

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:

ORIGINAL

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

CASE NO. 15276

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 19, 2015

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, March 19, 2015, 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

1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

3 JORDAN L. KESSLER, ESQ.
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 6
 7

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1 (10:00 a.m.)

2 EXAMINER GOETZE: That will bring us to
3 Case 15276, application of COG Operating, LLC for a
4 nonstandard spacing and proration unit and compulsory
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler
8 with Hollard & Hart for the Applicant.

9 EXAMINER GOETZE: Do you have any
10 witnesses?

11 MS. KESSLER: Two witnesses today.

12 EXAMINER GOETZE: No other appearances?

13 Let the witnesses stand, identify
14 yourselves to the reporter and be sworn in.

15 MR. YOUNG: Aaron Young.

16 MR. BURKE: Steven Burke, COG.

17 (Mr. Young and Mr. Burke sworn.)

18 MS. KESSLER: Mr. Examiner, I'd like to
19 call my first witness.

20 EXAMINER GOETZE: Proceed.

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

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DIRECT EXAMINATION

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BY MS. KESSLER:

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

A. My name is Aaron Young. I'm employed by COG Operating, LLC as a landman.

Q. Have you previously testified before the Division?

A. No, I have not.

Q. Can you please outline your educational background for the Examiners?

A. I have a BBA in energy management from the University of Oklahoma. I graduated December 2011.

Q. And could you outline your work experience since graduating?

A. I began working for COG Operating in January of 2012, focusing on the Permian Basin.

Q. What are your responsibilities at COG?

A. I handle southeast New Mexico, Eddy and Lea Counties.

Q. Has your experience been primarily in the Permian Basin?

A. Yes, it has.

Q. Are you a member of any professional

1 associations?

2 A. Yes, I am, the AAPL and the PLA.

3 Q. Are you familiar with the application that's
4 been filed in this case?

5 A. Yes.

6 Q. And are you familiar with the status of the
7 lands in the subject area?

8 A. Yes, I am.

9 Q. Has an APD been approved for this well?

10 A. Yes, it has.

11 MS. KESSLER: Mr. Examiner, I would tender
12 Mr. Young as an expert in petroleum land matters.

13 EXAMINER GOETZE: He is so qualified.

14 Q. (BY MS. KESSLER) Let's begin by discussing the
15 application filed by COG. If you could turn to what's
16 been marked as COG Exhibit Number 1 and identify what
17 COG seeks under this application.

18 A. COG seeks to create a 160-acre nonstandard
19 spacing unit comprising of the east half-east half of
20 Section 16, Township 18 South, Range 30 East of Eddy
21 County.

22 Q. And do you seek to pool all of the mineral
23 interests in the Bone Spring Formation?

24 A. Yes.

25 Q. What is the API number for this well?

1 A. The API number is 3001542439.

2 Q. And what pool is involved in this application?

3 A. This is the Loco Hills-Bone Spring East pool.

4 Q. Do you have the pool code for that?

5 A. I do. It is 39513.

6 Q. Has the surface hole changed since this
7 application was submitted to the Division?

8 A. Yes, it has. After ongoing negotiations with
9 operating rights owners and then offset owners, we have
10 moved the location on lease to as reflected in the
11 current plat.

12 Q. I understand it was originally located off
13 lease?

14 A. That is correct.

15 Q. So will it be necessary for COG to re-advertise
16 the new surface-hole location in the Division docket?

17 A. Yes, it is.

18 Q. What is the character of the lands involved?

19 A. It is state acreage.

20 Q. Do special pool rules apply?

21 A. No. Statewide rules apply, 330-foot setback.

22 Q. When do you plan to spud the well?

23 A. June of this year.

24 Q. If you could turn to COG Exhibit Number 2,
25 which I believe is the ownership outline, and identify

1 the ownership by tract.

2 A. Yes. Tract 1 consists of 80 acres. The
3 working interest owners are COG Operating, LLC with
4 roughly 66.79 percent, Concho Resources, LLC with
5 roughly 3.51 percent, Read & Stevens, Incorporated with
6 roughly 4.68 percent, and EOG Resources, Incorporated
7 with .5 percent.

8 Tract 2 also consists of 80 acres, with EOG
9 Resources having 100 percent working interest.

10 Q. And what interest do you seek to pool?

11 A. EOG Resources.

12 Q. And they're highlighted in bold on this
13 exhibit?

14 A. That is correct.

15 Q. Is EOG a working interest owner?

16 A. Yes, they are.

17 Q. Is Exhibit 3 a well-proposal letter you sent to
18 EOG?

19 A. Yes, it is.

20 Q. What date was this letter sent?

21 A. The letter sent September 9th, 2014.

22 Q. And is Exhibit 4 a copy of the AFE?

23 A. Yes, it is.

24 Q. Are the costs reflected on this AFE consistent
25 with what COG has incurred for drilling similar wells in

1 this area?

2 A. Yes, it is.

3 Q. And does your well-proposal letter identify the
4 requested overhead and administrative costs while
5 drilling this well and producing it should you be
6 successful?

7 A. Yes, it does.

8 Q. What are those rates?

9 A. It is 7,000 a month, 700 a month while
10 producing.

11 Q. Are these costs in line with what COG and other
12 operators in this area charge for similar wells?

13 A. Yes, it is.

14 Q. Do you ask that these administrative costs be
15 incorporated into any order resulting from this hearing?

16 A. Yes, I do.

17 Q. And do you ask as well that be adjusted in
18 accordance with the appropriate accounting procedures?

19 A. Yes.

20 Q. With respect to the uncommitted interest owner,
21 EOG, do you request that the Division impose a 200
22 percent risk penalty?

23 A. Yes.

24 Q. Did COG identify the offset operators or
25 lessees in the 40-acre tract surrounding the proposed

1 nonstandard unit?

2 A. Yes, we did.

3 Q. And is a plat, along with a list of those
4 operators or lessees contained in Exhibit 5?

5 A. Yes, it is.

6 Q. And is Exhibit 6 an affidavit prepared by my
7 office with attached letters providing notice of this
8 hearing to both the party to be pooled and the offset
9 operators or lessees?

10 A. Yes, it is.

11 Q. Was it necessary to publish notice, or were you
12 able to locate the interest owner whom you seek to pool?

13 A. No. We were able to locate the interest owner.

14 Q. Were Exhibits 1 through 5 prepared by you or
15 compiled under your direction or supervision?

16 A. Yes, they were.

17 MS. KESSLER: Mr. Examiner, I'd move into
18 admission Exhibits 1 through 6, which includes my
19 affidavit.

20 EXAMINER GOETZE: And your Number 6 is the
21 affidavit to the offsets and return receipts?

22 MS. KESSLER: The affidavit to offsets and
23 to -- and the letter to the pooled party.

24 EXAMINER GOETZE: Very good. Exhibits 1
25 through 6 are so entered.

1 (COG Operating, LLC Exhibit Numbers 1
2 through 6 were offered and admitted into
3 evidence.)

4 EXAMINER GOETZE: Do you have any
5 questions?

6 EXAMINER WADE: I do not.

7 EXAMINER GOETZE: I don't have any
8 questions for this witness.

9 Continue on with your next witness.

10 Thank you.

11 STEVEN BURKE,

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

14 DIRECT EXAMINATION

15 BY MS. KESSLER:

16 Q. Can you please state your name for the record
17 and tell the Examiners by whom you are employed and in
18 what capacity?

19 A. My name is Steven Burke. I'm employed by COG
20 Operating, and I'm a petroleum geologist that works the
21 area we're going to be talking about today.

22 Q. Have you previously testified before the
23 Division?

24 A. Yes, I have.

25 Q. And were your credentials as a petroleum

1 geologist accepted and made a matter of record?

2 A. Yes, they were.

3 Q. Are you familiar with the application filed in
4 this case?

5 A. Yes, I am.

6 Q. And have you conducted a geologic study of the
7 lands that are the subject of this application?

8 A. I have.

9 MS. KESSLER: Mr. Examiner, I tender
10 Mr. Burke as an expert in petroleum geology.

11 EXAMINER GOETZE: He's so qualified.

12 Q. (BY MS. KESSLER) Mr. Burke, could you turn to
13 Exhibit 7, please, and identify what this exhibit is?

14 A. This is a structure map that I've prepared at
15 the top of the Bone Spring Formation, and it shows that
16 the Bone Spring Formation is dipping to the southeast.
17 Some of the features I'd like to point out to you are
18 the cross section on the purplish color, going A to A
19 prime, west to east, which will be my next exhibit.

20 The red horizontal wellbore labeled "Cookie
21 Tosser State Com #1H," which is the well for this unit
22 that we're proposing, and the color-coded thicker
23 wellbores, which are wells that have been completed in
24 the Bone Spring Formation, the horizontals -- longer
25 wellbores, and the variation and the coloring is an

1 internal categorization of which zone it came from. So
2 like the orange wells will be 2nd Bone Spring sand. The
3 browner ones back up to the northeast there, those are
4 1st Bone Spring sand.

5 Q. What have you identified with respect to the
6 structure of the Bone Spring?

7 A. Well, what I see in this area, there are no
8 geological impediments in the area. There seem to be no
9 faults, no truncations [sic] or rapidly thinning of the
10 formation in any way. It's pretty much uniform across
11 the area.

12 Q. And with respect to the line A to A prime, I
13 understand that this depicts wells that are on the next
14 exhibit. Do you consider these wells representative of
15 wells in the area?

16 A. Yes, I do.

17 Q. Turn to Exhibit 8, please, and identify this
18 exhibit for us.

19 A. Yes. This is a west-east cross section using
20 standard logs that are run in the vertical wells
21 primarily in this area. It's a combination of a density
22 neutron with a dual lateral and a mud log, if I have it.
23 It's not at the top of the Bone Spring Formation. It's
24 actually down in the target zone. We'll be targeting
25 this well, which is a 2nd Bone Spring, at a measured

1 depth of about 8,200 feet to 8,000 feet. And what I'm
2 really trying to demonstrate here is that you pretty
3 much have a consistent thickness of sand about 400 feet
4 across the area.

5 If you'll look at the mud logs, you'll
6 see you have -- the dark part close to the depth track
7 is the oil shows in the area. Marked on the actual
8 wellbore there, the second-from-the-left well, that's --
9 that's -- it says "horizontal target." That's actually
10 where we'll go laterally.

11 Bone Spring in this area is -- the vertical
12 completions have typically been subeconomic. It's kind
13 of a bailout zone. However, we found in this particular
14 area we could drill horizontal wells and drill economic
15 wells and capture reserves and prevent waste via the
16 horizontal wells.

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

19 A. You know, I feel like it's a pretty uniform
20 reservoir, has enough homogeneity that I think, when we
21 complete it, when we frack it, will produce uniformly up
22 and down the wellbore equally, and it should make a
23 pretty good well that otherwise probably would never be
24 drilled and capture resources.

25 Q. Have you identified any geologic impediment

1 within this nonstandard spacing area?

2 A. I have not seen any.

3 Q. And you believe that a horizontal well would be
4 an efficient and economical way to develop this acreage?

5 A. Absolutely.

6 Q. Okay. And you also believe that each tract
7 will more or less contribute to the production of the
8 well?

9 A. Yes, I do.

10 Q. Will the completed interval be beyond the 330
11 feet from the lease line?

12 A. Right. There will be no perforations closer
13 than 330 feet.

14 Q. And is this reflected on Exhibit 9?

15 A. Yes. That is reflected there.

16 Essentially, we just stopped the well 330
17 feet short, shore [sic] up the toe of it, make sure it's
18 not, you know, too close, and then we calculate where we
19 do the first perforation in the heel.

20 Q. In your opinion, will the granting of COG's
21 application be in the best interest of conservation, the
22 prevention of waste and the protection of correlative
23 rights?

24 A. I do [sic].

25 Q. And did you prepare Exhibits 7 through 9?

1 A. Yes.

2 MS. KESSLER: Mr. Examiner, I'd move
3 admission of Exhibits 7 through 9.

4 EXAMINER GOETZE: Exhibits 7 through 9 are
5 so entered.

6 (COG Operating, LLC Exhibit Numbers 7
7 through 9 were offered and admitted into
8 evidence.)

9 MS. KESSLER: That concludes my
10 examination.

11 EXAMINER GOETZE: Counsel?

12 EXAMINER WADE: No questions.

13 CROSS-EXAMINATION

14 BY EXAMINER GOETZE:

15 Q. Sir, let's go to Exhibit 7. This well, the
16 Cookie Tosser State Com #1H, adjacent to it in the west
17 half of the east half, is that also a COG producer?

18 A. It will be.

19 Q. It will be.

20 So that is a proposed well --

21 A. Yes.

22 Q. -- from the same surface location?

23 A. Yes, sir.

24 Q. And then who's been drilling on the west half
25 of Section 16?

1 A. I believe that to be Mewbourne Oil.

2 Q. And then with regards to -- it's been a
3 haphazard, Section 9. Anyone's doing anything -- all
4 sorts of things in directions, so we won't go there.

5 15, do you have any interest in that, as
6 far as COG goes, or do you know who does the horizontal?

7 A. I know the horizontal is a Mewbourne well.
8 It's actually been a quite good well. It's made 26,000
9 barrels the first year and came on with 800 barrels a
10 day. I don't know what the other interests are in the
11 area?

12 Q. So it's not a COG interest, though?

13 A. No.

14 Q. And final question: Do you feel that all four
15 40-acre parcels will collectively -- will each
16 contribute to the overall in an equal amount?

17 A. Yes, I do. I feel certain of that.

18 EXAMINER GOETZE: I have no further
19 questions for this witness.

20 MS. KESSLER: Thank you, Mr. Examiner. I'd
21 ask this be continued to the next docket so we can
22 advertise in the Division docket.

23 EXAMINER GOETZE: You think you can make it
24 by that date?

25 MS. KESSLER: You know, that just passed,

1 so it would be a month from now, which would be the --

2 EXAMINER GOETZE: 16th.

3 MS. KESSLER: -- 16th.

4 EXAMINER GOETZE: Let's go ahead and put
5 you on for the April 16th docket.

6 MS. KESSLER: Thank you, Mr. Examiner.

7 EXAMINER GOETZE: Case 15276 is continued
8 to the April 16th docket.

9 Thank you.

10 (Case Number 15276 concludes, 10:17 a.m.)

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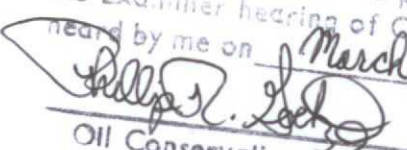
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15276
heard by me on March 19, 2015

Philip R. Lech, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

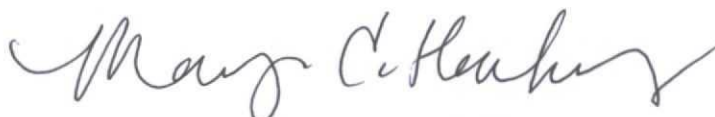
5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced 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
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2015

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