

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

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

CASE NO. 15115

ORIGINAL

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS

10 EXAMINER HEARING

11 May 1, 2014

12 Santa Fe, New Mexico

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14 BEFORE: PHILLIP GOETZE, CHIEF EXAMINER

18 This matter came on for hearing before the  
19 New Mexico Oil Conservation Division, Phillip Goetze,  
20 Chief Examiner, on Thursday, May 1, 2014, at the New  
21 Mexico Energy, Minerals and Natural Resources  
22 Department, 1220 South St. Francis Drive, Porter Hall,  
23 Room 102, Santa Fe, New Mexico.

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

1 APPEARANCES

2 FOR APPLICANT COG OPERATING, L.L.C.:

3 MICHAEL H. FELDEWERT, ESQ.  
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8 INDEX

|   | PAGE |
|---|------|
| 9 Case Number 15115 Called                    | 3    |
| 10 COG Operating, L.L.C.'s Case-in-Chief:     |      |
| 11 Witnesses:                                 |      |
| 12 Stuart Dirks:                              |      |
| 13       Direct Examination by Mr. Feldewert  | 3    |
| 14 Greg Clark:                                |      |
| 15       Direct Examination by Mr. Feldewert  | 11   |
| 16       Cross-Examination by Examiner Goetze | 16   |
| 17 Proceedings Conclude                       | 17   |
| 18 Certificate of Court Reporter              | 18   |

20 EXHIBITS OFFERED AND ADMITTED

|  |    |
|--|----|
| 21 COG Operating, L.L.C. Exhibit Numbers 1 through 5 | 10 |
| 22 COG Operating, L.L.C. Exhibit Numbers 6 through 9 | 16 |

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25

1 (9:40 a.m.)

2 EXAMINER GOETZE: So we are back on the  
3 record again, and we will continue with the next case,  
4 Case 15115, application of COG Operating, L.L.C. for a  
5 nonstandard spacing and proration unit and compulsory  
6 pooling, Eddy County, New Mexico.

7 Call for appearances.

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

12 EXAMINER GOETZE: Will the witnesses please  
13 stand and identify yourselves for the court reporter,  
14 and she will swear you in?

15 MR. CLARK: Greg Clark.

16 MR. DIRKS: Stuart Dirks.

17 (Mr. Dirks and Mr. Clark sworn.)

18 MR. FELDEWERT: Call our first witness.

19 STUART DIRKS,  
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. Would you please state for the record your  
25 name, identify by whom you're employed and in what

1 capacity?

2 A. My name is Stuart Dirks. I work for Concho  
3 Resources as a petroleum landman.

4 Q. And, Mr. Dirks, you have previously testified  
5 before this Division on a number of occasions as an  
6 expert in petroleum land matters, correct?

7 A. Yes, I have.

8 Q. Are you familiar with the application filed in  
9 this case?

10 A. Yes, I am.

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

13 A. Yes, I am.

14 MR. FELDEWERT: I would re-tender Mr. Dirks  
15 as an expert witness in petroleum land matters.

16 EXAMINER GOETZE: So qualified.

17 Q. (BY MR. FELDEWERT) Would you turn to what's  
18 been marked as COG Exhibit Number 1? First identify  
19 what this exhibit shows and then explain to the Examiner  
20 what the company seeks under this application.

21 A. This is a plat centered on Section 9, Township  
22 19 South, Range 26 East in Eddy County. COG's acreage  
23 position in Section 9 is highlighted in yellow.  
24 Vertical wells are represented with the dots. The  
25 horizontal wells are represented with the black lines.

1 The red line shows the location of our proposed  
2 Stonewall 9 Fee #2H well, the box showing the surface  
3 location and the circle showing the proposed bottom-hole  
4 location.

5 We seek the creation of a 160-acre  
6 nonstandard spacing and proration unit composing the  
7 east half of the west half of Section 9, 19 South, 26  
8 East. We'll be drilling from the Stonewall 9 Fee #2H  
9 well. We seek the pooling of certain mineral interests  
10 within the Yeso Formation within our proposed  
11 nonstandard unit, and we ask that COG Operating, L.L.C.  
12 be named operator.

13 Q. Mr. Dirks, has the Division recently approved  
14 similar -- or issued similar pooling orders for Section  
15 9?

16 A. Yes, they have.

17 Q. If I look to the well to the west on this  
18 particular exhibit, in the west half of the west half,  
19 which well is that?

20 A. That is the Stonewall 9 Fee #1H.

21 Q. And that has been approved by the Division?

22 A. Yes, it has.

23 Q. It's actually been drilled?

24 A. Yes, it has.

25 Q. Same with respect to the well to the east?

1 A. Correct.

2 Q. And that has actually been drilled, correct?

3 A. Yes, it has. That is the Stonewall 9 Fee #3H.

4 Q. If I then turn to what's been marked as COG  
5 Exhibit Number 2, is this the application for permit to  
6 drill that has been filed AND approved by the Division  
7 for your Stonewall 2H well?

8 A. Yes, it is.

9 Q. And provides the API number for this well?

10 A. Yes, it does.

11 Q. It identifies the pool and the pool code; does  
12 it not?

13 A. Yes, it does.

14 Q. And as with your other wells in this area, will  
15 the completed interval comply with the Division setback  
16 requirements?

17 A. Yes, it will.

18 Q. Is Section 9 all fee lands?

19 A. Yes, it is.

20 Q. If I turn to what's been marked as COG Exhibit  
21 Number 3, is that a lease tract map that identifies the  
22 owners in your proposed spacing unit, first by tract,  
23 and then on the second page, towards the bottom, their  
24 consolidated interest in the spacing unit?

25 A. Yes, it is.

1 Q. How have you identified on this exhibit the  
2 parties that you seek to pool?

3 A. By bold lettering and by the italicized  
4 lettering.

5 Q. On the second page?

6 A. Yes.

7 Q. Now, it looks like you have bolded a number of  
8 heirs and devisees, five different groups?

9 A. Yes, that's correct.

10 Q. What efforts did the company undertake to  
11 locate and lease the potential heirs of these mineral  
12 estates?

13 A. I did an extensive search of the records  
14 looking for any clues of anybody with the same name that  
15 we could contact that might be related or any addresses  
16 out of state where we could look at that county to find  
17 if any probate had been filed in that county.

18 Q. And have you located and found some of the  
19 heirs?

20 A. We have located everybody whom we believe to be  
21 an heir, yes.

22 Q. And have you been able to lease those  
23 individuals?

24 A. They are all leased, yes.

25 Q. Are there title notices associated with these

1 five estates?

2 A. Yes, there are.

3 Q. Is that why the company seeks to pool them at  
4 this point?

5 A. That's correct.

6 Q. Now, was notice of this hearing provided in a  
7 local newspaper directed at these estates?

8 A. Yes.

9 Q. Was it published in time for this particular  
10 hearing?

11 A. No, it was not.

12 Q. So is there a need to, in this case, continue  
13 the matter for two weeks to allow that Notice of  
14 Publication to meet the timelines that apply under the  
15 Division's rules?

16 A. Yes, there is.

17 Q. Now, the remaining party on here is OXY Y-1,  
18 correct?

19 A. Correct.

20 Q. What is the status with respect to that?

21 A. They have elected to participate in the well  
22 and have signed and returned our AFE, but they will not  
23 sign our operating agreement.

24 Q. So you have no governing agreement?

25 A. That's correct.

1 Q. If I turn to what's been marked as COG Exhibit  
2 Number 4, is that the well-proposal letter that was sent  
3 to OXY Y-1, as well as all of the other interest owners  
4 in the spacing unit?

5 A. Yes.

6 Q. And does it contain an AFE?

7 A. Yes.

8 Q. And are the costs reflected on this AFE  
9 consistent with what the company has incurred for  
10 drilling similar horizontal wells in this section?

11 A. Yes.

12 Q. If I look about halfway down on the first page  
13 of Exhibit Number 4, does it identify the overhead rates  
14 that the company seeks under this application?

15 A. Halfway down? It should.

16 Q. First page of Exhibit 4, the well-proposal  
17 letter.

18 A. Oh, the first page. I'm sorry. Yes. Yes, it  
19 does. I'm sorry.

20 Q. Which of the rates on there does the company  
21 seek to incorporate into this order?

22 A. The second one listed for horizontal wells,  
23 \$5,450 per month drilling, \$545 per month producing.

24 Q. And are these overhead rates consistent with  
25 the JOA for this area?

1 A. Yes, it is.

2 Q. Did the company indicate the effort to locate  
3 the leased mineral interest owners in the 40-acre tract  
4 surrounding the proposed nonstandard spacing unit?

5 A. Yes.

6 Q. And did the company include these known leased  
7 mineral interest owners in the notice of this hearing?

8 A. Yes.

9 Q. If I turn to what's been marked as COG Exhibit  
10 Number 5, is that an affidavit prepared by my office  
11 with the attached letters providing notice of the  
12 hearing of those affected parties?

13 A. Yes, it is.

14 Q. Mr. Dirks, were Exhibits 1 through 4 prepared  
15 by you or compiled under your direction and supervision?

16 A. Yes, they were.

17 MR. FELDEWERT: At this point,  
18 Mr. Examiner, I'd move admission into evidence of COG  
19 Exhibits 1 through 5, which includes my affidavit.

20 EXAMINER GOETZE: Exhibits 1 through 5 are  
21 admitted.

22 (COG Operating, L.L.C. Exhibit Numbers 1  
23 through 5 were offered and admitted into  
24 evidence.)

25 MR. FELDEWERT: That concludes my

1 examination of this witness.

2 BY EXAMINER GOETZE: So the only  
3 outstanding issue we have is Affidavit of Publication?

4 THE WITNESS: Yes, sir.

5 EXAMINER GOETZE: So we will look for that.

6 Otherwise, I have no questions for you,  
7 sir. Thank you.

8 THE WITNESS: Thank you.

9 MR. FELDEWERT: Mr. Examiner, with your  
10 permission, I'd call the next witness.

11 EXAMINER GOETZE: Very good.

12 GREG CLARK,

13 after having been previously sworn under oath, was  
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. FELDEWERT:

17 Q. Would you please state your name, identify by  
18 whom you're employed and in what capacity?

19 A. Greg Clark, Concho, as a petroleum geologist.

20 Q. Mr. Clark, you have likewise previously  
21 testified before this Division on numerous occasions,  
22 correct?

23 A. Yes, I have.

24 Q. And have your credentials as an expert in  
25 petroleum geology been accepted and made a matter of

1 public record?

2 A. Yes.

3 Q. Are you familiar with this application?

4 A. Yes, I am.

5 Q. And have you conducted a geologic study of the  
6 areas -- the lands that are the subject of this  
7 application?

8 A. Yes, I have.

9 MR. FELDEWERT: Mr. Examiner, I would  
10 re-tender Mr. Clark as an expert witness in petroleum  
11 geology.

12 EXAMINER GOETZE: He is so qualified, and  
13 also as a very good Paddock producer expert.

14 MR. FELDEWERT: I'm going to add that to my  
15 questioning.

16 EXAMINER GOETZE: (Laughter.)

17 Q. (BY MR. FELDEWERT) Mr. Clark, would you turn to  
18 what's marked been as COG Exhibit Number 6? First  
19 identify it and then explain what it shows.

20 A. Yes. This is a regional structure map on top  
21 of the Paddock showing the various offset fields in  
22 blue. It also represents our -- our acreage is  
23 represented in yellow in Section 9, and it also shows  
24 the well and orientation in which we propose to drill  
25 the Stonewall 9 Fee #3H.

1                   You'll see that we have a regional drip  
2 that goes from the northwest to the southeast basinward,  
3 and the contour interval is 25 feet, with every 250 feet  
4 bolded. You can also see that there are identified  
5 producers in the Paddock and Blinebry, with the Paddock  
6 wells represented in red and the Blinebry wells  
7 represented in blue.

8                   The purpose of this map is to show that  
9 there are no regional or local geologic impediments that  
10 would keep us from drilling and developing the Stonewall  
11 9 Fee #3H as a full-section horizontal well.

12           Q.    Did you create a cross section for this  
13 section?

14           A.    Yes, I did.

15           Q.    Turn to what's been marked as COG Exhibit  
16 Number 7. Does that identify the wells that you have  
17 utilized for your cross section?

18           A.    Yes, it does.

19           Q.    And have you refined your cross-section  
20 analysis, Mr. Clark?

21           A.    Yes, I have. Previously -- at previous  
22 hearings, we would show a cross section that showed a  
23 more regional relationship in terms of the stratigraphy  
24 and the rock characteristics that extend from Cemetery  
25 and zigzag to Dayton like a lightning rod, and we have

1 since decided to shorten that cross-section interval to  
2 focus more locally, since we have proven up the area to  
3 be productive.

4 Q. With respect to this particular cross section,  
5 you have actually been able to utilize a pilot hole in  
6 Section 9, correct?

7 A. That is correct.

8 Q. And in your opinion, are the wells that you  
9 have refined here representative of the area of  
10 interest?

11 A. Yes, they are.

12 Q. If I then turn to what's been marked as COG  
13 Exhibit Number 8, is this the corresponding  
14 stratigraphic cross section A to A prime?

15 A. Yes, it is.

16 Q. Would you please walk us through this exhibit?

17 A. I sure will. Again, this is a stratigraphic  
18 cross section. The structural component has been taken  
19 out in order to focus on the similarities and the  
20 stratigraphy and the lot characteristics. So you'll see  
21 the well to the left, which is the pilot hole for the  
22 Stonewall 9 Fee #1H, that we drilled, and then also the  
23 pilot hole for the Lee 3 Fee #6H in which we drilled the  
24 horizontal well, and then a well to the south part of  
25 the Dayton field that shows the produced interval in the

1 Paddock that is represented by the red polygon in the  
2 middle of the depth track.

3           So if you look at this, you'll see the  
4 Glorieta. The top of the Glorieta is in yellow. The  
5 top of the Paddock is in red, and then the Blinebry,  
6 which is the base of the Paddock interval, is in blue.  
7 You'll see no major thickening or thinning throughout  
8 the stratigraphic interval in this localized area. And  
9 if you look at the porosity curves, which are on the  
10 right of the depth track and the gamma rays, you'll see  
11 that the rock characteristics are very similar.

12         Q.    What conclusions have you drawn, Mr. Clark?

13         A.    I've concluded that this area can be  
14 efficiently and economically developed using  
15 full-section horizontals, that there are no geologic  
16 impediments structurally or stratographically that would  
17 keep us from developing these wells using full-section  
18 horizontals and that the entire producing interval will  
19 contribute more or less on average to the total  
20 production of the well.

21         Q.    And will this particular well comply with the  
22 Division's setback requirements?

23         A.    Yes, it will.

24         Q.    And if I turn to what's been marked as COG  
25 Exhibit Number 9, is this a diagram showing compliance

1 with the Division's setback requirements?

2 A. Yes, it is.

3 Q. In your opinion, will the granting of this  
4 application be in the best interest of conservation, the  
5 prevention of waste and the protection of correlative  
6 rights?

7 A. Yes, it will.

8 Q. Mr. Clark, were COG Exhibits 6 through 9  
9 prepared by you or compiled under your direction and  
10 supervision?

11 A. Yes, they were.

12 MR. FELDEWERT: Mr. Examiner, I'd move the  
13 admission into evidence of COG Exhibits 6 through 9.

14 EXAMINER GOETZE: Exhibits 6 through 9 are  
15 so added.

16 (Alamo Permian Resources, LLC Exhibit  
17 Numbers 6 through 9 were offered and  
18 admitted into evidence.)

19 MR. FELDEWERT: And that concludes my  
20 examination of this witness.

21 CROSS-EXAMINATION

22 BY EXAMINER GOETZE:

23 Q. One question for you, Mr. Clark.

24 A. Sure.

25 Q. With regard to your two other Stonewalls, how

1 has the production been on those?

2 A. The production is still very -- you know, very  
3 soon. We don't have a lot of production on it, but it's  
4 meeting -- it's meeting our economic and production  
5 models at the time, both of them.

6 Q. So no surprises?

7 A. No surprises, no, sir.

8 Q. Very good.

9 EXAMINER GOETZE: I have no further  
10 questions for this witness.

11 MR. FELDEWERT: Mr. Examiner, that  
12 concludes our presentation, and I'd ask that the matter  
13 now be continued for two weeks to allow the submission  
14 at that time of the Notice of Affidavit for the local  
15 newspaper directed at the five estates.

16 EXAMINER GOETZE: At your request, we will  
17 this to the May 15th hearing, and we'll wait for  
18 affidavit at that time. Thank you.

19 (Case Number 15115 concludes, 9:55 a.m.)

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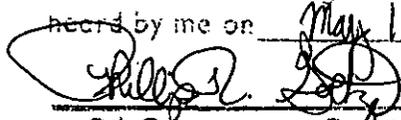
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 15115  
heard by me on May 1, 2014

  
\_\_\_\_\_, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3  
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 

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