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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:

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

ORIGINAL
CASE NO. 15554

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 29, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, William V. Jones, Technical Examiner,
and David K. Brooks, Legal Examiner, on Thursday,
September 29, 2016, 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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FOR INTERESTED PARTY KAISER-FRANCIS OIL COMPANY:

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1 (10:38 a.m.)

2 EXAMINER McMILLAN: Let's call this hearing
3 back to order.

4 Case Number 15554, application of COG
5 Operating, LLC for a nonstandard spacing and proration
6 unit and compulsory pooling, Lea County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Mr. Examiners, Jordan
9 Kessler, from the Santa Fe office of Holland & Hart, on
10 behalf of the Applicant.

11 EXAMINER McMILLAN: Any other appearances?

12 MR. BRUCE: Mr. Examiner, Jim Bruce of
13 Santa Fe representing Kaiser-Francis Oil Company. I
14 have no witnesses.

15 MS. KESSLER: Two witnesses today.

16 EXAMINER McMILLAN: Will the witnesses
17 please stand up so you can be sworn in at this time?

18 Thank you.

19 (Mr. House and Mr. Burke sworn.)

20 JON-AARON HOUSE,
21 after having been first duly sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MS. KESSLER:

25 Q. Please state your name for the record, and tell

1 the Examiners by whom you're employed and in what
2 capacity.

3 A. Jon-Aaron House, employed by COG Operating, LLC
4 as a senior landman.

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

7 A. Yes, I have.

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

10 A. Yes.

11 Q. Are you familiar with the application that's
12 been filed in this case?

13 A. Yes.

14 Q. And are you familiar with the status of the
15 lands in the subject area?

16 A. Yes.

17 MS. KESSLER: Mr. Examiners, I would tender
18 Mr. House as an expert in petroleum land matters.

19 EXAMINER McMILLAN: Any objections?

20 MR. BRUCE: No objection.

21 EXAMINER McMILLAN: So qualified.

22 Q. (BY MS. KESSLER) Mr. House, can you please turn
23 to COG Exhibit 1 and identify this exhibit and explain
24 what COG seeks under this application?

25 A. This is our Form C-102 for the Geronimo Federal

1 Com 11H well, which shows the nonstandard project area
2 covering Lots 1 through 4 of Section 30 and also Lots 1
3 through 4 of Section 31, generally called the west
4 half-west half of both of those sections. We are
5 seeking to pool the Bone Spring Formation within that
6 project area.

7 Q. And this would be Township 19 South, Range 33
8 East, correct?

9 A. Yes.

10 Q. All in Lea County?

11 A. Yes.

12 Q. And you seek to pool the uncommitted interest
13 in the Bone Spring Formation?

14 A. That's correct.

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

16 A. Not yet.

17 Q. And has the Division designated a pool for this
18 area?

19 A. The Gem-Bone Spring Pool.

20 EXAMINER McMILLAN: Excuse me?

21 THE WITNESS: Gem-Bone Spring.

22 Q. (BY MS. KESSLER) Pool Code 27400?

23 A. Yes.

24 Q. What is the character of these lands?

25 A. These are all federal lands.

1 Q. And is this pool governed by Division statewide
2 rules?

3 A. Yes.

4 Q. So the well will comply with the 330-foot
5 setbacks; is that correct?

6 A. Yes.

7 Q. Are there any depth severances within this
8 pool?

9 A. Not within the Bone Spring Formation.

10 Q. Let's look at Exhibit 2. Can you please
11 identify this exhibit?

12 A. This is a unit breakdown as to the Bone Spring
13 Formation. You'll see Tract 1 and Tract 2 described.
14 Tract 1 generally in the west half-west half of Section
15 30, Township 19 South, Range 33 East; Tract 2 being the
16 west half-west half of Section 31, 19 South, 33 East.

17 You'll see the breakdown of ownership below
18 that as to each tract, along with the uncommitted owners
19 highlighted in yellow, along with the unsigned record
20 title owners at the bottom of that.

21 Q. So you seek to pool both working interest
22 owners and record title interest owners; is that
23 correct?

24 A. That's correct.

25 Q. Is Exhibit 3 a copy of the well-proposal letter

1 that you sent to the working interest owners?

2 A. Yes.

3 Q. On what date was this letter sent?

4 A. July 6th of 2016.

5 Q. And did the well-proposal letter include an
6 AFE?

7 A. It did.

8 Q. Are the costs in this AFE consistent with what
9 COG has been drilling with similar horizontal wells in
10 the area?

11 A. Yes.

12 Q. What additional efforts did you undertake to
13 reach a voluntary agreement with the working interest
14 owners that you seek to pool?

15 A. After the initial proposal letter went out, we
16 also sent an operating agreement to all the working
17 interest owners to begin that negotiation.

18 Q. And in the event you reach an agreement with
19 any of those parties, will that agreement supersede the
20 terms of any pooling order that may result from this
21 hearing?

22 A. Yes.

23 Q. What is Exhibit 4?

24 A. Exhibit 4 is a copy of our letter that we sent
25 to all the owners that are a party to the federal

1 communitization agreement.

2 Q. And you're also requesting to pool the record
3 title interest owners, right?

4 A. That's correct.

5 Q. Why is that?

6 A. Federal communitization agreements call for the
7 record title owners to also execute this agreement along
8 with the operating rights owners.

9 Q. Have the record title interest owners as
10 classified signed the communitization agreement?

11 A. All except for the ones highlighted back on the
12 other exhibits.

13 Q. Have you estimated overhead and administrative
14 costs while drilling and producing this well?

15 A. Yes. We're 7,000 for drilling and 700 for
16 producing months.

17 Q. Are these costs in line with what COG and other
18 operators in the area have charged for similar wells?

19 A. Yes.

20 Q. And do you ask that these administrative costs
21 be incorporated into any order resulting from this
22 hearing?

23 A. Yes.

24 Q. Do you ask that the cost be adjusted in
25 accordance with the proper accounting procedures?

1 A. I do.

2 Q. For the uncommitted working interest owners, do
3 you request that the Division impose a 200 percent risk
4 penalty?

5 A. Yes.

6 Q. Did COG provide notice of this hearing to the
7 offset operators or lessees of record?

8 A. Yes, we did.

9 Q. Is Exhibit 5 an affidavit from my office with
10 the attached letters providing notice to these parties
11 that you seek to pool, as well as the offset interests?

12 A. Yes.

13 Q. And is Exhibit 6 a copy of an Affidavit of
14 Publication in the newspaper in Lea County providing
15 notice also to pooled parties?

16 A. Yes.

17 Q. Were Exhibits 1 through 4 prepared by you or
18 compiled under your direction and supervision?

19 A. Yes.

20 MS. KESSLER: Mr. Examiners, I move
21 admission of Exhibits 1 through 6, which include my
22 Notice of Affidavits.

23 MR. BRUCE: No objection.

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

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

4 MR. BRUCE: That concludes my examination.

5 CROSS-EXAMINATION

6 BY EXAMINER McMILLAN:

7 Q. I didn't hear clearly. Were there unlocatable
8 interests?

9 A. No, sir.

10 Q. Any depth -- no depth severances?

11 A. No, sir.

12 Q. Is there an API number?

13 A. Not yet. We have not received the permit.

14 EXAMINER McMILLAN: Go ahead.

15 CROSS-EXAMINATION

16 BY EXAMINER JONES:

17 Q. The record title owners were located, but they
18 didn't want to sign?

19 A. Right. One of the record title owners is also
20 an operating rights owner that's uncommitted.

21 Q. Oh, okay.

22 A. So they haven't executed the comm or a
23 voluntary agreement.

24 Q. And the other one -- there is more than one --

25 A. Right. William G. Ross is also in that same

1 boat, and Campeche is Wagner.

2 EXAMINER BROOKS: Is what?

3 THE WITNESS: That's a part of the Wagner
4 chain of title. So there is a Bryan Wagner, and
5 Campeche is one of his companies.

6 EXAMINER BROOKS: Okay.

7 Q. (BY EXAMINER JONES) And you've had
8 conversations with Kaiser-Francis about signing?

9 A. Yes, from conversations and email and
10 correspondence through the OA -- through the proposed
11 operating agreement.

12 Q. And probably -- are you -- I may have missed
13 this, but what was their reluctance; do you know?

14 A. They are still -- the last conversation I had,
15 they are still analyzing whether or not to participate
16 with management.

17 Q. Because they've got 25 percent?

18 A. Right.

19 Q. That's a quarter of the well. So did they
20 object to drilling a two-mile well versus a different --

21 A. I haven't heard any objections from them on
22 that.

23 Q. Okay.

24 EXAMINER BROOKS: I don't think I have any
25 questions.

1 Just out of curiosity -- it's a federal
2 well -- do you have any estimate on when you'll get your
3 permit?

4 THE WITNESS: I don't know.

5 EXAMINER BROOKS: Sometimes it takes a long
6 time.

7 THE WITNESS: They do, right. But we are
8 in the process.

9 EXAMINER McMILLAN: Thank you very much.

10 MIKE BURKE,
11 after having been previously sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MS. KESSLER:

15 Q. Please state your name for the record and tell
16 the Examiner by whom you're employed and in what
17 capacity.

18 A. Mike Burke, and I'm a petroleum geologist with
19 COG Operating, LLC in Midland, Texas.

20 Q. Have you previously testified before the
21 Division?

22 A. Yes, I have.

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

25 A. They were.

1 Q. Are you familiar with the application that's
2 been filed in this case?

3 A. Yes, I am.

4 Q. And have you conducted a geologic study of the
5 area that is the subject of this application?

6 A. I have.

7 MS. KESSLER: I would tender Mr. Burke as
8 an expert in petroleum geology.

9 MR. BRUCE: No objection.

10 EXAMINER McMILLAN: So qualified.

11 Q. (BY MS. KESSLER) Mr. Burke, please turn to
12 Exhibit 7 and identify this exhibit and walk us through
13 it.

14 A. Okay. Exhibit 7 is an area map of the area
15 around the proposed well. The orange dots indicate
16 wells that were completed in the 2nd Bone Spring. They
17 may or may not be producing now. If there is a lateral
18 attached to it, there will be a stick along the path of
19 that lateral there. And Concho has acreage, and it's
20 highlighted in the yellow on the map. This area of
21 inception -- you can see that the well starts in the
22 southwest-southwest 19 and drills for two miles to the
23 southwest-southwest of 31, in Township 19 South, Range
24 33 East, which is the west central part of Lea County.

25 Q. Let's look at Exhibit 8. Is this a structure

1 map of the 2nd Bone Spring?

2 A. It is. I prepared this structure map. It's at
3 the top of the 2nd Bone Spring Sand. The contour
4 intervals are 100 feet. And as you can see from the
5 map, the dip is to the southeast gently -- generally one
6 degree less.

7 Q. Looking at the structure in these two sections,
8 have you identified any geologic impediments to drilling
9 a horizontal well?

10 A. I have seen no faulting or pinch-outs or
11 geologic impediments across the section. The formation
12 looks pretty homogeneous.

13 Q. Look at Exhibit 9. What is this exhibit?

14 A. This is just a map to show the cross section I
15 prepared for the next exhibit that runs north to south,
16 A to A prime.

17 Q. And there are three wells used on the following
18 cross section exhibit; is that correct?

19 A. Yes.

20 Q. Do you consider those wells that you've
21 selected to be representative of wells in this area?

22 A. I do.

23 Q. Can you please identify Exhibit 10?

24 A. That's the cross section I just spoke of with
25 the left side being to the north and the right side

1 being to the south. It's stratigraphically hung on the
2 top of the 2nd Bone Spring Sand. I've also got the base
3 of the 2nd Bone Spring Sand marked at the bottom with
4 the abbreviation TBSGL. Our lateral interval is shown
5 over on the left. We're planning to drill pretty much
6 in the middle of the sands. And I see no geological
7 reason or anything significant on this cross section or
8 in this area to make me think that one part of the
9 lateral path will be more productive or less productive
10 than other parts of the lateral path.

11 Q. So you've identified that the formation is
12 fairly consistent throughout the proposed nonstandard
13 spacing units?

14 A. Yes.

15 Q. And based on your study of this area, you
16 mentioned you have not identified any geologic
17 impediments to drilling two-mile horizontal wells; is
18 that correct?

19 A. No, we have not.

20 Q. In your opinion, can this area be efficiently
21 and economically developed by a two-mile well?

22 A. Yes, I believe it can.

23 Q. And do you believe that the proposed
24 nonstandard unit will, on average, contribute more or
25 less equally to production from the wellbore?

1 A. I do believe that.

2 Q. The lateral will comply with the 330-foot
3 setbacks for the horizontal well; is that correct?

4 A. It should.

5 Q. In your opinion, is the granting of COG's
6 application in the best interest of conservation and for
7 the prevention of waste and the protection of
8 correlative rights?

9 A. I do believe that.

10 Q. Were Exhibits 7 through 9 prepared by you or
11 compiled under your direction and supervision?

12 A. Yes. I prepared them.

13 MS. KESSLER: Mr. Examiner, I move
14 admission of Exhibits 7 through 9.

15 EXAMINER McMILLAN: Any objections?

16 MR. BRUCE: No objection.

17 EXAMINER McMILLAN: Exhibits 7 through 9
18 may now be accepted as part of the record.

19 (COG Operating, Inc. Exhibit Numbers 7
20 through 9 are offered and admitted into
21 evidence.)

22 CROSS-EXAMINATION

23 BY EXAMINER McMILLAN:

24 Q. My question is looking at Exhibit 9, is there
25 any difference in production or reserves going

1 north-south, east-west?

2 A. Right now, we believe that the maximum
3 horizontal stress in this area is about north 45 degrees
4 west. So, really, we don't think it makes a great deal
5 of difference. As you can see on the earlier maps, some
6 of the operators chose to go north-south. Some of them
7 chose to go east-west. And I've not observed any
8 significant difference in the performance of the wells
9 based on that.

10 Q. And then do you expect -- with the two-mile
11 lateral, do you expect a greater amount of reserves than
12 you'd get in a mile-and-a-half well?

13 A. Yes, significantly.

14 Q. And then the next question I have is your --
15 just so you'll know, it doesn't look like your structure
16 map has any values on there.

17 A. Well, actually, there is a 6,000-foot contour
18 at the --

19 Q. Oh, okay. I see it now.

20 A. And then the one to the west of it will be 61,
21 and then the one to the east of it will be -- I mean, I
22 think it's 5,900, and the one west of it will be 61.

23 Q. So I assume it's dipping to the southeast?

24 A. Yes.

25 Q. Okay.

1 EXAMINER McMILLAN: Go ahead.

2 CROSS-EXAMINATION

3 BY EXAMINER JONES:

4 Q. Just a couple of questions. The cross section
5 showed -- you're showing has two log faces on it. Looks
6 like gamma ray and resistivity --

7 A. Yes.

8 Q. -- deep resistivity?

9 A. Yes.

10 Q. So are those the two most important traces on
11 any log suite that you would need to have out here?

12 A. Well, if we were to run a pilot log through the
13 well, we would also run a density neutron PE curve with
14 it. I just really put this in this manner to simplify
15 it, to not make it too busy.

16 Q. So the PE is pretty important?

17 A. PE is somewhat important. The density neutron
18 is probably more important in this area.

19 Q. So you do need to show to porosity? You need
20 some porosities; is that correct?

21 A. This shows no porosity.

22 Q. Yeah. But, I mean --

23 A. This is a neutron --

24 Q. -- when you pick your -- pick where to drill
25 your well, you want to drill in some indication of

1 porosity?

2 A. Right. And these wells have a density neutron
3 on there. And another good indicator of porosity in the
4 2nd Bond Spring in this area is the low resistivity, you
5 know. It gets tighter as the resistivity goes up.

6 Q. Okay. Okay. Even if the water string is about
7 the same all the way through --

8 A. Yes.

9 Q. -- it will go up?

10 Two miles, is that -- can you talk about,
11 just quickly, risk here for this well?

12 A. We have drilled a number of two-mile wells in
13 the 2nd, as well as the 3rd. Not right here. This is
14 kind of a little bit removed, but within a ten-mile
15 radius of this, and we have -- we have not encountered
16 any significant drilling or completion problems. It's
17 gone very well. We're convinced that the longer
18 laterals are a good way to improve efficiency and
19 economics and prevent waste, you know.

20 Q. Okay. So because you're starting in 19,
21 drilling south, but you're drilling right by a couple of
22 wells that are already there, and they might have
23 lowered the core pressure in your formation. So you're
24 drilling and your frac job, I mean, it looks like it
25 could be a bit of a watch-out place.

1 A. Yeah. Usually, we leave that to the completion
2 guys. They're pretty territorial about that.

3 Q. Yeah, I know (laughter).

4 A. They'll tell the geologists to butt out.

5 Q. Yeah.

6 Okay. But geologically speaking, you're
7 going to hit -- you know where you're at; you're going
8 to hit it right?

9 A. We'll run a -- we'll run a mud log as soon as
10 it comes out from surface casing, and then we'll run a
11 gamma ray through the lateral and geosteer with that, as
12 well as the mud log, and then we'll, after the well's
13 been cased, we'll run a density neutron case to however
14 deep we can get to the surface.

15 Q. Okay. So geologic risk is pretty low. But
16 commercial risk, is that --

17 A. We're convinced this will be a commercial well.

18 Q. Yeah, I understand. Yeah. Nobody's making a
19 case for reduced risk here anyway. I'm just asking the
20 question. So I'll shut up (laughter).

21 EXAMINER JONES: Anybody else have any
22 questions?

23 EXAMINER BROOKS: No.

24 EXAMINER McMILLAN: Okay.

25 EXAMINER BROOKS: Risk never concerned

1 about that is the price risk.

2 EXAMINER JONES: Build the cost --

3 MS. KESSLER: I'd ask this case be taken
4 under advisement, Mr. Examiner.

5 EXAMINER McMILLAN: Case 15554 shall be
6 taken under advisement, and thank you very much.

7 (Case Number 15554 concludes, 11:00 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, Certified Court Reporter, 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
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2016
Paul Baca Professional Court Reporters