

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:

APPLICATION OF LOGOS OPERATING, LLC CASE NO. 20491
FOR COMPULSORY POOLING, SAN JUAN
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 25, 2019

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
 KATHLEEN MURPHY, TECHNICAL EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner; Kathleen Murphy, Technical Examiner; and David K. Brooks, Legal Examiner, on Thursday, July 25th, 2019, 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.

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APPEARANCES

FOR APPLICANT LOGOS OPERATING, LLC:

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EXHIBITS OFFERED AND ADMITTED

LOGOS Operating, LLC Exhibit Numbers A1 through A6; B8 through B10; Exhibit C11 through C14.	18
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1 (11:28 a.m.)

2 EXAMINER JONES: Call Case Number 20491,
3 application of LOGOS Operating, LLC for compulsory
4 pooling in Rio Arriba County, New Mexico.

5 MR. HALL: San Juan.

6 EXAMINER JONES: Is it San Juan? Okay.
7 Call for appearances.

8 MR. HALL: Mr. Examiner, Scott Hall on
9 behalf of LOGOS Operating, LLC.

10 EXAMINER JONES: Any other appearances?
11 No witnesses today, just by affidavit?

12 MR. HALL: Purely by affidavit. I should
13 be fairly quick.

14 EXAMINER JONES: Please proceed.
15 Mr. Brooks is hungry. He's got to go
16 somewhere.

17 EXAMINER BROOKS: I put it off.

18 EXAMINER JONES: You did?

19 EXAMINER BROOKS: I did.

20 MS. MURPHY: Take your time.

21 EXAMINER JONES: Well, don't let Mr. Bruce
22 hear you say that.

23 (Laughter.)

24 MR. HALL: I'm late for my lunch meeting,
25 is the problem.

1 MR. BRUCE: I might snap again.

2 EXAMINER JONES: You need to do that more
3 often, Jim.

4 MR. HALL: So, Mr. Examiner, this is an
5 application for the pooling of the Gallup Formation for
6 two horizontal wells east to west, located across Lots 2
7 and 3, Section 13 and then the north half of Section 14
8 in 24 North, 8 West on federal lands. The vertical
9 component of the unit we're forming is comprised of the
10 Gallup Formation.

11 In your exhibit packet, you'll see the
12 affidavit of Christopher Jeffus. He is the LOGOS VP for
13 land and legal, and he has previously testified before
14 the examiners and had his credentials accepted as a
15 matter of record.

16 This is a fairly generic pooling case. You
17 can see that Exhibit 1 is a federal communitization
18 agreement, and there is a map of the acreage in the unit
19 on Exhibit A to the com agreement at page 1.

20 You can also see the units in Exhibits 2
21 and 3. Those are the C-102s for the Dragonfly 2408 13C
22 Com 1H and 2H. The surface- and bottom-hole locations
23 are depicted on there. It shows the first and last
24 perforations. They'll be orthodox.

25 Also, go back to the com agreement, Exhibit

1 B to that. Exhibit B outlines the ownership record
2 title. Bare record title resides in Encana. Working
3 interest resides in LOGOS and then also DJR. So we need
4 to pool the DJR working interest. You also see listed
5 in Exhibit B that there are 199 overriding royalty
6 interest owners.

7 EXAMINER JONES: Wow.

8 MR. HALL: Well, I did not get them all
9 noticed. I tried my darnedest, but we're going to have
10 to continue the case to August 22nd to pick up a couple
11 more.

12 If you turn to Exhibits 4 and 5, you'll see
13 the well-proposal letters to DJR for both wells. There
14 is an AFE attached to that. You will see the relative
15 numbers for their interest there.

16 DJR was also provided with a 1989 form of
17 JOA. That can be seen as Exhibit Number 6. This is
18 excerpted. I haven't included all of the JOA exhibits.
19 I've given you the whole document up through Exhibit A,
20 and that shows the interests of the parties in the unit.
21 LOGOS is 81-plus percent. DJR is about 19 percent.

22 Mr. Jeffus testifies that the well costs
23 being proposed are reasonable and in line for the area.
24 The drilling and completion costs are \$6,308,998 and
25 \$6,327,403. We are requesting overhead rates while

1 drilling of 13,000 per month and \$1,300 per month while
2 producing. We also ask that the overhead rates be
3 adjustable consistent with the COPAS agreements. We
4 also seek the risk penalty for unjoined interests.

5 That's all I have for the land exhibit.

6 EXAMINER JONES: Can you -- do they have
7 any explanation -- so the amount of overhead, is that
8 because of all the owners, the land records they have to
9 keep track of?

10 MR. HALL: I hasn't thought about that, but
11 I think it's the going rate for that area within the
12 Gallup oil window right now.

13 EXAMINER JONES: Did he say that somewhere
14 in here, that it's the going rate?

15 MR. HALL: He says they are reasonable and,
16 I think, in line. It's paragraph 17.

17 EXAMINER JONES: There it is. "Fair and
18 comparable to the rates charged by other operators for
19 wells of this type in northwestern New Mexico."

20 MR. HALL: His affidavit doesn't say it,
21 but I'd like for us to have a 30-day election period in
22 the order rather than --

23 EXAMINER JONES: There was a meeting -- I
24 was gone -- about that a couple of days ago.

25 And, Mr. Brooks, were you in on that?

1 EXAMINER BROOKS: I was. And a decision
2 has not been made, but I believe that leaves your
3 previous decision, to go back to the 30 days as the
4 default -- 30 days to elect and 30 days to pay as the
5 default provision until the director makes a decision,
6 and then, of course, we'll follow it.

7 EXAMINER JONES: Okay. Yeah. I appreciate
8 that writeup you did on that not too long ago. We were
9 getting bombarded from all sides --

10 MR. HALL: I can imagine.

11 EXAMINER JONES: -- about the exact same
12 thing. Apparently the 90 days might have crept into one
13 order, and we somehow kept that in our template. I'm
14 not positive if that's the case.

15 EXAMINER BROOKS: Im not either. I don't
16 know how it arose.

17 EXAMINER JONES: But we're going back to
18 the 30 days. We've changed the 90 to a 30.

19 MR. HALL: Even in the Delaware Basin?

20 EXAMINER JONES: Everywhere.

21 MR. HALL: Uh-huh.

22 EXAMINER BROOKS: Until --

23 EXAMINER JONES: Until told otherwise.

24 EXAMINER BROOKS: -- the director makes a
25 decision. The director has taken the matter for a

1 study.

2 MR. HALL: Okay. Well, I know the
3 stakeholders would like to weigh in on that process.

4 EXAMINER BROOKS: Well, I think they're
5 going to be invited to in some way. I don't know how,
6 though.

7 EXAMINER JONES: She has meetings with them
8 on the methane issues all the time. She might bring it
9 up. But we can't wait around for decisions --

10 EXAMINER BROOKS: No. We have to do
11 something. We have pending orders, so --

12 EXAMINER JONES: -- otherwise people --

13 EXAMINER BROOKS: I think the decision made
14 by Mr. Jones several weeks ago or last week --

15 EXAMINER JONES: That was after legal
16 advice.

17 EXAMINER BROOKS: Yes, it was. Well, what
18 I advised you is it's the same time provided for an
19 infill well, which it is. And, of course, in operating
20 agreements, they -- provisions -- it's hard to compare
21 the provisions because a nonoperator never has to pay
22 out money unless the operator demands it. I forget what
23 the time for the operator to demand it is.

24 MR. HALL: It can. Depending on the form,
25 it can be as quick as 15 days.

1 EXAMINER BROOKS: Yeah. Well, anyway,
2 that's the only basis I would for giving advice because
3 the Division -- well, I think perhaps you could argue --
4 perhaps one could argue from the statutory language that
5 they don't get any time after they elect, that they can
6 only elect to buy pay, and I think it is probably true
7 that if they don't pay, then that voids the election.
8 And if you have a long period like 90 days, it becomes
9 very awkward.

10 EXAMINER JONES: But I do remember when the
11 changes -- some changes were made in late 2018, that
12 they requested for us to put "to elect to pay" in there
13 and not just say "you can elect by paying," you know.
14 So then it begs the question: What's the time?

15 EXAMINER BROOKS: The statutory language
16 is, if I remember rightly -- and I don't remember
17 whether it says "all operators" -- the statutory
18 language uses the words "to make payment in advance,"
19 and it does not say in advance of what (laughter). But
20 to make it meaningful, it has to mean in advance of
21 drilling. And the only way they can be alerted to make
22 payment in advance of drilling is if a notice period is
23 set in the proposal. So there are a lot of
24 considerations that go into figuring out what it ought
25 to be, and, of course, people who are more often

1 operators and people who are more often nonoperators
2 don't necessarily agree how it ought to be.

3 MR. HALL: Uh-huh.

4 EXAMINER JONES: But if multiple wells are
5 being proposed and they have a certain date to start the
6 drilling and a certain date after that to start
7 completion and if they show up to hearing with no
8 engineering witness that can say anything about well
9 density or optimization, it's kind of really asking
10 people to put out a lot of money without anything --

11 EXAMINER BROOKS: Well, of course, we've
12 always taken the position -- the Division has always
13 taken the position, so as far as I know, that the
14 operator can propose multiple wells at the same time or
15 it can propose them one at a time, but the nonoperator
16 has the option to elect individually for each well
17 separately. And I guess the main reason we went that
18 way is because that's what joint operating agreements
19 mostly provide. Of course, the joint operating
20 agreement can provide anything you can get both parties
21 to sign.

22 EXAMINER JONES: But we have had some
23 attorneys show up representing people that are not too
24 happy, you know, about that.

25 MR. HALL: Sure.

1 EXAMINER BROOKS: Yes. And I understand.

2 EXAMINER JONES: I can understand it
3 totally that that's an issue.

4 Kathleen -- that's down her alley, too.

5 So anyway, that's the land exhibits?

6 MR. HALL: That's the land exhibit. I had
7 a tab for Exhibit 7. There is no Exhibit 7. It's a
8 placeholder, I suppose.

9 If you turn to Exhibit B, that's the
10 affidavit of Trevor Gates. He's our geologist. He's
11 previously been qualified before the Division. He's
12 provided us at Exhibit 8 with a structure map, and it
13 shows the target pick is the Basal Niobrara in there on
14 the structure.

15 His Exhibit 9 is a cross section of the
16 Gallup interval. And the perfs in here indicate the
17 historic targets for the Gallup for -- those old
18 verticals in the area, they are also our target, that
19 same section.

20 Then Exhibit 10 is the isopach. And its
21 conclusions are that this unit configuration is
22 appropriate for this development, and it will be
23 economic. He sees no structural impediments or
24 faulting. Each quarter-quarter will contribute more or
25 less equally to production. And the preferred well

1 orientation in this part of the world is east-west. The
2 inferred orientation of maximum horizontal stress is
3 roughly northwest-southeast. It's my understanding that
4 stress fracture orientation has been overcome, as they
5 have improved completion techniques for wells up there.

6 EXAMINER JONES: So they're going
7 east-west?

8 MR. HALL: Yes. It's dictated by land, but
9 they can make up the difference and account for the
10 stress fracture orientation.

11 That concludes the geology.

12 Exhibit C is my Affidavit of Notice. And
13 in there, I reference three exhibits that I've attached
14 to that Exhibit C.

15 Exhibit 11 is the compilation of copies of
16 notice to the owner of the record title interest, the
17 working interest, DJR, and then also the land management
18 agency, BLM. The notice included a copy of the
19 application, of course, which I did not include with the
20 packet.

21 Exhibit 12 is the compilation of the 199
22 overrides that we attempted to notify.

23 And then Exhibit 13 is the compilation of
24 all of the override owners whose notice letters were
25 returned to us.

1 Behind that is Exhibit C14. We took that
2 list and published it in the "Farmington Daily Times."
3 So that's the Affidavit of Publication for that.

4 I have the green cards -- a scan of all the
5 green cards. There are a lot. And I'll be glad to
6 provide those to the Division if you want them, but the
7 same information as what you see in Exhibit C13.

8 EXAMINER JONES: C13 is the return.

9 MR. HALL: Right.

10 EXAMINER JONES: You're saying that you
11 have the green cards for the return submittals to these
12 people?

13 MR. HALL: Yes, the ones that we succeeded
14 in delivering.

15 EXAMINER JONES: Did you list them all in
16 the newspaper notice?

17 MR. HALL: Yes.

18 EXAMINER JONES: So why do you say the
19 notice is deficit still?

20 MR. HALL: Well, we had -- so Exhibit 13 is
21 everybody -- all the cards that came back. I'm sorry.
22 The letters were returned.

23 EXAMINER JONES: Right.

24 MR. HALL: They were undeliverable, so
25 that's who we, in turn, notified by publication.

1 EXAMINER JONES: Your newspaper notice went
2 out -- what are we? The 25th? That was more than ten
3 days ago.

4 MR. HALL: Yes. It was timely.

5 EXAMINER JONES: Mr. Brooks, help me out
6 here.

7 EXAMINER BROOKS: When was it?

8 EXAMINER JONES: The 10th, July the 10th.

9 EXAMINER BROOKS: July the 10th was 15
10 days. So it's ten business days.

11 EXAMINER JONES: All the returned cards
12 were --

13 MR. HALL: Returned letters.

14 EXAMINER JONES: Returned letters.

15 MR. HALL: Right.

16 EXAMINER BROOKS: If you have evidence of
17 due diligence in seeking a correct address.

18 EXAMINER JONES: So as Mr. Bruce would say,
19 this is constructive notice; is that correct?

20 EXAMINER BROOKS: If there was due
21 diligence used.

22 MR. HALL: It's legally compliant notice.
23 And there is testimony from the landman of the due
24 diligence of the exercise to try to locate current
25 locations.

1 EXAMINER BROOKS: It's legally sufficient.
2 That's what constructive means. I remember one of my
3 law professors saying, "Constructive notice means there
4 actually wasn't any notice, but we make a construction
5 that there was notice because the statute says so."

6 EXAMINER JONES: That's why you're hear, to
7 listen to all this.

8 MS. MURPHY: I'm learning a lot.

9 MR. HALL: I have one additional issue, and
10 I'm probably overthinking this. But at the tail end of
11 the application, I indicate that the horizontal spacing
12 unit is going to include tracts within the current
13 Escrito Gallup Pool, but there are also tracts that are
14 undesignated at this time. They're adjacent to Dufers
15 Point, Gallup Dakota and then also Escrito Gallup. So I
16 was trying to be mindful of the new rule, 16.15.B(2),
17 where you're crossing pools that have different acreage
18 requirements for them. Escrito Gallup is 80. Dufers
19 Point is 160. We don't want 160. So I looked at it,
20 and I think --

21 EXAMINER JONES: Are they both oil pools?

22 MR. HALL: Pardon me?

23 EXAMINER JONES: Are they both oil pools?

24 MR. HALL: They're associated pools.

25 EXAMINER JONES: Oh, okay. In this general

1 area, are they associated oil --

2 MR. HALL: Yes.

3 EXAMINER JONES: -- or are they associated
4 gas? Associated oil?

5 MR. HALL: Yeah.

6 So we want to be Escrito Gallup. We're not
7 targeting the Dakota at all. We don't expect to recover
8 Dakota reserves.

9 EXAMINER JONES: That's the Dufers Point,
10 right?

11 MR. HALL: Right.

12 But I think the answer, in my view anyway,
13 is in the general order for pool rules for associated
14 pools. It's Order Number R 5353. And so Rule (A)(1)
15 says in effect that if any part of the wells are going
16 to be within said pool -- or within one mile, the pool
17 rules for that pool apply. So I think because these are
18 definitely going to be Escrito Gallup, it ought to apply
19 across the board. So that's what we're asking for.

20 EXAMINER JONES: Escrito Gallup is what
21 size?

22 MR. HALL: 80.

23 EXAMINER JONES: So you can use 80-acre
24 building blocks and --

25 MR. HALL: Yes. We can stand them up.

1 EXAMINER JONES: Mr. Brooks?

2 EXAMINER BROOKS: Let's keep a distinction.

3 EXAMINER JONES: I've insulted somebody
4 here.

5 EXAMINER BROOKS: Well, I'm not going to
6 make any comment on that, but you do maintain the
7 distinction because we're not the same person.

8 But I don't have any comment on that. I am
9 not as familiar with the rules, obviously, as Mr. Hall
10 is, so I can't comment.

11 EXAMINER JONES: But the 80 is for gas in
12 that pool, and 40 is for oil in that pool?

13 MR. HALL: No. It's 80 across the board,
14 associated. They're both associated pools.

15 EXAMINER BROOKS: Well, sometimes that's
16 true in associated pools, but frequently associated
17 pools have different acreage for gas wells and oil
18 wells.

19 EXAMINER JONES: The GOR will be lower than
20 the 20,000 or whatever the limit is for gas anyway.

21 MR. HALL: I think so.

22 EXAMINER JONES: Yeah.

23 MR. HALL: I mean, they're reasonably
24 perspective for being oil across.

25 EXAMINER JONES: Yeah. They're not

1 drilling for gas here.

2 MR. HALL: And that concludes my
3 presentation. I move the admission of Exhibits A1
4 through 6; Exhibit B, 8 through 10; Exhibit C, 11
5 through 14.

6 We have two additional override owners we
7 need to get notice out to, so I'd like to continue this
8 to August 22nd, and I'll get that out. I don't have to
9 pay to do that, do I?

10 MR. BRUCE: Yes.

11 (Laughter.)

12 EXAMINER JONES: Yes.

13 MR. HALL: Okay.

14 EXAMINER JONES: Okay. Exhibits A1 through
15 6 and B8 through 10 and C11 through 14 are admitted.

16 (LOGOS Operating, LLC Exhibit Numbers A1
17 through A6; B8 through B10; and C11 through
18 C14 are offered and admitted into
19 evidence.)

20 EXAMINER JONES: The case is continued to
21 August 22nd.

22 Thank you.

23 MS. MURPHY: How deep are those wells? I
24 didn't see anywhere there is a depth.

25 MR. HALL: If you'll refer to Exhibit 10,

1 you can see the target is between the Basal Niobrara and
2 the base of the Gallup. So you can see those depths in
3 there. I can find out and get that to you.

4 MS. MURPHY: Exhibit 10?

5 EXAMINER JONES: We've been trying to put
6 into our orders the approximate TVD and measured depth.

7 MS. MURPHY: Usually on the letter, they
8 say at least the vertical depth, and it's not in there.
9 And I couldn't really see the cross section.

10 EXAMINER JONES: What about the AFE for the
11 well?

12 MS. MURPHY: Well, the AFE letter did not
13 have the depth.

14 MR. HALL: I'll find that out and
15 supplement the record.

16 MS. MURPHY: Thank you.

17 EXAMINER BROOKS: I'm going to leave. You
18 can go on without me if you wish.

19 EXAMINER JONES: I'm going to be there,
20 too.

21 (Discussion off the record.)

22 (Case Number 20491 concludes, 11:54 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 DATED THIS 2nd day of August 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

25