

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

6 APPLICATION OF COG OPERATING, LLC
7 FOR A NONSTANDARD SPACING AND
8 PRORATION UNIT AND COMPULSORY
9 POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15023

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 11, 2013

Santa Fe, New Mexico

14 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER
15 DAVID K. BROOKS, LEGAL EXAMINER
16 PHILLIP GOETZE, TECHNICAL EXAMINER

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Richard Ezeanyim,
20 Chief Examiner, David K. Brooks, Legal Examiner, and
21 Phillip Goetze, Technical Examiner, on Thursday, July
22 11, 2013, at the New Mexico Energy, Minerals and Natural
23 Resources Department, 1220 South St. Francis Drive,
24 Porter Hall, Room 102, Santa Fe, New Mexico.

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

1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

3 ADAM G. RANKIN, ESQ.
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 6

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1 (3:50 p.m.)

2 EXAMINER EZEANYIM: At this point, call
3 Case 15023, application of COG Operating, LLC for a
4 nonstandard spacing and proration unit and compulsory
5 pooling, Eddy County.

6 Call for appearances.

7 MR. RANKIN: Adam Rankin, Hollard & Hart,
8 Santa Fe. I've got two witnesses today.

9 EXAMINER EZEANYIM: Any other appearances?

10 Okay, Mr. Rankin. Let your witnesses stand
11 up to be sworn and state their names.

12 MR. CLARK: Greg Clark.

13 MR. DIRKS: Stuart Dirks.

14 (Mr. Clark and Mr. Dirks sworn.)

15 MR. RANKIN: Mr. Examiner, I'd call my
16 first witness, Mr. Stewart Dirks.

17 STUART DIRKS,

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

20 DIRECT EXAMINATION

21 BY MR. RANKIN:

22 Q. Mr. Dirks, for the record, state your name.

23 A. Stuart Dirks.

24 Q. Would you please state by whom you're employed
25 and in what capacity?

1 A. I'm employed by Concho Resources, as a
2 petroleum landman.

3 Q. And have you previously testified before the
4 Divison?

5 A. Yes, I have.

6 Q. And have you had your credentials as an expert
7 petroleum landman accepted as a matter of record?

8 A. Yes, they were.

9 Q. Mr. Dirks, are you familiar with today's
10 application?

11 A. Yes, I am.

12 Q. And are you familiar with the lands that are
13 subject to today's application?

14 A. Yes, I am.

15 MR. RANKIN: Mr. Examiner, I'd like to
16 tender Mr. Dirks as an expert petroleum landman.

17 EXAMINER EZEANYIM: Mr. Dirks is so
18 qualified.

19 Q. (BY MR. RANKIN) Mr. Dirks, can you please turn
20 to what's been marked as Exhibit Number 1 in the exhibit
21 packet? Please identify for the Examiners what it
22 shows, and please briefly state what it is that COG is
23 requesting in this application.

24 A. This is a plat centered on Section 6, Township
25 19 South, Range 26 East which shows the location of our

1 proposed Arabian 6 Fee #6H. Our acreage in Section 6 is
2 highlighted in yellow. Existing horizontal wells are
3 shown in black, and our proposed well is shown in red.
4 The square being our surface location, and the circle
5 being our bottom-hole location.

6 We seek the formation of a 159.67-acre
7 nonstandard spacing and proration unit comprising the
8 east half of the west half of Section 6, 19 South, 26
9 East for the drilling of our Arabian 6 Fee #6H well. We
10 also seek the pooling of mineral interests in the Yeso
11 Formation underlying our proposed nonstandard unit, and
12 we ask that COG Operating, LLC be named operator of the
13 well.

14 Q. Mr. Dirks, is there a designated pool that's
15 subject to this pooling application?

16 A. Yes, there is.

17 Q. What is the name of that pool?

18 A. It is the Penasco Draw-San Andres-Yeso pool.

19 Q. And, Mr. Dirks, that has been established
20 through Order Number R-5353; is that correct?

21 A. Yes.

22 Q. Section 6 is all fee lands; is that correct?

23 A. Yes, they're all fee.

24 Q. Now, Mr. Dirks, can you please turn to what's
25 been marked as Exhibit Number 2? And just identify for

1 the Examiners what this exhibit shows.

2 A. This is a plat of Section 6 with our proposed
3 nonstandard unit highlighted in gray showing the
4 ownership broken down by tract.

5 Q. And the interests that you're seeking to pool
6 today, are those identified -- actually, let me back up
7 real quick.

8 All the interests you're seeking to pool
9 today, are they mineral interests; is that correct?

10 A. Yes, that's correct.

11 Q. So all of the working interest owners have
12 committed to the well; is that correct?

13 A. That's correct.

14 Q. And those working interest owners are
15 identified in Exhibit 1; is that right?

16 A. Correct.

17 Q. Mr. Dirks, can you please turn to the next
18 exhibit, Number 3? And identify for the Examiners what
19 this exhibit shows.

20 A. Exhibit 3, yes. There is a list of all the
21 mineral owners that are uncommitted to the well.

22 Q. And can you please identify -- or explain to
23 the Examiners what efforts you've made to contact and
24 reach an agreement with each of the interest owners?

25 A. Yes. Mr. Jerry Thompson, we've been in contact

1 with him for the past six months. We've sent him five
2 formal offers to lease. He has not returned any mail.
3 He's not returned any phone calls. He has not made any
4 attempt to contact us. We even went so far to call his
5 brother, who did grant us a lease, and ask him to call
6 Jerry, but that did not work either.

7 Dorothy R. Thompson is the mother of Cecil
8 Thompson and Deborah Brown. We have sent them many
9 offers to lease as well, but she has indicated by phone
10 that she will lease, and she will advise her two
11 children to lease.

12 And then Linda McQuillan is the
13 stepdaughter of Dorothy Thompson, and she believes that
14 she has no claim to any interest.

15 Q. So as a consequence, you're having to force
16 pool these individuals; is that correct?

17 A. Correct.

18 Q. You've not been able to reach agreement or they
19 have not accepted your offer for lease or any other
20 offer; is that correct?

21 A. Correct.

22 Q. Mr. Dirks, on the next exhibit identified as
23 Exhibit Number 4, there are some other individuals that
24 you're seeking to pool; is that correct?

25 A. Correct.

1 Q. Can you please explain for the Examiners the
2 nature of these interests and why you are seeking to
3 pool them?

4 A. Yes. All these owners represent owners of
5 title that's not marketable. These are actually -- the
6 record title is in the name of these people, who are
7 deceased.

8 Q. And so that's the reason you're not able --
9 even though -- in other words, the title isn't secured
10 because the individuals have been deceased, so you're
11 not able to reach agreement with them; is that correct?

12 A. Correct. Correct.

13 Q. Now, Mr. Dirks, because of the unmarketable
14 title and the issues arising from the unmarketable
15 title, was an advisement published in the newspaper
16 advising all the heirs or devisees of those interests?

17 A. Yes.

18 Q. Is that identified in Exhibit Number 5?

19 A. Yes.

20 Q. Thank you, Mr. Dirks.

21 When you sent out the proposal letters to
22 these individuals, is that what's identified in Exhibit
23 Number 6?

24 A. Yes, it is.

25 Q. This is a sample of the well proposal letter

1 that was sent out to all these individuals; is that
2 correct?

3 A. That's correct.

4 Q. And was an AFE also included with that
5 well-proposal letter?

6 A. Yes, it was.

7 Q. And that's on the last page of Exhibit 6; is
8 that right?

9 A. Yes, it is.

10 Q. Are these costs that are identified in the AFE
11 commensurate with the costs that COG has charged for
12 other wells similarly drilled, horizontal wells, in the
13 area?

14 A. Yes.

15 Q. Has COG made an estimate of the costs that will
16 be incurred while drilling and while producing this
17 well?

18 A. Yes, we have.

19 Q. What are those costs?

20 A. \$5,450 per month drilling, \$545 per month
21 producing.

22 Q. And does COG request that these figures be
23 incorporated in any order issued from the Division with
24 respect to any of the interest owners who do not consent
25 or have elected to participate in the well?

1 A. Yes.

2 Q. And do you request that these figures be
3 adjusted with the COPAS accounting procedures?

4 A. Yes.

5 Q. Thank you, Mr. Dirks.

6 And does COG also request that the
7 customary 200-percent risk charge be assessed to all
8 interests that do not consent to the well?

9 A. Yes.

10 Q. Mr. Dirks, have you also brought a geologist
11 today to testify about the formation of the nonstandard
12 proration unit?

13 A. Yes.

14 Q. Did you identify all the surrounding offsetting
15 40-acre tracts for purposes of noticing them of the
16 formation --

17 A. Yes.

18 Q. And, Mr. Dirks, is there an affidavit attached
19 in Exhibit 7 --

20 A. Yes, there is.

21 Q. -- which provides that we have provided such
22 notice to those individuals and to all affected parties?

23 A. Yes, that's correct.

24 Q. And following that is a letter -- a sample
25 letter -- two sample letters, one to the offsetting

1 owners and one to the affected interest owners seeking
2 to be pooled; is that correct?

3 A. That's correct.

4 Q. Along with all the green cards and receipts
5 indicating receipt of the letters?

6 A. That's correct.

7 Q. Mr. Dirks, did you prepare or oversee the
8 preparation of Exhibits 1 through 6?

9 A. Yes.

10 MR. RANKIN: Mr. Examiner, I would like to
11 move into the record Exhibits 1 through 7.

12 EXAMINER EZEANYIM: 1 through 7 will be
13 admitted.

14 (COG Operating Exhibit Numbers 1 through 7
15 were offered and admitted into evidence.)

16 MR. RANKIN: I have nothing further of the
17 witness, and pass the witness.

18 EXAMINER EZEANYIM: Any questions?

19 EXAMINER BROOKS: No questions.

20 EXAMINER GOETZE: I have one question.

21 CROSS-EXAMINATION

22 BY EXAMINER GOETZE:

23 Q. You said the Yeso Formation, so we're looking
24 to the Drakard, the bottom of the Yeso --

25 A. Well, to bottom of the Yeso, correct.

1. EXAMINER EZEANYIM: From the surface?

2 THE WITNESS: From the top of the Yeso to
3 the bottom of the Yeso.

4 EXAMINER EZEANYIM: From just the Yeso.

5 And the pool name is the Penasco Draw-San
6 Andre-Yeso?

7 THE WITNESS: Yes, sir. That's correct.

8 EXAMINER EZEANYIM: This well is to be
9 drilled, right?

10 THE WITNESS: I'm sorry?

11 EXAMINER EZEANYIM: It's to be drilled?

12 THE WITNESS: Yes, sir.

13 EXAMINER EZEANYIM: And do you have the API
14 number for this?

15 THE WITNESS: It's right on the front page
16 of the exhibits.

17 EXAMINER EZEANYIM: Oh, okay. No further
18 questions.

19 MR. RANKIN: Thank you, Mr. Examiner. I'd
20 like to call my next witness, Mr. Greg Clark.

21 GREG CLARK,

22 after having been previously sworn under oath, was
23 questioned and testified as follows:

24

25

1 DIRECT EXAMINATION

2 BY MR. RANKIN:

3 Q. Mr. Clark, can you please state your name for
4 the record, by whom you're employed and in what
5 capacity?

6 A. Greg Clark, employed by Concho Resources as a
7 geologist.

8 Q. Have you previously testified before the
9 Division?

10 A. Yes, I have.

11 Q. And have you had your credentials as an expert
12 in petroleum geology made a matter of record?

13 A. Yes.

14 Q. Are you familiar with the application that was
15 filed?

16 A. Yes.

17 Q. Have you done a study of the geology that is
18 subject to this application?

19 A. Yes.

20 MR. RANKIN: Mr. Examiner, I would tender
21 Mr. Clark as an expert in petroleum geology.

22 EXAMINER EZEANYIM: Mr. Clark is so
23 qualified.

24 Q. (BY MR. RANKIN) Mr. Clark, will you please turn
25 to what's been marked Exhibit Number 8? Please identify

1 for the Examiners briefly what this exhibit depicts.

2 A. Sure. This is a regional map of the Lakewood
3 area and surrounding producing fields, structure map, on
4 top of the Paddock. The general dip direction is from
5 the northwest to the southeast. We're showing the
6 structural relationship between the existing fields with
7 the area in which we want to drill the Arabian 6 Fee
8 #6H. As you will see, we are on structural strike with
9 the Dayton and Dagger Draw.

10 This map shows that there is no major
11 faulting or geologic impediments that would keep us
12 separated from the analogous fields in which we're
13 associating the area in which we want to drill the
14 Arabian 6 Fee #6H. The Paddock producers are
15 highlighted in red, and the Blinebry producers are
16 highlighted in blue. And all the existing horizontals
17 are bold black. And the surface location is a square,
18 and the bottom-hole location would be a circle, and our
19 acreage is highlighted in yellow.

20 Q. Thank you, Mr. Clark.

21 Turn to the next exhibit, Exhibit Number 9.
22 Will you review for the Examiners what this shows?

23 A. Yes. This is a map of the same area with the
24 structure taken off. The main purpose of this map is to
25 show the line of section for the next exhibit, which

1 will be the cross section that I'll be talking about.

2 We have picked wells within these certain field areas
3 that we feel are correlative and representative to the
4 area in which we want to drill the Arabian 6 Fee #6H.

5 Q. Thank you, Mr. Clark.

6 And turning to that cross section, which is
7 marked as Exhibit Number 10, can you review for the
8 Examiners that cross section?

9 A. Yes. This cross section goes from south to
10 north, which is A to A prime. It is flattened on top of
11 the Paddock. The structure has been taken out in order
12 to show the stratigraphic relationship to the analogous
13 field areas, to where we would like to drill our Arabian
14 6 Fee 6H. You will see that the Paddock is colored in
15 yellow, and the Blinebry is colored in green. Overall
16 general thickness and log characters are very similar
17 throughout the area, and we feel we'll have the same
18 similar characteristics where we drill the Arabian 6 Fee
19 #6H.

20 The lateral interval in which we would like
21 to land -- or are going to land the well is represented
22 by the brackets on the second well from the left.

23 Also, there are three wells, the second and
24 third well from the left and the second well from the
25 right, that have been completed and produced in the

1 Paddock Formation.

2 The third well from the right is a COG
3 vertical well that we've drilled, in which we are
4 vertically evaluating the Blinebry. You'll see a perf
5 right below the top of the Blinebry on that well.

6 The well on the left and the well on the
7 right are deep Morrow gas producers that have not been
8 completed back to the Paddock at this point.

9 Q. Now, Mr. Clark, based on your study and
10 analysis of the geology within the standard proration
11 unit in the area, have you drawn any conclusions
12 regarding the ability or the propriety of drilling a
13 horizontal well?

14 A. Yeah, I have. I feel that there are no
15 geologic impediments that would keep us from developing
16 this area with full-section horizontals. I also feel
17 that this area can be efficiently and economically
18 developed by drilling horizontal wells, and I feel that
19 this proration unit will, on average, more or less
20 contribute equally to the entire production of the well.

21 Q. And finally, Mr. Clark, turning to Exhibit
22 Number 11, this is a -- is this representative of the
23 wellbore pathway, and does it indicate that the
24 well will be -- completed interval of the wellbore will
25 be within the required setbacks?

1 A. Yes.

2 Q. So it will not be an unorthodox location; is
3 that correct?

4 A. That's correct.

5 Q. Mr. Clark, based on your analysis and review,
6 is it your belief that approval of the granting of the
7 COG application will protect correlative rights and
8 prevent waste?

9 A. Yes.

10 MR. RANKIN: Mr. Examiner, I have no
11 further questions, and with that, I would like to move
12 the admission of COG Exhibits 8 through 11.

13 EXAMINER EZEANYIM: Exhibits 8 through 11
14 will be admitted.

15 (COG Operating Exhibit Numbers 8 through 11
16 were offered and admitted into evidence.)

17 EXAMINER EZEANYIM: Any questions?

18 EXAMINER BROOKS: No questions.

19 EXAMINER GOETZE: No questions.

20 EXAMINER EZEANYIM: No questions.

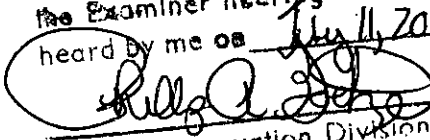
21 MR. RANKIN: With that, Mr. Examiner, I
22 have nothing further in this case.

23 EXAMINER EZEANYIM: Thank you, Mr. Rankin.

24 At this point, Case Number 15023 will be
25 taken under advisement.

(Case Number 15023 concludes, 4:08 p.m.)

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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. 15023,
heard by me on July 11, 2013.
 Examiner
Oil Conservation Division

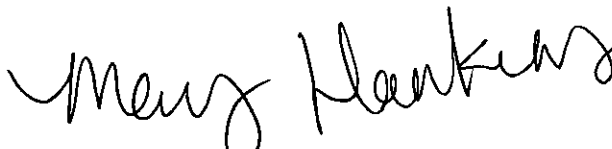
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

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

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

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

19 
20

21 MARY C. HANKINS, CCR, RPR
22 Paul Baca Court Reporters, Inc.
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Date of CCR Expiration: 12/31/2013

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