

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 15295

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

MAY 14, 2015

Santa Fe, New Mexico

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

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
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A P P E A R A N C E S

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I N D E X

CASE NUMBER 15295 CALLED

COG OPERATING LLC CASE-IN-CHIEF:

WITNESS DAVID MICHAEL WALLACE

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Examiner McMillan	11		
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WITNESS CARRIE M. MARTIN

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Reporter's Certificate

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E X H I B I T I N D E X
Exhibits Offered and Admitted

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1 (Time noted 8:18 a.m.)

2 EXAMINER McMILLAN: With that in mind, I
3 would now like to call case No. 15295, Application of
4 COG 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: Good morning, Mr. Examiner.
9 Gary Larson for Applicant COG Operating.

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

12 MR. LARSON: I have two witnesses.

13 EXAMINER McMILLAN: Let's get them sworn in
14 now.

15 (Whereupon, the oath was administered to the
16 two witnesses.)

17 MR. LARSON: I first call Mr. Wallace.

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. Would you please state your full
24 name for the record.

25 A. David Michael Wallace.

1 Q. And where do you reside?

2 A. Midland, Texas.

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

5 A. COG Operating LLC. And I'm a senior landman from
6 for southeast Lea County.

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

9 A. I am.

10 Q. And have you previously testified at a Division
11 hearing?

12 A. I have.

13 Q. And during these hearings did the Examiner
14 qualify you as an expert in land matters?

15 A. Yes.

16 MR. LARSON: Mr. Examiner, I move that
17 Mr. Wallace be qualified as an expert in land matters
18 for purposes of today's hearing.

19 EXAMINER McMILLAN: So accepted.

20 Q. Mr. Wallace, could you identify the document
21 marked as COG Exhibit 1.

22 A. This is the C-102 for Skull Cap State Com.
23 No. 2-H Well.

24 Q. And does the C-102 identify the project area for
25 the proposed Skull Cap State Com No. 2H Well?

1 A. It does.

2 Q. Could you identify the document marked as COG
3 Exhibit No. 2?

4 A. This is a land ownership map for the project area
5 of this well.

6 Q. Did you prepare this document?

7 A. Yes, I did.

8 Q. And does that exhibit identify all of the
9 uncommitted mineral interest owners in the proposed
10 project area?

11 A. Yes, it does.

12 Q. And does it also indicate each interest owner's
13 percentage of interest?

14 A. Yes, it does.

15 Q. Did you send well proposals to all of the
16 identified mineral interest owners in advance of the
17 filing of COG's application?

18 A. I did with the exception of two of them, Peggy
19 Neal Pool Marquez and Elizabeth Hogan.

20 Q. And have you subsequently sent a well proposal to
21 those individuals?

22 A. I have.

23 Q. And are their interests represented by another
24 mineral interest owner identified on page 2 of
25 Exhibit 2?

1 A. Yes. They are represented by Mitchell Cappadona.

2 Q. And have you communicated with Mr. Cappadona
3 regarding his as well as those other two mineral
4 interests?

5 A. That is correct. I've spoken to him several
6 times and negotiated leases with him.

7 Q. And is Mr. Cappadona representing any other
8 uncommitted mineral interest owners identified on
9 Exhibit 2?

10 A. He represents Jewell Hasford, Shirley Sue Mosley
11 and Joe Bill Mosley.

12 Q. And have you also discussed leasing those
13 interests with Mr. Cappadona?

14 A. That's correct.

15 Q. Could you identify the document marked as COG
16 Exhibit 3.

17 A. This is an example of a well proposal that we
18 sent to the interest owners in our project area.

19 Q. And did you prepare this letter?

20 A. I did.

21 Q. And was an identical letter sent to the other
22 mineral interest owners identified in Exhibit No. 2?

23 A. That is correct.

24 Q. And what documents did you enclose with the well
25 proposal letters you sent out?

1 A. I enclosed an AFE and JOA with each packet.

2 Q. And have you subsequently communicated with any
3 of the interest owners other than Mr. Cappadona about
4 participating in the well or entering into an agreement
5 with COG?

6 A. Yes. I have spoken to Energen Resources. We
7 have been negotiating for a while and we've come to
8 terms on a term assignment to pick up their interest; as
9 well as the other parties, I've negotiated leases with
10 them.

11 Q. And is timing an issue with regard to COG's
12 request for a pooling order?

13 A. Yes, it is. I've got a lease expiration issue in
14 my project area.

15 Q. And in your opinion, have you made a good faith
16 effort to obtain the interest owners' voluntary joinder
17 in the well or a commitment to an agreement with COG?

18 A. Yes.

19 Q. I next ask you to identify the document marked as
20 Exhibit No. 4.

21 A. This is the AFE that we sent out for this well to
22 each interest owner.

23 Q. That is the Skull Cap State Com No. 12?

24 A. That's correct.

25 Q. And are the well costs identified in the AFE

1 similar to costs incurred for other Third Bone Spring
2 horizontal wells?

3 A. Yes.

4 Q. Could you identify the document marked as COG
5 Exhibit No. 5.

6 A. This is the notification letter that was sent out
7 to the interest owners in our spacing unit as well as
8 offset interest owners.

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

10 A. Correct.

11 Q. And referring back to Exhibit 2, did you identify
12 any offset interests that would be entitled to receive
13 notice of COG's pooling application in today's hearing?

14 A. Yes. They were the identical parties, the same
15 parties.

16 Q. The same parties that are listed as uncommitted
17 mineral owners?

18 A. That's correct.

19 Q. Do you have a recommendation for the amount COG
20 should be paid for supervision and administrative
21 expenses?

22 A. Yes. \$7,000 a month for drilling and \$700 a
23 month for producing.

24 Q. And are those amounts consistent with and similar
25 to those charged by COG for other Third Bone Spring

1 horizontal wells?

2 A. Yes.

3 Q. And do you also recommend that the rates for
4 supervision and administrative expenses be adjusted
5 periodically pursuant to the Copas accounting procedure?

6 A. Yes.

7 Q. Is COG also requesting a 200 percent charge for
8 the risk of drilling and completing the Skull Cap State
9 Com No. 2-H?

10 A. Yes.

11 Q. In your opinion, will the granting of COG's
12 application serve the interests of conservation and the
13 prevention of waste?

14 A. Yes.

15 Q. Please speak up.

16 A. Yes. I'm sorry.

17 Q. And given the lease termination issues COG is
18 facing, do you have a request with regard to the
19 Division's order addressing the pooling application in
20 this case, Mr. Wallace?

21 A. Yes. If possible, we would like an expedited
22 order on this, because of the issues.

23 MR. LARSON: Mr. Examiner, I move the
24 admission of COG Exhibits 1 through 5.

25 EXAMINER McMILLAN: Exhibits 1, 2, 3, 4 and

1 5 now may be accepted as part of the record.

2 (Whereupon, COG Operating LLC's Exhibits 1
3 through 5 were offered and accepted as part of the
4 record.)

5 EXAMINATION BY EXAMINER McMILLAN

6 EXAMINER McMILLAN: The first question is,
7 what type of acreage is this?

8 THE WITNESS: It's state and fee acreage.
9 The acreage which falls under section 32 is state owned
10 by COG. And then the 120 acres in the section to the
11 south is fee.

12 EXAMINER McMILLAN: And you want to
13 compulsory pool all the Bone Spring?

14 THE WITNESS: Yes.

15 EXAMINER McMILLAN: Now, the question I have
16 is let's look at -- these questions go back to the same
17 thing. You are asking for 200 -- your project area is
18 200 acres, correct?

19 THE WITNESS: Correct.

20 EXAMINER McMILLAN: Now, when I see your
21 application, I'm only getting 160 acres out of that.

22 THE WITNESS: We've got 80 acres in
23 section 32 to the north, and then 120 in section 5.

24 EXAMINER McMILLAN: Okay. But then let's go
25 back and look at -- we need to go back and look at your

1 Exhibit No. 5.

2 THE WITNESS: Okay.

3 EXAMINER McMILLAN: The last sentence there
4 says the proposed non-standard spacing and proration
5 unit is comprised of the west half of the northeast
6 quarter of section 5 and the west half of the --

7 THE WITNESS: The last sentence of the first
8 paragraph?

9 EXAMINER McMILLAN: Yes.

10 THE WITNESS: The west half of the northeast
11 of section 5 and the west half of the southeast --
12 that's a typo.

13 EXAMINER McMILLAN: Yeah, but you sent it to
14 these people. You are requesting 200, but in your
15 application you're only asking for 160.

16 MR. LARSON: Could I hand a copy of the
17 application to the witness?

18 EXAMINER McMILLAN: Certainly.

19 (Discussion between the examiners.)

20 THE WITNESS: The application here has
21 200-acre spacing and proration unit in the project area.

22 EXAMINER McMILLAN: But your application
23 only has 160 in it.

24 THE WITNESS: I'm a little confused. I am
25 sorry.

1 EXAMINER McMILLAN: The application only
2 nets out 160 acres. It appears that you excluded the
3 southwest -- you excluded the northwest quarter of the
4 southeast quarter.

5 THE WITNESS: It appears that it doesn't
6 show it in the first paragraph of the application.

7 EXAMINER McMILLAN: And your letter doesn't,
8 either.

9 THE WITNESS: I guess that was a mistake on
10 my part.

11 EXAMINER McMILLAN: You know, to me there
12 appears to be a problem with that. Because you are
13 asking for 200 -- you are asking the OCD for 200 acres,
14 yet your application is only asking for 160.

15 THE WITNESS: I'm sorry. You mean the
16 notice of application has the wrong acreage amount, but
17 the application does --

18 EXAMINER McMILLAN: Your application to the
19 OCD is asking for 200 and your letter only has 160.

20 THE WITNESS: Okay.

21 EXAMINER McMILLAN: There is a discrepancy
22 there.

23 THE WITNESS: That was a mistake.

24 EXAMINER McMILLAN: I mean you have to give
25 the respective parties the correct acreage. You can't

1 say -- you can't ask for -- you can't come before the
2 hearing and ask for 200 acres and your application only
3 asks for 160.

4 And then the other question I have is
5 actually you guys had inadvertently applied for an NSP
6 application that I had seen, and how -- in your NS
7 administrative application, which was actually
8 dismissed, the southwest quarter of the southeast
9 quarter, you guys had planned to develop that; is that a
10 correct statement?

11 THE WITNESS: The southwest of the southeast
12 of --

13 EXAMINER McMILLAN: Of section 32, you
14 planned to develop that; is that correct?

15 THE WITNESS: The southwest of the southeast
16 in section 32, yes.

17 EXAMINER McMILLAN: And you have seen that
18 somewhere in your drilling, that is part of your
19 drilling program out here?

20 THE WITNESS: Are you speaking of section 5
21 to the south or section 32 in our project area?

22 EXAMINER McMILLAN: Well, it would be
23 section 32.

24 THE WITNESS: The southwest of the
25 southeast, yes, we do have plans to drill from the south

1 to develop that acreage.

2 EXAMINER McMILLAN: Okay.

3 I believe this case will have to be
4 continued because the notice was incorrect. And after
5 you go through correct notification, at that point, the
6 case will be heard again. Therefore, this case will be
7 continued.

8 MR. LARSON: Mr. Examiner, could we go ahead
9 and proceed with our examination today, go ahead and
10 continue?

11 EXAMINER McMILLAN: Yes.

12 MR. LARSON: Could I have a couple of
13 followup questions?

14 EXAMINER McMILLAN: Yes.

15 REDIRECT-EXAMINATION

16 BY MR. LARSON:

17 Q. Mr. Wallace, the well proposal that you sent out,
18 did that identify a 200-acre project area?

19 A. Yes, it did.

20 Q. And so all the interest owners were notified of a
21 proposed 200-acre project area?

22 A. That's correct.

23 MR. LARSON: That is all I have.

24 EXAMINATION BY EXAMINER MARKS

25 EXAMINER MARKS: Do you have anything in

1 writing from Mr. Cappadona that he represents the other
2 interest owners that you stated?

3 THE WITNESS: I do have documentation. I
4 don't have a legal document showing him as the executor
5 of the estate, but he has done so for many years.

6 I am in the process of negotiating a lease
7 with him right now, and I asked him for that
8 documentation.

9 EXAMINER MARKS: I just don't see -- I
10 forget what exhibit number it is -- maybe it's
11 Exhibit 5. I don't see notice to Ms. Hogan or to
12 Marquez --

13 THE WITNESS: Yes. When we were going
14 through the proposal list and the ownership, when I was
15 preparing the land exhibit, I noticed that they didn't
16 receive the proposals. And when we discovered that, I
17 immediately sent out the proposals to them.

18 MS. MARKS: So when we come back, if we can
19 have some notice or some sort of documentation showing
20 that --

21 THE WITNESS: Okay. And I did speak to him
22 about those particular interests and he claimed to
23 represent them, and we've negotiated a lease for all
24 those parties. We are still in the process of cleaning
25 it up.

1 MS. MARKS: Okay.

2 MR. LARSON: And you communicated with
3 Mr. Cappadona yesterday about today's hearing?

4 THE WITNESS: That is correct.

5 MR. LARSON: That's all I have.

6 EXAMINER McMILLAN: Thank you. I have no
7 further questions.

8 THE WITNESS: Thank you.

9 CARRIE M. MARTIN
10 having been first duly sworn, was examined and testified
11 as follows:

12 DIRECT EXAMINATION

13 BY MR. LARSON:

14 Q. Good morning, Ms. Martin. Could you please state
15 your full name for the record.

16 A. Carrie M. Martin.

17 Q. And where do you reside?

18 A. Midland, Texas.

19 Q. And by whom are you employed and in what
20 capacity?

21 A. COG Operating as geologist.

22 Q. And what is the focus of your responsibilities at
23 COG?

24 A. All geological matters related to southern Lea
25 County.

1 Q. And are you familiar with the geological aspects
2 of the proposed Skull Cap State Com No. 2-H Well and the
3 matters addressed in COG's application?

4 A. Yes.

5 Q. Could you briefly summarize your educational
6 background and professional experience?

7 A. Yes. I graduated from Florida State University
8 with a bachelor of science in geology in 1997. I
9 graduated with a masters of science in geology from the
10 University of Alabama in 2002. I spent 11 years at
11 ConocoPhillips and for the last three years I've been at
12 COG Operating.

13 Q. And have you previously testified at an
14 administrative hearing?

15 A. Yes. At the Oklahoma Corporation Commission.

16 Q. And during that hearing, did the Examiner accept
17 your qualifications as an expert in petroleum geology?

18 A. Yes.

19 MR. LARSON: Mr. Examiner, I move for
20 Ms. Martin's qualification as an expert petroleum
21 geologist for purposes of this hearing.

22 EXAMINER McMILLAN: So qualified.

23 Q. (By Mr. Larson:) Were you involved in COG's
24 evaluation of the prospects for Skull Cap State Com
25 No. 2-H Well?

1 A. Yes.

2 Q. And does COG have experience with Third Bone
3 Spring wells in this area?

4 A. Yes, we drilled a number of Third Bone Spring
5 wells across the state line in Texas?

6 Q. And have those wells been productive?

7 A. Yes.

8 Q. And what was your assessment of the prospects for
9 the Skull Cap State Com No. 2-H Well?

10 A. That the geology in the Skull Cap State Com area
11 is similar to the geology we see across the state line
12 in Texas.

13 Q. Could you identify the document marked as COG
14 Exhibit 6.

15 A. This is a structure map on top of the Third Bone
16 Spring Sand, showing a 50-foot contour interval. The
17 dashed line shows the location of the Skull Cap State
18 Com. No. 2-H and the red dot shows the location of our
19 type log for the area.

20 Q. And did you prepare this document marked as
21 Exhibit 6?

22 A. Yes.

23 Q. And what role did this structure map have in your
24 geological analysis of the prospects for the Skull Cap
25 well?

1 A. We see that there are no stratigraphic pinch-outs
2 or faulting in the area, and that there is no geological
3 impediments to drilling horizontal wells.

4 Q. What other wells in the area did you look at?

5 A. I looked at all available regional wells that
6 penetrated the Third Bone Spring Sand, and we have seen
7 a number of vertical producing wells out of the Third
8 Bone Spring Sand at approximately five to ten miles to
9 the west of this area.

10 Q. I next ask you to identify the document marked as
11 Exhibit 7.

12 A. This is a type log of the Third Bone Spring Sand
13 from the Fez Fee No. 11 pilot hole. And this shows the
14 top of the Third Bone Spring Sand -- it's in purple --
15 and the base of the Third Bone Spring is the top of the
16 Wolf Camp Formation.

17 Q. And did you prepare this document?

18 A. Yes.

19 Q. And what role did this document have in your
20 analysis of the prospects for the Skull Cap well?

21 A. That the geology in this -- this is a regional
22 representation of the Third Bone Spring in this
23 area.

24 Q. Could you next identify the document marked as
25 Exhibit 8.

1 A. Yes. This is a well path diagram of the Skull
2 Cap State Com. No. 2-H Well.

3 Q. And did you prepare this document?

4 A. Yes.

5 Q. And will the completed Skull Cap State Com. No.
6 2-H Well comply with the Division's setback
7 requirements?

8 A. Yes.

9 Q. And in your opinion will the well be productive
10 along the entire length of the completed lateral?

11 A. Yes.

12 Q. And in your opinion will the granting of COG's
13 application serve the interest of conservation and the
14 prevention of waste?

15 A. Yes.

16 MR. LARSON: Mr. Examiner, I move the
17 admission of Exhibits 6, 7, and 8.

18 EXAMINER McMILLAN: Exhibit 6, 7, and 8 may
19 now be accepted as part of the record.

20 (Whereupon, COG Operating LLC's Exhibits 6
21 through 8 were offered and accepted as part
22 of the record.)

23 MR. LARSON: I'll pass the witness.

24 EXAMINATION BY EXAMINER McMILLAN

25 EXAMINER McMILLAN: My question -- could we

1 go back and look at Exhibit 6.

2 THE WITNESS: Okay.

3 EXAMINER McMILLAN: You said it's a
4 continuous sand. But based on what you see in an
5 isopach, which you didn't have, is there any variance in
6 the isopachs, anything of that nature?

7 THE WITNESS: The thickness of the Third
8 Bone Spring Sand is similar throughout the area.

9 EXAMINER McMILLAN: Okay. I don't really
10 have any more questions for her.

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

13 EXAMINER McMILLAN: All right. Therefore,
14 case No. 15295 will be continued to June 11th.

15 MR. LARSON: I'm sorry, Mr. Examiner. Did
16 you say the 28th?

17 EXAMINER McMILLAN: No. I said June 11th,
18 just to make sure that you get all the notices out. If
19 you can do it, if you get it done quicker than that,
20 then they can make it the 28th.

21 MR. LARSON: Okay. We will endeavor to have
22 it done by the 28th.

23 EXAMINER McMILLAN: Then I was just trying
24 to give you the worst case scenario, not having to come
25 back. If you get it done faster, then it can go to the

1 next hearing.

2 MR. LARSON: Very good. Thank you,
3 Mr. Examiner.

4 EXAMINER McMILLAN: Thank you very much.
5 (Time noted 8:41 a.m.)
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11
12

13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner hearing of Case No. _____
16 heard by me on _____.

17 _____, Examiner
18 Oil Conservation Division
19
20
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24
25

1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF BERNALILLO)
4
5
6

7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, May 14,
11 2015, the proceedings in the above-captioned matter were
12 taken before me, that I did report in stenographic
13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control.
16

17
18 I FURTHER CERTIFY that I am neither employed by
19 nor related to nor contracted with (unless excepted by
20 the rules) any of the parties or attorneys in this case,
21 and that I have no interest whatsoever in the final
22 disposition of this case in any court.
23
24
25



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