

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. 16052  
FOR A NONSTANDARD SPACING AND  
PRORATION UNIT AND COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 5, 2018

Santa Fe, New Mexico

BEFORE:    WILLIAM V. JONES, CHIEF EXAMINER  
             PHILLIP GOETZE, TECHNICAL EXAMINER  
             LEONARD LOWE, TECHNICAL EXAMINER  
             DAVID K. BROOKS, LEGAL EXAMINER

             This matter came on for hearing before the  
New Mexico Oil Conservation Division, William V. Jones,  
Chief Examiner, Phillip Goetze and Leonard Lowe,  
Technical Examiners, and David K. Brooks, Legal  
Examiner, on Thursday, April 5th, 2018, 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.

REPORTED BY:    Mary C. Hankins, CCR, RPR  
                         New Mexico CCR #20  
                         Paul Baca Professional Court Reporters  
                         500 4th Street, Northwest, Suite 105  
                         Albuquerque, New Mexico 87102  
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1 APPEARANCES  
 2 FOR APPLICANT COG OPERATING, LLC:  
 3 OCEAN MUNDS-DRY, ESQ.  
 4 CONCHO RESOURCES, INC.  
 5 Office of General Counsel  
 6 1048 Paseo de Peralta  
 7 Santa Fe, New Mexico 87501-2736  
 8 (505) 780-8000

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24

25

1 (8:28 a.m.)

2 EXAMINER JONES: Okay. Let's start at the  
3 top of the docket. I think we've got a Concho case, if  
4 I can find it here.

5 Call Case 16052, application of COG  
6 Operating, LLC for a nonstandard spacing and proration  
7 unit and compulsory pooling in Lea County, New Mexico.

8 Call for appearances.

9 MS. MUNDS-DRY: Good morning,  
10 Mr. Examiners. My name is Ocean Munds-Dry. I'm with  
11 COG Operating, LLC. And I have two witnesses this  
12 morning.

13 EXAMINER JONES: Any other appearances?  
14 Any witnesses?

15 MS. MUNDS-DRY: Two witnesses.

16 EXAMINER JONES: Will they please stand,  
17 and will the court reporter swear in the witnesses?

18 (Ms. Tipton and Mr. Bacon sworn.)

19 MS. MUNDS-DRY: I'd like to call my first  
20 witness.

21 MEGAN TIPTON,  
22 after having been first duly sworn under oath, was  
23 questioned and testified as follows:

24

25

1 DIRECT EXAMINATION

2 BY MS. MUNDS-DRY:

3 Q. Good morning.

4 A. Good morning.

5 Q. Would you please state your name and where  
6 you're employed and where you live for the record?

7 A. Yes. My name is Megan Tipton. I am employed  
8 by COG Operating, LLC, and I live in Midland, Texas.

9 Q. And have you testified previously for the  
10 Division?

11 A. Yes, I have.

12 Q. And were your credentials accepted and made a  
13 matter of record?

14 A. Yes, they are.

15 Q. Are you familiar with the application that's  
16 been filed by COG in this case?

17 A. Yes, I am.

18 Q. And are you familiar with the status of the  
19 lands that are the subject of this application?

20 A. Yes, I am.

21 MS. MUNDS-DRY: Mr. Examiner, we tender  
22 Ms. Tipton as an expert in petroleum land matters.

23 EXAMINER JONES: She's qualified as an  
24 expert in petroleum land matters.

25 MS. MUNDS-DRY: Thank you.

1           Q.    (BY MS. MUNDS-DRY) Ms. Tipton, if you would  
2    turn to what's been marked as Exhibit Number 1 and  
3    please explain for the Examiners what COG seeks under  
4    this application.

5           A.    Yes, ma'am. COG seeks to create a nonstandard  
6    320-acre spacing unit comprised of the east half-east  
7    half of Sections 22 and 27 in Township 23 South, Range  
8    32 East in Lea County, New Mexico, as well as to pool  
9    uncommitted interest owners in the Bone Spring Formation  
10   and also to dedicate the spacing unit to the drilling of  
11   the Avion Federal Com 301H well.

12          Q.    And is Exhibit Number 1 a copy of the C-102 for  
13   the well?

14          A.    Yes, it is.

15          Q.    Has an APD been approved for this well yet?

16          A.    It has been submitted but not yet approved.

17          Q.    And has the Division then had a chance to  
18   designate a pool for this area?

19          A.    No. A pool has not been assigned yet.

20          Q.    As far as you're aware, will this rule be  
21   governed by statewide rules?

22          A.    Yes. Statewide rules and standard setbacks  
23   will apply.

24          Q.    Great. Thank you.

25                       If you'll turn to what's been marked as COG

1     **Exhibit Number 2, what is this plat showing here?**

2           A.     So this shows a breakdown of the spacing unit.  
3     So Tract 1 is the east half-east half of Section 22,  
4     being 106 acres, and then Tract 1 is the tract -- excuse  
5     me -- Tract 2 is the east half-east half of Section 27,  
6     being 160 acres, which together comprise the proposed  
7     spacing unit, being 320 acres.

8           **Q.     And the second page?**

9           A.     And on the second page, that breaks down the  
10    ownership. So COG owns 100 percent in Tract 1, and then  
11    ConocoPhillips owns 100 percent in Tract 2. So together  
12    in the spacing unit, we will each have 50 percent  
13    ownership, and we are seeking to compulsory pool  
14    ConocoPhillips' interest.

15          **Q.     So ConocoPhillips is the only party we are**  
16    **seeking to pool in this application?**

17          A.     Yes, ma'am.

18          **Q.     Great.**

19                   If you'll turn to what's been marked as COG  
20    **Exhibit Number 3, is this a copy of the well-proposal**  
21    **letter that was sent to ConocoPhillips?**

22          A.     Yes, it is.

23          **Q.     What date was this letter sent?**

24          A.     January 15th of 2018.

25          **Q.     And after you sent this well-proposal letter,**

1    **what other efforts did you undertake to seek to Conoco's**  
2    **voluntary agreement?**

3           A.    I've been in constant communication with their  
4    landman over there trying to nail down a joint operating  
5    agreement.  They proposed a significant number of  
6    changes, many of which we have accepted thus far, but we  
7    are still reviewing back and forth.  But we hope to get  
8    a JOA nailed down in the near future.

9           Q.    And did the well proposal include an AFE?

10          A.    Yes, it did.

11          Q.    And is that reflected on what would be the  
12   third page of COG Exhibit Number 3?

13          A.    Yes, it is.

14          Q.    Are the costs reflected in this AFE consistent  
15   with what COG has incurred for drilling similar  
16   horizontal wells in this area?

17          A.    Yes, they are.

18          Q.    And in your opinion, have you made a good-faith  
19   effort to try to reach voluntary agreement with  
20   ConocoPhillips?

21          A.    Yes, I have.

22          Q.    Have you estimated overhead and administrative  
23   costs while drilling and producing this well?

24          A.    Yes, 7,000 a month while drilling and then \$700  
25   a month while producing.

1           Q.    Are these costs in line with what COG and other  
2 operators in this area are charging for similar wells?

3           A.    Yes, they are.

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

7           A.    Yes, I do.

8           Q.    And do you ask as well that it be adjusted in  
9 accordance with the appropriate accounting procedures?

10          A.    Yes.

11          Q.    And with respect to ConocoPhillips, do you  
12 request the Division impose a 200 percent risk penalty?

13          A.    Yes, I do.

14          Q.    Let's turn to what's been marked as COG's  
15 Exhibit Number 4. Did COG provide notice of this  
16 hearing to ConocoPhillips and the offset operators or  
17 lessees of record around the proposed nonstandard  
18 spacing unit?

19          A.    Yes, we did.

20          Q.    And then COG Exhibit Number 4, is that my  
21 Affidavit of Notice indicating that certified letters  
22 were sent to each of those parties?

23          A.    Yes.

24          Q.    It also, I think, reflects a map that you so  
25 nicely provided us showing where those parties are



1 located?

2 A. Yes.

3 Q. And if you turn to what's been marked as COG  
4 Exhibit Number 5, is that an affidavit of Notice of  
5 Publication?

6 A. Yes, it is.

7 Q. Were Exhibits 1 through 5 prepared by you or  
8 compiled under your direct supervision?

9 A. Yes, they were.

10 Q. Thank you, Ms. Tipton.

11 MS. MUNDS-DRY: Mr. Examiner, we'd ask that  
12 Exhibit Numbers 1 through 5, which includes our notice  
13 and Affidavit of Publication, be admitted into the  
14 record.

15 EXAMINER JONES: Exhibits 1 through 5 are  
16 admitted.

17 (COG Operating, LLC Exhibit Numbers 1  
18 through 5 are offered and admitted into  
19 evidence.)

20 EXAMINER JONES: I really like your Exhibit  
21 4 with the map --

22 THE WITNESS: Thank you.

23 EXAMINER JONES: -- and the detail on  
24 the --

25 MS. MUNDS-DRY: She did a nice job with

1     that.

2                   EXAMINER JONES:   Yeah.

3                   You guys want to go first?

4                   Phil, you got questions?

5                   EXAMINER GOETZE:   No questions.   Thank you.

6                   EXAMINER JONES:   Leonard?

7                   EXAMINER LOWE:    I want to second what Will  
8     said with your map (indicating).

9                   EXAMINER JONES:   He deals with these.

10                  EXAMINER LOWE:    It's very informative.  
11                  And that's it, Will.

12                  THE WITNESS:    Thank you.

13                  EXAMINER BROOKS:   Well, they say a  
14     picture's -- in relation to -- a picture is worth a  
15     thousand words, and I would rather present a picture  
16     than a thousand words.

17                  MS. MUNDS-DRY:   Duly noted, Mr. Brooks  
18     (laughter).

19                                   CROSS-EXAMINATION

20     BY EXAMINER BROOKS:

21           **Q.    All these notices are to the offsets; is that**  
22     **right?**

23                   **MS. MUNDS-DRY:   Correct.**

24                  EXAMINER JONES:   You're not -- there are no  
25     other parties other than ConocoPhillips?

1 MS. MUNDS-DRY: That's correct.

2 EXAMINER BROOKS: All the overrides are  
3 subject to pooling powers?

4 MS. MUNDS-DRY: That's correct.

5 EXAMINER BROOKS: Okay. Well, that makes  
6 my job easy.

7 MS. MUNDS-DRY: We do try.

8 EXAMINER BROOKS: No more questions.

9 CROSS-EXAMINATION

10 BY EXAMINER JONES:

11 Q. What about the surface location? Is it -- you  
12 have it detailed here, don't you? Is it going to  
13 change? Do you have an on-site yet?

14 A. Yes. It's already been staked and on-sited, so  
15 it should not change.

16 Q. And the location is standard --

17 A. Yes.

18 Q. -- for the completion of the well?

19 A. Yes, sir.

20 Q. It's all BLM?

21 A. Yes, sir, 100 percent federal -- two federal  
22 leases.

23 Q. Two leases?

24 A. Yes, sir.

25 Q. You consider it two tracts?

1           A.    Yes, sir.

2           **Q.    Did they say when they're going to get it**  
3           **approved?**

4           A.    Our team is confident it will be approved  
5           before we plan to spud the well, but I do not have an  
6           exact date.

7           **Q.    When do you plan to spud the well?**

8           A.    I would have to look at our most recent  
9           drilling schedule, but I believe in the next couple of  
10          months.

11          **Q.    Okay.  But you still might get ConocoPhillips**  
12          **signed up?**

13          A.    Yes.  We are still working very diligently with  
14          them.  It's just with so many changes proposed to our  
15          standard form, going back and forth and getting our  
16          legal teams and management's approval, it just takes a  
17          little bit of time.  But we're still in constant  
18          communications with them and hope to nail something down  
19          with them in the future.

20          **Q.    You mean with the purchase?  We read about this**  
21          **purchase.**

22          A.    Yeah.  We're a little busy right now.

23          **Q.    Is that going to slow things down?**

24          A.    Just a little bit, but I'm still confident we  
25          can hopefully get something done.

1           **Q.    This purchase, is it in New Mexico at all or**  
2 **mostly down in Texas?**

3           A.    I believe mostly in Texas, but -- yeah.  I need  
4 to take a closer look at it.

5           **Q.    Okay.  And there is no pool yet?**

6           A.    No.  It's not been assigned yet.

7           **Q.    But it's Bone Spring --**

8           A.    Yes, sir.

9           **Q.    -- basically, 40-acre spacing Bone Spring?**

10          A.    Yes, sir.

11          **Q.    Thanks very much.**

12          A.    All right.  Thank you.

13                       MS. MUNDS-DRY:  With that, I'd call my next  
14 witness.

15                                       CODY BACON,

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

18                                       DIRECT EXAMINATION

19 BY MS. MUNDS-DRY:

20           **Q.    Good morning.  Please state your name and who**  
21 **you work for and what you do for COG.**

22           A.    My name is Cody Bacon.  I'm employed by COG  
23 Operating, LLC as a geologist.

24           **Q.    And have you previously testified before the**  
25 **Division?**

1           A.    Yes, I have.

2           Q.    And were your credentials accepted and made a  
3   matter of record?

4           A.    Yes, they were.

5           Q.    And are you familiar with the application filed  
6   by COG?

7           A.    Yes, I am.

8           Q.    And are you familiar with the geology under the  
9   subject lands?

10          A.    Yes, I am.

11                   MS. MUNDS-DRY:  Mr. Examiner, with that, we  
12   would tender Mr. Bacon as an expert in petroleum  
13   geology.

14                   EXAMINER JONES:  He is so qualified.

15          Q.    (BY MS. MUNDS-DRY) If you would, Mr. Bacon,  
16   turn to what's been marked as COG Exhibit Number 6 and  
17   review this map for the Examiners.

18          A.    Yes.  This is a location map of the Avion  
19   Federal Com 301H.  It is indicated by the dashed green  
20   line.  The yellow shading indicates COG acreage, and the  
21   solid green lines are Avalon wells in the immediate  
22   area.

23          Q.    And are these all Avalon wells, or are there  
24   other wells in the Bone Spring reflected on this map?

25          A.    These are the Avalon wells only.

1           Q.    And if you would then turn to what's been  
2 marked as COG Exhibit Number 7 and review the structure  
3 in this area for the Examiners.

4           A.    Yes. This is the exact same map as the  
5 previous one, except I've added the top of the Bone  
6 Spring Lime structure map and the red cross structure, A  
7 to A prime. The structure in the area is very  
8 consistent, gently dipping to the east, and along the  
9 wellbore path, there doesn't appear to be any indication  
10 of faulting, pinch-outs or any geologic hazards.

11          Q.    And the cross-section line that you reflected  
12 here on the map, you used three wells for the cross  
13 section?

14          A.    That's correct.

15          Q.    And do you consider these wells representative  
16 of the area?

17          A.    Yes, they are.

18          Q.    Okay. Let's turn to what's been marked as COG  
19 Exhibit Number 8. Can you discuss the cross section for  
20 the Examiners?

21          A.    This is the cross section, A to A prime, from  
22 the previous exhibit. If you look in the bottom left,  
23 there is the red letters, datum. The red line is the  
24 top of the 1st Bone Spring Sand. I've also included  
25 three inner formation picks to show the consistency

1 across the area. In green, on the left, is the  
2 approximate landing depth. And then the very first well  
3 on the far left in the cross section is closest to the  
4 surface hole, and the one in the middle is closest to  
5 the bottom-hole location. And as you can see, between  
6 those two wells, there's very uniform thickness. There  
7 doesn't appear to be any indication of faulting or  
8 pinch-outs or any geologic hazards, and the area is just  
9 very consistent geologically.

10 Q. And I think what you're showing on this cross  
11 section is that all of these picks are in the Avalon?

12 A. That is correct.

13 Q. Or the basal Avalon, I think you call it?

14 A. These right here (indicating) are just to show  
15 the consistency between wells. They're not an official  
16 pick. It's just to show the signatures that correlate  
17 from well to well.

18 Q. Okay. Thank you for that clarification.

19 A. Uh-huh.

20 Q. Based on your geologic study of this area, have  
21 you identified any geologic impediments to developing  
22 this area using mile horizontal wells?

23 A. There are no geologic impediments.

24 Q. And in your opinion, can the area be  
25 efficiently and economically developed by a horizontal



1 well?

2 A. Yes.

3 Q. Do you believe that each tract in the  
4 nonstandard unit will, on average, contribute more or  
5 less equally to production from the well?

6 A. Yes.

7 Q. And will the completed interval for the well  
8 comply with all the setback requirements under the  
9 rules?

10 A. Yes, it will.

11 Q. And in your opinion, will the granting of COG's  
12 application be in the best interest of conservation, the  
13 prevention of waste and the protection of correlative  
14 rights?

15 A. Yes.

16 Q. Were COG Exhibits 6 through 8 prepared by you  
17 or compiled under your direction and supervision?

18 A. They were, yes.

19 MS. MUNDS-DRY: Mr. Examiner, we move the  
20 admission of exhibits -- COG Exhibits 6 through 8 into  
21 evidence.

22 EXAMINER JONES: Exhibits 6, 7 and 8 are  
23 admitted.

24 (COG Operating, LLC Exhibit Numbers 6, 7  
25 and 8 are offered and admitted into

1 evidence.)

2 MS. MUNDS-DRY: That concludes my direct  
3 examination of this witness.

4 EXAMINER JONES: I'll let Mr. Goetze go  
5 first. He's our geologist.

6 EXAMINER GOETZE: I don't have any  
7 questions. Very good presentation.

8 EXAMINER JONES: You guys have questions?

9 EXAMINER BROOKS: I have one.

10 EXAMINER LOWE: I'm good.

11 CROSS-EXAMINATION

12 BY EXAMINER BROOKS:

13 Q. I didn't note if you testified to this, so if  
14 it's repetitious, I apologize. Do you believe that --  
15 based on your study, that these -- each of the eight  
16 quarter-quarter sections in this proposed nonstandard  
17 spacing unit will contribute more or less equally to the  
18 production from this well?

19 A. Yes, sir.

20 CROSS-EXAMINATION

21 BY EXAMINER JONES:

22 Q. What about the one two-mile versus a one-mile?  
23 Most of the other wells are one mile, it looks like. Is  
24 that kind of a risk, a step out that Concho's doing  
25 here?

1           A.    I don't think I would say it's risky with all  
2   the one-miles nearby.  I think it's just trying to do  
3   something a little different to make it a little better.

4           **Q.    Geologically, it's not risky?**

5           A.    Right.  Geologically, it's not risky.

6           **Q.    The direction you are drilling is kind of with**  
7   **the strike, I guess?**

8           A.    Yes, sir.

9           **Q.    That's been -- has anybody tried wells**  
10   **east-west in this area?**

11          A.    In the immediate area, I don't believe very  
12   closely.  As far as basinwide, I'm not sure how many  
13   east-west versus north-south, but north-south in this  
14   area has been the preference.

15          **Q.    What about water production?  Are you**  
16   **concerned?**

17          A.    I -- I'm not sure.  I'm not the reservoir  
18   engineer.  I have not looked at those numbers very  
19   closely.

20          **Q.    Okay.  Thank you very much.**

21                   **MS. MUNDS-DRY:  Thank you.  Nothing**  
22   **further.  We'd ask this matter be taken under**  
23   **advisement.**

24                   EXAMINER JONES:  Case 16052 is taken under  
25   advisement.  Thank you very much.

1 MS. MUNDS-DRY: Thank you, Mr. Examiner.

2 THE WITNESS: Thank you.

3 (Case Number 16052 concludes, 8:44 a.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 DATED THIS 22nd day of April 2018.

21

22

23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
25 New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2018  
Paul Baca Professional Court Reporters