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APPEARANCES

FOR APPLICANT COG OPERATING, LLC:
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1 (11:11 a.m.)

2 EXAMINER JONES: Call Case Number 15568,
3 application of COG Operating, LLC for a nonstandard
4 spacing and proration unit and compulsory pooling, Lea
5 County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it please the Examiner,
8 Michael Feldewert, with the Santa Fe office of Holland &
9 Hart, appearing on behalf of the Applicant, COG
10 Operating, LLC. I have two witnesses.

11 EXAMINER JONES: Any other appearances?

12 Will the witnesses please stand?

13 Will the court reporter swear in the
14 witnesses?

15 (Mr. Martin and Mr. Nelson sworn.)

16 MR. FELDEWERT: Call our first witness.

17 EXAMINER JONES: Yes, sir.

18 JAMES D. MARTIN,
19 after having been previously sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FELDEWERT:

23 Q. Would you please state your name, identify by
24 whom you're employed and in what capacity?

25 A. My name is James Martin. I'm the landman for

1 COG Operating, LLC.

2 Q. How long have you been a landman with COG
3 Operating, LLC?

4 A. For about a year and a half.

5 Q. And have your responsibilities included the
6 Permian Basin in New Mexico?

7 A. Yes.

8 Q. Have you had an opportunity, Mr. Martin, to
9 previously testify before this Division?

10 A. No, sir.

11 Q. Would you please outline your educational
12 background?

13 A. I received a bachelor's degree from the
14 University of Oklahoma in energy management in May of
15 2015.

16 Q. And if my math is correct, did you then start
17 working with COG Operating after you graduated?

18 A. Yes, sir.

19 Q. Okay. Are you a member of any professional
20 affiliations or associations?

21 A. Yes. I am a member of AAPL, American
22 Association of Professional Landmen, and PBLA, Permian
23 Basin Landmen's Association.

24 Q. How long been a member of those associations?

25 A. For about a year and a half.

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

3 A. Yes.

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

6 A. Yes.

7 MR. FELDEWERT: Mr. Examiner, I tender
8 Mr. Martin as an expert witness in petroleum land
9 matters.

10 EXAMINER JONES: Are you a football fan?

11 THE WITNESS: Yes.

12 EXAMINER JONES: Okay. He is so qualified.

13 Q. (BY MR. FELDEWERT) Mr. Martin, would you turn
14 to what's been marked as COG Exhibit Number 1? Identify
15 it first and then explain what the company seeks under
16 this application.

17 A. This is a C-102 form for the Nelson Federal Com
18 13H. Under this application, COG seeks to create a
19 240-acre nonstandard spacing and proration unit. In
20 addition, we seek to pool all uncommitted mineral
21 interests within the Yeso Formation. This also outlines
22 the pool code, 44500, which is the Maljamar West-Yeso
23 Pool, and this form also shows our intended completed
24 interval which complies with the setback requirements.

25 Q. So this pool is subject to the statewide rules?

1 A. Yes, sir.

2 Q. And this is roughly going to be a
3 mile-and-a-half lateral; is that right?

4 A. Yes.

5 Q. What's the nature of the acreage that's
6 involved here in Sections 10 and 15?

7 A. This is federal.

8 Q. Is there more than one federal lease?

9 A. Yes.

10 Q. Has the company filed -- the C-102 here that we
11 have as Exhibit Number 1, has it been filed with the
12 Bureau of Land Management?

13 A. Yes.

14 Q. But they have yet to issue an API number?

15 A. That's right.

16 Q. If I then turn to what's been marked as COG
17 Exhibit Number 2, this is a two-page exhibit; is that
18 correct?

19 A. Yes.

20 Q. And on the first page of this exhibit, does it
21 identify the uncommitted working interest owners in your
22 proposed spacing unit that you seek to pool?

23 A. Yes.

24 Q. Okay. And who is that?

25 A. It is Ard Oil, Ltd., highlighted in yellow.

1 Q. And then you have broken down for the Examiners
2 the working interests for each of the three tracks that
3 are involved?

4 A. Yes, sir.

5 Q. And at the bottom of the page, you have a
6 compilation of that interest; is that correct?

7 A. Yes.

8 Q. And that deals with the working interests.

9 What is addressed on the second page of
10 this exhibit for each of these tracts?

11 A. These are all other uncommitted owners such as
12 overriding royalty, record title and unmarketable title
13 ownership.

14 Q. Okay. So you have the overriding royalty
15 interests listed on this second page, and the record
16 title owners?

17 A. Yes.

18 Q. And then you said unmarketable title owners.
19 What do you mean by that?

20 A. It is -- unmarketable title is title that is
21 uncertain as to the ownership due to various title
22 defects in the chain of title.

23 Q. And did you include these parties in this
24 pooling request out of an abundance of caution?

25 A. Yes.

1 Q. Okay. All right. Then if I first address the
2 working interests that you seek to pool, if I turn to
3 what's been marked as COG Exhibit Number 3, is that the
4 well-proposal letter that was sent to Ard Oil?

5 A. Yes, sir.

6 Q. And does it include, on the second page, the
7 AFE that was provided to them?

8 A. Yes, sir.

9 Q. Is this the company's first
10 mile-and-a-half-long lateral in the Yeso Formation?

11 A. Yes, it is.

12 Q. How did the company come up with the AFE for
13 this particular well?

14 A. The drilling group, completions group both came
15 up with the respective numbers in order to drill the
16 extended lateral.

17 Q. Okay. And if I look at the first page of this
18 exhibit, does it identify for the Examiner the -- the
19 proposed overhead rates for -- monthly overhead rates
20 for drilling and also while producing if you are
21 successful?

22 A. Yes, sir.

23 Q. And what are those numbers?

24 A. Those are 7,000 per month during the drilling
25 period and \$700 per month during the producing period.

1 Q. And are these rates consistent with what the
2 parties are charging for similar wells in the area?

3 A. Yes, sir.

4 Q. In addition to sending this letter to Ard Oil,
5 what other efforts were undertaken to reach an agreement
6 with them?

7 A. Following the written well proposal, I
8 contacted Ron Grappe over at Ard Oil, Ltd. He was
9 unresponsive. I followed up with a phone call with
10 Julian Ard himself in which he directed me to call Ron
11 Grappe. So I followed up again with Ron, and he was
12 unresponsive.

13 Q. Okay. Now, that deals with the working
14 interest.

15 If I turn to the overriding royalty
16 interests and I turn to what's been marked as COG
17 Exhibit Number 4, is this an example of the letters that
18 were sent to the overriding royalty interest owners in
19 this proposed spacing unit?

20 A. Yes, sir.

21 Q. And each of those letters, did you seek that
22 they join in the ratification of the communitization
23 agreement for this spacing and proration unit?

24 A. Yes, sir.

25 Q. And then if I turn to what's been marked as COG

1 Exhibit Number 5, is that a similar letter seeking
2 ratification that was sent, then, to the record title
3 owners?

4 A. Yes, sir.

5 Q. Okay. Are there interests that the company was
6 unable to locate?

7 A. Yes, sir.

8 Q. And are they all non-cost-bearing interests?

9 A. Yes, they are.

10 Q. What efforts were undertaken to locate those
11 non-cost-bearing parties?

12 A. We checked within our internal database
13 systems, as well as county records and online search
14 engines.

15 Q. And if I turn to what's been marked as COG
16 Exhibit Number 6, is that an Affidavit of Publication in
17 the local newspaper providing notice of this hearing by
18 name to the parties that you were unable to locate?

19 A. Yes, sir.

20 Q. All right. In preparation for this hearing,
21 did the company identify the leased mineral interest
22 owners in the 40-acre tracts surrounding your
23 nonstandard spacing?

24 A. Yes.

25 Q. And did the company include those parties in

1 the list of parties to be notified for this hearing?

2 A. Yes, they did.

3 Q. And if I turn to what's been marked as COG
4 Exhibit Number 7, is this an affidavit prepared by my
5 office with attached letters providing notice of this
6 hearing to these affected parties?

7 A. Yes.

8 Q. Mr. Martin were COG Exhibits 1 through 7 -- or
9 1 through 6 prepared by you or compiled under your
10 direction and supervision?

11 A. Yes, they were.

12 MR. FELDEWERT: Mr. Examiner, I would move
13 admission into evidence COG Exhibits 1 through 7, which
14 includes my Notice of Affidavit.

15 EXAMINER JONES: Exhibits 1 through 7 are
16 admitted.

17 (COG Operating, LLC Exhibit Numbers 1
18 through 7 offered and admitted into
19 evidence.)

20 MR. FELDEWERT: And that concludes my
21 examination of this witness.

22 CROSS-EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. Okay. This is a problem I have been very much
25 concerned about, so I will ask a few questions here. Is

1 Exhibit 3 your list of -- no, Exhibit 2. Where is your
2 list of owners?

3 MR. FELDEWERT: Exhibit 2.

4 Q. (BY EXAMINER BROOKS) Exhibit 2, page 2, I see.
5 It's pretty small. I have a hard time reading it even.

6 Let's see. In tract -- well, no. Is Ard
7 the only working interest owner that you are -- that you
8 were asking to pool?

9 A. Yes, sir.

10 Q. Okay. So then the overriding royalty interest
11 owners --

12 A. Yes.

13 Q. -- that you have identified have all been
14 noticed, correct?

15 A. Yes.

16 Q. Now, did you -- did you get -- did you
17 ascertain the whereabouts of all the override owners?

18 A. Yes.

19 Q. Okay. Now -- so they have been given personal
20 notice, notice by certified mail, right?

21 A. Yes.

22 Q. And those receipts are attached as part of the
23 Exhibit 7?

24 A. That is correct.

25 MR. FELDEWERT: And, Mr. Examiner, if I may

1 interrupt --

2 EXAMINER BROOKS: Yes.

3 MR. FELDEWERT: -- in addition, out of an
4 abundance of caution, we included notice by name to the
5 parties in the Affidavit of Publication.

6 EXAMINER BROOKS: Yeah. I noticed you
7 include Ard, also.

8 MR. FELDEWERT: Yes.

9 EXAMINER BROOKS: Okay. But it's harmless
10 to add additional parties.

11 MR. FELDEWERT: Correct.

12 Q. (BY EXAMINER BROOKS) And let's see. These are
13 state leases?

14 A. These are federal leases.

15 Q. Federal.

16 Okay. And that's why you're seeking to
17 have the overriding royalty interests ratify the
18 communitization?

19 A. Yes, sir.

20 Q. Okay. Now, go down to the bottom of the list.
21 There are -- one, two, three, four, five -- six people
22 listed as record title owners. These are owners of bare
23 record title to the federal leases involved, and they do
24 not have any working interest, right?

25 A. That's correct.

1 Q. And, actually, they -- I would assume they have
2 no economic interest at all insofar as they have
3 liabilities to the BLM. But they are not party -- they
4 don't own any interest in the proceeds of the
5 production?

6 A. Yes, for the most part. Edward R. Hudson Trust
7 Number 4 is also an overriding royalty interest.

8 Q. They also own an overriding royalty?

9 A. Yes, sir.

10 Q. In addition to -- the others do not own any
11 interest to the production, right?

12 A. Yes.

13 Q. Okay. Now, we need to deal with the question
14 of unmarketable title owners. I have had some
15 difficulty with this, where we have had people
16 identified as, quote, "unmarketable title owners" in
17 previous cases. Does that mean that these people's
18 names show up in instruments as though they have title,
19 but their title is unmarketable, or does it mean that
20 they have a claim if somebody else's title -- under a
21 title opinion if somebody else's title is unmarketable?

22 A. I would say the prior, and then out of an
23 abundance of caution, we're asking to pool both -- or
24 all unmarketable parties on both sides to mitigate that
25 risk of a possible adverse claim.

1 Q. Yeah, but -- you know, let -- let me suggest an
2 example here. And you have not given any explanation of
3 the unmarketable titles. I'm reluctant to ask that
4 question because that would involve disclosing what's in
5 the title opinions, but if you had a title which was
6 conveyed to a deceased person -- to a person who is now
7 deceased, not presumably conveyed to someone who was
8 deceased at the time, but a person who is now deceased,
9 would you have included any heirs of that person that
10 you knew about on this list of unmarketable titles?

11 A. Yes.

12 Q. So there may be people who own titles -- those
13 would be people that you would assume would own the
14 title, if you know and believe them to be heirs?

15 A. Yes, sir. That's a possibility.

16 Q. And are there some of those on this list?

17 A. Yes.

18 Q. Okay. Is there -- well, let's see how I can --
19 let's see if I can put this -- excluding heirs, is there
20 anyone on this list who does not show up on a conveyance
21 instrument or record of which COG has knowledge?

22 A. I do not know at this time.

23 Q. Okay. So you can't answer that question?

24 A. I cannot.

25 Q. Can you answer this question then? Is there

1 anybody whose name shows up on a conveyance instrument
2 in this title who is not -- that you know about who is
3 not on this list somewhere?

4 A. Can you repeat that?

5 Q. Is there anyone whose name shows up on the
6 conveyance instrument who is not on this list?

7 A. They should be on this list, all parties, that
8 I'm aware of. But --

9 Q. Okay. Very good. I think that's all -- I
10 think that's all my questions I'm smart enough to ask
11 right now.

12 EXAMINER BROOKS: I will pass the witness.

13 EXAMINER JONES: I don't have any
14 questions.

15 THE WITNESS: Okay. Thank you very much.

16 MR. FELDEWERT: Call our next witness.

17 DREW NELSON,

18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. FELDEWERT:

22 Q. Would you please state your name, identify by
23 whom you're employed and in what capacity?

24 A. My name is Drew Nelson. I am employed by COG
25 Operating, LLC as a senior geologist.

1 Q. Mr. Nelson, you have previously testified
2 before this Division an expert in petroleum geology,
3 correct?

4 A. Yes.

5 Q. And have your credentials been accepted and
6 made a matter of public record?

7 A. Yes.

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

10 A. Yes.

11 Q. Have you conducted a geologic study of the
12 lands that are the subject of this application?

13 A. Yes.

14 MR. FELDEWERT: I would retender Mr. Nelson
15 as an expert in petroleum geology.

16 EXAMINER JONES: He is so qualified.

17 Q. (BY MR. FELDEWERT) Mr. Nelson, what is the
18 targeted interval for this particular well?

19 A. It would be the Paddock member in the Yeso
20 Formation.

21 Q. And have you prepared a structure map and a
22 cross section of the Yeso Formation for the Examiners?

23 A. Yes, I have.

24 Q. If I turn to what's been marked as COG Exhibit
25 Number 8, is this a structure map that you have

1 prepared?

2 A. Yes, it is.

3 Q. Would you please explain to us what all the
4 colors mean?

5 A. Sure. So the colors are the wells that are
6 currently producing. What you see in red are the
7 Paddock producers. Then the three colors of blue are
8 Blinebry producers. Also on the map is the proposed
9 horizontal location for the Nelson Federal Com 13H.
10 It's in the red line with the surface-hole location as a
11 red box and the bottom-hole location as a circle,
12 Concho's acreage in yellow, and then a structure map on
13 the Paddock Formation with a contour interval of 100
14 feet, showing a slight regional dip to the east.

15 Q. And, Mr. Nelson, I'm looking at the red square
16 that pictures the surface-hole location.

17 A. Yes.

18 Q. It appears to be -- right on the line of that
19 there is a blue -- is that a blue dot?

20 A. Yes.

21 Q. Is that an existing vertical well?

22 A. It is.

23 Q. Okay. And that existing vertical well, is that
24 located in the east half of the southwest quarter there
25 of Section 15?

1 A. It is.

2 Q. And is that well operated by COG or another
3 entity?

4 A. Another entity.

5 Q. Okay. All right. And with respect to the
6 structure that you see here, do you observe any faults
7 or pinch-outs or other geologic impediments to
8 developing this acreage with horizontal wells?

9 A. No, I do not.

10 Q. If I turn to what's been marked as COG Exhibit
11 Number 9, does this depict the wells that you have
12 utilized for your cross section?

13 A. Yes, it does.

14 Q. And down there where it says "A prime," were
15 you able to utilize the log from that existing well in
16 the east half of the southwest quarter of Section 15?

17 A. Yes.

18 Q. As well as some logs from additional wells in
19 Section 10?

20 A. That is correct.

21 Q. And in your expert opinion, are those wells
22 representative of the area in question?

23 A. Yes, they are.

24 Q. If I then turn to what's been marked as COG
25 Number 10, is this the cross -- structural cross section

1 that corresponds with the A to A prime wells shown on
2 Exhibit Number 9?

3 A. Yes, it is.

4 Q. Would you please walk us through this exhibit
5 and explain what you show with the various shadings?

6 A. Yes. So we've got three wells here, a
7 three-well cross section, gamma and porosity curves.
8 The green-shaded area is the Paddock Formation, Paddock
9 top indicated by a black line, a Blinebry top indicated
10 by a black line down to the Tubb, which is the base of
11 the Blinebry, and then we have the proposed landing
12 depth for the Nelson well that we're talking about, the
13 Federal Com 13H, at approximately 5,775 feet.

14 Q. And what do you observe with respect to the
15 continuity of this target zone across the proposed
16 nonstandard spacing and proration unit?

17 A. The interval is relatively -- there is no real
18 structural influence on the area other than the regional
19 dip towards the east, so there are no pinch-outs or
20 faulting or any of those types of things.

21 Q. In your opinion, is the zone that you're
22 targeting here fairly continuous across this nonstandard
23 spacing and proration unit?

24 A. Yes, it is.

25 Q. In your opinion, is this an area that can be

1 efficiently and economically developed by horizontal
2 wells?

3 A. Yes, it is.

4 Q. And in your opinion, will this nonstandard
5 spacing and proration unit contribute more or less
6 equally to the production of the well?

7 A. Yes.

8 Q. All right. Finally, Mr. Nelson, in your
9 opinion, is the granting of this application in the best
10 interest of conservation, the prevention of waste and
11 protection of correlative rights?

12 A. Yes, it is.

13 Q. And were COG Exhibits 8 through 10 prepared by
14 you or compiled under your direction or supervision?

15 A. Yes, they were.

16 MR. FELDEWERT: Mr. Examiner, I would move
17 admission into evidence COG Exhibits 8 through 10.

18 EXAMINER JONES: Exhibits 8, 9 and 10 are
19 admitted.

20 (COG Operating, LLC Exhibit Numbers 8, 9
21 and 10 are offered and admitted into
22 evidence.)

23 MR. FELDEWERT: And that concludes my
24 examination of this witness.

25

CROSS-EXAMINATION

1
2 BY EXAMINER BROOKS:

3 Q. Has this well been drilled? Has this well been
4 drilled?

5 A. Which well? The Nelson well?

6 Q. Yeah.

7 A. No. No, it has not.

8 Q. I noticed you were permitted in April. Well,
9 that's the surveyor certificate. It was filed in
10 August.

11 Do you have it on a drilling schedule?

12 A. Yes, it is, for next year.

13 Q. For next year. Well, I might be able to get an
14 order written by then.

15 I was going to ask about the omitted
16 quarter-quarter, but I see that it's not, because only
17 the surface-hole location is requested in the south half
18 of Section 15, correct?

19 A. That is correct.

20 Q. And the first take point is up in the north --

21 A. That is correct.

22 Q. Okay. Thank you.

23 CROSS-EXAMINATION

24 BY EXAMINER JONES:

25 Q. Okay. Section 15 is, I guess, a federal

1 section, so does that have anything to do with the well
2 locations being hard to find? In other words, you're
3 going to spud this well right on a pad that's already
4 there; is that correct?

5 A. There will be a pad developed for this well.

6 Q. A bigger pad --

7 A. Yes.

8 Q. -- for a horizontal?

9 So these are all vertical wells in the
10 offsetting sections. And I noticed your color-coding
11 shows them to be downhole commingles; is that correct?

12 A. That's correct. Many of the vertical wells are
13 completed in both the Blinebry and the Paddock.

14 Q. Okay. Now, how much advantage in economics is
15 it -- well, forget economics. How about advantage in
16 ultimate recovery if you -- if you drilled up Section 15
17 with vertical wells versus horizontals?

18 A. We believe that it's more advantageous to
19 utilize the horizontal wells. We think that from both a
20 cost standpoint and production, it's a better option.

21 Q. Okay. So the offsetting -- the owners of the
22 offsetting sections that drilled them up vertically,
23 they obviously either had a difference of opinion than
24 that or it was an earlier time period, before
25 horizontals were --

1 A. The majority of those were an earlier time
2 period. That's correct.

3 Q. Okay. I just haven't seen this since the
4 interim shale in Michigan where wells were right up to
5 the county lines there, you know, and each county has
6 their own little delineation of wells.

7 So do you guys at COG have your logs all
8 digitized, and do you do your own petrophysical
9 analysis?

10 A. For the most part, yes. When -- when we have
11 log quality that we can do a petrophysical analysis, we
12 do it, and that is done in-house.

13 Q. The reason I was asking is you could actually
14 do some fine-tuning of your porosity, you know, weight
15 [sic] to average porosity or average porosity, you know,
16 on the computer instead of just eyeballing it here.

17 A. That's true.

18 Q. So -- but showing across this area
19 (indicating), how do the porosity trends go? Does it
20 get worse as you go to the east or --

21 A. It's very -- it's very localized. It changes
22 in porosity. We're talking about dolomites, for the
23 most part, in these sections. So it's very localized
24 and changes in porosity. It's --

25 Q. So your cross-block porosities are dolomite; is

1 that correct?

2 A. That's correct. That's correct.

3 Q. I don't have any more questions. Thank you
4 very much.

5 MR. FELDEWERT: Mr. Examiner, that
6 concludes our presentation.

7 EXAMINER JONES: Thank you very much.

8 With that, we'll take Case Number 15568
9 under advisement.

10 And the docket is concluded.

11 (Case Number 15568 concludes, 11:36 a.m.)

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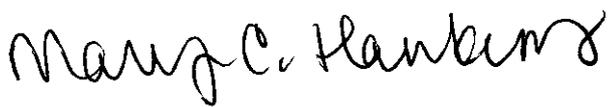
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3
4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20 

21 MARY C. HANKINS, CCR, RPR
22 Certified Court Reporter
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2016
25 Paul Baca Professional Court Reporters