

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 FOR CASE NOS. 20257,
COMPULSORY POOLING, LEA COUNTY, 20258
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 21, 2019

Santa Fe, New Mexico

BEFORE: KATHLEEN MURPHY, CHIEF EXAMINER
TERRY WARNELL, TECHNICAL EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER
SUSAN SITA, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Kathleen Murphy, Chief Examiner; Terry Warnell and William V. Jones, Technical Examiners; and Susan Sita, Legal Examiner, on Thursday, March 21, 2019, 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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1 (10:08 a.m.)

2 EXAMINER MURPHY: The next cases in order
3 on the docket are 20257, and I believe that's combined
4 with 20258. Is that correct?

5 MR. FELDEWERT: Yes.

6 EXAMINER MURPHY: Call for appearances.

7 MR. FELDEWERT: Michael Feldewert, with the
8 Santa Fe office of Holland & Hart, appearing on behalf
9 of the Applicant, COG Operating, LLC, in both cases,
10 20257 and 20258. I intend to present this case by
11 affidavit, and I have consolidated the presentation,
12 both cases, into one exhibit package.

13 MR. BRUCE: And I am entering -- I almost
14 forgot this one. I am entering an appearance on behalf
15 of Energen Resources Corporation. And I do not have any
16 witnesses, and I do not object to the cases being
17 presented by affidavit.

18 EXAMINER MURPHY: Thank you.

19 MR. FELDEWERT: We have presented here an
20 exhibit package that has six exhibits to it in these
21 consolidated cases.

22 Exhibit Number 1 is the affidavit of
23 Mr. Matthew Solomon. He has previously testified before
24 this Division as a landman. And he explains in his
25 affidavit the spacing units that they seek to create,

1 which I think for depiction purposes are best shown on
2 Exhibit 1A, as the C-102s for both the 603H well and
3 then the 705H well. Completed intervals for these wells
4 are going to comply with the standard setback
5 requirements.

6 Exhibit 1B, he testifies that the -- he
7 shows in Exhibit 1B the tracts of land that are
8 involved. You'll see there are numerous tracts, 13. He
9 has, on the second page of this exhibit for both
10 cases -- he has one set for the 603H and another set of
11 documents for the 705H, showing these tracts and the
12 interest owners. They're all organized the same, which
13 is probably important to you. The second page of
14 Exhibit 1B contains the working interests that they seek
15 to pool that are highlighted in yellow.

16 And then one of the reasons these cases
17 were continued is because there are a number of
18 unmarketable title owners that were subsequently
19 located, and those are reflected on Exhibit 1B on pages
20 5 and 6. So he testifies they seek to pool the working
21 interest owners highlighted in yellow, and then in each
22 case, he lists the unmarketable title owners reflected
23 on pages 5 and 6 of 1B for each of these cases.

24 He testified there is no ownership depth
25 severances, that they have conducted a diligent search

1 in the county records, as probably reflected by the
2 unmarketable title owners, to try find a list of all the
3 parties needed to be pooled.

4 Exhibit 1C contains the well-proposal
5 letters that were submitted to the working interest
6 owners for each of the spacing units to each proposed
7 well. It contains an AFE, which he testifies is
8 consistent with the cost incurred by other operators and
9 that they undertook good-faith efforts to reach a
10 voluntary agreement with the submission of these letters
11 and after the submission of these letters.

12 One point of clarification and he testifies
13 to this on paragraph 11 of his affidavit. When these
14 wells were initially proposed and these spacing units
15 were initially proposed, the second spacing unit, the
16 east half-west half spacing unit, was initially going to
17 be dedicated to the 605H well. The company has since
18 determined that they're going to redesignate that well
19 as the 705H. Nothing else has changed with respect to
20 that, what was proposed, just the name change. So if
21 you see in here 605H, it's the 705H. And he testifies
22 to this in paragraph 11, and we have tried to label the
23 exhibits where necessary and appropriate as the 705H.
24 But when the well-proposal letters went out and the AFEs
25 went out, it was the 605H. But what you see on the

1 C-102 is the same. All that has occurred is the name
2 change.

3 His affidavit requests overhead rates of
4 \$7,000 per month while drilling and \$700 a month while
5 producing.

6 Exhibit 2 is the affidavit of Brian Sitek,
7 he's a geologist with the company. He has testified
8 previously before this Division as an expert petroleum
9 geologist. He notes that the target intervals for both
10 of these wells is the -- both the 603 and the 705 is the
11 3rd Bone Spring.

12 If you look at Exhibit 2A, it contains a
13 12-section map that gives you an orientation as to the
14 acreage that's involved and the wellbores that are
15 involved with these proposed spacing units.

16 Exhibit 2B is a structure map that he hung
17 on the top -- that he placed on the top of the Wolfcamp
18 Formation. As he testifies in paragraph six, he
19 believes that the top of the Wolfcamp is representative
20 of the top of the interval in the 3rd Bone Spring in
21 this area. He testifies he believes the structure is
22 consistent here. He doesn't see any faulting or
23 pinch-outs or other geological impediments to developing
24 this area with horizontal wells.

25 Exhibit 2C identifies the wells that he

1 utilized for his stratigraphic cross section. And he
2 testifies in paragraph seven that he chose those wells
3 because they include logs that hit all of the targets
4 and the zones that they intend to develop under these
5 spacing units and that they are representative of the
6 area.

7 So then if you turn to Exhibit 2D, that
8 contains his stratigraphic cross section. It contains
9 the usual, gamma ray, resistivity and porosity logs, in
10 two of the wells. The only exception is the Pitchfork,
11 the one on the left-hand side, which has only a gamma
12 ray and resistivity log. He identifies for you the 3rd
13 Bone Spring target interval for both of these wells on
14 this stratigraphic cross section, and he offers his
15 opinion that the target zone extends across the area
16 that they seek to include in this spacing unit.

17 He testifies in paragraph nine that the
18 orientation of these wells is appropriate for this area
19 and that they will efficiently and effectively develop
20 the acreage that they intend to include in this spacing
21 unit and that, in his opinion, the tracts that they seek
22 to include will contribute more or less equally to
23 production from the wellbore.

24 Exhibit 3 is the Affidavit of Notice
25 prepared by my office for Case 20257. It involves the

1 603H well.

2 And Exhibit 4 is the Affidavits of
3 Publication for that particular case. Again, there were
4 two affidavits published first when the case was
5 initially filed involving the working interest owners,
6 and then when the unlocatable interests were found, we
7 published again identifying all of those interest owners
8 and the estates by name.

9 Exhibit 5 then is a similar Affidavit of
10 Notice for Case 20258, which now involves the 705H well.

11 And Exhibit 6, again, is the Affidavits of
12 Publication similar to what I previously testified.

13 So we ask that these exhibits, 1 through 6,
14 be admitted into evidence in these consolidated cases
15 and that this matter be taken under advisement.

16 EXAMINER MURPHY: The exhibits will be --

17 EXAMINER JONES: No objections?

18 MR. BRUCE: No objection.

19 EXAMINER MURPHY: The exhibits will be
20 admitted.

21 (COG Operating, LLC Exhibit Numbers 1
22 through 6 are offered and admitted into
23 evidence.)

24 EXAMINER MURPHY: I do have a question. Is
25 there a percentage of the people or companies -- I think

1 it's mostly people in this case -- to be pooled? Is
2 there a percentage of them?

3 MR. FELDEWERT: Yes. So if you look at --
4 let's go to Exhibit 1B, the tract map. If you go to the
5 second page --

6 EXAMINER MURPHY: Unit working interests?

7 MR. FELDEWERT: Yes.

8 EXAMINER MURPHY: And they're in yellow?

9 MR. FELDEWERT: Yes. So that would be the
10 percentages that the company seeks to pool. You'll see
11 that it's 20-something percent. And a similar exhibit
12 for the other case, 705H, also shows the percentages.
13 That one looks like it might be a little higher.

14 EXAMINER MURPHY: And you found the people?

15 MR. FELDEWERT: If you look at the
16 Affidavit of Notice, you will see -- so I'm looking at
17 Exhibit 3, for example, Case 20257. If you go to the
18 last page of Exhibit 3, you'll see there is one that was
19 still in transit for that particular case, which is one
20 of the reasons that it was -- therefore, these
21 individuals that we seek to pool and companies were
22 named in the Affidavit of Publication. We believe the
23 addresses are good for those working interest owners,
24 but sometimes they don't get picked up, like it says.
25 The latest report says "In Transit."

1 EXAMINER MURPHY: Okay. And on 2D, the
2 cross section from the geologist, they have the target
3 interval. Is that not fairly close to the top of the
4 Wolfcamp?

5 MR. FELDEWERT: Yes. And so he testifies
6 in his affidavit that's why he used the top of the
7 Wolfcamp as the structure map.

8 EXAMINER JONES: We have no vertical
9 setbacks between pools in our rules.

10 MR. FELDEWERT: Or in this case, between
11 formations.

12 EXAMINER JONES: And the only kicker is if
13 this turns out to be Wolfbone. Do we know that or not
14 yet? It's Lea County, so --

15 MR. FELDEWERT: It is Lea County. To my
16 knowledge, they have not assigned a pool yet.

17 EXAMINER JONES: If it turns out that way,
18 we'll have to have another affidavit whether notice is
19 consistent throughout the Wolfbone -- I mean not notice
20 but ownership, vertical.

21 MR. FELDEWERT: He testifies there is no
22 ownership depth severance in this area.

23 EXAMINER JONES: In the Bone Spring.

24 MR. FELDEWERT: In this area.

25 EXAMINER JONES: Oh. In this whole area.

1 MR. FELDEWERT: Underlying the spacing
2 unit. Yeah. Haven't been apprised of a pool yet.

3 EXAMINER JONES: I'm surprised there are
4 only two wells per spacing unit. No. There is just one
5 here.

6 MR. FELDEWERT: Currently, yeah.

7 EXAMINER JONES: Currently. Okay. It is
8 Concho after all.

9 EXAMINER MURPHY: Are there any questions?

10 EXAMINER WARNELL: (Indicating.)

11 EXAMINER JONES: I always have a question,
12 but I think Mr. Brooks as told me that -- well, I'll go
13 ahead. I can't resist.

14 (Laughter.)

15 EXAMINER JONES: And this is whether --
16 there's no -- there's no testimony in here about whether
17 facility costs will be included in the computation of
18 reasonable well costs or not. We never ask that
19 question. And I understand the rules allow the
20 companies to do that if they want to do that, but we --
21 this is not a question. I'm just posing it because I
22 know there is nobody to ask the question to here really.

23 MR. FELDEWERT: I don't know anything more
24 than what's in the AFE.

25 EXAMINER JONES: There you go. Sounds

1 good.

2 EXAMINER MURPHY: We'll take this case
3 under advisement.

4 MR. FELDEWERT: Thank you.

5 (Case Numbers 20257 and 20258 conclude,
6 10:23 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 7th day of April 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

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