

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION

4 IN THE MATTER OF THE HEARING CALLED
5 BY THE OIL CONSERVATION DIVISION FOR
6 THE PURPOSE OF CONSIDERING:

COPY

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

CASE NO. 15557

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 October 27, 2016

14 Santa Fe, New Mexico

15 BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
16 DAVID K. BROOKS, LEGAL EXAMINER

17 This matter came on for hearing before the
18 New Mexico Oil Conservation Division, William V. Jones,
19 Chief Examiner, and David K. Brooks, Legal Examiner, on
20 Thursday, October 27, 2016, at the New Mexico Energy,
21 Minerals and Natural Resources Department, Wendell Chino
22 Building, 1220 South St. Francis Drive, Porter Hall,
23 Room 102, Santa Fe, New Mexico.

24 REPORTED BY: Mary C. Hankins, CCR, RPR
25 New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LCC:

3 GARY LARSON, ESQ.
 4 HINKLE SHANOR, LLP
 218 Montezuma Avenue
 Santa Fe, New Mexico 87501
 5 (505) 982-4554
 glarson@hinklelawfirm.com

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1 (8:25 a.m.)

2 EXAMINER JONES: Let us begin on page 2.
3 This is Case Number 15557, application of COG Operating,
4 LLC for a nonstandard spacing and proration unit and
5 compulsory pooling in Eddy County, New Mexico.

6 Call for appearances.

7 MR. LARSON: Good morning, Mr. Examiner.
8 Gary Larson of the Santa Fe office of Hinkle Shanor for
9 the Applicant, COG Operating.

10 EXAMINER JONES: Any other appearances?
11 You may proceed.

12 MR. LARSON: Two witnesses.

13 EXAMINER JONES: Two witnesses?
14 Will the witnesses please stand?

15 (Mr. Godwin and Mr. Bergman sworn.)

16 PATRICK R. GODWIN,
17 after having been first duly sworn under oath, was
18 questioned and testified as follows:

19 MS. LARSON: May I proceed?

20 EXAMINER JONES: Yes, sir.

21 DIRECT EXAMINATION

22 BY MR. LARSON:

23 Q. Good morning, Mr. Godwin.

24 A. Morning.

25 Q. Would you please state your name for the

1 record?

2 A. Patrick Russell Godwin.

3 Q. And where do you reside?

4 A. Midland, Texas.

5 Q. By whom are you employed and in what capacity?

6 A. I'm employed by Concho Resources as a senior
7 landman.

8 Q. What is the focus of your responsibilities as a
9 senior landman at COG?

10 A. I handle properties in southeast New Mexico,
11 primarily southern Eddy County.

12 Q. And are you familiar with the land matters
13 contained in COG's application?

14 A. I am.

15 Q. Have you previously testified at a Division
16 hearing?

17 A. I have not.

18 Q. And given that, would you summarize for the
19 Examiners your educational background and your
20 professional experience in the oil and gas industry?

21 A. I graduated from Texas Tech in 2010 with a
22 degree in energy commerce. After graduation, I came to
23 work for Concho, and I've been there a little over
24 six-and-a-half years working various properties in the
25 Permian Basin.

1 Q. Do you hold any professional designations?

2 A. A registered professional landman with the
3 AAPL.

4 MR. LARSON: Mr. Examiner, I'd move that
5 Mr. Godwin be qualified as an expert in petroleum land
6 matters.

7 EXAMINER JONES: Mr. Godwin is qualified as
8 an expert in petroleum land matters.

9 Q. (BY MR. LARSON) Would you identify the document
10 marked as Exhibit Number 1?

11 A. This is the C-102 for the Copperhead 31 Fed Com
12 3H.

13 Q. And is Exhibit Number 1 a true and correct copy
14 of COG's C-102?

15 A. Yes, it is.

16 Q. What formation is COG seeking to pool?

17 A. The Wolfcamp.

18 Q. And are there any depth exceptions in the
19 Wolfcamp?

20 A. There are not.

21 Q. Does the C-102 identify the pool that the
22 proposed well will produce from?

23 A. Yeah, the Wolfcamp.

24 Q. And is the pool code indicated on the C-102?

25 A. It's not indicated on the C-102, but it is Pool

1 Code 981908.

2 Q. Would you next identify the document marked as
3 Exhibit 2?

4 A. The first page of Exhibit 2 is a map showing
5 the different tracts in the proposed project area
6 comprising of the east half-east half of Section 30, the
7 northeast quarter of the northeast quarter of Section 31
8 and Lot 7 of Section 31 and Township 26 South, 29 East
9 of Eddy County.

10 Q. Does it also identify the interest owners?

11 A. It does. Page 2 identifies the interest owners
12 by tract, as well as the summary at the bottom.

13 Q. And did you create this document?

14 A. I did.

15 Q. And directing your attention to page 2 of
16 Exhibit 2, would I be correct to say that Chevron U.S.A.
17 is the only party that COG is seeking to pool?

18 A. That's correct.

19 Q. And does Exhibit 2 also indicate Chevron's
20 total percentage in the proposed project area?

21 A. It does. At the very bottom of the page 2, it
22 shows Chevron with a 2.41527 percent.

23 Q. Would you next identify the document marked as
24 Exhibit 3?

25 A. Exhibit 3 is a sample well proposal that was

1 sent out to all parties.

2 Q. Was this letter prepared by COG's land
3 department?

4 A. Yes, it was.

5 Q. And referring to page 2 of this exhibit, did
6 all of the identified working interest owners receive
7 the well-proposal letter?

8 A. Yes, they did.

9 Q. And after COG sent out the well proposals, did
10 you communicate with the working interest owners who
11 were proposed?

12 A. Yes, I did.

13 Q. And did all of the interest owners except
14 Chevron lease their interest to COG or otherwise joined
15 in the well?

16 A. They did.

17 Q. Has COG been in contact with Chevron U.S.A.?

18 A. Yes, we have.

19 Q. And in your opinion, has COG made a good-faith
20 effort to obtain Chevron's voluntary joinder in the
21 well?

22 A. Yes.

23 Q. I would next ask you to identify the document
24 marked as Exhibit 4.

25 A. Exhibit 4 is a sample hearing notice that was

1 sent out to all parties.

2 Q. And does it also include the green cards?

3 A. Yes, it does.

4 Q. Was a notice letter sent to Chevron and the
5 other interest owners that hadn't yet joined in the
6 well?

7 A. It was.

8 Q. And did all of those interest owners receive
9 the notice?

10 A. Yes, they did.

11 Q. Would you next identify the document marked as
12 Exhibit 5?

13 A. Page 1 of Exhibit 5 is a map showing the
14 individual offsetting tracts to the proposed project
15 area, and page 2 of Exhibit 5 shows the ownership in the
16 various tracts.

17 Q. And did you prepare the document marked as
18 Exhibit 5?

19 A. I did.

20 Q. Did COG send a notice letter to the BLM?

21 A. Yes, we did.

22 Q. And OXY received personal notice of today's
23 hearing as an interest owner in the project area; is
24 that correct?

25 A. That's correct.

1 Q. Would you next identify the document marked as
2 Exhibit 6?

3 A. Exhibit 6 is the sample hearing notice that was
4 sent to the BLM.

5 Q. And was this notice letter also sent at your
6 direction?

7 A. It was.

8 Q. And did COG recently discover that there are
9 additional offset interests entitled to receive personal
10 notice of today's hearing?

11 A. Yes, we did.

12 Q. And are those interests identified on Exhibit
13 5?

14 A. They are.

15 Q. And what is the status of those additional
16 offset interests?

17 A. These parties are leased by Concho within the
18 project area. They are unleased as to an offsetting
19 tract.

20 Q. And is my understanding correct that the
21 offsetting tract originally was leased, and that lease
22 has terminated?

23 A. That is correct.

24 Q. Has COG sent hearing notice letters to those
25 newly identified offsetting interests?

1 A. We did. They were sent October 21st.

2 Q. And did COG also publish a notice that
3 individually identifies those interests?

4 A. We did. It was published in the Carlsbad paper
5 on October 23rd.

6 Q. And were the notice letters and newspaper
7 notice published sufficiently in advance of today's
8 hearing?

9 A. They were not.

10 Q. And as a consequence, is COG requesting that
11 the hearing be continued until November 17th?

12 A. Yes, they are.

13 Q. Would you next identify the document marked as
14 Exhibit 7?

15 A. Exhibit 7 is the AFE for the Copperhead 31 Fed
16 Com 3H that was included with the well proposal.

17 Q. And for the record, could you identify those
18 well costs?

19 A. The well costs total \$7,990,696, and on the
20 AFE, it's broken into three different categories of
21 drilling, completion and facilities.

22 Q. And are those well costs similar to the costs
23 incurred by COG for other Wolfcamp horizontal wells?

24 A. They are.

25 Q. Do you have a recommendation for the amount COG

1 should be paid for supervision and administrative
2 expenses?

3 A. 7,000 for drilling and 700 a month while the
4 well is producing.

5 Q. And are those amounts consistent with and
6 similar to those charged by COG for other Wolfcamp
7 wells?

8 A. They are.

9 Q. Do you also recommend that the rates for
10 supervision and administrative expenses be adjusted
11 periodically pursuant to the COPAS accounting procedure?

12 A. Yes.

13 Q. Is COG also requesting a 200 percent charge for
14 the risk of drilling and completing the well?

15 A. Yes, we are.

16 Q. And in your opinion, will the granting of COG's
17 application serve the interest of conservation and the
18 prevention of waste?

19 A. Yes.

20 MR. LARSON: Mr. Examiner, I move the
21 admission of Exhibits 1 through 7.

22 EXAMINER JONES: Exhibits 1 through 7 are
23 admitted.

24 (COG Operating, LLC Exhibit Numbers 1
25 through 7 are offered and admitted into

1 evidence.)

2 MR. LARSON: And I pass the witness.

3 EXAMINER JONES: Mr. Brooks?

4 EXAMINER BROOKS: I have no questions.

5 Thank you.

6 CROSS-EXAMINATION

7 BY EXAMINER JONES:

8 Q. Mr. Godwin, Lot 7 that you're -- that's part of
9 the project area, is that -- that's 25.65 acres,
10 correct?

11 A. Yes, 25.6 acres.

12 Q. 25.6?

13 A. Yes.

14 Q. Okay. It says on the -- on the plat 25.65.

15 A. Yeah. In the -- if you can see the arrow out
16 to the side, it's 25.6 as per LR2000.

17 Q. Oh, okay.

18 So the nonstandard project area -- or
19 nonstandard proration unit you're asking for includes an
20 exception for that lot?

21 A. Yes.

22 Q. Along with a combination of all the other --

23 A. Yes.

24 Q. So what's the status of the well?

25 A. We're currently waiting on an approved APD.

1 Q. From the BLM?

2 A. Yes.

3 Q. So the bottom-hole location is going to be 50
4 feet from the line, but the completed portion of the
5 well will be a 330 setback?

6 A. Yes.

7 EXAMINER BROOKS: That is the Texas border;
8 is it not?

9 THE WITNESS: Yes, to the south.

10 MR. LARSON: 50-foot setback there.

11 Q. (BY EXAMINER JONES) So what's the holdup with
12 the BLM?

13 A. We've gotten verbal indications that we're
14 going to get it, and we expect it soon. We just don't
15 have it in hand yet.

16 Q. Okay. What's the well situation south of the
17 line -- south of the state line there? Are there other
18 wells in the Wolfcamp?

19 A. I'm not specifically aware.

20 Q. So basically this is a new well that is going
21 to be a standard location. And it's all federal -- all
22 federal lease?

23 A. No. It's all fee except for that Lot 7, which
24 is a federal tract.

25 Q. Okay. That made it a federal well?

1 A. Yup.

2 Q. And Chevron, you talked with them?

3 A. They've indicated they want to participate in
4 the well. They just haven't signed an operating
5 agreement.

6 Q. They signed the well -- the AFE?

7 A. They did.

8 Q. They've got issues with the operating
9 agreement?

10 A. Yes.

11 Q. Does the operating agreement cover more lands
12 than --

13 A. No, just this project area.

14 Q. Okay. Well, I don't have more questions.
15 Thanks.

16 A. Thank you.

17 MR. LARSON: I just have one follow-up
18 question.

19 REDIRECT EXAMINATION

20 BY MR. LARSON:

21 Q. Total acreage of the proposed project area is
22 225.6 acres; is that correct?

23 A. That's correct.

24 MR. LARSON: That's all I have,
25 Mr. Examiner.

1 EXAMINER JONES: Another witness?

2 MR. LARSON: We do.

3 DREW BERGMAN,

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

6 DIRECT EXAMINATION

7 BY MR. LARSON:

8 Q. Good morning, Mr. Bergman.

9 A. Good morning.

10 Q. Would you state your full name for the record?

11 A. My name is Drew Bergman.

12 Q. And where do you reside?

13 A. I live in Midland, Texas.

14 Q. And by whom are you employed and in what
15 capacity?

16 A. I'm a geologist with COG Operating.

17 Q. And what is your focus of your responsibilities
18 at COG?

19 A. My area of focus is southeast New Mexico.

20 Q. And are you familiar with the geological
21 aspects of the proposed Copperhead 30 Federal Com well
22 and the matters addressed in COG's application?

23 A. Yes, I am.

24 Q. And have you previously testified in a Division
25 hearing?

1 A. Yes, I have.

2 Q. And did the Examiner accept your qualifications
3 as an expert petroleum geologist?

4 A. Yes.

5 MR. LARSON: Mr. Examiner, I move that
6 Mr. Bergman's qualifications as an expert petroleum
7 geologist be accepted for purposes of today's hearing.

8 EXAMINER JONES: Mr. Bergman is qualified
9 as an expert in petroleum geology.

10 Q. (BY MR. LARSON) Would you identify the document
11 marked as COG Exhibit Number 8?

12 A. This is a map showing the location of the well
13 in question by the dashed purple line, and COG's acreage
14 is there. Then the offset production in that zone is
15 shown by the red sticks to the south.

16 Q. And did you prepare this exhibit?

17 A. Yes.

18 Q. And following up on the Examiner's question,
19 will the completed interval of the well comply with the
20 Division setback requirements?

21 A. Yes.

22 Q. Were you involved in COG's evaluation of the
23 prospects for the Copperhead 31 Federal Com 3H?

24 A. Yes, I was.

25 Q. And looking at Exhibit 8, it appears that COG

1 has experience with Wolfcamp horizontal wells in the
2 vicinity of the proposed well; is that correct?

3 A. That is correct.

4 Q. And have those wells been productive?

5 A. Yes, they have.

6 Q. Would you next identify the document marked as
7 Exhibit 9?

8 A. This is a map showing the structure. The
9 structure is shown by the black contours, and it's on
10 the top of an intra-Wolfcamp marker.

11 Q. Did you prepare this document?

12 A. Yes, I did.

13 Q. And what role did this structure map have in
14 your geologic analysis in the prospects for the well?

15 A. I said there is a new form and continuous dip
16 into the Basin to the east.

17 Q. To the east?

18 A. To the east.

19 Q. And what other wells would you look at for
20 purposes of your analysis?

21 A. The offset wells to the south of the well in
22 question.

23 Q. And those are all COG wells?

24 A. Three of them are, yes.

25 Q. Would you next identify the final exhibit,

1 which has been marked as Exhibit 10?

2 A. This is a structure -- or a cross section from
3 A to A prime. On the logs, you have a gamma-ray log; on
4 the far left tract, a resistivity log as a known tract;
5 and then a porosity on the far right tract. The top and
6 bottom of the zone in question are marked by the two red
7 lines. That's it.

8 Q. And did you prepare this cross section?

9 A. Yes, I did.

10 Q. Is the cross section representative of the
11 geology in the proposed project area?

12 A. Yes, it is.

13 Q. And to your knowledge, are there any geologic
14 impediments in the target interval?

15 A. No.

16 Q. And in your opinion, will the proposed well be
17 productive along the entire length of the producing
18 interval?

19 A. Yes.

20 Q. And in your opinion, will the granting of the
21 application serve the interest of conservation and the
22 prevention of waste?

23 A. Yes.

24 MR. LARSON: Mr. Examiner, I move the
25 admission of Exhibits 8 through 10.

1 EXAMINER JONES: Exhibits 8 through 10 --
2 8, 9 and 10 are admitted.

3 (COG Operating, LLC Exhibit Numbers 8, 9
4 and 10 are offered and admitted into
5 evidence.)

6 MR. LARSON: And I pass the witness.

7 CROSS-EXAMINATION

8 BY EXAMINER BROOKS:

9 Q. Does the geology indicate that the contribution
10 of the various quarter-quarter sections within the unit
11 would be substantially similar?

12 A. Yes. We expect them to contribute equally.

13 Q. Okay. Thank you.

14 CROSS-EXAMINATION

15 BY EXAMINER JONES:

16 Q. That datum, is that the top of the Wolfcamp?

17 A. No, it is not. It's the top of an
18 intra-Wolfcamp marker.

19 Q. Okay. So the top of the Wolfcamp is way up the
20 hole a little ways?

21 A. About 300 feet.

22 Q. 300 feet.

23 Why did you pick this area of the Wolfcamp?

24 A. It's a zone we have produced out of pretty
25 regularly.

1 Q. Is that the target zone to the wells to the
2 south, in Texas?

3 A. Yes.

4 Q. Are those wells mile-and-a-half wells, too?

5 A. Those are mile wells.

6 Q. Mile wells.

7 Do you think you can drill a
8 mile-and-a-half --

9 A. Yes, sir.

10 Q. -- efficiently --

11 A. Yes, sir.

12 Q. -- with \$8 million?

13 So what on this log should we be looking
14 at? What's the porosity that you're expecting from the
15 pay zone?

16 A. The porosity we're expecting is, on average,
17 about 10 percent.

18 Q. Percent gross porosity.

19 What about effective? Is that -- a lot
20 less than that, though, right?

21 A. Yes. Effective, I believe we'd expect around 6
22 percent.

23 Q. Okay. Now, this is the area of interest. If
24 you were going to land a well here, you already decide
25 how deep to put it because your AFE says --

1 A. Yes. On the left log, the Carpenter F Unit
2 224H, on that log, we just tried to land the well around
3 10,550 feet.

4 Q. Okay. Okay. And the stress regime here, are
5 you familiar with it? Is there a reason to go
6 north-south versus east-west?

7 A. Our data has shown that maximum long [sic]
8 stress for most formations in the area are northeast to
9 southwest, so northwest wells tend to be what we want to
10 do.

11 Q. So north to south works -- works okay?

12 A. Yes.

13 Q. So there is -- is there a reason to not get
14 closer on the heel and the toe of the well in this case?
15 In other words, your frac job is suspected. It's kind
16 of ambiguous which direction it's going to go. So you
17 didn't want to exceed the 330 at the heel and the toe,
18 but you want to drill the well north-south so -- you
19 know, we're hearing there may be a push to get closer to
20 the heel and the toe.

21 A. Uh-huh.

22 Q. Was that a consideration?

23 A. Here we already have wells producing in other
24 zones in that unit -- that spacing unit, and so it also
25 works with the way our facilities are laid out and that

1 sort of thing.

2 Q. Okay. Okay. Thanks very much.

3 A. Thank you.

4 EXAMINER JONES: Do you want to continue
5 the case?

6 MR. LARSON: In conclusion, I ask the case
7 be continued until November 17th.

8 EXAMINER JONES: Case Number 15557 is
9 continued to November 17th.

10 Thank you, Mr. Larson.

11 MR. LARSON: Thank you.

12 (Case Number 15557 concludes, 8:47 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, Certified Court Reporter, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this case.



MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2016
Paul Baca Professional Court Reporters