger of the lands. However, there's nothing --
9 there's nothing out of Halcon to some of their
10 subsidiaries, which they're saying was the merger. So,
11 again, there is a question as to who owns that interest.

12 Bruce Sullivan, Jr. we have not been able
13 to locate.

14 And then Chevron, I've been in
15 communication with their landman. They've signed an
16 AFE, but we are still grinding out the Joint Operating
17 Agreement at this time.

18 And then the next owners in yellow, which
19 is identified as uncommitted royalty interest owners
20 with no pooling language in the lease, is an old lease
21 with -- that had no pooling language. It's a 1930's
22 lease. I'm in the process of preparing a pooling
23 agreement to send to them. So, you know, everybody's in
24 agreement, but at this time we seek to pool them so we
25 can move forward with this well.

1 Q. And for any uncommitted interest owners -- I'm
2 sorry -- unlocatable interest owners, what efforts did
3 you take to locate them?

4 A. For the -- I guess that would be Bruce
5 Sullivan, Jr. I've used all my resources, our internal
6 resources. I hired a broker to find their address and
7 that came back unreturnable [sic]. And the same thing
8 for the royalty interest owners. There are some we had
9 addresses for, others we did not. We went through the
10 same process.

11 Q. Turning to Exhibit Number 5, is this a copy of
12 the AFE that was sent with the initial well-proposal
13 letter?

14 A. Yes.

15 Q. And Exhibit Number 6 is an updated AFE that was
16 sent with the second well-proposal letter?

17 A. Yes.

18 Q. Are the costs reflected on this AFE consistent
19 with what COG has incurred for drilling similar
20 horizontal wells in this area?

21 A. Yes.

22 Q. And does the initial well-proposal letter
23 identify the requested overhead and administrative costs
24 while drilling this well and also while producing it
25 should you be successful?

1 A. That is Exhibit 5, correct?

2 Q. Exhibit 4.

3 A. 4?

4 Q. I'm sorry. Exhibit 3.

5 A. Exhibit 3.

6 That is correct.

7 Q. What are those rates?

8 A. 7,500 for drilling and 750 for producing rate.

9 Q. And are these costs in line with what COG and
10 other operators in this area charge for similar wells?

11 A. Yes.

12 Q. So 7,500 and 750 is the standard rate that the
13 Division has been granting for COG in the Delaware Basin
14 and the Lakewood area?

15 A. This is the shelf area.

16 Q. The shelf area. Excuse me.

17 A. Yes.

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

21 A. Yes.

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

24 A. Yes.

25 Q. And with respect to the uncommitted interest

1 owners, do you request that the Division impose a 200
2 percent risk penalty?

3 A. Yes.

4 Q. Did COG identify the offsetting operators and
5 the lessees in the 40-acre tracts surrounding the
6 proposed nonstandard unit?

7 A. Yes.

8 Q. And is this reflected in Exhibit Number 7?

9 A. Yes. That is correct.

10 Q. Is Exhibit 8 an affidavit prepared by my
11 office, with attached letters, providing notice of this
12 hearing to all parties, including those whom you seek to
13 pool and also offset operators?

14 A. Yes.

15 Q. And is exhibit -- well, was it necessary to
16 publish notice for this well?

17 A. Yes.

18 Q. Is Exhibit 9 two Affidavits of Publication --

19 A. Yes.

20 Q. -- for publishing notice?

21 A. Yes, it is.

22 Q. Were Exhibits 1 through 7 prepared by you or
23 under your direction?

24 A. Yes.

25 MS. KESSLER: I move the admission of

1 Exhibits 1 through 9, please, including 8 and 9, which I
2 prepared.

3 EXAMINER GOETZE: Very good. Exhibits 1
4 through 9 are so entered.

5 (COG Operating, LLC Exhibit Numbers 1
6 through 9 were offered and admitted into
7 evidence.)

8 EXAMINER GOETZE: Any questions, Mr. Bruce?

9 MR. BRUCE: No, sir.

10 CROSS-EXAMINATION

11 BY EXAMINER GOETZE:

12 Q. So are you familiar with this particular
13 section? I just want to cover some old details. We
14 have the Flat Heads as well the Pan Heads running along
15 this section and extending into the north
16 quarter-quarter subdivisions of Section 14. Devon at
17 one time had looked at going horizontal east-west. And
18 has Devon aired any discern with their approach to
19 what's going to be happening to the south?

20 A. We traded some acreage that we had in the south
21 half of the northwest to Devon, and Devon traded some
22 acreage that they had in the north half of the
23 northeast. We've entered into a letter agreement to
24 allow us to drill a mile and a quarter because
25 originally on the Flat Heads or possibly the Pan Head --

1 I wasn't working this area at the time -- but one of the
2 two wells. In the section, we originally proposed a
3 mile and a half, so we came up with an agreement to
4 drill a mile and a quarter from north-to-south
5 orientation. And in Section 14, they're drilling from
6 east to west, and they're actually parties to this well,
7 have signed the operating agreement, signed the OA and
8 are on board.

9 Q. Okay.

10 EXAMINER GOETZE: Do you have any
11 questions, Counsel?

12 CROSS-EXAMINATION

13 BY EXAMINER WADE:

14 Q. Regarding Exhibit 9 and the notice, which
15 parties were specifically noticed on each affidavit?

16 A. The first affidavit notices the working
17 interest owners -- working interest owners or mineral
18 interest owners that have unmarketable title or
19 uncommitted owners.

20 The second affidavit was prepared for the
21 lessors of the leases that do not have pooling language.

22 Q. Okay.

23 EXAMINER GOETZE: We're done with this
24 witness. Thank you very much.

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CODY BACON,

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

DIRECT EXAMINATION

BY MS. KESSLER:

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

A. My name is Cody Bacon, and I'm a geologist for COG Operating.

Q. Have you previously testified before the Division?

A. Yes, I have.

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

A. Yes.

Q. Are you familiar with the application that's been filed in this case?

A. I am.

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

A. Yes, I have.

MS. KESSLER: Mr. Examiner, I tender Mr. Bacon as an expert witness in petroleum geology.

1 EXAMINER GOETZE: Counselor? Mr. Bruce?

2 MR. BRUCE: No objection.

3 EXAMINER GOETZE: Thank you.

4 He is so qualified.

5 Q. (BY MS. KESSLER) Can you please turn to Exhibit
6 10 and identify this map for us?

7 A. Yes. This is a regional Yeso structure map
8 that is built off of the top of the Paddock Formation.
9 It has a 100-foot contour level. The yellow color
10 represents COG acreage, and off to the right, there is a
11 blue box that is outlining the Pan Head lease. The
12 contours display a consistent west-to-east dip. There's
13 no major structural change or faulting, any other
14 geologic impediments. In the south half of the map, you
15 see a tightening of contours. This tightening is
16 indicative of the rotation of the shelf edge.

17 Q. Could you turn to Exhibit 11 and identify this
18 map?

19 A. This is a cross-section index map of the Pan
20 Head area. Again, the yellow is COG acreage. The blue
21 box is outlining the Pan Head lease. The small red dots
22 represent vertical Paddock wells. The small blue dots
23 represent a vertical Blinebry wells, and the half red,
24 half blue wells are vertical Yeso wells which are
25 commingled Paddock and Blinebry.

1 The pink line with pink dots on it that
2 says "A to A prime" is the west-to-east cross section,
3 and the wells in this cross section are chosen because
4 they are representative of the area.

5 Q. Exhibit Number 12?

6 A. This is the west-to-east structural cross
7 section labeled A to A prime that we saw in the previous
8 exhibit. I will start at the top and work down.

9 The orange coloring is the San Andres, and
10 beneath that in yellow is the Glorieta. The green
11 coloring is the Paddock Formation, and the pink at the
12 bottom is the Blinebry Formation. The green -- the
13 Paddock Formation will be the target interval for this
14 well. And this cross section shows no major structural
15 changes or faulting or any other geologic impediments.

16 MS. KESSLER: Mr. Examiner, I also have a
17 larger version of this map if that will be helpful.

18 EXAMINER GOETZE: No, that's fine. Thank
19 you.

20 Q. (BY MS. KESSLER) What conclusions have you
21 drawn on the geologic study?

22 A. This area has no geologic impediments to
23 developing this area with a mile-and-a-quarter lateral,
24 and this area will be effectively and economically
25 developed with these horizontal wells. And the

1 nonstandard unit will average produce -- excuse me --
2 contribute more or less equally to production from this
3 well.

4 Q. Will the completed interval for this well be
5 within the 330-foot statewide setbacks?

6 A. It will.

7 Q. And is that shown on Exhibit 13?

8 A. Yes, it is.

9 Q. In your opinion, will the granting of COG's
10 application be in the best interest of conservation, the
11 prevention of waste and the protection of correlative
12 rights?

13 A. Yes.

14 Q. And were COG Exhibits 10 through 13 prepared by
15 you or compiled under your direction or supervision?

16 A. Yes, they were.

17 MS. KESSLER: Mr. Examiner, I'd move the
18 admission of Exhibits 10 through 13.

19 EXAMINER GOETZE: Mr. Bruce?

20 MR. BRUCE: No questions.

21 EXAMINER GOETZE: Exhibits 10 through 13
22 are so entered.

23 (COG Operating, LLC Exhibit Numbers 10
24 through 13 were offered and admitted into
25 evidence.)

1 EXAMINER GOETZE: Counselor?

2 EXAMINER WADE: No questions.

3 CROSS-EXAMINATION

4 BY EXAMINER GOETZE:

5 Q. Just a few. Historically in this area, we seem
6 to be going north-south, east-west as far as production.
7 Is this what you've seen there?

8 A. Yes, sir, in my experience.

9 Q. And with that, it looks like you have
10 limitations due to previous development of vertical
11 wells.

12 How did the preference for drilling north
13 to south as opposed to south to north, Pan Head versus
14 the Flat Heads, come about? What decision was made; do
15 you know?

16 A. I believe that it was surface reasons, less
17 disturbance in the north in one area and south in the
18 other.

19 Q. So we have more surface constraints. Very
20 good.

21 EXAMINER GOETZE: At this point I have no
22 further questions for this witness.

23 MS. KESSLER: Thank you. That concludes
24 our presentation.

25 EXAMINER GOETZE: Case 15256 is taken under

1 advisement.

2 And at this point, Docket 03-15 is closed.

3 See you folks in two weeks.

4 (Case Number 15256 concludes, 8:37 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. _____
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

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2015

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