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

April 14, 2016  
11:20 a.m.  
Wendell Chino Building  
Porter Hall  
1220 S. St. Francis Drive  
Santa Fe, New Mexico

TRANSCRIPT OF PROCEEDINGS

CASE NO. 15466

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

CASE NO. 15467

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

BEFORE: WILLIAM JONES, Lead Examiner  
SCOTT DAWSON, Examiner  
DAVID K. BROOKS, Legal Examiner

REPORTED BY: DEBRA ANN FRIETZE  
PAUL BACA COURT REPORTERS  
500 4th Street, NW, Suite 105  
Albuquerque, New Mexico 87102

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7 BY: JORDAN LEE KESSLER

6	WITNESSES:	PAGE
	Adam Reker	3
7	Carrie Martin	14
8	EXHIBITS	ADMITTED
9	1 through 8	11
	9 through 12	18
11	REPORTER'S CERTIFICATE	23

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1 EXAMINER JONES: Case Numbers 15466 and  
2 15467, application of COG Operating LLC for a  
3 nonstandard spacing and proration unit and compulsory  
4 pooling in Lea County, New Mexico.

5 I call for appearances on both cases.

6 MS. KESSLER: Jordan Kessler, from the  
7 Santa Fe Office of Holland and Hart, on behalf of the  
8 applicant.

9 EXAMINER JONES: Any other appearances?  
10 Witnesses?

11 MS. KESSLER: I have two witnesses today.  
12 [At which time Adam Reker and Carrie  
13 Martin were duly sworn under oath.]

14 ADAM REKER

15 having been previously sworn under oath,  
16 was questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MS. KESSLER:

19 Q. Could you state your name for the record and  
20 tell the Examiners by whom you're employed and in what  
21 capacity?

22 A. My name is Adam Reker, R-e-k-e-r. I'm a  
23 landman for COG Operating LLC.

24 Q. Have you previously testified before the  
25 Division?

1 A. No. This is my first time.

2 Q. Can you please outline your educational  
3 background?

4 A. I got a Bachelor's in Business Administration  
5 from Texas Tech in Energy Commerce. I graduated in May  
6 2014, and I've worked for Concho ever since.

7 Q. You've worked for Concho as a landman in the  
8 Permian Basin; is that correct?

9 A. Yes. I've worked exclusive Permian Basin since  
10 I began work.

11 Q. Are you a member of any professional  
12 associations?

13 A. American Association of Professional Landmen  
14 and Permian Basin Landmen's Association.

15 Q. Are you familiar with the applications that  
16 have been filed in this consolidated case?

17 A. Yes.

18 Q. And are you familiar with the status of the  
19 lands in the subject area?

20 A. Yes, I am.

21 MS. KESSLER: I would tender Mr. Reker as  
22 an expert in petroleum land matters.

23 EXAMINER JONES: He is so qualified.

24 Q. (By Ms. Kessler) Mr. Reker, can you briefly  
25 state what COG seeks under these consolidated

1 applications?

2 A. Two 240-acre nonstandard spacing units for the  
3 Fascinator Fee Number 1H and the Fascinator Fee Number  
4 2H wells. We seek to pool uncommitted owners in the  
5 Wolfbone Pool.

6 Q. And if you could please turn to Exhibit 1 and  
7 identify this exhibit?

8 A. It's the C-102 plat for the Fascinator Fee  
9 Number 1H.

10 Q. What lands is the proposed nonstandard unit  
11 comprised of?

12 A. It covers the east half of the southeast of  
13 Section 19, and the east half of the east half of  
14 Section 30, Township 24 South, Range 35 East.

15 Q. What is the API number for this well?

16 A. 30-025-43037.

17 Q. Has the Division identified a pool and pool  
18 code for this well?

19 A. Yes, the Wolfbone Pool, Pool Code 98098.

20 Q. And that was designated by Paul Koutz, correct?

21 A. Yes.

22 Q. Is this pool governed by Division state-wide  
23 rules?

24 A. Yes.

25 Q. Will the completed interval comply with the

1 330-foot setback requirement?

2 A. Yes, it will.

3 Q. And are these spacing units comprised of  
4 helium?

5 A. Yes.

6 Q. Please turn to Exhibit 2 and identify this  
7 exhibit for the Examiners.

8 A. This is the C-102 plat for the Fascinator Fee  
9 Number 2H well.

10 Q. And what lands are within this proposed  
11 nonstandard unit?

12 A. It covers the west half of the southeast  
13 quarter of Section 19 and the west half of the east half  
14 of Section 30, Township 24 South, Range 35 East.

15 Q. What is the API number?

16 A. 30-025-43023.

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

19 A. Yes. It's also the Wolfbone Pool; 98098 is the  
20 pool code.

21 Q. Also governed by state-wide setbacks?

22 A. Yes, ma'am.

23 Q. And also comprised of fee land?

24 A. Yes.

25 Q. Does Exhibit 3 identify COG in the parties whom

1 you seek to pool for the 1H well?

2 A. Yes, it does.

3 Q. What parties do you seek to pool? Are they  
4 highlighted in bold?

5 A. Yes. They're in bold, on the second page of  
6 Exhibit 3.

7 Q. Are they uncommitted working interests or  
8 mineral interests or both?

9 A. Both.

10 Q. And is Exhibit 4 a lease tract map for the 2H  
11 well that identifies COG's interest and the parties whom  
12 you seek to pool for the 2H well?

13 A. Yes.

14 Q. Those parties again are highlighted in bold?

15 A. Yes.

16 Q. And are the uncommitted working and mineral  
17 interest owners?

18 A. Correct.

19 Q. Is Exhibit 5 a copy of the well proposal letter  
20 for the 1H well?

21 A. Yes.

22 Q. On what date was this letter sent?

23 A. February 11, 2016.

24 Q. And a copy of this letter went to all of the  
25 interest owners whom you seek to pool?

1 A. Correct.

2 Q. And did it include an AFE?

3 A. Yes.

4 Q. Is Exhibit 6 a well proposal letter sent to --  
5 an example of the well proposal letter that was sent to  
6 all of the interest owners in the 2H well?

7 A. Yes, ma'am.

8 Q. And what date was that letter sent?

9 A. Also on February 11, 2016.

10 Q. In addition to sending these letters, what  
11 additional efforts did you undertake to reach agreement  
12 of the parties whom you seek to pool?

13 A. I was able to reach a voluntary agreement with  
14 ENERGEX, which is a party -- the other party that was  
15 not pooling. Also, several of the parties in here that  
16 own mineral interests and working interests are  
17 subsidiaries of BC Operating.

18 I do have a verbal agreement on a voluntary  
19 OA between -- or for those parties, which is not signed  
20 yet. I've had multiple phone calls and emails and  
21 teleconferences with Chevron, trying to get them on  
22 board, and I just haven't had an answer yet.

23 Q. And did you lease multiple previously unleased  
24 parties?

25 A. Yes.

1 Q. You mentioned that each of the well-proposal  
2 letters contained an AFE; is that correct?

3 A. Yes.

4 Q. Are the costs on those AFEs consistent with  
5 what COG has incurred for drilling similar horizontal  
6 wells?

7 A. Yes, they are.

8 Q. And did the well-proposal letters that you sent  
9 identify overhead and administrative costs for drilling  
10 and producing the wells?

11 A. Yes, they did.

12 Q. What are those costs?

13 A. 7,000 a month for drilling, and 700 a month for  
14 a producing rate.

15 Q. And those were applied to both the 1H and 2H  
16 wells?

17 A. Correct.

18 Q. Are these overhead rates consistent with what  
19 operators are charging for similar wells?

20 A. Yes.

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

23 A. Yes, we do.

24 Q. Do you ask that it be adjusted in accordance  
25 with COPAS Accounting Procedures?

1 A. Yes, ma'am.

2 Q. With respect to any uncommitted interest  
3 owners, were both of the wells to request that the  
4 Division impose a 200 percent risk penalty?

5 A. Yes, we do.

6 Q. And did you identify the offset operators or  
7 lessees of record in the 40-acre tract surrounding the  
8 proposed nonstandard units?

9 A. Yes, ma'am.

10 Q. Are those offsets identified in Exhibit 7?

11 A. Yes.

12 Q. Did COG include these offsets in the notice of  
13 this hearing?

14 A. Yes, we did.

15 Q. Is Exhibit 8 an affidavit prepared by my office  
16 with attached letters providing notice of this hearing  
17 to parties to be pooled and offsets?

18 A. Yes, it is.

19 Q. Were all of the parties whom you seek to pool  
20 locatable?

21 A. Yes, they were.

22 Q. So you did receive green cards back for the  
23 notice of hearing to all of the parties whom you seek to  
24 pool, correct?

25 A. Correct. We did not have to publish notice.

1 Q. Were Exhibits 1 through 7 prepared by you or  
2 compiled under your direction --

3 A. Yes, ma'am.

4 MS. KESSLER: I'd move admission of  
5 Exhibits 1 through 7.

6 EXAMINER JONES: Exhibits 1 through 7 are  
7 admitted.

8 MS. KESSLER: I'm sorry, Mr. Examiner. 1  
9 through 8, which includes my affidavit.

10 EXAMINER JONES: We'll admit Exhibit 8  
11 also.

12 [Exhibits 1 through 8 admitted.]

13 EXAMINER JONES: Mr. Dawson?

14 EXAMINER DAWSON: Good morning, Mr. Reker.

15 THE WITNESS: Good morning.

16 EXAMINER DAWSON: I just had a couple of  
17 questions.

18 THE WITNESS: Yes, sir.

19 EXAMINER DAWSON: On the Chevron USA?

20 THE WITNESS: Yes, sir.

21 EXAMINER DAWSON: Did COG require a farmout  
22 for them, or how did -- they owned some of the leases?

23 THE WITNESS: No. They owned unleased  
24 minerals, 12 1/2 percent unleased minerals.

25 EXAMINER DAWSON: Okay. In the north half

1 or northeast quarter of Section 19, it's unleased, the  
2 south half of the northeast quarter?

3 THE WITNESS: Yes, sir.

4 EXAMINER DAWSON: Okay. That's all the  
5 questions I have. Thank you.

6 EXAMINER JONES: Does the pool involve  
7 special pool rules, does Paul Koutz have any schedule on  
8 proposing this as a pool, or was there any movement of  
9 the operators' nomenclature for this hearing?

10 It's interesting. And Wolfbone formation  
11 is not something that -- you know, it's kind of a  
12 combination of the two formations, and they've got the  
13 split between the spacing of the Abo versus the  
14 Wolfcamp.

15 MS. KESSLER: Mr. Examiner, as I believe  
16 Mr. Reker testified, this pool was designated by Paul  
17 Koutz for these two wells. At this point, I'm unaware  
18 of a nomenclature hearing.

19 EXAMINER JONES: It's still a wildcat pool.  
20 But he gave you the size of the pool at this time?

21 MS. KESSLER: I don't know about the size  
22 of the pool, but the vertical depths have been  
23 articulated, and I believe that the geologist can speak  
24 to those.

25 EXAMINER JONES: Okay. Sounds good. I

1 don't have any more questions.

2 EXAMINER BROOKS: Well, that's just what I  
3 was going to address for the purpose of clarifying the  
4 record. The pool is identified on Exhibit 1 as WC-025  
5 G-09 S243532M Wolfbone.

6 My belief is that Paul Koutz has designated  
7 a number of Wolfbone Pools. Do you know if that's  
8 correct? I mean I don't know. I haven't studied it,  
9 but --

10 MS. KESSLER: Mr. Examiner, my  
11 understanding is that at this point, it is one Wolfbone  
12 Pool. I think --

13 EXAMINER BROOKS: Okay. Well, you're  
14 probably correct because my impression was based on  
15 inaccurate observations. So I think, however, it's  
16 reasonably fair to suggest that further designation of  
17 Wolfbone Pools is likely to occur. So I think we've  
18 clarified the record, and let me ask the witness just to  
19 do so.

20 The designation placed on the C-102, which  
21 is Exhibit 1, where did you get that from?

22 THE WITNESS: The pool name?

23 EXAMINER BROOKS: Yeah, the complete pool  
24 name that's on Exhibit 1.

25 THE WITNESS: That's what I was provided as

1 being the Wolfbone Pool.

2 EXAMINER BROOKS: By Mr. Koutz or somebody  
3 in the Hobbs District Office?

4 THE WITNESS: I believe it was Mr. Koutz.  
5 The geologist can speak more about it.

6 EXAMINER BROOKS: Oh, okay. Thank you.

7 EXAMINER JONES: We will ask the geologist.

8 EXAMINER BROOKS: Yeah. I think that's a  
9 good idea. Because I suspect if there's only one -- as  
10 I say, I suspect if there's only one Wolfbone Pool now,  
11 that will not continue to be the case.

12 EXAMINER JONES: It looks like it's a hot  
13 area.

14 EXAMINER BROOKS: Yes.

15 EXAMINER JONES: I think that's it for this  
16 witness. We can continue with the geologist.

17 CARRIE MARTIN

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

20 DIRECT EXAMINATION

21 BY MS. KESSLER:

22 Q. Can you please state your name for the record  
23 and tell the Examiners by whom you're employed and in  
24 what capacity?

25 A. Carrie Martin. I'm a geologist at COG

1 Operating LLC.

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

4 A. Yes.

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

7 A. Yes.

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

10 A. Yes.

11 Q. And have you conducted a geologic study of the  
12 lands that are the subject of these applications?

13 A. Yes.

14 Q. Could you please turn to Exhibit 9 and identify  
15 this exhibit for the Examiners?

16 A. This is a location map showing the two wells,  
17 the Fascinator Fee Com Number 1H and Number 2H.

18 The yellow acreage is COG acreage. The two  
19 purple dashed lines are the locations of the wells, the  
20 proposed wells, and the red dashed line is a Wolfcamp  
21 producing well in the area.

22 Q. What is Exhibit 10?

23 A. This is a structure map on top of the third  
24 Bone Spring sand. It shows that there is no faulting  
25 in the area. The contour interval is 50 feet.

1                   We are showing that it is dipping to the  
2 south/southwest, and there is approximately a 1 1/2  
3 degree dip on the structure along the two wellbores.

4           Q. Is Exhibit 11 the locator map with a line of  
5 section overlaying?

6           A. Yes. This shows the location of a  
7 cross-section for the next Exhibit, AA prime. And it  
8 shows the three wells that are in the area that -- and  
9 those wells are representative of the Wolfbone interval.

10          Q. What is Exhibit 12?

11          A. This is the Stratigraphic cross-section AA  
12 prime. It shows -- first I'll just go through the tops.

13                   The top of the Wolfbone Pool interval is  
14 the top of the third Bone Spring carbonate. Then we  
15 have the purple line is the third Bone Spring sand top.  
16 The red line is the Wolfcamp top, and then the pink line  
17 is the Wolfcamp B top, which is also the Wolfcamp A  
18 shale base. It also marks the interval of the Wolfbone  
19 Pool interval as recommended by Paul Koutz.

20                   The type log for that well -- for that pool  
21 is not in this cross-section, but it is correlative  
22 across the area. The type log is the Jamaica 12 Federal  
23 Number 1, and it's very consistent across the area with  
24 these three wells. Also on this cross-section I show  
25 the lateral interval as the basal third Bone Spring

1 sand.

2 EXAMINER JONES: Jamaica 12 Federal Number  
3 1?

4 THE WITNESS: Yes.

5 EXAMINER JONES: Okay.

6 THE WITNESS: And that was also heard in  
7 the previous hearing we did two weeks ago for the  
8 Stovepipe Federal Com Number 2H.

9 Q. (By Ms. Kessler) Based on your geologic study  
10 of this area, have you identified any geologic  
11 impediments of developing the area using horizontal  
12 wells?

13 A. No, there are no geological impediments for  
14 horizontal wells.

15 Q. And do you believe that the area can be  
16 efficiently and economically developed by horizontal  
17 wells?

18 A. Yes.

19 Q. In your opinion, will the proposed nonstandard  
20 spacing units, on average, contribute more or less  
21 equally to the production of new wellbores?

22 A. Yes.

23 Q. And will the completed interval for each of  
24 these two wells comply with Division setback  
25 requirements?

1 A. Yes.

2 Q. In your opinion, will granting COG's  
3 application be in the best interest of conservation for  
4 the prevention of waste and the protection of  
5 correlative rights?

6 A. Yes.

7 Q. Did you prepare Exhibits 9 through 12?

8 A. Yes.

9 EXAMINER JONES: Exhibits 9 through 12 will  
10 be admitted.

11 [Exhibits 9 through 12 admitted.]

12 MS. KESSLER: Thank you.

13 EXAMINER DAWSON: Good morning, Ms. Martin.  
14 How are you today?

15 THE WITNESS: Good morning. I'm doing  
16 great.

17 EXAMINER DAWSON: On your cross-section,  
18 that Endurance Resources Telecaster Bass 36 State Pilot  
19 4H, that's producing from the Wolfcamp?

20 THE WITNESS: To my understanding from the  
21 public database, it is producing from the Wolfcamp, from  
22 the upper Wolfcamp.

23 EXAMINER DAWSON: So the preparations are  
24 down there somewhere around 12,700 feet?

25 THE WITNESS: Somewhere within that

1 Wolfcamp top A-shale interval.

2 EXAMINER DAWSON: So it's all -- I mean if  
3 they're calling this the Wolfbone, there's some perms  
4 probably up in -- you're anticipating perforations in  
5 your well will be up in the Bone Spring, also?

6 THE WITNESS: I believe their pool is in  
7 the Wolfcamp Pool.

8 EXAMINER DAWSON: Yes. But yours will  
9 be --

10 THE WITNESS: We are anticipating all of  
11 our landing for the well to be within the basal third  
12 Bone Spring zone.

13 EXAMINER DAWSON: And that will be  
14 somewhere around -- you're anticipating 12,400,  
15 somewhere in there?

16 THE WITNESS: Yes. Based on the structural  
17 dip, it'll be between 12,550, up to 12,300, because  
18 there is a bit of a structural dip in the area, about a  
19 1.5-degree dip.

20 EXAMINER DAWSON: Okay. Do you know how  
21 much that Endurance well has produced? Do you have any  
22 idea?

23 THE WITNESS: From my check of the records,  
24 I believe it has produced 46,000 barrels of oil and  
25 45,000 MCF of gas, but from the public record.

1 EXAMINER DAWSON: How long has that well  
2 been producing; do you know?

3 THE WITNESS: I believe it was completed in  
4 July of 2015.

5 EXAMINER DAWSON: That's all the questions  
6 I have. Thank you.

7 EXAMINER JONES: No pilot holes for these  
8 two -- for both wells?

9 THE WITNESS: We do not plan on drilling a  
10 pilot hole for either of these wells.

11 MS. KESSLER: You won't do anything, a mud  
12 log then, or --

13 THE WITNESS: We will have a mud log for  
14 the entire Bone Spring and through the lateral.

15 EXAMINER JONES: And you'll be looking at  
16 it as they drill from home?

17 THE WITNESS: Yes.

18 EXAMINER JONES: You can log in and listen  
19 and do it from home?

20 THE WITNESS: Yes, we can.

21 EXAMINER JONES: Your structure mount, was  
22 it machine drawn, or did you draw it yourself?

23 THE WITNESS: It was, you know, contoured  
24 through the computer, but I hand-checked all of the  
25 locations for all of the wells and verified that the

1 structure map was consistently appropriate for the map  
2 area.

3 EXAMINER JONES: Mr. Watson's getting  
4 smarter and smarter all the time. That would be on  
5 computer?

6 THE WITNESS: Yeah.

7 EXAMINER JONES: I don't have any more  
8 questions.

9 EXAMINER BROOKS: Okay. Do you have an  
10 engineering witness in these cases?

11 MS. KESSLER: No.

12 EXAMINER BROOKS: Well, then I'll risk  
13 asking the geologist a question that would probably be  
14 more appropriate for the engineer and -- for an  
15 engineer, and that was raised in a prior case.

16 But did you have anything to do with the  
17 selection of a 1 1/2-mile pattern -- drilling pattern in  
18 the horizontals in this area.

19 THE WITNESS: We have planned, as a team,  
20 for 1 1/2 miles for the area. But as far as  
21 economically driven, I can't speak to that.

22 EXAMINER BROOKS: Okay. Can you tell us  
23 anything about the reasons why that was selected, or is  
24 that outside your expertise?

25 THE WITNESS: I would consider it outside

1 my expertise.

2 EXAMINER BROOKS: Thank you.

3 EXAMINER JONES: Okay. Thanks.

4 MS. KESSLER: I'd ask that these two  
5 consolidated cases be taken under advisement.

6 EXAMINER JONES: Okay. Cases 15466 and  
7 15467 will be taken under advisement.

8 [The proceedings concluded at 11:42 a.m.]

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1 STATE OF NEW MEXICO.  
2 COUNTY OF BERNALILLO

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REPORTER'S CERTIFICATE

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11 I, DEBRA ANN FRIETZE, New Mexico Certified Court  
12 Reporter No. 251, do hereby certify that I reported the  
13 foregoing proceeding in stenographic shorthand and that  
14 the foregoing pages are a true and correct transcript of  
15 those proceedings and was reduced to printed form under  
16 my direct supervision.

17

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

22

23

24

25

DEBRA ANN FRIETZE

Certified Court Reporter No. 251

License Expires: 12/31/16