

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:

7 APPLICATION OF COG OPERATING, LLC CASE NO. 15543
8 FOR A NONSTANDARD SPACING AND
9 PRORATION UNIT AND COMPULSORY
10 POOLING, LEA COUNTY, NEW MEXICO.

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS
12 EXAMINER HEARING
13 September 15, 2016
14 Santa Fe, New Mexico

15 BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
16 GABRIEL WADE, LEGAL EXAMINER

17 This matter came on for hearing before the
18 New Mexico Oil Conservation Division, Phillip Goetze,
19 Chief Examiner, Gabriel Wade, Legal Examiner, on
20 Thursday, September 15, 2016, at the New Mexico Energy,
21 Minerals and Natural Resources Department, Wendell Chino
22 Building, 1220 South St. Francis Drive, Porter Hall,
23 Room 102, Santa Fe, New Mexico.

24 REPORTED BY: Mary C. Hankins, CCR, RPR
25 New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

3 JORDAN L. KESSLER, ESQ.
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1 (8:22 a.m.)

2 EXAMINER GOETZE: Then we shall move to
3 Case Number 15543, application of COG Operating, LLC for
4 a nonstandard spacing and proration unit and compulsory
5 pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler,
8 from the Santa Fe office of Holland & Hart, on behalf of
9 the Applicant.

10 EXAMINER GOETZE: And I believe,
11 Mr. Bruce --

12 MR. BRUCE: I am not entering an
13 appearance.

14 EXAMINER GOETZE: Well, you sent us a piece
15 of paper that says that.

16 MR. BRUCE: You can toss that.

17 EXAMINER GOETZE: Oh. I'm afraid Florene
18 will not let us toss it (laughter).

19 MS. KESSLER: I have two witnesses today,
20 Mr. Examiner.

21 EXAMINER GOETZE: Very good.

22 Would the witnesses please stand, identify
23 yourself to the court reporter and be sworn in, please?

24 MR. CHATTERTON: Logan Chatterton.

25 MR. CASON: Bryce Cason.

1 (Mr. Chatterton and Mr. Cason sworn.)

2 BRYCE CASON,

3 after having been first duly sworn under oath, was
4 questioned and testified as follows:

5 MS. KESSLER: May I proceed?

6 EXAMINER GOETZE: Please proceed.

7 DIRECT EXAMINATION

8 BY MS. KESSLER:

9 Q. Please state your name for the record and tell
10 the Examiners by whom you're employed and in what
11 capacity.

12 A. My name is Bryce Cason, and I work as a landman
13 for COG Operating, LLC.

14 Q. And have you previously testified before the
15 Division?

16 A. I have not.

17 Q. Can you please review your educational
18 background?

19 A. Yes. I graduated from the University of Tulsa
20 in 2015 with a bachelor of science in business
21 administration, with majors in energy management and
22 finance and minors in economics and geology.

23 Q. And what is your work history?

24 A. My work history includes working for COG
25 Operating, LLC for the summer of 2013 and the summer of

1 2014, and then beginning my full-time employment with
2 COG Operating, LLC in June of 2015.

3 Q. And during that time since you started working
4 with COG, have your responsibilities included the
5 Permian Basin?

6 A. Yes.

7 Q. Are you a member of any professional
8 associations?

9 A. Yes, the American Association of Professional
10 Landmen, Permian Basin Association of Petroleum Landmen,
11 and the Association of International Petroleum
12 Negotiators.

13 Q. Are you familiar with the application filed in
14 this case?

15 A. Yes.

16 Q. Are you familiar with the status of the lands
17 in the subject area?

18 A. Yes.

19 MS. KESSLER: Mr. Examiners, I would tender
20 Mr. Cason as an expert in petroleum land matters.

21 EXAMINER GOETZE: He's so qualified.

22 Q. (BY MS. KESSLER) Mr. Cason, please turn to
23 Exhibit 1 and identify this exhibit and explain what COG
24 seeks under this application.

25 A. So this is a C-102 plat for the Columbus Fee 2H

1 well, and COG is seeking to create a nonstandard spacing
2 unit, 320 acres, comprising of the west half-east half
3 of Section 34, Township 25 South, Range 33 East, in the
4 west half-east half of Section 3, Range -- Township
5 26 -- Township 26, Range 33 East

6 Q. And this is all in Lea County, correct?

7 A. Yes.

8 Q. Do you seek to dedicate the spacing unit for
9 the Columbus Fee 2H well?

10 A. Yes.

11 Q. And the API number is identified on this well,
12 correct?

13 A. That's correct.

14 Q. Do you seek to pool all of the mineral
15 interests in the Bone Spring Formation?

16 A. Yes.

17 Q. And what is the pool that is benefited from --

18 A. It is the Red Hills Upper Bone Spring shale.

19 Q. That would be Pool Code 97900?

20 A. Yes.

21 Q. What is the character of the land?

22 A. All fee.

23 Q. And is it governed by Division statewide rules?

24 A. Yes.

25 Q. So the 330-foot setback will apply; is that

1 correct?

2 A. That's correct, yes.

3 Q. Are there any depth severances in this pool?

4 A. No. There are none.

5 Q. If we could turn to Exhibit 2, please, and
6 identify this exhibit for the Examiners.

7 A. So this exhibit is a breakdown of interests by
8 tract from the Columbus Fee 2H well.

9 Q. What interests do you seek to pool?

10 A. We seek to pool the interests of R&R Royalty,
11 Ltd.

12 Q. Turn to the last page of this exhibit. Is this
13 a unit recap?

14 A. Yes.

15 Q. And the interest you seek to pool is
16 highlighted in bold; is that correct?

17 A. That's correct, yes.

18 Q. Is this a working interest owner?

19 A. Yes.

20 Q. Is Exhibit 3 a copy of the well-proposal letter
21 that you sent to R&R Royalty?

22 A. Yes.

23 Q. On what date did you send this letter?

24 A. It was sent on July 14th, 2016.

25 Q. Did the well-proposal letter include an AFE?

1 A. Yes, it did.

2 Q. And are the costs reflected on this AFE
3 consistent with what COG has incurred with other wells
4 in the area?

5 A. Yes.

6 Q. The AFE is page 3 of this exhibit, correct?

7 A. Yes.

8 Q. What additional efforts did you undertake to
9 reach an agreement with R&R Royalty?

10 A. With R&R Royalty, we sent them an operating
11 agreement, and, I mean, we're in constant communication
12 weekly with them trying to negotiate an operating
13 agreement. We're close to coming to an agreement, but
14 there's not been one executed or completed at this time.

15 Q. And if you do reach an agreement with R&R, do
16 you understand that that agreement will supersede the
17 terms of any pooling order that is ordered in this
18 action?

19 A. Yes.

20 Q. Have you estimated overhead and administrative
21 costs while drilling this well and while producing it?

22 A. Yes. 7,000 while drilling and 700 while
23 producing.

24 Q. And that's per month?

25 A. Per month, yes.

1 Q. And are those costs in line with what COG and
2 other operators in the area charge for similar wells?

3 A. Yes.

4 Q. Do you ask that the administrative and overhead
5 costs be incorporated into any order resulting from this
6 hearing?

7 A. Yes.

8 Q. And do you ask that those costs be adjusted in
9 accordance with the COPAS accounting procedures?

10 A. Yes.

11 Q. With respect to R&R as an uncommitted interest
12 owner, do you request the Division impose a 200 percent
13 risk penalty?

14 A. Yes.

15 Q. Is Exhibit 4 a plat identifying the offset
16 operators or lessees of record?

17 A. Yes.

18 Q. And did COG provide notice of this hearing to
19 those interest owners?

20 A. Yes, we did.

21 Q. Is Exhibit 5 an affidavit prepared by my office
22 with attached letters providing notice of this hearing
23 to the parties to be pooled and to the offset operators
24 and lessees?

25 A. Yes.

1 Q. And is Exhibit 6 a Notice of Publication in Lea
2 County providing notice of this hearing?

3 A. Yes.

4 Q. Were Exhibits 1 through 4 prepared by you or
5 compiled under your direction and supervision?

6 A. Yes, they were.

7 MS. KESSLER: Mr. Examiner, I'd move
8 admission of Exhibits 1 through 6, which includes my two
9 affidavits.

10 EXAMINER GOETZE: Exhibits 1 through 6 are
11 so entered.

12 (COG Operating, LLC Exhibit Numbers 1
13 through 6 are offered and admitted into
14 evidence.)

15 MS. KESSLER: And that concludes my direct
16 examination.

17 EXAMINER GOETZE: Very good. Thank you.
18 Mr. Wade?

19 EXAMINER WADE: No questions.

20 CROSS-EXAMINATION

21 BY EXAMINER GOETZE:

22 Q. What is the current status of this well? Is it
23 spud yet or --

24 A. Yes. The well is drilled.

25 Q. It is completed?

1 A. It is not completed.

2 Q. So we are in between?

3 A. We are in between.

4 Q. So the anticipated landing date or production
5 date, do you have any feelings on that?

6 A. That is not determined yet.

7 Q. Okay. Based on the advertisement back here, I
8 assume at one point Matador was not in agreement. They
9 are now in agreement?

10 A. We have come to an agreement with Matador, yes.

11 Q. Very good.

12 And there were no unlocatable interest
13 owners?

14 A. No. There were none.

15 EXAMINER GOETZE: I have no further
16 questions for this witness.

17 Please continue.

18 MS. KESSLER: Thank you, Mr. Examiner.

19 THE WITNESS: Thank you.

20 LOGAN CHATTERTON,

21 after having been previously sworn under

22 oath, was questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MS. KESSLER:

25 Q. Please state your name for the record and tell

1 the Examiners by whom you're employed and in what
2 capacity.

3 A. Logan Chatterton, by COG, LLC as a geologist.

4 Q. That would be COG Operating, LLC; is that
5 correct?

6 A. Yes, COG Operating.

7 Q. Have you testified before the Division?

8 A. I have.

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

11 A. Yes.

12 Q. Are you familiar with the application that's
13 been filed in this case?

14 A. Yes.

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

17 A. I have.

18 MS. KESSLER: Mr. Examiners, I'd tender
19 Mr. Chatterton as an expert witness in petroleum
20 geology.

21 EXAMINER GOETZE: He is so qualified.

22 Q. (BY MS. KESSLER) If you could turn to Exhibit
23 7, Mr. Chatterton, and identify this exhibit to the
24 Examiners.

25 A. This is a location map showing the Columbus Fee

1 2H in the dotted green, Upper Avalon producers in solid
2 green in the surrounding area, and COG's acreage, as
3 well as a cross section from A to A prime.

4 Q. And the A to A prime line is used in the
5 following exhibit; is that correct?

6 A. Yes.

7 Q. Are the wells on the line labeled A to A prime
8 considered representative of wells in this area?

9 A. Yes.

10 Q. Turning to Exhibit 8, please identify this
11 exhibit for the Examiners.

12 A. This is the same location map with an Upper
13 Avalon structure showing no faults, geologic impediments
14 or pinch-outs and a contour interval of 50 feet.

15 Q. What is the structure in this section?

16 A. It's uniform and dipping continuously.

17 Q. Fairly consistent?

18 A. Yes.

19 Q. Turning to Exhibit 9, what is this exhibit?

20 A. This is the cross section from A to A prime
21 hung on the Bone Spring datum and showing our lateral
22 interval of interest.

23 Q. And this identifies the Upper Avalon, correct?

24 A. Yes, it does.

25 Q. Can you describe the thickness or variation

1 within this structure?

2 A. This cross section shows there is uniform
3 thickness through the area.

4 Q. Based on your geologic study of this area, have
5 you identified any geologic impediment to drilling a
6 two-mile horizontal well?

7 A. No.

8 Q. In your opinion, can the area be efficiently
9 and economically drained by horizontal wells?

10 A. Yes.

11 Q. And do you believe that each tract in the
12 proposed nonstandard unit will contribute more or less
13 equally to production from the well?

14 A. Yes.

15 Q. And the completed interval will comply with the
16 330-foot statewide setbacks, correct?

17 A. Yes.

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

22 A. Yes.

23 Q. Were Exhibits 7 through 9 prepared by you or
24 compiled under your direction and supervision?

25 A. They were.

1 MS. KESSLER: Mr. Examiner, I'd move
2 admission of Exhibits 7 through 9.

3 EXAMINER GOETZE: Exhibits 7 through 9 are
4 so entered.

5 (COG Operating, LLC Exhibit Numbers 7
6 through 9 are offered and admitted into
7 evidence.)

8 MS. KESSLER: That concludes my
9 examination.

10 EXAMINER WADE: No questions.

11 EXAMINER GOETZE: No questions, Mr. Wade?
12 Very good.

13 CROSS-EXAMINATION

14 BY EXAMINER GOETZE:

15 Q. With regard to your datum, what are we talking
16 about? Is that top of Bone Spring legally as
17 interpreted, or is that just COG or --

18 A. Originally [sic].

19 Q. Okay. So that is top of the Bone Springs we're
20 looking at.

21 A. Yes, sir.

22 Q. And you feel that two miles, you're going to be
23 able to stay within your target and have good production
24 still?

25 A. Yeah.

1 Q. How many have we done two miles in the Avalon?

2 A. Quite a few.

3 Q. Quite a few.

4 A. Yes. This is the first one we've had up here.

5 Q. Okay. Any plans on the other side of that
6 Sections 34 and 3 as far as additional development
7 there?

8 A. To the east?

9 Q. Yes.

10 A. I'm not sure at this point, actually.

11 Q. And is there any interest in doing a pilot to
12 deeper portions of the Bone Spring?

13 A. Not at this time.

14 Q. Okay.

15 EXAMINER GOETZE: Well, with that, I have
16 no more questions for this witness.

17 MS. KESSLER: Thank you.

18 I'd ask this case be taken under
19 advisement.

20 EXAMINER GOETZE: Very well. Case Number
21 15543 is taken under advisement.

22 Thank you very much.

23 (Case Number 15543 concludes, 8:35 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, Certified Court Reporter, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, 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 that were reduced to printed form by me to the best of my ability.

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

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.

MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2016
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