

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
TO RE-OPEN CASE NO. 15373 TO
AMEND POOLING ORDER R-14054,
LEA COUNTY, NEW MEXICO.

CASE NO. 15373
(Re-opened)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 17, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF 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, and Gabriel Wade, Legal Examiner, on
Thursday, November 17, 2016, 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
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1 APPEARANCES

2 FOR APPLICANT COG OPERATING, LLC:

3 JORDAN L. KESSLER, ESQ.
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1 (9:38 a.m.)

2 EXAMINER McMILLAN: I'd like to call the
3 hearing back to order.

4 Call Case Number 15373, application of COG
5 Operating, LLC to re-open Case Number 15373 to amend
6 Pooling Order R-14054, Lea County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Mr. Examiner, Jordan Kessler,
9 from the Santa Fe office of Holland & Hart, on behalf of
10 the Applicant.

11 EXAMINER McMILLAN: Any other appearances?

12 MS. KESSLER: Two witnesses.

13 EXAMINER McMILLAN: Will the witnesses
14 please be sworn in at this time?

15 Thank you.

16 (Mr. Wallace and Ms. Martin sworn.)

17 MS. KESSLER: Mr. Examiner, just some brief
18 background on this case before I begin with my first
19 witness.

20 This order originally pooled the east half
21 of the east half of Section 29 and the east half of the
22 northeast quarter of Section 32 in Township 24 South,
23 Range 35 East, Lea County, 240-acre nonstandard project
24 area. The Bone Spring Formation was pooled at the time.

25 The Oil Conservation Division subsequently

1 notified COG that it had placed this well in a different
2 pool, and so we are here today to amend the order to
3 reflect the designated pool and to pool the owners --

4 DAVID M. WALLACE,

5 after having been previously sworn under oath, was
6 questioned and testified as follows:

7 DIRECT EXAMINATION

8 BY MS. KESSLER:

9 Q. Mr. Wallace, can you please state your name for
10 the record and tell the Examiners by whom you're
11 employed and in what capacity?

12 A. David Michael Wallace. I'm the landman for the
13 southeast New Mexico Lea County area. I work for COG
14 Operating, LLC.

15 Q. Have you previously testified before the
16 Division?

17 A. I have.

18 Q. And were your credentials as a petroleum
19 landman accepted and made a matter of record?

20 A. Yes, they were.

21 Q. Are you familiar with the application that's
22 been filed in this case?

23 A. Yes.

24 Q. And are you familiar with the status of the
25 lands in the subject area?

1 A. Yes.

2 MS. KESSLER: Mr. Examiner, I would tender
3 Mr. Wallace as an expert in petroleum land matters.

4 EXAMINER McMILLAN: So qualified.

5 Q. (BY MS. KESSLER) Mr. Wallace, can you please
6 turn to Exhibit 1 and identify this exhibit and explain
7 what COG seeks under this application?

8 A. This is our C-102 plat for the Viking Helmet
9 State Com #1H well. We seek to amend Order R-14054 to
10 reflect the revised pool designated by the Division. We
11 seek to pool the uncommitted interests as to the
12 Wolfbone Pool in the spacing unit.

13 Q. And the C-102 identifies the acreage; is that
14 correct?

15 A. Yes. That's correct. It's a nonstandard unit
16 comprised of the east half-east half of Section 29, the
17 east half-northeast quarter of Section 32, 24 South, 35
18 East, Lea County, New Mexico.

19 Q. And the Division recently revised the pool code
20 for this well; is that correct?

21 A. That's correct.

22 Q. Is that pool and pool code identified on this
23 C-102?

24 A. Yes, it is. It's Pool Code 98098, Wolfbone.

25 Q. Has the well already been drilled?

1 A. No, it has not.

2 Q. What is the character of these lands?

3 A. Section 29 is fee acreage, and the east half of
4 northeast Section 32 is state acreage.

5 Q. And what interests do you seek to pool?

6 A. The uncommitted interests.

7 Q. In the Wolfbone?

8 A. In the Wolfbone Pool, yeah.

9 Q. And the prior order has pooled interest owners
10 in the Wolfbone Pool; is that correct?

11 A. That's correct.

12 Q. Let's turn to Exhibit 2. Is there identical
13 ownership between the Bone Spring and the Wolfbone
14 pools?

15 A. That's correct.

16 Q. So the only interest owner who you're seeking
17 to pool was already pooled by the prior order, is that
18 correct, as to the Bone Spring pool?

19 A. Yes, that's correct.

20 Q. What is Exhibit 2?

21 A. Exhibit 2 is a land ownership map that shows
22 the tracts in the spacing unit, as well as the interest
23 of the parties and the uncommitted interests.

24 Q. Was there an additional interest owner in the
25 prior order?

1 A. That's correct. It was Katherine Ross Madera
2 Sharbit [phonetic], and we ended up leasing her after
3 the prior hearing.

4 Q. So there is no need to pool her as to the
5 Wolfbone?

6 A. That's correct.

7 Q. And the only interest that you're pooling is
8 Chevron; is that correct?

9 A. Yes.

10 Q. What type of interest do they have?

11 A. They have an unleased mineral interest.

12 Q. What is Exhibit 3?

13 A. Exhibit 3 is the well-proposal letter that we
14 sent to Chevron for this pooling.

15 Q. And this was a re-proposal, correct, to
16 identify the Wolfbone Pool?

17 A. That's correct.

18 Q. What date was that letter sent?

19 A. September 8th, 2016.

20 Q. Did it include an AFE?

21 A. Yes, it did.

22 Q. And are the costs on this AFE consistent with
23 what COG has incurred in drilling similar wells in the
24 area?

25 A. Yes, that's correct.

1 Q. Do you have an operating agreement with
2 Chevron?

3 A. We are currently negotiating an operating
4 agreement right now. We just don't have an agreement
5 signed.

6 Q. In the event you reach an agreement, will that
7 agreement supersede the terms of the pooling order?

8 A. Yes, that's correct.

9 Q. Have you estimated overhead and administrative
10 costs for drilling this well?

11 A. Yes. We request 7,000 a month for drilling and
12 700 a month for producing.

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

15 A. Yes.

16 Q. And do you ask that those costs be incorporated
17 into any order that results from this hearing?

18 A. Yes, that's correct.

19 Q. Do you ask that those costs be adjusted with
20 the appropriate accounting procedures?

21 A. Yes.

22 Q. What is Exhibit 4?

23 A. This is our Offset Notification List that we
24 compiled.

25 Q. Did you provide notice to all of the -- single

1 working interest -- single unleased mineral interest
2 owner you seek to pool, as well as the offset owners?

3 A. Yes, we did.

4 Q. With respect to the uncommitted mineral
5 interest owner, do you request the Division impose a 200
6 percent risk penalty?

7 A. Yes, we do.

8 Q. Is Exhibit 5 an affidavit from my office
9 providing notice to the party that you seek to pool, as
10 well as to the offset operators, your lessees --

11 A. Yes, that's correct.

12 Q. Were Exhibits 1 through 4 prepared by you or
13 compiled under your direction and supervision?

14 A. Yes, they were.

15 MS. KESSLER: Mr. Examiners, I move
16 admission of Exhibits 1 through 5.

17 EXAMINER McMILLAN: Exhibits 1 through 5
18 may now be accepted as part of the record.

19 (COG Operating, LLC Exhibit Numbers 1
20 through 5 are offered and admitted into
21 evidence.)

22 MS. KESSLER: And that concludes my
23 examination.

24 CROSS-EXAMINATION

25 BY EXAMINER McMILLAN:

1 Q. Were all mineral owners notified in the Bone
2 Spring and the Wolfcamp?

3 A. Yes, they were.

4 Q. The 7,000 and 700, was that the same as what
5 was in the original order, the cost?

6 A. Yes.

7 Q. And the project area will be the -- is the
8 same, the 240-acre that was in the original order?

9 A. Yes, that is correct.

10 Q. Okay. Okay. So I wasn't completely clear on
11 this point. This well is proposed, right?

12 A. Yes. It's proposed.

13 Q. Okay.

14 CROSS-EXAMINATION

15 BY EXAMINER WADE:

16 Q. I don't see that you got all your green cards
17 back. Am I wrong?

18 MS. KESSLER: No, that's correct,
19 Mr. Examiner. We did receive all of the green cards
20 back for all of the parties that we seek to pool.

21 EXAMINER WADE: Okay. I have no further
22 questions.

23 EXAMINER McMILLAN: Thank you very much.

24 THE WITNESS: Thank you.

25 MS. KESSLER: Call my next witness.

1 EXAMINER McMILLAN: Please proceed.

2 CARRIE M. MARTIN,
3 after having been previously sworn under oath, was
4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MS. KESSLER:

7 Q. Can you please state your name for the record
8 and tell the Examiners by whom you're employed and in
9 what capacity?

10 A. My name is Carrie Martin. I'm a geologist for
11 COG Operating, LLC.

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

14 A. Yes.

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

17 A. Yes.

18 Q. Are you familiar with the application filed in
19 this case?

20 A. Yes.

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

23 A. Yes.

24 MS. KESSLER: Mr. Examiners, I would tender
25 Ms. Martin as an expert in petroleum geology.

1 EXAMINER McMILLAN: So qualified.

2 Q. (BY MS. KESSLER) If you could turn to Exhibit
3 6, Ms. Martin, and identify this exhibit and walk us
4 through it.

5 A. This is a map of the area of interest. We
6 have -- the red-dashed line shows the proposed well.
7 The purple lines show the existing wells that have been
8 drilled in the Wolfbone Pool. And three of these wells
9 are producing. Two of the wells are drilled and waiting
10 on completion. The yellow acreage is COG's acreage in
11 the area.

12 Q. What is Exhibit 7?

13 A. Exhibit 7 is a structure map on top of the 3rd
14 Bone Spring Sand. The contour interval is 50 feet. And
15 this shows that the structure is consistent across the
16 area. There is no faulting within the area and no
17 geological impediments to drilling horizontal wells.

18 Q. What does the structure reflect regarding dip
19 in this area?

20 A. This structure shows between a one, two, three
21 degree dip in this area from the northeast to the
22 southwest.

23 Q. What is Exhibit 8?

24 A. Exhibit 8 is a cross-section map from A to A
25 prime shown in the green line. The wells shown for the

1 cross section, which will be on the second exhibit, are
2 representative of the wells within this area in the
3 Wolfbone Pool interval.

4 Q. And did you use three wells for your
5 cross-section exhibit?

6 A. Yes. There are three wells here, and they're
7 shown with the green circles on the cross-section line.

8 Q. Is Exhibit 9 the corresponding cross-section
9 exhibit?

10 A. Yes.

11 Q. Can you please walk us through this exhibit?

12 A. Okay. This cross section shows the top of the
13 3rd Bone Spring Carb in the black line, the top of the
14 3rd Bone Spring Sand in the purple line, the top of the
15 Wolfcamp Formation in the red line, and then the top of
16 the Wolfcamp B in the pink line. The wells are -- have
17 a consistent thickness across the area.

18 The Wolfbone Pool is identified from the
19 top of the 3rd Bone Spring Carb to the Wolfcamp B. The
20 lateral interval is shown with the green bracket, and
21 that is going to be in the top of the Wolfcamp part of
22 this Wolfbone Pool.

23 Q. And do you believe that the -- that the
24 formation is relatively consistent throughout the
25 proposed nonstandard spacing unit?

1 A. Yes.

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

4 A. My conclusions are that this -- the thickness
5 is consistent across the area, and there are no geologic
6 impediments to drilling horizontal wells.

7 Q. Do you believe that the area can be efficiently
8 and economically developed by horizontal wells?

9 A. Yes.

10 Q. And do you believe that the proposed
11 nonstandard unit will, on average, contribute more or
12 less equally to production from the well?

13 A. Yes.

14 Q. And this well will comply with the setback
15 requirements under the Horizontal Well Rule; is that
16 correct?

17 A. Yes.

18 Q. In your opinion, will the granting of COG's
19 application be in the best interest of conservation, the
20 prevention of waste and the protection of correlative
21 rights?

22 A. Yes.

23 Q. And were Exhibits 6 through 9 prepared by you
24 or compiled under your direction and supervision?

25 A. Yes.

1 MS. KESSLER: Mr. Examiner, I'd move
2 admission of Exhibits 6 through 9.

3 EXAMINER McMILLAN: Exhibits 6 through 9
4 may now be accepted as part of the record.

5 (COG Operating, LLC Exhibit Numbers 6
6 through 9 are offered and admitted into
7 evidence.)

8 CROSS-EXAMINATION

9 BY EXAMINER McMILLAN:

10 Q. I'm not clear. Is this -- did you -- was this
11 a change in target interval, or did the OCD tell you to
12 change it?

13 A. The overall interval is similar and is going
14 from the -- it includes the whole Wolfbone Pool. The
15 target is just at the top of the Wolfcamp Formation. So
16 there was -- as far as the original well, the only
17 difference is just on the other side of that red line
18 where the Wolfcamp is. So the target interval is just
19 below that.

20 Q. Okay. So in the -- so in the original order,
21 did the -- did the target interval change from the
22 original order to this order?

23 A. It is just below the Wolfcamp top, so the
24 difference is about 20 feet.

25 Q. So you're saying in this order you had a little

1 bit of Wolfcamp?

2 A. Yes.

3 Q. Okay. So there was a slight change?

4 A. Yes.

5 Q. Okay. For -- this is strictly for clarity
6 purposes. I want to make sure I have this right. The
7 Wolfbone in the -- in your cross section, in the HNG Oil
8 Company Madera 19 Federal Com #1 would run from the top
9 of the 3rd Bone Spring Carbonate to the Wolfcamp B
10 marker; is that correct?

11 A. Correct.

12 Q. Okay. I just thought I'd do that for clarity
13 purposes.

14 And do you expect every quarter-quarter
15 section to contribute equally to the production?

16 A. Yes.

17 EXAMINER McMILLAN: Go ahead, ask
18 questions.

19 EXAMINER WADE: I have no questions to ask.

20 EXAMINER McMILLAN: All right. I have no
21 questions, and thank you very much.

22 MS. KESSLER: Thank you, Mr. Examiner. I'd
23 ask this case be taken under advisement.

24 EXAMINER McMILLAN: Okay. Case Number
25 15373 shall be taken under advisement. Thank you very

1 much.

(Case Number 15373 concludes 9:55 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

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

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

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

20 

21 MARY C. HANKINS, CCR, RPR
22 Certified Court Reporter
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2016
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