

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

ORIGINAL

CASE 15331

APPLICATION OF COG OPERATING, LLC, FOR
A NON-STANDARD SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

JUNE 25, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, William V. Jones, Examiner, and Gabriel
Wade, Legal Examiner, on June 25, 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: ELLEN H. ALLANIC
NEW MEXICO CCR 100
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

For the Applicant

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I N D E X

CASE NUMBER 15331 CALLED

COG OPERATING, LLC, CASE-IN-CHIEF:

WITNESS JEFF LIERLY

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WITNESS ALLISON STUMPF

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E X H I B I T I N D E X
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1 (Time noted 11:48 a.m.)

2 EXAMINER McMILLAN: I would like to take
3 this time to call case no. 15331, Application of COG
4 Operating for a non-standard spacing and proration unit
5 and compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler
8 from Holland and Hart in Santa Fe on behalf of the
9 applicant.

10 EXAMINER McMILLAN: Would your witnesses
11 please be sworn in.

12 (Whereupon, the presenting witnesses were
13 administered the oath.)

14 EXAMINER McMILLAN: Please proceed.

15 JEFF LIERLY

16 having been first duly sworn, was examined and testified
17 as follows:

18 DIRECT EXAMINATION

19 BY MS. KESSLER:

20 Q. Please state your name for the record and
21 identify by whom you are employed and in what capacity?

22 A. Jeff Lierly. I'm a landman for COG Operating,
23 LLC, on the New Mexico Basin.

24 Q. Have you previously testified before the
25 Division?

1 A. Yes, I have.

2 Q. Were your credentials as a petroleum landman
3 accepted and made a matter of record?

4 A. Yes, they were.

5 Q. Are you familiar with the application filed in
6 this case?

7 A. Yes, I am.

8 Q. And are you familiar with the status of the lands
9 in the subject area?

10 A. Yes, I am.

11 MS. KESSLER: I would tender Mr. Lierly as
12 an expert in petroleum land matters.

13 EXAMINER McMILLAN: So accepted.

14 Q. Please turn to Exhibit 1 and identify what COG
15 seeks under this application.

16 A. It's the C-102 well location plat for our Scooter
17 Fed Com 2H well. We are seeking to establish a 160-acre
18 non-standard spacing unit, pooling all uncommitted
19 mineral interests in the Bone Spring Formation.

20 It's comprised of the east half, west half of
21 Section 23, Township 18 South, Range 33 East, Lea
22 County, New Mexico.

23 Q. Does Exhibit 1 identify what pool is involved?

24 A. It does. It is the Corbin Bone Spring South.

25 Q. What is the pool code for that pool?

1 A. 13160.

2 Q. Has an APD been submitted?

3 A. It has.

4 Q. On what date?

5 A. April 24th, 2015.

6 Q. But an API number has not yet been assigned?

7 A. Correct. We are still waiting on the federal
8 form.

9 Q. Is this pool governed by Division statewide
10 rules?

11 A. Statewide, yes.

12 Q. So the completed interval will comply with the
13 330-foot statewide setbacks, correct?

14 A. Yes, it will.

15 Q. Please identify what I have marked as COG
16 Exhibit 2.

17 A. This is a plat showing our proposed non-standard
18 spacing unit. And it's broken down on a tract and a
19 unit basis, with the committed interests in bold and the
20 uncommitted interests highlighted in yellow.

21 Q. Are there any interest owners whom you were
22 unable to locate?

23 A. No. We have had correspondence with everyone.

24 Q. Is COG Exhibit 3 a well proposal letter that was
25 sent to the working interest owners, both those who have

1 not signed a JOA and those who have not signed a
2 communitization agreement?

3 A. Yes, correct.

4 Q. Did you include an AFE with this letter?

5 A. We did, yes.

6 Q. Are the costs reflected on this AFE consistent
7 with what COG has incurred for drilling similar
8 horizontal wells in this area?

9 A. Currently, yes.

10 Q. Is COG Exhibit 4 also a well proposal letter that
11 was subsequently sent to a working interest owner with
12 an ownership interest in the proposed unit?

13 A. Yes. We were notified by this party that they
14 acquired half of the one of the original recipient's
15 working interest in a conveyance that had been filed of
16 record, and so this was just a subsequent proposal to
17 that party.

18 Q. This also included an AFE, correct?

19 A. That's correct.

20 Q. Do your well proposal letters identify the
21 requested overhead and administrative costs while
22 drilling this well --

23 A. They do.

24 Q. What are those rates?

25 A. 7,000 while drilling and 700 while producing.

1 Q. These costs are in line with what COG and other
2 operators in this area charge for similar wells?

3 A. That's correct.

4 Q. Do you ask that these administrative and overhead
5 costs be incorporated into any order resulting from this
6 hearing?

7 A. We do.

8 Q. Do you ask as well that it be adjusted in
9 accordance with the appropriate accounting
10 procedures?

11 A. Yes, we do.

12 Q. With respect to any uncommitted interest owners,
13 do you request that the Division impose a 200 percent
14 risk penalty?

15 A. Yes, we do.

16 Q. Did COG identify the offset interest owners in
17 the surrounding 40-acre tracts of the proposed
18 non-standard spacing unit?

19 A. Yes, we did.

20 Q. Were those interest owners included in notice of
21 this hearing and as that shown in Exhibit 5?

22 A. Yes, that's correct.

23 Q. And Exhibit 5 is an affidavit from my office with
24 attached letters providing notice of this hearing,
25 correct?

1 A. Yes, it is:

2 Q. Were Exhibits 1 through 4 prepared by you or
3 compiled under your direction or supervision?

4 A. Yes, they were.

5 MS. KESSLER: I move into admission Exhibits
6 1 through 5, which includes my affidavit.

7 EXAMINER McMILLAN: Exhibit 1, Exhibit 2,
8 Exhibit 3, Exhibit 4, and Exhibit 5 shall now be
9 accepted as part of the record.

10 (Whereupon, COG EXHIBITS 1 THROUGH 5 WERE
11 OFFERED AND ADMITTED.)

12 MS. KESSLER: That concludes my examination.

13 EXAMINATION BY EXAMINER McMILLAN

14 EXAMINER McMILLAN: Okay. Are there any
15 depth severances?

16 THE WITNESS: There's -- in these tracts
17 there are from the surface to the base of the Queen 7
18 and then from the base of the Queen 7 to the base of the
19 Bone Spring; and then the base of the Bone Spring to the
20 center of the earth. So there are depth severances but
21 not within our targeted interval.

22 EXAMINER McMILLAN: So let me be clear about
23 that. You are compulsory pooling four of the Bone
24 Springs, right?

25 THE WITNESS: Correct, for the first Bone

1 Spring Formation.

2 EXAMINER McMILLAN: So, therefore, in your
3 compulsory pooling order there will be no depth
4 severances?

5 THE WITNESS: Correct.

6 MS. KESSLER: That's correct.

7 EXAMINER McMILLAN: Status?

8 THE WITNESS: We are currently waiting on an
9 APD, and so we intend to spud this well late August,
10 early September of this year.

11 EXAMINER McMILLAN: And type acreage?

12 THE WITNESS: There's state leases and
13 federal leases.

14 EXAMINER McMILLAN: I just want to be clear.
15 You found additional interests and you have sent them
16 all the information by certified mail, right?

17 THE WITNESS: They are a committed party,
18 that's correct. So they have done everything. They
19 received the well proposal, they've executed an AFE, the
20 JOA, the communitization agreement. So they've received
21 everything. I'm not subject to this while we're seeking
22 to pool.

23 EXAMINER McMILLAN: Okay. Please proceed.

24 EXAMINATION BY EXAMINER JONES

25 EXAMINER JONES: You are going to finalize

1 your Com agreement after the compulsory pooling order is
2 issued?

3 THE WITNESS: We're actually trying to get
4 that executed right now, because in the offset well, we
5 had one party that it took us about three to four
6 months, and the BLM was going to require us to open the
7 pooling order and re-pool them again. So we are trying
8 to get everything executed beforehand.

9 EXAMINER JONES: And you will just put the
10 compulsory pooling order in the --

11 THE WITNESS: -- in lieu of their
12 signature --

13 EXAMINER JONES: -- afterwards then?

14 THE WITNESS: Yes, sir.

15 EXAMINER JONES: I have no further
16 questions.

17 EXAMINER McMILLAN: I have no further
18 questions. Anything?

19 EXAMINER WADE: No.

20 EXAMINER McMILLAN: Thank you.

21 MS. KESSLER: I would like to call my next
22 witness.

23 EXAMINER McMILLAN: Please proceed.

24 ALLISON STUMPF

25 having been first duly sworn, was examined and testified

1 as follows:

2 DIRECT EXAMINATION

3 BY MS. KESSLER:

4 Q. Would you please state your name for the record
5 and identify by whom you're employed and in what
6 capacity?

7 A. My name is Allison Stumpf, and I am a geologist
8 for COG Operating.

9 Q. Have you previously testified before the
10 Division?

11 A. Yes.

12 Q. Were your credentials as a petroleum geologist
13 accepted and made a matter of record?

14 A. Yes, they were.

15 Q. Are you familiar with the application filed in
16 this case?

17 A. Yes.

18 Q. And have you conducted a geologic study of the
19 lands that are the subject of this application?

20 A. I have, yes.

21 MS. KESSLER: Mr. Examiner, I would tender
22 Ms. Stumpf as an expert in petroleum geology.

23 EXAMINER McMILLAN: So accepted.

24 Q. What is the target of the proposed well?

25 A. It is the Second Bone Spring Sand of Bone Spring

1 Formation.

2 Q. Have you prepared a structure map and cross
3 section for this interval?

4 A. I have.

5 Q. Could you please turn to COG Exhibit 6 and
6 identify this exhibit for the Examiner?

7 A. Yes. So this map is showing Section 23, Township
8 18 South, 33 East. The proposed non-standard unit is in
9 yellow. And the proposed horizontal location is
10 indicated by the red line with the surface hole being
11 the square and the bottom hole being the circle.

12 And this is a subC structure map on top of the
13 Second Bone Spring with a contour interval of 100 feet.

14 The wells that are indicated in orange are offset
15 Second Sand wells that are currently producing.

16 And as you can see from the structure map, the
17 structure is dipping to the south, and it's contiguous
18 across the area, so there are no geological impediments.

19 Q. If you will turn to COG Exhibit 7. Does this
20 show the wells that are used for your cross section
21 which is the next exhibit?

22 A. Yes. So the blue line shows my cross section
23 line A to A Prime. I used three wells. And these wells
24 are representative of the area.

25 Q. Please turn to Exhibit 8, which is your cross

1 section, correct?

2 A. Yes. This is a structural cross section, A to A
3 Prime. It goes from the northwest to the southeast.
4 The wells I used were the State E-744-15 No. 1, the
5 Scooch State Com 1, and the Sun Federal Com 1.

6 The well logs I used in my cross section. In the
7 left tract, you'll see a gamma ray resistivity log. And
8 then in the right tract, you'll see a gamma ray density
9 neutron porosity log.

10 And the orange line across the cross section
11 represents the top of the Second Bone Spring Sand. And
12 then the purple line represents the top of the Third
13 Bone Spring Sand.

14 And our lateral interval is indicated by that red
15 bracket. And as you can see, the Second Bone Spring
16 Sand is continuous across the area.

17 Q. What conclusions have you drawn based on your
18 geologic study of this area?

19 A. That there are no geological impediments to the
20 area, and that we can develop it using full section
21 horizontals, that the area can be efficiently and
22 effectively produced using horizontal wells, and that
23 the proposed non-standard unit will contribute on
24 average more or less equally to the production of the
25 well.

1 Q. Is Exhibit 9 a diagram of the planned well
2 path?

3 A. Yes. So this diagram is a well bore schematic
4 that shows that no perforations be performed closer than
5 the 330-foot setbacks from the section lines.

6 Q. In your opinion, will the granting of COG's
7 application be in the best interests of conservation and
8 the prevention of waste and the protection of the
9 correlative rights?

10 A. Yes.

11 Q. Were Exhibits 6 through 9 prepared by you or
12 compiled under your direction or supervision?

13 A. Yes, they were.

14 MS. KESSLER: Mr. Examiner, I move into the
15 admission of evidence Exhibits 6 through 9.

16 EXAMINER McMILLAN: Exhibit 6, Exhibit 7,
17 Exhibit 8, and Exhibit 9 may now be accepted as part of
18 the record.

19 (Whereupon, COG EXHIBITS 6 THROUGH 9 WERE
20 OFFERED AND ADMITTED.)

21 EXAMINATION BY EXAMINER McMILLAN

22 EXAMINER McMILLAN: I'm going to tell you
23 the same things, you say it's continuous and you saw a
24 structure map. And I looked at the structure map and
25 structure is not a big deal. So next time I would

1 prefer that you show an isopach map over the project
2 area.

3 THE WITNESS: The cross section shows that
4 that interval that we plan to land in is consistent in
5 thickness across the area, so I thought that would be
6 sufficient.

7 EXAMINER McMILLAN: But next time I would
8 like to see that just for the project area.

9 EXAMINER McMILLAN: Please proceed.

10 EXAMINATION BY EXAMINER JONES

11 EXAMINER JONES: How did you pick this
12 interval to drill in? It looks pretty consistent to
13 me.

14 THE WITNESS: And I realize it is hard to
15 see on this scale. But if you look closely over a
16 lateral interval you can see that the porosity logs in
17 the right tract kick to the left, which means that we
18 have more porosity across that interval that we plan to
19 land in.

20 EXAMINER JONES: Okay. Thanks a lot.

21 THE WITNESS: Uh-huh.

22 EXAMINER JONES: Do you have anything?

23 EXAMINER WADE: No.

24 EXAMINER McMILLAN: Okay. I have no further
25 questions. Case no. 15331 will be taken under

1 advisement. And we will come back at 1:15.

2 MS. KESSLER: Thank you, Mr. Examiner.

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5 (Time noted 12:00 p.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) ss.
3 COUNTY OF BERNALILLO)
4
5
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7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, June 25,
11 2015, the proceedings in the above-captioned matter were
12 taken before me, that I did report in stenographic
13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control.

16
17 I FURTHER CERTIFY that I am neither employed by
18 nor related to nor contracted with (unless excepted by
19 the rules) any of the parties or attorneys in this case,
20 and that I have no interest whatsoever in the final
21 disposition of this case in any court.

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23
24
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