

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

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

ORIGINAL

APPLICATION OF COG OPERATING, LLC
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 15185

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 4, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, on Thursday, September 4, 2014, 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
(505) 843-9241

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APPEARANCES

FOR APPLICANT COG OPERATING, LLC:

JORDAN L. KESSLER, ESQ.
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.
500 4th Street, Northwest, Suite 1000
Albuquerque, New Mexico 87102
(505) 848-1888
jlk@modrall.com

FOR INTERESTED PARTY CONOCOPHILLIPS COMPANY:

JAMES G. BRUCE, ESQ.
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

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1 (9:22 a.m.)

2 EXAMINER GOETZE: Then that brings us to
3 Case 15185, application of COG Operating, LLC for a
4 nonstandard spacing and proration unit and compulsory
5 pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Jordan Kessler, Mr. Examiner,
8 on behalf of the Applicant, from Modrall, Sperling in
9 Albuquerque.

10 EXAMINER GOETZE: And, Mr. Bruce, you wish
11 to make an appearance?

12 MR. BRUCE: Yes, sir, Mr. Examiner. Jim
13 Bruce of Santa Fe representing ConocoPhillips Company,
14 and I do not have any witnesses.

15 EXAMINER GOETZE: Very good. Thank you.
16 And you have witnesses?

17 MS. KESSLER: Two witnesses.

18 EXAMINER GOETZE: Would those witnesses
19 please stand, identify yourself to the court reporter
20 and be sworn in?

21 MR. BROUGHTON: Harvin Broughton.

22 MR. SCOTT: Joseph Scott.

23 (Mr. Broughton and Mr. Scott sworn.)

24 EXAMINER GOETZE: Proceed with your
25 witnesses.

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JOSEPH SCOTT,

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

DIRECT EXAMINATION

BY MS. KESSLER:

Q. Would you please state your name for the record and tell the Examiner by whom you are employed and in what capacity?

A. Joseph Scott, Concho Resources, landman.

Q. Have you previously testified before the Division?

A. Yes.

Q. And at that time, were your credentials as a petroleum landman accepted and made a matter of record?

A. Yes.

Q. Are you familiar with the application that has been filed by COG in this case?

A. Yes.

Q. Are you familiar with the status of the lands that are the subject of the application?

A. Yes.

Q. And has the APD been submitted?

A. Yes.

MR. FELDEWERT: Mr. Examiner, I would tender this witness as an expert in petroleum land

1 matters.

2 EXAMINER GOETZE: Any comments, Mr. Bruce?

3 MR. BRUCE: Absolutely none.

4 EXAMINER GOETZE: Very good. Then he's so
5 qualified.

6 Q. (BY MS. KESSLER) Would you please turn to
7 what's been marked as COG Exhibit Number 1?

8 A. Yes.

9 Q. Can you please identify it and explain what COG
10 seeks under this application?

11 A. This is a C-102 comprising of lands we seek to
12 pool in the west half-west half of 17 South, 32 East,
13 Lea County, New Mexico. We wish to form a nonstandard
14 spacing and proration unit in the Yeso Formation,
15 compulsory pooling the noncommitted working interest
16 owners and dedicating the Ivar The Boneless Fed #1 as a
17 nonstandard location.

18 Q. And you seek to pool the interests underlying
19 the nonstandard spacing unit in the Yeso Formation?

20 A. Yes.

21 Q. Are the working interests committed, or are you
22 seek to pool them?

23 A. We seek to pool them.

24 Q. What is the character of the lands?

25 A. Excuse me?

1 Q. Is all of the project area state land?

2 A. Oh. It's federal lands.

3 Q. What pool is involved in this application?

4 A. This is the Maljamar West pool, Pool Code
5 445500.

6 Q. And are there special rules for this pool?

7 A. No.

8 Q. So the 330-foot statewide setbacks would apply?

9 A. Yes.

10 Q. And will the completed interval for the well be
11 in compliance with the statewide setbacks?

12 A. Yes.

13 Q. Have you been able to identify the interest
14 owners in this proposed nonstandard spacing unit?

15 A. Yes.

16 Q. Would you now please turn to what's been marked
17 as COG Number 2? Does this exhibit identify the working
18 interest owners?

19 A. Yes.

20 Q. And are the highlighted parties those whom you
21 seek to pool?

22 A. Yes.

23 Q. Have you proposed the well to the interest
24 owners shown here?

25 A. Yes.

1 Q. And is Exhibit 3 a copy of the initial
2 well-proposal letter that was sent out on June 4th to
3 the interest owners?

4 A. Yes.

5 Q. And did you subsequently become aware of
6 additional parties that were determined to own
7 interests?

8 A. Yes, we did.

9 Q. Are these shown in -- are these additional
10 interest owners shown in Exhibit Number 4?

11 A. Yes.

12 Q. To what parties and on what dates did you
13 sequentially propose the well?

14 A. It was identified in the records that the
15 Estate of Josephine T. Hudson, Ard Energy Group, Ltd.
16 and Edward R. Hudson and his wife Ann Hudson -- we also
17 improperly -- we sent a well proposal to Ard Energy to
18 an incorrect address, which we corrected, and it was
19 also identified through our title that some lands were
20 missed in which -- or some owners were missed, which is
21 Lynx Energy, so we then sent a proposal on August 27th.

22 Q. Based on this new information, do you ask the
23 Hearing Examiner to continue this hearing in order to
24 get the newly discovered interest owners an opportunity
25 to participate?

1 A. Yes.

2 Q. So are you asking this hearing be continued to
3 October 16th?

4 A. Yes.

5 Q. Is Exhibit 5 the AFE cost proposal for the
6 well?

7 A. Yes.

8 Q. On what date was the AFE sent out?

9 A. The AFE was sent on the date of the proposal
10 letters from the previous exhibit.

11 Q. And does the AFE show the dry hole and
12 completion costs?

13 A. Yes. The dry hole costs are 1,070,000 [sic],
14 and the completion costs are 3,826,000.

15 Q. Turning back to Exhibit Number 2, could you
16 tell the Examiner what efforts, in addition to sending
17 Exhibits 3 through 5, COG has undertaken to obtain
18 voluntary joinder from the remaining interest owners?

19 A. We sent well proposals to all the parties.
20 ConocoPhillips has signed an AFE. They have yet to sign
21 an Joint Operating Agreement, which they have in their
22 hands. At such time as they execute the JOA, we will
23 request the NMOCD to remove them from the compulsory
24 pooling.

25 Lynx Energy, we recently identified. They

1 have a well proposal. They're just reviewing the
2 proposal at this time.

3 Lindy's Living Trust, they originally sent
4 a letter stating that they do not want to participate.
5 They do not want a term assigned. They do not want --
6 they just want to go nonconsent. Since then, I received
7 a phone call from Edward Hudson, who is also identified
8 here, and he has said that they would like to term
9 assign. He speaks for Lindy's Living Trust. As to the
10 companies he speaks for, there is a Zorro Partners,
11 Estate of Josephine T. Hudson and Edward Hudson and Ann
12 Hudson, his wife. They have a term assignment from us.
13 We're just going through the negotiation process right
14 now, and upon receiving a signed -- agreed and a signed
15 term assignment, we will request removing them from this
16 pooling proceeding as well.

17 Ard Oil, which is up from Zorro, and Ard
18 Energy, they have -- we cannot agree to terms with them,
19 and at this time they have not given us any information
20 as to whether or not they're going to participate. We
21 gave them similar terms as we did to the other parties
22 we've already taken term assignments from. And that
23 concludes the efforts taken to -- to get the uncommitted
24 owners to either term assign or participate with us.

25 Q. If you could turn back to the AFE, which is

1 included as Exhibit 5, are the costs reflected on the
2 AFE in line with costs that COG has incurred in drilling
3 similar horizontal wells in the area?

4 A. Yes.

5 Q. In addition to the AFE, has COG estimated the
6 overhead costs and the costs while drilling this well
7 and while producing it, should you be successful?

8 A. Yes. We have estimated the drilling and
9 producing costs. That's back on Exhibit 4, I believe.
10 The outline here: 6,000 for drilling costs and 600 a
11 month for producing rate.

12 Q. Do you ask that these administrative overhead
13 costs for the well be incorporated into any order
14 resulting from this hearing?

15 A. Yes.

16 Q. Do you ask as well that it be adjusted in
17 accordance with the appropriate accounting procedures?

18 A. Yes.

19 Q. And with respect to the interest owners who
20 remain uncommitted to this well, do you request that the
21 Division impose a 200 percent risk penalty?

22 A. Yes.

23 Q. Let's talk about formation of the nonstandard
24 unit. Has COG brought a geologist here to testify?

25 A. Yes.

1 Q. And did COG identify the operators or ownership
2 of the leased mineral interests in the 40-acre tract
3 surrounding the proposed nonstandard unit?

4 A. Yes.

5 Q. Is the list of offset owners shown on COG
6 Exhibit Number 6?

7 A. Yes.

8 Q. Now, let's turn to COG Exhibit Number 7. Is
9 this an affidavit with attached copies of the letters
10 and supplemental notice letters to both the pooled
11 parties and offset interests that gave them notice of
12 this hearing?

13 A. Yes.

14 Q. And will additional notice be provided to the
15 interest owners that were recently identified?

16 A. Yes.

17 Q. Were you able to locate all of the working
18 interest owners?

19 A. Yes, we were.

20 Q. And did you publish notice anyway?

21 A. Yes. We published notice. At first when we
22 sent out proposals, we were not able to locate them, and
23 since then we have. And that's why notice was
24 published.

25 Q. Is the Affidavit of Publication for this notice

1 included as part of Exhibit Number 7?

2 A. Yes.

3 Q. In your opinion, have you made a good-faith
4 effort to identify the interest owners?

5 A. Yes.

6 Q. Were Exhibits 1 through 6 prepared by you or
7 under your direction or supervision?

8 A. Yes.

9 MS. KESSLER: Mr. Examiner, at this point I
10 would move to have Exhibits 1 through 7 admitted into
11 evidence, including Exhibit Number 7, which I prepared.

12 EXAMINER GOETZE: Very good.

13 Any objections?

14 MR. BRUCE: No objections.

15 EXAMINER GOETZE: Exhibits 1 through 7 are
16 so entered.

17 (COG Operating, LLC Exhibit Numbers 1
18 through 7 were offered and admitted into
19 evidence.)

20 EXAMINER GOETZE: Do you have any
21 questions, Mr. Bruce?

22 MR. BRUCE: Just a couple, Mr. Examiner.

23 CROSS-EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Scott, has a complete JOA been sent to

1 ConocoPhillips?

2 A. Yes, lacking a title opinion, which it may be
3 revised upon receiving title opinion, and Exhibit A.

4 Q. And when was the JOA -- the completed JOA sent?

5 A. It was sent last week.

6 Q. And will COG work in good faith with
7 ConocoPhillips in order to reach a mutually agreeable
8 JOA?

9 A. Yes, we will.

10 Q. Thank you.

11 MR. BRUCE: That's all I have,
12 Mr. Examiner.

13 EXAMINER GOETZE: Thank you very much
14 Mr. Bruce.

15 CROSS-EXAMINATION

16 BY EXAMINER GOETZE:

17 Q. Referring back to your Exhibit 1, the C-102, so
18 we're looking at a surface location in Section 10, and
19 your completed interval will fall within standard
20 setbacks in Section 15; is this correct?

21 A. Yes.

22 Q. So both the first interval -- or first and the
23 terminus will be standard?

24 A. Yes.

25 Q. Okay. At that point I do not have any

1 questions for you.

2 EXAMINER GOETZE: Your next witness,
3 please.

4 HARVIN BROUGHTON,

5 after having been previously sworn under oath, was
6 questioned and testified as follows:

7 DIRECT EXAMINATION

8 BY MS. KESSLER:

9 Q. Would you please state your name for the record
10 and tell the Examiner by whom you're employed and in
11 what capacity?

12 A. Harvin Broughton. I'm employed by Concho
13 Resources in Midland, Texas, and I am the lead geologist
14 for the New Mexico Shelf Team.

15 Q. Have you previously testified before the
16 Division?

17 A. I have.

18 Q: And were your credentials as a petroleum
19 geologist accepted and made a matter of record?

20 A. They were.

21 Q. Are you familiar with the application that has
22 been filed by COG in this case?

23 A. Yes, I am.

24 Q. And have you conducted a geologic study of
25 Section 15?

1 A. Yes, I have.

2 MS. KESSLER: Mr. Examiner, I would tender
3 the witness as an expert in petroleum geology matters.

4 EXAMINER GOETZE: Mr. Bruce?

5 MR. BRUCE: No objection.

6 EXAMINER GOETZE: The witness is so
7 qualified.

8 Q. (BY MS. KESSLER) Would you please turn to
9 what's been marked as COG Exhibit Number 8 and identify
10 this exhibit and walk us through it?

11 A. Okay. This is a map showing the greater 17-32
12 township area, Section 15 falling around, roughly, in
13 the middle of this page. This is a structural map with
14 a 50-foot contour interval in subsea depth indicating a
15 gentle eastward dipping formation. This is on the top
16 of the Paddock Formation, the structure map. Along the
17 southern edge of the map there, you'll notice a
18 tightening of the formation -- of the contour lines.
19 That's indicative of the shelf edge and the steepening
20 as it falls off into the basin. The yellow acreage on
21 here is Concho Resources acreage. So that's what that
22 is depicting.

23 Q. And could you turn to Exhibit Number 9 and
24 identify this exhibit and walk us through it?

25 A. Okay. This is a reference map for Section 15.

1 The dots on there in Sections 16, 21 and 22 are Yeso
2 wells. The half blue, half red dots are Yeso wells.
3 There are a few red dots there that are Paddock-only
4 wells, which is Upper Yeso.

5 And what you're going to see next is a
6 cross section with A to A prime running along the
7 southern edge of Section 15.

8 Q. And is that depicted by the pink line?

9 A. That is depicted by the pink line. Yes, it is.

10 Q. Turning to Exhibit Number 10, would you please
11 identify the wells located on this exhibit?

12 A. Okay. These are -- from the previous exhibit,
13 these are four wells that I chose as representative of
14 the Yeso Formation along the southern edge of Section
15 15, and this is a stratigraphic cross section flattened
16 on top of the Paddock. And I did it in this fashion to
17 demonstrate the relative and uniform thickness of the
18 Paddock-Blinebry Formation which comprises the
19 productive Yeso interval in this area.

20 Q. Do you consider these wells to be
21 representative of wells in the area?

22 A. Yes, I do. These are very close to Section 15.
23 These are right along that edge. So I picked wells that
24 were very close and I thought would be very
25 representative of the geologic situation in that area.

1 Q. And do these representations show continuity in
2 the target intervals?

3 A. Yes, they do.

4 Q. Can you identify any geological impediments?

5 A. There are no apparent geologic impediments to
6 drilling and production in this particular interval.

7 Q. And could you please describe the color
8 representations?

9 A. The color bands on there, the green is the
10 Paddock interval, and then below that -- and you can't
11 see it very well -- it's shaded in red. That is the
12 Blinebry interval. But the two combined -- you'll
13 notice the -- over on the right, we have the formation
14 tops identified. So from the Paddock to the tub is the
15 what we consider the productive Yeso interval, which is
16 comprised of the Paddock and the Blinebry.

17 Q. What conclusions have you drawn from your
18 geologic study of this area?

19 A. That it's relatively uniformly thick. The
20 Paddock Formation, which is the target formation,
21 through the Ivar The Boneless #1H, would be through that
22 green-shaded interval that's on the map. And there are
23 no geologic impediments to drilling across that
24 particular interval.

25 Q. Do you believe that horizontal drilling would

1 be the most efficient method?

2 A. Yes, I do.

3 Q. And do you think that each quarter-quarter
4 section will produce equally?

5 A. I do believe that, yes.

6 Q. Turn to Exhibit 11 and identify this exhibit
7 and tell us what it shows.

8 A. This is essentially the same map but with an
9 aerial photo rather than the -- than the land colored --
10 colored acreage position. So it shows the position --
11 the surface and bottom-hole position of Ivar The
12 Boneless #1H. And then I've got some red-dashed lines
13 on there to show the first and last take point, and I've
14 got that noted. From the bottom-hole location will be
15 330, and from the last frack stage or last take point,
16 at the north end of Section 15, we will be 330 from that
17 particular line, also.

18 Q. So the completed interval is within the setback
19 required by the Division?

20 A. It is, yes.

21 Q. And in your opinion, would the granting of
22 COG's application be in the best interest of
23 conservation and the prevention of waste and for the
24 protection of correlative rights?

25 A. Yes, it would.

1 MS. KESSLER: Mr. Examiner, I would move at
2 this time to have Exhibits 8 through 11 admitted into
3 evidence.

4 EXAMINER GOETZE: Mr. Bruce?

5 MR. BRUCE: No objection.

6 EXAMINER GOETZE: Exhibits 8 through 11 are
7 so entered.

8 (COG Operating, LLC Exhibit Numbers 8
9 through 11 were offered and admitted into
10 evidence.)

11 EXAMINER GOETZE: Mr. Bruce?

12 MR. BRUCE: Just a couple of questions,
13 Mr. Examiner.

14 CROSS-EXAMINATION

15 BY MR. BRUCE:

16 Q. Mr. Broughton, the placement of the proposed
17 well is on the west side of the well unit.

18 A. Yes, sir.

19 Q. In the future, might COG contemplate drilling
20 an additional well or wells to the Yeso in this well
21 unit?

22 A. There is a possibility of that, yes, sir.

23 Q. Now, this is testing the Paddock, right?

24 A. This is the Paddock. This is going to be a
25 Paddock completion, yes, sir.

1 Q. And that is generally considered the preferable
2 zone to complete a well in, isn't it?

3 A. Not necessarily. There are good Blinebry
4 wells -- horizontal Blinebry wells in the area, also.
5 We're going to start with the Paddock, but there is also
6 a possibility of completing in the Blinebry.

7 Q. And then one final question. If I recall my
8 past questioning of COG --

9 A. Uh-huh.

10 Q. -- geologists, when it comes to horizontal
11 wells, there is no preferred well unit orientation; is
12 that correct?

13 A. In this particular area, in the general
14 vicinity, we have what we consider successful east-west
15 wells, as well as north-south wells, so the data
16 currently suggests that there is not a preferential
17 direction.

18 Q. Thank you.

19 MR. BRUCE: That's all I have,

20 Mr. Examiner

21 CROSS-EXAMINATION

22 BY EXAMINER GOETZE:

23 Q. And, again, Mr. Bruce takes all my questions,
24 so --

25 A. Dang it.

1 Q. Other than that, who names these wells?

2 A. One of the landmen and I name this particular
3 well. Ivar The Boneless was a Viking leader back in
4 the -- a long time ago.

5 Q. Well, you don't have to defend it. I just
6 wanted to know where it came from.

7 A. Right.

8 Q. Based upon the information I have here, I have
9 no further questions for you. Thank you.

10 MS. KESSLER: Mr. Examiner, that concludes
11 COG's presentation. I would ask that this case be
12 continued October 16th for notice purposes.

13 EXAMINER GOETZE: Based on testimony here
14 today and the request of counsel, we will take Case
15 15185 and continue it to October -- what did you say,
16 again?

17 MS. KESSLER: 16th.

18 EXAMINER GOETZE: 16th.

19 And with that, there are no further cases
20 on the docket, and that ends today's hearing. Thank
21 you, ladies and gentlemen.

22 (Case Number 15185 concludes, 9:43 a.m.)

23

24

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15185
heard by me on Sept 4 2014
[Signature] Examiner

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

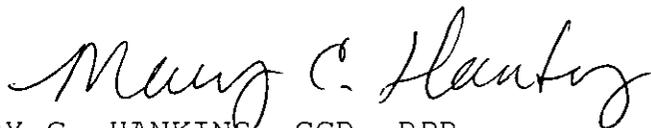
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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, 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 that were reduced to printed form by me to the best of my ability.

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

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 in the final disposition of this case.



MARY C. HANKINS, CCR, RPR
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