

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE 15417

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 17, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Examiner, and Gabriel Wade, Legal Examiner, on December
17, 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: MARY Therese Macfarlane
New Mexico CCR 122
California CSR 3547
PAUL BACA COURT REPORTERS
500 Fourth Street NW, Suite 105
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

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1	I N D E X	
2	CASE NUMBER 15417 CALLED	
3	APPLICANT CASE-IN-CHIEF	
4	WITNESS DAVID WALLACE	
5	EXAMINATION BY MR. LARSON:	5
6	EXAMINATIONM BY EXAMINER JONES:	12
7		
8	WITNESS JOHN BERTALOTT	
9	EXAMINATION BY MR. LARSON:	15
10	EXAMINATIONM BY EXAMINER JONES:	19
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1	E X H I B I T I N D E X	
2	EXHIBIT	ADMITTED
3	APPLICANT COG OPERATING, LLC, EXHIBIT 1	12
4	APPLICANT COG OPERATING, LLC, EXHIBIT 2	12
5	APPLICANT COG OPERATING, LLC, EXHIBIT 3	12
6	APPLICANT COG OPERATING, LLC, EXHIBIT 4	12
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11	APPLICANT COG OPERATING, LLC, EXHIBIT 9	19
12	APPLICANT COG OPERATING, LLC, EXHIBIT 10	19
13	APPLICANT COG OPERATING, LLC, EXHIBIT 11	19
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1 (Time noted 8:13 a.m.)

2 THE HEARING EXAMINER: Okay. Let's just
3 get started, then.

4 Let's call Case 15417, Application of COG
5 Operating, LLC, for a non-standard oil spacing and
6 proration unit and compulsory pooling.

7 Appearances.

8 MR. LARSON: Good morning, Mr. Hearing
9 Examiner. Gary Larson of the Santa Fe office of Hinkle
10 Shanor for COG Operating. I have two witnesses.

11 THE HEARING EXAMINER: Any other
12 appearances?

13 (Note: No response.)

14 (Whereupon the presenting witnesses were
15 administered the oath.)

16 MR. LARSON: Mr. Wallace will be first.

17 DAVID MICHAEL WALLACE,
18 having been duly sworn, testified as follows:

19 EXAMINATION

20 BY MR. LARSON:

21 Q. Good morning, Mr. Wallace.

22 A. Good morning.

23 Q. Please state your full name for the record.

24 A. David Michael Wallace.

25 Q. Where do you reside?

1 A. Midland, Texas.

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

4 A. I'm a Senior Landman for COG Operating, LLC.

5 Q. What is your focus, the focus of your
6 responsibilities as Senior Landman at COG?

7 A. I handle land-related issues for Southeast Lea
8 County.

9 Q. Are you familiar with the land matters that
10 pertain to COG'S application?

11 A. Yes.

12 Q. Have you testified previously at a Division
13 hearing?

14 A. I have.

15 Q. During each those hearings were you qualified as
16 an expert in petroleum land matters?

17 A. I was.

18 MR. LARSON: Mr. Hearing Examiner, I would
19 tender Mr. Wallace as an expert in petroleum land matters.

20 THE HEARING EXAMINER: So qualified.

21 Q. (BY MR. LARSON) Would you first identify the
22 document marked as COG Exhibit No. 1.

23 A. That is the C-102 and Well Location and Acreage
24 Dedication Plat for the Sombrero Federal Com.

25 Q. Is this a true and correct copy of the C-102?

1 A. It is.

2 Q. What formation is COG requesting today?

3 A. It's the shallow shelf portion of the Bone
4 Spring.

5 Q. What pool will it employ?

6 A. Federal Com No. 4H. It's the Red Hills Bone
7 Spring North pool.

8 Q. Does COG have a deadline for drilling the well?

9 A. We do. We have a drilling application of May 1,
10 2016.

11 Q. And is that pursuant to a contractual
12 relationship --

13 A. Yes, it is associated with the purchase and sale
14 agreement of leasehold and the spacing unit related to a
15 purchase and sale agreement.

16 Q. Would you next identify the document marked as
17 COG Exhibit No. 2.

18 A. This is our lease tract map showing the tracts
19 within our proposed spacing unit or project area and the
20 interest of the parties. It also highlights the
21 uncommitted owners in our spacing unit.

22 Q. Did you prepare this document?

23 A. I did.

24 Q. Could you identify the uncommitted ownership
25 interest in the proposed project area.

1 A. It would be The Allar Company and OXY USA.

2 Q. Prior to the filing of COG's application, did
3 COG provide a Well Proposal to Allar and OXY?

4 A. We did.

5 Q. Would you next identify the document marked as
6 Exhibit 3.

7 A. This is the Well Proposal which went to Allar
8 and OXY on August 11, 2015.

9 Q. Is Exhibit 3 comprised of a true and correct
10 copy of the Well Proposal?

11 A. Yes.

12 Q. Have you subsequently contacted Allar and OXY
13 regarding the proposed well?

14 A. Yes, I've spoken to Allar and tried to with Oxy.
15 They have been nonresponsive. I called and left messages
16 and whatnot.

17 Q. Did you enclose an AFE with your Well Proposal
18 letters?

19 A. I did.

20 Q. Would you next identify the document marked as
21 Exhibit 4.

22 A. That is a copy of the AFE that was sent with the
23 Well Proposals.

24 Q. Is it a true and correct copy of the AFE?

25 A. Yes.

1 Q. Were the well costs identified in the AFE
2 similar to costs incurred by COG for similar horizontal
3 shale wells?

4 A. Yes.

5 Q. Would you next identify the document marked as
6 COG Exhibit No. 5.

7 A. This is a copy of the hearing notice that was
8 sent to Allar and OXY for the Sombrero well.

9 Q. Does that also include green cards for the
10 letters?

11 A. Yes, that is correct.

12 Q. Were those letters prepared and sent at your
13 direction?

14 A. Yes.

15 Q. Has COG identified the offset operators and
16 interest owners entitled to receive notice of today's
17 hearing?

18 A. We have.

19 Q. Would you please identify the document marked as
20 COG Exhibit No. 6.

21 A. This is our list of offset operators and owners,
22 the plat showing their ownership.

23 Q. And was this document prepared at your direction
24 and under your supervision?

25 A. Yes, it was.

1 Q. Would you next identify the document marked as
2 COG Exhibit No. 7.

3 A. This is a copy of the hearing Notice that went
4 to the offset operators and interest owners.

5 Q. It went to all those individuals and entities
6 identified on Exhibit 6?

7 A. Correct.

8 Q. It also includes the green cards for those
9 letters?

10 A. That is correct.

11 Q. Again, were these Notice letters prepared and
12 sent at your direction?

13 A. Yes.

14 Q. And are Exhibits 5 and 7 true and correct copies
15 of the hearing notice letters and green cards?

16 A. They are.

17 Q. And did COG also publish a notice of today's
18 hearing?

19 A. Yes, we did.

20 Q. Would you please identify the document marked as
21 Exhibit No. 8.

22 A. This is an Affidavit of Publication that was
23 published in the Hobbs Sun -- Hobbs News-Sun on November
24 25, 2015.

25 Q. And is Exhibit 8 a true and correct copy of the

1 Affidavit of Publication?

2 A. Yes, it is.

3 Q. And are all of the uncommitted interest owners
4 in the project area and all of the offset operators and
5 interest owners individually identified in the Publication
6 Notice?

7 A. Yes, they are.

8 Q. Do you have a recommendation for the amount COG
9 should be paid for supervision and administrative
10 expenses?

11 A. Yes. \$7,000 a month for drilling and \$700 for
12 producing.

13 Q. Are those amounts consistent with similar -- to
14 those charged by COG for other Avalon Shale horizontal
15 wells?

16 A. Yes.

17 Q. And do you recommend that your proposed rates
18 for supervision and administrative expenses be adjusted
19 periodically pursuant to the COPAS accounting procedure?

20 A. Yes.

21 Q. Is COG requesting a 200 percent charge for the
22 risks of drilling and completing the proposed well?

23 A. Yes, we are.

24 Q. In your opinion, will the granting of COG's
25 application serve the interest of avoiding the drilling of

1 unnecessary wells, protecting correlative rights, and
2 preventing waste?

3 A. Yes.

4 MR. LARSON: Mr. Examiner, I move the
5 admission of COG Exhibits 1 through 8.

6 THE HEARING EXAMINER: Exhibits 1 through 8
7 are admitted.

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

9 THE HEARING EXAMINER: Okay.

10 EXAMINATION

11 BY THE HEARING EXAMINER:

12 Q. Can you state the pool name one more time. I
13 didn't --

14 Red Hills something?

15 A. It's the Red Hills Bone Spring North Pool.

16 Q. And there's still no API number?

17 A. No.

18 Q. So it's a federal well but there's a rush on
19 the -- do you think you are going to get the permit to
20 drill?

21 A. I would hope so.

22 Q. Okay. So you must be working with the BLM on
23 this, also.

24 A. Yes, we are.

25 Q. Why did you publish newspaper notice? Did you

1 have some people that you couldn't find, or were you just
2 try trying to be careful and didn't want the hearing to
3 get continued?

4 A. I was trying to be cautious.

5 Q. Okay. And \$10 million to drill still in this
6 area? It's kind of expensive.

7 A. Yes. It's a mile and a half.

8 Q. Okay. You think these locations you've got on
9 here are pretty fixed, or do you think the fed will move
10 your well around a little bit? Move the well location AND
11 maybe the BLM will permit the well if you move your
12 location?

13 A. I don't think that they will, but I mean I don't
14 know for sure. We have -- you know, we do have a more
15 updated plat, but there's nothing changed on it. The
16 location is still the same. As far as I know, nothing is
17 going to change.

18 Q. Will the location, completed location be
19 standard?

20 A. Yes.

21 Q. Is there any special pool rules for the Red
22 Hills Bone Spring North pool?

23 A. No, not that I'm aware of.

24 Q. So it's still statewide Division rules.

25 A. Yes.

1 Q. Okay. Okay. So you got some fee -- some fee
2 surface on there, it looks like, and with all federal
3 minerals, all surface owners down in the west half of the
4 southwest quarter of 13 -- in other words, where the
5 drilling well is going to be is on a fee location, looks
6 like fee surface locations.

7 And these are all working?

8 A. The owners? They are leasehold owners.

9 Q. Leasehold?

10 MR. WADE: It does look like you did have
11 some unlocatable interests. Is that correct?

12 THE WITNESS: As far as offsets --

13 MR. LARSON: I'll follow up with a question
14 on that.

15 MR. WADE: Okay. You want to just follow
16 up?

17 MR. LARSON: I do.

18 Q. (BY MR. LARSON) Did COG publish Notice because
19 of the large number of offset operators and owners?

20 A. Yes, that's correct.

21 Q. And you did have good addresses for all of them,
22 though.

23 A. Yes.

24 MR. WADE: That's all the questions I
25 have.

1 THE HEARING EXAMINER: That is it, Mr.
2 Wallace.

3 THE WITNESS: Thank you.

4 JOHN RICHARD BERTALOTT,
5 having been duly sworn, testified as follows:

6 EXAMINATION

7 BY MR. LARSON:

8 Q. Good morning, Mr. Bertalott.

9 A. Good morning.

10 Q. Would you please state your full name for the
11 record.

12 A. John Richard Bertalott.

13 Q. Where do you reside?

14 A. Midland, Texas.

15 Q. And by whom are you employed and in what
16 capacity?

17 A. I'm a petroleum geologist for COG Operating,
18 LLC.

19 Q. What is the focus of your responsibilities as a
20 petroleum geologist at COG?

21 A. I have geologic responsibilities for the
22 Northern Delaware Basin in Southeast New Mexico.

23 Q. Are you familiar with the geological aspects of
24 COG's application?

25 A. Yes, sir.

1 Q. Have you previously testified at a Division
2 hearing?

3 A. No.

4 Q. And given that, would you summarize for the
5 examiner your educational background and professional
6 experience in the oil and gas industry.

7 A. I received my Bachelor's degree in geology from
8 Missouri State, my Master's degree from Oklahoma State.
9 Following my completion of graduate studies I've worked
10 for COG Operating, LLC for a little over a year.

11 Q. And during that period has your focus been on
12 the Delaware Basin in Southeastern New Mexico?

13 A. Yes, sir.

14 MR. LARSON: Mr. Examiner, I would tender
15 Mr. Bertalott as an expert in geology.

16 THE HEARING EXAMINER: He is so qualified.

17 Q. (BY MR. LARSON) Does COG have experience with
18 Upper Avalon Shale horizontal wells in the vicinity of the
19 proposed Sombrero 4H well?

20 A. Yes, sir, they do.

21 Q. Where are those wells located?

22 A. Those wells are located to the west and
23 southwest approximately one Township. We also have an
24 Upper Avalon well that is located just to the northwest of
25 our proposed location.

1 Q. And have those wells you have identified been
2 productive?

3 A. Yes, sir.

4 Q. Were you involved in COG's evaluation for the
5 proposed Sombrero Fed Com No. 4H?

6 A. Yes, sir, I was.

7 Q. In your view what are the prospects for the
8 well?

9 A. Based off my geological assessment of the Upper
10 Avalon in that area, I feel that it will be a successful,
11 productive well.

12 Q. Would you please identify the document marked as
13 Exhibit No. 9.

14 A. It is a structure map of the Upper Avalon Shale.

15 Q. Did you prepare this document?

16 A. Yes, sir, I did.

17 Q. And what other wells appear on your structure
18 map?

19 A. The other wells that appear on the structure map
20 were wells that have penetrated the Upper Avalon Shale and
21 gone into the construction of the structure map.

22 Q. And the well in Section 10 that appears in
23 green, who is the operator of that well?

24 A. That is COG Operating.

25 Q. And what role did this structure map have in

1 your geological analysis?

2 A. It helped us determine a structurally sound area
3 to place the lateral in the Upper Avalon Shale.

4 Q. Next I ask you to identify this monster, Exhibit
5 No. 10.

6 A. This is a stratographic cross section.

7 Q. And did you prepare this exhibit?

8 A. Yes, sir, I did.

9 Q. What offset wells did you look at in preparing
10 the cross section?

11 A. I looked at wells that were located to the west
12 and northeast of our area of interest.

13 Q. And what role did your stratographic cross
14 section have in your geological analysis?

15 A. It helped us to determine there's a uniform
16 thickness of the reservoir throughout the area.

17 Q. Are there any structural impediments in the
18 target formation?

19 A. No, sir.

20 Q. And would you identify the final exhibit, which
21 is marked as Exhibit No. 11.

22 A. It is a well diagram schematic of the Sombrero
23 Fed Com 4H showing our well bore with respect to the
24 section lines.

25 Q. Did you generate this document?

1 A. Yes, sir.

2 Q. And will the producing interval of the well
3 comply with the Division's setback requirements?

4 A. Yes, sir.

5 Q. In your opinion, will the well be productive
6 along the entire length of the lateral?

7 A. Yes, sir.

8 Q. In your opinion will the granting of COG's
9 application serve the interests of avoiding the drilling
10 of unnecessary wells, protecting correlative rights, and
11 preventing waste?

12 A. Yes, sir.

13 MR. LARSON: Mr. Examiner, I would move the
14 admission of COG Exhibits 9, 10 and 11.

15 THE HEARING EXAMINER: Exhibits 9, 10 and
16 11 are admitted.

17 MR. LARSON: And I pass the witness.

18 EXAMINATION

19 BY THE HEARING EXAMINER:

20 Q. What did you do your Master's degree on?

21 A. I worked on the Mississippian Lime of North
22 Central Oklahoma, doing a stratographic framework.

23 Q. Okay. We have a Mississippian in New Mexico,
24 too.

25 A. You do. It's a whole other animal to tackle

1 down here.

2 Q. It's kind of deep, but...

3 A. It is.

4 Q. Do you think you can drill a well a mile and a
5 half with pretty good confidence here, or do your drilling
6 people tell you that?

7 A. Based on what the driller tells me with
8 confidence, yes. The reservoir thickness is very, very
9 uniform. It seems to be pretty uniform in this area, as
10 well.

11 Q. So this is all Avalon Shale, this thickness on
12 Exhibit 10, or reservoir basin?

13 A. This is Avalon Shale.

14 Q. Avalon Shale?

15 A. Yes, sir.

16 Q. So your Bone Spring -- it's considered part of
17 Bone Spring, though. Correct?

18 A. Correct.

19 Q. Is there any barriers between it and the Brushy
20 Canyon above it?

21 A. Yes. There's a barrier, a limestone barrier,
22 the Bone Spring limestone will serve as a barrier between
23 the two different horizontals.

24 Q. On your resistivity logs you show kind of a
25 porosity, or you show some kind of a lower resistivity

1 streaks, like at 9330 or so on those logs.

2 What is that? It shows up across the whole
3 top of the...

4 Is that a pretty good marker you look at?

5 A. It's a marker to help us identify where we are
6 at in the section.

7 Q. It looks like it's got some permeability to it.

8 Where are you going to land the well in
9 this big-old 300, 400 foot.

10 A. Based off our assessment, we will probably land
11 it on the middle to lower part of the reservoir.

12 Q. So you'll tell them where to land the well?

13 A. I'll tell them and hope they'll listen to me.

14 Q. Okay. So you're going to drill it kind of up
15 structure.

16 A. Slightly up dip, yes, sir.

17 Q. So can you handle the water production with the
18 producing pump pumping the well?

19 A. I would assume so, yeah.

20 Q. Well, so all 40-acre tracts will contribute, you
21 think, to the production of this well?

22 A. Yes, sir.

23 THE HEARING EXAMINER: Okay. No more
24 questions.

25 MR. WADE: I have no questions.

1 THE HEARING EXAMINER: Thanks very much.
2 Anything else on this case?

3 MR. LARSON: I have nothing further,
4 Mr. Examiner, other than to wish you Happy Holidays.

5 THE HEARING EXAMINER: You too. Wish you a
6 happy holiday.

7 Case No. 15417 is taken under advisement.
8 (Note: Hearing concluded.)
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12

13 I do hereby certify that the foregoing is
14 a complete and correct report of the proceedings in
15 the Examiner's hearing of Case No. _____,
16 heard by me on _____.

17 _____, Examiner
18 Oil Conservation Division
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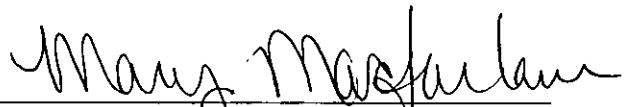
REPORTER'S CERTIFICATE

STATE OF NEW MEXICO)
) SS
COUNTY OF TAOS)

REPORTER'S CERTIFICATE

I, MARY THERESE MACFARLANE, New Mexico Reporter CCR No. 122, DO HEREBY CERTIFY that on Thursday, December 17, 2015, the proceedings in the above-captioned matter were taken before me; that I did report in stenographic shorthand the proceedings set forth herein, and the foregoing pages are a true and correct transcription to the best of my ability and control.

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



MARY THERESE MACFARLANE, CCR
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