

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:

APPLICATION OF COG OPERATING, LLC CASE NO. 15741
FOR A NONSTANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 20, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, July 20, 2017, 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.

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APPEARANCES

FOR APPLICANT COG OPERATING, LLC:

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EXHIBITS OFFERED AND ADMITTED

COG Operating, LLC Exhibit Numbers 1 through 8	11
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1 (11:07 a.m.)

2 EXAMINER JONES: Let's call Case 15741,
3 application of the COG Operating, LLC for a nonstandard
4 oil spacing and proration unit and compulsory pooling in
5 Eddy County, New Mexico.

6 Call for appearances.

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

10 EXAMINER JONES: Any other appearances?

11 Will the witnesses please stand, and will
12 the court reporter swear the witnesses?

13 (Ms. Roush and Ms. Holcomb sworn.)

14 MR. LARSON: May I proceed, Mr. Examiner?

15 EXAMINER JONES: Yes, sir.

16 ASHLEY ROUSH,

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

19 DIRECT EXAMINATION

20 BY MR. LARSON:

21 Q. Good morning, Ms. Roush.

22 A. Good morning.

23 Q. Would you state your name for the record?

24 A. My name is Ashley Roush.

25 Q. Where do you reside?

1 A. Midland, Texas.

2 Q. And by whom are you employed and in what
3 capacity?

4 A. COG Operating, LLC as a landman.

5 Q. And what is the focus of your responsibilities
6 as a landman for COG?

7 A. Southeastern New Mexico.

8 Q. Are you familiar with the land matters that
9 pertain to -- excuse me -- COG's application?

10 A. Yes, I am.

11 Q. You've previously testified at Division
12 hearings; is that correct?

13 A. That is correct.

14 Q. And did the Examiner accept your qualifications
15 as an expert in petroleum land matters?

16 A. Yes.

17 MR. LARSON: Mr. Examiner, I tender
18 Ms. Roush as an expert in petroleum land matters.

19 EXAMINER JONES: Okay. She is so
20 qualified.

21 I have your name right here. Okay. Thank
22 you.

23 Q. (BY MR. LARSON) Would you identify the exhibit
24 marked as Exhibit 1?

25 A. This is the Form C-102 for the Tankless Federal

1 Com 2H well.

2 Q. And is Exhibit 1 a true and correct copy of the
3 C-102?

4 A. Yes, it is.

5 Q. And are the pool name and pool code identified
6 on the C-102?

7 A. Yes, they are.

8 Q. And does the proposed well have an API number
9 yet?

10 A. Not yet. We do not have the APD.

11 Q. What formation is COG seeking to pool?

12 A. The Bone Spring Formation.

13 Q. Are there any depth exceptions in the Bone
14 Spring?

15 A. No, there are not.

16 Q. Would you next identify Exhibit 2?

17 A. This is the ownership map. I show the
18 ownership by tract and by the unit working interests,
19 and the parties highlighted in yellow are the
20 uncommitted working interest owners.

21 Q. And did you prepare this document?

22 A. Yes, I did.

23 Q. And it identifies all of the working interests
24 in the proposed project area?

25 A. Yes.

1 Q. Would you next identify the document marked as
2 Exhibit 3?

3 A. This is the well proposal sent out, as well as
4 the green cards.

5 Q. And did you prepare and sign this well-proposal
6 letter?

7 A. Yes, I did.

8 Q. And you sent it to all of the interest owners
9 listed in Exhibit 2?

10 A. Yes, sir.

11 Q. And did all of them receive your well-proposal
12 letter?

13 A. All of them, but Oil & Gas Equity, it came back
14 undeliverable for numerous addresses that we sent it to.

15 Q. Was the letter sent to Oil & Gas Equity's last
16 known address?

17 A. Yes.

18 Q. And did you follow up with a FedEx envelope to
19 that address?

20 A. Yes, I did.

21 Q. And that was also undeliverable?

22 A. Yes, it was.

23 Q. And what efforts did you try to locate Oil &
24 Gas Equities?

25 A. We sent the well proposal, along with the

1 operating agreement and the communitization agreement to
2 all the addresses we had listed in our internal records,
3 all of the addresses listed in the records of Eddy
4 County.

5 And then I did numerous Internet searches
6 and tracked down the employee who used to sign their
7 documents that were recorded. And he no longer works
8 there, and he said he does not know what the company --
9 I don't believe it's a company anymore. And he said
10 that they didn't really record anything after they no
11 longer became a company. So I checked the Armstrong Oil
12 Directory to see if it was a merger or if they had
13 record of who they sold to, and I came up with a dead
14 end. And the ex-employee couldn't send me down any
15 other paths.

16 **Q. And did you subsequently communicate with the**
17 **interest owners who did receive your well-proposal**
18 **letter?**

19 A. Yes, I did. I sent them an operating agreement
20 and a communitization agreement.

21 **Q. And what was the outcome of those**
22 **communications?**

23 A. Marshall & Winston is participating and has
24 signed the operating agreement. McCombs Energy does not
25 want to participate, but they have entered into an

1 agreement with us and signed the operating agreement.
2 And OXY USA, we're currently negotiating an OA with
3 them. They do want to participate in this well. And
4 Oil & Gas Equity, I just can't find.

5 Q. In your opinion, has COG made a good-faith
6 effort to obtain the working interest owners' joinder in
7 the well?

8 A. Yes.

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

11 A. This is the sample notice letter for hearing
12 sent out to the uncommitted working interest owners and
13 the green cards.

14 Q. And were the notice letters prepared and sent
15 at your direction to all the interest owners identified
16 on Exhibit 2?

17 A. Yes.

18 Q. And does Exhibit 4 include a true and correct
19 copy of one of those notice letters?

20 A. Yes, it does.

21 Q. And green cards were returned for all of the
22 interests but Oil & Gas Equity?

23 A. Yes, sir.

24 Q. Would you next identify Exhibit 5?

25 A. This is an offset ownership map.

1 Q. And did you prepare this document as well?

2 A. Yes, I did.

3 Q. Would you next identify Exhibit Number 6?

4 A. This is the sample hearing letter sent out
5 to -- or notice letter sent out to the offset owners,
6 with their green cards.

7 Q. And was the hearing notice letter sent to each
8 of the offset interests identified on your Exhibit 5?

9 A. Yes.

10 Q. Did COG also publish notice of today's hearing?

11 A. Yes, we did.

12 Q. And what is the document marked as Exhibit 7?

13 A. This is the Affidavit of Publication.

14 Q. And is it a true and correct copy of the
15 affidavit?

16 A. Yes, it is.

17 Q. And what was the date the notice was published
18 in the "Carlsbad Current-Argus"?

19 A. June 16th.

20 Q. What is the document marked as Exhibit 8?

21 A. This is the AFE that we sent out with our well
22 proposal to the working interest owners.

23 Q. And what are the total estimated well costs?

24 A. \$8,553,900.

25 Q. And are those well costs consistent with and

1 similar to costs incurred by COG for other Bone Spring
2 horizontal wells?

3 A. Yes.

4 Q. And what is your recommendation for the amount
5 COG should be paid for supervision and administrative
6 expenses?

7 A. 7,000 for drilling and 700 for producing.

8 Q. And are those the same costs that are included
9 in the JOA?

10 A. Yes, they are.

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

14 A. Yes, I do.

15 Q. Is COG also requesting a 200 percent charge for
16 the risk of drilling and completing the Tankless Fed Com
17 #2H?

18 A. Yes, I am.

19 Q. And in your opinion, will the granting of COG's
20 application avoid the drilling of unnecessary wells,
21 protect correlative rights and serve the interest of
22 conservation and the prevention of waste?

23 A. Yes, it will.

24 MR. LARSON: Mr. Examiner, I move the
25 admission of Exhibits 1 through 8.

1 EXAMINER JONES: Exhibits 1 through 8 are
2 admitted.

3 (COG Operating, LLC Exhibit Numbers 1
4 through 8 are offered and admitted into
5 evidence.)

6 MR. LARSON: And I pass the witness.

7 CROSS-EXAMINATION

8 BY EXAMINER JONES:

9 Q. The special rules -- are there special rules
10 for Bone Spring?

11 A. Not that I'm aware of. It's standard setbacks,
12 330.

13 Q. So this is a federal well, again, and you're
14 listing proposed surface- and bottom-hole locations?

15 A. Yes.

16 Q. Did they ever do an on-site to see -- in other
17 words, are these not set in stone, but are they --

18 A. The on-site has been completed, and we
19 submitted the APD, I believe, in April.

20 Q. It's been a while?

21 A. Yes, sir.

22 Q. Surely it doesn't take that long.

23 Okay. So it's going to be a standard
24 location?

25 A. Yes, sir.

1 Q. And two tracts?

2 A. It's two different federal leases.

3 Q. Two federal leases.

4 EXAMINER JONES: Mr. Brooks?

5 CROSS-EXAMINATION

6 BY EXAMINER BROOKS:

7 Q. Somewhere in these exhibits, do you have a list
8 of the owners? It looks like Exhibit 2 has that list.

9 A. Yes, sir, it does.

10 Q. And the only people that are highlighted in
11 yellow are OXY and Oil & Gas Equity. Those are the only
12 people you've pooled?

13 A. Yes, sir.

14 Q. Okay. And you're in communication with OXY,
15 right?

16 A. Yes. We're currently negotiating an OA.

17 Q. And you published notice to Oil & Gas Equity?

18 A. Yes, on June 16th.

19 Q. And where is that in this? Exhibit 7?

20 A. Exhibit 7, yes, sir.

21 Q. Thank you.

22 A. Thank you.

23 ALLISON HOLCOMB,

24 after having been previously sworn under oath, was

25 questioned and testified as follows:

DIRECT EXAMINATION

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BY MR. LARSON:

Q. Good morning, Ms. Holcomb.

Please state your name for the record.

A. Allison Holcomb.

Q. And where do you reside?

A. Midland, Texas.

Q. And by whom are you employed and in what capacity?

A. COG Operating, LLC, and I'm a geologist for the Northern Delaware Basin Team.

Q. So the focus of your responsibilities as a geologist is southeast New Mexico?

A. Correct.

Q. And are you familiar with the geologic aspects of the proposed well and the matters addressed?

A. Yes.

Q. And you previously testified at a Division hearing; is that correct?

A. Yes.

Q. As long ago as earlier this morning?

A. Correct.

Q. Did the Examiner accept your qualifications as an expert in petroleum geology?

A. Yes.

1 MR. LARSON: Mr. Examiner, I tender
2 Ms. Holcomb as an expert petroleum geologist.

3 EXAMINER JONES: She's qualified once
4 again.

5 Q. (BY MR. LARSON) Would you identify the document
6 marked as Exhibit 9?

7 A. Yes. This is a 2nd Bone Spring Sand subsea
8 structure map. The proposed horizontal location is
9 located in red, with the surface hole being in Section
10 35 and the bottom-hole location being in Section 26.
11 The COG acreage is identified in yellow, and the
12 proposed nonstandard spacing unit is outlined in green.
13 The contour interval for my structure map is 100 feet,
14 and as you can see, the 2nd is dipping towards the
15 southeast, and it is continuous across to the proposed
16 development area.

17 Q. And do the offset wells indicate on your map a
18 north-south orientation?

19 A. Correct.

20 Q. And did you prepare this exhibit?

21 A. Yes, I did.

22 Q. And will the completed interval of the well
23 comply with the Division's 330-foot setback
24 requirements?

25 A. Yes.

1 Q. And looking at Exhibit 9, it appears there are
2 a number of Bone Spring horizontal wells in the
3 vicinity; is that correct?

4 A. Yes.

5 Q. Have you looked at production records for those
6 wells?

7 A. Yes, I have.

8 Q. And have they been economic?

9 A. Yes, they have.

10 Q. Would you identify the document marked as
11 Exhibit 10?

12 A. This is a map showing the cross-section line, A
13 to A prime. It goes from south to north. I've selected
14 three wells that are representative of the area.

15 Q. Did you prepare this document?

16 A. Yes, I did.

17 Q. And what role did this structure map have in
18 your analysis prospects for the proposed well?

19 A. The structure map showed that there was no
20 faulting or pinch-outs or geologic impediments over the
21 project area.

22 Q. Would you identify the final exhibit, which is
23 Number 11?

24 A. Yes. Exhibit 11 is a stratigraphic cross
25 section, A to A prime. I've identified the top of the

1 2nd, which is what this cross section is hung on. And
2 I've identified the base of the 2nd. Our lateral
3 interval is shown in green. And as you can see, the 2nd
4 shows a relatively uniform thickness over the project
5 area. There is no faulting, no pinch-outs or other
6 geologic impediments.

7 Q. And did you prepare Exhibit 11?

8 A. Yes, I did.

9 Q. And is it your belief that your cross section
10 is representative of the geology in the proposed project
11 area?

12 A. Yes.

13 Q. In your opinion, will each quarter-quarter
14 section in the proposed project area be expected to
15 contribute more or less equally to production?

16 A. Yes.

17 Q. And in your opinion, will the granting of COG's
18 application avoid the drilling of unnecessary wells,
19 protect correlative rights and serve the interests of
20 conservation and prevention of waste?

21 A. Yes.

22 MR. LARSON: Mr. Examiner, I move the
23 admission of Exhibits 9 through 11.

24 EXAMINER JONES: Exhibits 9 through 11 are
25 admitted.

1 (COG Operating, LLC Exhibit Numbers 9
2 through 11 are offered and admitted into
3 evidence.)

4 MR. LARSON: And I pass the witness.

5 CROSS-EXAMINATION

6 BY EXAMINER JONES:

7 Q. So just looking at this, you can tell there is
8 not -- there is not even a little faulting or pretty
9 continuous type geology. Do you look at a 2-inch [sic]
10 log or a whole bunch of them together in this whole
11 area? Is that -- there is no faulting even all through
12 the Bone Spring; is that correct?

13 A. Not in this area, correct.

14 Q. But the 2nd Bone Spring is the target, and you
15 picked the target?

16 A. Yes, sir.

17 Q. For what reason at this depth?

18 A. So one of the reasons that I picked the target
19 is because that's where the porosity looks the best. It
20 runs between 10 and 12 percent. A lot of offset wells
21 are also landed in this interval, and those are Cimarex
22 wells.

23 Q. Okay. Economic, meaning they pay out?

24 A. Correct.

25 Q. Do you work on a team, with partners, in doing

1 **your economics?**

2 A. Correct.

3 **Q. And you just feed them the data, feed them the**
4 **porosity numbers and -- you did the log analysis for**
5 **them?**

6 A. Correct. Yes.

7 **Q. So do you talk to the other geologists that are**
8 **in your -- your partners in this well?**

9 A. Yes, we do.

10 **Q. Okay. Thank you.**

11 A. Uh-huh.

12 MR. LARSON: I have nothing further and
13 request the case be taken under advisement.

14 EXAMINER JONES: Thank you very much.

15 Case Number 15741 is taken under
16 advisement.

17 And let's break until 1:30.

18 (Case Number 15741 concludes, 11:22 a.m.)

19 (Recess, 11:22 a.m. to 1:30 p.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

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

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

20

21

22

MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters

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