

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

4 IN THE MATTER OF THE HEARING CALLED
5 BY THE OIL CONSERVATION DIVISION FOR
6 THE PURPOSE OF CONSIDERING:

CASE 15500

7 APPLICATION OF COG OPERATING, LLC,
8 FOR A NON-STANDARD OIL SPACING UNIT AND
9 PRORATION UNIT AND COMPULSORY POOLING IN
10 EDDY COUNTY, NEW MEXICO

11
12
13
14
15

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 23, 2016

Santa Fe, New Mexico

16
17
18
19
20

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Examiner, and David Brooks, Legal Examiner, on Thursday, June 23, 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.

21
22
23

REPORTED BY: MARY Therese Macfarlane
New Mexico CCR 122
PAUL BACA COURT REPORTERS
500 Fourth Street NW, Suite 105
Albuquerque, New Mexico 87102

24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

A P P E A R A N C E S

FOR THE APPLICANT: Gary W. Larson, Esq
Hinkle, Shanor, LLP
P.O. Box 0268
Santa Fe, New Mexico 87504
(505) 982-8653
glarson@hinklelawfirm.com

C O N T E N T S

CASE NUMBER 15500 CALLED

APPLICANT CASE-IN-CHIEF

WITNESS: JON-AARON HOUSE PAGE

EXAMINATION BY MR. LARSON: 4, 14

EXAMINATION BY THE HEARING EXAMINER: 12, 14

EXAMINATION BY MR. BROOKS: 13

WITNESS: JASON HANZEL

EXAMINATION BY MR. LARSON: 14

EXAMINATION BY THE HEARING EXAMINER: 18

	E X H I B I T I N D E X	
	EXHIBIT	ADMITTED
1		
2		
3	APPLICANT COG OPERATING, LLC EXHIBIT 1	12
4		
5	APPLICANT COG OPERATING, LLC Exhibit 2	12
6	APPLICANT COG OPERATING, LLC EXHIBIT 3	12
7	APPLICANT COG OPERATING, LLC EXHIBIT 4	12
8	APPLICANT COG OPERATING, LLC EXHIBIT 5	12
9	APPLICANT COG OPERATING, LLC EXHIBIT 6	12
10	APPLICANT COG OPERATING, LLC EXHIBIT 7	12
11	APPLICANT COG OPERATING, LLC EXHIBIT 8	18
12	APPLICANT COG OPERATING, LLC EXHIBIT 9	18
13	APPLICANT COG OPERATING, LLC EXHIBIT 10	18
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 (Note: Time noted: 8:28 a.m.)

2 EXAMINER JONES: So with that let's start with
3 first on the docket, which is, as I see it, Case No.
4 15500, Application of COG Operating, LLC for a
5 non-standard oil spacing and proration unit and compulsory
6 pooling in Eddy County, New Mexico.

7 Call for appearance.

8 MR. LARSON: Good morning, Mr. Examiner. Gary
9 Larson of the Santa Fe office of Hinkle, Shanor for the
10 Applicant Cog Operating. I have two witnesses.

11 EXAMINER JONES: Any other appearances?

12 (Note: No response.)

13 EXAMINER JONES: Will the witnesses please stand
14 and be sworn.

15 (Note: Whereupon the presenting witnesses
16 were duly sworn.)

17 JON-AARON HOUSE,

18 having been duly sworn, testified as follows:

19 EXAMINATION

20 BY MR. LARSON:

21 Q. Good morning, Mr. House. Would you please state
22 your name for the record.

23 A. Jon-Aaron House.

24 Q. Where do you reside?

25 A. Midland, Texas.

1 Q. By whom are you employed and in what capacity?

2 A. I'm employed by COG Operating, LLC, as a senior
3 landman.

4 Q. And what is the focus of your responsibility as
5 a senior landman?

6 A. I work those lands in the Delaware Basin in Eddy
7 and Lea Counties, New Mexico.

8 Q. Have you previously testified at a Division
9 hearing?

10 A. Yes.

11 Q. And did the examiner accept your qualifications
12 as an expert in oil and gas land matters?

13 A. Yes.

14 Q. Are you familiar with the land matters
15 pertaining to COG's application?

16 A. Yes.

17 MR. LARSON: Mr. Examiner, I move that Mr. House
18 be qualified as a expert in land matters for the purpose
19 of this case.

20 EXAMINER JONES: He is so qualified.

21 Q. (BY MR. LARSON) Would you identify the document
22 marked as COG Exhibit No. 1.

23 A. This is our Form C-102 for the Lajitas BWQ State
24 Com 1H well.

25 Q. Is Exhibit 1 a true and correct copy of the

1 C-102?

2 A. Yes.

3 Q. Does it identify the acreage included in the
4 proposed project area for the Lajitas well, which we will
5 call it because it's a mouthful otherwise?

6 A. Yes.

7 Q. What formation is COG seeking to pool?

8 A. The Bone Spring.

9 Q. Are there any depth exceptions?

10 A. No.

11 Q. What pool will the well produce from?

12 A. Illinois Camp, Bone Spring Pool.

13 Q. Does it have an API number?

14 A. Yes.

15 Q. Do you know it or would you like me...

16 A. I do not know it.

17 MR. LARSON: Mr. Examiner, the API number is
18 3001543390.

19 EXAMINER JONES: Thank you.

20 Q. (BY MR. LARSON) Would you identify the document
21 marked as Exhibit 2.

22 A. This is a plat showing the project area
23 including the southwest of the southeast corner of Section
24 26, 18 South, 28 East, along with the southeast quarter of
25 the southeast quarter of Section 26, the south half of the

1 southwest quarter and south half of the southeast quarter,
2 both of 25.

3 Q. Did you prepare this document?

4 A. I did.

5 Q. Does it identify all of the interests, ownership
6 interests in the proposed project area?

7 A. Yes, it does.

8 Q. Has COG acquired some of those since it first
9 proposed the well?

10 A. Yes.

11 Q. Would you identify the document marked as
12 Exhibit No. 3.

13 A. That was our original proposal for the Lajitas
14 well to all of the working interest owners.

15 Q. Did you prepare and sign this letter?

16 A. I did.

17 Q. What documents did you enclose with the letter?

18 A. I included an AFE, the operating agreement, and
19 a plat showing the Lajitas well.

20 Q. Did your initial proposal letter include a
21 listing of all of the working interest owners in the
22 proposed project area?

23 A. Yes, it did.

24 Q. And those appear on pages 3 and 4?

25 A. Correct.

1 Q. Did all of the identified owners receive your
2 letter?

3 A. Yes.

4 Q. Did you subsequently communicate with any of
5 them about joining the well?

6 A. Yes.

7 Q. Would you next identify the document marked as
8 Exhibit 4.

9 A. This was a follow-up letter that we sent to a
10 few of the working interest owners that we did not hear
11 from after the initial proposal, just trying to
12 communicate with them.

13 Q. And did you also prepare and sign this letter?

14 A. Yes.

15 Q. And referring to pages 3 and 4 of Exhibit No. 4,
16 some of the names have been crossed out. Why is that?

17 A. They did not receive the follow-up letter
18 because we have ongoing communication with them at that
19 point.

20 Q. As we sit here today, how many of the interest
21 owners listed on Exhibits 3 and 4 have joined the well or
22 transferred their interest to COG?

23 A. All but one. Judith A. West.

24 Q. So Ms. West is the only party left to be pooled?

25 A. That's correct.

1 Q. Have you had ongoing communications with Ms.
2 West?

3 A. I have.

4 Q. Would you identify the document marked as
5 Exhibit 5.

6 A. This is a letter to those uncommitted working
7 interest owners stating our hearing for this compulsory
8 pooling.

9 Q. Were those letters sent at your direction.

10 A. Yes.

11 Q. And were they sent to all of the interest owners
12 who had not yet struck a deal with COG?

13 A. That's correct.

14 Q. Would you next identify the document marked as
15 Exhibit 6.

16 A. This is our notification to all the of offset
17 owners surrounding the 240-acre project area.

18 Q. And directing your attention to pages -- or the
19 listing from pages 2 through I believe it's 7, is this a
20 list of all the offset operators and interest owners --

21 A. Yes.

22 Q. -- that you generated?

23 And was the hearing notice letter sent to
24 each of those offsets identified?

25 A. Yes, it was.

1 Q. And were they sent at your direction?

2 A. Yes, they were.

3 Q. And given the inordinate number of offsets and
4 potential issue with COG having accurate contact
5 information for them, did COG also publish notice in the
6 Carlsbad Current-Argus?

7 A. Yes.

8 Q. On what date was the notice published?

9 A. June 15th, 2016.

10 A. Did that give notice of this hearing and being
11 continued to July 7th?

12 A. Yes.

13 Q. And did it turn out that COG in fact didn't have
14 correct addresses for some of offsets that you have
15 identified?

16 A. Yes, for four of them.

17 Q. Would you next identify the document marked as
18 Exhibit 7?

19 A. That is our Authority for Expenditure for the
20 Lajitas drilling and completing of the Lajitas well.

21 Q. Is Exhibit 7 a true and correct copy of the AFE
22 you sent with your well proposal letter?

23 A. Yes.

24 Q. What are the estimated well costs on the AFE?

25 A. \$8,339,552.

1 Q. Are those costs similar to the costs incurred by
2 COG for other Bone Springs horizontal wells?

3 A. Yes.

4 Q. Do you have a recommendation for the Examiner
5 with regard to the amount COG should be paid for
6 supervision and administrative?

7 A. We are requesting 6300 and 630.

8 Q. And are those amounts consistent with and
9 similar to those charged by COG for other Bone Springs
10 horizontal wells?

11 A. Yes.

12 Q. Do you recommend that the rates for supervision
13 and administrative expenses be adjusted periodically
14 pursuant to the COPUS accounting procedure?

15 A. Yes.

16 Q. Is COG also requesting as 200 percent charge for
17 risk of drilling and completing the Lajitas Well?

18 A. Yes.

19 Q. In your opinion will the granting of COG's
20 application avoid the drilling of unnecessary wells,
21 protect correlative rights, and prevent waste?

22 A. Yes.

23 MR. LARSON: Mr. Examiner, I move the admission
24 of COG Exhibits 1 through 7.

25 EXAMINER JONES: Exhibits 1 through 7 are

1 admitted.

2 MR. LARSON: I'll pass the witness.

3 EXAMINER JONES: Okay.

4 Mr. Brooks?

5 MR. BROOKS: No questions.

6 EXAMINATION

7 BY EXAMINER JONES:

8 Q. This Judith West, is she -- you say you have had
9 conversations with her?

10 A. I've had telephone conversation along with this
11 written communication.

12 Q. Okay. Are you pooling her because she doesn't
13 have a pooling agreement in her lease, or is she an
14 unleased?

15 A. She is a working interest owner --

16 Q. Okay.

17 A. -- that just hasn't committed to the OA or
18 agreement to a temporary assignment at this point.

19 Q. Okay. And she hasn't signed the AFE either?

20 A. No, sir.

21 Q. Is there -- so all of this is fee acreage, all
22 these tracts?

23 A. It's all state.

24 Q. All state. It's all state but she is -- she is
25 just a lessee from the state, then?

1 A. She is an operating rental owner in that state
2 lease, yes.

3 Q. Is there -- how many state leases are involved
4 here?

5 A. It's the four separate state leases.

6 Q. Okay. So you had to do a com agreement, also?

7 A. Yes.

8 Q. The AFE, has it changed a lot? You did this one
9 on the 20th of April. Is this similar to what it was last
10 year this time or --

11 A. I don't know.

12 Q. Okay. You have another witness, anyway, I
13 think.

14 What is the surface like out here? Is
15 the -- any issues of the surface rights-of-way?

16 A. We have all surface agreements in place.

17 Q. Okay. Okay.

18 MR. BROOKS: I do have a question after all.

19 EXAMINATION

20 BY MR. BROOKS:

21 Q. I heard you did a publication on this. Right?

22 A. Yes, sir.

23 Q. And I didn't see an Affidavit of Publication in
24 your exhibits. Is your attorney going to present that?

25 A. Yes, sir.

1 MR. BROOKS: You have that separately, right?

2 MR. LARSON: My intention is to present it at
3 the next, the July 7th hearing.

4 MR. BROOKS: So you didn't get the publication
5 of today before the deadline?

6 MR. LARSON: That's correct.

7 MR. BROOKS: That's what I wanted to ask about.

8 FURTHER EXAMINATION

9 BY EXAMINER JONES:

10 Q. These COPUS amounts, you seem to be coming down
11 on your COPUS.

12 A. This is different than what we have done in the
13 past due to a prenogiated term with one of the other
14 working-interest owners.

15 EXAMINER JONES: Thank you very much.

16 MR. LARSON: One last question.

17 FURTHER EXAMINATION

18 BY MR. LARSON:

19 Q. Mr. House, if you are able to reach an agreement
20 with Ms. West, will COG inform the Division of that
21 agreement?

22 A. Yes.

23 MR. LARSON: That's all I have.

24 EXAMINER JONES: Thank you.

25 JASON HANZEL,

1 COG, and have been for the past two years.

2 Q. Are you familiar with the geological aspects of
3 the Lajitas Well and the matters addressed in the
4 application?

5 A. I am.

6 MR. LARSON: Mr. Examiner, I tender Mr. Hanzel
7 as an expert petroleum geologist for purposes of today's
8 hearing.

9 EXAMINER JONES: He is qualified as an expert in
10 petroleum geology.

11 Q. (BY MR. LARSON) Mr. Hanzel, would you identify
12 the document marked as Exhibit No. 8.

13 A. This is a Base of the 2nd Bone Spring Sand
14 Structure Map in contour intervals of 50 feet. I have
15 noted A to A prime cross section. This shows the east to
16 southeast regional dip of the area.

17 Q. Did you prepare this document?

18 A. I did.

19 Q. And does COG have any experience with Bone
20 Spring horizontal wells in the vicinity of the Lajitas
21 well?

22 A. Yes, sir. We have drilled two wells four miles
23 west of this location.

24 Q. Have those wells been productive?

25 A. Yes.

1 Q. Those are also Bone Spring?

2 A. Yes. The 2nd Bone Spring.

3 Q. Would you next identify the document marked as
4 Exhibit 9.

5 A. Here we have another regional cross section, A
6 to A prime, showing the wells that are used in the well
7 planning. Here we have consistent and thick target over
8 the entire course of the lateral.

9 Q. Did you prepare this document?

10 A. Yes, sir.

11 Q. Is there any more testimony you would like to
12 give regarding Exhibit 9 that you have prepared?

13 A. No.

14 Q. And what was your assessment of the prospects
15 for the Lajitas well?

16 A. Uhm, it's a thick and consistent target and a
17 productive region.

18 Q. And are there any geologic impediments in the
19 target interval?

20 A. No, none were identified.

21 Q. Would you next identify the document marked as
22 Exhibit 10.

23 A. Yes. This is the well plan for the Lajitas
24 well.

25 Q. Did you prepare this document, as well?

1 A. Yes, sir.

2 Q. And will the completed interval of the well
3 comply with the Division's setback requirements?

4 A. Yes, it will.

5 Q. Why did COG chose an east-west orientation for
6 the well?

7 A. Due to previous successful wells in that area
8 being at that orientation, as well as prepositioning.

9 Q. In your opinion will the Lajitas well be
10 productive along the entire length of the completed
11 interval?

12 A. Yes, sir.

13 Q. And in your opinion will the granting of COG's
14 application avoid the drilling of unnecessary wells, as
15 well as protect correlative rights and prevent waste?

16 A. Yes.

17 MR. LARSON: Mr. Examiner, I move the admission
18 of Exhibits 8, 9 and 10.

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

21 MR. LARSON: And I pass the witness.

22 EXAMINER JONES: Mr. Brooks?

23 MR. BROOKS: No questions.

24 EXAMINATION

25 BY EXAMINER JONES:

1 Q. It's northwest/southwest -- or
2 southwest/northeast and dipping to the southeast?

3 A. East/southeast.

4 Q. East/southeast?

5 A. Yes, sir.

6 Q. Did you draw this contour map?

7 A. This one is computer generated. I did do some
8 pen edits, but yes.

9 Q. So you can actually -- now, all the control
10 points on here, are they marked with little X's?

11 A. Yes, plus. Plus symbols.

12 Q. Those are data points?

13 A. Yes, sir.

14 Q. Plus. Plus symbols.

15 So did you choose the surfacehole location
16 versus bottomhole, or did you just choose -- you helped
17 choose the orientation, though; is that correct?

18 A. Yes. That was lease, was the reason it's being
19 drilled west to east.

20 Q. Do you think it's the optimal direction to drill
21 it?

22 A. Yes, I do.

23 Q. Okay. Are you on a team that's in charge of
24 optimally developing this area with horizontal wells?

25 A. Yes, sir.

1 Q. Is this well going to in any way cause stranding
2 of other land out here that you would want to develop?

3 A. No, sir. No, sir, that is actually why we
4 wanted to make it a mile and a half.

5 Q. Okay. Okay. Target is the 2nd Bone Spring; is
6 that correct?

7 A. Yes, sir.

8 Q. And why the 2nd Bone Spring versus the Avalon or
9 the 3rd Bone Spring?

10 A. We believe it's the best target.

11 Q. Okay. Because that's where the other well was
12 drilled first?

13 A. Yes.

14 Q. Is there any difference on the logs or your
15 course pressure data that would prohibit drilling these
16 other Bone Spring Sand?

17 A. No, sir.

18 Q. What kind of well are you expecting as far as
19 volume?

20 A. Good one?

21 MR. BROOKS: That may be hope.

22 Q. (BY EXAMINER JONES) Okay. But you do work on a
23 team with geologists and -- do you do the log analysis
24 yourself?

25 A. Yes. We have petrophysicists that do that.

1 Q. You do. Is that person generally available for
2 all of East New Mexico or do you have to share him with
3 other people or other groups?

4 A. He's available.

5 Q. You got one in your own group?

6 A. He's available. Yes, sir.

7 EXAMINER JONES: Okay. I have no other
8 questions. Thank you very much.

9 MR. LARSON: Mr. Examiner, I have nothing
10 further, and I have asked that the case be continued until
11 July 7th.

12 EXAMINER JONES: So at that point you will turn
13 in --

14 MR. LARSON: After the publication.

15 EXAMINER JONES: From the newspaper.

16 MR. LARSON: Correct.

17 EXAMINER JONES: Okay. Case No. 15500 has been
18 heard but we will continue it till July 7th.

19 Thank You.

20 (Time noted: 8:53 a.m.)

21

22

23

24

25

1 STATE OF NEW MEXICO)
2 : SS
3 COUNTY OF TAOS)
4

5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico
7 Reporter CCR No. 122, DO HEREBY CERTIFY that on Thursday,
8 June 23, 2016, the proceedings in the above-captioned
9 matter were taken before me, that I did report in
10 stenographic shorthand the proceedings set forth herein,
11 and the foreoing pages are a true and correct
12 transcription to the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by
14 nor related to nor contracted with (unless excepted by the
15 rules) any of the parties or attorneys in this case, and
16 that I have no interest whatsoever in the final
17 disposition of this case in any court.

18
19 _____
20 MARY THERESE MACFARLANE, CCR
21 NM Certified Court Reporter No. 122
22 License Expires: 12/31/2016
23
24
25