

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

ORIGINAL

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

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

CASE NO. 15151

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 May 29, 2014

14 Santa Fe, New Mexico

15 BEFORE: PHILLIP GOETZE, CHIEF EXAMINER

16  
17 This matter came on for hearing before the  
18 New Mexico Oil Conservation Division, Phillip Goetze,  
19 Chief Examiner, on Thursday, May 29, 2014, at the New  
20 Mexico Energy, Minerals and Natural Resources  
21 Department, Wendell Chino Building, 1220 South St.  
22 Francis Drive, Porter Hall, Room 102, Santa Fe,  
23 New Mexico.

24 REPORTED BY: Mary C. Hankins, CCR, RPR  
25 New Mexico CCR #20  
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## 1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

3 ADAM G. RANKIN, ESQ.  
4 HOLLAND & HART  
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8 agrankin@hollandhart.com

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20	COG Operating, LLC Exhibit Numbers 1 through 5	7
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1 (2:03 p.m.)

2 EXAMINER GOETZE: That leaves us with one  
3 last case, and that is Case 15151, application of COG  
4 Operating, LLC for a nonstandard spacing and proration  
5 unit and compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. RANKIN: Mr. Examiner, Adam Rankin  
8 appearing on behalf of COG. I have two witnesses for  
9 this hearing.

10 EXAMINER GOETZE: Are these new witnesses?

11 MR. RANKIN: Mr. Examiner, these witnesses  
12 have previously been sworn already. My first witness,  
13 I'd like to call Mr. Joseph Scott.

14 Now, Mr. Examiner, I'd like the record to  
15 reflect in this case that Mr. Scott's been previously  
16 sworn to testify today and that his credentials as an  
17 expert in petroleum land matters have been recognized  
18 and accepted as a matter of record by the Division.

19 EXAMINER GOETZE: So accepted.

20 JOSEPH SCOTT,  
21 after having been previously sworn under oath, was  
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. RANKIN:

25 Q. Mr. Scott, will you please explain to the

1 Examiner what it is COG is seeking with this application  
2 today?

3 A. We seek to create a 160-acre pooling and  
4 proration unit in order to pool the east half-west half  
5 of Section 4, 19 South, 26 East in order to pool all the  
6 mineral owners in the Yeso Formation and to dedicate  
7 these lands for a unit for the Sherman 4 Fee #2H.

8 Q. And is the proposed proration unit depicted in  
9 what's been marked as Exhibit 1 in the packet?

10 A. Yes. The yellow indicates Concho's acreage.  
11 The square box indicates the surface-hole location, and  
12 the circle shows the bottom-hole location. And the red  
13 line shows the south-to-north horizontal orientation  
14 well we propose to drill..

15 Q. In this case, an APD has been filed and an API  
16 number has been assigned to this well?

17 A. Yes, it has. It's located on the front of the  
18 packet.

19 Q. In this case, Section 4, are these all fee  
20 lands?

21 A. Yes, they are.

22 Q. And Exhibit Number 2, is this a lease tract  
23 depicting the ownership of the area to be pooled?

24 A. Yes. You can see in the east half-west half of  
25 the plat, it shows the two tracts. Also the tracts show

1 the ownership in each tract. At the bottom, there is  
2 the ownership tabulation of the working interest unit,  
3 and the party that we seek to pool is OXY-Y1 Company as  
4 an uncommitted owner. We have sent them an AFE, an  
5 operating agreement. They're currently under review of  
6 our proposal but have not yet come to an agreement with  
7 us at this point.

8 Q. Exhibit Number 4, is that a copy -- let me  
9 rephrase that. Behind Exhibit Number 4, is that a copy  
10 of the affidavit from your attorney indicating that  
11 notice was provided to the parties proposed to be  
12 pooled?

13 A. Yes.

14 Q. Does that include the list of the parties being  
15 pooled?

16 A. Yes.

17 Q. As well as a sample letter that was sent to  
18 OXY-Y1?

19 A. Yes.

20 Q. In addition, did COG notice all the offsetting  
21 interest owners surrounding the proposed proration unit?

22 A. Yes.

23 Q. Is that the letter that's included also in  
24 Exhibit Number 4?

25 A. Yes.

1 Q. And as well, are the green cards, certified  
2 mail receipts, included in Exhibit Number 4?

3 A. Yes.

4 Q. You testified that COG, or Concho, had proposed  
5 this well to OXY-Y1?

6 A. Yes.

7 Q. Is a copy of that well proposal behind Exhibit  
8 Number 5?

9 A. Yes.

10 Q. And did you include an AFE with that  
11 well-proposal letter?

12 A. Yes.

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

16 A. Yes.

17 Q. Has COG made an estimate of the overhead costs  
18 estimated while drilling and producing the well?

19 A. Yes. And that is \$5,450 for drilling and \$545  
20 for the producing rate.

21 Q. And are those costs consistent with JOAs and  
22 other agreements in the area?

23 A. Yes.

24 Q. Does COG also request that this exhibit [sic]  
25 be incorporated into this order in order to provide for

1 adjustments periodically in accordance with COPAS  
2 accounting procedures?

3 A. Yes.

4 Q. Do you also request that the maximum 200  
5 percent risk penalty be assessed to the interest owners?

6 A. Yes.

7 Q. Do you also request that COG be appointed the  
8 operator of the well and of the unit?

9 A. Yes.

10 Q. Mr. Scott, were Exhibits 1 through 5 prepared  
11 by you or under your supervision?

12 A. Yes.

13 MR. RANKIN: Mr. Examiner, I would move to  
14 admit Exhibits 1 through 5 into the record.

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

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

20 MR. RANKIN: No further questions.

21 EXAMINER GOETZE: And I have no questions  
22 on this one. It's pretty straightforward. Thank you.

23 THE WITNESS: Thank you.

24 MR. RANKIN: Thank you, Mr. Scott.

25 I'd like to call my next witness, Mr. Greg

1 Clark.

2 EXAMINER GOETZE: You may do so.

3 MR. RANKIN: Mr. Examiner, I'd like to have  
4 the record reflect that Mr. Clark has previously given  
5 sworn testimony today and that he has been already  
6 accepted as an expert in petroleum geology matters.

7 EXAMINER GOETZE: He is so qualified.

8 GREG CLARK,  
9 after having been previously sworn under oath, was  
10 questioned and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. RANKIN:

13 Q. Mr. Clark, have you reviewed the geology and  
14 the land that are subject to this application?

15 A. Yes, I have.

16 Q. Did you prepare a study of the geology?

17 A. I have.

18 Q. Would you please review for the Examiner  
19 Exhibits 6, 7 -- 6, 7, 8 and 9?

20 A. Yes. Starting on Exhibit Number 6, this is a  
21 regional structure map on top of the Paddock. You'll  
22 see that the structural dip is from the northwest to the  
23 southeast. We are on the Delaware Shelf margin in terms  
24 of the Greater Delaware Basin. So the Basin extends to  
25 the southeast, and, again, we are on the Shelf margin.



1                   Concho's acreage is in yellow. In red  
2 represents the Sherman 4 Fee #2H in which we intend to  
3 drill as a full-section horizontal, with the surface  
4 location being to the south and, therefore, drilling it  
5 to the north.

6                   You'll see the producing fields in the  
7 Paddock and Blinebry are represented in the blue boxes.  
8 And also, the wells that are produced in the Paddock are  
9 represented in red, and the wells produced in the  
10 Blinebry are represented in blue.

11                  The purpose of this map is to show that  
12 there are no major geologic structural components that  
13 would keep us from drilling this well as a full-section  
14 horizontal. There is no major faulting, folding or  
15 things of that nature that would keep us -- as an  
16 impediment from drilling this well.

17           Q.    And Exhibit Number 7?

18           A.    Yes. Number 7 is a map of the same area with  
19 the structure map taking off. Its purpose is to show  
20 the line of section, which is going to be the next  
21 exhibit, at A to A prime. So it goes from a south to a  
22 northeasterly direction, and it covers the area in which  
23 we intend to drill the Sherman 4 Fee #2H.

24           Q.    And Exhibit Number 8, is that the cross  
25 section?

1           A.    This is the actual cross section.  Again, it  
2 goes from A to A prime, from the south to the north and  
3 the east.  You'll see that this is a stratigraphic cross  
4 section, where the structural component is being taken  
5 out.  It's been hung on top of the Paddock.  That is the  
6 datum.  The purpose for showing the stratigraphic  
7 section is to show the stratigraphic relationship in the  
8 Paddock between the wells in the area that we feel  
9 represent the area in which we want to drill the well in  
10 question today.

11                   You'll see that the lateral interval is  
12 depicted in red.  That's the interval in which we intend  
13 to land the horizontal well.  The well on the right and  
14 the depth track has a red polygon that represents the  
15 perforated interval within the Paddock and has produced  
16 from the Paddock in the vertical well.

17                   And then the well to the left is the  
18 Stonewall 9 Fee #1H, which was a pilot hole, and then  
19 the Sherman 4 Fee #1, which is a vertical well that COG  
20 has drilled and has currently tested in the Blinebry.  
21 Therefore, it has not been completed in the Paddock.  
22 And obviously, the pilot hole will not be completed in  
23 the pilot hole -- in the Paddock interval in the pilot  
24 hole.

25                   As you'll see, the log characteristics are

1 very similar. We do not see any major changes in terms  
2 of the overall porosity and overall lithologies  
3 according to the log curve in these wells.

4 Q. Mr. Clark, is the target formation continuous  
5 across the entire proration --

6 A. Yes.

7 Q. Based on your analysis of the geology of the  
8 lands subject to this application, have you made any  
9 conclusions --

10 A. Yeah.

11 Q. -- based on the -- I guess let me rephrase  
12 that.

13 Have you come to any conclusions on the  
14 ability of the horizontal well to efficiently and  
15 effectively drain the proposed unit?

16 A. Yes. We feel that there are no geologic  
17 impediments, either stratigraphically or structurally,  
18 that would keep us from developing this area using a  
19 full-section horizontal. Also feel that drilling -- we  
20 can drill this well economically and efficiently,  
21 produce this area using a full-section horizontal, and  
22 that each 40 in the nonstandard unit will contribute, on  
23 average, more or less equally to the total production of  
24 the well.

25 Q. Mr. Clark, will this well comply with the

1 setback requirements in the Division rules?

2 A. Yes, it will.

3 Q. And that's shown in Exhibit Number 9?

4 A. Yes.

5 Q. Mr. Clark, in your opinion, will the granting  
6 of COG's application be in the best interest of  
7 conservation, the prevention of waste and the protection  
8 of correlative rights?

9 A. Yes.

10 MR. RANKIN: Mr. Examiner, I would move  
11 into admission Exhibits 6, 7, 8 and 9.

12 EXAMINER GOETZE: Exhibits 6, 7, 8 and 9  
13 are so entered.

14 (COG Operating, Inc. Exhibit Numbers 6  
15 through 9 were offered and admitted into  
16 evidence.)

17 MR. RANKIN: And I pass the witness.

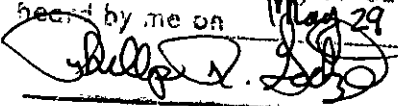
18 EXAMINER GOETZE: Again, your testimony is  
19 thorough. You did use "geologic impediment" four times  
20 in the two testimonies. Mr. Ezeanyim would be very  
21 proud of you. But at this point, your presentation is  
22 thorough, and I have no more questions.

23 THE WITNESS: Thank you.

24 MR. RANKIN: Thank you, Mr. Examiner. That  
25 concludes our presentation in this case.

1 EXAMINER GOETZE: On that basis, we will go  
2 ahead and say Case 15151 is taken under advisement. And  
3 this is the close of this hearing.

4 (Case Number 15151 concludes, 2:14 p.m.)  
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I hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 15151,  
heard by me on May 29, 2014.  
 , 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

*Mary C. Hankins*

21

MARY C. HANKINS, CCR, RPR  
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