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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:

APPLICATION OF COG OPERATING, LLC CASE NO. 15151
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 29, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, on Thursday, May 29, 2014, 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
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APPEARANCES

FOR APPLICANT COG OPERATING, LLC:

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EXHIBITS OFFERED AND ADMITTED

COG Operating, LLC Exhibit Numbers 1 through 5	7
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1 (2:03 p.m.)

2 EXAMINER GOETZE: That leaves us with one
3 last case, and that is Case 15151, 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. RANKIN: Mr. Examiner, Adam Rankin
8 appearing on behalf of COG. I have two witnesses for
9 this hearing.

10 EXAMINER GOETZE: Are these new witnesses?

11 MR. RANKIN: Mr. Examiner, these witnesses
12 have previously been sworn already. My first witness,
13 I'd like to call Mr. Joseph Scott.

14 Now, Mr. Examiner, I'd like the record to
15 reflect in this case that Mr. Scott's been previously
16 sworn to testify today and that his credentials as an
17 expert in petroleum land matters have been recognized
18 and accepted as a matter of record by the Division.

19 EXAMINER GOETZE: So accepted.

20 JOSEPH SCOTT,
21 after having been previously sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. RANKIN:

25 Q. Mr. Scott, will you please explain to the

1 Examiner what it is COG is seeking with this application
2 today?

3 A. We seek to create a 160-acre pooling and
4 proration unit in order to pool the east half-west half
5 of Section 4, 19 South, 26 East in order to pool all the
6 mineral owners in the Yeso Formation and to dedicate
7 these lands for a unit for the Sherman 4 Fee #2H.

8 Q. And is the proposed proration unit depicted in
9 what's been marked as Exhibit 1 in the packet?

10 A. Yes. The yellow indicates Concho's acreage.
11 The square box indicates the surface-hole location, and
12 the circle shows the bottom-hole location. And the red
13 line shows the south-to-north horizontal orientation
14 well we propose to drill..

15 Q. In this case, an APD has been filed and an API
16 number has been assigned to this well?

17 A. Yes, it has. It's located on the front of the
18 packet.

19 Q. In this case, Section 4, are these all fee
20 lands?

21 A. Yes, they are.

22 Q. And Exhibit Number 2, is this a lease tract
23 depicting the ownership of the area to be pooled?

24 A. Yes. You can see in the east half-west half of
25 the plat, it shows the two tracts. Also the tracts show

1 the ownership in each tract. At the bottom, there is
2 the ownership tabulation of the working interest unit,
3 and the party that we seek to pool is OXY-Y1 Company as
4 an uncommitted owner. We have sent them an AFE, an
5 operating agreement. They're currently under review of
6 our proposal but have not yet come to an agreement with
7 us at this point.

8 Q. Exhibit Number 4, is that a copy -- let me
9 rephrase that. Behind Exhibit Number 4, is that a copy
10 of the affidavit from your attorney indicating that
11 notice was provided to the parties proposed to be
12 pooled?

13 A. Yes.

14 Q. Does that include the list of the parties being
15 pooled?

16 A. Yes.

17 Q. As well as a sample letter that was sent to
18 OXY-Y1?

19 A. Yes.

20 Q. In addition, did COG notice all the offsetting
21 interest owners surrounding the proposed proration unit?

22 A. Yes.

23 Q. Is that the letter that's included also in
24 Exhibit Number 4?

25 A. Yes.

1 Q. And as well, are the green cards, certified
2 mail receipts, included in Exhibit Number 4?

3 A. Yes.

4 Q. You testified that COG, or Concho, had proposed
5 this well to OXY-Y1?

6 A. Yes.

7 Q. Is a copy of that well proposal behind Exhibit
8 Number 5?

9 A. Yes.

10 Q. And did you include an AFE with that
11 well-proposal letter?

12 A. Yes.

13 Q. Are the costs reflected in the AFE consistent
14 with what COG has incurred for drilling similar
15 horizontal wells in the area?

16 A. Yes.

17 Q. Has COG made an estimate of the overhead costs
18 estimated while drilling and producing the well?

19 A. Yes. And that is \$5,450 for drilling and \$545
20 for the producing rate.

21 Q. And are those costs consistent with JOAs and
22 other agreements in the area?

23 A. Yes.

24 Q. Does COG also request that this exhibit [sic]
25 be incorporated into this order in order to provide for

1 adjustments periodically in accordance with COPAS
2 accounting procedures?

3 A. Yes.

4 Q. Do you also request that the maximum 200
5 percent risk penalty be assessed to the interest owners?

6 A. Yes.

7 Q. Do you also request that COG be appointed the
8 operator of the well and of the unit?

9 A. Yes.

10 Q. Mr. Scott, were Exhibits 1 through 5 prepared
11 by you or under your supervision?

12 A. Yes.

13 MR. RANKIN: Mr. Examiner, I would move to
14 admit Exhibits 1 through 5 into the record.

15 EXAMINER GOETZE: Exhibits 1 through 5 are
16 admitted.

17 (COG Operating, Inc. Exhibit Numbers 1
18 through 5 were offered and admitted into
19 evidence.)

20 MR. RANKIN: No further questions.

21 EXAMINER GOETZE: And I have no questions
22 on this one. It's pretty straightforward. Thank you.

23 THE WITNESS: Thank you.

24 MR. RANKIN: Thank you, Mr. Scott.

25 I'd like to call my next witness, Mr. Greg

1 Clark.

2 EXAMINER GOETZE: You may do so.

3 MR. RANKIN: Mr. Examiner, I'd like to have
4 the record reflect that Mr. Clark has previously given
5 sworn testimony today and that he has been already
6 accepted as an expert in petroleum geology matters.

7 EXAMINER GOETZE: He is so qualified.

8 GREG CLARK,
9 after having been previously sworn under oath, was
10 questioned and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. RANKIN:

13 Q. Mr. Clark, have you reviewed the geology and
14 the land that are subject to this application?

15 A. Yes, I have.

16 Q. Did you prepare a study of the geology?

17 A. I have.

18 Q. Would you please review for the Examiner
19 Exhibits 6, 7 -- 6, 7, 8 and 9?

20 A. Yes. Starting on Exhibit Number 6, this is a
21 regional structure map on top of the Paddock. You'll
22 see that the structural dip is from the northwest to the
23 southeast. We are on the Delaware Shelf margin in terms
24 of the Greater Delaware Basin. So the Basin extends to
25 the southeast, and, again, we are on the Shelf margin.

1 Concho's acreage is in yellow. In red
2 represents the Sherman 4 Fee #2H in which we intend to
3 drill as a full-section horizontal, with the surface
4 location being to the south and, therefore, drilling it
5 to the north.

6 You'll see the producing fields in the
7 Paddock and Blinebry are represented in the blue boxes.
8 And also, the wells that are produced in the Paddock are
9 represented in red, and the wells produced in the
10 Blinebry are represented in blue.

11 The purpose of this map is to show that
12 there are no major geologic structural components that
13 would keep us from drilling this well as a full-section
14 horizontal. There is no major faulting, folding or
15 things of that nature that would keep us -- as an
16 impediment from drilling this well.

17 Q. And Exhibit Number 7?

18 A. Yes. Number 7 is a map of the same area with
19 the structure map taking off. Its purpose is to show
20 the line of section, which is going to be the next
21 exhibit, at A to A prime. So it goes from a south to a
22 northeasterly direction, and it covers the area in which
23 we intend to drill the Sherman 4 Fee #2H.

24 Q. And Exhibit Number 8, is that the cross
25 section?

1 A. This is the actual cross section. Again, it
2 goes from A to A prime, from the south to the north and
3 the east. You'll see that this is a stratigraphic cross
4 section, where the structural component is being taken
5 out. It's been hung on top of the Paddock. That is the
6 datum. The purpose for showing the stratigraphic
7 section is to show the stratigraphic relationship in the
8 Paddock between the wells in the area that we feel
9 represent the area in which we want to drill the well in
10 question today.

11 You'll see that the lateral interval is
12 depicted in red. That's the interval in which we intend
13 to land the horizontal well. The well on the right and
14 the depth track has a red polygon that represents the
15 perforated interval within the Paddock and has produced
16 from the Paddock in the vertical well.

17 And then the well to the left is the
18 Stonewall 9 Fee #1H, which was a pilot hole, and then
19 the Sherman 4 Fee #1, which is a vertical well that COG
20 has drilled and has currently tested in the Blinebry.
21 Therefore, it has not been completed in the Paddock.
22 And obviously, the pilot hole will not be completed in
23 the pilot hole -- in the Paddock interval in the pilot
24 hole.

25 As you'll see, the log characteristics are

1 very similar. We do not see any major changes in terms
2 of the overall porosity and overall lithologies
3 according to the log curve in these wells.

4 Q. Mr. Clark, is the target formation continuous
5 across the entire proration --

6 A. Yes.

7 Q. Based on your analysis of the geology of the
8 lands subject to this application, have you made any
9 conclusions --

10 A. Yeah.

11 Q. -- based on the -- I guess let me rephrase
12 that.

13 Have you come to any conclusions on the
14 ability of the horizontal well to efficiently and
15 effectively drain the proposed unit?

16 A. Yes. We feel that there are no geologic
17 impediments, either stratigraphically or structurally,
18 that would keep us from developing this area using a
19 full-section horizontal. Also feel that drilling -- we
20 can drill this well economically and efficiently,
21 produce this area using a full-section horizontal, and
22 that each 40 in the nonstandard unit will contribute, on
23 average, more or less equally to the total production of
24 the well.

25 Q. Mr. Clark, will this well comply with the

1 setback requirements in the Division rules?

2 A. Yes, it will.

3 Q. And that's shown in Exhibit Number 9?

4 A. Yes.

5 Q. Mr. Clark, in your opinion, will the granting
6 of COG's application be in the best interest of
7 conservation, the prevention of waste and the protection
8 of correlative rights?

9 A. Yes.

10 MR. RANKIN: Mr. Examiner, I would move
11 into admission Exhibits 6, 7, 8 and 9.

12 EXAMINER GOETZE: Exhibits 6, 7, 8 and 9
13 are so entered.

14 (COG Operating, Inc. Exhibit Numbers 6
15 through 9 were offered and admitted into
16 evidence.)

17 MR. RANKIN: And I pass the witness.

18 EXAMINER GOETZE: Again, your testimony is
19 thorough. You did use "geologic impediment" four times
20 in the two testimonies. Mr. Ezeanyim would be very
21 proud of you. But at this point, your presentation is
22 thorough, and I have no more questions.

23 THE WITNESS: Thank you.

24 MR. RANKIN: Thank you, Mr. Examiner. That
25 concludes our presentation in this case.

1 EXAMINER GOETZE: On that basis, we will go
2 ahead and say Case 15151 is taken under advisement. And
3 this is the close of this hearing.

4 (Case Number 15151 concludes, 2:14 p.m.)
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I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15151
heard by me on May 29 2014.
Phillip A. Goetze, Examiner
Oil Conservation Division

25

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 *Mary C. Hankins*

21 MARY C. HANKINS, CCR, RPR
22 Paul Baca Court Reporters, Inc.
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2014
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