

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:

COPY

APPLICATION OF COG OPERATING, LLC,
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

CASE NO. 14490

APPLICATION OF COG OPERATING, LLC,
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

CASE NO. 14491

APPLICATION OF COG OPERATING, LLC,
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

CASE NO. 14492

APPLICATION OF COG OPERATING, LLC,
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

CASE NO. 14493

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Presiding Examiner
TERRY G. WARNELL, Technical Examiner

June 10, 2010

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Presiding Examiner, and TERRY G. WARNELL, Technical Examiner, on Thursday, June 10, 2010, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
Paul Baca Professional Court Reporters
500 Fourth Street, N.W., Suite 105

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A P P E A R A N C E S

FOR THE APPLICANT:

J. SCOTT HALL, ESQ.
MONTGOMERY & ANDREWS LAW FIRM
325 Paseo de Peralta
Santa Fe, New Mexico 87501
(505) 982-3873

WITNESS: PAGE

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1 EXAMINER BROOKS: We're back on the
2 record. You said you were going to consolidate these
3 cases. Do you want me to call them all?

4 MR. HALL: Yes, please.

5 EXAMINER BROOKS: Okay. At this time
6 we'll call Case Number 14490, application of COG
7 Operating, LLC, for compulsory pooling, Lea County, New
8 Mexico; Case Number 14491, application of COG Operating,
9 LLC, for compulsory pooling, Lea County, New Mexico; Case
10 Number 14492, application of COG Operating, LLC, for
11 compulsory pooling, Lea County, New Mexico; and Case
12 Number 14493, application of COG Operating, LLC, for
13 compulsory pooling, Lea County, New Mexico.

14 Call for appearances.

15 MR. HALL: Mr. Examiner, Scott Hall, with
16 the Montgomery & Andrews Law Firm, Santa Fe, appearing on
17 behalf of the applicant, COG Operating, LLC. We have one
18 witness this afternoon.

19 EXAMINER BROOKS: Okay. And you're moving
20 to consolidate all of the cases for purposes of this
21 hearing?

22 MR. HALL: Yes, sir, so moved.

23 EXAMINER BROOKS: Cases 14490, 14491,
24 14492, and 14493 will be consolidated for purposes of
25 hearing.

1 The witness will need to be sworn. State your
2 name, please.

3 MR. READY: Robert Ready.

4 EXAMINER BROOKS: Please swear the
5 witness.

6 (One witness was sworn.)

7 EXAMINER BROOKS: You may proceed, Mr.
8 Hall.

9 J. ROBERT READY

10 Having been first duly sworn, testified as follows:

11 DIRECT EXAMINATION

12 BY MR. HALL:

13 Q. Mr. Ready, where do you live and by whom are
14 you employed?

15 A. Midland, Texas. COG Operating, LLC.

16 Q. What do you do for COG?

17 A. I'm a senior landman for COG.

18 Q. Have you previously testified before the
19 division and had your credentials as a landman accepted
20 as a matter of record?

21 A. I have.

22 Q. You are familiar with the four applications in
23 these consolidated cases and the lands involved?

24 A. I am.

25 MR. HALL: Okay. At this point,

1 Mr. Examiner, we'd offer Mr. Ready as an expert petroleum
2 landman.

3 EXAMINER BROOKS: So qualified.

4 Q. (By Mr. Hall) Would you please explain to the
5 hearing Examiner what we're seeking here today?

6 A. We're seeking a pooling of the unleased
7 mineral interests and uncommitted leasehold interests
8 under the four spacing units described to the interval
9 from the base of the unitized Maljamar Grayburg Unit to
10 the top of the Abo formation.

11 Q. Let's look at Exhibit 1. Does Exhibit 1
12 describe the spacing units for each of the wells and show
13 the well locations?

14 A. It does. It describes the 40-acre spacing
15 units and has the footage of each location posted.

16 Q. For the record, could you state the section
17 subdivisions and attribute the well names to each of
18 those subdivisions?

19 A. The Taylor D Number 2 is located in the
20 northwest of the southeast of Section 9. The Number 3 is
21 located in the southwest of the northeast of Section 9,
22 the Number 4, in the southeast of the northeast of
23 Section 9, and the Number 5 in the northeast/southeast of
24 Section 9, all in Township 17 South, Range 32 East.

25 Q. And COG is asking for the pooling of all

1 formations developed on a 40-acre spacing basis below the
2 base of the Maljamar Grayburg Unit; is that right?

3 A. From that depth to the top of the Abo
4 formation.

5 Q. And your primary objective is?

6 A. The Yeso formation.

7 Q. Let's look at Exhibit 2. And if you would
8 tell us, what is this?

9 A. Exhibit 2 is the well proposal, which was made
10 to the uncommitted owners. It's identical for each and
11 every owner.

12 Q. Why don't you say for the record -- identify
13 each of those owners and their ownership percentages.

14 A. The uncommitted owners are RAM Energy, Inc.,
15 owning a 12.375 percent unleased mineral interest; The
16 Trust Company of Kansas and Clyde Dell Graeber,
17 co-trustees, owning a 6.25 percent unleased mineral
18 interest; Triad Energy Corporation, owning a 3.125
19 percent unleased mineral interest; Range Operating New
20 Mexico, Inc., owning a 0.125 percent unleased mineral
21 interest; and Chevron USA, Inc., owning a 3.125 percent
22 uncommitted leasehold working interest.

23 Q. Is the uncommitted ownership in each of these
24 40-acre spacing units the same?

25 A. Yes. It's uniform through the entire 160-acre

1 comprising the four 40-acre spacing units.

2 Q. Is Exhibit 2 a compilation of COG's original
3 well proposal letters to each of those uncommitted
4 interest owners?

5 A. Yes.

6 Q. How long has COG had its interest in Section
7 9?

8 A. Since March of 2009. It was part of a larger
9 transaction.

10 Q. Are these wells all permitted?

11 A. These wells are all permitted.

12 Q. When were the permits filed?

13 A. Between May and July of 2009.

14 Q. What percentage do you have committed to the
15 wells now?

16 A. 75 percent.

17 Q. You're asking the Division to join the
18 unpooled mineral interests and the one working interest
19 in each of the wells?

20 A. Yes.

21 Q. Does COG seek the position of a 200 percent
22 risk penalty against those uncommitted interests?

23 A. Yes.

24 Q. Does COG seek to be designated operator of the
25 well?

1 A. Yes.

2 Q. Let's look at the next few exhibits. What is
3 Exhibit 3?

4 A. Exhibit 3 is an email sent containing the
5 proposal letter that was also sent by Federal Express
6 transmitting the proposal, the AFEs for all wells, and an
7 operating agreement for the wells.

8 Q. And in this particular instance, Exhibit 3 is
9 addressed to whom?

10 A. It's addressed to Tully Davis, Vice President
11 of RAM Energy, Inc.

12 Q. Is Exhibit 3 a compilation of the
13 communications you have had -- written communications you
14 have had with Mr. Davis, RAM Energy?

15 A. With Mr. Davis and others at RAM Energy.

16 Q. And let's look at Exhibit 4. Identify that,
17 please.

18 A. Exhibit 4 is an email transmitting the well
19 proposal, AFEs, and operating agreement to Mr. Mike
20 Goldak, Trust Officer for the Trust Company of Kansas,
21 conveying again the well proposal, AFEs, and operating
22 agreement for the Trust Company of Kansas and Clyde Dell
23 Graeber, co-trustees.

24 Q. And Exhibit 5?

25 A. Email to Sam Bradshaw, President of Triad

1 Energy, transmitting the well proposal, AFEs, and
2 operating agreement to Triad, and the written
3 communications after that time.

4 Q. And Exhibit 6, please?

5 A. Email to Bobby Ebeier, Senior Landman of Range
6 Operating New Mexico, Inc., transmitting the well
7 proposals, the AFEs, and the operating agreement.

8 Q. And finally, Exhibit 7?

9 A. Email to Kevin Stubbs, a landman with Chevron
10 USA, Inc., transmitting the well proposals, AFEs, and
11 operating agreement to Chevron.

12 Q. Now, in addition to the electronic and written
13 communications you had with each of these interest
14 owners, were there also telephonic conversations with
15 them?

16 A. I have communicated with all of these parties
17 by telephone numerous times.

18 Q. As of today, you do not have a firm written
19 agreement in hand from each of these interest owners?

20 A. We do not have a written agreement in hand for
21 these owners. The status, if you'd like to hear it --

22 Q. Briefly.

23 A. RAM Energy, Inc., appears -- is interested in
24 entering into an oil and gas lease. We're continuing to
25 negotiate with them on that and will do so after the

1 hearing and order.

2 The Trust Company of Kansas also has expressed
3 a strong interest in leasing, and we're close to
4 agreement there. It is not finished. We will continue
5 those negotiations after the hearing and order.

6 Triad Energy Corporation has agreed to the
7 terms and form of oil and gas lease, and we're in the
8 process of closing that transaction. It is not closed at
9 this time.

10 Range Operating New Mexico, Inc., we have
11 agreed to basic terms to purchase their small mineral
12 interest in the subject lands and depths, and we'll
13 continue that effort.

14 And Chevron USA, Inc., has indicated their
15 desire to participate in the wells. They have signed
16 AFEs for each of the wells. We are negotiating an
17 operating agreement with them. That's ongoing. We hope
18 to conclude that.

19 Q. Let's look at Exhibit 8. Would you identify
20 that, please?

21 A. Exhibit 8 is representative excerpts from the
22 operating agreement submitted to all the parties. The
23 operating agreement submitted to each was identical.

24 Q. This went to the interest owners with your May
25 7th letter?

1 A. Correct.

2 Q. Look at Exhibit 9 and identify those, please.

3 A. These are the detailed cost estimates, the
4 AFEs for the Taylor D2, the Taylor D3, the Taylor D4, and
5 Taylor D5. The costs are identical. The cost to casing
6 point in each is \$688,000. The completion costs after
7 casing point, \$963,000. The total AFE amount,
8 \$1,650,000, identical for all of the wells.

9 Q. And the AFEs for each of the wells went with
10 your May 7th well proposal letter to each of the interest
11 owners, as well?

12 A. They did.

13 Q. As to the intervals you seek to pool, does the
14 ownership differ?

15 A. No. The ownership is common throughout the
16 160 acres in question and throughout that interval.

17 Q. So it's the same through all depths?

18 A. It's the same through all depths.

19 Q. Below the unit?

20 A. Correct.

21 Q. All right.

22 A. It's the same through the interval being
23 pooled.

24 Q. Okay. Back to your AFE costs. Have you
25 determined whether or not these costs are in line with

1 what other operators are charging for similar wells in
2 the area?

3 A. Yes, they are. Possibly lower.

4 Q. What are your estimates of the overhead costs
5 while drilling and producing the well?

6 A. The drilling well overhead, \$5,500 per month.
7 The producing well overhead rate, \$500 per month per
8 well.

9 Q. Are those costs in line?

10 A. Yes, they are.

11 Q. Are you asking for these costs to be included
12 in the order that may result from this hearing?

13 A. Yes, we are.

14 Q. Does COG request that the order be issued in
15 this case provide for an adjustment of the drilling and
16 producing overhead rates in accordance with the current
17 COPAS bulletin for the area?

18 A. Yes, we do.

19 Q. In your opinion, would granting COG's
20 applications be in the best interest of conservation,
21 prevention of waste, protection of correlative rights?

22 A. Yes, we do. There's been no new drilling
23 commenced on these lands since 1965. The wells we
24 propose to drill will penetrate depths that have not been
25 penetrated by a well previously. The total depth drilled

1 in any prior well was approximately 4,200 feet. Total
2 depth in our wells is approximately 7,000 feet.

3 Q. Does COG have an expiring interest or a
4 deadline that's at work here?

5 A. We do. We have a spud commitment of July 9th.
6 We're working to obtain an extension of that. We do not
7 have it in hand, and it's uncertain whether we will be
8 able to get that.

9 Q. Is COG requesting the Examiner enter an
10 expedited order in this circumstance?

11 A. We do request an expedited order.

12 Q. Were Exhibits 1 through 9 prepared by you and
13 at your direction?

14 A. Yes, they were.

15 MR. HALL: At this point, Mr. Examiner,
16 we'd also offer Exhibit 10, which is our notice
17 affidavit. That concludes our direct of this witness.

18 If I might provide you with a copy of the
19 provision from the unit agreement which describes the
20 unitized formation, which you may care to refer to of
21 course in drafting an order.

22 EXAMINER BROOKS: Okay.

23 EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. This unitized formation, what is its relation

1 to the objective of this well?

2 A. It's shallower.

3 Q. Okay. So when you said something about it was
4 from the base of the Maljamar Grayburg, this is what
5 they're describing?

6 A. That is the definition of the unit interval in
7 the Maljamar Grayburg, and we're pooling to depths below
8 that down to the top of the Abo.

9 Q. What are the overhead rates you're asking for?

10 A. Drilling rate, \$5,500 per well per month,
11 producing well rate, \$550 per well per month.

12 EXAMINER BROOKS: Okay. Did you get green
13 cards back from when you mailed the hearing notices to
14 the people?

15 MR. HALL: We did. We got full response,
16 and the originals are with the court reporter.

17 EXAMINER BROOKS: No unlocated interests?

18 MR. HALL: No.

19 EXAMINER BROOKS: Just these people that
20 you corresponded with?

21 THE WITNESS: That's correct

22 MR. HALL: Correct.

23 EXAMINER BROOKS: Okay. I guess that's
24 all I have.

25 Mr. Warnell?

1 MR. HALL: I should move the admission of
2 the exhibits.

3 EXAMINER BROOKS: Exhibits 1 through 10
4 are admitted.

5 (Exhibits 1 through 10 were admitted.)

6 EXAMINATION

7 BY EXAMINER WARNELL:

8 Q. The only question I have I think is the
9 operator. You want the operator to be COG Operating,
10 LLC?

11 A. Correct.

12 EXAMINER WARNELL: No more questions.

13 EXAMINER BROOKS: Okay.

14 MR. HALL: That concludes our case. Thank
15 you very much.

16 EXAMINER BROOKS: Then Cases 14490, 14491,
17 14492, and 14493 will be taken under advisement. This
18 hearing will stand adjourned.

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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. 14490-14493
heard by me on June 10 2010
David K. Burch
Oil Conservation Division

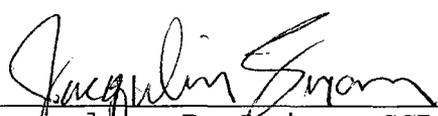
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on June 10, 2010, proceedings in the
above captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with any of the parties or
attorneys in this case and that I have no interest
whatsoever in the final disposition of this case in any
court.

WITNESS MY HAND this 23rd day of June, 2010.



Jacqueline R. Lujan, CCR #91
Expires 12/31/2010