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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. 15257
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 8, 2015

Santa Fe, New Mexico

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BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and Gabriel Wade, Legal Examiner, on Thursday, January 8, 2015, 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
New Mexico CCR #20
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APPEARANCES

FOR APPLICANT COG OPERATING, LLC:

JORDAN L. KESSLER, ESQ.
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INDEX

PAGE
3

Case Number 15257 Called	3
COG Operating, LLC's Case-in-Chief:	
Witnesses:	
Pedie Monta:	
Direct Examination by Ms. Kessler	5
Cross-Examination by Examiner McMillan	11
Greg Clark:	
Direct Examination by Ms. Kessler	13
Proceedings Conclude	18
Certificate of Court Reporter	19

EXHIBITS OFFERED AND ADMITTED

COG Operating, LLC Exhibit Numbers 1 through 6	11
COG Operating, LLC Exhibit Numbers 7 through 10	18

1 (9:40 a.m.)

2 EXAMINER McMILLAN: Are Cases 15257 and 258
3 going to be combined?

4 MS. KESSLER: No, they are not.

5 EXAMINER McMILLAN: With that in mind, I'd
6 like to call Case 15257, application of COG Operating,
7 LLC for a nonstandard spacing and proration unit and
8 compulsory pooling, Eddy County, New Mexico.

9 Call for appearances.

10 MS. KESSLER: Jordan Kessler from Holland &
11 Hart, Santa Fe, for the Applicant.

12 EXAMINER McMILLAN: Any other appearances?

13 MS. KESSLER: Mr. Examiner, I have two
14 witnesses today.

15 EXAMINER McMILLAN: Okay.

16 Will you please get them sworn in?

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

18 MS. KESSLER: Mr. Examiner, I'd call my
19 first witness, please.

20 EXAMINER McMILLAN: Please proceed.

21 PEDIE MONTA,

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

24 DIRECT EXAMINATION

25 BY MS. KESSLER:

1 Q. Can you please state your name for the record
2 and tell the Examiner by whom you're employed and in
3 what capacity?

4 A. I'm Pedie Monta, COG Operating, LLC. I'm a
5 landman.

6 Q. Have you previously testified before the
7 Division?

8 A. No.

9 Q. Can you please outline your educational
10 background?

11 A. BBLA -- BBA in petroleum land management, Texas
12 Tech University.

13 Q. And what year did you graduate?

14 A. May of 2013.

15 Q. Have you worked for COG since you graduated?

16 A. Yes, that is correct.

17 Q. And has your work experience included the
18 Permian Basin?

19 A. Yes, that is correct.

20 Q. For about how long?

21 A. 1.5 years.

22 Q. Are you a member of any professional
23 associations?

24 A. Yes, I am, PBLA for a year and half and AAPL
25 for a year and a half.

1 Q. Are you familiar with the application filed in
2 this case?

3 A. Yes, I am.

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

6 A. Yes, I am.

7 Q. Has an APD been approved for this well?

8 A. Yes.

9 MS. KESSLER: Mr. Examiner, I would tender
10 Mr. Monta as an expert in petroleum land matters.

11 EXAMINER McMILLAN: So qualified.

12 Q. (BY MS. KESSLER) Let's begin by discussing the
13 application filed by COG, if you could turn to what's
14 been marked as COG Exhibit Number 1 and identify what
15 COG seeks under this application.

16 A. COG seeks to create a 160-acre, more or less,
17 nonstandard spacing and proration unit comprised of the
18 west half-east half of Section 10, Township 19 South,
19 Range 26 East, for the drilling of the Bragg 10 Fee #3H
20 well.

21 Q. Do you seek to pool all mineral interests in
22 the Yeso Formation?

23 A. Yes, I do.

24 Q. And do you have an API number for this well?

25 A. Yes, we do. It is 3001542798.

1 Q. What pool is associated with the Bragg?

2 A. Pool Code Number 3250, the Atoka-Glorieta-Yeso.

3 Q. You said 3250 for the pool code; is that
4 correct?

5 A. That is correct.

6 Q. What is the character of the lands?

7 A. Fee.

8 Q. And do special pool rules apply?

9 A. No.

10 Q. So the statewide 330-foot setback will apply to
11 this well?

12 A. That is correct.

13 Q. If you could turn to COG Exhibit Number 2, what
14 is this exhibit?

15 A. This shows the ownership by tract, and the
16 ownership percentage is the working interest tabulation
17 of all the working interests in the unit.

18 Q. The highlighted yellow at the bottom, under
19 Tract 1, is that the uncommitted interest?

20 A. Yes, that is correct.

21 Q. And is this a working interest owner?

22 A. Yes, that is correct.

23 Q. So this is the uncommitted interest that you
24 seek to pool?

25 A. Yes.

1 Q. With COG Exhibit Number 3, is this a
2 well-proposal letter that you sent to the party whom you
3 seek to pool?

4 A. Yes, it is.

5 Q. What date was that letter sent?

6 A. This letter was sent November 3, 2014.

7 Q. Did you undertake additional efforts to attempt
8 to reach a voluntary agreement with this party?

9 A. Yes. We have engaged in numerous conversations
10 and negotiations but have yet to reach an agreement with
11 OXY-Y1.

12 Q. Exhibit Number 4 is an AFE for this well,
13 correct?

14 A. Yes.

15 Q. Was this sent with the well-proposal letter?

16 A. Yes, it was.

17 Q. And are the costs reflected on this AFE
18 consistent with what COG has incurred for drilling
19 similar horizontal wells in this area?

20 A. Yes, they are.

21 Q. Does the well-proposal letter -- turning back
22 to Exhibit Number 3 for a moment, does this
23 well-proposal letter identify the requested overhead and
24 administrative costs?

25 A. It does not in this letter, but we have

1 attached an AFE that does -- or -- as well as an LOA
2 [sic], which includes Exhibit C, which does identify the
3 costs.

4 Q. And what are the administrative costs while
5 drilling this well and also while producing this well,
6 if it is successful?

7 A. It's \$5,450 a month while drilling and \$545 a
8 month while producing.

9 Q. Are these costs in line with what COG and other
10 operators in the area charge for similar wells?

11 A. Yes, they are.

12 Q. Do you ask that these administrative and
13 overhead costs be incorporated into any order that
14 results from this hearing?

15 A. Yes, I do.

16 Q. Do you also ask that it be adjusted in
17 accordance with the appropriate accounting procedures?

18 A. Yes.

19 Q. And with respect to the uncommitted interest
20 owner, OXY-Y1, do you request the Division impose a 200
21 percent risk penalty?

22 A. Yes, I do.

23 Q. Let's talk about formation of this nonstandard
24 unit. Did COG identify the leased mineral interests in
25 the 4-acre tract surrounding the proposed nonstandard

1 unit?

2 A. Yes.

3 Q. And on COG Exhibit Number 5, does it show the
4 plat and a list of the interest owners that you noticed
5 for purposes of this hearing?

6 A. Yes.

7 Q. Is Exhibit Number 6 an affidavit signed by me,
8 along with corresponding letters giving people notice --
9 giving both the pooled parties and the offset interest
10 owners notice of this hearing?

11 A. Yes, it is.

12 Q. Was it necessary to publish notice, or were all
13 of the interests to be pooled locatable?

14 A. No. It was not necessary.

15 Q. So you were able to locate all of your --

16 A. That is correct.

17 Q. Great.

18 And were Exhibits 1 through 5 prepared by
19 you or compiled under your direction or supervision?

20 A. Yes.

21 MS. KESSLER: Mr. Examiner, I would move
22 admission of COG Exhibits 1 through 6, which includes my
23 affidavit.

24 EXAMINER McMILLAN: Exhibits 1 through 6
25 may now be accepted as part of the record.

1 (COG Operating, LLC Exhibit Numbers 1
2 through 6 were offered and admitted into
3 evidence.)

4 MS. KESSLER: And that concludes my
5 examination of this witness.

6 CROSS-EXAMINATION

7 BY EXAMINER McMILLAN:

8 Q. I have a question about your Exhibit Number 2.

9 A. Yes, sir.

10 Q. I assume you couldn't make a deal with OXY-Y1
11 on both tracts, right?

12 A. Could you repeat the question?

13 Q. Okay. If you look at Exhibit 2 that has Tracts
14 1 and 2 --

15 A. Uh-huh.

16 Q. -- I notice that in -- okay. It's just --
17 okay. So in Tract 1, you were just unable to make a
18 deal with OXY, correct?

19 A. No. That is -- it is in both Tracts 1 and 2
20 that we were unable to reach an agreement.

21 Q. And --

22 A. No. I apologize. Just Tract 1. OXY is not in
23 Tract 2, so --

24 Q. Okay. And then I guess the C-102, how -- your
25 dedicated acres are 159.04 acres, but then when you look

1 at it, your lots -- you're using units. So that
2 question needs to be clarified. You're using units
3 instead of lots, and it's 159.04. Is this correct?
4 Looking at the C-102 --

5 A. I don't -- I'm not for sure on the answer right
6 now. I can figure that out and get back to you later.

7 Q. Yes. Okay. Because I do expect that.

8 MS. KESSLER: Mr. Examiner, I believe that
9 this is part of the APD, and the C-102 is not included
10 as part of this exhibit package. But we would be happy
11 to supplement our exhibits with the C-102 --

12 EXAMINER McMILLAN: Okay.

13 MS. KESSLER: -- and provide clarification
14 with respect to the lot and -- the C-101 is included as
15 Exhibit 1. It's not the C-102.

16 EXAMINER McMILLAN: Well, Exhibit 1 is the
17 C-102.

18 EXAMINER WADE: The C-101 is not included.

19 MS. KESSLER: The C-101 [sic]. I
20 apologize.

21 EXAMINER WADE: So you would expect the
22 C-101 to be e-mailed to you?

23 EXAMINER McMILLAN: Yeah. I want the --
24 just e-mail it to me.

25 MS. KESSLER: Okay. With a clarification

1 of what you were asking?

2 EXAMINER McMILLAN: Yeah.

3 I have no further questions at this time.

4 And thank you very much.

5 THE WITNESS: Thank you, Mr. Examiner.

6 MS. KESSLER: I will call my next witness.

7 EXAMINER McMILLAN: Yes, please.

8 GREG CLARK,

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

11 DIRECT EXAMINATION

12 BY MS. KESSLER:

13 Q. Would you please state your name for the record
14 and tell the Examiner by whom you are employed and in
15 what capacity?

16 A. Sure. Greg Clark, COG Operating, LLC as a
17 geologist.

18 Q. Have you previously testified before the
19 Division?

20 A. Yes, I have.

21 Q. And at that time, were your credentials
22 accepted and made a matter of public record?

23 A. Yes, they were.

24 Q. Are you familiar with the application filed in
25 this case?

1 A. Yes, I am.

2 Q. And have you conducted a study of the lands
3 that are the subject of this application?

4 A. I have.

5 MS. KESSLER: I tender Mr. Clark as an
6 expert witness in petroleum geology.

7 EXAMINER McMILLAN: So qualified.

8 Q. (BY MS. KESSLER) Mr. Clark, could you turn to
9 Exhibit 7 -- COG Exhibit 7? Is this a structure map
10 that you've prepared for the hearing today?

11 A. Yes, it is.

12 Q. Could you walk us through this exhibit?

13 A. Sure. This is a regional structure map on top
14 of the Paddock Formation, and as you will see, you have
15 regional dip that goes from the northwest to the
16 southeast basinward. We are on the Delaware
17 shelf-margin complex. You will see in yellow is
18 representative in Section 10 of COG acreage, and we have
19 depicted in red the Bragg 10 Fee #3H in which we intend
20 to drill. There are various fields that are highlighted
21 in the light blue with the name of the fields, and we
22 feel this area is structurally analogous to those other
23 field areas.

24 You'll see that the contour interval is on
25 25-foot, and there are no -- as you'll see, there is no

1 major faulting or folding or anything structurally that
2 would impede us from drilling this well as a
3 full-section horizontal.

4 I will also note that there are Paddock and
5 Blinebry producers in the area, and they are depicted by
6 the red and blue.

7 Q. Great.

8 If you could turn to Exhibit 8, is this a
9 cross-section map that you prepared?

10 A. Yes. This is the same map as previous with the
11 structure taken off of it. And the main purpose of this
12 is to show the line of section that would be the next
13 exhibit that goes from the south to the north, labeled A
14 to A prime. It includes wells that we feel are
15 representative of the area and also encompasses the area
16 in which we intend to drill the Bragg 10 Fee #3H.

17 Q. And the well logs for these wells that you've
18 identified are included as Exhibit 9, correct?

19 A. That is correct.

20 Q. What have you identified with these wells?

21 A. As you look at Exhibit 9, again, this is the
22 cross section that was depicted in the previous exhibit,
23 and it goes from the south to the north, from A to A
24 prime, with the south and A being on the left and north
25 and A to A prime being on the right.

1 This is a stratigraphic cross section where
2 the structural component has been taken out. It's been
3 flattened on top of the Paddock. The main purpose here
4 is to show the stratigraphic similarities and
5 relationships between these three wells and how they are
6 very consistent, and there are not any stratigraphic
7 issues or pinch-outs that would keep us from drilling
8 the Bragg 10 Fee #3H as a full-section horizontal.

9 You will note that in the left tract is the
10 gamma ray and in the right tract are the porosities.
11 Also, the well on the far right, you will see in the
12 depth track, there is a red rectangle that is depicted
13 of a perforated and completed interval within the
14 Paddock Formation.

15 And if you will look at the well that's on
16 the left, that is the Bragg 10 Fee #1H pilot hole in
17 which we drilled, completed and are currently producing
18 the lateral interval associated with that well.

19 And then the well in the middle is the Lee
20 3 Fee #6H pilot hole in which we also drilled and
21 completed and are currently producing out of the same
22 stratigraphic interval.

23 On the left -- on the well on the left, you
24 will see the lateral interval that is labeled by the red
25 bracket, and that is the interval in which we intend to

1 land the Bragg 10 Fee #3H.

2 Q. What conclusions have you drawn about the
3 target interval with respect to these type logs?

4 A. There are no geologic impediments that would
5 keep us from developing this area using a full-section
6 horizontal. This area can economically and efficiently
7 be developed using horizontal wells, and the production
8 from this nonstandard unit will, on average, more or
9 less produce equally to the production of the well.

10 Q. Will the completed interval comply with state
11 requirements for the Horizontal Well Rules?

12 A. Yes, it will.

13 Q. This will be a 330-foot setback, correct?

14 A. Correct.

15 Q. Is this identified in Exhibit Number 10?

16 A. Yes.

17 Q. In your opinion, will the granting of COG's
18 application be in the best interest of conservation, the
19 prevention of waste and the protection of correlative
20 rights?

21 A. Yes.

22 Q. Were COG Exhibits 7 through 10 prepared by you
23 or under your direction or supervision?

24 A. Yes, they were.

25 MS. KESSLER: Mr. Examiner, I'd move

1 Exhibits 7 through 10 into evidence.

2 EXAMINER McMILLAN: Exhibits 7 through 10
3 may be accepted as part of the record.

4 (COG Operating, LLC Exhibit Numbers 7
5 through 10 were offered and admitted into
6 evidence.)

7 MS. KESSLER: And that concludes my
8 examination of this witness.

9 EXAMINER McMILLAN: To be honest with you,
10 I don't have any questions at this time.

11 THE WITNESS: Okay.

12 EXAMINER McMILLAN: Case Number 15257 will
13 be taken under advisement.

14 And thank you very much.

15 THE WITNESS: Thank you.

16 (Case Number 15257 concludes, 9:56 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. _____,
heard by me on _____.

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

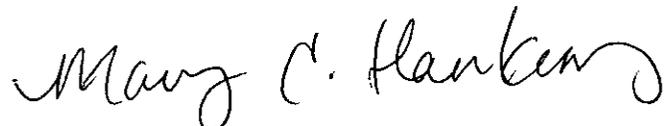
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CERTIFICATE OF COURT REPORTER

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
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