

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

CASE 15402

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 12, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, William V. Jones,  
Chief Examiner, and Gabriel Wade, Legal Examiner, on  
November 12, 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: ELLEN H. ALLANIC  
NEW MEXICO CCR 100  
CALIFORNIA CSR 8670  
PAUL BACA COURT REPORTERS  
500 Fourth Street, NW  
Suite 105  
Albuquerque, New Mexico 87102

A P P E A R A N C E S

For the Applicant COG Operating, Inc.

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I N D E X

CASE NUMBER 15402 CALLED

COG OPERATING, LLC  
CASE-IN-CHIEF:

WITNESS AARON L. MYERS

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WITNESS DREW BERGMAN

	Direct	Redirect	Further
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1 (Time noted 9:31 a.m.)

2 EXAMINER JONES: Let's call case 15402,  
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 MS. KESSLER: May it please the Examiners,  
8 Jordan Kessler from the Santa Fe Office of Holland and  
9 Hart on behalf of the applicant. I have two witnesses  
10 here today.

11 EXAMINER JONES: Any other appearances?

12 (No response.)

13 EXAMINER JONES: Will the witnesses please  
14 stand and the court reporter swear in the witnesses.

15 (WHEREUPON, the presenting witnesses  
16 were administered the oath.)

17 MS. KESSLER: I would like to call my first  
18 witness please.

19 AARON L. MYERS, JD  
20 having been first duly sworn, was examined and testified  
21 as follows:

22 DIRECT EXAMINATION

23 BY MS. KESSLER:

24 Q. Could you please state your name for the record  
25 and tell the Examiner by whom you are employed and in

1 what capacity.

2 A. My name is Aaron Myers. I am senior landman for  
3 COG Operating in Midland, Texas.

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

6 A. Yes, I have.

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

9 A. Yes, they were.

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

12 A. Yes, I am.

13 Q. And are you familiar with the status of the lands  
14 in the subject area?

15 A. Yes, I am.

16 MS. KESSLER: Mr. Examiners, I would tender  
17 Mr. Myers as an expert witness on petroleum land  
18 matters.

19 EXAMINER JONES: He is so qualified.

20 Q. Mr. Myers, could you please turn to your  
21 Exhibit 1 and identify this exhibit and explain what COG  
22 seeks under this application.

23 A. This is a -- it is an NMOCD form C-102, well  
24 location and acreage dedication plan.

25 Q. And what does COG seek under this application?

1           A. Seeking to pool the spacing unit for the east  
2 half of the west half of Section 29, Township 25 South,  
3 Range 27 East, in Eddy County, New Mexico.

4           Q. Do you seek to pool all mineral interests in the  
5 Bone Spring formation?

6           A. Yes, we do.

7           Q. Do you also seek to dedicate the spacing unit to  
8 the Populace Federal, No. 3H Well?

9           A. Yes, we do.

10          Q. Has their APD been approved for this well?

11          A. Yes, it has.

12          Q. What is the API number?

13          A. The API number is 30-015-43256.

14          Q. And has the Division designated a pool for this  
15 area?

16          A. Yes, it has. It is pool code No. 97818.

17                   EXAMINER JONES: But there's no real pool  
18 that's gone through nomenclature. It's still considered  
19 a wildcat pool?

20                   MS. KESSLER: Mr. Examiner, that is correct.  
21 It has been designated the Wildcat G-03 S252636M Bone  
22 Spring.

23          Q. What is the character of these lands?

24          A. The lands in question are a federal lease, which  
25 is NMNM 114348.

1 Q. And is this governed by Division statewide rules?

2 A. Yes, it is.

3 Q. So 330-foot setbacks will apply?

4 A. Yes, they will.

5 Q. Are there any depth severance issues in this  
6 acreage?

7 A. There are none.

8 Q. So ownership is common throughout the Bone  
9 Spring?

10 A. Yes, it is.

11 Q. Please turn to Exhibit 2 and identify this  
12 exhibit for the Examiners.

13 A. This is an offset working interest owner plat  
14 showing the wellbore in the east half, west half -- or  
15 the spacing unit, rather, in the east half west half for  
16 the Populus Federal, No. 3H.

17 It shows the offsetting ownership to the north  
18 and to the south. And ownership throughout section 29  
19 is common.

20 Q. What interest do you seek to pool?

21 A. We are seeking to pool the interest of OXY Y1  
22 company in the proposed spacing unit.

23 Q. And they are highlighted in yellow on this  
24 exhibit, correct?

25 A. Yes, they are.

1 Q. Please turn to your COG Exhibit 3. Is this a  
2 copy of the well proposal letter that was sent to  
3 OXY Y1?

4 A. Yes, it is.

5 Q. And what date was that letter sent?

6 A. September 2, 2015.

7 Q. And did the well proposal letter include an AFE?

8 A. Yes, it did.

9 Q. Are the costs reflected on the AFE consistent  
10 with what COG has incurred for drilling similar  
11 horizontal wells in this area?

12 A. Yes, they are.

13 Q. What additional efforts did you undertake to  
14 reach voluntary agreement with OXY Y1?

15 A. We have been working and are still currently  
16 working on trying to either get an amended operating  
17 agreement to make the initial well here not obligatory.  
18 That's kind of been hung up a little bit.

19 And we've also have been looking at obtaining a  
20 term assignment and negotiations are still ongoing. And  
21 it is likely that we will get something hammered out  
22 before an order is posted by the Commission.

23 Q. So you have been actively involved in  
24 negotiations with OXY Y1?

25 A. Yes.

1 Q. Have you estimated overhead and administrative  
2 costs while drilling this well and also while producing  
3 it if you are successful?

4 A. Yes, we have. Those rates would be \$7,000 a  
5 month, drilling, and \$700 a month, producing.

6 Q. And are those costs in line with what COG and  
7 other operators in the area charge for similar wells?

8 A. Yes, they are.

9 Q. Do you ask that these administrative and overhead  
10 costs be incorporated into any order resulting from this  
11 hearing?

12 A. Yes, we would.

13 Q. And do you ask as well that it be adjusted in  
14 accordance with the appropriate accounting procedures?

15 A. Yes, we would.

16 Q. And with respect to OXY Y1, do you request that  
17 the Division impose a 200 percent risk penalty?

18 A. Yes, we would.

19 Q. Let's turn back to COG Exhibit 2. Does this plat  
20 identify the offsetting operators or lessees of record?

21 A. Yes, it does.

22 Q. And did COG provide notice of this hearing to the  
23 offset operators or lessees of record?

24 A. Yes, we did.

25 Q. Is Exhibit 4 an affidavit prepared by my office

1 with attached letters providing notice of this hearing  
2 to the party to be pooled as well as the offset  
3 operators and lessees?

4 A. Yes, it is.

5 Q. Was it necessary to publish notice or were all  
6 the parties locatable?

7 A. All parties were locatable.

8 Q. And were Exhibits 1 through 3 prepared by you or  
9 compiled under your direction and supervision?

10 A. Yes, they were.

11 MS. KESSLER: Mr. Examiner, I move into  
12 evidence Exhibits 1 through 4, which includes my notice  
13 affidavit.

14 EXAMINER JONES: Exhibits 1 through 4 are  
15 admitted.

16 (COG OPERATING, LLC, EXHIBITS 1 through 4  
17 were offered and admitted.)

18 EXAMINATION BY EXAMINER JONES

19 EXAMINER JONES: Everybody is located -- you  
20 noticed everybody. And you said "common" ownership in  
21 section 29?

22 THE WITNESS: Yes.

23 EXAMINER JONES: By "common," what do you  
24 mean?

25 THE WITNESS: Well, the ownership

1 highlighted in red there in that proposed spacing unit  
2 is the same on the west half, west half and for the east  
3 half. It's one federal lease owned in the proportions  
4 demonstrated in the box that are through the wellbore.

5 EXAMINER JONES: Do you have any questions?

6 MR. WADE: I don't have any questions.

7 EXAMINER JONES: Thank you.

8 THE WITNESS: Thank you.

9 MS. KESSLER: I would like to call my next  
10 witness.

11 DREW BERGMAN  
12 having been first duly sworn, was examined and testified  
13 as follows:

14 DIRECT EXAMINATION

15 BY MS. KESSLER:

16 Q. Would you please state your name for the record  
17 and tell the Examiners by whom you're employed and in  
18 what capacity.

19 A. My name is Drew Bergman. I'm the geologist with  
20 COG Operating, LLC, out of Midland, Texas.

21 Q. Have you previously testified before the  
22 Division?

23 A. Yes, I have.

24 Q. And were your credentials as a petroleum  
25 geologist accepted and made a matter of record?

1 A. Yes, they were.

2 Q. Are you familiar with the application that has  
3 been filed in this case?

4 A. Yes, I am.

5 Q. And have you conducted a geologic study of the  
6 subject of this application?

7 A. Yes, I have.

8 MS. KESSLER: Mr. Examiner, I would tender  
9 Mr. Bergman as an expert in petroleum geology.

10 EXAMINER JONES: He is qualified as an  
11 expert in petroleum geology.

12 Q. Please turn to COG Exhibit 5 and identify this  
13 exhibit and walk us through it.

14 A. This is a map of the area. Our acreage is in  
15 yellow. The black contours represent the structure on  
16 base of the Second Bone Spring Sand. The solid orange  
17 lines represent other producing Second Bone Spring wells  
18 in the area. The dashed well represents the well in  
19 question.

20 Q. What have you identified with respect to the  
21 structure of the Bone Spring in this area?

22 A. That it is a uniform and consistent dip from the  
23 west to the east of the basin line.

24 Q. And what is the line labeled A to A Prime?

25 A. That is representative of the cross section in

1 the next exhibit.

2 Q. Do you consider the wells reflected on the next  
3 exhibit to be representative of wells in the area?

4 A. Yes, I do.

5 Q. Will you please turn to Exhibit 6.

6 MS. KESSLER: Mr. Examiner, I will note that  
7 this exhibit is somewhat hard to read. We have included  
8 a larger copy in the sleeve behind this exhibit.

9 Q. Please identify this exhibit for the Examiners.

10 A. This is a cross section represented on the  
11 previous exhibit. You have the porosity log on the left  
12 and the resistivity log on the right of the wells. The  
13 top and the base of the Second Bone Spring Sand is  
14 represented by the orange lines.

15 Q. Where is the landing zone for this well?

16 A. It is about 100 feet from the base of the Second  
17 Bone Spring Sand.

18 Q. What have you identified with respect to  
19 continuity as a proposed nonstandard spacing unit?

20 A. That it is continuous and that it has uniform  
21 thickness.

22 (Increase in Ambient Noise.)

23 Q. And based on your geologic study of this area,  
24 have you identified any geologic impediments to drilling  
25 a full section of horizontal wells in this area?

1 A. No, I have not.

2 Q. In your opinion, do you believe that the area can  
3 be efficiently and economically developed by horizontal  
4 wells?

5 A. Yes.

6 Q. And do you believe that the proposed nonstandard  
7 unit will on average contribute more or less and lead to  
8 production of the well?

9 A. Yes.

10 Q. Will the completed interval comply with the  
11 Division's horizontal well rules?

12 A. Yes, it will.

13 Q. So is Exhibit 7 a diagram of the planned well  
14 path demonstrating compliance with the 330-foot  
15 setbacks?

16 A. Yes, it is.

17 Q. And in your opinion, will the granting of COG's  
18 application be in the best interests of conservation,  
19 for the prevention of waste and the protection of  
20 correlative rights?

21 A. Yes.

22 Q. And were Exhibits 5 through 7 prepared by you or  
23 compiled under your direction and supervision?

24 A. Yes, they were.

25 MS. KESSLER: Mr. Examiner, I move the

1 admission of Exhibits 5 through 7.

2 EXAMINER JONES: Exhibits 5 through 7 are  
3 admitted.

4 (COG OPERATING, LLC, EXHIBITS 5 through 7  
5 were offered and admitted.)

6 MS. KESSLER: Thank you.

7 EXAMINATION BY EXAMINER JONES

8 EXAMINER JONES: Did the BLM change anything  
9 from what was proposed on this well between the time you  
10 submitted the application to the time of approval?

11 THE WITNESS: Nothing that I am aware of.

12 EXAMINER JONES: Okay. And in section 29,  
13 do you plan on continuous development in that section  
14 or -- in other words, it looks like you are going to  
15 drill north, south or south to north, so is there  
16 anything else stopping development in that section?

17 THE WITNESS: No, there is not.

18 EXAMINER JONES: Just the outcome of this  
19 well, I take it?

20 THE WITNESS: Yes, sir.

21 EXAMINER JONES: And any other zones in the  
22 Bone Spring that would be possible out here?

23 THE WITNESS: We're continuously evaluating  
24 that.

25 EXAMINER JONES: Okay. Thanks very much.

1 MS. KESSLER: I ask that this case be taken  
2 under advisement.

3 EXAMINER JONES: Case 15402 is taken under  
4 advisement.

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(Time noted 9:44 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 ) ss.  
 3 COUNTY OF BERNALILLO )  
 4  
 5  
 6

7 REPORTER'S CERTIFICATE

8  
 9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR  
 10 No. 100, DO HEREBY CERTIFY that on Thursday, November  
 11 12, 2015, the proceedings in the above-captioned matter  
 12 were taken before me, that I did report in stenographic  
 13 shorthand the proceedings set forth herein, and the  
 14 foregoing pages are a true and correct transcription to  
 15 the best of my ability and control.

16  
 17 I FURTHER CERTIFY that I am neither employed by  
 18 nor related to nor contracted with (unless excepted by  
 19 the rules) any of the parties or attorneys in this case,  
 20 and that I have no interest whatsoever in the final  
 21 disposition of this case in any court.

22  
 23  
 24  
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ELLEN H. ALLANIC, CSR  
 NM Certified Court Reporter No. 100  
 License Expires: 12/31/15