

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:

7   APPLICATION OF COG OPERATING, LLC                   CASE NO. 15520  
8   FOR A NONSTANDARD OIL SPACING AND  
9   PRORATION UNIT AND COMPULSORY POOLING,  
10   LEA COUNTY, NEW MEXICO.

11                               REPORTER'S TRANSCRIPT OF PROCEEDINGS

12                               EXAMINER HEARING

13                               August 4, 2016

14                               Santa Fe, New Mexico

15   BEFORE:   WILLIAM V. JONES, CHIEF EXAMINER  
16               DAVID K. BROOKS, LEGAL EXAMINER

17               This matter came on for hearing before the  
18   New Mexico Oil Conservation Division, William V. Jones,  
19   Chief Examiner, and David K. Brooks, Legal Examiner, on  
20   Thursday, August 4, 2016, at the New Mexico Energy,  
21   Minerals and Natural Resources Department, Wendell Chino  
22   Building, 1220 South St. Francis Drive, Porter Hall,  
23   Room 102, Santa Fe, New Mexico.

24   REPORTED BY:   Mary C. Hankins, CCR, RPR  
25                   New Mexico CCR #20  
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1 (8:23 a.m.)

2 EXAMINER JONES: Case 15520, application of  
3 COG Operating, LLC for a nonstandard oil spacing and  
4 proration unit and compulsory pooling, Lea County, New  
5 Mexico.

6 Call for appearances.

7 MR. CARR: Good morning, Mr. Examiners. My  
8 name is William F. Carr. I'm senior counsel to Concho  
9 Resources, appearing on behalf of COG Operating, LLC,  
10 and I have two witnesses.

11 MR. BRUCE: Mr. Examiner, Jim Bruce of  
12 Santa Fe representing Yates Petroleum Corporation. I  
13 have no witnesses.

14 EXAMINER JONES: Will the witnesses please  
15 stand?

16 And will the court reporter swear the  
17 witnesses?

18 (Michael Wallace and Logan Chatterton  
19 sworn.)

20 EXAMINER JONES: Go ahead.

21 MR. CARR: May it please the Examiners,  
22 initially I would like to make a brief statement sort of  
23 to put this case in context because it is slightly  
24 different from a normal compulsory pooling case.

25 As you know, COG seeks an order today

1 compulsory pooling the west half-west half of Section  
2 13, Township 23 South, Range 43 East in Lea County,  
3 New Mexico. We are asking you to pool a 160-acre  
4 nonstandard spacing unit for our Banter State 4H well.  
5 You need to know that this well was drilled. It was  
6 drilled in April -- spud in April of 2015, and it was  
7 necessary to drill at that time to keep two state oil  
8 and gas leases from expiring. They were expiring, I  
9 believe, the 1st of May 2015.

10 When COG drilled, we believed that all  
11 interests were committed to the well either by agreement  
12 of the parties or under an old operating agreement, an  
13 operating agreement dated in, I think, 1987.

14 After the well was drilled, OXY, a party  
15 who we understood was being committed under that  
16 operating agreement, elected to go nonconsent under that  
17 operating agreement, and a dispute arose between Yates  
18 Petroleum Corporation and OXY as to the ownership of  
19 that interest. Both Yates and OXY claim it, and now we  
20 have recently found out court actions may be required to  
21 establish that ownership. It could result in OXY having  
22 the interest, which may or may not be committed to this  
23 well, and it could take some time.

24 I think it's important to note that COG  
25 takes no position on the dispute between OXY and Yates.

1 We simply operate the well, and we have a statutory  
2 obligation to combine all interests in that well. But  
3 to protect these leases, we not only have to drill, we  
4 have to produce these wells. This well -- it's a  
5 horizontal well. And before we can produce and  
6 transport, we have to have a C-104. And to get a C-104  
7 under the rules, all interests must be committed. And  
8 so we are here today to assure that the interests are  
9 committed whenever this dispute is resolved.

10 We will have produced the well. We have  
11 escrowed or suspended the funds which are attributable  
12 to this interest, and if the -- once the ownership is  
13 established and it is properly committed, then we will  
14 be able to make payment. That's why we're here.

15 MR. BRUCE: Mr. Examiner, I agree with what  
16 Mr. Carr is stating, just a little more explanation,  
17 that the four main Yates entities entered into a JOA in  
18 1987, and it covered the lease that Mr. Carr was  
19 referring to or ended up covering that agreement. And  
20 as Mr. Carr said, the well had to be drilled to save the  
21 lease.

22 OXY-Y1 Company, which was formally Yates  
23 Drilling Company, nonconsented the well and, therefore,  
24 under its Yates position, that under the old JOA, OXY-Y1  
25 Company now owes an assignment of its entire interest in

1 the lease to Yates Petroleum Corporation. Yates is  
2 preparing legal action to enforce to recover its lease  
3 holding interest, at which time it would offer that  
4 interest proportionately to the working interest owners  
5 in the well who did consent to it, including COG  
6 Operating. So they are -- you know, they're not just  
7 getting it for themselves. It will be under a newer  
8 JOA. It will be spread among the working interest  
9 owners.

10 But we're just here to make sure what  
11 Mr. Carr stated was, you know, that they're taking no  
12 position as between OXY-Y1 Company and Yates Petroleum  
13 Corporation and that if it's resolved in Yates' favor,  
14 then the pooling order would be void from the beginning,  
15 I believe.

16 MR. CARR: And that's correct. We would  
17 advise the Division of that if that occurs and when that  
18 occurs.

19 EXAMINER JONES: Do you represent Yates  
20 Petroleum Corporation?

21 MR. BRUCE: Yes.

22 EXAMINER JONES: But nobody is here for  
23 OXY-Y1?

24 MR. BRUCE: No. They were given notice of  
25 the hearing. I believe Mr. Wallace will give testimony.

1 MR. CARR: Call Mike Wallace.

2 MICHAEL WALLACE,

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

5 DIRECT EXAMINATION

6 BY MR. CARR:

7 Q. Would you state your name and place of  
8 residence, please?

9 A. Michael Wallace, Midland, Texas.

10 Q. Mr. Wallace, by whom are you employed and in  
11 what capacity?

12 A. By COG Operating, LLC as a landman.

13 Q. And how long have you worked for COG?

14 A. Approximately four-and-a-half years.

15 Q. And you're a petroleum landman?

16 A. Yes.

17 Q. And is your area of COG responsibility in Lea  
18 County, which is involved in this case?

19 A. Yes.

20 Q. And have you previously testified before the  
21 Oil Conservation Division and before Examiner Jones and  
22 Examiner Brooks, and have your credentials as an expert  
23 in petroleum land matters been accepted and made a  
24 matter of record?

25 A. I have [sic].



1           Q.    Are you familiar with the application filed in  
2 this case?

3           A.    Yes.

4           Q.    Are you familiar with the well and the status  
5 of the lands?

6           A.    Yes.

7           Q.    Have you prepared exhibits for presentation to  
8 the Division here today?

9           A.    I have.

10                   MR. CARR:  We tender Mr. Wallace as an  
11 expert in petroleum land matters.

12                   EXAMINER JONES:  Any objection?

13                   MR. BRUCE:  No objection.

14                   EXAMINER JONES:  He is qualified.

15           Q.    (BY MR. CARR) Mr. Wallace, would you state what  
16 COG Operating is seeking in this order?

17           A.    We are seeking a pooling order pooling OXY-Y1  
18 in our nonstandard spacing unit for the Banter State Com  
19 #4H, which is in the --

20                   Go ahead.  Sorry.

21           Q.    Go ahead.

22           A.    -- which is in the west half-west half of  
23 Section 13, 23 South, 34 East, Lea County.

24           Q.    And the Banter well has been drilled?

25           A.    Yes, it has.

1 Q. Do you know when that drill actually occurred?

2 A. It started drilling in April of 2015.

3 Q. And was completed when?

4 A. In January of '16.

5 Q. When the Banter State well was drilled, did COG  
6 own an interest or have a consent of the lessee or  
7 mineral interest owners in each tract in which any part  
8 of the well's completed interval would be located?

9 A. Yes, we did.

10 Q. Why was it important to drill at the time it  
11 was drilled?

12 A. Because the leasehold consisting of a spacing  
13 unit is two state leases that were expiring -- were  
14 going to expire if we didn't drill the well.

15 Q. Were both of the leases scheduled to expire?

16 A. Yes.

17 Q. And when approximately was that?

18 A. That was in May of 2015.

19 Q. And Yates had an interest in the well?

20 A. Yes.

21 Q. And they've indicated, the Yates companies,  
22 that they will participate in the well?

23 A. That's correct.

24 Q. When you drilled the well, was it your  
25 understanding that all interests in the well were

1 committed?

2 A. Yes.

3 Q. When did this dispute develop between Yates and  
4 OXY?

5 A. When OXY-Y1 elected to go nonconsent under the  
6 proposal -- under the operating agreement that covers  
7 OXY.

8 Q. And at that time had the wellbore already been  
9 drilled?

10 A. Yes.

11 Q. Have you been party to communications between  
12 OXY and Yates, as well as communications directly  
13 between COG and the parties?

14 A. I've communicated with both parties.

15 Q. And have -- do you understand the dispute  
16 surrounds whether or not a reassignment is required  
17 under an old operating agreement?

18 A. That is my understanding, yes.

19 Q. And is COG taking any position on that dispute  
20 whatsoever?

21 A. No.

22 Q. And you're now seeking to pool the interest of  
23 OXY for what reason?

24 A. If -- if they do -- if there is litigation over  
25 this interest and OXY-Y1 prevails, then we will need a

1 pooling order to have their interest covered under an  
2 agreement.

3 Q. At this time do you know whether or not even  
4 prevailing would be effective to commit their interest  
5 to the well?

6 A. Do not.

7 Q. Let's go to what has been marked as COG Exhibit  
8 Number 1. Would you identify that for the Examiners,  
9 please?

10 A. This is a C-102 for the Banter State Com #4H.

11 Q. What does this show?

12 A. It shows the nonstandard spacing unit for that  
13 well. It shows that we seek to pool the Antelope  
14 Ridge-Bone Spring North Pool. The pool code is 2205.  
15 It also shows API Number 3002542519.

16 Q. What is the target for this well?

17 A. The 3rd Bone Spring.

18 Q. And is this area governed by statewide rules?

19 A. Yes, it is.

20 Q. And this shows the location of the lateral of  
21 the Banter well?

22 A. Yes, it does.

23 Q. And is the Banter well located at at least  
24 standard setbacks from the outer boundary of the  
25 dedicated spacing unit?

1           A.     Yes.

2           Q.     What is the nature of the lands in this spacing  
3     unit?

4           A.     It's two state leases.

5           Q.     Let's go to what has been marked as COG Number  
6     2.  Would you identify that, please?

7           A.     This is the land tract map showing  
8     the additional tracts in the spacing units, as well as  
9     the interest owners in those tracts.  And it also has a  
10    recap at the end of the ownership.

11          Q.     When I look at the recalculation of the  
12    ownership interest and you go to the bottom of that, for  
13    the first time there is an interest indicated -- there  
14    is an asterisk in front of it -- G&P Exploration  
15    Company.  What is that interest?

16          A.     They own an interest in our spacing unit  
17    contractually through an agreement between the Yates  
18    entities and G&P.

19          Q.     And has that interest been carved out of the  
20    Yates interest?

21          A.     Yes.

22          Q.     And that interest has been voluntarily  
23    committed to the well?

24          A.     Yes.

25          Q.     Let's go to what has been marked as COG Exhibit

1 Number 3, please. Would you identify that?

2 A. This is the comm agreement that was approved by  
3 the Commission of Public Lands, State of New Mexico.

4 Q. Combining the two leases that are the subject  
5 of this hearing?

6 A. That is correct.

7 Q. In your opinion, have all interests except the  
8 interest of OXY been committed to the Banter well?

9 A. Yes.

10 Q. What efforts have you made to secure voluntary  
11 participation of OXY in the well?

12 A. We were negotiating a format agreement for a  
13 period of time. I sent them an operating agreement to  
14 execute. They did not, and they've elected to go  
15 nonconsent in the well.

16 Q. They declined to farm out?

17 A. Yes, that is correct.

18 Q. They declined to join in an operating agreement  
19 that would hopefully correct this situation?

20 A. That is correct.

21 Q. And has their position changed in any way since  
22 you initially started discussing options with them about  
23 participating in the well?

24 A. No.

25 Q. I'm going to ask you to refer to what I have

1 marked as Exhibit 3A. Would you just identify what this  
2 is?

3 A. 3A is a letter from Yates stating their  
4 position and the sequence of events.

5 Q. All right. Before we do that, is there also a  
6 letter attached as part of this exhibit from OXY?

7 A. Yes.

8 Q. Let's go to the OXY letter first. What does  
9 that letter say?

10 A. It says, "Please be advised OXY-Y1 Company,  
11 OXY, elects not to participate in the subject well  
12 proposal."

13 Q. And that was in January of this year?

14 A. That is correct.

15 Q. Since that time, has their position changed in  
16 any way?

17 A. No.

18 Q. And during that time, was there an attempt to  
19 farm out -- to negotiate a farm-out and a joint  
20 operating agreement?

21 A. Correct.

22 Q. Now, let's go to the Yates letter. What is the  
23 date on this letter?

24 A. July 25th, 2016.

25 Q. If you would go to the second paragraph and I

1 think drop down to the third line and start with the  
2 word "OXY," and just read that line into the record,  
3 please.

4 A. It says, "OXY-Y1 Company has no authority to  
5 trade, continue to own or otherwise contractually commit  
6 this interest to any other parties."

7 Q. Now, based on these communications, do you  
8 believe there is a dispute as to the ownership of this  
9 interest?

10 A. Yes.

11 Q. And we're not taking a position on that?

12 A. No, we are not.

13 Q. Have you made a good-faith attempt to secure  
14 the voluntary participation of OXY in this well?

15 A. I have.

16 Q. Have they been notified of today's hearing?

17 A. They have.

18 Q. And there are letters included in the Notice of  
19 Affidavit?

20 A. Yes.

21 Q. Let's take a look at Exhibit Number 4, please.  
22 Would you identify this?

23 A. This is a copy of an AFE for this well.

24 Q. And was this submitted to all parties?

25 A. It was.



1 Q. And what are the totals for the well?

2 A. The total drill cost was \$7,055,040.

3 Q. How do these compare to the actual costs now  
4 incurred in the drilling of the well?

5 A. The actual drilling costs are a little more.

6 Q. More than a little; were they not?

7 A. Yeah, they were.

8 Q. How much -- what do you estimate them to be?

9 A. The total drill cost was approximately  
10 \$9 million.

11 Q. And there are still some figures that haven't  
12 come in from suppliers, and also the number is still not  
13 exactly right; is that correct?

14 A. Yes, that's correct.

15 Q. Now, in terms of how we would -- these are  
16 actual costs. Are we seeking a risk charge against OXY  
17 if, in fact, they prevail in the litigation?

18 A. No, we are not.

19 Q. Are we simply asking that they pay their share  
20 of the actual well cost to participate, should they  
21 prevail?

22 A. That is correct.

23 Q. Let's go to what has been marked as COG Exhibit  
24 Number 5. Just identify that.

25 A. This is a notice list for the mineral owners in

1     our spacing unit, as well as the offset owners.

2           Q.     And there is a plat with letters in it, and  
3     they correspond to the letters that identify the owners  
4     in these several pages attached thereto?

5           A.     That's correct.

6           Q.     Was this prepared by you?

7           A.     It was.

8           Q.     Does this include all interests -- all  
9     ownership interests in the well except for the State of  
10    New Mexico which has approved the comm?

11          A.     That's correct.

12          Q.     Were all of them -- were notice letters sent to  
13    each of these individuals?

14          A.     They were.

15          Q.     Were all of them received?

16          A.     No.

17          Q.     Were some unclaimed?

18          A.     That is correct.

19          Q.     Have you checked this list -- your list against  
20    the actual return receipts and letters, and can you  
21    confirm that all interest owners who did not accept a  
22    letter or the letters were returned received notice by  
23    publication?

24          A.     That is correct.

25          Q.     And would you identify what has been marked as

1 COG Operating Exhibit Number 7?

2 A. This is the Affidavit of Publication, published  
3 July 16th, 2016 in the Hobbs News-Sun.

4 Q. And every interest owner has either received  
5 actual notice by receiving a certified letter or has  
6 been provided notice by publication; is that right?

7 A. That's correct.

8 Q. Would you identify what has been marked as  
9 Exhibit Number 6?

10 A. This is the affidavit signed by you showing  
11 that all parties received notice.

12 Q. Will Yates call a geologic witness to review  
13 that portion of the case?

14 A. Concho?

15 Q. Concho.

16 A. Yes.

17 MR. CARR: Your past comes to haunt you.

18 Q. (BY MR. CARR) Were Exhibits 1 through 5 and 7  
19 prepared by you or prepared under your direction?

20 A. Yes.

21 MR. CARR: May it please the Examiner, I  
22 would move the admission of COG Operating Exhibits 1  
23 through 5 and 7 at this time.

24 EXAMINER JONES: Any objection?

25 MR. BRUCE: No objection.

1                   MR. CARR: Also moved the admission of  
2 Exhibit 6, which is my Notice of Affidavit. As you will  
3 note, the letters have been signed by Gary Larson at the  
4 Hinkle Firm, but he was in conflict when Yates entered  
5 the dispute. And so the notice letters were actually  
6 signed by him. I have reviewed each one against the  
7 ownership records, and this affidavit is -- I think  
8 confirms -- and it's broken down by type of ownership,  
9 you can see. But notices, in fact -- letters, in fact,  
10 were sent to all interest owners in the well. And I can  
11 also confirm that anyone who didn't receive the letter  
12 has received notice by publication. So I would move the  
13 admission of Exhibit 6.

14                   EXAMINER JONES: What do you think, David?

15                   EXAMINER BROOKS: Any objection?

16                   MR. BRUCE: No objection.

17                   EXAMINER BROOKS: Then I think it should be  
18 admitted.

19                   EXAMINER JONES: Exhibits 1 through 7 are  
20 admitted.

21                   (COG Operating, LLC Exhibit Numbers 1  
22 through 7 are offered and admitted into  
23 evidence.)

24                   MR. CARR: That concludes my examination of  
25 Mr. Wallace.

1 MR. BRUCE: Couple of questions.

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

4 Q. Mr. Wallace, did you receive a copy of the  
5 demand letter sent from Yates Petroleum Corporation to  
6 OXY-Y1 Company earlier this year?

7 A. Possibly, yes. I don't recall.

8 Q. Would you have been in touch with Mr. Moran,  
9 Mr. Chuck Moran, at Yates Petroleum Corporation  
10 regarding this matter?

11 A. Absolutely. Yes. We've discussed it.

12 Q. And as we refer to your Exhibit 3A, the letter  
13 from Yates to you, on page 2, it does state that Yates  
14 is claiming the interest on behalf of the parties who  
15 drilled the well and is willing to -- assigned interest,  
16 assuming it went to the lawsuit, with the other working  
17 interests in the well; does it not?

18 A. It does.

19 Q. And, again, COG takes no position with regard  
20 to the dispute between Yates and OXY-Y1 Company?

21 A. That's correct.

22 Q. Thank you, Mr. Wallace.

23 CROSS-EXAMINATION

24 BY EXAMINER JONES:

25 Q. Those two state leases involved, who is the

1 lessee of record of those?

2 A. The original lessees of record were Yates  
3 Petroleum, Allar Company, and it's actually -- one  
4 second. I'm sorry. COG Operating, Yates Petroleum  
5 Corporation, Allar Company.

6 Q. And those leases are still in good standing?

7 A. Yes, they are.

8 Q. Rentals have been paid on them?

9 A. Yes.

10 Q. Did you get a short-term comm agreement? Is  
11 that what COG sought?

12 A. We got an expedited comm agreement, yes.

13 Q. Did everyone sign the comm agreement?

14 A. The lessees of record did, yes.

15 Q. Lessees of record.

16 The dispute is only between Yates Petroleum  
17 and OXY-Y1; is that correct?

18 A. Correct.

19 Q. And the interest you listed on your -- on your  
20 disclosure, was that interest as if OXY-Y1 still owns  
21 the --

22 A. That is correct.

23 Q. Okay. So that could change?

24 A. Yes.

25 Q. And what would it look like if -- what would it

1 look like if Yates Petroleum won? It would just --  
2 OXY-Y1 would not be there anymore, and Yates would own  
3 more of the interest they already own; is that correct?

4 A. Correct.

5 MR. CARR: Mr. Jones, that 10 percent  
6 interest would be re-assigned to the parties who have  
7 paid the costs of the well and the proportion that they  
8 each contributed to the cost.

9 MR. BRUCE: That is correct. They would  
10 have the option to elect.

11 MR. CARR: Right. That's correct.

12 EXAMINER JONES: So if they -- if they --  
13 if any one of those parties didn't want to accept the  
14 additional cost, then what would happen?

15 MR. BRUCE: Whatever wasn't -- didn't elect  
16 would be owned by Yates Petroleum Corporation. So if a  
17 party who was entitled to a 1 percent interest didn't  
18 take it -- well, there are two ways to handle it, I  
19 believe. Michael -- Mr. Wallace can confirm either  
20 Yates keeps it or that 1 percent would be offered to the  
21 other parties -- consent.

22 Q. (BY EXAMINER JONES) Okay. I guess you'll have  
23 another witness, but why was the cost so much more?

24 A. They had difficulty while drilling, and there  
25 was some water take-away costs, is my understanding.

1 Q. Is there any controversy over the costs from  
2 the working interest owners so far --

3 A. Not so far, no.

4 Q. -- that you know of?

5 MR. CARR: We would anticipate that, if  
6 pooled and if OXY prevailed, they would have an option  
7 to join based on the actual costs in the AFE and to  
8 enter an objection to those costs if anyone thought that  
9 wasn't appropriate.

10 EXAMINER JONES: Which is standard.

11 MR. CARR: Well, which is like it would be  
12 handled in a normal pooling order.

13 Q. (BY EXAMINER JONES) Okay. So this well has  
14 already been drilled, so you're asking for a retroactive  
15 date on --

16 MR. CARR: We're just trying to cover  
17 ourselves. We have been producing and selling  
18 production from a well in which we didn't have all  
19 interests, and, therefore, it violates the horizontal  
20 drilling rule. So it should be effective from the date  
21 of the production.

22 EXAMINER BROOKS: Well, it hasn't been  
23 produced yet, right?

24 THE WITNESS: It is producing.

25 EXAMINER BROOKS: Oh, okay.



1                   MR. CARR: They have just -- they started  
2   sometime and completed January 31st and started  
3   producing --

4                   EXAMINER BROOKS: Yeah.

5                   MR. CARR: -- sometime well thereafter.  
6   And then as this thing continued to evolve.

7                   The question is: What if we don't have  
8   everybody in and removing production from the lease, so  
9   we want to be sure we have all those bases covered when  
10   this dispute is resolved.

11                  EXAMINER BROOKS: Well, as I'm sure you're  
12   aware, since you have the Oil and Gas Act memorized,  
13   there is a provision in the Oil and Gas Act which can be  
14   read -- not necessarily but can be read as mandating  
15   compulsory pooling orders retroactive to the first  
16   production.

17                  MR. CARR: That's right. That's right.  
18   7214C [sic] (laughter).

19                  MR. BRUCE: And then, of course, there is  
20   the Jack Grynberg case, one of Mr. Carr's old clients,  
21   saying that you can carry somebody in a well unit.

22                  EXAMINER BROOKS: Well, to refer to the  
23   Jack Grynberg case is kind of like my law professor --  
24   my oil and gas professor in law school said, Guess how  
25   many cases there are -- Humble Oil against the Railroad

1 Commission (laughter)? I think Jack Grynberg must take  
2 up several pages in the case name index digest.

3 EXAMINER JONES: So the newspaper notice  
4 included everybody's name, it looks like, or a lot of  
5 names. But you're not only seeking to pool --

6 MR. CARR: No.

7 EXAMINER JONES: -- one party?

8 MR. CARR: We're seeking to pool one party,  
9 but this is an unusual enough matter that we wanted to  
10 cover the bases and notify everyone in the unit and  
11 everyone offsetting so if anyone had concerns, they  
12 could contact us. We wanted to err on the side of  
13 giving too much notice.

14 EXAMINER JONES: Are there any other wells  
15 involved in this space -- in this project area?

16 THE WITNESS: No.

17 EXAMINER BROOKS: I don't believe I have  
18 any questions.

19 EXAMINER JONES: What about COPAS for this?

20 MR. CARR: And I skipped that question. It  
21 was not intentional.

22 Q. (BY MR. CARR) Mr. Wallace, what is the overhead  
23 and administrative costs that you are recommending being  
24 posed in this order?

25 A. 7,000 a month for drilling and 700 a month for

1 producing.

2 Q. Is that consistent with other wells in the  
3 area?

4 A. Yes.

5 Q. And are those numbers the numbers that would  
6 apply to other interest owners in the well?

7 A. Yes.

8 EXAMINER JONES: And the risk penalty  
9 language that you're requesting, are you requesting that  
10 be specifically applied only to OXY-Y1's interest?

11 MR. CARR: Yes, because that's the interest  
12 we're pooling.

13 EXAMINER BROOKS: You're not pooling any  
14 other interests?

15 MR. CARR: No, we're not. We're not.  
16 We're just -- it's like a contingent pooling. We want  
17 to be certain --

18 EXAMINER BROOKS: Yeah.

19 MR. CARR: -- since we can't get much back  
20 from there, that we have this interest covered.

21 EXAMINER BROOKS: All other interests are  
22 voluntarily committed?

23 MR. CARR: Correct. That is correct.

24 EXAMINER JONES: Why did it take so long to  
25 come to hearing on this?

1                   MR. CARR: There was a farm-out  
2 circulating.

3                   EXAMINER JONES: Okay.

4                   MR. CARR: There was this discussion on an  
5 operating agreement at various levels. In fact,  
6 everyone except OXY-Y1 signed the new one. And it kept  
7 looking like maybe, and then it became apparent that  
8 nothing was moving forward and time was becoming an  
9 issue.

10                  EXAMINER BROOKS: Very good.

11                  EXAMINER JONES: Thank you very much.

12                  MR. CARR: Now, Mr. Examiner, since the  
13 well's been drilled and completed, it throws some -- it  
14 casts some light --

15                  EXAMINER JONES: I understand. You're in a  
16 hurry.

17                  MR. CARR: -- on the geological  
18 presentation. But we have a very brief geological  
19 presentation in case some interest, OXY's interest,  
20 falls under the pooling order. And so at this time,  
21 with your permission, we'd like to have Mr. Wallace  
22 excused, and I will call Logan Chatterton to the stand.

23                                 LOGAN CHATTERTON,  
24           after having been previously sworn under oath, was  
25           questioned and testified as follows:

1 DIRECT EXAMINATION

2 BY MR. CARR:

3 Q. Would you state your name and place of  
4 residence, please?

5 A. Logan Chatterton, Midland, Texas.

6 Q. Mr. Chatterton, by whom are you employed?

7 A. COG Operating, LLC.

8 Q. And what is your position with COG?

9 A. I'm a geologist.

10 Q. How long have you been with COG?

11 A. Just over a year.

12 Q. Does your area of responsibility include the  
13 portion of southeast New Mexico that is involved in this  
14 case?

15 A. Yes, it does.

16 Q. Have you previously testified before the Oil  
17 Conservation Division?

18 A. No, I have not.

19 Q. Would you review for the Examiners your  
20 educational background and work experience?

21 A. I received my bachelor's of science in geology  
22 at Oklahoma State University, and while there, I did an  
23 internship with the United States Geological Survey,  
24 Chesapeake. After graduation, I went to get my master's  
25 at Oklahoma State University in geology, and while

1     there, I had an internship with COG Operating, LLC.

2     After graduation, I was hired full time by COG.

3           Q.     Are you a member of any professional  
4     associations?

5           A.     Yeah, AAPG, GSA and WTGS.

6           Q.     Are you familiar with the application filed in  
7     this case?

8           A.     Yes, I am.

9           Q.     Have you made a geological study of the area  
10    that is involved?

11          A.     Yes, I have.

12          Q.     Have you prepared exhibits for presentation  
13    here today?

14          A.     Yes.

15                   MR. CARR:   We tender Mr. Chatterton as an  
16    expert witness in petroleum geology.

17                   EXAMINER JONES:   Any objection?

18                   MR. BRUCE:   No objection.

19                   EXAMINER JONES:   He is qualified as an  
20    expert in petroleum geology.

21          Q.     (BY MR. CARR) Mr. Chatterton, would you refer  
22    to what has been marked as Exhibit Number 8?  Identify  
23    this and review it for the Examiners.

24          A.     This is a location map showing the Banter State  
25    Com 4H, COG's acreage highlighted in yellow.  The blue

1 or purple lines are the 3rd Bone Spring producers in the  
2 area. And it also shows a three-well cross section.

3 Q. And where is the trace in that cross section?

4 A. It's in green.

5 Q. Would you refer to COG Exhibit 12?

6 A. This is the same map as before but with a  
7 subsea depth structure map on the top of the 3rd Bone  
8 Spring.

9 Q. And what does this tell us about this --

10 A. It shows there is no variation in the structure  
11 along the wellbore.

12 Q. Do you see anything in terms of structure that  
13 would be an impediment to drilling a horizontal well --

14 A. No.

15 Q. -- as proposed?

16 A. No, I do not.

17 Q. All right. We've already seen the trace for  
18 the cross section.

19 Would you refer to our next exhibit,  
20 Exhibit Number 10, and identify this and review it?

21 A. This is the three-well cross section shown  
22 better, hung on the 3rd Bone Spring. You can see there  
23 is no variation of thickness, and it's also showing our  
24 interval of interest in the 3rd Bone Spring for which  
25 the well was drilled.

1 Q. Are there any impediments to developing the  
2 area using this full-section horizontal well?

3 A. No.

4 Q. And, in fact, that's what we know because the  
5 well has been drilled?

6 A. Yes.

7 Q. In your opinion, is the acreage that you  
8 have -- that we have included in this nonstandard  
9 spacing unit at each of the tracts -- will each of the  
10 tracts, on average, contribute more or less equally to  
11 the production from the well?

12 A. Yes.

13 Q. In your opinion, will the granting of this  
14 application be in the best interest of conservation, the  
15 prevention of waste and the protection of correlative  
16 rights?

17 A. Yes.

18 Q. When we look at this cross section, why did you  
19 not include the --

20 A. We did not take a pilot hole in the Banter, and  
21 it doesn't show the full interval.

22 Q. Were Exhibits 8, 9 and 10 prepared by you?

23 A. Yes.

24 MR. CARR: I move admission into evidence  
25 of COG Exhibits 8, 9 and 10.



1 MR. BRUCE: No objection.

2 EXAMINER JONES: Exhibits 8 through 10 are  
3 admitted.

4 (COG Operating, LLC Exhibit Numbers 8  
5 through 10 are offered and admitted into  
6 evidence.)

7 CROSS-EXAMINATION

8 BY MR. BRUCE:

9 Q. Just one question. COG has a preferred well  
10 unit orientation in the Bone Spring in this area?

11 A. As you can see on the location map, all our  
12 wells are drilled north to south, and that's what we do,  
13 north to south or south to north.

14 Q. Okay. Thank you.

15 CROSS-EXAMINATION

16 BY EXAMINER JONES:

17 Q. Does COG have any other targets in the Bone  
18 Spring within this project area that you would drill --  
19 you will be drilling, and at what time would you do that  
20 drilling?

21 A. Not to my knowledge at this point in time.

22 Q. Everything's kind of shut down right now, or  
23 what?

24 A. No. Just as far as the 3rd Bone Spring,  
25 just -- we drilled this one and we're testing it out.

1 Q. Okay.

2 A. Yeah.

3 Q. Okay. Those Caza wells next door, are those  
4 pretty good wells?

5 A. I believe they are.

6 Q. Like how good?

7 A. They're producing in paying quantities. Good.

8 Q. You've been talking to Mr. Carr.

9 (Laughter.)

10 EXAMINER BROOKS: Well, we're aware of the  
11 paying quantities, rather large quantities at this time.

12 MR. CARR: I thought it was a very good  
13 answer (laughter).

14 Q. (BY EXAMINER JONES) So the strike is what  
15 direction, and the dip is what direction?

16 A. East-southeast.

17 Q. Okay. Dip would be east-southeast?

18 A. Yes. Sorry. The strike would be north to  
19 south.

20 Q. North to south.

21 Okay. This is 40-acre spacing in this  
22 statewide pool, so will all 40-acre tracts in the well  
23 contribute to production --

24 A. Yes, sir.

25 Q. -- of the well?

1 EXAMINER BROOKS: Please answer for the  
2 court reporter.

3 THE WITNESS: Oh. Yes. Sorry.

4 EXAMINER BROOKS: I saw him shaking his  
5 head, but --

6 EXAMINER JONES: We have a lot of  
7 transcripts that say "nodding the head."

8 MR. CARR: But we don't know which way.

9 EXAMINER JONES: Yeah, which way.

10 (Laughter.)

11 MR. BRUCE: That's usually Mr. Carr.

12 MR. CARR: You better --

13 EXAMINER BROOKS: I have no more questions.

14 Q. (BY EXAMINER JONES) The well costs -- what was  
15 the problem on the well costs?

16 A. We just ran into drilling issues while  
17 drilling.

18 Q. What kind of drilling issues?

19 A. I really don't know.

20 Q. Okay. That's fine.

21 A. Yeah. Yeah.

22 Q. Thank you very much.

23 A. Yes, sir.

24 EXAMINER JONES: Going to court, huh?

25 I'm through with my questions.

1 MR. CARR: That concludes my presentation.

2 EXAMINER JONES: Any further statements?

3 MR. BRUCE: I would like to -- assuming a  
4 pooling order is going to be entered, I would like some  
5 reference to the dispute between Yates and OXY-Y1  
6 Company.

7 MR. CARR: And we certainly agree with  
8 that.

9 EXAMINER JONES: Okay. Thank you both.

10 EXAMINER BROOKS: Thank you.

11 MR. CARR: Thank you.

12 EXAMINER BROOKS: Glad you're here to  
13 present a case, Mr. Carr.

14 MR. CARR: Well, look fast.

15 EXAMINER JONES: So we're taking Case 15520  
16 under advisement.

17 (Case Number 15520 concludes, 9:00 a.m.)

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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court  
6 Reporter, New Mexico Certified Court Reporter No. 20,  
7 and Registered Professional Reporter, do hereby certify  
8 that I reported the foregoing proceedings in  
9 stenographic shorthand and that the foregoing pages are  
10 a true and correct transcript of those proceedings that  
11 were reduced to printed form by me to the best of my  
12 ability.

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

16 I FURTHER CERTIFY that I am neither  
17 employed by nor related to any of the parties or  
18 attorneys in this case and that I have no interest in  
19 the final disposition of this case.

20

21

22 MARY C. HANKINS, CCR, RPR  
23 Certified Court Reporter  
24 New Mexico CCR No. 20  
25 Date of CCR Expiration: 12/31/2016  
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