

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:

CASE 15415

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DECEMBER 3, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF 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, and Gabriel Wade, Legal Examiner, on
December 3, 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

1 A P P E A R A N C E S

2 For the Applicant COG Operating, Inc.:

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10 I N D E X

11 CASE NUMBER 15415 CALLED

12 COG OPERATING, LLC
 13 CASE-IN-CHIEF:

14 WITNESS DANNY M. KIDWELL

15		Direct	Redirect	Further
16	By Ms. Kessler	4		
17		EXAMINATION		
18	Examiner McMillan	12		

19 WITNESS ALLISON STUMPF

20		Direct	Redirect	Further
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1 (Time noted 10:15)

2 EXAMINER McMILLAN: I would like to call
3 case No. 15415, Application of COG Operating, LLC, For a
4 Nonstandard Spacing and Proration Unit and Compulsory
5 Pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: May it please the Examiner,
8 Jordan Kessler from Holland and Hart on behalf of the
9 applicant.

10 EXAMINER McMILLAN: Any other appearances?

11 (No response.)

12 EXAMINER McMILLAN: Thank you.

13 MS. KESSLER: Two witnesses today,
14 Mr. Examiner.

15 EXAMINER McMILLAN: If the witnesses would
16 please stand up and be sworn in.

17 (WHEREUPON, the presenting witnesses
18 were administered the oath.)

19 Danny M. Kidwell
20 having been first duly sworn, was examined and testified
21 as follows:

22 DIRECT EXAMINATION

23 By MS. KESSLER:

24 Q. Please state your name for the record and tell
25 the Examiners by whom you are employed and in what

1 capacity.

2 A. I am Danny Kidwell. I am employed by COG
3 Operating, LLC, as a senior landman.

4 Q. Have you previously testified before the
5 Division?

6 A. No, I have not.

7 Q. Can you please outline your educational
8 background.

9 A. I graduated from the University of Texas at
10 Austin in December of 1979 with a PLM degree.

11 Q. Can you outline your work history?

12 A. January of 1980 to November of 1981, I was an
13 independent landman working for brokers. November of
14 '81, worked for City Service, which became OXY, until
15 January of 1987.

16 January of 1987 till June of 2000, I was an
17 independent landman. June of 2000 till July of 2004, I
18 worked with Seaboard Oil Company. August 2004 to
19 September 2007, I worked for BTA Oil Producers.

20 September 2007 till November 10, 2011, I was
21 independent. November 2011 to March of 2013, I worked
22 for ConocoPhillips. March 2013 till August 2014, I was
23 with Energen Resources. And August 2014, I went to work
24 for COG Operating.

25 Q. During this approximately 30 years, did your

1 experience include land in the Permian Basin?

2 A. Yes, it did.

3 Q. Are you a member of any professional
4 associations?

5 A. I am a member of the AAPL, the NMLA, and PBLA,
6 which I am currently president of.

7 Q. Are you familiar with the application that has
8 been filed in this case?

9 A. Yes, I am.

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

12 A. Yes, I am.

13 MS. KESSLER: Mr. Examiners, I would
14 tender Mr. Kidwell as an expert in petroleum land
15 matters.

16 EXAMINER McMILLAN: So qualified.

17 Q. Please turn to your Exhibit 1 and identify this
18 exhibit and explain what COG seeks under this
19 application.

20 A. This is the C-102 for the Goose State Com 2H
21 Well. It indicates the 318.64 acre nonstandard
22 displacing unit and proration unit.

23 Q. And that's comprised of the west half, west half
24 of 32, plots 1, 8, 9, and 16 of section 5?

25 A. Yes.

1 Q. Do you seek to dedicate this nonstandard spacing
2 unit to the Goose State Com No. 2H Well?

3 A. Yes.

4 Q. Do you have an API number for this well?

5 A. Yes. It is 30-025-41201.

6 Q. And do you seek to pool all mineral interests in
7 the Bone Spring Formation?

8 A. Yes.

9 Q. No depth severance issues here?

10 A. No.

11 Q. Has the Division designated a wildcat Bone Spring
12 pool for this area?

13 A. Yes, it has.

14 Q. And that's pool code 97895, correct?

15 A. Yes.

16 Q. Will this pool be governed by Division statewide
17 setbacks?

18 A. Yes. 330.

19 Q. If you could turn to Exhibit 2, please, and
20 identify this exhibit for the Examiners.

21 A. This is the land plat for the Goose State Com 2H,
22 indicating the owners under each of the tracts involved,
23 the three tracts.

24 Q. What interest do you seek to pool?

25 A. We seek to pool EOG Resources, Inc., 50 percent

1 interest, and Chevron Midcontinent, LP, 23.5 percent
2 interest over lots 9 and 16 of Section 5, Township 21
3 South, Range 33 East.

4 Q. And those interests are highlighted in yellow on
5 page 2 of this exhibit?

6 A. Yes, they are.

7 Q. Is Exhibit 3 a copy of the well proposal letter
8 that you sent to the parties whom you seek to pool?

9 A. Yes.

10 Q. When did you send this letter?

11 A. October 21st, 2015.

12 Q. Did it include an AFE?

13 A. Yes, it did.

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

17 A. Yes, they are.

18 Q. What additional efforts did you undertake to
19 reach agreement with Chevron and EOG?

20 A. I contacted them weekly after we sent the letter.

21 Q. But you've been unable to reach an agreement with
22 each of them?

23 A. Yes.

24 Q. Does your well proposal letter include an
25 estimate of overhead administrative costs while drilling

1 this well and while producing this well?

2 A. Yes, it does.

3 Q. What are those costs?

4 A. \$7,000 per month while drilling, \$700 a month
5 while producing.

6 Q. And are those costs in line with what COG and
7 other operators in this area charge for similar
8 horizontal wells?

9 A. Yes.

10 Q. Do you ask that the administrative and overhead
11 costs be incorporated into any order resulting from this
12 hearing?

13 A. Yes, we do.

14 Q. And do you ask that it be adjusted in accordance
15 with Copas accounting procedures?

16 A. Yes, we do.

17 Q. With respect to EOG and Chevron, the uncommitted
18 mineral interest owners, do you request that the
19 Division impose a 200 percent risk penalty?

20 A. Yes, we do.

21 Q. Are there timing issues associated with this
22 well?

23 A. Yes, there are. We have an expiring lease on
24 lots 1 through 8 in section 5, which expires June 30th
25 of 2016. And we also have chicken season to contend

1 with, which starts March 1st through June 15th.

2 Q. So is this well scheduled to drilled the
3 beginning of January?

4 A. It is on the drilling schedule for January 2nd.

5 Q. Are you requesting an expedited order in this
6 case?

7 A. Yes, I am.

8 Q. Did COG identify the offset operators or lessees
9 of record in that 40-acre tract surrounding the proposed
10 nonstandard spacing unit?

11 A. Yes. That's in Exhibit 4.

12 Q. Exhibit 4 is an offset plat and a list of the
13 offset parties to whom notice was provided?

14 A. Yes.

15 Q. And is Exhibit 5 an affidavit prepared by my
16 office with attached letters providing notice of this
17 hearing to the parties to be pooled and the offset
18 operators or lessees?

19 A. Yes.

20 Q. And was it necessary to be publish notice or were
21 all of the interests to be pooled locatable?

22 A. It was not necessary. They were all locatable.

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

25 A. Yes, they were.

1 MS. KESSLER: Mr. Examiner, I move into
2 evidence Exhibits 1 through 5, including my affidavit.

3 EXAMINER McMILLAN: Exhibits 1 through 5 may
4 now be accepted as part of the record.

5 (COG Operating LLC Exhibits 1 through 5 were
6 offered and admitted.)

7 MR. WADE: I have a question. Within
8 Exhibit 5 -- and it's kind of in the middle -- I see a
9 tracking page from the U.S. Postal Service. What is
10 this showing?

11 MS. KESSLER: We had not yet received a
12 green card back from Chevron Midcontinent, which has
13 come up in prior cases. And we would take the position
14 because we sent notice on the appropriate date that
15 notice is complete, but this also shows that it was, in
16 fact, delivered to Chevron Midcontinent.

17 MR. WADE: Is there anything on this
18 tracking that tied to the green card, which I'm assuming
19 would be in here, showing that you sent on
20 November 14th. There should be some form of tracking
21 number. I think it's the one at the top of each green
22 card.

23 MS. KESSLER: So the tracking number on the
24 delivery page corresponds to the delivery number right
25 to the side of the green card.

1 MR. WADE: Just for the record, are you able
2 to give me the page that you are finding that within
3 Exhibit 5? Can you give me a rough area? It's Chevron
4 Midcontinent?

5 MS. KESSLER: That is correct. So the sixth
6 page, the green card to Chevron Midcontinent, the
7 tracking number on the side of that card, that's also on
8 the subsequent page; the tracking number, it's sort of
9 the upper third, right before it says, Product and
10 Tracking Information.

11 So that would be, I think, the 6th and 7th
12 page of Exhibit 5.

13 MR. WADE: Okay. Do you have any questions?

14 EXAMINATION BY EXAMINER McMILLAN

15 EXAMINER McMILLAN: What type of acreage is
16 this?

17 THE WITNESS: State.

18 EXAMINER McMILLAN: I don't have any
19 questions. Thank you.

20 MS. KESSLER: And I'd like to call my next
21 witness.

22 EXAMINER McMILLAN: Right.

23 ALLISON STUMPF

24 having been first duly sworn, was examined and testified
25 as follows:

DIRECT EXAMINATION

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BY MS. KESSLER:

Q. Please state your name for the record and tell the Examiners by whom you are employed and in what capacity.

A. Allison Stumpf, and I'm employed by COG Operating LLC. And I'm a geologist for the New Mexico Delaware Basin.

Q. Have you previously testified before the Division?

A. Yes, I have.

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

A. Yes, they were.

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

A. Yes.

Q. And did you conduct a geologic study of the lands that are the subject of this application?

A. Yes.

MS. KESSLER: I would tender Ms. Stumpf as an expert in petroleum geology.

EXAMINER McMILLAN: So qualified.

Q. Please turn to Exhibit 6 and explain this exhibit and walk us through it.

1 A. So this is a base map with structure map. First,
2 I'll identify the proposed horizontal location, which is
3 located in red. The surface hole is shown by the
4 square. And that's located in Section 32 of Township 20
5 South, Range 34 East.

6 And the bottom hole location is shown by the
7 circle. And it is located in Section 5 of Township 21
8 South, 33 East.

9 The COG acreage is shown in yellow. And the
10 proposed nonstandard spacing unit is shown at the green
11 dashed outline. The purple wells with the circles and
12 the lines are producing Third Bone Spring Sand wells,
13 which is what our target is for this horizontal.

14 And the contours you see are a Third Bone Spring
15 Sand subC structure map. And the contour interval for
16 that is 100 feet.

17 And this map shows that we are dipping to the
18 south and there are no faults or pinch-outs or other
19 geological impediments across the area.

20 Q. And if you could turn to Exhibit 7 and identify
21 this exhibit.

22 A. This is a similar map. Again, the horizontal
23 location is shown in red. And then we also have our
24 cross section line, which is shown in blue. And that is
25 A to A Prime.

1 And I have selected these wells because they are
2 representative of the area.

3 Q. Just give the Examiner a minute to unfold that
4 very large map.

5 A. Oh, yes.

6 Q. Turning to Exhibit 8, does this show the cross
7 sections of the wells as depicted on the previous
8 exhibit?

9 A. Yes. The wells that I've chosen to use are the
10 Supror-Gulf State Com 1, the Corazon State Unit No. 4H
11 Pilot, and the Becknell State Com No. 3H Pilot. Again,
12 this is A to A Prime which runs northeast to
13 southwest.

14 The logs that I have chosen to use are a gamma
15 ray resistivity log in the left tract and then a gamma
16 ray density neutron porosity log in the right tract.
17 This is a stratigraphic cross section so I have
18 flattened it on top of the Wolfcamp, which is shown in
19 red.

20 And the top of the Third Bone Spring is shown in
21 purple. And our lateral interval is shown by the green
22 bracket on the center well.

23 As you can see, the Third Bone Spring Sand is of
24 equal thickness across the area. There are no
25 pinch-outs or faulting or anything like that.

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

3 A. The conclusions I have drawn is that there are no
4 geological impediments to developing the area using a
5 two-mile horizontal, that the area can be economically
6 and efficiently developed using horizontal wells, and
7 that the proposed unit will on average contribute more
8 or less equally to the production of the well.

9 Q. Turning to Exhibit 9, will the completed interval
10 for this well comply with the Division's 330-foot
11 statewide setbacks?

12 A. Yes. Exhibit 9 is just a wellbore schematic
13 showing that no perforations will be performed closer
14 than the 330-foot setbacks from the section lines.

15 Q. And, in your opinion, will granting COG's
16 application be in the best interest of conservation, for
17 the prevention of waste, and the protection of
18 correlative rights?

19 A. Yes.

20 Q. Were Exhibits 6 through 9 prepared by you or
21 under your direction and supervision?

22 A. Yes.

23 MS. KESSLER: Mr. Examiner, I move into
24 evidence Exhibits 6 through 9.

25 EXAMINER McMILLAN: Exhibits 6 through 9 may

1 now be accepted as part of the record.

2 (COG Operating LLC Exhibits 6 through 9 were
3 offered and admitted.)

4 EXAMINATION BY EXAMINER McMILLAN

5 EXAMINER McMILLAN: Just for housekeeping
6 purposes, the final penetration point will be within the
7 330 setbacks?

8 THE WITNESS: Correct.

9 EXAMINER McMILLAN: And just looking at this
10 map, are the north, south wells performing better than
11 the east, west?

12 THE WITNESS: Yes.

13 MS. KESSLER: You're looking at exhibit --

14 THE WITNESS: I guess 6 and 7 both show the
15 16 wells.

16 EXAMINER McMILLAN: They're a lot better
17 wells?

18 THE WITNESS: Yeah, which is why we prefer
19 to drill more south.

20 EXAMINER McMILLAN: Okay. Any questions?

21 MR. WADE: I have no questions.

22 EXAMINER McMILLAN: I have no questions.
23 Thank you very much.

24 MS. KESSLER: Mr. Examiner, that concludes
25 my presentation, and I would ask that this case be taken

1 under advisement.

2 EXAMINER McMILLAN: Case 15415 may now be
3 taken under advisement.

4 Let's take a ten-minute break.

5 Thank you.

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8 (Time noted 10:33 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 December 3, 2015.

Michael A. McMillan, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
 2) ss.
 3 COUNTY OF BERNALILLO)
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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, December 3,
 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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