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

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

CASE NO. 15075

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 23, 2014

Santa Fe, New Mexico

BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Richard Ezeanyim,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, January 23, 2014, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
St. Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

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:

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1 (8:42 a.m.)

2 EXAMINER EZEANYIM: At this point, we call
3 Case Number 15075, and this is the application of COG
4 Operating, LLC for a nonstandard spacing and proration
5 unit and compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

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

11 EXAMINER EZEANYIM: Any other appearances,
12 please?

13 Okay. Will the witnesses stand up to be
14 sworn in? State your names.

15 THE WITNESS: Greg Clark.

16 MR. DIRKS: Stuart Dirks.

17 (Witnesses sworn.)

18 MR. FELDEWERT: Mr. Examiner, call our
19 first witness.

20 EXAMINER EZEANYIM: Sure. Go ahead.

21 STUART DIRKS,
22 after having been first duly sworn under oath, was
23 questioned and testified as follows:

24

25

1 DIRECT EXAMINATION

2 BY MR. FELDEWERT:

3 Q. Would you please state your name, identify by
4 whom you are employed and in what capacity?

5 A. My name is Stuart Dirks. I'm employed by
6 Concho Resources, Inc. as a landman.

7 Q. Mr. Dirks, have you previously testified before
8 this Division?

9 A. Yes, I have.

10 Q. And have your credentials been accepted as a
11 matter of record?

12 A. Yes, they were.

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

15 A. Yes, I am.

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

18 A. Yes, I am.

19 MR. FELDEWERT: Mr. Examiner, I would
20 re-tender Mr. Dirks as an expert witness in petroleum
21 land matters.

22 EXAMINER EZEANYIM: Mr. Dirks is so
23 qualified.

24 Q. (BY MR. FELDEWERT) Would you please turn to the
25 exhibit package? Go behind tab one and identify what's

1 been marked as COG Exhibit Number 1. Identify it and
2 explain what the company seeks under this application.

3 A. This is a plat centered on Section 3 of
4 Township 19 South, Range 26 East in Eddy County. Our
5 acreage position in Section 3 is highlighted in yellow.
6 Existing wells are represented by dots. Vertical wells
7 represented by dots are horizontal wells by the black
8 line segments. The red line segment in Section 3
9 represents the location of our proposed Lee 3 Fee #1H
10 well. The square represents the surface location, and
11 the circle represents the bottom-hole location.

12 We seek the formation of a 159.06-acre
13 nonstandard spacing and proration unit comprising the
14 west half of the west half of Section 3, of 19 South, 26
15 East for the drilling of our Lee 3 Fee #1H well. We
16 seek the pooling of certain mineral interests in the
17 Yeso Formation within our proposed nonstandard unit, and
18 we ask that COG Operating, LLC be named the operator.

19 Q. Mr. Dirks, has the Division recently approved a
20 similar nonstandard spacing unit in the east half of the
21 west of Section 3?

22 A. Yes, that's correct.

23 Q. And has that acreage on that well been drilled?

24 A. Yes, it has.

25 Q. What pool was involved in this application?

1 A. This is the Atoka-Glorieta-Yeso.

2 Q. If I turn to what's been marked as COG Exhibit
3 Number 2 --

4 EXAMINER EZEANYIM: Maybe I should address
5 that issue right now, so I don't have to waste any time.
6 The docket says that this is Yeso. But anyway, the
7 amended application said Atoka-Glorieta. So I don't
8 know lately -- well, what -- let's take care of it now,
9 because that's one of the questions, and then maybe I
10 won't have any questions to ask at the end.

11 CROSS-EXAMINATION

12 BY EXAMINER EZEANYIM:

13 Q. What notices were given -- which interest
14 owners were given notice? Those in the Grayburg or
15 those in the Atoka-Glorieta-Yeso? Which interest owners
16 did you give notice to?

17 A. To the Yeso.

18 Q. To the Yeso?

19 A. Yes, sir.

20 Q. What is the type of when we said Grayburg?

21 A. I'm sorry?

22 Q. So the type of -- when we -- when we say the
23 pool, that means the Grayburg pool, right? Why wouldn't
24 we say that in the first place? Is that a mistake or a
25 typo? What happened?

1. A. It was a mistake on Concho's part.

2 Q. Okay. I just wanted to know because now, as
3 you know, if you give notice to Dayton-Grayburg -- if I
4 own interest there and then I begin to wonder if I don't
5 own interest, I just throw it away. But I own interest
6 in the Atoka-Glorieta, but I didn't get notice. And
7 then I would be compelled [sic] in this pool. That's
8 why I'm asking the question.

9 So if the proper notice has been given for
10 those interest owners in the Atoka-Glorieta-Yeso pool,
11 then we can go ahead. I know that counsel will agree
12 with that, that we will not continue this case because
13 of that technicality of, you know, naming the pool that
14 we are interested in.

15 MR. FELDEWERT: I think the issue here,
16 Mr. Examiner, is simplified by the fact that we are
17 seeking to pool only an interest that is -- has an
18 unmarketable title. That's the only party we are
19 seeking to pool. The other interest owners in the pool
20 have reached an agreement. And that interest owner
21 would be both the interest owner in the
22 Grayburg-Atoka-Glorieta. That's the distinction there.
23 So I hear what you're saying. In this case,
24 fortunately, it doesn't have any impact on the parties.

25 EXAMINER EZEANYIM: Okay. I don't know

1 what marketable interest is because I'm not a -- you
2 know, I'm just an engineer. So anyway, that doesn't
3 make any difference in this case.

4 MR. FELDEWERT: Correct.

5 EXAMINER EZEANYIM: Okay. The case can
6 then proceed.

7 Q. (BY MR. FELDEWERT) Mr. Dirks, on that point, if
8 we look at COG Exhibit Number 2, is that a Form C-103
9 changing the pool designation for this well from the
10 Dayton-Grayburg to the Atoka-Glorieta-Yeso?

11 A. Yes, it is.

12 Q. And that's been approved?

13 A. Yes, it has.

14 EXAMINER EZEANYIM: What did you just say?
15 What did you just say, Counselor?

16 MR. FELDEWERT: That Exhibit Number 2 -- he
17 just testified that Exhibit Number 2 is the Form C-103
18 in which the pool name was changed.

19 EXAMINER EZEANYIM: Oh, changed. Okay.
20 Okay. That's good.

21 Q. (BY MR. FELDEWERT) Now, does this particular
22 exhibit, then, Mr. Dirks, identify the pool code that's
23 involved?

24 A. Yes, it does.

25 Q. And it reflects the API number for this well?

1 A. Yes, it does.

2 Q. Is Section 3 all fee lands?

3 A. Yes, it is.

4 Q. And have you identified the interest owners in
5 the proposed nonstandard spacing unit?

6 A. Yes.

7 Q. If I turn to what's been marked as COG Exhibit
8 Number 3, does this identify the interest owners in the
9 nonstandard spacing unit by tract on the first page?

10 A. Yes, it does.

11 Q. And then if I look at the second page of this
12 exhibit, does it identify the interest owners and the
13 percentage of interest in the spacing unit as a whole?

14 A. Yes, it does.

15 Q. Now, how many of the interest owners in the
16 west half of the west half of Section 3 remain
17 uncommitted to your proposal?

18 A. There are none. However, when this exhibit was
19 prepared, ESB Enterprises was uncommitted at time, but
20 they have since signed an AFE and an operating
21 agreement.

22 Q. So all of the interest owners, to your
23 knowledge, are now committed?

24 A. Yes.

25 Q. But you have some highlighting here on that

1 0.63 percent interest of the heirs and devisees of
2 Charles T. and Flossie F. Gaskins. What's going on with
3 that?

4 A. That is unmarketable title. The record title
5 shows the owners as Charles T. and Flossie F. Gaskins,
6 but they are deceased.

7 Q. Has that estate been probated?

8 A. Not in New Mexico.

9 Q. Do you believe you've identified and leased all
10 of the heirs?

11 A. Yes, we believe we have.

12 Q. But out of an abundance of caution, do you seek
13 to pool the heirs and devisees of Charles T. and Flossie
14 F. Gaskins?

15 A. Yes, we do.

16 Q. Is COG Exhibit Number 4 an Affidavit of
17 Publication in the Artesia newspaper directed to the
18 heirs and devisees of this small interest?

19 A. Yes, it is.

20 Q. Now, you submitted a well-proposal letter to
21 the interest owners, correct?

22 A. Yes, we did.

23 Q. Has that been -- is an example of that letter
24 marked as Concho Exhibit Number 5?

25 A. Yes.

1 Q. And it contains an AFE?

2 A. Yes, it does.

3 Q. And are the costs that are reflected on this
4 AFE consistent with what the company has incurred in
5 drilling similar horizontal wells?

6 A. Yes.

7 Q. Has the company also made an estimate of the
8 overhead and administrative costs while producing if you
9 are successful?

10 A. Yes, we have.

11 Q. What are those costs?

12 A. \$5,450 while drilling, \$545 a month producing.

13 Q. And are these costs consistent with the costs
14 incurred for other wells in this section?

15 A. Yes.

16 Q. And do you request these figures likewise,
17 then, be incorporated into this order, as it was for the
18 prior one?

19 A. Yes.

20 Q. Now, with respect to the nonstandard spacing
21 unit, did the company identify the leased mineral
22 interest owners in the tracts surrounding the
23 nonstandard spacing unit?

24 A. Yes, we did.

25 Q. And if I turn to what's been marked as COG

1 Exhibit Number 6, is that an affidavit prepared by my
2 office providing that notice was given to these
3 offsetting leased mineral interest owners?

4 A. Yes, it is.

5 Q. Were Exhibits 1 through 5 prepared by you or
6 compiled under your direction and supervisors?

7 A. Yes, they were.

8 MR. FELDEWERT: Mr. Examiner, I would move
9 the admission into evidence of COG Exhibits 1 through 6,
10 which includes my office's affidavit.

11 EXAMINER EZEANYIM: Exhibits 1 through 6
12 will be admitted.

13 (COG Operating, LLC Exhibit Numbers 1
14 through 6 were offered and admitted into
15 evidence.)

16 MR. FELDEWERT: That concludes my
17 examination of this witness.

18 EXAMINER EZEANYIM: Thank you very much.

19 CROSS-EXAMINATION

20 BY EXAMINER EZEANYIM:

21 Q. I have no questions, but for my own interest,
22 what do you mean by unmarketable title interest owners?
23 I mean, you mention that quite often here. What does
24 that mean? I know you give notice to the interest
25 owners. What is unmarketable? I don't decide title.

1 What are they?

2 A. The record title shows ownership in the two
3 deceased people, but deceased people cannot own
4 property --

5 Q. Is that why you use the word "unmarketable"?

6 A. Yes.

7 Q. Because unmarketable means to me, you know,
8 that maybe they don't get anything because there is no
9 market value.

10 A. I see.

11 Q. Is that what it is?

12 A. I think it's more from the standpoint of since
13 title is not clear, in Concho's perspective, that
14 interest we've leased is not marketable.

15 Q. If it's not marketable, what are you going to
16 do with it?

17 A. Well, we will sell -- I mean, we will produce
18 and sell the oil and gas. And maybe unmarketable is not
19 an -- is an unfortunate choice of terms, because it has
20 nothing to do with --

21 Q. I mean, this is unmarketable. It has no value,
22 right? So that's why I'm trying to struggle to
23 understand on what it is. It has no bearing on the
24 case, but, you know. I mean, we are talking -- you come
25 up sometimes with that term, "unmarketable."

1 A. If we were to -- if we were to -- wanted to
2 sell to another company and this company saw that the
3 title was not clear, it would be unmarketable. They
4 would not want to pay us for that -- that -- it would be
5 unmarketable from that standpoint.

6 Q. Now I understand where you are going, because,
7 you know, we don't deal with this.

8 MR. FELDEWERT: Probably a better term is
9 lack of clear title. It's one of those legal terms.

10 EXAMINER EZEANYIM: Oh, okay. If you
11 hadn't used that word, I won't be probing. I'm sorry.

12 Q. (BY EXAMINER EZEANYIM) I think you have the
13 well -- the locations in the -- in the application,
14 right? Do we have those locations in the well in the
15 application, like surface location or --

16 A. It's on the AFE.

17 MR. FELDEWERT: It's also on Exhibit
18 Number --

19 EXAMINER EZEANYIM: I think it's in the
20 application, too.

21 MR. FELDEWERT: Yes. I think all the
22 information you would need would be in Exhibit Number 2.
23 It has the pool code and the API.

24 EXAMINER EZEANYIM: Where can I find it?
25 Exhibit Number 2?

1 MR. FELDEWERT: Exhibit 2. We've got a
2 pool code, and we've got the surface and bottom-hole
3 location.

4 EXAMINER EZEANYIM: Good.

5 Q. (BY EXAMINER EZEANYIM) They are all standard,
6 right --

7 A. Yes, sir.

8 Q. -- within the completed interval?

9 A. Yes.

10 Q. And you said that the land is fee, fee lands?

11 A. Yes.

12 Q. And then we are pooling only the Yeso
13 Formation, not from the surface to the base of the Yeso?
14 We are pooling the --

15 A. Only the Yeso, yes, sir.

16 Q. Okay. You may step down.

17 A. Thank you.

18 MR. FELDEWERT: Call our next witness.

19 EXAMINER EZEANYIM: Mr. Clark, you have
20 been sworn; you are still under oath.

21 THE WITNESS: Yes, I am.

22 GREG CLARK,

23 after having been previously sworn under oath, was
24 questioned and testified as follows:

25

DIRECT EXAMINATION

1

2 BY MR. FELDEWERT:

3 Q. For the record, would you please state your
4 name, by whom you're employed and in what capacity.

5 A. Greg Clark, employed by Concho as a geologist.

6 Q. Mr. Clark, you have previously testified before
7 this Division as a petroleum geologist; is that correct?

8 A. Yes, I have.

9 Q. And you've had your credentials accepted and
10 made a matter of public record?

11 A. Yes.

12 Q. Are you familiar with this particular
13 application?

14 A. I am.

15 Q. Are you familiar with this area of the lands
16 that are the subject this application?

17 A. Yes, I am.

18 MR. FELDEWERT: Mr. Examiner, I would
19 tender Mr. Clark, once again, as an expert witness in
20 petroleum geology.

21 EXAMINER EZEANYIM: Mr. Clark is so
22 qualified.

23 Q. (BY MR. FELDEWERT) Would you turn to what's
24 been marked as COG Exhibit Number 7, identify it,
25 please, and explain what it shows?

1 A. Yes. This is a regional structure map on top
2 of the Paddock Formation. Contour intervals are 25
3 feet. We have the outlying fields that are labeled in
4 blue. We have the Paddock producers that are identified
5 by red -- the solid red circle, and the Blinebry
6 producers are signified by the solid blue producers.
7 The yellow represents Concho acreage, and we've
8 identified the well, the Lee 3 Fee #1H, in which we are
9 wanting to drill.

10 The regional structure shows that we have a
11 dip that goes from the northwest to the southeast,
12 towards the basin, and this lies on the Delaware Basin
13 shelf edge of the bigger Delaware Basin complex.

14 Q. And do you see a fairly consistent structure,
15 then, across Section 3?

16 A. Yes, I do.

17 Q. No faulting? No pinchouts?

18 A. There are no geologic obstructions that would
19 hinder us from drilling this well as a horizontal.

20 Q. Did you create a stratigraphic cross section?

21 A. I did.

22 Q. If I turn to what's been marked as COG Exhibit
23 Number 8, does this exhibit identify the wells that are
24 utilized to create your cross section?

25 A. Yes, it does.

1 Q. And are these wells representative of your
2 area?

3 A. They are.

4 Q. If I then turn to what's been marked as COG
5 Exhibit Number 9, is this the corresponding
6 stratigraphic cross section from A to A prime?

7 A. Yes, it is.

8 Q. Why don't you explain to the Examiners what is
9 shown by Exhibit Number 9?

10 A. Sure. As stated before, this is a cross
11 section that goes from the south to the north,
12 respectively, and it's a stratigraphic cross section;
13 meaning, we've taken the structural component out.
14 We've flattened it on top of the Paddock Formation, and
15 that's represented by the datum and the arrow. The
16 purpose of this is to show the stratigraphic
17 relationship throughout the greater area from the
18 different fields and going through the area in which we
19 want to drill the Lee 3 Fee #1H.

20 You'll see that there is no major
21 thickening or thinning in these stratigraphic units, and
22 if you look at the log characteristics, they are all
23 very similar throughout the area.

24 You'll notice the wells that have the red
25 polygons or rectangles in the depth track, those are

1 representative of vertical wells that have been
2 completed in the Paddock Formation.

3 The well that is third from the right and
4 second from the right, those are pilot holes that we
5 have drilled -- that Concho has drilled to help us with
6 landing horizontal wells that have already been drilled
7 and completed in the area. Therefore, they have not
8 been completed in the vertical part of the wellbore and
9 don't show -- and does not represent any completion in
10 the vertical part.

11 The well that is on the left of the cross
12 section, that is a deep Morrow gas well and has not been
13 completed back to the Paddock Formation to date.

14 Q. What's the distinction between the solid red
15 vertical line that we see in the second well from the
16 left and then the dashes -- the red dashes we see in the
17 third line?

18 A. That is more of a limited-entry type
19 completion, where they were more selective on the perf
20 intervals. Therefore, it isn't representative of the
21 solid red rectangle.

22 Q. And your landing interval is identified with
23 the red -- what is that -- ellipsis, lateral interval?

24 A. That is correct. The bracket labeled "lateral
25 interval" is the lateral in which we intend to land the

1 horizontal.

2 Q. Mr. Clark, what have you concluded from your
3 analysis?

4 A. I have concluded that there are no major
5 geologic impediments that would keep us from developing
6 this area using horizontal wells. We feel that it can
7 be efficiently and economically developed using
8 horizontal wells. And also, on average, the whole
9 producing area will contribute more or less equally to
10 the overall production of the well.

11 Q. The Examiner asked whether the completed
12 interval in this well is going to comply with and meet
13 the setback requirements. Is that --

14 A. That is correct.

15 Q. If I turn to what's been marked as COG Exhibit
16 Number 10, is that a well diagram demonstrating
17 compliance with the Division's setback requirements?

18 A. Yes, it is.

19 Q. In your opinion, will the granting of this
20 application be in the best interest of conservation, the
21 prevention of waste and the protection of correlative
22 rights?

23 A. Yes.

24 Q. Were COG Exhibits 7 through 10 prepared by you
25 or compiled under your direction and supervision?

1 A. Yes, they were.

2 MR. FELDEWERT: Mr. Examiner, at this time
3 I would move the admission into evidence of COG Exhibits
4 7 through 10.

5 EXAMINER EZEANYIM: COG Exhibits 7 through
6 10 will be admitted.

7 (COG Operating, LLC Exhibit Numbers 7
8 through 10 were offered and admitted into
9 evidence.)

10 MR. FELDEWERT: That concludes my
11 examination of this witness.

12 CROSS-EXAMINATION

13 BY EXAMINER EZEANYIM:

14 Q. Mr. Clark, I have no questions for you, but
15 what's happening with that well in the east half-west
16 half of Section 3? When was that drilled?

17 A. We drilled that well last year, about the third
18 quarter. It's producing, and it's meeting our economic
19 model to date.

20 Q. Okay. That's what I wanted to hear. It's not
21 anything related to the hearing today.

22 A. Yes.

23 Q. Okay. You may step down. We're done.

24 MR. FELDEWERT: Thank you, Mr. Examiner.

25 EXAMINER EZEANYIM: At this point, Case

1 Number 15075 will be taken under advisement.

2 (Case Number 15075 concludes, 9:03 a.m.)

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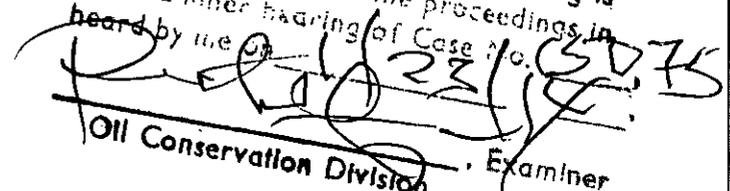
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15075
heard by me on 2/23/75.

Oil Conservation Division, Examiner

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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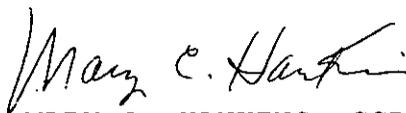
4 CERTIFICATE OF COURT REPORTER

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

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

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

19



20

MARY C. HANKINS, CCR, RPR
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Date of CCR Expiration: 12/31/2014

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