

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

CASE 15333

APPLICATION OF COG OPERATING, LLC, FOR
A NON-STANDARD SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

JUNE 25, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, William V. Jones, Examiner, and Gabriel
Wade, Legal Examiner, on June 25, 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

A P P E A R A N C E S

For the Applicant

Jordan Lee, Kessler, Esq.
Holland & Hart
110 North Guadalupe
Suite 1
Santa Fe, New Mexico 87501
(505)983-6043
jlkessler@hollandhart.com

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For Yates Petroleum Corporation, ABO
Petroleum Corporation, and Myco Industries, Inc.

JAMES G. BRUCE, ESQ.
P.O. Box 1056
Santa Fe, New Mexico 87504
(505)982-2043
jamesbruc@aol.com

I N D E X

CASE NUMBER 15333 CALLED

COG OPERATING, LLC, CASE-IN-CHIEF:

WITNESS DAVID MICHAEL WALLACE

	Direct	Redirect	Further
By Ms. Kessler	5		

17

	EXAMINATION
Examiner McMillan	11

19

WITNESS CARRIE M. MARTIN

	Direct	Redirect	Further
By Ms. Kessler	12	21	

22

	EXAMINATION
Examiner McMillan	16

23

Examiner Jones	18
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Reporter's Certificate	PAGE 23
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1 E X H I B I T I N D E X
2 Exhibits Offered and Admitted

3		
4	COG OPERATING LLC EXHIBIT 1	PAGE 21
5	COG OPERATING LLC EXHIBIT 2	21
6	COG OPERATING LLC EXHIBIT 3	21
7	COG OPERATING LLC EXHIBIT 4	21
8	COG OPERATING LLC EXHIBIT 5	21
9	COG OPERATING LLC EXHIBIT 6	15
10	COG OPERATING LLC EXHIBIT 7	15
11	COG OPERATING LLC EXHIBIT 8	15

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

2 EXAMINER McMILLAN: And with that in mind, I
3 would like to call the first case that will be heard
4 today, case No. 15333, Application of COG Operating for
5 a Non-Standard Spacing and Proration Unit and Compulsory
6 Pooling, Lea County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Mr. Examiner, Jordan Kessler
9 from Holland and Hart in Santa Fe for the applicant.

10 EXAMINER McMILLAN: Any other appearances?

11 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa
12 Fe for Yates Petroleum Corporation, ABO Petroleum
13 Corporation and Myco Industries, Inc.

14 EXAMINER McMILLAN: Preliminary statements.

15 MR. BRUCE: No.

16 MS. KESSLER: No.

17 MR. BRUCE: And I have no witnesses.

18 MS. KESSLER: I have two witnesses today,
19 Mr. Examiner.

20 EXAMINER McMILLAN: May they please both be
21 sworn in at this time.

22 (Whereupon, the presenting witnesses were
23 administered the oath.)

24 EXAMINER McMILLAN: Please proceed.

25 DAVID MICHAEL WALLACE

1 having first been duly sworn, was examined and testified
2 as follows:

3 DIRECT EXAMINATION

4 BY MS. KESSLER:

5 Q. Please state your name for the record and tell
6 the Examiner by whom you are employed and in what
7 capacity.

8 A. My name is David Michael Wallace. I work for COG
9 Operating, LLC. And I'm a landman for Lea County,
10 southern Lea County.

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

13 A. I have.

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

16 A. They were.

17 Q. And are you familiar with the application that
18 has been filed in this case?

19 A. I am.

20 Q. And are you familiar with the status of the lands
21 in the subject area?

22 A. I am.

23 Q. Mr. Examiner, I would tender Mr. Wallace as an
24 expert in petroleum land matters?

25 EXAMINER McMILLAN: Any objections?

1 MR. BRUCE: No objection.

2 EXAMINER McMILLAN: So accepted.

3 BY MS. KESSLER (cont'd):

4 Q. Could you please turn to what I have marked as
5 COG Exhibit 1 and identify this exhibit and explain what
6 COG seeks under this application.

7 A. This is our C-102 plat for the Stove Pipe Fed Com
8 No. 2H Well. We seek to create a non-standard spacing
9 unit for the west half of the east half of section six,
10 2535, Lea County, New Mexico. And, also, the west half
11 of the northeast quarter of section seven.

12 Q. Is that a 240-acre non-standard --

13 A. Yes --

14 Q. -- spacing unit?

15 A. -- 240-acre non-standard unit. And we also seek
16 to pool the Bone Spring as to the spacing unit.

17 Q. Has the Division designated a pool for this area?

18 A. It has. It is the Red Hills Bone Spring North
19 Pool, 96434.

20 Q. Are you sure that it is not pool code 98110?

21 A. Yes, correction -- 98110.

22 Q. Have you submitted an APD?

23 A. We have.

24 Q. What date was that submitted?

25 A. April of 2015.

1 Q. Is this pool governed by Division statewide
2 rules?

3 A. Yes.

4 Q. So 330-foot setbacks will apply to the spacing
5 unit, correct?

6 A. That's correct.

7 Q. And what is the nature of the lands in sections
8 six and seven where the completed interval will be
9 located?

10 A. It consists of fee acreage and federal acreage.

11 Q. If you can turn to COG Exhibit 2 and identify
12 this exhibit.

13 A. This is an ownership plat for the spacing unit.
14 It shows the ownership, the total ownership for each
15 tract, and also has a recap at the end.

16 It also identifies the uncommitted mineral
17 interest by the bolding.

18 Q. On this ownership rundown, does this include
19 Yates, Myco, and ABO?

20 A. It does.

21 Q. Have you recently reached an agreement with those
22 entities?

23 A. We have. We agreed to acquire their interest in
24 the south half, south half of section six. And we
25 agreed to dismiss them from the case.

1 Q. Is Exhibit No. 3 a well proposal letter that was
2 sent to the working interest owners?

3 A. Yes, that is correct.

4 Q. On what date was that letter sent?

5 A. April 9th, 2015.

6 Q. And did the letter also include an AFE?

7 A. Yes.

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

11 A. Yes.

12 Q. And is COG Exhibit 4 a copy of the proposal that
13 was sent to all of the unleased mineral interest owners?

14 A. Yes. It was sent to the unleased mineral
15 interest owners as well as their -- and/or their
16 representatives.

17 Q. Did all of the uncommitted mineral interest
18 owners receive a well proposal letter?

19 A. Yes.

20 Q. Is Mitchell Capadonna the representative of
21 certain interest owners?

22 A. He is. He is the representative of Peggy Neal
23 Pool Marquez, Jewell Hosford, Elizabeth Hogan, Shirley
24 Sue Mosley, and Joe Bill Mosley.

25 Q. What additional efforts did the company

1 undertake to reach voluntary agreement with these
2 interest owners?

3 A. I have spoken to the majority of them. I have
4 negotiated leases with the majority of them. I
5 negotiated a term assignment with Energen and negotiated
6 the acquisition of interest of Myco, ABO, and Yates.

7 Q. Does the well proposal letter that was sent to
8 the interest owners identify the requested overhead and
9 administrative costs while drilling this well and also
10 while producing should be it successful?

11 A. Yes.

12 Q. What are those rates?

13 A. 7,000 a month while drilling and 700 for
14 producing.

15 Q. Are these costs in line with what COG and other
16 operators in the area charge for similar wells?

17 A. It is.

18 Q. Do you ask that these administrative and overhead
19 costs be incorporated into any order resulting from
20 this --

21 A. Yes.

22 Q. -- hearing?

23 A. Yes.

24 Q. And do you ask that it be adjusted in accordance
25 with the appropriate accounting procedures?

1 A. Yes.

2 Q. With respect to the uncommitted interest owners,
3 do you request that the Division impose a 200 percent
4 risk penalty?

5 A. Yes.

6 Q. Did COG identify the offset interest owners in
7 the 40-acre tract surrounding the proposed non-standard
8 unit?

9 A. We did.

10 Q. And did COG include those offset interest owners
11 in the notice of this hearing?

12 A. Yes.

13 Q. Is that notice contained in Exhibit 5, which is
14 an affidavit prepared by my office with attached letters
15 of notice to the effected parties?

16 A. Yes, that is correct.

17 Q. Were Exhibits 1 through 4 prepared by you or
18 compiled under your direction or supervision?

19 A. Yes, they were.

20 MS. KESSLER: That concludes my examination
21 of this witness.

22 EXAMINER McMILLAN: Okay. Will the
23 producing interval be standard?

24 THE WITNESS: Yes.

25 EXAMINER McMILLAN: Okay. Would you like to

1 cross-examine?

2 MR. BRUCE: I don't have any questions of
3 the witness, Mr. Examiner.

4 EXAMINATION BY EXAMINER McMILLAN

5 EXAMINER McMILLAN: Okay. My only comment
6 for you is to -- I expect an updated C-102 because it's
7 not 240 acres; it's 240-and-something-.09. So I will
8 expect an updated C-102.

9 Were there any unlocatable interests?

10 THE WITNESS: I found -- through searches I
11 a had a couple of unlocatable parties. But then we
12 found addresses for them. And I have spoken to them
13 since -- with the exception of one party who I have left
14 messages with.

15 MS. KESSLER: But you were able to locate
16 all of the interest owners?

17 THE WITNESS: Yes, I was.

18 EXAMINER McMILLAN: For clarity of record,
19 are there any unlocatable interests?

20 THE WITNESS: No, there are not.

21 EXAMINER McMILLAN: And the status?

22 THE WITNESS: Of?

23 EXAMINER McMILLAN: Of the well. Is it
24 proposed?

25 THE WITNESS: It is proposed.

1 EXAMINER McMILLAN: And are you pooling the
2 entire Bone Spring?

3 THE WITNESS: Yes, we are.

4 EXAMINER McMILLAN: I have no further
5 questions. Do you have any questions?

6 MR. BRUCE: No, sir.

7 MS. KESSLER: I would like to call my next
8 witness, please.

9 EXAMINER McMILLAN: Okay.

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

13 EXAMINATION

14 BY MS. KESSLER:

15 Q. Please state your name for the record and
16 identify by whom you are employed and in what capacity?

17 A. Carry Martin, COG operating, as a geologist.

18 Q. Have you previously testified before the
19 Division?

20 A. Yes.

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

23 A. Yes.

24 Q. Are you familiar with the application that has
25 been filed in this case?

1 A. Yes.

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

4 A. Yes.

5 MS. KESSLER: Mr. Examiner, I would tender
6 Ms. Martin as an expert in petroleum geology.

7 EXAMINER McMILLAN: Any objections?

8 MR. BRUCE: No objection.

9 EXAMINER McMILLAN: So accepted.

10 Q. What is the target interval for the proposed
11 well?

12 A. It is the Third Bone Spring Sand of the Bone
13 Spring Formation.

14 Q. Have you prepared a structure map and cross
15 section for the Examiners?

16 A. Yes.

17 Q. Could you please turn to COG Exhibit 6 and
18 identify this exhibit for the Examiners.

19 A. This is a structure map of the Third Bone Spring
20 Sand. It has -- it shows on the structure map the
21 contours in block lines with a contour interval of
22 50 feet. The yellow is COG's acreage. The purple
23 dashed line is the location of the proposed well. The
24 solid purple line is a well that has been drilled in the
25 Third Bone Spring in the area. The red dots and red

1 lines show the location of the cross section.

2 This map shows that there's no faulting in the
3 area, there's no stratigraphic pinchouts and no
4 geological impediments to drilling horizontal wells.

5 Q. Please turn to Exhibit 7 and identify this for
6 the examiners.

7 A. This is the cross section of the Third Bone
8 Spring Sand in the area. The purple line at the top
9 shows the top of the Third Bone Spring Sand, and the red
10 line is the base of the Third Bone Spring Sand. And so
11 that shows the interval of the Third Bone Spring Sand.

12 This cross section shows the wells are
13 representative of the geology in the area. Our target
14 interval would be at the base of the Third Bone Spring.

15 Q. And have you identified continuity across the
16 proposed non-standard unit?

17 A. Yes. The thickness shows it's continuous across
18 the area.

19 Q. What conclusions have you drawn based on your
20 geologic study of this area?

21 A. There are no geological impediments to drilling
22 horizontal wells in this area. The area can be
23 efficiently and economically developed using horizontal
24 wells. The proposed well will on average contribute
25 more or less equally to the production of this well.

1 Q. And, lastly, could you please turn to COG Exhibit
2 8. Is this a diagram of the planned well path?

3 A. Yes, it is.

4 Q. Does the diagram demonstrate that the proposed
5 well will comply with the Division's 330-foot statewide
6 setbacks?

7 A. Yes.

8 Q. In your opinion, will the granting of COG's
9 application be in the best interest of conservation, for
10 the prevention of waste, and the protection of
11 correlative rights?

12 A. Yes.

13 MS. KESSLER: Mr. Examiner, I --

14 Q. Were COG Exhibits 6 through 8 prepared by you?

15 A. Yes, they were.

16 MS. KESSLER: I would move the admission of
17 Exhibits 6 through 8.

18 EXAMINER McMILLAN: Exhibit 6, 7 and 8 -- do
19 you have any objections?

20 MR. BRUCE: No objection.

21 EXAMINER McMILLAN: Sorry about that.

22 Exhibits 6, 7, and 8 shall be accepted as
23 part of the record.

24 (COG OPERATING LLC Exhibits 6 through 8
25 were offered and admitted.)

1 EXAMINER McMILLAN: Cross-examination.

2 MR. BRUCE: No questions.

3 EXAMINATION BY EXAMINER McMILLAN

4 EXAMINER McMILLAN: Here is my question.

5 What kind of trap is this? Is this a structural or a
6 stratigraphic trap?

7 THE WITNESS: The trap is continuous across
8 the area so the trap is not -- it does not trap within
9 the well area.

10 EXAMINER McMILLAN: Okay. So is it
11 structurally or stratigraphically controlled?

12 THE WITNESS: Okay. Over a large region, it
13 would be both structurally and stratigraphically
14 controlled.

15 EXAMINER McMILLAN: Okay. So which is going
16 to be predominant in here? Is it going to be the
17 structure or the stratigraphic components?

18 THE WITNESS: We don't see that there is
19 change within the wells that we have in the area that
20 there is a stratigraphic device.

21 EXAMINER McMILLAN: Is there any variance in
22 water production, whether you're up-dip or down-dip?

23 THE WITNESS: Not that we have seen in the
24 area.

25 EXAMINER McMILLAN: Okay. But then this

1 goes to my question, quite simply, why didn't you put a
2 isopach map in here? You need to include a isopach map
3 because you are saying that the structure is not a
4 predominant and it's more an isopach. And I don't see
5 it in here. So you should -- you need to include an
6 isopach map the next time you come back when you do a
7 presentation; is that clear?

8 MS. KESSLER: We understand that,
9 Mr. Examiner. Some of these isopach maps are considered
10 proprietary --

11 EXAMINER McMILLAN: But not proprietary over
12 the project area. You can make it fit over the project
13 area if you want. If your basis of the map is primarily
14 a stratigraphic type trap, you have to show this. You
15 can cut out the parts, everything but the project area.
16 And I would like to see that next time.

17 MS. KESSLER: Could you please clarify
18 whether you would like a gross isopach or a --

19 EXAMINER McMILLAN: Whichever best explains
20 the reasoning. Now I don't think the exact -- that
21 should be the expertise of the geologist or the
22 geophysicist.

23 MS. KESSLER: Perhaps we can discuss this
24 further prior to our next --

25 EXAMINER McMILLAN: That's great. Thank

1 you.

2 EXAMINATION BY EXAMINER JONES

3 EXAMINER JONES: Yeah, I guess I would ask
4 first, is this up on the Central Basin Platform?

5 THE WITNESS: No. This is in the deep part
6 of the Delaware Basin.

7 EXAMINER JONES: So the Wolfcamp is below
8 the Bone Spring in this case?

9 THE WITNESS: Yes.

10 EXAMINER JONES: How far away are you from
11 the Wolfcamp?

12 THE WITNESS: The Wolfcamp is the base of
13 the Third Bone Spring Sand.

14 EXAMINER JONES: Your well itself, how far
15 above the Wolfcamp Pool will you be?

16 THE WITNESS: The interval is directly on
17 top of the Wolfcamp. Our landing will be within that
18 Third Bone Spring Sand.

19 EXAMINER JONES: Yeah. I guess the question
20 is are you fracking down into the Wolfcamp and producing
21 from the other pool? It's the true vertical depth of
22 your well -- on your cross section, you have depths
23 there but -- and I guess the first two -- this is on
24 Exhibit 7. The first two to the left I guess are true
25 vertical depths -- is that correct? -- or at least

1 measured depths that are equivalent to true vertical --

2 THE WITNESS: These are all measured depths.
3 These are all vertical wells, so the true vertical depth
4 and the measured depth would be consistent.

5 EXAMINER JONES: Okay. And the one on the
6 right is the pilot hole, so...

7 THE WITNESS: Yes.

8 EXAMINER JONES: And if you look at that
9 cross section, where are you going to recommend that
10 your well be at?

11 THE WITNESS: We propose to land within the
12 basal part of the Third Bone Spring Sand.

13 EXAMINER JONES: Okay. On your pilot hole
14 over on the right, it shows about 30 feet up from the
15 Wolfcamp is some different behavior on your log. Would
16 you -- are you going to drill in that or are you going
17 to go up above that?

18 THE WITNESS: We would be above that zone.
19 We mark the top of the Wolfcamp where the shale marker
20 is in that area. And so that is where my top is going
21 to be.

22 EXAMINER JONES: Your AFE should have your
23 true vertical depth. I'm trying to find your AFE --

24 MS. KESSLER: Mr. Examiner, we only included
25 the C-102, and that is part of Exhibit 1.

1 EXAMINER JONES: Exhibit 1. Okay. And I
2 don't see where the vertical depth is on here. It looks
3 like your true vertical depth is 12,663. That's what
4 your AFE was for. Now where would that be on your cross
5 section, 12,663?

6 THE WITNESS: Where is that at? Where does
7 it show the --

8 MS. KESSLER: It is on the well proposal
9 letter. It says, true vertical depth, 12,560.

10 THE WITNESS: Okay.

11 EXAMINER JONES: Those drilling engineers,
12 they just kind of -- well, you know, it's depending on
13 the information you give them, right?

14 So 12,663 is -- it would be in your --

15 THE WITNESS: I see 12,563.

16 EXAMINER JONES: Okay. The cross section is
17 kind of hard to read.

18 THE WITNESS: Okay. The wells in this area,
19 there is some structure based on the structure map, so
20 the 12,560 TDV is within the basal sand of the Third
21 Bone Spring.

22 EXAMINER JONES: Okay. I'm fine. Thank you
23 very much.

24 MS. KESSLER: May I ask one additional
25 follow-up question?

1 EXAMINER McMILLAN: Sure.

2 REDIRECT EXAMINATION

3 BY MS. KESSLER:

4 Q. If you could please turn to COG Exhibit 7, the
5 cross section. Based on this cross section, are you
6 able to identify a consistent isopach across this area?

7 A. Yes. The top and the base of the Third Bone
8 Spring show that it has a consistent thickness across
9 this area.

10 MS. KESSLER: Okay. I have no further
11 questions.

12 EXAMINER WADE: I am not sure that you
13 entered Exhibits 1 through 5 into the record.

14 MS. KESSLER: May I please ask to move
15 Exhibits 1 through 5 into the record.

16 EXAMINER McMILLAN: Any objections?

17 MR. BRUCE: No. Did you enter Exhibit 6?

18 EXAMINER McMILLAN: Yes, Exhibit 6 was.

19 So Exhibit 1, Exhibit 2, Exhibit 3, Exhibit
20 4, and Exhibit 5 may now be accepted as part of the
21 record.

22 (COG OPERATING LLC Exhibits 1 through 5.
23 were offered and admitted.)

24 MS. KESSLER: Thank you, Mr. Examiner.

25 EXAMINER McMILLAN: I have no further

1 questions.

2 Actually, I request that Yates Petroleum
3 send a letter stating that they don't -- that they're --
4 that they requested they be dismissed.

5 MR. BRUCE: Mr. Examiner, the case -- as
6 Mr. Wallace could tell you, the case settled at some
7 point mid yesterday --

8 EXAMINER McMILLAN: Okay.

9 MR. BRUCE: -- and that was it, and he
10 stated on the record that they were dismissed.

11 EXAMINER McMILLAN: Okay. That's fine.

12 MR. BRUCE: I will send a letter.

13 EXAMINER McMILLAN: Great. Thank you.

14 With that in mind, case 15333 will be taken
15 under consideration. Thank you very much.

16

17

18 (Time noted 8:39 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)
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, June 25,
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 I FURTHER CERTIFY that I am neither employed by
18 nor related to nor contracted with (unless excepted by
19 the rules) any of the parties or attorneys in this case,
20 and that I have no interest whatsoever in the final
21 disposition of this case in any court.
22
23
24
25



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