

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

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

ORIGINAL

7 APPLICATION OF COG OPERATING, LLC CASE NO. 15250  
8 FOR A NONSTANDARD SPACING AND  
9 PRORATION UNIT AND COMPULSORY  
10 POOLING, LEA COUNTY, NEW MEXICO.

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 January 8, 2015

14 Santa Fe, New Mexico

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15 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
16 GABRIEL WADE, LEGAL EXAMINER

17 This matter came on for hearing before the  
18 New Mexico Oil Conservation Division, Michael McMillan,  
19 Chief Examiner, and Gabriel Wade, Legal Examiner, on  
20 Thursday, January 8, 2015, at the New Mexico Energy,  
21 Minerals and Natural Resources Department, Wendell Chino  
22 Building, 1220 South St. Francis Drive, Porter Hall,  
23 Room 102, Santa Fe, New Mexico.

24 REPORTED BY: Mary C. Hankins, CCR, RPR  
25 New Mexico CCR #20  
Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
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1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

3 MICHAEL H. FELDEWERT, ESQ.  
4 HOLLAND & HART  
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1 (9:27 a.m.)

2 EXAMINER McMILLAN: I'll call Case 15250,  
3 application of COG Operating, LLC for a nonstandard  
4 spacing and proration unit and compulsory pooling, Lea  
5 County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it please the  
8 Examiners. Michael Feldewert with the Santa Fe office  
9 of Holland & Hart. I have two witnesses.

10 EXAMINER McMILLAN: Any other appearances?  
11 Thank you.

12 MR. FELDEWERT: Can we have our witnesses  
13 be sworn?

14 EXAMINER McMILLAN: Yes, please.

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

16 MR. FELDEWERT: Mr. Examiner, I'll call our  
17 first witness.

18 DAVID M. WALLACE,  
19 after having been first duly sworn under oath, was  
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FELDEWERT:

23 Q. Would you please state your name, identify by  
24 whom you're employed and in what capacity?

25 A. My name is David Michael Wallace with COG

1 Operating, LLC. I'm a landman.

2 Q. And have you previously testified before this  
3 Division?

4 A. I have.

5 Q. And were your credentials outlined accepted by  
6 the Division and made a matter of public record?

7 A. They were.

8 Q. Are you familiar, Mr. Wallace, with the  
9 application that's been filed in this case?

10 A. Yes.

11 Q. And are you familiar with the status of the  
12 lands in the subject area?

13 A. Yes.

14 MR. FELDEWERT: Mr. Examiner, I would  
15 tender Mr. Wallace as an expert witness in petroleum  
16 land matters.

17 EXAMINER McMILLAN: So qualified.

18 Q. (BY MR. FELDEWERT) Mr. Wallace, would you  
19 please turn to what's been marked as COG Exhibit Number  
20 1? First identify it and then explain to the Examiners  
21 what the company seeks under this particular  
22 application.

23 A. This is a land plat depicting the Monet Federal  
24 Com Number 10H acreage. We seek to create a nonstandard  
25 spacing and proration unit for the west half-west half

1 of Section 4, Township 25 South, Range 33 East, Lea  
2 County, New Mexico. We seek to pool the mineral  
3 interests underlying this 160 acres as to the Bone  
4 Spring Formation.

5 Q. And this particular exhibit is a draft of the  
6 C-102?

7 A. Yes, that's correct.

8 Q. Is that why you do not have an API number yet?

9 A. Yes, that's correct.

10 Q. What is the target of the proposed well?

11 A. The target is the Upper Avalon Shale.

12 Q. And did you visit with the Division's district  
13 office about what pool would be involved with this  
14 particular well?

15 A. That is correct. My office did.

16 Q. What pool did the district -- did the  
17 Division's district office identify?

18 A. It's the Upper Bone Spring Shale pool, Number  
19 97900.

20 Q. And that's the Red Hills?

21 A. Yes. That's the Red Hills pool.

22 Q. So the Red Hills-Upper Bone Spring Shale pool,  
23 97900.

24 Will the completed interval for this well  
25 comply with the Division setback requirements?

1 A. Yes, that's correct.

2 Q. What are those setback requirements?

3 A. 330 feet from the south [SIC] line.

4 Q. Is the west half of the west half of Section 4  
5 all federal lands?

6 A. It is.

7 Q. How many leases are involved?

8 A. There are two federal leases.

9 Q. And roughly -- well, if I turn to what's been  
10 marked as COG Exhibit Number 2, does this provide the  
11 breakdown of the two federal leases covering the west  
12 half of the west half of Section 4?

13 A. That is correct.

14 Q. And it indicates that R&R Royalty owns 100  
15 percent of the lease covering the northwest quarter of  
16 the northwest quarter?

17 A. That is correct. And COG owns the rest of the  
18 west half.

19 Q. Now, this case was continued for a couple of  
20 weeks, correct?

21 A. Yes.

22 Q. In that period of time, did the company confirm  
23 that R&R Royalty owns 100 percent of that 40-acre tract?

24 A. That's correct.

25 Q. If I then turn to what's been marked as COG

1 Exhibit Number 3, is that a copy of the well-proposal  
2 letter that was sent to this interest owner?

3 A. Yes, it is.

4 Q. And does the second -- or the last page of this  
5 exhibit contain an AFE?

6 A. Yes, it does.

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

10 A. They are.

11 Q. If I look at the first page of Exhibit Number  
12 3, does it identify the overhead and the administrative  
13 costs that you have proposed for this well?

14 A. Yes, it does.

15 Q. And what are those?

16 A. We seek 7,000 a month for drilling and 700 a  
17 month producing.

18 Q. And is that found on the first page of Exhibit  
19 Number 3 about halfway down?

20 A. Yes.

21 Q. And are these overhead rates consistent with  
22 what operators are charging for similar wells in this  
23 area?

24 A. They are.

25 Q. Now, aside from sending this well-proposal

1 letter to R&R Royalty back in October, what other  
2 efforts has the company undertaken to reach an agreement  
3 with this interest owner?

4 A. We've had -- I've had conversations with them  
5 on the phone, e-mail correspondence, and we've started  
6 negotiating an operating agreement.

7 Q. But you've been unable to finalize that  
8 agreement yet?

9 A. That's correct.

10 Q. And in the event an agreement is reached, will  
11 you release or dismiss this pooling application?

12 A. Yes.

13 Q. Now, in preparing for the hearing here today,  
14 did the company identify the leased mineral interest  
15 owners of the 40-acre tracts surrounding those  
16 nonstandard spacing units?

17 A. Yes, we did.

18 Q. Did the company include these known leased  
19 mineral interest owners in the notice of this hearing?

20 A. Yes.

21 Q. If I turn to what's been marked as COG Exhibit  
22 Number 4, is this an affidavit prepared by my office  
23 with an attached letter providing notice of this hearing  
24 to these parties?

25 A. It is.

1 Q. Mr. Wallace, were Exhibits 1 through 3 prepared  
2 by you or compiled under your direction and supervision?

3 A. They were.

4 MR. FELDEWERT: Mr. Examiner, I would move  
5 admission into evidence COG Exhibits 1 through 4, which  
6 includes my affidavit.

7 EXAMINER McMILLAN: Exhibits 1 through 4  
8 may now be made part of the record.

9 (COG Operating, LLC Exhibit Numbers 1  
10 through 4 were offered and admitted into  
11 evidence.)

12 MR. FELDEWERT: That concludes my  
13 examination of this witness.

14 CROSS-EXAMINATION

15 BY EXAMINER McMILLAN:

16 Q. Were there any unlocatable interests?

17 A. No.

18 Q. What is the dedicated acreage? It's not --  
19 since there is a lot in there, is it, what, 100- --

20 A. We've got --

21 Q. -- 59.91?

22 A. Yes.

23 Q. Is that correct?

24 A. It is the 39.91 plus 120. That would be 159 --  
25 159.91. That's correct.

1 Q. I have no further questions at this time.  
2 Thank you very much.

3 A. Thank you.

4 MR. FELDEWERT: Call our next witness.

5 EXAMINER McMILLAN: Certainly.

6 HENRY ZOLLINGER,

7 after having been previously sworn under oath, was  
8 questioned and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. FELDEWERT:

11 Q. Would you please state your name, identify by  
12 whom you are employed and in what capacity?

13 A. My name is Henry Zollinger. I am employed by  
14 COG Operating, LLC, I'm a geologist.

15 Q. And how long have you been a geologist with the  
16 company?

17 A. For two-and-a-half years.

18 Q. Mr. Zollinger, have you had the opportunity to  
19 previously testify before the Division?

20 A. Yes, I have.

21 Q. At that time were your credentials as an expert  
22 in petroleum geology accepted and made a matter of  
23 public record?

24 A. Yes, they were.

25 Q. Are you familiar with the application filed in

1 this case?

2 A. Yes, I am.

3 Q. And have you prepared a structure map and cross  
4 section for the Examiners here today?

5 A. Yes, I did.

6 MR. FELDEWERT: I would tender  
7 Mr. Zollinger as an expert witness in petroleum geology.

8 EXAMINER McMILLAN: So qualified.

9 Q. (BY MR. FELDEWERT) Mr. Zollinger, you heard  
10 that the target for this proposed well is the Upper  
11 Avalon Shale?

12 A. That's correct.

13 Q. If I turn to what's been marked as COG Exhibit  
14 Number 5, is this a structure map that you prepared of  
15 the Upper Avalon Shale?

16 A. Yes, it is.

17 Q. And what does this Exhibit Number 5 show us?

18 A. Number 5 shows us the subsea contours for the  
19 Upper Avalon Shale top and a 50-foot contour interval,  
20 the line in cross section, which is the following  
21 Exhibit 6, for the three wells, which are the red  
22 circles connected by the red lines, COG's acreage in  
23 yellow and the nearest producing wellbores in this  
24 formation, which are down in Section 10 to the  
25 southeast.

1 Q. Those are the green sticks?

2 A. That's correct.

3 And then the dashed green line is the  
4 proposed wellbore locations.

5 Q. And do you observe any structural abnormalities  
6 in this area?

7 A. No, I don't.

8 Q. Now, you've indicated that you've identified on  
9 Exhibit Number 5 the three wells that you have utilized  
10 for your cross section?

11 A. Yes.

12 Q. In your opinion, are those wells representative  
13 of the area?

14 A. Yes.

15 Q. If I then turn to what's been marked as COG  
16 Exhibit Number 6, is this your -- are these the type  
17 logs that correspond with the A to A prime cross section  
18 shown on Exhibit Number 5?

19 A. Yes, it is.

20 Q. Would you orient the Examiners as to which  
21 direction this falls?

22 A. Yes. The northwest-most well is on the left,  
23 and the southeastern-most well is on the right. And the  
24 well in the middle is in the center of Section 4, which  
25 is the southwest section for the proposed well plan.

1 Q. What do you observe having conducted this  
2 study?

3 A. That the reservoir for this section between  
4 these three wells is consistent.

5 Q. Now, you have various lines shown on here.  
6 What are you depicting?

7 A. The uppermost black line is the top of the  
8 Upper Avalon Shale. The lowermost black line is the  
9 base of the Upper Avalon Shale Formation.

10 Q. And, roughly, where is your landing interval  
11 going for the well?

12 A. The landing interval will be around 9,300 in  
13 the center wellbore, which is roughly halfway in between  
14 the top and the bottom of this formation.

15 Q. Now, the company's proposing a full-section  
16 horizontal well in Section 4?

17 A. Yes.

18 Q. Do you see any geologic impediments to  
19 developing this area using full-section horizontal  
20 wells?

21 A. No.

22 Q. In your opinion, is this an area that can be  
23 efficiently and economically developed by horizontal  
24 wells?

25 A. Yes.

1 Q. And in your opinion, will the proposed west  
2 half nonstandard -- west half-west half nonstandard  
3 spacing unit contribute more or less equally to  
4 production from the well?

5 A. Yes.

6 Q. If I then turn to what's been marked as COG  
7 Exhibit Number 7, is this a diagram of the proposed  
8 well?

9 A. It is.

10 Q. And does this diagram reflect that the  
11 completed interval of this well will comply with the  
12 Division setback requirements?

13 A. Yes, it does.

14 Q. In your opinion, will the granting of this  
15 application be in the best interest of conservation, the  
16 prevention of waste and the protection of correlative  
17 rights?

18 A. Yes.

19 Q. Mr. Zollinger, were Exhibits -- COG Exhibits 5  
20 through 7 prepared by you or compiled under your  
21 direction or supervision?

22 A. They were.

23 MR. FELDEWERT: Mr. Examiner, I'd move the  
24 admission into evidence Exhibits 5 through 7.

25 EXAMINER McMILLAN: Exhibits 5 through 7

1 may now be accepted as part of the record.

2 (COG Operating, LLC Exhibit Numbers 5  
3 through 7 were offered and admitted into  
4 evidence.)

5 MR. FELDEWERT: And that concludes my  
6 examination of this witness.

7 CROSS-EXAMINATION

8 BY EXAMINER McMILLAN:

9 Q. This well has not been drilled, correct?

10 A. It has not been drilled. That is correct.

11 EXAMINER McMILLAN: I have no further  
12 questions, and Case Number 15250 will be taken under  
13 advisement.

14 Thank you very much.

15 MR. FELDEWERT: Thank you.

16 (Case Number 15250 concludes, 9:39 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 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

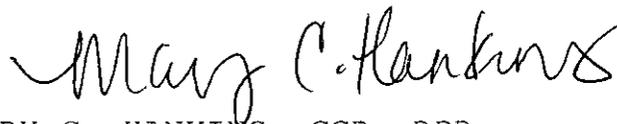
5 I, MARY C. HANKINS, New Mexico Certified  
6 Court Reporter No. 20, and Registered Professional  
7 Reporter, do hereby certify that I reported the  
8 foregoing proceedings in stenographic shorthand and that  
9 the foregoing pages are a true and correct transcript of  
10 those proceedings that were 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  
Paul Baca Court Reporters, Inc.  
New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2015

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