

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 CASE NO. 15163
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO. CONSOLIDATED WITH:

APPLICATION OF COG OPERATING, LLC CASE NO. 15164
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

APPLICATION OF COG OPERATING, LLC CASE NO. 15165
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 24, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, on Thursday, July 24, 2014, 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 C. Hankins, CCR, RPR
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1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

3 JORDAN L. KESSLER, ESQ.
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21 EXHIBITS OFFERED AND ADMITTED

22	COG Operating, LLC Exhibit Numbers 1 through 17	13
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25

1 (8:53 a.m.)

2 EXAMINER GOETZE: We'll go back to the
3 original docket, and we have Case 15163, application of
4 COG Operating, LLC for a nonstandard spacing and
5 proration unit and compulsory pooling, Lea County,
6 New Mexico.

7 Call for appearances.

8 MS. KESSLER: Jordan Kessler from Modrall,
9 Sperling on behalf of the Applicant.

10 EXAMINER GOETZE: Okay. And you have
11 witnesses?

12 MS. KESSLER: Two witnesses today.

13 EXAMINER GOETZE: Would those witnesses
14 please stand, identify yourselves and be sworn in?

15 MR. WALLACE: David Michael Wallace.

16 MR. ZOLLINGER: Henry Zollinger.

17 (Mr. Wallace and Mr. Zollinger sworn.)

18 EXAMINER GOETZE: Proceed.

19 DAVID MICHAEL WALLACE,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MS. KESSLER:

24 Q. Would you please state your name for the record
25 and tell the Examiner by whom you are employed and in

1 what capacity?

2 A. My name is David Michael Wallace. I'm a
3 landman for COG Operating, LLC.

4 Q. Have you previously testified before the
5 Division?

6 A. I have.

7 Q. And at that time were your credentials as a
8 petroleum landman accepted and made a matter of public
9 record?

10 A. They were.

11 Q. Are you familiar with the three applications
12 that have been filed by COG in this case?

13 A. I am.

14 Q. And are you familiar with the status of the
15 lands that are the subject of this application?

16 A. I am.

17 Q. And the APDs that have been approved?

18 A. That's correct.

19 MS. KESSLER: I would tender this witness
20 as an expert in petroleum land matters.

21 EXAMINER GOETZE: He is so accepted.

22 Q. (BY MS. KESSLER) Would you please turn to
23 what's been marked as Exhibit Number 1, and could you
24 please identify this and explain what COG's seeking
25 under this application?

1 A. This is a plat showing the acreage associated
2 with the Goldfinger wells in Section 17, 24 South, 32
3 East. We seek to -- we seek to form three nonstandard
4 spacing units and proration units for these two wells,
5 Goldfinger 2H, 3H and 4H, one in the east half of the
6 west half of Section 17, one in the west half of the
7 east half and one in the east half-east half.

8 Q. And is this information reflected in the C-102
9 that has been attached as Exhibits 2, 3 and 4?

10 A. Yes, that's correct.

11 Q. What is the acreage of each of these
12 nonstandard project areas?

13 A. They will be 160 acres.

14 Q. And you seek to pool the mineral interests
15 underlying each nonstandard spacing unit in the Brushy
16 Canyon-Delaware Formation, correct?

17 A. Correct.

18 Q. Are the working interests committed, or are you
19 also seeking to pool them?

20 A. I'm seeking to pool two parties.

21 Q. Has EOG elected to participate in the 2H well?

22 A. Yes, that is correct.

23 Q. And that's shown in Exhibit 5, correct?

24 A. Yes.

25 Q. Are you seeking to dedicate the nonstandard

1 spacing unit, the Goldfinger 17 Fed Com #2H, 3H and 4H
2 wells?

3 A. Yes.

4 Q. What about the API numbers for these wells?

5 EXAMINER GOETZE: If I may interrupt you at
6 this moment. Since we're going to be discussing three
7 wells close together, may I recommended that we go and
8 consolidate the three cases for testimony, and we will
9 issue separate orders for them.

10 MS. KESSLER: Okay. Thank you.

11 EXAMINER GOETZE: So to enter into putting
12 the three cases together, along with Case 15163, we will
13 also hear Case 15164, application of COG Operating, LLC
14 for a nonstandard spacing and proration unit and
15 compulsory pooling, Lea County, New Mexico, and Case
16 15165, application of COG Operating, LLC for a
17 nonstandard spacing and proration unit and compulsory
18 pooling, Lea County, New Mexico, the consolidation of
19 the three.

20 I do not see anybody else who was going to
21 appear. It would just be you folks.

22 MS. KESSLER: Correct.

23 EXAMINER GOETZE: Okay. Then let's go
24 ahead and discuss all three wells at the same time, and
25 that way we'll make it easier. Okay?

1 MS. KESSLER: Good. Thank you.

2 A. The API numbers to the wells are 3002541902 and
3 41903 and 41904, for the three wells respectively.

4 Q. (BY MS. KESSLER) What is the characterization
5 of the --

6 A. They are -- there are two Fed leases associated
7 with the acreage, the north half lease and the south
8 half lease in Section 17, and they're federal leases.

9 Q. What pool is involved in this application?

10 A. It's the Mesa Verde-Delaware pool, and it's
11 Pool Code 96191.

12 Q. Are there special rules for this pool?

13 A. No.

14 Q. So the 330-foot statewide rule will apply for
15 setback?

16 A. That is correct.

17 Q. And will the completed intervals for each well
18 be in compliance with the setback requirements?

19 A. That's correct.

20 Q. Have you been able to identify the interest
21 owners for the proposed nonstandard spacing and
22 prorations?

23 A. I have.

24 Q. And if you could now turn to Exhibit Number 6,
25 please. Does it identify the working interest owners

1 for each of these nonstandard units?

2 A. It does. The ownership is the same throughout.
3 This exhibit shows Tract 1, the ownership by tract and
4 the unit recap, and it also shows that there are
5 uncommitted owners in the spacing units, the bolded
6 interests on the exhibit.

7 Q. Okay. So the highlighted parties are the
8 parties who you seek to pool?

9 A. That is correct.

10 Q. Have you proposed the well to the interest
11 owners listed in Exhibit 6?

12 A. I have.

13 Q. And is that reflected in Exhibits 7, 8 and 9?

14 A. Yes, that is correct.

15 Q. So the initial well-proposal letter that went
16 out April 16th, was that to all parties or to one party?

17 A. That was to EOG.

18 Q. And the letter was subsequently amended and
19 re-sent on June 26th to include all of the additional
20 parties that were identified?

21 A. That is correct.

22 Q. And that's Exhibits 10 through 12, correct?

23 A. Correct.

24 Q. Is Exhibit 13 the cost proposal for the 2H
25 well?

1 A. Yes, that is correct.

2 Q. What is the date that that AFE was sent?

3 A. June 26th -- approximately June 26th.

4 Q. What are the dry hole and completion costs?

5 A. The dry-hole costs for these wells will be
6 2,064,000 and the -- well, go ahead.

7 Q. Okay. And Exhibit 14, the AFE for the 3H well,
8 is that reflected in this exhibit?

9 A. That is correct. It will be the same. And the
10 completion cost will be 5,629,000 for the wells.

11 Q. And on the same date?

12 A. That is correct.

13 Q. What about Exhibit 15?

14 A. The same.

15 Q. And this is the AFE for the 4H well?

16 A. That is correct.

17 Q. And dry-hole costs are the same --

18 A. That is correct.

19 Q. -- completion costs?

20 In addition to sending Exhibits 7 through
21 15, what other efforts has COG undertaken to obtain
22 voluntary joinder from the interest owners?

23 A. I've spoken to Conoco and EOG numerous times.
24 They do not object to our wells. They are evaluating
25 our operating agreements and our well proposals and

1 AFEs.

2 Q. Can you please look again at Exhibits 13
3 through 15, which are the AFEs? Are these costs
4 reflected on the AFEs in line with costs that COG has
5 incurred on similar horizontal wells in this area?

6 A. That is correct.

7 Q. In addition to the AFEs, has COG estimated the
8 overhead costs and the cost while drilling this well
9 should it be successful?

10 A. Yes.

11 Q. Are these costs included in the supplemental
12 well-proposal letters?

13 A. Yes, that is correct.

14 Q. What are those costs?

15 A. 7,000 for drilling and 700 a month for
16 producing.

17 Q. And that's for each of the three wells?

18 A. Correct.

19 Q. Are these costs in line with what COG and other
20 operators in this area charge for similar wells?

21 A. That is correct.

22 Q. Do you ask that these administrative and
23 overhead costs for each well be incorporated in any
24 order resulting from this hearing?

25 A. Yes.

1 Q. Do you ask as well that they be adjusted in
2 accordance with the appropriate accounting procedures?

3 A. I do.

4 Q. And with respect to the interest owners who
5 remain uncommitted to this well, do you request that the
6 Division impose a 200 percent risk penalty in addition
7 to the cost of the well?

8 A. Yes.

9 Q. Now, let's talk about the formation of the
10 nonstandard units. Has COG brought a geologist here
11 today to testify about the nonstandard units?

12 A. Yes.

13 Q. Did COG identify the operators or ownership of
14 leased minerals on the surrounding 40-acre tracts?

15 A. We did.

16 Q. Is that listed offset from interest owners
17 shown on Exhibit 16?

18 A. That is correct.

19 Q. And are you asking that this case be continued
20 for purposes of noticing those offset owners?

21 A. That is correct.

22 EXAMINER GOETZE: So we still have
23 notification requirements to be sent out?

24 MS. KESSLER: Yes.

25 EXAMINER GOETZE: Okay. Very good.

1 Q. (BY MS. KESSLER) If you could turn to Exhibit
2 17, is this an affidavit with attached copies of the
3 letters and supplemental notice letters to the pooled
4 parties giving them notice of this hearing?

5 A. Yes, that's correct.

6 Q. And you were able to locate all of the working
7 interest owners?

8 A. Yes.

9 Q. Did you publish notice?

10 A. Yes, we did.

11 Q. Are these three Affidavits of Publication also
12 included as part of Exhibit 17?

13 A. Yes, that is correct.

14 Q. In addition to -- in your opinion, have you
15 made a good-faith effort to identify the interest
16 owners?

17 A. Yes.

18 Q. Were Exhibits 1 through 15 prepared by you or
19 compiled under your direction or supervision?

20 A. They were.

21 MS. KESSLER: Mr. Examiner, I would move to
22 have Exhibits 1 through 17 admitted into evidence,
23 including Exhibits 16 and 17, which I prepared.

24 EXAMINER GOETZE: Exhibits 1 through 17 are
25 so entered.

1 (COG Operating, LLC Exhibit Numbers 1
2 through 17 were offered and admitted into
3 evidence.)

4 MS. KESSLER: That concludes my
5 examination.

6 CROSS-EXAMINATION

7 BY EXAMINER GOETZE:

8 Q. Everything seems to be pretty straightforward.
9 I did notice the increase in expenditures from 600 a
10 month, 6,000 to 700 to 7,000 in two months' time. Is
11 that readjustment based upon doing final costs analysis?

12 A. Yes.

13 Q. Okay. Just interested in seeing the difference
14 in rates.

15 EXAMINER GOETZE: I have no further
16 questions for this witness.

17 Your next witness.

18 HENRY ZOLLINGER,
19 after having been previously sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MS. KESSLER:

23 Q. Can you please state your name for the record,
24 and tell the Examiner by whom you are employed and in
25 what capacity?

1 A. My name is Henry Zollinger. I'm a senior
2 geologist with COG Operating out of Midland, Texas.

3 Q. Have you previously testified before the
4 Division?

5 A. I have not.

6 Q. Could you please review your education?

7 A. I received my bachelor of science from Morgan
8 State University in 2012 in earth science. Then I
9 received my master's of geology from New Mexico State
10 University in 2007 in geology.

11 Q. Could you review your work history as well?

12 A. My work history, I worked for Hess Corporation
13 out of Houston as a development exploration new ventures
14 geologist for five years in the time period of 2007 to
15 2012. Since 2012, I have been working for COG Operating
16 in the Delaware Basin.

17 Q. Are you a member of any professional
18 associations?

19 A. I am a member of the American Association of
20 Petroleum Geologists, Geological Society of America and
21 the West Texas Geological Society.

22 Q. And what years did you join those
23 organizations?

24 A. I joined those back in 2005 when I was admitted
25 into graduate school.

1 Q. How long have you worked in the Delaware Basin?

2 A. For two years.

3 Q. Are you familiar with the applications that has
4 been filed by COG in this case?

5 A. Yes.

6 Q. And have you conducted a geologic study of
7 Section 17?

8 A. Yes.

9 MS. KESSLER: I would offer this witness as
10 an expert in petroleum geology matters.

11 EXAMINER GOETZE: So qualified.

12 Q. (BY MS. KESSLER) Would you please turn to
13 what's been marked as COG Exhibit Number 18? And
14 beginning with the legend, please identify what this
15 exhibit is for the Examiner and walk us through it.

16 A. This is a structure map and subsea depth of the
17 Bone Spring lime -- top of the Bone Spring Lime
18 Formation, which directly underlies the Brushy Canyon of
19 the Delaware Mountain Group. The orange-dashed lines
20 represent the wellbores which we are looking to pool
21 today, starting with the 2H in the east half of the west
22 half, the 3H and the 4H in the east half-east half. The
23 yellow square represents the acreage in Section 17 that
24 COG operates, and then the purple line represents the
25 cross section, which is Exhibit 20 from COG.

1 The orange circles represent vertical
2 wellbores that are producing from the Delaware Mountain
3 Group in the area, and then the solid yellow lines
4 represent horizontal wells producing in the area.

5 Q. Have you identified any geologic impediments in
6 this section?

7 A. I have not.

8 Q. Can you please identify the wells located on
9 Exhibit 19?

10 A. Yes. These are four wells which I believe
11 represent the formation in which we are targeting with
12 these Goldfinger wells: the Mesa Verde 7 Fed 7, Jack
13 Tank 8 Fed 2, the Mesa Verde 8 Fed 2 and the Double X
14 Deep 16 1. And all of these are north of our proposed
15 wellbores.

16 Q. Do you consider these wells to be
17 representative of the area that is subject of the
18 proposed nonstandard units?

19 A. I do.

20 Q. Do representations show continuity in the
21 target intervals?

22 A. Yes, it does.

23 Q. Can you please describe the color
24 representations on Exhibit 19?

25 A. Yes. The blue line at the base of the cross

1 section represents the top of the Bone Spring Lime
2 Formation, which is the base of the Brushy Canyon
3 Formation. The orange-dashed line at the top of the
4 cross section is the top of the Brushy Canyon A Unit,
5 which is the most basal Brushy Canyon Unit in the Basin.

6 Q. What conclusions have you drawn from your
7 geologic study of this area?

8 A. I have concluded that there are no geologic
9 hazards in drilling horizontal wells through this
10 formation, that horizontal wells are the most prudent
11 way to exploit these hydrocarbons and that each
12 quarter-quarter section along each wellbore path will
13 contribute equally over the production life of this
14 well.

15 Q. Moving to Exhibits 20, 21 and 22, can you
16 please identify these exhibits?

17 A. Yes. These are generalized wellbore schematics
18 for each wellbore. Exhibit 20 is the #2H well. On
19 these diagrams are shown the representation of the
20 section boundaries in blue vertical lines on the right
21 and left of the page. The surface-hole location for
22 each of these three wells will be 190 feet from the
23 south line, but the first perf will be no closer than
24 330 from that south line. The last perforation will not
25 be any closer than 330 from the north line of Section

1 17. That's about it.

2 Q. So the completed interval will be within the
3 330-foot setback requirements?

4 A. That is correct.

5 Q. In your opinion, will the granting of COG's
6 applications be in the best interest of conservation and
7 the prevention of waste and the protection of
8 correlative rights?

9 A. It would.

10 Q. Were Exhibits 18 through 22 prepared by you or
11 compiled under your direction or supervision?

12 A. Yes, they were.

13 MS. KESSLER: I'd move to have these
14 exhibits admitted into evidence.

15 EXAMINER GOETZE: Exhibits 18, 19, 20, 21
16 and 22 are so entered.

17 (COG Operating, LLC Exhibit Numbers 18
18 through 22 were offered and admitted into
19 evidence.)

20 MS. KESSLER: I have nothing further from
21 this witness.

22 CROSS-EXAMINATION

23 BY EXAMINER GOETZE:

24 Q. Let's take a look at your Exhibit 18. The west
25 half of the west half of 17, are there any plans to look

1 at the Brushy there?

2 A. Yes, sir. We're proposing a mile-and-a-half
3 wellbore to access the south half of the southwest
4 quarter of -- I'm sorry -- the west half of the
5 southwest quarter of Section 8 as well.

6 Q. Okay. And then what is the completion in
7 Section 8, which is, I guess, the west half of the east
8 half of Section 8? Is that a Delaware, or is that a
9 Bone Spring?

10 A. Yes.

11 Q. Delaware?

12 A. That is a Delaware. That is the Bimini 8 Fed
13 #2H, which COG drilled and completed at the end of last
14 year.

15 Q. And how is the production in that well?

16 A. Fantastic. To date, it has produced over
17 84,000 barrels of oil since last year.

18 Q. Very good.

19 And then the remaining wells in 7 and 18,
20 are those your interests or someone else's?

21 A. The wellbore in the west half-west half of 18,
22 the Golden Eye #1H, which was an acquisition from OGX
23 [sic], is COG's. We did not drill or complete that
24 well. Performance in it is not up to the standards of
25 what we are drilling now. The wellbore in Section 7, I

1 believe, is a Chevron-drilled well, which is somewhat
2 older. It was drilled back in the early 2000s.

3 Q. These are all Brushy?

4 A. Yes, sir. All the same target, as well as
5 highlighted on the cross section.

6 Q. Okay. Very good. And I'll just make a note
7 that on Exhibits 22 and -- Exhibits 21 and 22, that the
8 first take point should be the first perf point, so
9 they're all the same.

10 A. Yes, sir.

11 Q. Very good.

12 EXAMINER GOETZE: No further questions for
13 this witness.

14 MS. KESSLER: That concludes COG's
15 presentation, and we'd just ask that this be continued
16 for notice purposes until the next docket.

17 EXAMINER GOETZE: To the next docket?

18 MS. KESSLER: I'm sorry. 20 days.

19 EXAMINER GOETZE: You're looking at the
20 August 21st docket. So for Cases 15163, 15164 and
21 15165, these cases will be continued to the August 21st
22 docket.

23 (Case Numbers 15163, 15164 and 15165

24 conclude, I do hereby certify that the foregoing is
25 a complete record of the proceedings in
the Examiner hearing of Case No. 15163/15164/15165
heard by me on July 24, 2014.

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19 
20

21 MARY C. HANKINS, CCR, RPR
22 Paul Baca Court Reporters, Inc.
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2014
25