

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

Application of COG Operating, LLC for compulsory  
pooling, Eddy County, New Mexico.

Case No. 14644

ORIGINAL

May 12, 2011  
8:50 a.m.  
Santa Fe, New Mexico

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HEARING EXAMINERS: DAVID BROOKS AND WILLIAM JONES

For The Applicant:

HOLLAND & HART, LLP  
110 N. Guadalupe St. #1  
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BY: Ocean Munds-Dry  
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REPORTED BY: JAN GIBSON, CCR, RPR, CRR  
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THE WITNESSES:  
BRANDON GAYNOR

EXHIBITS

- 1. Map
- 2. Form C-103
- 3. 3/10/11 Letter
- 4. E-mails
- 5. Affidavit

1 (Note: In Session at 8:50.)

2 HEARING EXAMINER JONES: Okay. Let's call  
3 14644, Application of COG Operating, LLC for  
4 compulsory pooling, Eddy County, New Mexico. Call  
5 for appearances.

6 MS. MUNDS-DRY: Good morning, Mr. Jones.  
7 My name is Ocean Munds-Dry from the law firm of  
8 Holland & Hart representing COG Operating, LLC this  
9 morning.

10 HEARING EXAMINER JONES: Any other  
11 appearances?

12 MS. MUNDS-DRY: I have one witness.

13 BRANDON GAYNOR  
14 after having been first duly sworn under oath,  
15 was questioned and testified as follows:

16 EXAMINATION

17 BY MS. MUNDS-DRY

18 Q. One more time while we are on the record,  
19 would you please state your full name?

20 A. Brandon Kimberly Gaynor.

21 Q. Where do you reside?

22 A. Midland, Texas.

23 Q. By whom are you employed?

24 A. Concho Resources.

25 Q. What is your position with Concho?

1 A. I am a landman.

2 Q. Have you previously testified before the  
3 division?

4 A. I have not.

5 Q. Would you please briefly give your  
6 education and work history to the examiners?

7 A. Yes. I went to law school at Indiana  
8 University School of Law in Bloomington, Indiana. I  
9 took and passed the Texas bar in 2009. I have  
10 worked as an independent petroleum landman for about  
11 a year and have been in-house for Concho for about  
12 six months.

13 Q. And are you familiar with the application  
14 that's been filed by Concho?

15 A. Yes.

16 Q. Are you familiar with the status of the  
17 lands that are the subject of this application?

18 A. I am.

19 MS. MUNDS-DRY: With that, Mr. Jones, we  
20 tender Mr. Gaynor as an expert in petroleum land  
21 matters.

22 HEARING EXAMINER JONES: He is so  
23 qualified.

24 Q. Before we get into the exhibits,  
25 Mr. Gaynor, if you could please summarize for the

1 examiners what Concho seeks with the application.

2 A. We seek an order pooling all mineral  
3 interests from 650 feet down to 5,000 feet in the  
4 southwest quarter of the northwest quarter of  
5 Section 30 of township 17 south range 28 east.

6 Q. And I believe there are multiple wells  
7 that are subject to the application. If you could  
8 review for the examiners the two wells which we seek  
9 to dedicate to that spacing unit?

10 A. Yes. The first is the Maple State No. 11  
11 well, which is to be drilled 1650 feet from the  
12 north line and 330 feet from the west line. And the  
13 second is the Maple State No. 12 well to be drilled  
14 2150 feet from the north line and 990 feet from the  
15 west line.

16 Q. Mr. Gaynor, please turn to what's marked  
17 as Concho Exhibit No. 1 and identify this for the  
18 examiners.

19 A. This is a map showing the nine sections  
20 surrounding the area that we're seeking to have  
21 pooled, the Maple State.

22 Q. And if you could point out to the  
23 examiners the particular spacing unit that we are  
24 seeking to pool?

25 A. Yes. The red box is outlining the

1 southwest quarter of the northwest quarter of  
2 Section 30, and that's the spacing unit that we are  
3 seeking to have pooled. The black arrows pointing  
4 to the purple squares are identifying the locations  
5 of the wells.

6 Q. And what are the green diamond shapes?

7 A. Those are future locations.

8 Q. Okay. Let's turn to what's marked as  
9 Concho Exhibit No. 2. I hope you have more than I  
10 have. Do you have the division forms for the two  
11 wells or the C 102s for both wells?

12 A. I have the C 102 for the No. 11 and --

13 Q. Oh, I do have it.

14 A. It's in here.

15 HEARING EXAMINER JONES: I have the No.  
16 12.

17 Q. Well, I apologize. I thought we were  
18 supposed to have both the C 102s for the No. 11 and  
19 12. If you can identify for the examiner the C 102.  
20 Is that what Concho filed for the Maple State No.  
21 12?

22 A. Yes. I have the 11.

23 Q. Do you have that?

24 A. Yes.

25 Q. And we will have to get extra copies,

1 Mr. Jones. I apologize. We did this last night  
2 after a very long day and apparently it didn't  
3 happen the way I hoped it had.

4 HEARING EXAMINER BROOKS: My packet has  
5 two copies of the C 102.

6 HEARING EXAMINER JONES: Can I have one?

7 MS. MUNDS-DRY: That's the excellent  
8 quality control that happened last night.

9 HEARING EXAMINER JONES: Just make sure  
10 the court reporter has it.

11 Q. Let's see how we do on No. 3. If you can  
12 identify these documents for the examiner.

13 A. Okay. We have -- these are the well  
14 proposal letters for both the No. 11 and the No. 12  
15 which were addressed to Chuck Reagan at Lime  
16 Resources A, LP.

17 Q. What date is on both of those letters?

18 A. They are both dated March 10, 2011.

19 Q. And in addition to the cover letter that  
20 you sent to Lime Rock, what else is included in that  
21 packet that you sent to Lime Rock?

22 A. Also the AFE for the well.

23 Q. Okay. And in addition to the well  
24 proposal letter, maybe we can turn to what's been  
25 marked as Concho Exhibit No. 4. Before we get into

1 these E-mails, if you could summarize for the  
2 examiner the other contacts and other efforts you  
3 made to seek voluntary participation from Lime Rock.

4 A. Sure. On March 9th I called the Chuck  
5 Reagan to discuss getting an operating agreement  
6 together for this spacing unit. And he said that  
7 they would prefer to operate it themselves and  
8 suggested that we send one another AFEs and see what  
9 happens. We then sent them an AFE the next day,  
10 along with an E-mail telling him that I was sending  
11 him everything, and they never sent us an AFE.

12 I checked them a few times as is shown in  
13 the E-mail correspondence to see if we could get  
14 something together and they never did anything.

15 Q. Let's go through this for the record. The  
16 first page of Exhibit No. 4, what is this document?

17 A. This is my E-mail to Chuck on March 10,  
18 2011. He asked for an E-mail with all my contact  
19 information so we could communicate about this.

20 Q. Okay. What is the next page in the  
21 document?

22 A. The next page is he had a question about  
23 how they got their interest in the lands. So I sent  
24 him sort of a brief breakdown of how the assignments  
25 came into Lime Rock.

1 Q. And next page appears to be a part of the  
2 E-mail you were just describing. What's the next  
3 page to Exhibit No. 4?

4 A. The next page was an E-mail dated April  
5 21st where I was trying to see if there was any way  
6 we could get anything done. He responded they were  
7 working on it and should have an answer next week.  
8 They did not.

9 Q. Next page?

10 A. Then the last thing, you know, I told  
11 them, "Hey, we have you set up for forced-pooling on  
12 May 12th. We would love to get a deal before then."  
13 He said, "I will check," and that's the last I heard  
14 from him.

15 Q. Okay. In your opinion, have you made a  
16 good faith effort to obtain Lime Rock's voluntary  
17 participation?

18 A. Yes.

19 Q. Let's go back to the well proposals that  
20 you sent that have been marked as Concho's Exhibit  
21 No. 3. If you could identify for the examiner and  
22 the AFE the dry hole and completed well cost for  
23 each of the wells?

24 A. Sure. Down at the bottom where it says  
25 Total Well Costs on these AFEs, the first number is

1 before casing point. That's the dry hole cost of  
2 \$453,000, and on the far right is our total  
3 completed well cost of \$1,397,000.

4 Q. Is that the same for both wells?

5 A. Yes.

6 Q. Are these costs in line with what Concho  
7 and other operators in the area are charging for  
8 similar wells?

9 A. Yes.

10 Q. Have you made an estimate of overhead and  
11 administrative costs while drilling this well and  
12 also while producing this well if it is successful?

13 A. Yes. Our estimated overhead cost while  
14 drilling is \$3631.69 and while producing is \$701.35.

15 Q. Do you recommend that the figures be  
16 incorporated into any order that results from the  
17 hearing?

18 A. Yes.

19 Q. Does Concho request that the overhead and  
20 administrative costs set by the order which results  
21 from the hearing be adjusted in accordance with  
22 COPAS accounting procedures?

23 A. Yes.

24 Q. Are these amounts in line with what Concho  
25 and other operators in the area are charging for

1 similar wells?

2 A. Yes.

3 Q. Does Concho request that in accordance  
4 with Division rules that the maximum risk penalty,  
5 which is 200 percent, be imposed on each working  
6 interest owner that does not voluntarily commit  
7 their interests to these wells?

8 A. Yes.

9 Q. Does Concho seek to be designated operator  
10 of the wells?

11 A. Yes.

12 Q. In your opinion, will the granting of this  
13 application be in the best interest of conservation,  
14 the prevention of waste and the protection of  
15 correlative rights?

16 A. Yes.

17 Q. Finally, Mr. Gaynor, is Exhibit No. 5 our  
18 notice packet which contains the notice affidavit,  
19 the letter that went to Lime Rock, the affidavit of  
20 publication and the green card showing Lime Rock  
21 received notice of this application?

22 A. Yes.

23 Q. Were Exhibits 1 through 5 prepared by you  
24 or compiled under your direction or supervision?

25 A. Yes, they were.

1 MS. MUNDS-DRY: With that, Mr. Examiner,  
2 we move the admission into evidence of Concho  
3 Exhibits 1 through 5.

4 HEARING EXAMINER JONES: They will be  
5 admitted.

6 (Note: Exhibit 1 through 5 admitted.)

7 MS. MUNDS-DRY: And I have nothing further  
8 for Mr. Gaynor.

9 HEARING EXAMINER BROOKS: The target of  
10 the well is the Blinebry/Paddock?

11 THE WITNESS: Yes.

12 HEARING EXAMINER BROOKS: From what I have  
13 been learning in the last few weeks I'm told those  
14 are parts of the Yeso?

15 THE WITNESS: Productive portions of the  
16 Yeso formation.

17 HEARING EXAMINER BROOKS: Will you asking  
18 for pooling from the surface to the base of --  
19 what's the interval? How do you define the  
20 interval?

21 THE WITNESS: Of the top to the bottom of  
22 the Yeso formation?

23 HEARING EXAMINER BROOKS: Well, the  
24 interval.

25 THE WITNESS: We would like to have it

1 pooled from 650 all the way down to 5,000.

2 HEARING EXAMINER BROOKS: 650 below the  
3 surface to down to -- we would normally define it  
4 down to the base of the formation unless there's an  
5 ownership barrier.

6 THE WITNESS: There's an ownership at the  
7 5,000 foot cutoff. That's where our ownership ends.

8 HEARING EXAMINER BROOKS: Very good.  
9 These are vertical wells?

10 THE WITNESS: Yes.

11 HEARING EXAMINER BROOKS: And who is being  
12 pooled?

13 THE WITNESS: Lime Rock Resources, A LP.

14 HEARING EXAMINER BROOKS: Nobody else?

15 THE WITNESS: Nobody else.

16 HEARING EXAMINER BROOKS: And they are the  
17 lessee, I assume?

18 THE WITNESS: Yes, this is a state lease.

19 HEARING EXAMINER BROOKS: Okay. I guess  
20 that's all I have.

21 HEARING EXAMINER JONES: Okay. Section 30  
22 must be a little bit abnormal. Lot 2 --

23 THE WITNESS: Yes.

24 HEARING EXAMINER JONES: How big is Lot 2.

25 THE WITNESS: Lot 2 contains 43.23 acres.

1 HEARING EXAMINER JONES: Okay. That  
2 drilling overhead rate went right past me. I must  
3 not be drinking enough coffee today.

4 MS. MUNDS-DRY: It was a very specific  
5 number, Mr. Jones. I would ask Mr. Gaynor to repeat  
6 it.

7 THE WITNESS: 3631.69.

8 HEARING EXAMINER JONES: Is there a reason  
9 you all don't put these in the applications? I am  
10 supposed to read between the lines here?

11 MS. MUNDS-DRY: We could put them in the  
12 applications.

13 HEARING EXAMINER JONES: There's probably  
14 a reason you don't. That's fine.

15 MS. MUNDS-DRY: We just historically have  
16 not.

17 HEARING EXAMINER JONES: So we know the  
18 pool here that you are -- the main pool that you are  
19 targeting is in the Red Lake?

20 THE WITNESS: Yes. The northeast Red Lake  
21 Glorieta-Yeso pool.

22 HEARING EXAMINER JONES: But the main  
23 target is in the upper Yeso?

24 THE WITNESS: Yes.

25 HEARING EXAMINER JONES: These two wells,

1 you are going to drill one before the other?

2 THE WITNESS: I don't know which one they  
3 are going to drill first.

4 HEARING EXAMINER JONES: And scheduled?  
5 When do you want to start drilling?

6 THE WITNESS: I know we need more  
7 locations so I imagine it will get on the drilling  
8 schedule right away.

9 HEARING EXAMINER JONES: Did you discuss  
10 the rate with Chuck Reagan?

11 THE WITNESS: Chuck and I never got that  
12 far really.

13 HEARING EXAMINER JONES: I think he is  
14 pretty busy.

15 HEARING EXAMINER BROOKS: I had forgotten  
16 something. When we were talking about the overhead  
17 rate, we get so accustomed to the drilling overhead  
18 being 10 percent of the producing overhead that it  
19 seems unusual that it's something else. Can you  
20 explain to us why -- and the drilling overhead is a  
21 little high. Drilling overhead is a little lower  
22 than what we have been seeing but the producing  
23 overhead is a little higher. Can you explain that?

24 THE WITNESS: I mean, I can't explain  
25 exactly how they came up with the numbers because I

1 got these numbers from the drilling people, you  
2 know, asking, "Hey, what are we charging in this  
3 area, what are we charging on wells nearby," and  
4 these are the answers that I got. So I can't really  
5 take it any farther than that.

6 HEARING EXAMINER BROOKS: Well, the last  
7 one that I -- the last compulsory pooling case that  
8 I did, the director asked me questions about the  
9 overhead rates and that surprised me a little bit  
10 because the last two directors never had asked those  
11 questions. But I thought that if we had some  
12 explanation it might be good to get it on the  
13 record. But you don't have any?

14 THE WITNESS: That's something that our  
15 drilling people told me.

16 HEARING EXAMINER BROOKS: Thank you.

17 HEARING EXAMINER JONES: Thank you very  
18 much. I guess we are done.

19 MS. MUNDS-DRY: We ask the matter be taken  
20 under advisement.

21 HEARING EXAMINER JONES: We will take  
22 14644 under advisement. Thank you for coming to  
23 Santa Fe.

24 MS. MUNDS-DRY: I will make sure that she  
25 gets a copy of the 11.

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HEARING EXAMINER JONES: I have 11 and 12.

Thank you.

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

REPORTER'S CERTIFICATE

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I, JAN GIBSON, Certified Court Reporter for the State of New Mexico, 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 and was reduced to printed form under my direct supervision.

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.

  
\_\_\_\_\_  
JAN GIBSON, CCR-RPR-CRR  
New Mexico CCR No. 194  
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