

1 STATE OF NEW MEXICO  
2 ENERGY, MINERAL AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION COMMISSION

4 APPLICATION OF COG OPERATING, LLC, TO REOPEN CASE  
5 NUMBER 15333 TO AMEND ORDER R-14010, LEA COUNTY,  
6 NEW MEXICO

7 CASE NO. 15333 (Reopened)

8 BEFORE: MICHAEL McMILLAN, Lead Examiner  
9 DAVID K. BROOKS, Legal Examiner  
10 WILLIAM JONES, Examiner

11 TRANSCRIPT OF PROCEEDINGS

12 March 31, 2016

13 Santa Fe, New Mexico

14  
15 This matter came on for hearing before the New  
16 Mexico Oil Conservation Division, MICHAEL McMILLAN,  
17 Lead Examiner, and DAVID K. BROOKS, Legal Examiner,  
18 and WILLIAM JONES, Examiner, on Thursday, March 31,  
19 2016, at the New Mexico Energy, Minerals and Natural  
20 Resources Department, 1220 South St. Francis Drive,  
21 Room 102, Santa Fe, New Mexico.

22  
23 REPORTED BY: PAUL BACA, CCR #112

24 PAUL BACA COURT REPORTERS  
25 500 4th Street, NW, Suite 105  
Albuquerque, New Mexico 87102

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

2 For COG:

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1                   EXAMINER McMILLAN: I would like to call  
2 the next case, Case Number 15333, reopened,  
3 application of COG Operating, LLC, to reopen Case  
4 Number 15333 to amend Order R-14010, Lea County,  
5 New Mexico.

6                   Call for appearances.

7                   MS. KESSLER: Mr. Examiners, Jordan  
8 Kessler from the Santa Fe office of Holland and Hart  
9 on behalf of COG Operating, LLC.

10                  EXAMINER McMILLAN: Any other appearances?

11                  MS. KESSLER: I have two witnesses today.

12                  EXAMINER McMILLAN: If the witnesses would  
13 stand up and be sworn in.

14                  Thank you.

15                  (Witnesses sworn.)

16                  MS. KESSLER: Mr. Examiner, I would just  
17 like to make a brief opening statement before we get  
18 started with the witnesses.

19                  EXAMINER McMILLAN: Yes. Please proceed.

20                  MS. KESSLER: This case was previously  
21 pooled by the division about six months ago. After  
22 the order was entered by the division, Mr. Paul  
23 Kautz placed this well into a different pool which  
24 was named the Wolfbone Pool. So we're here today  
25 re-pooling -- for the purposes of pooling all of the

1 uncommitted interest owners in the new Wolfbone Pool  
2 to make sure that the order matches the correct  
3 pool.

4 With that, I'll get started.

5 DAVID MICHAEL WALLACE,  
6 after having been first duly sworn under oath,  
7 was questioned and testified as follows:

8 EXAMINATION

9 BY MS. KESSLER:

10 Q. Can you please state your name for the  
11 record and tell the examiners by whom you're  
12 employed and in what capacity?

13 A. My name is David Michael Wallace. I'm a  
14 landman for COG Operating, LLC.

15 Q. Have you previously testified before the  
16 division?

17 A. I have.

18 Q. And were your credentials as a petroleum  
19 landman accepted and made a matter of public record?

20 A. They were.

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

23 A. Yes.

24 Q. And are you familiar with the status of  
25 the lands in this subject area?

1           A.       I am.

2                   MS. KESSLER:  Mr. Examiner, I would tender  
3 Mr. Wallace as an expert witness in petroleum land  
4 matters.

5                   EXAMINER McMILLAN:  So qualified.

6           Q.       (By Ms. Kessler)  Mr. Wallace, can you  
7 please turn to Exhibit 1 and identify this exhibit  
8 and explain what COG seeks under this application?

9           A.       This is a C-102 plat for the Stove Pipe  
10 Fed Com Number 2H well.

11                   I'm sorry.

12                   This is a C-102 plat for the Stove Pipe  
13 Fed Com Number 2H well.  We seek to amend Order  
14 R-14010 to reflect the revised pool designated by  
15 the division.

16                   We also seek to pool the uncommitted  
17 working interest owners as to the Wolfbone Pool  
18 within the spacing unit.

19           Q.       Does the C-102 identify the nonstandard  
20 project area?

21           A.       It does.  The nonstandard project area  
22 consists -- it's a 240-acre .25 nonstandard unit  
23 consisting of the west half of the east half of  
24 Section 6 25/35, as well as the west half of the  
25 northeast quarter of Section 7, 25 south, 35 east,

1 Lea County, New Mexico.

2 Q. And did the division recently revise the  
3 pool and the pool code for the Stove Pipe well?

4 A. They did.

5 Q. What is that pool?

6 A. It's the Wildcat Wolfbone Pool, Pool Code  
7 98098.

8 Q. Has this well already been drilled?

9 A. It has been drilled.

10 Q. But not completed, correct?

11 A. That is correct.

12 Q. Okay. What is the character of the lands  
13 in this area?

14 A. It consists of federal and fee acreage.

15 Q. Can you please turn to Exhibit 2 and  
16 identify this exhibit for the examiners?

17 A. This is a land tract map showing the  
18 interest of the parties as to each tract and the  
19 recap at the end.

20 It also identifies the uncommitted  
21 interest owners in both highlighting.

22 Q. What interests do you seek to pool?

23 A. I seek all -- I seek to pool all  
24 uncommitted working interest owners as to the  
25 Wolfbone Pool.

1           Q.       So certain interest owners were pooled in  
2       a previous case, but you've now identified all of  
3       the uncommitted owners within the Wolfbone Pool and  
4       seek to pool that one.

5                   Is that correct?

6           A.       That is correct.

7           Q.       Okay. Is Exhibit 3 a sample of the letter  
8       that you sent to working interest owners within the  
9       Wolfbone Pool?

10          A.       It is.

11          Q.       Okay. And was this letter a reproposal?

12          A.       It was.

13          Q.       On what date was this letter sent?

14          A.       February 10, 2016.

15          Q.       Did the well proposal letter include an  
16       AFE?

17          A.       Yes, it did.

18          Q.       And are the costs reflected on this AFE  
19       consistent with what COG has incurred for drilling  
20       similar horizontal wells in the area?

21          A.       They are.

22          Q.       What additional efforts did you undertake  
23       to reach voluntary agreement with the working  
24       interest owners who you seek to pool?

25          A.       I've negotiated leases with the majority



1 of them.

2 I've got an acreage tray that I'm working  
3 with BC Operating.

4 And I'm working a farm-out with Oxy Y1.

5 I've had negotiations with all the  
6 parties.

7 Q. Have you estimated overhead administrative  
8 costs for this well?

9 A. Yes.

10 Q. What are those costs?

11 A. 7,000 a month while drilling, 700 for  
12 producing.

13 Q. And are those costs in line with what COG  
14 and other operators in the area charge for similar  
15 wells?

16 A. Yes.

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

20 A. Yes.

21 Q. And do you ask that it be adjusted in  
22 accordance with COPAS accounting procedures?

23 A. We do.

24 Q. With respect to any uncommitted  
25 interest -- working interest owners, do you request

1     that the division approve the 200 percent risk  
2     penalty?

3           A.     Yes, we do.

4           Q.     Is Exhibit 4 a plat identifying the offset  
5     operators or lessees of record?

6           A.     Yes, it is.

7           Q.     And did COG provide notice of this hearing  
8     to the offset operators or lessees of record?

9           A.     Yes, we did.

10          Q.     Is Exhibit 5 -- was it necessary to  
11     publish notice for this hearing?

12          A.     Yes, it was.

13          Q.     And is that because several of the green  
14     cards came back, returned undeliverable, as to the  
15     pooled parties?

16          A.     That is correct.

17          Q.     Okay. Is this a copy of a legal notice  
18     that is set to run on March 31, which is today?

19          A.     That is correct.

20          Q.     So are you seeking a two-week continuance  
21     in order for this notice of publication to have 10  
22     business days, pursuant to the rule?

23          A.     Yes.

24          Q.     Okay.

25                 MS. KESSLER: So, Mr. Examiner, we would

1 note that we do seek a continuance to April 14 for  
2 notice purposes only.

3 Q. (By Ms. Kessler) Finally, Mr. Wallace, is  
4 COG Exhibit 6 an affidavit prepared by my office  
5 with attached letters providing notice of this  
6 hearing to the parties to be pooled and the offset  
7 operators or lessees?

8 A. Yes, it is.

9 Q. Okay. Were Exhibits 1 through 4 prepared  
10 by you or compiled under your direction and  
11 supervision?

12 A. Yes, they were.

13 MS. KESSLER: Mr. Examiner, I would move  
14 the admission of Exhibits 1 through 6.

15 EXAMINER McMILLAN: Exhibits 1 through 6  
16 may now be accepted as part of the record.

17 EXAMINER McMILLAN: Are there any depth  
18 severances?

19 THE WITNESS: No.

20 EXAMINER McMILLAN: Go ahead.

21 MR. JONES: Mr. Wallace, do you know the  
22 name of the -- is this the same case that was  
23 entered earlier, it's just reopened, or is it a new  
24 case number?

25 MS. KESSLER: This is a reopened case,

1 Mr. Examiner. It's Case Number 15333 reopened.

2 And it was order number -- I believe it's  
3 R-14010. I would need to confirm that.

4 MR. JONES: I can look that up.

5 What has changed between that time and  
6 now? Has the name changed on the well at all? The  
7 property name is exactly the same?

8 THE WITNESS: It should be the same. I'm  
9 not aware of a change.

10 MR. JONES: Okay. What about the location  
11 of the well? Has it changed?

12 THE WITNESS: No, it's the same.

13 MR. JONES: What about ownership?

14 THE WITNESS: Ownership has changed  
15 slightly. We've had -- BC Operating took a couple  
16 of leases from the parties that we were negotiating  
17 leases with, so now they are uncommitted, and so now  
18 they are pool partying.

19 MR. JONES: Okay. But the structure of  
20 the ownership hasn't changed --

21 THE WITNESS: No.

22 MR. JONES: -- it's just that one?

23 In the order that was issued earlier, does  
24 anyone know, did it specify a formation and then a  
25 pool?

1 MS. KESSLER: It did, Mr. Examiner.

2 MR. JONES: Okay. So it was pretty  
3 specific. So that's why you definitely had to come  
4 back?

5 MS. KESSLER: That's correct.

6 MR. JONES: Okay. And the formation on  
7 the AFE, I see, is the Wolfcamp.

8 But you've got another witness to talk  
9 about that?

10 MS. KESSLER: We do.

11 MR. JONES: Okay. The lease terms that  
12 you offered, is it the same as you were offering  
13 before? Have you changed the lease terms?

14 THE WITNESS: I don't recall off the top  
15 of my head. They may have because of current market  
16 pricing. They may have, yes.

17 MR. JONES: Yeah. I'm kind of stretching  
18 asking you these things.

19 THE WITNESS: No, that's okay.

20 MR. JONES: But you can say no, I guess,  
21 if you don't want to...

22 THE WITNESS: That's okay.

23 MR. JONES: But what's the gist of the  
24 lease terms that you're offering? You can --

25 THE WITNESS: How do you mean?

1 MR. JONES: That's all right.

2 THE WITNESS: I don't know if I can --

3 MR. JONES: That's all right. It's not a  
4 big deal. It's probably -- because you mentioned  
5 that you're trying to do an acreage swap with one  
6 company, and so it's basically a little bit of a  
7 variety of issues going on.

8 7,000 and 700, that was the same as  
9 before?

10 MS. KESSLER: Yes.

11 MR. JONES: Okay. We're going to have a  
12 big hearing on the 14th, I guess.

13 MS. KESSLER: This one will be quick,  
14 though.

15 MR. JONES: That's fine. It won't take  
16 that much.

17 MR. BROOKS: Unless these people read  
18 the -- or find the notice in the newspaper and  
19 somebody comes in and objects.

20 EXAMINER McMILLAN: Actually, I do have a  
21 question.

22 Was anybody in the Bone Spring and in the  
23 Wolfcamp notified?

24 THE WITNESS: Yes.

25 EXAMINER McMILLAN: So all parties.

1           MR. JONES: Is the -- was the Wolfcamp in  
2 this area gas and the Bone Spring oil?

3           THE WITNESS: I'm not sure.

4           MS. KESSLER: That might be a question for  
5 the next witness.

6           MR. JONES: Okay.

7           EXAMINER McMILLAN: Any questions?

8           MR. BROOKS: No questions.

9           EXAMINER McMILLAN: Okay. Thank you very  
10 much.

11          THE WITNESS: Thank you.

12          MS. KESSLER: I'll call my next witness.

13          EXAMINER McMILLAN: Please proceed.

14                   CARRIE M. MARTIN,  
15 after having been first duly sworn under oath,  
16 was questioned and testified as follows:

17                   EXAMINATION

18 BY MS. KESSLER:

19       Q.     Can you please state your name for the  
20 record and tell the examiners by whom you're  
21 employed and your title?

22       A.     Carrie Martin. I'm a geologist with COG  
23 Operating, LLC.

24       Q.     Have you previously testified before the  
25 division?

1           A.     Yes.

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

4           A.     Yes.

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

7           A.     Yes.

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

10          A.     Yes.

11                   MS. KESSLER:  Mr. Examiners, I tender  
12 Ms. Martin as an expert witness.

13                   EXAMINER McMILLAN:  So qualified.

14          Q.     (By Ms. Kessler)  Please turn to Exhibit 7  
15 and identify this exhibit.

16          A.     This is a location map around the Stove  
17 Pipe Federal Com Number 2H.

18                   The yellow acreage is COG's acreage in the  
19 tract.

20                   The purple dashed line is the location of  
21 the wellbore, and it is oriented from the north to  
22 the south.

23                   The red line is a producing Wolfcamp well  
24 in the map area.

25          Q.     If you could turn to Exhibit 8 and walk us



1 through this exhibit, please.

2 A. This is a structure map of the Third Bone  
3 Springs Sand with a 50-foot contour interval.

4 This structure map shows that there's no  
5 faulting in the area, no pinchouts, and no  
6 geological impediments to horizontal wells.

7 Q. And you have identified the structure as  
8 being fairly consistent across those two sections?

9 A. Yes.

10 Q. Please turn to Exhibit 9.

11 What is the line labeled A to A prime on  
12 this exhibit?

13 A. A to A prime is the location of the  
14 cross-section line that will be on the next exhibit.

15 And the wells that were chosen for this  
16 cross-section are representative of the wells in the  
17 area.

18 Q. And of the Wolfbone interval in  
19 particular?

20 A. Correct.

21 Q. Okay. And if you could turn to  
22 Exhibit 10.

23 MS. KESSLER: Mr. Examiners, there's a  
24 larger exhibit -- a larger map behind this exhibit,  
25 if you'd care to look at that.

1           Q.       (By Ms. Kessler) Could you please  
2 identify this for the examiners?

3           A.       This is the cross-section that was  
4 identified from the previous exhibit, A to A prime.  
5                I'll go through the tops here.

6                The uppermost marker is the top of the  
7 Third Bone Spring carbonate.

8                The purple line is the top of the Third  
9 Bone Spring Sand.

10              The red line is the top of the Wolfcamp  
11 formation.

12              And the pink line is the top of the  
13 Wolfcamp B. This interval of the Wolfcamp B also  
14 marks the base of the Wolfcamp A shale.

15              This interval has been identified as the  
16 interval for the new Wolfbone Pool, which is marked  
17 by the top of the Third Bone Spring carb down to the  
18 base of the Wolfcamp A shale or the Wolfcamp B.

19           Q.       And was that interval defined by the Oil  
20 Conservation Division?

21           A.       Yes.

22              I'd also like to comment that the Jamaica  
23 12 Federal Number 1, which is the center well in  
24 this cross-section, is the type log for that new  
25 pool.

1           Q.     You've also identified the lateral  
2 interval on this -- on the Jamaica log.

3                     Is that correct?

4           A.     Correct. And this lateral interval shows,  
5 from the gamma ray and the resistivity on this  
6 cross-section, that the interval was consistent  
7 across the area.

8           Q.     Do you believe that each tract in the  
9 nonstandard unit will, on average, contribute more  
10 or less equally to production from the well?

11          A.     Yes.

12          Q.     And does the completed interval for this  
13 well comply with the 330-foot setback requirements?

14          A.     Yes.

15          Q.     In your opinion, will the granting of  
16 COG's application be in the best interest of  
17 conservation for the prevention of waste and the  
18 protection of correlative rights?

19          A.     Yes.

20          Q.     Were Exhibits 7 through 10 prepared by you  
21 or compiled under your direction and supervision?

22          A.     Yes.

23                     MS. KESSLER: Mr. Examiner, I would move  
24 admission of COG Exhibits 7 through 10.

25                     EXAMINER McMILLAN: Exhibits 7 through 10

1 may now be accepted as part of the record.

2 MS. KESSLER: That concludes my  
3 examination.

4 EXAMINER McMILLAN: Okay. What we're  
5 trying to do is, we're trying to get a feel for the  
6 oil gravity, the GOR.

7 Do you have any idea what it's going to  
8 be?

9 THE WITNESS: We have the producing  
10 Wolfcamp well that's in the area. And upon looking  
11 at their completion report, they show that the oil  
12 gravity is 48.5 and the GOR is 867.

13 And that's from the completion report.

14 EXAMINER McMILLAN: Okay. Do you know  
15 what -- is it black or is it...

16 THE WITNESS: I don't -- I've never seen a  
17 sample of the oil, so I don't know if I can answer  
18 that.

19 EXAMINER McMILLAN: Okay.

20 Go ahead.

21 MR. JONES: At what depth is that well?

22 THE WITNESS: My understanding of that  
23 well is that it is lateral within the top of the  
24 Wolfcamp formation within -- equivalent to the  
25 interval between the Wolfcamp and the Wolfcamp B.

1 MR. JONES: Okay.

2 MS. KESSLER: Is it a COG well or an  
3 Endurance well that you are referring to?

4 THE WITNESS: It is an Endurance well.

5 MR. JONES: Okay. So that GOR, is that  
6 the latest GOR or is that cumulative GOR?

7 THE WITNESS: I believe that is the test  
8 data that was from July of 2015.

9 MR. JONES: Okay. So it's a new well?

10 THE WITNESS: Yeah. It's a fairly new  
11 well.

12 MR. JONES: Is it a good well?

13 THE WITNESS: As far as I can tell.

14 MR. JONES: Okay. How do you tell the top  
15 of the Wolfcamp here? I'm really not a geologist,  
16 but what would you tell somebody like me to look  
17 for?

18 THE WITNESS: We mark the top of the  
19 Wolfcamp as an organic rich shale, which usually has  
20 a resistivity character, that has a higher  
21 resistivity. And that's pretty correlative in the  
22 area.

23 MR. JONES: Okay. So I guess we're  
24 looking at resistivity in the green curves?

25 THE WITNESS: Correct.

1                   MR. JONES: So it's a little spike higher  
2 in resistivity because it's shale, I guess?

3                   THE WITNESS: Correct.

4                   MR. JONES: So there's a little -- is  
5 there a little sand on top of that or...

6                   THE WITNESS: There are sands above that  
7 Wolfcamp marker and there are some sands below that  
8 marker.

9                   MR. JONES: Okay. So I guess Paul thought  
10 it necessary to stick with his picks from before and  
11 just call this a Wolfbone Pool.

12                   What did he say about this? What was your  
13 conversation with him?

14                   THE WITNESS: I didn't personally have a  
15 conversation with Paul on this interval.

16                   MR. JONES: He just reclassified it and  
17 told you about -- told your company about it?

18                   THE WITNESS: To my understanding, that's  
19 what happened.

20                   MR. JONES: Okay.

21                   THE WITNESS: He suggested it.

22                   MR. JONES: Okay. Well, is the well going  
23 to be in that sand or is it going to be in the  
24 shales that you're talking about?

25                   THE WITNESS: The well, since it has

1 already been drilled, has covered part of the Third  
2 Bone Spring Sand and part of the upper part of the  
3 Wolfcamp.

4 MR. JONES: Oh, okay. Okay.

5 What about other geologists or engineers  
6 with the companies that you're trying to -- that's  
7 going to join this well or not join this well?

8 Have you had conversations with them?

9 THE WITNESS: I have not.

10 MR. JONES: Is there anything else you  
11 would like to say about this?

12 THE WITNESS: No. Whatever...

13 MR. JONES: There's a lot of potential  
14 here in the Wolfbone?

15 THE WITNESS: Yes.

16 MR. JONES: Okay.

17 MR. BROOKS: No questions.

18 EXAMINER McMILLAN: Okay. So Case Number  
19 15333 shall be continued until April 14.

20 (Proceedings concluded at 9:00 a.m.)

21

22

23

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CERTIFICATE

I, Paul Baca, RPR, CCR in and for the  
State of New Mexico, do hereby certify that the  
above and foregoing contains a true and correct  
record, produced to the best of my ability via  
machine shorthand and computer-aided transcription,  
of the proceedings had in this matter.

---

PAUL BACA, RPR, CCR  
Certified Court Reporter #112  
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