

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 IN THE MATTER OF THE HEARING CALLED
5 BY THE OIL CONSERVATION DIVISION FOR
6 THE PURPOSE OF CONSIDERING:

ORIGINAL
CASE 15332
(cont'd)

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

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS

11 EXAMINER HEARING

12 JULY 9, 2015

13 Santa Fe, New Mexico

14 BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
15 GABRIEL WADE, LEGAL EXAMINER

16 This matter came on for hearing before the
17 New Mexico Oil Conservation Division, William V. Jones,
18 Chief Examiner, and Gabriel Wade, Legal Examiner, on
19 July 9, 2015, at the New Mexico Energy, Minerals, and
20 Natural Resources Department, Wendell Chino Building,
21 1220 South St. Francis Drive, Porter Hall, Room 102,
22 Santa Fe, New Mexico.

23 REPORTED BY: ELLEN H. ALLANIC
24 NEW MEXICO CCR 100
25 CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

APPEARANCES

For the Applicant

JORDAN LEE KESSLER, ESQ.
Holland & Hart
110 North Guadalupe
Suite 1
Santa Fe, New Mexico 87501
(505)983-6043
jlkessler@hollandhart.com

INDEX

CASE NUMBER 15332 CALLED

COG OPERATING, LLC, CASE-IN-CHIEF:

WITNESS AARON YOUNG

	Direct	Redirect	Further
By Ms. Kessler	4		
	EXAMINATION		
Examiner Jones	10		
Examiner Wade	12		

WITNESS MIKE BURKE

	Direct	Redirect	Further
By Mr. Kessler	12		
	EXAMINATION		
Examiner Jones	14		

Reporter's Certificate

PAGE
24

1	E X H I B I T I N D E X	
2	Exhibits Offered and Admitted	
3		
4		PAGE
5	COG OPERATING LLC EXHIBIT 1	10
6	COG OPERATING LLC EXHIBIT 2	10
7	COG OPERATING LLC EXHIBIT 3	10
8	COG OPERATING LLC EXHIBIT 4	10
9	COG OPERATING LLC EXHIBIT 5	10
10	COG OPERATING LLC EXHIBIT 6	18
11	COG OPERATING LLC EXHIBIT 7	18
12	COG OPERATING LLC EXHIBIT 8	18
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 (Time noted 8:55 a.m.)

2 EXAMINER JONES: Let's call 15332,
3 Application of COG Operating LLC for a non-standard
4 spacing and proration unit and compulsory pooling, Eddy
5 County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Lee
8 Kessler from Holland and Hart for the applicant.

9 EXAMINER JONES: Any other appearances.

10 (No response.)

11 MS. KESSLER: I have two witnesses.

12 EXAMINER JONES: Will the witnesses please
13 stand and the court reporter please swear the witnesses.

14 (WHEREUPON, the presenting witnesses
15 were administered the oath.)

16 MS. KESSLER: Mr. Examiner, I would like to
17 call my first witness.

18 EXAMINER JONES: Please do.

19 AARON YOUNG
20 having been first duly sworn, was examined and testified
21 as follows:

22 DIRECT EXAMINATION

23 BY MS. KESSLER:

24 Q. Please state your name for the record and tell
25 the examiner by whom you're employed and in what

1 capacity.

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

4 Q. Have you previously testified before the
5 Division?

6 A. Yes, I have.

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

9 A. Yes.

10 Q. Are you familiar with the application that has
11 been filed in there case?

12 A. Yes, I am.

13 Q. And are you familiar with the status of the lands
14 in the subject area?

15 A. Yes.

16 MS. KESSLER: Mr. Examiner, I tender
17 Mr. Young as an expert in petroleum land matters.

18 EXAMINER JONES: He is so qualified.

19 Q. Could you please turn to COG Exhibit 1 and
20 identify it and explain what COG seeks under this
21 application?

22 A. This is the form C-102 for the Cookie Tosser
23 State Com 2H in which COG seeks to create a 160-acre
24 non-standard spacing unit comprised of the west half,
25 east half of section 16; Township, 18 South; Range, 30

1 east, Eddy County.

2 Q. Do you also seek to pool all of the mineral
3 interests in the Bone Spring Formation?

4 A. Yes.

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

6 A. The API number is 30-015-42440.

7 Q. Has the Division designated a pool for this area?

8 A. Yes, it has.

9 Q. What is that pool?

10 A. The pool is the Loco Hills Bone Spring East, pool
11 code 39513.

12 Q. And what are the surface and bottom hole
13 locations for this well?

14 A. The surface hole is 300 feet from the north line,
15 1,180 from the east line with deep bottom hole location,
16 330 feet from the south line; 2,260 from the east line.

17 Q. Is this all state acreage?

18 A. Yes, it is.

19 Q. And is this area governed by Division statewide
20 rules?

21 A. Yes.

22 Q. So 330 setbacks apply; is that correct?

23 A. That is correct.

24 Q. On what date do you plan to spud this well?

25 A. August 8th.

1 Q. Would you please turn to COG Exhibit 2 and
2 identify this exhibit for the Examiners.

3 A. This is an ownership outline of the subject well
4 for the west half, east half, identifying the various
5 tracts and the working interest owners and their
6 respective percentages.

7 Q. Is the party that you seek to pool highlighted in
8 bold?

9 A. Yes, they are.

10 Q. And is that a working interest owner?

11 A. Yes, it is.

12 Q. Just to be clear, that is EOG Resources, correct?

13 A. That is correct.

14 Q. And is Exhibit 3 a copy of the well proposal
15 letter that you sent to EOG?

16 A. Yes, it is.

17 Q. On what date was that letter sent?

18 A. April 7, 2015.

19 Q. And did the well proposal letter also include an
20 AFE?

21 A. Yes.

22 Q. Are the costs reflected on this AFE consistent
23 with what COG has incurred for drilling similar
24 horizontal wells in this area?

25 A. Yes, they are.

1 Q. What additional efforts did you undertake to
2 reach a voluntary agreement with EOG?

3 A. We've had ongoing discussions via e-mail and
4 telephone conversations with their landman to reach a
5 mutually agreeable deal, but that has not yet been
6 finalized.

7 Q. Did the well proposal letter also identify the
8 requested overhead and administrative costs while
9 drilling the well and while producing it, should you be
10 successful?

11 A. Yes.

12 Q. What are those rates?

13 A. It is 7,000 a month while drilling and 700 for
14 producing rates.

15 Q. Are these costs in line with what COG and other
16 operators in the area charge for similar wells?

17 A. Yes.

18 Q. Do you ask that administrative and overhead costs
19 be incorporated into any order resulting from this
20 hearing?

21 A. Yes.

22 Q. And do you ask as well that it be adjusted in
23 accordance with the appropriate accounting procedures?

24 A. Yes.

25 Q. With respect to the uncommitted interest owner,

1 do you request that the Division impose a 200 percent
2 risk penalty?

3 A. Yes.

4 Q. Did COG identify the offset operators or lessees
5 in the 40-acre tracts surrounding the proposed
6 non-standard spacing unit?

7 A. Yes, we did.

8 Q. Is an offset plat and a risk of offset parties
9 who were given notice of this hearing included as
10 Exhibit 4?

11 A. It is.

12 Q. And did COG provide notice of this hearing to
13 those offset operators as shown in COG Exhibit 5?

14 A. That is correct.

15 Q. And this exhibit also reflects that notice of
16 this hearing was given to EOG, correct?

17 A. Yes.

18 Q. Was it necessary to publish notice or were all of
19 the interests to be pooled locateable?

20 A. All the interests to be pooled were locateable.

21 Q. Were Exhibits 1 through 4 prepared by you or
22 compiled under your direction or supervision?

23 A. Yes, they were.

24 MS. KESSLER: Mr. Examiner, I move the
25 admission of Exhibits 1 through 5, which includes my

1 affidavit.

2 EXAMINER JONES: Exhibits 1 through 5 are
3 admitted.

4 (COG OPERATING LLC EXHIBITS 1 through 5 WERE
5 OFFERED AND ADMITTED.)

6 MS. KESSLER: And that concludes my
7 examination of this witness.

8 EXAMINATION BY EXAMINER JONES

9 EXAMINER JONES: Okay. Are you going to
10 have a geologist in this case?

11 THE WITNESS: Yes.

12 EXAMINER JONES: So the locations haven't
13 changed; this is all state --

14 THE WITNESS: Correct.

15 EXAMINER JONES: -- and you just want to put
16 the surface location in unit A -- for what reason?

17 THE WITNESS: It's kind of limited
18 surface-wise on where we are able to get well locations,
19 and lot A is the best available location.

20 EXAMINER JONES: Can you explain the CCA
21 land restrictions that are listed for this section?

22 THE WITNESS: I believe this Prairie Chicken
23 through March through, I believe it's June or July 15th,
24 limited drilling and operations.

25 EXAMINER JONES: And it is a voluntary

1 participation --

2 THE WITNESS: It is a requirement under the
3 state lease.

4 EXAMINER JONES: It is a requirement?

5 THE WITNESS: Yes.

6 EXAMINER JONES: Are these state leases
7 pretty old leases in this area -- probably pretty young?

8 THE WITNESS: They are not too old.

9 EXAMINER JONES: Okay. And EOG just happens
10 to have portions of one and all of the last tract; is
11 that correct?

12 THE WITNESS: That is correct.

13 EXAMINER JONES: And AFE, is that reasonably
14 recent?

15 THE WITNESS: Yes, it is.

16 EXAMINER JONES: You guys all work as a
17 team. Your drilling engineer is he on the team too or
18 is he in the drilling department?

19 THE WITNESS: We work as a team. He is in
20 the drilling department, but we all communicate. He
21 actually created the AFE.

22 EXAMINER JONES: All located and just one
23 party being pooled?

24 THE WITNESS: That is correct, EOG.

25 EXAMINER JONES: And I pass. Any questions?

1 EXAMINATION BY MR. WADE

2 EXAMINER WADE: Did you testify that all the
3 offset interests were locateable?

4 THE WITNESS: Yes, they were.

5 EXAMINER WADE: There is one returned card.
6 I think it's -- I think it is the second-to-the-last
7 page of Exhibit 5.

8 MS. KESSLER: Mr. Examiner, as I understand
9 it, if there is an unlocateable offset party, it is not
10 necessary to publish notice, only if it's a party to be
11 pooled is it necessary to publish notice.

12 EXAMINER WADE: Okay. Thank you.

13 EXAMINER JONES: Thank you very much.

14 THE WITNESS: Thank you.

15 MS. KESSLER: I would like to call my next
16 witness.

17 EXAMINER JONES: Go ahead.

18 MIKE BURKE

19 having been first duly sworn, was examined and testified
20 as follows:

21 DIRECT EXAMINATION

22 BY MS. KESSLER:

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

1 A. I am Stephen Michael Burke. I'm employed by COG
2 Operating in the Midland Texas office.

3 Q. Have you previously testified before the
4 Division?

5 A. Yes.

6 Q. And were your credentials as a petroleum
7 geologist accepted and made a matter of record?

8 A. Yes, they were.

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

11 A. Yes.

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

14 A. Yes, I have.

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

17 EXAMINER JONES: He is so qualified.

18 Q. Could you please turn to COG Exhibit 6 and
19 identify this exhibit for the Examiners.

20 A. Yes, ma'am. On the left-hand side of this, you
21 will see a structure map at the top of the Second Bone
22 Spring Sand. The wells that you see there that are in
23 orange, those are actually Second Bone Spring Sand
24 completions in the vicinity of us.

25 The black lines, of course, are the contours.

1 They're 100-foot contours, and you can see we are
2 dipping to the southeast.

3 And then in kind of the middle of the map is a
4 square around the producing unit with a diagram of the
5 well pad as it will crossover into it and going north to
6 south in the unit.

7 The fact that the Second Bone Springs is
8 completely mappable across the area, I am going to
9 demonstrate on the next exhibit, which is cross section
10 A to A Prime, which goes through. And I must apologize,
11 but I don't have it on the map, it goes through the well
12 that's just northeast of the unit down to the actual
13 well that we're drilling to the well just south of it
14 so --

15 EXAMINATION BY EXAMINER JONES

16 EXAMINER JONES: So that is A as in unit P
17 of section --

18 THE WITNESS: It's in the very southwest
19 of -- I mean southeast of section -- I guess that would
20 be section --

21 MS. KESSLER: Directly to the north,
22 correct?

23 THE WITNESS: Right.

24 EXAMINER JONES: That is A then?

25 THE WITNESS: That's A. And then if you

1 draw that line due south, you will go first through the
2 Cookie Tosser well bore that we're asking for and then
3 into the next well there that has an orange dot on it.

4 EXAMINER JONES: The orange dot is in
5 section 21; is that right?

6 THE WITNESS: Right.

7 EXAMINER JONES: Is it unit D of 21?

8 THE WITNESS: The B will be in spot A.

9 EXAMINER JONES: You say in unit letter A?

10 THE WITNESS: Let me -- this print didn't
11 turn out as good as I would have liked.

12 EXAMINER JONES: That is what it says here,
13 unit letter A of -- on the cross section it says -- of
14 16?

15 THE WITNESS: Right. That will be point B
16 on the cross section.

17 EXAMINER JONES: Okay. Now I'm having a
18 little trouble finding section 16 here. This is 16.

19 THE WITNESS: Yes.

20 EXAMINER JONES: So your cross section is
21 pretty short?

22 THE WITNESS: It is very short. You have to
23 travel from -- from that point to where B ends, you have
24 to go nearly two miles to the next well deep enough to
25 penetrate the Bone Spring. So I didn't include it on

1 the cross section.

2 EXAMINER JONES: Okay.

3 BY MS. KESSLER (cont'd):

4 Q. Mr. Burke, do you consider the wells on the cross
5 section to be representative of wells in the area?

6 A. Yes, I do.

7 Q. And if you could turn to Exhibit 7. Could you
8 identify this exhibit for the Examiner?

9 A. Exhibit 7 is the cross section that I put
10 together that basically runs right across the surface
11 location of the well we are proposing. There's an
12 orange-ish-red line at the top horizontally and at the
13 bottom horizontally. And those depict the top and the
14 base of the Second Bone Spring Sand.

15 And you can see that it's about, more or less,
16 300-gross feet of interval. Within that interval you
17 have carbonates and sandstones that are coming and
18 going. And we will more or less target the middle --
19 the bracketed midway between those two points at a depth
20 of about 8,100 feet.

21 Q. Have you identified thickness or uniformity or
22 variation in thickness of this target interval?

23 A. Yes. As a matter of fact, there's nothing to
24 indicate there's any great change in the overall
25 thickness, the 350 feet, and I saw no indications of any

1 faulting or other kind of barriers in the area.

2 Q. So you have identified continuity across this
3 non-standard unit?

4 A. Yes.

5 Q. Have you identified any geologic impediments to
6 developing this area using full section horizontal
7 wells?

8 A. No, I have not.

9 Q. Do you believe that the area can be efficiently
10 and economically developed by horizontal wells?

11 A. Yes, I do.

12 Q. And do you believe that the proposed non-standard
13 unit will on average contribute more or less and lead to
14 production in the well?

15 A. Yes.

16 Q. Will the completed interval for the well comply
17 with all setback requirements?

18 A. It will.

19 Q. And is Exhibit 8 a diagram of the planned well
20 path?

21 A. Yes, it is.

22 Q. And does this diagram demonstrate that the
23 proposed well will comply with the Division's 330 foot
24 setback?

25 A. It will comply, yes.

1 Q. In your opinion, will granting COG's application
2 be in the best interest of conservation and the
3 prevention of waste and the protection of correlative
4 rights?

5 A. I do.

6 Q. Were Exhibits 6 through 8 prepared by you or
7 compiled under your direction or supervision?

8 A. They were.

9 MS. KESSLER: Mr. Examiner, I move into
10 evidence Exhibit 6 through 8.

11 EXAMINER JONES: Exhibit 6 through 8 are
12 admitted.

13 (WHEREUPON, COG OPERATING LLC EXHIBITS 6
14 THROUGH 8 WERE OFFERED AND ADMITTED.)

15 EXAMINER JONES: Mr. Burke, these -- I guess
16 the big question here is the well's going east, west and
17 then you're proposing one, north, south. Can you talk
18 about the direction of drilling in this area and why
19 they are drilled in different directions and -- from a
20 geologist's standpoint.

21 THE WITNESS: Sure.

22 The primary reason we are drilling this well
23 to the north, south is because we are basically
24 landlocked there by wells that have already been drilled
25 in the area. If we had a preference, we would probably

1 follow the pattern that's established; east, west in
2 this area.

3 There are many people who think that maximum
4 stress direction, that works the best. What we try to
5 do when we drill a north, south well like this in this
6 particular area is we will try to put a little larger
7 frac on it. It costs a little more money but it helps
8 to get the results up on par with the east, west type
9 wells.

10 So in a perfect world, we would have drilled
11 it east, west, but we really can't. And we want to
12 capture these resources.

13 EXAMINER JONES: I understand. What will
14 you do during the frac job to tell where the production
15 is coming from on this well. Is there any chemical
16 tracer or radioactive tracer you might --

17 THE WITNESS: I don't believe we have
18 anything like that planned on this particular well. We
19 have run micro seismic in the area, because we've
20 drilled a good number of wells in this general vicinity
21 and have found that the carbonates above the sand and
22 the carbonates below the sand contain the fracs very
23 well. And that's with big fracs, you know, 4-million
24 pound, 5-million pound fracs.

25 EXAMINER JONES: Pretty low diameter -- in

1 other words, is it Hunter mesh sand? Is it 20, 40 at
2 the maximum?

3 THE WITNESS: You are getting me there.
4 They change that up so much. I would be just guessing.

5 EXAMINER JONES: Will you be watching the
6 well as it's going.

7 THE WITNESS: Yes, I will.

8 EXAMINER JONES: So, primarily, when you are
9 watching it while it's going, you are watching to make
10 sure they are in the zone you want to be in?

11 THE WITNESS: On many of these horizontal
12 wells, we don't run open hole logs, you know. In this
13 particular area, there is a fairly good number of older
14 wells that were drilled to the Morrow and to the Straun
15 that give us pretty sufficient control that we think we
16 can land in it.

17 And then we mud log it through the interval
18 and hope for shows and try to keep it in the shows, the
19 good oil shows if we can. Sometimes we will adjust it
20 up slightly, down slightly.

21 This one will probably angle upward a little
22 bit -- excuse me, I mean angle downward a little bit
23 because we are drilling down dip to try to stay in the
24 middle of formation where the best rock appears to be.

25 EXAMINER JONES: Would you preferably drill

1 up hill? Your production engineer, did they say
2 anything about that?

3 THE WITNESS: It is not such a preference
4 that would cause us to intentionally have the well bore
5 go up. You're talking probably on the drainage end of
6 the well bore?

7 EXAMINER JONES: Yes.

8 THE WITNESS: We have done no studies on
9 that that I am aware of, so we typically try to go as
10 flat as we can. That makes it easier for setting path
11 for the completion groups, and it just seems to be a
12 possible better mechanical thing to do.

13 EXAMINER JONES: How much water do you
14 expect for every barrel of oil?

15 THE WITNESS: In this particular area, we're
16 hoping for probably 50, 50. It will probably be more
17 water than oil, will be a higher cut.

18 But this Lusk area is pretty far to the
19 north and pretty far up dip in the development of the
20 Second Bone Spring, so it has better cuts than wells
21 further south and further down dip.

22 EXAMINER JONES: So when you get close to
23 the Texas line, it's a higher water cut?

24 THE WITNESS: Yes.

25 EXAMINER JONES: And it looks like you got

1 alternating carbonates and sands?

2 THE WITNESS: Right.

3 EXAMINER JONES: So that sounds like a
4 drilling hazard to me.

5 THE WITNESS: Right.

6 EXAMINER JONES: I guess they are -- blame
7 will go all directions if it doesn't work.

8 THE WITNESS: Yeah.

9 EXAMINER JONES: Do you expect all four of
10 the standard spacing units in this 160-acre project area
11 to contribute to the well production?

12 THE WITNESS: Yes. I see no reason why that
13 will not sufficiently grant those resources.

14 EXAMINER JONES: And you had to sell this
15 well to your management?

16 THE WITNESS: Yes.

17 EXAMINER JONES: Okay. And they obviously
18 signed off on it or you wouldn't be doing it?

19 THE WITNESS: Yes, sir.

20 EXAMINER JONES: I don't have any more
21 questions. I appreciate your coming in.

22 THE WITNESS: Thank you-all.

23 MS. KESSLER: I ask that this case be taken
24 under advisement.

25 EXAMINER JONES: Thank you very much. We

1 will take -- this is case 15332, we will take it under
2 advisement.

3 (Time noted 9:18 a.m.)
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14 I do hereby certify that the foregoing is
15 a complete record of the proceedings in
16 the Examiner hearing of Case No. _____,
heard by me on _____.


17 _____, Examiner
Oil Conservation Division
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1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF BERNALILLO)
4
5
6

7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, July 9,
11 2015, the proceedings in the above-captioned matter were
12 taken before me, that I did report in stenographic
13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control.

16
17 I FURTHER CERTIFY that I am neither employed by
18 nor related to nor contracted with (unless excepted by
19 the rules) any of the parties or attorneys in this case,
20 and that I have no interest whatsoever in the final
21 disposition of this case in any court.

22
23
24
25


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