

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

2014 JUL 29 P 2:32  
RECEIVED OCD

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  
New Mexico CCR #20  
Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102  
(505) 843-9241

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

APPEARANCES

FOR APPLICANT COG OPERATING, LLC:

JORDAN L. KESSLER, ESQ.  
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.  
500 4th Street, Northwest, Suite 1000  
Albuquerque, New Mexico 87102  
(505) 848-1888  
jlk@modrall.com

INDEX

PAGE

Case Numbers 15163, 15164 and 15165 Called 3

COG Operating, LLC's Case-in-Chief:

Witnesses:

David Michael Wallace:

Direct Examination by Ms. Kessler 3  
Cross-Examination by Examiner Goetze 13

Henry Zollinger:

Direct Examination by Ms. Kessler 13  
Cross-Examination by Examiner Goetze 18

Proceedings Conclude 20

Certificate of Court Reporter 21

EXHIBITS OFFERED AND ADMITTED

COG Operating, LLC Exhibit Numbers 1 through 17 13

COG Operating, LLC Exhibit Numbers 18 through 22 18

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  
a complete record of the proceedings in  
the Examiner hearing of Case No. 15163/15164/15165  
25 heard by me on July 24 2014.

*Paul Baca*  
Examiner

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

CERTIFICATE OF COURT REPORTER

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

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

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



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