

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 NON-STANDARD OIL SPACING AND  
PRORATION UNIT AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

CASE 15296

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

MAY 14, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
ALLISON MARKS, LEGAL EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, Michael McMillan,  
Chief Examiner, and Allison Marks, Legal Examiner, on  
May 14, 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  
NEW MEXICO CCR 100  
CALIFORNIA CSR 8670  
PAUL BACA COURT REPORTERS  
500 Fourth Street, NW  
Suite 105  
Albuquerque, New Mexico 87102

1 A P P E A R A N C E S

2 FOR APPLICANT:

3 Gary W. Larson, Esq.  
4 Hinkle Shanor LLP  
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I N D E X

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CASE NUMBER 15296 CALLED

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COG OPERATING LLC CASE-IN-CHIEF:

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WITNESS DAVID MICHAEL WALLACE

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	Direct	Redirect	Further
13 By Mr. Larson	4		

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Examiner McMillan	EXAMINATION Page 12, 14		
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WITNESS CARRIE M. MARTIN

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	Direct	Redirect	Further
18 By Mr. Larson	14		

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20 Examiner McMillan	EXAMINATION Page 18		
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24 Reporter's Certificate			PAGE 20
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E X H I B I T I N D E X  
Exhibits Offered and Admitted

	PAGE
1	
2	
3	
4	COG Operating LLC Exhibit 1 12
5	COG Operating LLC Exhibit 2 12
6	COG Operating LLC Exhibit 3 12
7	COG Operating LLC Exhibit 4 12
8	COG Operating LLC Exhibit 5 12
9	COG Operating LLC Exhibit 6 12
10	COG Operating LLC Exhibit 7 12
11	COG Operating LLC Exhibit 8 18
12	COG Operating LLC Exhibit 9 18
13	COG Operating LLC Exhibit 10 18
14	
15	
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1 (Time is 8:42 a.m.)

2 EXAMINER McMILLAN: At this time, I would  
3 like to call case No. 15296, Application of COG  
4 Operating LLC for a non-standard oil spacing and  
5 proration unit and compulsory pooling, Lea County, New  
6 Mexico.

7 Call for appearances.

8 MR. LARSON: Gary Larson of Hinkle Shanor in  
9 Santa Fe for the Applicant, COG Operating.

10 EXAMINER McMILLAN: Any other appearances?  
11 (No responses.)

12 MR. LARSON: I have two witnesses,  
13 Mr. Examiner.

14 EXAMINER McMILLAN: Can you please get them  
15 sworn in.

16 (Whereupon, the witnesses were administered  
17 the oath.)

18 DAVID MICHAEL WALLACE  
19 having first been duly sworn, was examined and testified  
20 as follows:

21 DIRECT EXAMINATION

22 BY MR. LARSON

23 Q. Good morning, Mr. Wallace, will you please state  
24 your full name for the record.

25 A. David Michael Wallace.

1 Q. And, Mr. Wallace, where do you reside?

2 A. Midland, Texas.

3 Q. And by whom are you employed and in what  
4 capacity?

5 A. I am a senior landman with COG Operating LLC.

6 Q. And what is the focus of your responsibilities as  
7 a senior landman for COG?

8 A. I handle southeast Lea County, New Mexico, all  
9 land issues.

10 Q. Are you familiar with the land matters pertaining  
11 to COG's application in this case?

12 A. Yes.

13 Q. And have you previously testified at a Division  
14 hearing?

15 A. I have.

16 Q. And during those hearings, did the Examiner  
17 qualify you as an expert landman?

18 A. Yes.

19 MR. LARSON: I move that Mr. Wallace be  
20 qualified as an expert in land matters for purposes in  
21 this case.

22 EXAMINER McMILLAN: So qualified.

23 Q. (By Mr. Larson:) I direct your attention to  
24 Exhibit 1. And would you please identify it for the  
25 record.

1 A. This is our C-102 plat for the Coachman Fee Com  
2 4H.

3 Q. And does it identify the proposed project area  
4 for the Coachman Fee well?

5 A. It does.

6 Q. Would you next identify the document marked as  
7 Exhibit No. 2.

8 A. This is my land ownership map for the Coachman  
9 Fee Com 4H project area.

10 Q. And did you prepare this document?

11 A. I did.

12 Q. And if you turn to page 2 of Exhibit 2, have you  
13 identified all of the uncommitted mineral interest  
14 owners and their percentage of ownership?

15 A. That is correct.

16 Q. And I next ask you to identify the document  
17 marked as Exhibit No. 3.

18 A. This is a sample well proposal that we sent out  
19 to all the interest owners in the project area.

20 Q. And did you draft this letter?

21 A. I did.

22 Q. And what documents did you enclose with your  
23 proposal letters?

24 A. An AFE and JOA.

25 Q. And were you able to locate all of the mineral

1 interest owners identified on Exhibit No. 2?

2 A. Yes. I'm sorry. No. There is one owner,.  
3 Thomas W. Butler, who is deceased, that we could not  
4 locate.

5 Q. And were there any offset interests you were  
6 unable to locate?

7 A. Yes. There were two offset interests that we  
8 could not locate.

9 Q. And what efforts did you undertake to try to  
10 locate those individuals?

11 A. I did Internet searches, used NexisLexis and  
12 searched the county records.

13 Q. Referring back to Exhibit 3, were all of the well  
14 proposal letters sent the same date indicated on this  
15 letter, which is March 17, 2015?

16 A. We sent out proposal letters to everyone in our  
17 ownership. Three of them we had to send out  
18 subsequently, when we discovered that other entities  
19 owned the interest.

20 Q. And what interest letters did you send out  
21 subsequent to March 17th?

22 A. On March 26th, I sent out proposals to the Moore  
23 Mineral Group, which consists of several of the Moore  
24 entities in here, and Red Mountain Resources, which was  
25 a subsequent interest owner -- one of the entities in

1 our spacing unit project area -- I'm sorry.

2 Q. And how about Apache?

3 A. I hand-delivered a well proposal to them on  
4 April 24th when I discovered that they owned an interest  
5 in the project area that we had proposed to a different  
6 entity.

7 Q. Apache was a successor of that --

8 A. A subsequent interest owner to that interest.

9 Q. And you hand-delivered the letter as soon as you  
10 realized that Apache was the successor?

11 A. That's correct.

12 Q. And have you subsequently communicated with Red  
13 Mountain regarding the well proposal?

14 A. I have. I have spoken to them on a couple of  
15 occasions, and they expressed that they do not want to  
16 participate in the well.

17 Q. And how about Moore Minerals?

18 A. I've negotiated; they have a representative who  
19 handles all the affairs of their trusts and their  
20 individual interests. And I have negotiated leases with  
21 them.

22 Q. And, lastly, have you communicated with Apache  
23 about the well proposal?

24 A. I have. We are in the process of negotiating a  
25 lease.

1 Q. And other than Apache, Red Mountain and Moore  
2 Minerals, have you subsequently communicated with  
3 uncommitted mineral interest owners about participating  
4 in the well and otherwise entering into an agreement  
5 with COG?

6 A. I've spoken to almost all of them, and I've  
7 negotiated leases with a majority of them.

8 Q. And is timing an issue with regards to COG's  
9 requests for a pooling owner?

10 A. Correct.

11 Q. And why is that?

12 A. Because we have lease expiration issues in this  
13 project area.

14 Q. Would you next identify the document marked as  
15 Exhibit No. 4.

16 A. This is the AFE that we sent out with our  
17 proposal packet to the parties in our project area.

18 Q. And are the well costs identified on the AFE  
19 similar to costs incurred by COG for other Third Bone  
20 Spring horizontal wells?

21 A. That is correct.

22 Q. Would you next identify the document marked as  
23 Exhibit No. 5.

24 A. This is the notification letter we sent out for a  
25 hearing to the interest owners in our project area.

1 Q. Does it also include a list of the uncommitted  
2 mineral interest owners?

3 A. That is correct, as well as the green cards for  
4 receipt.

5 Q. And were these letters sent at your direction?

6 A. Yes.

7 Q. And referring back to Exhibit 2, did you identify  
8 any offset interests that would be entitled to receive  
9 notice of the application in today's hearing?

10 A. Yes, I did.

11 Q. Would you next identify the document marked as  
12 Exhibit No. 6.

13 A. This is the notification letter that was sent out  
14 to the offset interest owners, as well as a list and  
15 green cards for receipt.

16 Q. And were the letters sent to the offset interest  
17 at your direction?

18 A. Yes.

19 Q. And did COG also publish notice of today's  
20 hearing?

21 A. Yes, we did.

22 Q. Could you identify COG Exhibit 7 for the record.

23 A. This is the affidavit of publication that we  
24 published in the paper.

25 Q. And in which paper was that?

1 A. That was the Hobbs New Mexico paper.

2 Q. So the Sun News?

3 A. The Sun News, yes.

4 Q. And what date was the notice published in the  
5 Hobbs Sun News?

6 A. May 2nd.

7 Q. Do you have a recommendation for the amounts COG  
8 should be paid for supervision and administrative  
9 expenses?

10 A. Yes. \$7,000 a month for drilling and \$700 a  
11 month for producing.

12 Q. And are those amounts consistent with and similar  
13 to those charged by COG for other Third Bone Spring  
14 horizontal wells?

15 A. That's correct.

16 Q. And do you also recommend that the rates for  
17 supervision and administrative expenses be adjusted  
18 periodically pursuant to the Copas accounting  
19 procedure?

20 A. Yes.

21 Q. Is COG also requesting a 200 percent charge for  
22 the risk of drilling and completing the Coachman Fee Com  
23 No. 4H well?

24 A. Yes.

25 Q. And in your opinion, will the granting of COG's

1 application serve the interests of conservation and the  
2 preservation [sic] of waste?

3 A. Yes.

4 Q. And given the lease termination issue you've  
5 testified about, do you have a request with regard to  
6 the Division's order addressing COG's pooling  
7 application?

8 A. Yes. We would request an expedited order, if  
9 possible, for the same lease expiration issues.

10 MR. LARSON: I move the admission of COG  
11 Exhibits 1, 2, 3, 4, 5, 6, and 7.

12 EXAMINER McMILLAN: Exhibits 1, 2, 3, 4, 5,  
13 6, and 7 now may be accepted as part of the record.

14 (Whereupon, COG Operating LLC's Exhibits  
15 1 through 7 were offered and accepted as part of the  
16 record.)

17 MR. LARSON: And I pass the witness.

18 EXAMINATION BY EXAMINER McMILLAN

19 EXAMINER McMILLAN: The first question I got  
20 is May the 2nd, is that a Saturday?

21 MR. LARSON: I believe it was.

22 EXAMINER McMILLAN: Okay. So --

23 MS. MARKS: I was trying to bring up my  
24 calendar on the phone and I couldn't.

25 EXAMINER McMILLAN: Because, technically,

1 today would be nine business days.

2 MS. MARKS: 19.15.4.12(b).

3 EXAMINER McMILLAN: "Such proof shall  
4 consist of a copy of a legal advertisement that was  
5 published at least ten business days before the hearing  
6 in a newspaper of general circulation" -- which was the  
7 Hobbs Sun News -- "in the county or counties in which  
8 the property is located, or, if the applicant's effect  
9 is statewide, in a newspaper of general circulation in  
10 this state together with a newspaper's affidavit of  
11 publication."

12 So the 2nd is really not the important date,  
13 because it's a Saturday. Monday would be the start. I  
14 think you're off a day.

15 MR. LARSON: Mr. Examiner, we made the  
16 request earlier that week. That was the first day that  
17 they could get the notice in the paper.

18 EXAMINER McMILLAN: As I'm reading the  
19 regulations, it's saying it is ten business days, and  
20 you are on the ninth today.

21 MR. LARSON: I understand. And we were  
22 watching the green cards as they were coming back with  
23 the certified letters and we realized we needed to  
24 publish. So there was a timeframe there from the time  
25 we sent out the notice letters; that is the day it was

1 published.

2 EXAMINATION BY EXAMINER McMILLAN

3 EXAMINER McMILLAN: Okay. Let's see. Is  
4 it fee and state or just fee?

5 THE WITNESS: Just fee.

6 EXAMINER McMILLAN: And it's for all the  
7 Bone Spring, correct?

8 THE WITNESS: Correct.

9 EXAMINER McMILLAN: I really have no further  
10 questions at this time.

11 MR. LARSON: I have no further questions,  
12 either.

13 EXAMINER McMILLAN: Thank you.

14 MR. LARSON: May I proceed?

15 EXAMINER McMILLAN: Yes. Go ahead.

16 CARRIE M. MARTIN

17 having first been duly sworn, was examined and testified  
18 as follows:

19 DIRECT EXAMINATION

20 BY MR. LARSON

21 Q. Ms. Martin, would you please state your complete  
22 name for the record.

23 A. Carrie M. Martin.

24 Q. And where do you reside?

25 A. Midland, Texas.

1 Q. And by whom are you employed and in what  
2 capacity?

3 A. COG Operating as a geologist.

4 Q. And what is the focus of your responsibilities as  
5 a geologist at COG?

6 A. All geological matters related to southern Lea  
7 County.

8 Q. And are you familiar with the geological aspect  
9 of the proposed Coachman Fee Com No. 4H well and the  
10 matters addressed in COG's application?

11 A. Yes.

12 Q. And have you previously testified at a Division  
13 hearing?

14 A. Yes.

15 Q. During that hearing, did the Examiner accept your  
16 qualifications as an expert in petroleum geology?

17 A. Yes.

18 MR. LARSON: Mr. Examiner, I move for  
19 Ms. Martin's qualifications as an expert petroleum  
20 geologist to be accepted for the purposes of this  
21 hearing.

22 EXAMINER McMILLAN: So accepted.

23 Q. Ms. Martin, were you involved in COG's evaluation  
24 of the prospects for Coachman Fee Com No. 4H well?

25 A. Yes.

1 Q. Does COG have any experience with Third Bone  
2 Spring wells in the area of the proposed Coachman well?

3 A. Yes. We have drilled a number of wells just  
4 across the state line in Texas.

5 Q. And have those Third Bone Spring wells across the  
6 state line been productive?

7 A. Yes.

8 Q. And what was your assessment of the prospects for  
9 the Coachman Fee on the New Mexico side of the state  
10 line?

11 A. The geology around the Coachman Fee Com No. 4H is  
12 similar to what we see across the state line in Texas.

13 Q. Could you identify the document marked as Exhibit  
14 No. 8?

15 A. This is a structure map of the Third Bone Spring  
16 Sand with a 50-foot contour interval. The dashed line  
17 is the location of the Coachman Fee Com No. 4H proposed  
18 location. And the red dot shows a regional type log for  
19 the area.

20 Q. And did you prepare this document?

21 A. Yes.

22 Q. And what role did the structure map have in your  
23 geological analysis of the prospects for the Coachman  
24 well?

25 A. This shows that we had no stratographic

1 pinch-outs in the area, no faulting in the area, and no  
2 geological impediments to drilling a horizontal well.

3 Q. And what other wells in the area at the proposed  
4 Coachman well did you look at?

5 A. I looked at all available regional wells in the  
6 area, and that this is similar to what we see in the  
7 Coachman Fee Com No. 4H.

8 Q. I next ask you to identify the document marked as  
9 Exhibit No. 9.

10 A. This is the type log for the area around the  
11 Coachman Fee Com No. 4H, showing the top of the Third  
12 Bone Spring Sand and the base of the Third Bone Spring  
13 Sand, which is the top of the Wolf Camp Formation.

14 Q. And did you prepare this document?

15 A. Yes.

16 Q. And what role did this document have in your  
17 analysis of the prospects for the Coachman Fee Com No.  
18 4H well?

19 A. This shows that the -- this type log is  
20 representative of the Third Bone Spring in the area.

21 Q. And could you next identify the document marked  
22 as Exhibit 10.

23 A. This is a well plan diagram for the Coachman Fee  
24 Com No. 4H.

25 Q. And did you prepare this document?

1 A. Yes.

2 Q. And will the completed Coachman Fee Com No. 4H  
3 well comply with the Division setback requirements?

4 A. Yes.

5 Q. And in your opinion, will the well be productive  
6 along the entire length of the completed interval?

7 A. Yes.

8 Q. And in your opinion, will the granting of COG's  
9 application serve the interests of conservation and the  
10 preservation [sic] of waste?

11 A. Yes.

12 MR. LARSON: Mr. Examiner, I move the  
13 admission of COG Exhibits 8, 9, and 10.

14 EXAMINER McMILLAN: Exhibits 8, 9, and 10  
15 may be accepted as part of the record.

16 (Whereupon, COG Operating LLC's Exhibits 8,  
17 9, and 10 were offered and accepted as part of the  
18 record.)

19 EXAMINATION BY EXAMINER McMILLAN

20 EXAMINER McMILLAN: When you looked at an  
21 isopach, did you see any variation or is it the same?

22 THE WITNESS: This whole area has similar  
23 thickness within the Third Bone Spring Sand.

24 EXAMINER McMILLAN: I have no further  
25 questions at this time.

1 Case No. 15296 will be continued until  
2 May 28th for defective notice.

3 MR. LARSON: Is that the publication notice?

4 EXAMINER McMILLAN: Yes.

5 MR. LARSON: Thank you.

6 EXAMINER McMILLAN: Thank you very much now.

7 What we are going to do now is we are going  
8 to take about a five-minute break. And I believe then  
9 we will hear the Devon case. Thank you.

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(Time noted 9:00 a.m.)

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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. \_\_\_\_\_  
heard by me on \_\_\_\_\_

\_\_\_\_\_, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO )  
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2 COUNTY OF BERNALILLO ) ss.

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REPORTER'S CERTIFICATE

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

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



ELLEN H. ALLANIC, CSR  
NM Certified Court Reporter No. 100  
License Expires: 12/31/15