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 FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO. CASE NO. 15761

Consolidated with

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

CASE NO. 15762

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 3, 2017

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER DAVID K. BROOKS, LEGAL EXAMINER

RECEIVED OF

This matter came on for hearing before the New Mexico Oil Conservation Division, Phillip Goetze, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, August 3, 2017, 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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- 1 (11:12 a.m.)
- 2 EXAMINER GOETZE: All right. We're back on
- 3 the record, and we will start with Case Number 15761,
- 4 application of COG Operating, LLC for a nonstandard
- 5 spacing and proration unit and compulsory pooling, Lea
- 6 County, New Mexico.
- 7 Call for appearances.
- 8 MS. KESSLER: Mr. Examiner, Jordan Kessler
- 9 from the Santa Fe office of Holland & Hart.
- 10 MR. MORGAN: Scott Morgan, with Cavin &
- 11 Ingram, on behalf of New Mexico Ten, LLLP.
- 12 EXAMINER GOETZE: Have a seat at the fine
- 13 table (indicating).
- 14 MR. MORGAN: I believe this is consolidated
- 15 with 15762.
- MS. KESSLER: That's correct.
- 17 EXAMINER GOETZE: And we also note this
- 18 covers Case Number 15762, application of COG Operating,
- 19 LLC for a nonstandard spacing and proration unit and
- 20 compulsory pooling, Lea County, New Mexico.
- 21 Any other appearances?
- 22 Witnesses?
- MS. KESSLER: Two witnesses.
- MR. MORGAN: No witnesses.
- 25 EXAMINER GOETZE: Would the witnesses

Page 5 please stand for the court reporter and be sworn in? 1 2 MS. MARTIN: Carrie Martin. MR. WALLACE: David Michael Wallace. 3 DAVID M. "MIKE" WALLACE after having been previously sworn under oath, was 5 questioned and testified as follows: 6 7 DIRECT EXAMINATION BY MS. KESSLER: 8 9 Please state your name for the record and tell 10 the Examiners by whom you're employed and in what 11 capacity. 12 Α. David Michael Wallace. I work for COG Operating, LLC. 13 14 Have you previously testified before the 15 Division? Yes, I have. 16 Α. 17 Were your credentials as a petroleum landman 18 accepted and made a matter of record? 19 Α. Yes. 20 Are you familiar with the applications filed in 21 these consolidated cases? 22 Α. Yes. 23 Are you familiar with the status of the lands 24 in the subject area?

25

Α.

Yes.

- 1 MS. KESSLER: Mr. Examiner, I'd tender
- 2 Mr. Wallace as an expert in petroleum land matters.
- 3 MR. MORGAN: No objection.
- 4 EXAMINER GOETZE: He's so qualified.
- 5 Q. (BY MS. KESSLER) Mr. Wallace, please explain
- 6 what COG seeks under these two applications?
- 7 A. We seek to form two nonstandard spacing units,
- 8 240-acre each, for the Coonskin Fee wells.
- 9 Q. Is the Wolfcamp pool underlying the two spacing
- 10 units --
- 11 A. That's correct.
- 12 Q. Is Exhibit 1 both the draft and the filed C-102
- 13 for the 25H well?
- 14 A. Yes, it is.
- 15 Q. Does this identify the spacing unit?
- 16 A. Yes, it does. The spacing unit is going to be
- 17 the east half of the west half of Section 28, the east
- 18 half of the northwest quarter of Section 33, 24 South,
- 19 35 East, Lea County, New Mexico.
- 20 Q. And this is where for the Coonskin Fee #25H is
- 21 located?
- 22 A. That's correct.
- 23 Q. Is there an API number for this well?
- 24 A. Yes. It's API Number 30-025-43683.
- 25 Q. And that's shown on the first page of the

- 1 exhibit, correct?
- 2 A. That's correct.
- 3 Q. Is Exhibit Number 2 a draft C-102 for the
- 4 Coonskin #28H well?
- 5 A. That is correct.
- 6 Q. What is the spacing unit for this well?
- 7 A. It's the west half-west half of Section 28 and
- 8 the west half-northwest quarter of Section 33, 24 South,
- 9 35 East, Lea County, New Mexico.
- 10 Q. Has an APD been filed for this well?
- 11 A. Yes.
- 12 Q. But it's not yet approved?
- 13 A. That's correct.
- 14 Q. Has the Division identified a pool and pool
- 15 code covering both of these wells?
- 16 A. Yes. It's going to be the Wildcat Wolfbone
- 17 Pool, Pool Code -- I'm sorry?
- 18 Q. That's shown on Exhibit 1 on the first page?
- 19 A. Yes. That's correct.
- 20 Q. And that's a Wildcat Wolfbone Pool, you said?
- 21 A. Yes. That's correct.
- 22 Q. What is the pool code?
- 23 A. 98098.
- Q. Is that pool governed by Division statewide
- 25 rules?

Page 9 days ago. 1 2 And is that lease of record? Q. 3 Α. It is not. I think they're in the process of filing it. 5 Have you had conversations with the party who Q. 6 recently acquired that lease? 7 Α. Yes. 8 Did you send a well-proposal letter to New 9 Mexico Ten? Α. We did. 10 Is that included as Exhibit 4? 11 Q. 12 Α. Yes, it is. 13 And that would be for the 25H well; is that Q. 14 correct? That is correct. 15 Α. 16 Q. And is Exhibit 5 a well-proposal letter sent to 17 New Mexico Ten for the 28H well? 18 Α. Yes, it is. 19 What date were these letters sent? Q. They were sent May 19th, 2017. 20 Α. And did each of the letters include an AFE? 21 Q. 22 Yes, they did. Α. 23 Q. Are the costs on the AFE consistent with what 24 other operators in the area charge for similar wells? 25 Α. Yes.

Q. Do the well-proposal letters also identify

- 2 overhead and administrative costs for drilling and
- 3 producing the well?
- 4 A. They do.
- 5 Q. What are those?
- A. 7,000 a month for drilling and 700 a month for
- 7 producing.
- 8 Q. Are those costs consistent with what other
- 9 operators in the area charge for similar wells?
- 10 A. Yes.
- 11 Q. Do you ask that those be incorporated into any
- 12 order resulting from this hearing?
- 13 A. Yes.
- 14 Q. Do you ask that the rates be adjusted in
- 15 accordance with the COPAS accounting procedures?
- 16 A. Yes.
- 17 Q. In addition to sending well-proposal letters, I
- 18 understand that you've had extensive conversations and
- 19 negotiations with New Mexico Ten; is that correct?
- 20 A. Yes. That is correct.
- 21 Q. Have you included a correspondence log between
- 22 Concho and New Mexico Ten as Exhibit 6?
- 23 A. Yes. That is correct.
- Q. Can you please review your communication and
- offers you've had with New Mexico Ten?

- 1 A. We've been in communication since October of
- 2 2016. I've made multiple lease offers to them, and
- 3 we've had regular correspondence from that time to the
- 4 current time.
- 5 Q. I understand there are three separate lease
- 6 offers; is that correct?
- 7 A. That is correct.
- 8 Q. But you were not able to reach lease terms with
- 9 New Mexico Ten?
- 10 A. No.
- 11 Q. Do you understand there is a new lessee?
- 12 A. That's correct.
- 13 Q. But they're not of record?
- 14 A. That is correct.
- 15 Q. You will continue to negotiate with that new
- 16 lessee?
- 17 A. Yes. That is correct. We actually tried to
- 18 get an operating agreement signed yesterday, but we
- 19 weren't able to do so before the hearing. But we will
- 20 still work with them.
- 21 Q. And I know that you need this order -- orders
- 22 because of the expiration issues; is that correct?
- 23 A. We have a lease obligation. Yes.
- Q. When is this well -- when are these wells
- 25 scheduled to be drilled?

- 1 A. The 25H is scheduled to spud September 30th, in
- 2 that range.
- 3 Q. Do you own an interest in every tract that the
- 4 wells will penetrate?
- 5 A. No, we do not.
- 6 Q. So you can't drill the well without order in
- 7 hand; is that correct?
- 8 A. That is correct.
- 9 Q. Are you requesting an expedited order?
- 10 A. Yes, ma'am.
- 11 Q. With respect to the uncommitted interest owner,
- do you request that the Division impose a 200 percent
- 13 risk penalty?
- 14 A. Yes.
- 15 Q. And finally, if you do reach an agreement with
- 16 the leased mineral interest owner, will you notify the
- 17 Division?
- 18 A. Yes.
- 19 Q. Did COG identify the offset operators or
- 20 lessees of record in the 40-acre tract surrounding the
- 21 proposed nonstandard spacing unit?
- 22 A. Yes, we do.
- 23 Q. Is Exhibit 7 an Affidavit of Publication in Lea
- 24. County?
- 25 A. Yes, it is.

1 Q. And is Exhibit 8 an affidavit prepared by my

- 2 office with attached letters providing notice of this
- 3 hearing to the party that you seek to pool, as well as
- 4 the offset parties for both the 25H and the 28H?
- 5 A. That is correct. Yes.
- 6 Q. Were Exhibits 1 through 7 prepared by -- 1
- 7 through 6 prepared by you or compiled under your
- 8 direction and supervision?
- 9 A. Yes.
- 10 MS. KESSLER: Mr. Examiners, I move
- 11 admission of Exhibits 1 through 9.
- 12 And it looks like the way my office put
- 13 this together, it actually shows that Exhibit 8 is the
- 14 affidavit for the 25H letters, and Exhibit 9 is the
- 15 affidavit for the 28H letters.
- 16 EXAMINER GOETZE: As long as we have both
- 17 of them in there, that's all.
- 18 MS. KESSLER: I move admission of 1 through
- 19 9.
- 20 (COG Operating, LLC Exhibit Numbers 1
- 21 through 9 are offered into evidence.)
- 22 MR. MORGAN: No objection, other than
- 23 subject to reservation on Number 6 just to confirm the
- 24 correspondence.
- 25 EXAMINER GOETZE: Very good. Do you have

25

then we can close the case today with the court reporter

Page 17 Okay. 1 2 MS. KESSLER: Okay. 3 CROSS-EXAMINATION BY EXAMINER GOETZE: 5 In summary, we just have New Mexico Ten as Q. 6 being the only compulsory pooling issue with this --7 Or now they're a lessee. Α. Well --8 Q. Yes. That's correct. 9 Α. 10 EXAMINER GOETZE: No further questions. 11 Thank you. MS. KESSLER: I'll call my next witness. 12 13 EXAMINER GOETZE: Please. 14 CARRIE M. MARTIN, 15 after having been previously sworn under oath, was 16 questioned and testified as follows: 17 DIRECT EXAMINATION BY MS. KESSLER: 18 19 Please state your name for the record and tell 20 the Examiners by whom you are employed and in what 21 capacity? 22 Carrie Martin. I'm employed with COG Α. Operating, LLC as a geologist. 23 24 Have you previously testified before the Q. 25 Division?

- 1 A. Yes.
- 2 Q. Were your credentials as a petroleum geologist
- 3 accepted and made a matter of record?
- 4 A. Yes.
- 5 Q. Are you familiar with the applications filed in
- 6 these consolidated cases?
- 7 A. Yes.
- 8 Q. And are you familiar with the subject lands
- 9 underlying the proposed nonstandard spacing units?
- 10 A. Yes.
- 11 MS. KESSLER: Mr. Examiners, I would tender
- 12 Ms. Martin as an expert in petroleum geology.
- MR. MORGAN: No objection.
- 14 EXAMINER GOETZE: She's so qualified.
- 15 Q. (BY MS. KESSLER) What is the target interval
- 16 for each of these two wells?
- 17 A. The Wolfbone Pool.
- 18 Q. Have you prepared a structure map and cross
- 19 section for the areas?
- 20 A. Yes.
- 21 Q. Is Exhibit 10 a simple locator map of the area?
- 22 A. Yes.
- Q. Would you please review this for us?
- 24 A. Yes. The dashed lines are the two locations
- 25 for the Coonskin Fee 25H and Coonskin Fee 28H. The

- 1 solid red lines are the producing Wolfbone wells in the
- 2 area, and the yellow polygon is the COG acreage in the
- 3 proposed unit.
- 4 Q. What is Exhibit 11?
- 5 A. Exhibit 11 is a structure map on top of the
- 6 Wolfcamp structure. The contour interval is 50 feet.
- 7 The structure shows that there is no faulting in the
- 8 area. There are no pinch-outs and no geological
- 9 impediments to drilling horizontal wells. The dip of
- 10 the structure is between 1 and 2 degrees for these
- 11 wells.
- 12 Q. And it's fairly consistent?
- 13 A. It is consistent across the area.
- 14 Q. What is Exhibit 12?
- 15 A. Exhibit 12 is a location for the cross section
- 16 that will be on the next exhibit. It is from A to A
- 17 prime, including three wells. The three wells are
- 18 considered very representative of the structure and the
- 19 geology in the area.
- Q. Does Exhibit 13 have the logs shown on A to A
- 21 prime?
- 22 A. Yes. It shows the three wells from A to A
- 23 prime going from to north to south. The interval that's
- 24 shown on the logs is from the top of the 3rd Bone Spring
- 25 Carb, which is equivalent to the top of the Wolfbone

- 1 Pool. The next line down is the top of the 3rd Bone
- 2 Spring Sand. The red line is the top of the Wolfcamp
- 3 Formation, and the lowermost pink line is the top of the
- 4 Wolfcamp B, which would be the base of the Wolfbone
- 5 Pool. I've also shown on this cross section the planned
- 6 interval for the two laterals, which is within the
- 7 Wolfcamp and a shale there.
- 8 Q. And that's the same lateral interval for both
- 9 of the two wells; is that correct?
- 10 A. Correct.
- 11 Q. What do you see with respect to continuity of
- 12 the formation throughout the proposed lateral?
- 13 A. This cross section shows that the formation is
- 14 consistent across the area and consistent thickness
- 15 across the area.
- 16 Q. Have you identified any geologic impediments to
- drilling a mile-and-a-half horizontal well in this area?
- 18 A. No.
- 19 Q. Do you believe this area can be efficiently and
- 20 economically developed by horizontal wells?
- 21 A. Yes.
- 22 Q. And finally, do you believe that each of the
- 23 tracts in the proposed nonstandard unit will, on
- 24 average, contribute more or less equally to production
- 25 from each of the wells?

EXAMINER GOETZE: Mr. Morgan, any

Page 22 questions? 1 MS. KESSLER: No questions. 2 EXAMINER GOETZE: Mr. Brooks? 3 EXAMINER BROOKS: No questions. 5 EXAMINER GOETZE: It's up to me, I guess. CROSS-EXAMINATION 6 7 BY EXAMINER GOETZE: 8 Q. Our target is a shale? Yes. 9 Α. 10 So we're looking at a very tight formation to 11 back and essentially an unconventional --12 Α. Correct. 13 I notice that COG has other wells in the area 14 that follow the same pattern, so we're looking at a 15 fairly consistent pattern of a section and a half. My 16 interest is that we do have the south half of 33 that is 17 standing out there by itself. Is COG going to be 18 developing this area? MS. KESSLER: Mr. Examiner, we can recall 19 the land witness. But I believe the south of half of 20 21 Section 33 is unleased federal acreage, so it could still be developed with a mile-and-a-half coming the 22 other direction. But at this point it's unleased. 23 EXAMINER GOETZE: That's fine. I just want 24 to see where we're going with this, because we want to 25

1 honor those people who are worried about stranded

- 2 acreage, seeing that is still available and we still
- 3 have an area to the south.
- 4 Q. (BY EXAMINER GOETZE) And the adjacent COG
- 5 wells, have they been productive in the same zone?
- A. Yes, they have been.
- 7 Q. And have been, to your expectations, a good
- 8 producer?
- 9 A. Yes.
- 10 EXAMINER GOETZE: No more questions for
- 11 this witness.
- MS. KESSLER: Thank you.
- 13 EXAMINER GOETZE: Considering the situation
- 14 at this time, would you like to --
- MS. KESSLER: Objection withdrawn.
- 16 EXAMINER GOETZE: Well, that was easy
- 17 (laughter).
- 18 EXAMINER BROOKS: That made it a whole lot
- 19 easier.
- 20 EXAMINER GOETZE: We'll invite you back
- 21 more often. That's biased just because of all the
- 22 impact we've had in the last few days.
- 23 (Laughter.)
- 24 EXAMINER GOETZE: If that's the case, then
- 25 we will go ahead enter Exhibits 1 through 9 into the

		Page 24
1	case.	
2		MS. KESSLER: Thank you.
3		(COG Operating, LLC Exhibit Numbers 1
4		through 9 are offered and admitted into
5		evidence.)
6		EXAMINER GOETZE: Without any closing
7	statements or	any further is that it?
8		MR. MORGAN: That's it.
9		MS. KESSLER: That's it.
10		EXAMINER GOETZE: Very good.
11		Then Cases 15761 and 15762 are taken under
12	advisement.	
13		Thank you very much, and this is the end of
14	the docket.	
15		MR. MORGAN: Thank you.
16		MS. KESSLER: Thank you.
17		(Case Numbers 15761 and 15762 conclude,
18		11:30 a.m.)
19		
20		
21		a so resolve record of the proceedings in
22		the Examiner hearing of Case No. 15761 \$ 1576:
23		Fixeminer
24		Oil Conservation Division
25		