

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

ORIGINAL

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

CASE NO. 14860

APPLICATION OF COG OPERATING, LLC FOR A  
NON-STANDARD SPACING AND PRORATION UNIT  
AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 21-12

BEFORE: RICHARD EZEANYIM, Hearing Officer  
DAVID K. BROOKS, Legal Examiner

JULY 12, 2012

Santa Fe, New Mexico

10:44 AM

This matter came on for hearing before the  
New Mexico Oil Conservation Division, RICHARD EZEANYIM,  
Hearing Examiner, and DAVID K. BROOKS, Legal Examiner,  
on THURSDAY, JULY 12, 2012, at the New Mexico Energy,  
Minerals and Natural Resources Department, 1220 South  
Street Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke  
PAUL BACA PROFESSIONAL COURT REPORTERS  
500 Fourth Street, NW, Suite 105  
Albuquerque, NM 87102

A P P E A R A N C E S

For COG Operating, LLC:

HOLLAND & HART  
 110 North Guadalupe, Suite 1  
 Santa Fe, New Mexico 87501  
 (505) 988-4421  
 By: Adam Rankin

I N D E X

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DIRECT EXAMINATION OF STUART DIRKS  
 By Mr. Rankin

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DIRECT EXAMINATION OF GREG CLARK  
 By Mr. Rankin

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CERTIFICATE OF COMPLETION OF HEARING

19

EXHIBITS

MARKED/IDENTIFIED

1. Lease Map

11

2. New Well Proposal

11

3. Affidavit

11

4. Copy of Publication

11

5. Structure Map

17

6. Cross Section Map

17

7. Cross Section A - A

17

8. Completion

17

1 MR. EXAMINER: Now at this point I call case  
2 number 14860. This is the application of the COG  
3 Operating, LLC for a non-standard spacing and proration  
4 unit and compulsory pooling in Eddy County, New Mexico.

5 Call for appearances.

6 MR. RANKIN: Thank you, Mr. Examiner.  
7 Mr. Adam Rankin with Holland & Hart in Santa Fe on  
8 behalf of COG. I've got two witness today.

9 MR. EXAMINER: Any other appearance? Okay.  
10 The witnesses can stand up and be sworn. State your  
11 name first.

12 MR. CLARK: Greg Clark.

13 MR. DIRKS: Stuart Dirks.

14 [Whereupon the witnesses were duly sworn.]

15 MR. RANKIN: Thank you, Mr. Examiner. I'd  
16 like to call my first witness, Mr. Stuart Dirks.

17 Mr. Examiner, before I proceed we have another  
18 notice issue in this case as well.

19 MR. EXAMINER: Another what?

20 MR. RANKIN: Another notice issue. This  
21 case has already been continued once because of a notice  
22 issue. But in preparation for the hearing we discovered  
23 another notice issue, so we request that this case also  
24 be continued so that we can effect notice.

25 MR. EXAMINER: Okay.

1                   MR. RANKIN: But we'd like to go ahead and  
2 present the case.

3                   MR. EXAMINER: Okay. Go ahead.

4                   MR. RANKIN: Thank you.

5                   STUART DIRKS

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

8                   DIRECT EXAMINATION

9 BY MR. RANKIN:

10           Q. Mr. Dirks, can you please state your full name  
11 for the record?

12           A. Stuart Dirks.

13           Q. And by whom are you employed and where do you  
14 reside?

15           A. Concho Resources, and I live in Midland, Texas.

16           Q. Have you previously testified before the  
17 division?

18           A. Yes, I have.

19           Q. And you've had your credentials as a petroleum  
20 landman accepted and made a matter of record?

21           A. Yes.

22           Q. Are you familiar with the application filed in  
23 this case?

24           A. Yes, I am.

25           Q. And are you familiar with the status of the lands

1 involved?

2 A. Yes, I am.

3 MR. RANKIN: Mr. Examiner, I'd like to  
4 tender Mr. Dirks as an expert in petroleum land matters.

5 MR. EXAMINER: Mr. Dirks is so qualified.

6 MR. RANKIN: Thank you, Mr. Examiner.

7 Q. (By Mr. Rankin) Mr. Dirks, can you please look  
8 at Exhibit Number 1 and review for the Examiners what  
9 this shows.

10 A. Highlighted in yellow is section 1 of 19 south,  
11 25 east, south of Artesia by the town of Lakewood. And  
12 within that section in red shows the location of our  
13 proposed Clydesdale 4H Well.

14 Q. And, Mr. Dirks, turn to the next page of that  
15 exhibit. Is there a breakdown of all the working  
16 interests?

17 A. Yes, that's correct.

18 Q. And you've been able to reach an agreement either  
19 verbally or in writing, a voluntary agreement, with each  
20 of these working interests?

21 A. That's correct, with all of them.

22 Q. Turning to the next page of that exhibit is an  
23 ownership interest breakdown of all the unleased mineral  
24 interests; is that correct?

25 A. That's correct.

1 Q. Now, in this list you've been able to reach a  
2 verbal agreement with some of the interests; is that  
3 correct?

4 A. That's correct.

5 Q. Have you been able to contact everybody on this  
6 list?

7 A. Well, and also we've managed to lease one other  
8 person on this list, Echo Maxine Fifer. We've got her  
9 under lease. Other than those five, they are all  
10 uncommitted.

11 EXAMINER BROOKS: They're all what?

12 MR. DIRKS: They're all uncommitted.

13 Q. (By Mr. Rankin) And within this list you have  
14 not yet reached contact with the interests relating to  
15 the James Fifer and Thomas Raymond Fifer; is that  
16 correct?

17 A. That is correct.

18 Q. And all the other interests who you have either  
19 been unable to locate have been included in a notice of  
20 publication with the exception of the interest relating  
21 to James Fifer and Thomas Raymond Fifer; is that  
22 correct?

23 A. That's correct.

24 MR. RANKIN: And, Mr. Examiner, because  
25 we've been unable to locate or contact the interests

1 relating to James Fifer and Thomas Raymond Fifer that is  
2 the reason why we are requesting a continuance in this  
3 case so that we can track those interests down and/or  
4 provide notice of publication.

5 MR. EXAMINER: Okay. So noted.

6 Q. (By Mr. Rankin) Mr. Dirks, in your opinion has  
7 COG undertaken a good faith effort to locate and contact  
8 every interest owner in this property?

9 A. Yes. Yes, we have.

10 Q. And in your opinion has COG undertaken a good  
11 faith effort to obtain the voluntary agreement of the  
12 remaining uncommitted interests in this property?

13 A. Yes, we have.

14 Q. Turning to what's been marked as Exhibit Number 2  
15 in the exhibit packet this is a well proposal that was  
16 sent out to all interest owners; is that correct?

17 A. That's correct.

18 Q. And behind that first page is a copy of the AFE  
19 that was included in that well proposal; is that  
20 correct?

21 A. That's correct.

22 Q. And within the AFE are these costs consistent  
23 with what COG has incurred for drilling similar  
24 horizontal wells in the area?

25 A. Yes.

1 Q. And has COG made an estimate of the overhead and  
2 the administrative costs while drilling and while  
3 producing if the well is successful?

4 A. Yes.

5 Q. And what are those costs?

6 A. \$5500 a month drilling, \$550 a month producing.

7 Q. And these costs, are they consistent with what  
8 COG has charged other operators in this area?

9 A. Yes, they are.

10 Q. And does COG request that these figures be  
11 incorporated into any order that results from this  
12 hearing?

13 A. Yes.

14 Q. And does COG also request that the overhead  
15 administrative costs be adjusted in accordance with the  
16 COPAS accounting procedures?

17 A. Yes.

18 Q. And, finally, does COG also request that the  
19 maximum 200 percent risk charge be assessed against all  
20 uncommitted interests in the well?

21 A. Yes.

22 Q. Thank you, Mr. Dirks. And have you also brought  
23 a geologist today to testify regarding the formation of  
24 the non-standard unit?

25 A. Yes.



1 Q. And did COG identify all the leased mineral  
2 interests in the surrounding 40-acre tracts?

3 A. Yes.

4 Q. To the proposed non-standard unit?

5 A. Yes, we did.

6 Q. And each of those interests were also noticed of  
7 this hearing; is that correct?

8 A. Yes, they were.

9 Q. And looking at Exhibit Number 3, this is the  
10 affidavit prepared by you indicating that notice was  
11 provided in accordance with division rules; is that  
12 correct?

13 A. Yes, it is.

14 Q. And following that page is a copy of the letter  
15 that was sent providing notice?

16 A. Yes, it is.

17 Q. Followed by a list of all the interest owners and  
18 offset owners who were notified of the hearing?

19 A. Yes, it is.

20 Q. And, in addition, all these receipts, certified  
21 mail receipts?

22 A. Yes.

23 Q. And on the next exhibit, on Exhibit 4, if you  
24 flip to the second page first -- or rather, I'm sorry, I  
25 got that backwards. The first page is the first notice

1 of publication that was published prior to your updating  
2 the title opinion; is that correct?

3 A. Yes.

4 Q. And after your updated title opinion identified  
5 that there was some additional unlocateable interests we  
6 then submitted a new notice of publication; is that  
7 correct?

8 A. That's correct.

9 Q. And that is on the second page of that Exhibit 4?

10 A. Yes.

11 Q. Were Exhibits 1 through 4 prepared by you or  
12 under your supervision, Mr. Dirks?

13 A. Yes, they were.

14 MR. RANKIN: Mr. Examiner, I move to admit  
15 into evidence Exhibits 1 through 4, and I have no  
16 further questions of the witness.

17 MR. EXAMINER: Exhibits 1 through 4 will be  
18 admitted.

19 [Exhibits 1 through 4 admitted.]

20 EXAMINER BROOKS: No questions.

21 MR. EXAMINER: The question is that this  
22 case be continued for four weeks again, right?

23 MR. RANKIN: Yes, in order that we are to  
24 provide notice of publication or we are able to locate  
25 the interests related to the Fifer family.

1 MR. EXAMINER: You just make sure and get  
2 this notification.

3 MR. RANKIN: In preparation of this hearing,  
4 Mr. Examiner, we realized that the Fifers had not  
5 received notice and that we needed to notify them. So  
6 these publications were the evolution of our research  
7 into the property of the interests in this well.

8 MR. EXAMINER: Okay. Why are we continuing  
9 the case?

10 MR. RANKIN: The Fifer interest,  
11 Mr. Examiner. If you look at Exhibit Number 2. I'm  
12 sorry, Exhibit Number 1, this third page. You see about  
13 the middle of the page there's a James Fifer and a  
14 Thomas Raymond Fifer. Those two parties did not receive  
15 a well proposal letter or a notice of hearing.

16 MR. EXAMINER: Oh, okay.

17 MR. RANKIN: And so we need to continue in  
18 order to provide notice of the hearing or reach a  
19 voluntary agreement with their interest.

20 MR. EXAMINER: Okay. What is the name of  
21 the pool?

22 MR. DIRKS: It is the Masco-Draw, Saint  
23 Andres Yeso.

24 MR. EXAMINER: And the API is here, so I  
25 don't need that. I think we are going to do an escrow

1 requirement.

2 MR. RANKIN: Most likely since there are  
3 some unlocateable interests.

4 MR. EXAMINER: You may step down.

5 MR. DIRKS: Thank you.

6 MR. RANKIN: Mr. Examiner, I'd like to call  
7 my second witness Mr. Greg Clark. And I'd like the  
8 record to reflect that Mr. Clark has already had his  
9 credentials as a petroleum geologist accepted and made a  
10 matter of record today.

11 MR. EXAMINER: Yeah, so you can go on to  
12 direct examination.

13 GREG CLARK

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

16 DIRECT EXAMINATION

17 BY MR. RANKIN:

18 Q. Mr. Clark, moving on to Exhibit Number 5 in the  
19 exhibit packet this is an overview map; is that correct?

20 A. That is correct.

21 Q. Can you review for the Examiners what this  
22 exhibit shows?

23 A. This is a regional structure map where we have  
24 offset field areas named showing the relationship to  
25 where we want to drill the Clydesdale 14H in

1 relationship to the offset fields. There are no major  
2 geologic impediments that we feel that separate us from  
3 being analogous to these fields. And overall in the  
4 geologic sense there's a regional dip from the northwest  
5 to the southeast.

6 Q. Thank you, Mr. Clark. And turning to what's been  
7 marked as Exhibit 6, can you just review for the  
8 Examiners what this overview map shows?

9 A. Yes. This is the same regional map as the  
10 structure map without depicting the structure. And the  
11 main purpose is to show the orientation of the cross  
12 section, which is going to be the next exhibit, which  
13 goes from a south to north direction from A to A prime  
14 and showing the relationship of existing producing  
15 fields to where we would like to propose to drill the  
16 Clydesdale 1 Fee 4H.

17 Q. And turning to that next exhibit, which is marked  
18 as Exhibit 7, this is the cross section you referenced.  
19 Could you review for the Examiners what this exhibit  
20 depicts and the purpose?

21 A. Yes, I can. This cross section is a  
22 stratigraphic cross section, again going from the south  
23 to the north from A to A prime, A being on the left and  
24 A prime being on the right, correlating offset analogous  
25 fields to area in which we would like to drill this

1 well. We have taken the structural component out,  
2 flattened it on the top of the paddock in order to show  
3 the stratigraphic relationship and continuity between  
4 the existing fields to where we are proposing to drill  
5 the said well.

6 If you look at the polygons that are colored in  
7 red to the right it shows wells that have completed in  
8 the paddock. And there are two wells that have not been  
9 completed in the paddock; the one being the first one on  
10 the left and the third one from the left that are deep  
11 Morrow gas wells that are producing from the Morrow and  
12 have not been completed back to the Yeso as to date.

13 Q. And, in general, the cross section indicates that  
14 there is a continuity across the proposed area; is that  
15 correct?

16 A. Yes. Across the regional area we feel that the  
17 paddock stratigraphy is very similar and that's what  
18 this cross section has been made to depict.

19 Q. Thank you, Mr. Clark. Now based on your geologic  
20 analysis and study of the area and the vicinity and in  
21 the proposed non-standard units, what conclusions have  
22 you reached?

23 A. I've reached that there are no geologic  
24 impediments that would keep us from developing using  
25 full section horizontal wells. And the field of the

1 area can be efficiently and economically developed by  
2 using horizontal wells. And, finally, based on my  
3 geologic analysis, I conclude that each 40-acre unit  
4 that would comprise the proposed non-standard unit will,  
5 on average, contribute equally to the production from  
6 the well.

7 Q. And, finally, turning to the last exhibit in the  
8 packet, Exhibit 8, is a wellbore schematic diagram, is  
9 that correct, showing the proposed curvature of the well  
10 and the lateral. And all the lateral will be within the  
11 330-foot setbacks as required by the rules?

12 A. That is correct. This is a cartoon diagram, not  
13 to scale. In order to depict where the setbacks would  
14 be in relationship to the lateral and that all  
15 production would be within the said setbacks.

16 Q. Thank you, Mr. Clark. Now, in your opinion, will  
17 the granting of this application be in the best interest  
18 of the conservation, the prevention of waste, and the  
19 protection of correlative rights?

20 A. Yes.

21 Q. And were COG Exhibits 4 through 8 prepared by you  
22 or compiled under your supervision?

23 A. They were.

24 MR. RANKIN: And, Mr. Examiner, I'd like to  
25 move into admission exhibits -- and I believe I need to

1 correct my numbers. It should be Exhibit Numbers 5  
2 through 8.

3 MR. EXAMINER: Exhibits 5 through 8 will be  
4 admitted.

5 [Exhibits 5 through 8 admitted.]

6 MR. RANKIN: Thank you, Mr. Examiner. I  
7 have no further questions.

8 MR. EXAMINER: Any questions?

9 EXAMINER BROOKS: Yeah. I think I saw in  
10 your AFE there's 3.9 million. You're fairly close over  
11 there to the cemetery field, right?

12 MR. CLARK: That is correct. That is just  
13 to the south.

14 EXAMINER BROOKS: That makes me a little  
15 curious because I recently saw an AFE for a 160-acre  
16 horizontal that was in the cemetery field and it was  
17 like 2.9 million. And I actually think that operator  
18 tends to be optimistic on their AFEs from some things  
19 I've seen before. But what I was wondering is would  
20 there be a reason why there would be that kind of  
21 significant difference in cost?

22 MR. CLARK: Mr. Examiner, without seeing the  
23 exact well and the exact AFE I wouldn't be able to give  
24 any reason for that.

25 EXAMINER BROOKS: Thank you.



1 MR. EXAMINER: Any more questions?

2 EXAMINER BROOKS: Nothing else.

3 MR. EXAMINER: I have no further questions.

4 Okay. You may be excused.

5 MR. CLARK: Okay. Thank you.

6 MR. EXAMINER: At this point case number  
7 14860 will be continued to August 9th to supplement the  
8 notice requirements.

9 [Case number 14860 continued until August 9, 2012.]

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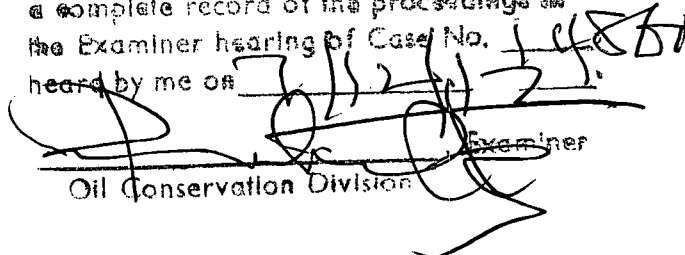
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 14860  
heard by me on 7/11/12

  
Examiner  
Oil Conservation Division

## REPORTER'S CERTIFICATE

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I, Lisa Reinicke, New Mexico Provisional  
Reporter, License #P-405, working under the direction  
and direct supervision of Paul Baca, New Mexico CCR  
License #112, Official Court Reporter for the US  
District Court, District of New Mexico, 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 and  
was reduced to printed form under my direct supervision.

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 whatsoever in the final  
disposition of this case in any court.



Lisa R. Reinicke,  
Provisional License P-405  
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Ex count: