

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, Case 15281
LLC, for a non-standard spacing
and proration and compulsory
pooling, Eddy County, New Mexico

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 2, 2015

Santa Fe, New Mexico

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BEFORE: MICHAEL McMILLAN, Hearing Examiner
GABRIEL WADE, Legal Examiner

This matter came on for hearing before the New
Mexico Oil Conservation Division, MICHAEL McMILLAN,
Hearing Examiner, and GABRIEL WADE, Legal Examiner,
on Thursday, April 2, 2015, in Santa Fe, New Mexico.

REPORTED BY: PAUL BACA, CCR #112
PAUL BACA COURT REPORTERS
500 4th Street, NW, Suite 105
Albuquerque, New Mexico 87102

A P P E A R A N C E S

For the Applicant:

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I N D E X

WITNESS: PAGE:

STUART DIRKS

Examination by Mr. Feldewert 4

GREG CLARK

Examination by Mr. Feldewert 12

CERTIFICATE OF COURT REPORTER 19

EXHIBIT: DESCRIPTION

COG 1-7 11

COG 8-10 17

1 HEARING EXAMINER McMILLAN: Okay. Let's
2 go ahead and let's get started on the docket.

3 The first case I would like to call is
4 Case Number 15281, application of COG Operating,
5 LLC, for a nonstandard spacing and proration unit
6 and compulsory pooling, Eddy County, New Mexico.

7 I call for appearances.

8 MR. FELDEWERT: May it please the
9 Examiner.

10 HEARING EXAMINER McMILLAN: Yes.

11 MR. FELDEWERT: Mike Feldewert with the
12 Santa Fe office of Holland & Hart appearing on
13 behalf of the applicant.

14 HEARING EXAMINER McMILLAN: Any other
15 appearances?

16 MR. FELDEWERT: And, Mr. Examiner, we have
17 two witnesses here today.

18 I think we're ready to proceed, and we're
19 going to have the witness sworn and we will call our
20 first witness.

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1 STUART DIRKS,
2 after having been first duly sworn under oath,
3 was questioned and testified as follows:

4 EXAMINATION

5 BY MR. FELDEWERT:

6 Q. Would you please state your name and
7 identify by whom you are employed and in what
8 capacity?

9 A. My name is Stuart Dirks. I'm employed by
10 COG Operating, LLC, as a landman.

11 Q. And, Mr. Dirks, have you previously
12 testified before this division and had your
13 credentials as an expert in petroleum land matters
14 accepted and made a matter of public record?

15 A. Yes.

16 Q. And are you familiar with the application
17 filed in this case?

18 A. Yes, I am.

19 Q. Are you likewise familiar with the lands
20 that are the subject of this case?

21 A. Yes, I am.

22 MR. FELDEWERT: Mr. Examiner, I would
23 tender Mr. Dirks once again as an expert witness in
24 petroleum land matters.

25 HEARING EXAMINER McMILLAN: So accepted.

1 Q. (By Mr. Feldewert) Would you be so kind
2 to turn to what's been marked as COG Exhibit
3 Number 1, identify it, and explain to the examiner
4 what the company seeks under this application?

5 A. This is the C-102 for a proposed Pium
6 15 Fee Number 1H well.

7 We seek the creation of a 160-acre
8 nonstandard spacing and proration unit comprising
9 the north half of the south half of Section 15,
10 Township 18 South, Range 26 East, in Eddy County for
11 the drilling of our Pium 15 Fee Number 1H well.

12 We seek to pool the mineral interests
13 within this nonstandard unit from the surface to
14 32- -- I'm sorry -- from the top of the Yeso to
15 3,200 feet subsurface, and we ask that COG
16 Operating, LLC, be named operator.

17 Q. Why does the company seek to limit the
18 pooling depth within the Yeso to 3,200 feet?

19 A. Because our depth severances within the
20 spacing unit, there's a lease that covers surface to
21 4,000 feet and there's a lease that covers surface
22 to 3,200 feet.

23 Q. Okay. Now, does Exhibit Number 1 provide
24 the Examiner with the pool that is involved with
25 this application as well as the pool code?

1 A. Yes, it does.

2 Q. And it also shows that you have an API
3 number for this well?

4 A. Yes, it does.

5 Q. And is this -- will this well comply with
6 the division's 330-foot setback requirements?

7 A. Yes, it will.

8 Q. If I turn to what's been marked as COG
9 Exhibit Number 2, is this a drilling plan that
10 confirms that the completed interval for this well
11 will meet those setback requirements?

12 A. Yes, it is.

13 Q. Now with respect to Section 15, where the
14 completed interval will be located, what's the
15 nature of the lands in that particular section?

16 A. They are Fee lands.

17 Q. Okay. If I turn, then, to what's been
18 marked COG Exhibit Number 3, does this provide the
19 Examiner with an ownership breakdown in the north
20 half of the south half of Section 15?

21 A. Yes, it does.

22 Q. Could you please explain how you've
23 arranged the ownership interest on this particular
24 exhibit?

25 A. Two tracts exist in our proposed spacing

1 unit. On the first page of the exhibit is listed
2 the ownership by tract, and the second page of the
3 exhibit shows the unit ownership.

4 Q. Okay. Have you identified the uncommitted
5 working interest owners?

6 A. Yes, I have. They are identified in
7 italics.

8 Q. And then do you have a certain group of
9 working interest owners where you have title issues?

10 A. Yes, I do, and they are identified in
11 bold.

12 Q. Okay. Now if I'm looking on the second
13 page of Exhibit Number 3, I see up towards the
14 middle of the page you also have a list of
15 uncommitted royalty owners?

16 A. Yes, that's correct.

17 Q. What does that mean, Mr. Dirks?

18 A. The lease that covers their interest does
19 not grant pooling.

20 Q. Okay. And is that why you then
21 included -- are we including these parties in this
22 pooling application as royalty owners?

23 A. Yes, that's correct.

24 Q. Okay. Now looking at this list, it looks
25 like there's some heirs and devisees. Are there

1 parties that you have been unable to locate?

2 A. That's correct.

3 Q. What efforts would the company undertake
4 to locate these interest owners?

5 A. We start with the last address of record.
6 And if that address is not good we have people
7 search -- in the software we use, we search the
8 obituaries, check probate. If we know of any
9 relatives or can identify any relatives we'll talk
10 to them to see if they can give us more information.

11 Q. If I then turn to what's been marked as
12 COG Exhibit Number 4, is this an affidavit of
13 publication directed by name to these interest
14 owners that you have been unable to locate advising
15 them of this hearing?

16 A. Yes, that's correct.

17 Q. And if I turn to what's been marked as COG
18 Exhibit Number 5, is this the well proposal letter
19 that was sent to the working interest owners that
20 you were able to locate?

21 A. Yes, it is.

22 Q. And did this submission include an AFE?

23 A. Yes, it did.

24 Q. And all the costs that are reflected on
25 the AFE that comprises the last page of Exhibit

1 Number 5, are they consistent with what the company
2 has incurred for drilling similar horizontal wells
3 in the area?

4 A. Yes.

5 Q. Okay. Now, this particular exhibit deals
6 with the working interest owners, correct?

7 A. Yes.

8 Q. Okay. If I turn to what's been marked as
9 COG Exhibit Number 6, is this a letter that you sent
10 to the royalty owners seeking an amendment to the
11 lease to allow you to proceed with the pooling?

12 A. Yes, it is.

13 Q. Okay. And as a result, some of the board
14 of royalty owners have not executed them?

15 A. That's correct.

16 Q. And that's why you seek to pool them?

17 A. That's correct.

18 Q. Finally, Mr. Dirks, in preparation for
19 this hearing -- or let me step back.

20 In addition to sending these -- these two
21 letters, one to the working interest owners and one
22 to the royalty owners, what other efforts did the
23 company take to reach a voluntary agreement with
24 these owners?

25 A. Aside from the efforts that I mentioned

1 earlier, the people we could locate, I talked to
2 them by phone or by e-mail.

3 Q. Okay. Now, the well proposal letter to
4 the working interest owners, which is marked as
5 Exhibit Number 5, does it identify the overhead and
6 administrative costs while drilling and also while
7 producing, if they're successful, that the company
8 seeks?

9 A. Yes, it does.

10 Q. And is that identified in the first page
11 of Exhibit Number 5 about halfway down?

12 A. Yes, it is.

13 Q. And would you provide the Examiner with
14 those figures?

15 A. \$6,000 per month drilling, \$600 per month
16 producing.

17 Q. Okay. Are these costs consistent with
18 what the company and other operators in the area
19 charge for similar wells?

20 A. Yes.

21 Q. In preparation for this hearing, did the
22 company identify the lease mineral interest owners
23 in the 40-acre tracts surrounding your proposed land
24 spacing unit?

25 A. Yes, we did.

1 Q. And did the company include these
2 offsetting lease mineral interest owners in notice
3 of this hearing?

4 A. Yes, we did.

5 Q. And if I turn to what's been marked as COG
6 Exhibit Number 7, is this an affidavit prepared by
7 my office with the attached letters providing notice
8 of this hearing for the affected wells?

9 A. Yes, it is.

10 Q. Mr. Dirks, were COG Exhibits 1 through 6
11 prepared by you or compiled under your direction and
12 supervision?

13 A. Yes, they were.

14 MR. FELDEWERT: Mr. Examiner, I would move
15 the admission into evidence of COG Exhibits 1
16 through 7, which include my affidavit.

17 HEARING EXAMINER McMILLAN: Exhibits 1
18 through 7 now may be accepted as part of the record.

19 MR. FELDEWERT: That concludes my
20 examination of this witness.

21 HEARING EXAMINER McMILLAN: Okay. What's
22 the status of the well?

23 THE WITNESS: It has not been drilled.

24 HEARING EXAMINER McMILLAN: Okay.

25 I have no further questions at this time.

1 Thank you very much.

2 THE WITNESS: Thank you.

3 MR. FELDEWERT: We will call our next
4 witness.

5 HEARING EXAMINER McMILLAN: Thank you.

6 GREG CLARK,
7 after having been first duly sworn under oath,
8 was questioned and testified as follows:

9 EXAMINATION

10 BY MR. FELDEWERT:

11 Q. Would you please state your name for the
12 record, identify by whom you're employed, and in
13 what capacity?

14 A. I'm Greg Clark. I'm employed by COG
15 Operating, LLC, as a petroleum geologist.

16 Q. And, Mr. Clark, have you previously
17 testified before this division as an expert in
18 drilling and geology?

19 A. Yes, I have.

20 Q. And are you familiar with the applications
21 filed in this case -- or the application filed in
22 this case?

23 A. I am.

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

1 A. Yes.

2 MR. FELDEWERT: I would tender Mr. Clark
3 once again as an expert witness in petroleum
4 geology.

5 HEARING EXAMINER McMILLAN: So accepted.

6 Q. (By Mr. Feldewert) Mr. Clark, what is the
7 target of the proposed well?

8 A. The Yeso formation.

9 Q. And have you prepared a structure map and
10 a cross-section for this particular interval?

11 A. Yes, I have.

12 Q. If I turn to what has been marked as COG
13 Exhibit Number 8, is this -- is this your regional
14 structure map?

15 A. It is.

16 Q. Would you please walk the Examiner through
17 what is shown on this particular exhibit?

18 A. Sure. This is a regional structure map on
19 top of the Paddock formation. You will see that the
20 general structural grain or dip goes from the
21 northwest to the southeast towards the Delaware
22 Basin. We are on the Delaware Basin shelf edge
23 complex.

24 The purpose of this structure map is to
25 show that there are no major geologic features;

1 i.e., faults, major folding, or anything that would
2 keep us from developing using a full section of
3 horizontal for the Pilum 15 Fee Number 1H.

4 The wells that are colored with red are
5 representative of Paddock producers, and the wells
6 that are colored in blue are representative of
7 Blinebry producers.

8 The proposed well in which we want to
9 drill is represented by red, with the square being
10 the surface location and the red circle being the
11 bottom hole location.

12 And the COG acreage is represented with
13 the yellow.

14 And then the blue field names -- the blue
15 boxes represent the existing producing fields within
16 the area.

17 Q. Now, have you prepared a stratigraphic
18 cross-section of this area?

19 A. I have.

20 Q. If I turn to what's been marked as COG
21 Exhibit Number 9, does this identify the wells that
22 you utilized to create your stratigraphic
23 cross-section?

24 A. It is.

25 Q. In your opinion, are these wells

1 representative of the area?

2 A. They are.

3 Q. If I then turn to what's been marked as
4 COG Exhibit Number 10, is this the corresponding
5 stratigraphic cross-section for this area?

6 A. Yes, it is.

7 Q. And would you please explain what is shown
8 on COG Exhibit Number 10?

9 A. Sure. Again, this is a cross-section that
10 goes from A to A prime, which is south -- south to
11 the north. And it goes from the Lakewood area, in
12 which we are currently drilling and developing, and
13 through the Pilum -- the area in which we want to
14 drill the Pilum 15 Fee Number 1H well.

15 This well has been flattened on top of the
16 Paddock. The purpose of that is to take the
17 structural component out so -- in order to better
18 evaluate and compare the stratigraphic similarities
19 of the wells throughout the fields.

20 You'll see that there is no major
21 thickening or thinning. There's no drastic change
22 in overall rock characteristics, according to the
23 logs. The logs, the porosities, and the gamma rays
24 are very similar; therefore, we feel that the area
25 in which we intend to drill this well is

1 representative of the overall Paddock formation
2 throughout the area.

3 You will note that the red rectangles and
4 the wells on the -- the well to the right and then
5 the -- the right two wells are representative of the
6 perforations in those wells where it has been
7 completed in the Paddock formation.

8 Q. Mr. Clark, what conclusions have you drawn
9 from your analysis of this area?

10 A. Well, there are no geologic impediments
11 that would keep us from developing this area using
12 full section horizontals. This area will be
13 efficiently and economically developed using full
14 section horizontals. And the full nonstandard unit
15 will produce, on average, more or less equally to
16 the total production of the well.

17 Q. In your opinion, would the granting of
18 this application be in the best interest of
19 conservation, prevention of waste, and protection of
20 relative rights?

21 A. Yes; it will.

22 Q. Were COG Exhibits 8 through 10 prepared by
23 you or compiled under your direction or supervision?

24 A. Yes, they were.

25 MR. FELDEWERT: Mr. Examiner, I would move

1 the admission into evidence of COG Exhibits 8
2 through 10.

3 HEARING EXAMINER McMILLAN: Exhibits 8
4 through 10 may now be accepted as part of the
5 record.

6 MR. FELDEWERT: That concludes my
7 examination of this witness.

8 HEARING EXAMINER McMILLAN: A real quick
9 question.

10 THE WITNESS: Sure.

11 HEARING EXAMINER McMILLAN: In terms of
12 reserves, are they better east/west or north/south,
13 or is it the same?

14 THE WITNESS: We're not seeing any
15 significant difference between cumulative production
16 from the north/south versus the east/west. So
17 roughly -- I would have to say roughly the same.

18 HEARING EXAMINER McMILLAN: Okay.

19 I have no further questions.

20 Do you?

21 MR. WADE: I have no questions.

22 HEARING EXAMINER McMILLAN: Okay. With
23 that in mind, Case Number 15281 will be taken under
24 advisement.

25 Thank you very much.

1 (The proceedings recessed from 8:35 a.m.
2 to 9:26 a.m., during which time other cases were
3 discussed.)

4 HEARING EXAMINER McMILLAN: We need to
5 open Case Number 15281 again, the application of COG
6 Operating, LLC, for a nonstandard spacing and
7 proration unit and compulsory pooling, Eddy County,
8 New Mexico.

9 Appearances?

10 MR. FELDEWERT: Mr. Examiner, Michael
11 Feldewert of the Santa Fe office of Holland & Hart
12 appearing on behalf of the applicant.

13 HEARING EXAMINER McMILLAN: Any other
14 appearances?

15 Actually, I have a question for the
16 geologist.

17 Now, I'm going to ask you the same
18 question I asked you before.

19 Looking at your cross-section, where is
20 the top of the Yeso? Is it the Paddock?

21 THE WITNESS: I'm calling the top of the
22 Yeso the Paddock.

23 HEARING EXAMINER McMILLAN: Okay.

24 I have no further questions at this time.

25 This case will be continued for two weeks.

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Thank you very much.
That concludes today's hearing.
(Proceedings concluded at 9:28 a.m.)

I do hereby certify that the foregoing is
a verbatim record of the proceedings in
the examiner hearing of Case No. _____,
heard by me on _____.

_____, Examiner
Oil Conservation Division

CERTIFICATE

I, Paul Baca, RPR, CCR in and for the
State of New Mexico, do hereby certify that the
above and foregoing contains a true and correct
record, produced to the best of my ability via
machine shorthand and computer-aided transcription,
of the proceedings had in this matter.

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