

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

CASE 15310

APPLICATION OF COG OPERATING LLC FOR
APPROVAL OF A 640-ACRE NON-STANDARD
PROJECT AREA COMPRISED OF ACREAGE SUBJECT TO A PROPOSED
STATE COMMUNITIZATION AGREEMENT,
LEA COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

MAY 28, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
SCOTT DAWSON, ADJUNCT EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, Scott Dawson, Adjunct Examiner, and
Gabriel Wade, Legal Examiner, on May 28, 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: ELLEN H. ALLANIC
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1 A P P E A R A N C E S

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9 I N D E X

10 CASE NUMBER 15310 CALLED

11 COG OPERATING LLC CASE-IN-CHIEF:

12 WITNESS JON-AARON HOUSE

13		Direct	Redirect	Further
	By Mr. Feldewert	5	18	

14		EXAMINATION
15	Examiner Dawson	11
16	Examiner Jones	13

17 WITNESS ALLISON STUMPF

18		Direct	Redirect	Further
	By Mr. Feldewert	20		

19		EXAMINATION
20	Examiner Dawson	27, 33
21	Examiner Jones	28

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24 Reporter's Certificate

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1 (Time noted 8:21 a.m.)

2 EXAMINER JONES: Let's call case 15310,
3 Application of COG Operating LLC for Approval of a
4 640-acre non-standard project area comprised of acreage
5 subject to a proposed state communitization agreement in
6 Lea County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: May it please, Examiner,
9 Michael Feldewert with Santa Fe office of Holland and
10 Hart appearing on behalf of the Applicant.

11 And I have two witnesses here today.

12 EXAMINER JONES: Any other appearances in
13 this case?

14 (No response.)

15 EXAMINER JONES: Will the witnesses please
16 stand, and will the court reporter please swear the
17 witnesses.

18 (Whereupon, the presenting witnesses were
19 administered the oath.)

20 MR. FELDEWERT: Okay. May I call my first
21 witness?

22 EXAMINER JONES: Yes.

23 JON-AARON HOUSE
24 having been first duly sworn by the court reporter, was
25 examined and testified as follows:

1 DIRECT EXAMINATION

2 BY MR. FELDEWERT:

3 Q. Would you please state your name, identify by
4 whom you are employed, and in what capacity.

5 A. My name is Jon-Aaron House, and I'm employed by
6 COG Operating LLC as a senior landman.

7 Q. And, Mr. House, have you had the opportunity
8 previously to testify before this division?

9 A. No.

10 Q. Would you please outline for the examiners your
11 educational background.

12 A. Graduated from Texas Tech University in 2005
13 with a B.S. in multidisciplinary sciences.

14 Q. And what has been your work history since 2005?

15 A. Nine years experience as a landman. Previous
16 employers are Crewland Research, Chesapeake Energy,
17 Arrington Oil and Gas and Apache Corporation, working
18 the Marcellus Shale, Barnett Shale, Permian Basin of
19 Texas Gulf Coast.

20 And a year and a half of that with New Mexico
21 Permian Basin experience.

22 Q. And how long have you been with COG?

23 A. Ten months.

24 Q. And are you a member of any professional
25 affiliations or associations?

1 A. Yes. I have been a member of PBLA, which is
2 Permian Basin Landman's Association since 2008. I
3 recently joined New Mexico's Landman's Association this
4 year, 2015.

5 And I have been a member of American Association
6 of Professional Landmen since 2006.

7 Q. Mr. House, are you familiar with the application
8 filed in this case?

9 A. Yes.

10 Q. And are you familiar with the status of the lands
11 in the subject area?

12 A. Yes.

13 MR. FELDEWERT: I would tender Mr. House as
14 an expert witness in petroleum land matters.

15 EXAMINER JONES: Mr. House is so qualified.

16 Q. Please turn, Mr. House, to what has been marked
17 as COG Exhibit 1. First identify it, and then explain
18 what the company seeks under this application.

19 A. This is COG Exhibit No. 1. The section that we
20 are here to seek approval of, a 640-acre non-standard
21 project area, is outlined in red.

22 This is a copy of a Midland map which not only
23 shows drilled wells but also permitted wells.

24 Q. Looking at section 27, how many leases are
25 involved?

1 A. This section is comprised of two state leases.

2 Q. And is COG the only interest owner in these two
3 state leases?

4 A. Yes.

5 Q. If I then flip to what has been marked as COG
6 Exhibit 2, is this the same Midland map with some
7 additional illustrations on it?

8 A. Yes. COG Exhibit No. 2 depicts the two leases in
9 a green color and a yellow shade. Also on this map you
10 will see three black lines which represent our drilled
11 and completed wells to date and producing.

12 Those are the Pygmy 1H, the Pygmy State Com 2H,
13 the Pygmy State Com 3H. And the last well you see in
14 red is the Pygmy State Com 4H, which is permitted but
15 not yet drilled.

16 The 1H and 2H are currently producing to a
17 battery that is located on the 1H location. The 3H is
18 currently producing to a battery that is located on the
19 3H location.

20 Q. In the event that this application is granted do
21 you have plans to consolidate the surface facilities of
22 these planned wells?

23 A. Yes. We plan to dismantle the 3H battery and
24 everything will go to the 1H location.

25 Q. With respect to these four wells that are shown

1 on Exhibit 2, if I then turn to Exhibit 3, are these
2 the -- does Exhibit 3 comprise a C-102 for each of the
3 four wells?

4 A. Yes.

5 Q. And do these exhibits provide the examiner with
6 the pool that the Division has placed these wells into
7 as well as the pool code?

8 A. Yes.

9 Q. And if I look at each of these plats, each of the
10 wells are currently dedicated to stand up 160 acres,
11 correct?

12 A. Yes.

13 Q. In the event that this application is granted, do
14 you intend to amend these C-102s and then dedicate these
15 four wells to the 640-acre project area?

16 A. That's correct.

17 Q. Okay. Now, has the company had discussions with
18 representatives of the New Mexico State Land Office
19 about the creation of a single communitization agreement
20 covering section 27?

21 A. Yes, we have. We have had verbal communication
22 with them.

23 Q. And, Mr. House, what has been their response to
24 the proposal?

25 A. They suggested the 640-acre comm agreement area,

1 which we are seeking the 640-acre non-standard project
2 area today. Upon that approval, we have been told that
3 they would move forward with the 640 comm agreement area
4 as well on the state approved form.

5 Q. Okay. Now, is the company able -- let's assume
6 that the state land office when they approve their
7 communitization agreement -- is that sufficient to allow
8 the company to dedicate each of the wells to the
9 640-acre communitization agreement?

10 A. Yes.

11 Q. And then for administrative purposes is it
12 necessary for the company to get approval from the
13 Division for a 640-acre non-standard project area to
14 dedicate the wells?

15 A. Yes. That's what we've been told.

16 Q. And, in fact, has the state land office indicated
17 that they would be unable to input the production into
18 their system unless the company dedicated each of those
19 wells to a 640-acre communitization agreement?

20 A. That is what we've been told with a system
21 limitation that they've had with their ongoing system, I
22 believe is...

23 Q. And that's why you're here before the Division
24 seeking approval of a 640-acre non-standard project area
25 to match up with a 640-acre communitization agreement?

1 A. Yes.

2 Q. Now, the Bone Spring pool that are reflected --
3 that is reflected on these plats comprising Exhibit 3,
4 is that pool subject to the Division statewide rules?

5 A. Yes. On 40 acres.

6 Q. And in light of that then, in preparation for the
7 hearing here today, did the company identify the
8 affected parties in the 40-acre tracts surrounding the
9 proposed 640-acre non-standard project area?

10 A. Yes.

11 Q. And if I turn to what has been marked as COG
12 Exhibit 4, is this an affidavit prepared by my office
13 with attached letters providing notice of this hearing
14 to those offsetting affected parties?

15 A. Yes.

16 Q. And, finally, Mr. House, were COG Exhibits 1
17 through 3 prepared by you or compiled under your
18 direction or supervision?

19 A. Yes.

20 MR. FELDEWERT: At this time, Mr. Examiner,
21 I would move the admission into evidence of COG Exhibits
22 1 through 4, which includes my notice affidavit.

23 EXAMINER JONES: Exhibits 1 through 4 will
24 be admitted.

25 (Whereupon, COG OPERATING LLC Exhibits 1

1 through 4 were offered and admitted.)

2 MR. FELDEWERT: And that concludes my
3 examination of this witness.

4 EXAMINER JONES: I'm going to let Scott go
5 first. Do you have any questions?

6 EXAMINER DAWSON: I do.

7 EXAMINER JONES: Go ahead.

8 EXAMINATION BY EXAMINER DAWSON

9 EXAMINER DAWSON: So there will be four
10 horizontal wells within that section when you are
11 completed drilling, correct?

12 THE WITNESS: Yes.

13 EXAMINER DAWSON: On the 1H, it has produced
14 about 80,000 barrels of oil; is that correct?

15 THE WITNESS: I don't know the exact amount
16 right now.

17 EXAMINER DAWSON: Okay. Do you want on the
18 effective date of the unit -- do they want the effective
19 date to be the initial production date of the 1H?

20 THE WITNESS: That is a conversation we
21 still need to have with the state land office as to that
22 date. We haven't had that conversation.

23 EXAMINER DAWSON: So the royalties have
24 already been paid on the 1H?

25 THE WITNESS: Yes.

1 EXAMINER DAWSON: So that won't change the
2 royalty scenario; it's been paid to present?

3 THE WITNESS: No, that's correct.

4 EXAMINER DAWSON: All right. And the 2H and
5 3H are also producing?

6 THE WITNESS: Recently, I believe; first
7 production date is May 7th, so we have very little data
8 on that right now.

9 EXAMINER DAWSON: Okay.

10 EXAMINER JONES: For both of them?

11 THE WITNESS: Yes.

12 EXAMINER DAWSON: And those will both go to
13 the 1H production facility?

14 THE WITNESS: Upon approval they will.
15 Right now the 3 goes to its on battery, and the 2 and 1
16 go to the one battery.

17 EXAMINER DAWSON: Okay. I don't know if you
18 get that far back. But is there a copy of the comm
19 agreement in here?

20 THE WITNESS: No, there isn't.

21 EXAMINER DAWSON: Okay.

22 THE WITNESS: 1H has an approved comm
23 already with a 160-acre project area. So we would need
24 to essentially get rid of that; create this new 640-acre
25 comm area.

1 EXAMINER DAWSON: Okay. You are going to
2 have a geologist also?

3 MR. FELDEWERT: Yes, sir.

4 EXAMINER DAWSON: That's all the questions I
5 have. Thank you.

6 EXAMINATION BY EXAMINER JONES

7 EXAMINER JONES: Mr. House, it seems like
8 you could have -- this is also state land, correct?

9 THE WITNESS: Correct.

10 EXAMINER JONES: So I guess I should first,
11 before I forget, ask you ownership. Are there burdens
12 on those leases? This old one is probably a 1/8th and
13 the other one is -- what? -- a 1/6th?

14 THE WITNESS: I will flip back. VO-8995 is
15 at the 1/6th and then EO-1932 id at the 3/16th's --

16 EXAMINER JONES: 3/16ths?

17 THE WITNESS: Yes.

18 EXAMINER JONES: Does that mean there's an
19 override on that lease?

20 THE WITNESS: No. That is the royalty as I
21 understand it.

22 EXAMINER JONES: Oh.

23 THE WITNESS: Am I correct, Michael?

24 EXAMINER JONES: I guess the big question I
25 got is, who gets a check out here, is it -- the two

1 leases, the two state leases and Chevron, right?

2 THE WITNESS: COG.

3 EXAMINER JONES: I'm sorry about that, COG.

4 So does anybody else have revenue --

5 THE WITNESS: There is an overriding royalty
6 interest owner in there. And it's Conoco. And we have
7 the right to pool that override through the terms of
8 that agreement.

9 EXAMINER JONES: Has Conoco been noticed of
10 this hearing?

11 THE WITNESS: No, sir.

12 EXAMINER JONES: Are they part of the people
13 who were noticed in the surrounding -- I think what we
14 have already done on the -- Gabe here can correct me if
15 I am wrong.

16 But we have already done on another one
17 coming up is to ask for the overrides to be noticed. So
18 we will continue to hear the case and just ask for the
19 override to be noticed.

20 THE WITNESS: Okay.

21 EXAMINER JONES: And that is the only extra
22 party that gets a check?

23 THE WITNESS: Yes.

24 EXAMINER JONES: You probably could dissolve
25 that one battery and just use periodic well tests on

1 the -- pipe them all over to the other battery and use
2 well tests and get a surface comingle permit, couldn't
3 you?

4 THE WITNESS: I --

5 EXAMINER JONES -- for the wells that are
6 being taken off the lease?

7 THE WITNESS: Yes, right.

8 EXAMINER JONES: So you choose to go this
9 route instead of going the surface comingle permit
10 route?

11 THE WITNESS: That's correct.

12 EXAMINER JONES: And is this route easier
13 for you?

14 THE WITNESS: This was a route that was
15 suggested throughout New Mexico State Land Office in
16 order to get the 640-acre comm agreement approved --

17 EXAMINER JONES: Yes.

18 THE WITNESS: -- they wanted the 640-acre
19 non-standard project area approved first.

20 EXAMINER JONES: Yes.

21 THE WITNESS: And then we could get the comm
22 agreement approved.

23 EXAMINER JONES: I understand that. This is
24 Lea County, so the people that will be inputting the
25 production are in the Hobbs district office of OCD. So

1 have you talked to them about this? Has anybody in COG
2 talked to them about it?

3 THE WITNESS: Ocean Munds-Dry has spoken to
4 a representative from the state land office, Naringa;
5 and her last name is Khalsa. Those are the
6 conversations we've had with her.

7 EXAMINER JONES: But nobody with Hobbs OCD.

8 THE WITNESS: No.

9 EXAMINER JONES: Well, it is going to be on
10 a standard state form and right now you got comm
11 agreements for all four wells?

12 THE WITNESS: Just the 1H.

13 EXAMINER JONES: Just the 1H?

14 THE WITNESS: Yes, sir. The timing of this,
15 whenever we called -- we were going to do an east half,
16 west half comm agreement essentially. And that's when
17 they suggested to do the whole 640-acre. So at the time
18 of when those wells were completed, we applied for our
19 non-standard project area here and then we are going to
20 move forward with the comm agreement if that project
21 area was approved.

22 EXAMINER JONES: But your field guys have
23 put these other two online as of early this month?

24 THE WITNESS: May 7th.

25 EXAMINER JONES: So you are going to have to

1 backdate your comm agreement to the date of first
2 production.

3 THE WITNESS: Correct. And the reason we
4 did the 1H and the 3H is if you look at the state lease
5 maps, the ownership is exactly the same if you split
6 that east, west. So that's why the 2H and 1H were going
7 to go to the 1H, and the 3H was going to serve its own
8 battery unit.

9 EXAMINER JONES: Okay. So you are going to
10 drill it all up. Are there any other wells you are
11 going to drill out here or is that going to be what the
12 geologist will talk about?

13 THE WITNESS: The geologist will address
14 that.

15 EXAMINER JONES: Okay. Are there any
16 vertical wells in this area, in this formation?

17 THE WITNESS: Ahh --

18 EXAMINER JONES: The geologist can talk
19 about that.

20 THE WITNESS: Right.

21 EXAMINER JONES: Better pass it onto Gabe
22 here. Can you just briefly mention what the standard
23 form has on it with the state land office.

24 THE WITNESS: It just addresses -- they're
25 normally for a year term from the first production. So

1 long thereafter, as you have production, it sets out the
2 ownership as to the lease, the two leases. And it is
3 really a -- it is a very short form. It is just
4 essentially communitizing those two leases.

5 EXAMINER JONES: Is Concho the lessee or
6 grantor to those two leases?

7 THE WITNESS: Yes.

8 EXAMINER JONES: So you got them by
9 assignment from the original --

10 THE WITNESS: That is correct.

11 EXAMINER JONES: Okay. I don't have any
12 more questions.

13 EXAMINER WADE: No questions.

14 MR. FELDEWERT: Mr. Examiner, I got a
15 couple.

16 RE-DIRECT EXAMINATION

17 BY MR. FELDEWERT:

18 Q. Mr. House, the first off is is that state form on
19 line?

20 A. Yes.

21 Q. Secondly, you mention that there is an overriding
22 royalty interest held by ConocoPhillips; is that
23 correct?

24 A. Yes.

25 Q. Do you know which lease they hold that override

1 in?

2 A. I do not.

3 Q. And have you examined that form and confirmed
4 that there was a provision in there that authorizes
5 pooling and communitization?

6 A. Yes.

7 MR. FELDEWERT: In light of that,
8 Mr. Examiner, I have not been cognizant of the reason
9 why the Division would consider notice would be
10 necessary to ConocoPhillips. I am not aware of any such
11 provision in the rules.

12 I know we have always been careful to make
13 sure that the underlying agreements authorize pooling or
14 unitization. And if not, then, of course, you would
15 bring them in to pooling or the proceeding.

16 In light of the fact that the underlying
17 agreement authorizes the activity that is being done
18 here, I am not sure what purpose notice would serve.

19 EXAMINER JONES: So you are saying the state
20 leases that were issued have pooling clauses?

21 MR. FELDEWERT: I am saying the instrument
22 creating the override. Mr. House --

23 THE WITNESS: The assignment from Conoco to
24 COG, they retained an override. There's a paragraph in
25 that assignment that allows us to pool that override

1 without having to seek consent. It's already granted
2 within the agreement.

3 EXAMINER JONES: Do you have that handy?

4 THE WITNESS: I do not have a copy of that.

5 MR. FELDEWERT: We can certainly get you a
6 copy.

7 EXAMINER WADE: I mean, short of having a
8 copy of that, we can leave the case open and get a copy
9 of that --

10 MR. FELDEWERT: We certainly could do that.
11 Normally, as you know, we have done it with testimony
12 from the witness. But if you need it, we can certainly
13 get you a copy of the instrument itself.

14 EXAMINER WADE: Yes, please.

15 MR. FELDEWERT: Okay. And unless you have
16 any other questions, I can call my next witness.

17 EXAMINER JONES: Go ahead.

18 ALLISON STUMPF
19 having been first duly sworn by the court reporter, was
20 examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FELDEWERT:

23 Q. Would you please state your name, identify by
24 whom you are employed and in what capacity.

25 A. My name is Allison Stumpf. And I am employed by

1 Concho Resources. And I am a geologist for the New
2 Mexico Basin team.

3 Q. And how long have you been a geologist with
4 Concho?

5 A. I have been a geologist at Concho for
6 three-and-half years.

7 Q. And have your responsibilities included the
8 Permian Basin of New Mexico?

9 A. Yes.

10 Q. And you have previously testified before this
11 Division and had your credentials accepted as a matter
12 of public record, correct?

13 A. Yes, I have.

14 Q. Are you familiar with the application that's been
15 filed in the case?

16 A. Yes.

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

19 A. Yes, I have.

20 MR. FELDEWERT: I tender Ms. Stumpf once
21 again as an expert in petroleum geology.

22 EXAMINER JONES: She is so qualified.

23 Q. Let me ask you first, there has been some
24 testimony here today about the three wells that have
25 been already been drilled and the fourth planned well.

1 A. Yes.

2 Q. What is the target of those wells or what has
3 been the target of those wells?

4 A. So the Pygmy 27 State No. 1H is a Second Bone
5 Spring Sand well. The Pygmy 27 State No. 2H is a First
6 Bone Spring Sand well. And the Pygmy 27 State No. 3H is
7 a Second Bone Spring Sand well.

8 Q. Have you prepared structure maps of these various
9 intervals within the Bone Spring Formation for
10 presentation here today?

11 A. Yes, I have.

12 Q. If I turn to what has been marked as COG
13 Exhibit 5, would you please first identify it and
14 explain to us what it shows?

15 A. This map shows the proposed project area in
16 section 27 -- and that's in yellow -- in township 21
17 south, range 33 east.

18 The wells on this map are drilled and completed
19 wells. And the structure map you see is a subC
20 structure on top of the First Bone Spring Sand. And
21 it's contour interval is a 100 feet.

22 And as you can see the formation is dipping to
23 the southwest and it flattens out over the section.

24 Q. And have you observed any geologic impediments
25 with respect to the structure with developing this

1 section with one or more horizontal wells?

2 A. No, there is no faulting or other geological
3 impediments.

4 Q. Okay. If I then turn to what has been marked as
5 COG Exhibit 6, how does this particular exhibit differ
6 from the prior exhibit?

7 A. So this map shows the top of the Second Bone
8 Spring Sand structure. And this is also subC. The
9 contour intervals are again at 100 feet and the beds are
10 dipping to the southwest.

11 And as you can see, there is no faulting or
12 geological impediments.

13 Q. Finally, have you created also a structure map
14 for the Third Bone Spring Sand?

15 A. Yes.

16 Q. Now currently there's not a well completed in
17 that particular producing interval, is there?

18 A. No.

19 Q. Is that a potential target perhaps in the future?

20 A. Yes.

21 Q. If I turn to what's been marked as COG Exhibit 7,
22 is that your structure map for the Third Bone Spring
23 Sand?

24 A. Yes, it is. It also has contour intervals of 100
25 feet and it is dipping to the south, southwest. There's

1 no faulting or geological impediments.

2 Q. In addition to these structure maps, have you
3 also prepared a cross section for presentation here
4 today?

5 A. Yes, I have.

6 Q. If I turn to what has been marked as COG
7 Exhibit 8, does this identify the wells that have been
8 utilized for your cross section?

9 A. Yes. I used three wells in my cross section,
10 from A to A Prime, from west to east. And those wells
11 are circled in blue.

12 Q. And in your opinion, are the wells that you have
13 chosen representative of the area?

14 A. Yes, they are.

15 Q. Keeping these three wells in mind, if I turn to
16 what has been marked as COG Exhibit 9, is this the
17 corresponding stratigraphic cross section for those
18 wells?

19 A. Yes, it is.

20 Q. And first explain to us how you've oriented this
21 exhibit and then what it shows?

22 A. So this is a structural cross section from A to A
23 Prime as you saw in the previous exhibits. The wells
24 that I used were the Pygmy 27 State No. 1H, the Battle
25 1H and the Lobo 26 State No. 1H.