

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

6 AMENDED APPLICATION OF COG
7 OPERATING, LLC FOR A NONSTANDARD
8 SPACING AND PRORATION UNIT AND A
9 NONSTANDARD 120-ACRE PROJECT AREA
10 AND COMPULSORY POOLING, EDDY COUNTY,
11 NEW MEXICO.

CASE NO. 14998

ORIGINAL

12 REPORTER'S TRANSCRIPT OF PROCEEDINGS

13 EXAMINER HEARING

14 August 22, 2013

15 Santa Fe, New Mexico

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

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Phillip Goetze,
20 Chief Examiner, and David K. Brooks, Legal Examiner, on
21 Thursday, August 22, 2013, at the New Mexico Energy,
22 Minerals and Natural Resources Department, 1220 South
23 St. Francis Drive, Porter Hall, Room 102, Santa Fe,
24 New Mexico.

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

1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

3 MICHAEL H. FELDEWERT, ESQ.
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1 (8:37 a.m.)

2 EXAMINER GOETZE: Next will be Case 14998,
3 amended application of COG Operating, LLC for a
4 nonstandard spacing and proration unit and a nonstandard
5 120-acre project area and compulsory pooling, Eddy
6 County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: May it please the Examiner,
9 Michael Feldewert, with the Santa Fe office of Holland &
10 Hart, appearing on behalf of the Applicant. I have two
11 witnesses here today.

12 EXAMINER GOETZE: Witnesses please stand,
13 identify yourself and be sworn in.

14 MS. SNIDOW: Kelli Snidow, geologist, COG.

15 MR. JOHNSON: Sean Johnson, landman for
16 COG.

17 (Ms. Snidow and Mr. Johnson sworn.)

18 EXAMINER GOETZE: Proceed.

19 SEAN JOHNSON,
20 after having been first duly sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. FELDEWERT:

24 Q. Please would you state your name, identify by
25 whom you are employed and in what capacity?

1 A. Sean Johnson. I'm a landman employed by COG
2 Operating, LLC.

3 Q. And, Mr. Johnson, have you previously testified
4 before this Division and had your credentials as a
5 petroleum landman accepted and made a matter of public
6 record?

7 A. Yes, I have.

8 Q. Are you familiar with this application?

9 A. Yes, I am.

10 Q. And are you familiar with the status of the
11 land in the subject area?

12 A. Yes, I am.

13 MR. FELDEWERT: We would tender
14 Mr. Johnson as an expert witness in petroleum land
15 matters.

16 EXAMINER GOETZE: He's so qualified.

17 Q. (BY MR. FELDEWERT) Why don't you turn to what's
18 been marked as COG Exhibit Number 1, Mr. Johnson, and
19 identify it, and explain what the company seeks under
20 this application?

21 A. In Exhibit 1.1 [sic], that is land plat
22 depicting COG's proposed nonstandard project area and
23 our nonstandard spacing unit for our Dogfish Head State
24 #4, located in Township 17 South, Range 30 East, Section
25 2 in Eddy County. The nonstandard spacing unit is

1 comprised of the south half of the northeast and also
2 the southeast of the northwest.

3 Also, the reason for our nonstandard
4 project area, as you can see on this map, the south half
5 of Section 2 is already developed vertically. Those are
6 COG-operated wells, which COG has drilled. And then
7 also in the southwest of the northwest, there are four
8 wells that are already drilled and operated by COG that
9 have been developed vertically.

10 And underneath this application, we seek
11 three things. The first being an approved order for our
12 nonstandard project area. The second being an approved
13 order for our nonstandard spacing unit, and the third
14 being an approved forced pooling order for the interest
15 owners in the Yeso Formation located between 5,000 feet
16 and the base of the Yeso, which is located in the Loco
17 Hills Glorieta-Yeso pool.

18 Q. Why does the company only seek to pool the Yeso
19 Formation below 5,000?

20 A. Those are the only rights that COG holds.

21 Q. And is the 40 acres that you are seeking to
22 exclude here from your lay-down well, in your opinion --
23 in the company's opinion, are those wells -- four wells,
24 are they producing currently from the Yeso Formation?

25 A. Yes, they are.

1 Q. And so in your company's opinion, an additional
2 fifth well, by way of the vertical extension on the
3 horizontal well, is not necessary?

4 A. That's correct.

5 Q. If I take a look at what's been marked as COG
6 Exhibit Number 2, does this exhibit show more of the
7 surrounding development?

8 A. Yes, it does.

9 Q. It identifies, does it not, your proposed
10 nonstandard spacing unit and project area with a blue
11 rectangle towards the top of the exhibit?

12 A. That's correct.

13 Q. And I notice in Section 3 that the development
14 has been by lay-down horizontals?

15 A. Yes, that's correct.

16 Q. So is the company proposing to essentially
17 infill the existing vertical development in Section 2
18 with a horizontal well?

19 A. Yes, that's correct.

20 Q. Exhibit 1, it shows a surface location for this
21 well in the southwest quarter of the northwest quarter?

22 A. Yes, that's correct.

23 Q. Where will the completed interval for this well
24 actually begin?

25 A. The completed interval will actually start 330

1 feet off of the leaseline in the northeast of the
2 northwest.

3 Q. And will the entire completed interval from
4 this well comply with the Division setback requirements?

5 A. Yes, it will.

6 Q. What pool, Mr. Johnson, is involved with this
7 application?

8 A. It's the Loco Hills Glorieta-Yeso pool.

9 MR. FELDEWERT: And I believe,
10 Mr. Examiner, that's Pool Code 96718.

11 EXAMINER GOETZE: Thank you.

12 Q. (BY MR. FELDEWERT) Mr. Johnson, is there an API
13 number yet for this well?

14 A. There is not.

15 Q. Is Section 2 fee lands or state acreage?

16 A. Section 2 is state, all state.

17 Q. And has the company been able to identify the
18 interest owners in the proposed nonstandard spacing unit
19 below 5,000 feet?

20 A. Yes, we have.

21 Q. If I turn to what's been marked as COG Exhibit
22 Number 3, does this identify those working interest
23 owners in this area by tract with respect to the acreage
24 below -- or the formation below 5,000 feet?

25 A. Yes, it does.

1 Q. And does the last page of this exhibit identify
2 their combined interest for your proposed nonstandard
3 spacing unit?

4 A. Yes, it does.

5 Q. Now, have all of these interest owners
6 committed to the proposed well at this point?

7 A. No, they have not.

8 Q. Which interest owners have yet to commit to the
9 well?

10 A. The interest of Ralph -- Ralph M. Randel Trust;
11 also the trustee of the Wilma Donohue Moleen Foundation;
12 and also La Palma Associates, LLC.

13 Q. What is the circumstance with respect to
14 La Palma Associates? Have you been able to contact
15 them?

16 A. We have. We have made an established contact
17 with one of their landmen over there, and they have
18 expressed interest in actually working a term assignment
19 with us. So they have our proposal in front of them.
20 They're running their traps on that, and we're going to
21 end up executing a term assignment with them.

22 Q. Now, with respect, then, to the Ralph M. Randel
23 Trust, have you been able to identify the trustee for
24 that trust?

25 A. Yes, we have.

1 Q. And have you been in contact with him about
2 this proposal?

3 A. Yes, we have.

4 Q. But the trust has not yet committed to
5 participating in this well?

6 A. That's correct.

7 Q. What about the trustee for the Wilma Donohue
8 Moleen Foundation?

9 A. We know they are in receipt of our -- of our
10 AFE and our proposed JOA for this well. We sent
11 certified mail for our AFE and our proposal to them,
12 have been returned the green card back, so they've
13 received it. We've made follow-up phone calls with the
14 Trust Department of the bank to try to establish contact
15 and some actual conversation with them about trying to
16 actually execute a term assignment or see if they want
17 to participate in the well, and we have yet to have a
18 return phone call back from them.

19 Q. Is COG Exhibit Number 4 a copy of the well
20 proposal letter that went out to each of these interest
21 owners?

22 A. Yes, it is.

23 Q. And does it also contain, on the last page, the
24 AFE for this well?

25 A. Yes, that's correct.

1 Q. Are the costs reflected on this AFE consistent
2 with what the company has incurred for drilling similar
3 horizontal wells in the area?

4 A. Yes, they are.

5 Q. In addition, has the company made an estimate
6 of their administrative costs while drilling this well
7 and also while producing, if you are successful?

8 A. Yes, we have.

9 Q. What are those costs?

10 A. That's 6,000 a month drilling and 600 a month
11 producing.

12 Q. Does the company request that these figures be
13 incorporated into the order from this hearing and that
14 the order provide for adjustments to these figures in
15 accordance with the COPAS accounting procedures?

16 A. Yes, we do.

17 Q. Does the company also request that a customary
18 200-percent risk penalty be imposed upon any interest
19 owner that does not commit to this well?

20 A. Yes, we do.

21 Q. Now, turning to the nonstandard spacing unit
22 and the nonstandard project, did the company identify
23 the leased mineral interests in the 40-acre tracts
24 surrounding their proposed nonstandard spacing unit?

25 A. Yes, we have.

1 Q. And did they include -- did the company include
2 these known leased mineral interest owners in the notice
3 of this hearing?

4 A. Yes, we did.

5 Q. With respect to the nonstandard project area,
6 you mentioned this was state land?

7 A. That's correct.

8 Q. Did the company also provide notice of this
9 application for a nonstandard project area to the
10 New Mexico State Land Office?

11 A. Yes, we did.

12 Q. Is COG Exhibit Number 5 an affidavit from my
13 office, with attached letters, providing notice of this
14 hearing to the affected parties?

15 A. Yes, it is.

16 Q. Now, were Exhibits 1 through 4 prepared by you
17 or compiled under your direction and supervision?

18 A. Yes, they were.

19 MR. FELDEWERT: Mr. Examiner, I would move
20 admission into evidence of COG Exhibits 1 through 4, as
21 well as COG Exhibit Number 5, which is the affidavit
22 from my office.

23 EXAMINER GOETZE: Exhibits 1 through 5 are
24 accepted.

25 (COG Operating, LLC Exhibit Numbers 1

1 through 5 were offered and admitted into
2 evidence.)

3 MR. FELDEWERT: And this concludes my
4 examination of this witness.

5 EXAMINER GOETZE: Do you have any
6 questions?

7 EXAMINER BROOKS: No questions.

8 EXAMINER GOETZE: Just one question.

9 CROSS-EXAMINATION

10 BY EXAMINER GOETZE:

11 Q. Section 1 adjacent -- and I'm doing this on
12 behalf of the party that's not present -- what's the
13 ownership there and what activity? It seems to die off
14 right at the section line. We don't have any Paddock
15 or --

16 A. I believe in Section 1, if I recall correctly,
17 there is an owner. I believe it may be J. Cleo
18 Thompson, who we have exercised all options to try to --
19 they've got a lot of interest in, on, around and
20 adjacent to our Section 2, and there has been no will of
21 working with COG to try to acquire that interest.

22 Q. Okay.

23 EXAMINER GOETZE: No further questions for
24 this witness.

25 MR. FELDEWERT: Then we will call our

1 second witness.

2 EXAMINER GOETZE: Very good.

3 KELLI A. SNIDOW,

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

6 DIRECT EXAMINATION

7 BY MR. FELDEWERT:

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

10 A. Yes. I'm Kelli Snidow. I'm a geologist
11 employed by COG Operating, LLC.

12 Q. Ms. Snidow, have you previously testified
13 before this Division and have your credentials as a
14 petroleum geologist been accepted and made a matter of
15 public record?

16 A. Yes, I have.

17 Q. Are you familiar with the application filed in
18 this case?

19 A. Yes.

20 Q. Have you conducted a study of the affected --

21 A. Yes, I have.

22 MR. FELDEWERT: I would tender Ms. Snidow
23 as an expert witness in petroleum geology.

24 EXAMINER GOETZE: So qualified.

25 Q. (BY MR. FELDEWERT) Would you turn to what's

1 been marked as Exhibit Number 6, Ms. Snidow, and
2 identify this for us and explain what it shows?

3 A. Yes. This is a structure map created on the
4 top of the Paddock Formation, with a 50-foot contour
5 interval. The yellow highlighted area indicates COG
6 acreage. The red horizontal line is the proposed
7 wellbore, and then the red and blue circles indicate
8 other Paddock and Blinebry or Yeso producers in the
9 area.

10 This structure map indicates that the
11 structure is gradually dipping from west to east downdip
12 and that there are no faults or pinch-outs or other
13 geologic impediments to developing this area with
14 horizontals.

15 Q. If you then turn to what's been marked as COG
16 Exhibit Number 7, first off, did you prepare a
17 stratigraphic cross section of this area?

18 A. Yes, I did.

19 Q. And does COG Exhibit Number 7 identify the
20 wells that you utilized in your stratigraphic cross
21 section?

22 A. Yes, it does. From A to A prime, the three
23 wells used in the cross section are highlighted with the
24 pink circles.

25 Q. Do you believe that these wells are

1 representative of the area that you seek to develop?

2 A. Yes, I do.

3 Q. Let's turn to what's been marked as COG Exhibit
4 Number 8. Is that a copy of your stratigraphic cross
5 section?

6 A. Yes, that is.

7 MR. FELDEWERT: Mr. Examiner, we have a
8 smaller version of the stratigraphic cross section
9 comprising Exhibit Number 8 and, if you're interested, a
10 larger map is behind it. So I leave it up to you as to
11 whether you need to pull out the larger map.

12 EXAMINER GOETZE: Not at this point.

13 Q. (BY MR. FELDEWERT) Ms. Snidow, would you please
14 go through what is shown on this stratigraphic cross
15 section which comprises COG Exhibit Number 8?

16 A. Yes. So, again, this is A to A prime, so from
17 west to east. I have the Glorieta Formation highlighted
18 in yellow, the Paddock Formation highlighted in green,
19 and the Blinebry Formation highlighted in red. And then
20 there is also a red line indicating the 5,000-foot depth
21 severance.

22 As you can see -- again, you can see a
23 slight dipping structure to the east-southeast, but
24 you'll notice that these formations are continuous
25 across the area.

1 Q. What is your target interval for this well in
2 relationship to that 5,000-foot dip?

3 A. So our target interval would be the lower half
4 of the Blinebry Formation, or the formation in red on
5 this cross section.

6 Q. Anything else about this exhibit?

7 A. No.

8 Q. What conclusions have you drawn?

9 A. I believe that this area can be efficiently and
10 economically drained with horizontal wells, and I
11 believe that the nonstandard spacing unit would
12 contribute, on average, equally for the development of
13 this area and that there are no geologic impediments to
14 developing this area with horizontal wells.

15 Q. Ms. Snidow, will the completed interval for
16 this well comply with the setback requirements under the
17 Horizontal Well Rule?

18 A. Yes, they will.

19 Q. Will you turn to what's been marked as COG
20 Exhibit Number 9?

21 A. (Witness complies.)

22 Q. Is this a well diagram demonstrating compliance
23 with the setback requirements?

24 A. Yes, it is. This is just a proposed cartoon of
25 the proposed wellbore. The wellbore is the red line.

1 You'll notice the blue line to the left of the cross
2 section would be the west section line of Section 2.
3 And then the first frack stage would be no closer than
4 1,650 from the west line and 330 from the lease line
5 within that -- that's indicated down at the bottom.

6 Q. The blue-dotted line shown on here, is that the
7 quarter-quarter section line?

8 A. Yes, it is. That's correct.

9 Q. In your opinion, will the granting of this
10 application be in the best interest of conservation and
11 the prevention of waste and the protection of
12 correlative rights?

13 A. Yes, I believe so.

14 Q. And were COG Exhibits 6 through 9 prepared by
15 you or compiled under your direction and supervision?

16 A. Yes, they were.

17 MR. FELDEWERT: Mr. Examiner, I would move
18 admission into evidence COG Exhibits 6 through 9.

19 EXAMINER GOETZE: Exhibits 6 through 9 are
20 accepted.

21 (COG Operating, LLC Exhibit Numbers 6
22 through 9 were offered and admitted into
23 evidence.)

24 MR. FELDEWERT: That concludes my
25 examination of this witness.

1 EXAMINER GOETZE: Mr. Brooks, do you have
2 any questions?

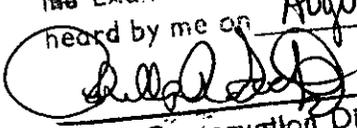
3 EXAMINER BROOKS: I have no questions.

4 EXAMINER GOETZE: I have no questions
5 either.

6 So in light of that, we'll go ahead and
7 take Case 14998 under advisement.

8 (Case Number 14998 concludes, 8:53 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. 14998
heard by me on August 28 2003
 , Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, 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
Paul Baca Court Reporters, Inc.
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Date of CCR Expiration: 12/31/2013