

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

ORIGINAL

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

CASE NO. 14831

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 13-12

BEFORE: RICHARD EZEANYIM, Hearing Officer
DAVID K. BROOKS, Legal Examiner

APRIL 26, 2012

3:15 PM

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Hearing Examiner, and DAVID K. BROOKS, Legal Examiner,
on THURSDAY, APRIL 26, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
Street Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

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A P P E A R A N C E S

For COG Operating, LLC:

HOLLAND & HART
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
By: Michael H. Feldewert

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1 MR. EXAMINER: Okay. Let's go back on the
2 record and go to our last case. At this point I will
3 call case number 14831, application of COG Operating,
4 LLC, for a non-standard spacing and proration unit and
5 compulsory pooling in Eddy County, New Mexico.

6 Call for appearances.

7 MR. FELDEWART: May it please the Examiner,
8 Michael Feldewart with the Santa Fe office of the law
9 firm of Holland & Hart appearing on behalf of the
10 applicant. And I have two witnesses here today.

11 MR. EXAMINER: Thank you. Any other
12 appearances? And may the witnesses stand up and state
13 your name to be sworn, please.

14 MR. CLARK: Greg Clark.

15 MR. JOHNSON: Sean Johnson.

16 [Whereupon the witnesses were duly sworn.]

17 MR. FELDEWART: Mr. Examiner, I know this is
18 your last case today, and unfortunately it's just a
19 straightforward case with no opposition. We'll do our
20 best to dress it up for you.

21 MR. EXAMINER: Okay, go ahead.

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SEAN JOHNSON

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

DIRECT EXAMINATION

BY MR. FELDEWART:

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

A. My name is Sean Johnson and I'm a landman for Concho Resources.

Q. Have you previously testified before this Division?

A. Yes, I have.

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

A. Yes, they were.

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

A. I am.

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

A. I am.

MR. FELDEWART: Mr. Examiner, I would tender Mr. Johnson, once again, as an expert in petroleum land matters.

1 MR. EXAMINER: Mr. Johnson is so qualified.

2 Q. (By Mr. Feldewart) Would you then turn to what's
3 been marked as COG Exhibit Number 1. And using that
4 exhibit, would you please identify for the Examiner what
5 COG seeks with this application.

6 A. Under this application COG Operating, LLC, seeks
7 two things; first being the proposed non-standard
8 spacing unit for our Falabella 31 Fee 7H located in the
9 west half of the east half of township 18 south,
10 range 26 east in Eddy County, New Mexico. Second,
11 seeking an approved order for a force pooling of all the
12 interest owners within the proposed non-standard spacing
13 unit.

14 Q. And pooling in what formation?

15 A. Pooling the Yeso.

16 Q. And what pool is involved with this particular
17 application?

18 A. The associated pool would be the Tenasco Draw San
19 Adres through Yeso associate.

20 Q. Is section 31 comprised of all fee lands?

21 A. Yes, it is.

22 Q. And will the completed interval for this well
23 comply with all setback requirements under the
24 horizontal well rules?

25 A. Yes, it will.

1 Q. And through the geologist that's going to appear
2 here today, will he be presenting a well diagram
3 demonstrating such?

4 A. He will.

5 Q. Have you, Mr. Johnson, identified the interest
6 owners in your proposed non-standard spacing unit?

7 A. Yes, I have.

8 Q. Would you turn to what's been marked as COG
9 Exhibit Number 2. It's a three-page exhibit, so would
10 you please walk the Examiner -- first identify it and
11 then walk the Examiner through this three-page exhibit.

12 A. Yes. Exhibit 2 is a land plat of our proposed
13 Falabella 31 Fee 7H located in the west half of the east
14 half of section 31. And as you'll see on that first
15 page that the proposed non-standard spacing unit is
16 comprised of 11 tracts.

17 If you flip over to the second page, the second
18 page is just a breakdown of a tract level basis showing
19 the individual owners and the percentage that they own
20 in each individual tract. And on the last page is a
21 unit recap of the 160-acre proposed non-standard spacing
22 unit showing COG a majority interest of a little over
23 73 percent working interest in the unit.

24 Q. Okay. Now, staying on that last page, does this
25 last page identify in any fashion the parties that you

1 actually seek to pool in this case?

2 A. Yes, it does. I've made notations to the side of
3 four interest owners, indicated by FP for force pool for
4 the individuals who we're seeking to pool.

5 Q. So in that case it's John Walker?

6 A. Correct.

7 Q. And if you move down the remaining parties are
8 identified with FP in parentheses?

9 A. That's correct.

10 Q. If we then turn to what's been marked as COG
11 Exhibit 4, would you identify -- I'm sorry, COG
12 Exhibit 3. Would you identify this exhibit for the
13 Examiners?

14 A. Yes. Exhibit Number 3 is our well proposal that
15 we sent the unleased interest parties saying exactly
16 where the well is located, informed them that their
17 interest was going to force pooling April 26th, 2012,
18 today. And also in lieu of participating in the well,
19 informed them that COG was ready to acquire their
20 interest by an oil and gas lease.

21 Q. Now, what has been marked as COG Exhibit
22 Number 3, is this a sample of the well proposal letter
23 that was sent to each of the parties to whom you seek to
24 pool?

25 A. That is correct.

1 Q. And in addition to sending out this letter, what
2 other efforts has COG undertaken to obtain the voluntary
3 joinder of these parties?

4 A. We have, we, being myself as an in-house landman
5 and then also our field landman and our brokers, have
6 sent out certified AFEs. We've sent out certified lease
7 offer packages. We've also made phone contacts and also
8 have had physical contact with immediate family members
9 of some of the unleased parties.

10 Q. Now, you mentioned the AFE which is attached to
11 the second page of Exhibit Number 3. I want to look at
12 that for a minute. Are the costs reflected on this AFE
13 commensurate with what COG has incurred with drilling
14 some of the horizontal wells?

15 A. Yes, they are.

16 Q. And are they reflective of costs that you've
17 incurred with respect to drilling similar horizontal
18 wells in this particular area?

19 A. Yes, they are.

20 Q. Has a company made an estimate of the overhead
21 and administrative costs while drilling this well and
22 also if it is successful?

23 A. We have.

24 Q. And what are those figures?

25 A. The rates that we're requesting are \$5500 while

1 drilling and 550 a month while producing.

2 Q. And are those rates commensurate with what COG
3 and other operators in this area charge for similar
4 wells?

5 A. Yes, it is.

6 Q. And have these rates previously been approved by
7 the Division for similar horizontal wells in this area?

8 A. Yes, they have.

9 Q. In fact, has it been for similar horizontal wells
10 in this very section?

11 A. Within the same section, yes, it has.

12 Q. Does the company request that these figures be
13 adjusted in accordance with the COPAS accounting
14 procedures?

15 A. Yes.

16 Q. And similar to previous pooling orders, does the
17 company request that the Division impose a 200 percent
18 charge in the event that you are unable to reach a
19 voluntary agreement with all of these interest owners?

20 A. Yes, we do.

21 Q. I want to now briefly turn then to the
22 non-standard spacing unit. Has the company brought a
23 geologist here today to provide technical testimony and
24 support of these non-standard units?

25 A. Yes, we have.

1 Q. Did you, Mr. Johnson, identify the leased mineral
2 interests in the surrounding 40-acre tracts?

3 A. Yes, we have.

4 Q. And did you ensure to include these leased
5 mineral owners in the notice of this hearing?

6 A. We have.

7 Q. Is COG Exhibit Number 4 an affidavit with the
8 attached letters providing notice of this hearing to the
9 affected parties?

10 A. Yes, it is.

11 Q. Were Exhibits 1 through 4 prepared by you or
12 compiled under your direction or supervision?

13 A. Yes, they were.

14 MR. FELDEWART: Mr. Examiner, at this time I
15 would move the admission into evidence of COG Exhibits 1
16 through 4.

17 MR. EXAMINER: COG Exhibits 1 through 4 will
18 be admitted.

19 [Exhibits 1 through 4 admitted.]

20 MR. FELDEWART: Mr. Examiner, that concludes
21 my questions for this witness.

22 MR. EXAMINER: Thank you.

23 EXAMINER BROOKS: No questions.

24 MR. EXAMINER: Are you a land person?

25 MR. JOHNSON: Yes, I am.

1 MR. EXAMINER: Did you locate everybody
2 that's supposed to be located?

3 MR. JOHNSON: We have.

4 MR. EXAMINER: You did?

5 MR. JOHNSON: We have.

6 MR. EXAMINER: So actually there's no need
7 for force pooling if everybody is knowing, right? You
8 are only pooling the Yeso formation in that project
9 area, right?

10 MR. JOHNSON: That is correct.

11 MR. EXAMINER: I will ask the geologist some
12 other questions so you may be excused.

13 MR. JOHNSON: Thank you.

14 MR. FELDEWART: Mr. Examiner, we call our
15 second witness.

16 MR. EXAMINER: Okay.

17 GREG CLARK

18 after having been first duly sworn under oath,
19 was questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. FELDEWART:

22 Q. Would you please state your name for the record
23 and identify by whom you are employed and in what
24 capacity.

25 A. Greg Clark, geologist for a Concho.

1 Q. And have you likewise previously testified before
2 this Commission?

3 A. I have.

4 Q. And you testified here today, correct?

5 A. Correct.

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

9 A. Yes, they were.

10 Q. And you conducted a geologic study of the area
11 that is at issue?

12 A. I have.

13 MR. FELDEWART: Mr. Examiner, I would tender
14 Mr. Clark again as an expert witness in petroleum
15 geology.

16 MR. EXAMINER: So qualified.

17 Q. (By Mr. Feldewart) Mr. Clark, please turn to
18 what's been marked as COG Exhibit Number 5. And
19 starting with the various colors, would you explain what
20 this exhibit is and what it shows?

21 A. Sure. Starting with the colors, if you look at
22 the map legend on the right, we've identified any
23 Paddock and/or Blinebry producers within this regional
24 map area. We've also annotated producing fields by
25 their field names. And if you look at the yellow

1 coloring, that is Concho's acreage, and with the red
2 representing the Falabella 31 Fee 7H horizontal well in
3 which we are talking about today.

4 Q. Now, what exactly is this map?

5 A. This map is a structure map, and it is on top of
6 the Paddock. And its purpose is to give a structural
7 feel for the area. If you look at the structure map
8 you'll see the regional dip going from northeast -- or
9 from northwest to southeast direction. The purpose here
10 is to show that we are on structural strike with other
11 producing fields in the area and there are no geologic
12 impediments that separate us in the Falabella 31 7H area
13 in which we wish to drill the horizontal well.

14 Q. And have you also, on this map, in a more
15 pronounced fashion identified the exhibiting horizontal
16 wells in the area?

17 A. We have. We have made the lateral section of the
18 horizontal wells that are in the Yeso bold so they'll
19 stand out a little more to show that there has been
20 quite a bit of activity in this regional area in which
21 we feel we are analogous to.

22 Q. Anything else with this exhibit?

23 A. No, sir.

24 Q. Let's then turn to what's been marked as --

25 MR. EXAMINER: I have something.

1 MR. CLARK: Yes?

2 MR. EXAMINER: On that, you are in the
3 Paddock, right?

4 MR. CLARK: Yes.

5 MR. EXAMINER: There are two horizontals.
6 Whose are those wells?

7 MR. CLARK: Those are Concho's.

8 MR. EXAMINER: That's your well?

9 MR. CLARK: Yes, sir.

10 MR. EXAMINER: And in that section 32, you
11 think you're north/south -- I mean east/west?

12 MR. CLARK: That is correct.

13 MR. EXAMINER: And then in the third one is
14 the north/south?

15 MR. CLARK: That is correct.

16 MR. EXAMINER: Explain.

17 MR. CLARK: As I explained last time, we
18 feel that the horizontal maximum stress direction is in
19 a northwest to southeast orientation.

20 MR. EXAMINER: In which section?

21 MR. CLARK: In the regional area.

22 MR. EXAMINER: Okay.

23 MR. CLARK: When you're talking about your
24 horizontal stress direction it's more regional than
25 localized.

1 MR. EXAMINER: Right.

2 MR. CLARK: And with that being the case, we
3 feel that when we complete these wells we get our
4 maximum completion as long as we're oblique or
5 perpendicular to what we call ethage max. So either the
6 east/west or the north/south orientation would be
7 oblique to a northwest/southeast maximum horizontal
8 stress direction.

9 MR. EXAMINER: Okay. Because if you look at
10 section 1 many wells should be drilled there. There are
11 no vertical wells in that section right now, right?

12 MR. CLARK: Not for the Paddock or the
13 Blinebry, yes, sir. There are some wells that have been
14 drilled but they're either deep --

15 MR. EXAMINER: Or shallow.

16 MR. CLARK: -- Morrow, or very shallow, yes,
17 sir.

18 MR. EXAMINER: Okay. Now you can continue
19 on.

20 Q. (By Mr. Feldewart) Okay. Then why don't you
21 turn to what's been marked as COG Exhibit Number 6. And
22 would you please identify this exhibit for the Examiner
23 and how it differs from the previous exhibit?

24 A. Sure. This is the same regional area extent of
25 the map that we just previously looked at. We have

1 stripped away the structure contours in order to show
2 the line of section, which will be the next exhibit in
3 which I will talk to. The cross section goes from A to
4 A prime, which is from south to north. And that's it to
5 this exhibit.

6 Q. Do you believe that the wells you've chosen here
7 are representative of the geologic region that you're
8 looking at?

9 A. Yes, we do.

10 Q. Would you then, I guess, keep your finger on this
11 exhibit and turn to what's been marked as COG Exhibit 7
12 and identify it and explain how it relates to COG
13 Exhibit Number 6.

14 A. Sure. Exhibit Number 7 is a stratographic cross
15 section which is hung on top of the Paddock in order to
16 take the structure out so we can show the stratographic
17 relationship between the wells that are representative
18 of the fields that we feel like are analogous in the
19 area in which we want to drill the horizontal. If you
20 go from left to right it represents south to north on
21 the line of section that I showed on the map. So A
22 being on the left side of the cross section and A prime
23 being on the right side of the cross section represents
24 a south to north orientation.

25 Q. And would you then identify what is depicted by

1 each of the colors on here in the various shaded lines?

2 A. Yes, I will. The yellow line is the top of
3 Glorieta. The red is the Paddock, which is the top of
4 the Yeso in which we have flattened the cross section on
5 in order to show the stratographic relationship between
6 the formations. And the blue is the Blinebry. So if
7 you look at this cross section in an overall sense
8 you'll see that there's no dramatic thickening or
9 thickening between the Paddock and the Blinebry which
10 shows a continuous stratographic thickness relationship
11 from the wells and the fields that we have depicted in
12 the area.

13 We also show in red where it's bracketed the
14 lateral interval in the Paddock in which we intend to
15 land our horizontal wells, which we feel gives us the
16 best chance at success in terms of production. If you
17 look at the red on the right of the three logs that show
18 perforations in the Paddock where these wells have
19 currently been completed and are producing from the
20 Paddock.

21 Now, you'll also see where there's three wells
22 that have not been completed in the Paddock. Those are
23 deep Morrow gas producing wells and are still producing
24 in the Morrow and have not been completed in the Yeso,
25 if it's ever intended to be. But we feel that those

1 wells, in terms of stratographic nature and log
2 response, are representative also to the area in which
3 we want to the drill the Falabella 31 7H.

4 Q. Would you then summarize for the Examiner the
5 conclusions you have drawn from your study?

6 A. Yes. I have concluded that there are no major
7 geologic impediments or stratographic impediments that
8 would keep us from developing this project area on full
9 section horizontals. I also believe that all the
10 laterals will -- the full sections, the full part of the
11 lateral will contribute equally to the overall
12 production of the well, and also feel this is the best
13 way economically to develop this area using horizontals.

14 Q. And turning then to the last exhibit, COG Exhibit
15 8, would you please identify this exhibit for the
16 Examiner?

17 A. Yes. This is a cartoon wellbore completion
18 schematic. It's not to scale. Its purpose is to
19 represent where we are going to complete within the full
20 section horizontals. The solid blue sections -- the
21 solid blue lines on each end of this diagram represent
22 the south line of section 31 on the left and the north
23 line of the section 31 on the right. Below that and
24 offset to those blue lines are dashed blue lines which
25 represent the 330 line from said section lines.

1 And if you look to the left where we have the
2 well name, that's where our well is going to start. Our
3 surface hole would be 150, 150 feet from the south of
4 the section line. And then as we go horizontal we will
5 drill the well to where we will not TD any closer than
6 330 feet from the north line of section 31. And I've
7 also depicted a blue solid line after the 330 dashed
8 line from the section 31 south line representing where
9 we will not complete past in terms of setting the last
10 packer, showing that our full completed section of this
11 horizontal will reside within the setbacks of the
12 section.

13 Q. In your opinion will the granting of this
14 application be in the best interest of conservation,
15 prevention of waste, and protection of correlative
16 rights?

17 A. I do.

18 Q. Were COG Exhibits 5 through 8 prepared by you or
19 compiled under your direction or supervision?

20 A. Yes, they were.

21 MR. FELDEWART: Mr. Examiner, I would move
22 the admission of COG Exhibits 5 through 8.

23 MR. EXAMINER: Exhibits 5 through 8 will be
24 admitted.

25 [Exhibits 5 through 8 admitted.]

1 MR. FELDEWART: And that concludes my
2 examination of this witness.

3 MR. EXAMINER: Thank you, Mr. Feldewart.
4 Mr. Brooks?

5 EXAMINER BROOKS: No questions.

6 MR. EXAMINER: ~~Did we do a newspaper ad for~~
7 ~~those interest owners that we didn't locate?~~

8 MR. FELDEWART: ~~We were able to locate all~~
9 ~~the interest owners.~~

10 MR. EXAMINER: Oh, you were able, okay.
11 It's going to be a new well?

12 MR. CLARK: Correct.

13 MR. EXAMINER: Okay. I suppose you don't
14 have any API number for that?

15 MR. CLARK: I believe there has been one
16 with the APD, but I don't have it with me.

17 MR. EXAMINER: So you have an API number?

18 MR. CLARK: I believe so, yes, sir.

19 MR. EXAMINER: Then you can send it to me
20 via e-mail.

21 MR. CLARK: Okay.

22 MR. EXAMINER: Anything further,
23 Mr. Feldewart?

24 MR. FELDEWART: Mr. Examiner, tongue to
25 cheek, I'm going to say we're going to ask for this as

1 soon as possible. I'm just kidding.

2 MR. EXAMINER: You guys are going to kill
3 me.

4 MR. FELDEWART: Thank you for your time.
5 That concludes our presentation.

6 MR. EXAMINER: You wanted to raise my blood
7 pressure. Okay. At this time case number 14831 has
8 been taken under advisement. And finally this concludes
9 the hearing for today. Thank you all for coming.

10 MR. FELDEWART: Thank you.

11 [Case 14831 taken under advisement.]

12 [Docket 13-12 was concluded at 3:38 PM.]

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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. (4831)
heard by me on

A handwritten signature in black ink is written over a rectangular stamp. The stamp contains the text "Examiner" and "Oil Conservation Division". The signature is written in a cursive style and extends across the stamp.

REPORTER'S CERTIFICATE

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I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District of New Mexico, 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 and was reduced to printed form under my direct supervision.

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 whatsoever in the final disposition of this case in any court.



Lisa R. Reinicke,
Provisional License P-405
License expires: 8/21/2012

Ex count: