

1 STATE OF NEW MEXICO
2 ENERGY, MINERAL AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION COMMISSION
4 APPLICATION OF COG OPERATING, LLC, FOR A NONSTANDARD
5 SPACING AND PRORATION UNIT AND COMPULSORY POOLING,
6 LEA COUNTY, NEW MEXICO

7 CASE NO. 15468

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

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1 EXAMINER McMILLAN: I would like to call
2 Case Number 15648, application of COG Operating,
3 LLC, for a nonstandard spacing and proration unit
4 and compulsory pooling, Lea County, New Mexico.

5 Call for appearances.

6 MS. KESSLER: Jordan Kessler on behalf of
7 COG Operating, LLC.

8 EXAMINER McMILLAN: Any other appearances?
9 Please proceed.

10 MS. KESSLER: Two witnesses today,
11 Mr. Examiner. One has not yet been sworn in.

12 EXAMINER McMILLAN: Okay. If the witness
13 would please be sworn in.

14 (Witness sworn.)

15 DAVID MICHAEL WALLACE,
16 after having been first duly sworn under oath,
17 was questioned and testified as follows:

18 EXAMINATION

19 BY MS. KESSLER:

20 Q. Please state your name for the record and
21 tell the examiners by whom you are employed and in
22 what capacity.

23 A. My name is David Michael Wallace. I'm
24 with COG Operating, LLC. I'm a senior landman.

25 Q. Have you previously testified before the

1 division today?

2 A. I have.

3 Q. And were your credentials also, today, as
4 a petroleum landman, accepted and made a matter of
5 record?

6 A. They were.

7 MS. KESSLER: Mr. Examiner, I would tender
8 Mr. Wallace as an expert in petroleum land matters.

9 EXAMINER McMILLAN: So qualified.

10 Q. (By Ms. Kessler) Can you please identify
11 Exhibit 1 for the examiners?

12 A. This is the C-102 for the Picasso Fed Com
13 Number 1H.

14 It shows a spacing unit consisting of the
15 east half/east half of Section 9, 24 south, 34 east,
16 Lea County, New Mexico.

17 It's a nonstandard spacing unit.

18 Q. Do you seek to pool all of the mineral
19 interests in the Bone Spring formation?

20 A. Yes, we do.

21 Q. Is there an approved APD for this well?

22 A. There is.

23 Q. What is the API number?

24 A. 3002541514.

25 Q. And has the division designated a pool for

1 this spacing unit?

2 A. Yes. It's the Red Hills Bone Spring North
3 Pool, Pool Code 96434.

4 Q. What is the character of the lands in this
5 area?

6 A. They are fed leases.

7 Q. And is this pool governed by division
8 statewide rules?

9 A. Yes.

10 Q. So the 330-foot setback will apply,
11 correct?

12 A. That is correct.

13 Q. Are there any depth severance issues?

14 A. No, there are not.

15 Q. If you could turn to Exhibit 2 and walk us
16 through this exhibit, please.

17 A. This is a land tract map showing the
18 interest of the parties as to the different tracts.

19 It also has a recap and it shows
20 uncommitted owners highlighted in bold lettering.

21 Q. What type of interests do you seek to
22 pool?

23 A. I seek to pool the operating rights as to
24 this spacing unit as well as the record title.

25 Q. Is Exhibit 3 a letter that you sent to

1 record title owners who are not otherwise subject to
2 an agreement?

3 A. That is correct.

4 Q. What is the nature of this letter?

5 A. The record title is not held by the
6 current owners. The BLM records have not been --
7 don't reflect the current record title owners.

8 We sent them a com agreement to sign so
9 that we could produce the well.

10 Q. And so there was a com agreement attached
11 to this?

12 A. That is correct.

13 Q. Is Exhibit 4 a copy of the well proposal
14 letter that you sent to the working interest owners
15 in the spacing unit?

16 A. Yes, it is.

17 Q. What date was this letter sent?

18 A. January 26, 2016.

19 Q. And did you also include an AFE with this
20 letter?

21 A. Yes, I did.

22 Q. And are the costs on that AFE consistent
23 with what COG has incurred for drilling similar
24 horizontal wells in the area?

25 A. Yes, they are.

1 Q. What additional efforts did you undertake
2 to reach agreement with the interest owners that you
3 seek to pool?

4 A. We've spoken to the heirs of the record
5 title owners to try to clean up the BLM records
6 associated with the title curative.

7 And also, one of the record title owners,
8 the entity is no longer in existence. It's now
9 owned by another entity that -- and we're trying to
10 clean that up with them.

11 The operating rights owners were in the
12 process of negotiating the farm-out with two of the
13 parties. Several of -- and we've spoken and
14 negotiated with several others. Several of them
15 want to participate, some of them do not want to
16 participate.

17 Q. Have you estimated overhead and
18 administrative costs for this well?

19 A. Yes. We've requested 7,000 a month for
20 producing and 700 a month for -- I'm sorry.

21 7,000 a month for drilling and 700 a month
22 for producing.

23 Q. Are those costs in line with what COG and
24 other operators in the area charge for similar
25 wells?

1 A. That is correct.

2 Q. And you -- do you ask that these
3 administrative and overhead costs be incorporated
4 into any order resulting from this hearing?

5 A. Yes.

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

8 A. Yes.

9 Q. Are you requesting a 200 percent risk
10 penalty for any uncommitted work interest owners?

11 A. Yes.

12 Q. Is Exhibit 5 a list identifying the offset
13 operators for lessees of record?

14 A. Yes, it is.

15 Q. And was notice of this hearing provided to
16 those offset operators or lessees of record?

17 A. Yes.

18 Q. Okay. Is Exhibit 6 an affidavit prepared
19 by my office with attached letters providing notice
20 of this hearing to parties to be pooled and offset
21 operators and lessees?

22 A. Yes, it is.

23 Q. Okay. For some of the parties whom you
24 seek to pool, were some of the green cards returned
25 as undeliverable?

1 A. Yes, they were.

2 Q. And are you, therefore, requesting a
3 continuance to the April 28 docket in order to
4 publish notice as to those parties?

5 A. That is correct.

6 Q. Were Exhibits 1 through 5 prepared by you
7 or compiled under your direction and supervision?

8 A. Yes, they were.

9 MS. KESSLER: Mr. Examiner, I would move
10 into evidence Exhibits 1 through 6.

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

13 EXAMINER McMILLAN: So this is a
14 combination case where you are compulsory pooling
15 interest, and it's also a record title.

16 Is that a safe statement?

17 THE WITNESS: Yes, that's correct.

18 EXAMINER McMILLAN: Status?

19 THE WITNESS: Status of...

20 EXAMINER McMILLAN: The well.

21 THE WITNESS: It has not been drilled yet.

22 EXAMINER McMILLAN: I don't have any
23 questions.

24 MR. JONES: Well, I would -- it's kind of
25 disturbing that not very many -- nobody wants to

1 participate in this well.

2 Is that -- did they say why, the people
3 that you talked to?

4 THE WITNESS: No, I've not gotten any
5 indication from them.

6 MR. JONES: Have you -- have you made a
7 good faith effort to have these people sign up for
8 the well?

9 THE WITNESS: Yes.

10 MR. JONES: Okay.

11 THE WITNESS: Yes.

12 MR. JONES: I don't have any more
13 questions.

14 MR. BROOKS: Well, if I was to speculate,
15 Mr. Jones, I would suggest maybe they don't have any
16 money.

17 I don't have any questions for the
18 witness.

19 EXAMINER McMILLAN: Thank you.

20 THE WITNESS: Thank you.

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1 JOHNNY BERTALOTT,
2 after having been first duly sworn under oath,
3 was questioned and testified as follows:

4 EXAMINATION

5 BY MS. KESSLER:

6 Q. Can you please state your name for the
7 record and tell the examiners by whom you are
8 employed and in what capacity?

9 A. My name is John Richard Bertalott. I'm
10 employed by COG Operating, LLC, as a geologist.

11 Q. Have you previously testified before the
12 division?

13 A. Yes, ma'am.

14 Q. Were your credentials as a petroleum
15 geologist accepted and made a matter of record?

16 A. Yes, they were.

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

19 A. I am.

20 Q. Have you conducted a geologic study of the
21 lands that are the subject of this application?

22 A. I have.

23 MS. KESSLER: I tender Mr. Bertalott as an
24 expert in petroleum geology.

25 EXAMINER McMILLAN: So qualified.

1 Q. (By Ms. Kessler) Let's turn to Exhibit 7
2 and identify this exhibit.

3 A. This is a location map. What it shows is
4 COG acreage in yellow.

5 It shows where we plan to drill the
6 Picasso Fed Com 1H denoted by the red dashed line.

7 The orange circles and solid orange lines
8 represent producing Second Bone Spring Sand wells in
9 the area.

10 Q. Could you please walk us through
11 Exhibit 8?

12 A. This is a Second Bone Spring -- a Second
13 Bone Spring Sand structure map with a 50-foot
14 contour interval.

15 There is no apparent faulting, pinchouts,
16 or geological impediments to drilling a horizontal
17 well in the area.

18 The structure is consistent for the Second
19 Bone Spring Sand in the area.

20 Q. On Exhibit 9, what is the line labeled A
21 to A prime?

22 A. It is denoting a cross-section for the
23 following exhibit, going from south to north.

24 Q. Are the wells depicted on the line A to A
25 prime considered representative of the Second Bone

1 Spring wells in the area?

2 A. Yes, they are.

3 Q. If we could turn to Exhibit 10.

4 What is this exhibit?

5 A. This is a stratigraphic cross-section A to
6 A prime from the previous exhibit, going from south
7 to north.

8 The datum is the top of the Second Bone
9 Spring Sand denoted by the upper red line.

10 The base is the Second Bone Spring Sand
11 base denoted by the red line at the bottom.

12 What we -- what I see is uniform thickness
13 throughout the area, and formation consistency as
14 well, and continuity.

15 Q. And that is represented on these logs?

16 A. Yes, it is.

17 Q. Okay. Have you also marked the lateral
18 interval on this exhibit?

19 A. Yes, I have. So the lateral interval
20 highlights the zone of interest we intend to land
21 our horizontal well.

22 The gamma ray and resistivity signatures
23 for that interval are consistent across the area.

24 Q. And based on your geologic study, have you
25 identified any geologic impediments to developing

1 this area using a full section horizontal well?

2 A. No, ma'am.

3 Q. Do you believe that the area can be
4 efficiently and economically developed by horizontal
5 wells?

6 A. I do.

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

11 A. I do.

12 Q. And this well will comply with the
13 330-foot division statewide setback, correct?

14 A. It will.

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, ma'am.

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

22 EXAMINER McMILLAN: They were.

23 MS. KESSLER: Mr. Examiner, I would move
24 into evidence 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: Do you have any
5 questions?

6 MR. JONES: Well, I -- the two wells on
7 the left, starting on your cross-section A to A
8 prime --

9 THE WITNESS: Yes, sir.

10 MR. JONES: -- those -- did you process
11 those logs yourself or did you -- those look like
12 you got RT values in there, so it looks like
13 somebody -- did the service company give you that or
14 did you run it through your software program?

15 THE WITNESS: These are public data wells
16 that the service companies provided.

17 MR. JONES: Okay. So it's basically based
18 on probably the deep resistivity or RT?

19 THE WITNESS: Yes, sir.

20 MR. JONES: Why are you landing right
21 there? What's magic about that spot?

22 THE WITNESS: We feel it is a good part of
23 the sand section and the zone of interest is
24 consistent, so it is a good target for us to follow
25 as we drill the horizontal well.

1 MR. JONES: Okay. So it's a combination
2 of the drillers like it and you like it, then?

3 THE WITNESS: Yes, sir.

4 MR. JONES: Okay. So can you make a
5 guesstimate about production rates that you would
6 estimate and maybe the life of the well or the
7 reserves, or just it looks good geologically?

8 THE WITNESS: It looks good geologically,
9 yes.

10 MR. JONES: Yeah.

11 You talked about the structure map.
12 Any -- as to why -- why these wells are all being
13 drilled north/south versus east/west? It looks like
14 you're dipping to the south.

15 Is that correct?

16 THE WITNESS: Yeah. So the lateral will
17 be drilled slightly up dip for the -- for our well.

18 As far as south to north, it's probably
19 more land accessibility as to why we're doing that.

20 MR. JONES: Okay. So no stress
21 information? In other words, you're -- in vertical
22 wells, did you have any stress data, like showing
23 any kind of orientation of the stress or just the
24 north/south wells are the -- have yielded good
25 results?

1 THE WITNESS: The nearby results suggest
2 north/south --

3 MR. JONES: Okay.

4 THE WITNESS: -- as the optimum.

5 MR. JONES: Okay. Well, you can't beat
6 that.

7 Thank you.

8 MR. BROOKS: No questions.

9 EXAMINER McMILLAN: Okay. With that in
10 mind, case -- thank you very much.

11 Case Number 15468 shall be continued until
12 April 28.

13 (Proceedings concluded at 9:42 a.m.)

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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
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