

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
FOR A NON-STANDARD SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE 15293
& Case 15294

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 30, 2015

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, April 30, 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: ELLEN H. ALLANIC
NEW MEXICO CCR 100
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

A P P E A R A N C E S

FOR COG OPERATING LLC:

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I N D E X

CASE NUMBERS 15293 and 15294 CALLED

COG OPERATING LLC CASE-IN-CHIEF:

WITNESS DAVID MICHAEL WALLACE

	Direct	Redirect	Further
By Mr. Feldewert	5		
		Cross	
By Examiner Goetze		11	

WITNESS HENRY ZOLLINGER

	Direct	Redirect	Further
By Mr. Feldewert	12		
		Cross	
By Examiner Goetze		17	

Reporter's Certificate

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E X H I B I T I N D E X

Exhibits Offered and Admitted

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1 (Time noted 8:46 a.m.)

2 EXAMINER GOETZE: Let's move on to the next
3 case, case 15293, Application of COG Operating LLC for a
4 Non-Standard Spacing and Proration Unit and Compulsory
5 Pooling, Lea County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it, please, Examiner,
8 Michael Feldewert of the Santa Fe Office of Holland &
9 Hart, appearing on behalf of the applicants. I have two
10 witnesses.

11 And, also, Mr. Examiner, our prehearing
12 statement requested that this case be consolidated for
13 hearing with the next case in the docket, case 15294.

14 EXAMINER GOETZE: We just want to make sure
15 you want to keep it with prehearing statements. So we
16 will go ahead and consolidate with case 15294,
17 Application of COG Operating LLC for a Non-Standard
18 Spacing and Proration Unit and Compulsory Pooling, Lea
19 County, New Mexico.

20 Would your witnesses please stand and
21 identify yourselves to the court reporter and be sworn
22 in.

23 (Whereupon, the witnesses were administered
24 the oath.)

25 MR. FELDEWERT: We will call the first

1 witness.

2 DAVID MICHAEL WALLACE

3 having first been duly sworn, was examined and
4 testified as follows:

5 DIRECT EXAMINATION

6 BY MR. FELDEWERT:

7 Q. Would you please state your name and identify by
8 whom you're employed and in what capacity.

9 A. My name is David Michael Wallace, and I work for
10 COG Operating LLC. I am a senior landman.

11 Q. And have you previously testified before the
12 Division?

13 A. I have.

14 Q. And have you had your credentials as an expert in
15 petroleum land matters accepted and made a matter of
16 public record?

17 A. I have.

18 Q. Are you familiar with the applications that have
19 been filed in these consolidated cases?

20 A. Yes.

21 Q. And are you familiar with the status of the lands
22 in the subject areas?

23 A. Yes.

24 MR. FELDEWERT: Mr. Examiner, I tender
25 Mr. Wallace once again as an expert witness in petroleum

1 land matters.

2 EXAMINER GOETZE: He is so qualified.

3 BY MR. FELDEWERT (cont'd):

4 Q. Mr. Wallace, would you turn to what has been
5 marked as COG Operating Exhibits No. 1 and No. 2.
6 Please identify these for the Examiner and explain what
7 the company seeks under these consolidated applications.

8 A. These are C-102 plats that we filed for the Van
9 Gogh Fee 1H and 2H wells. The number 1H is in east half
10 of the west half, section 11, 24, 34, Lea County, New
11 Mexico. And number 2H is in the west half of the east
12 half of section 11.

13 We seek to pool -- we seek two non-standard
14 160-acre non-standard spacing units for these wells. We
15 seek to pool the mineral interests and the line spacing
16 used for Bone Spring Formation.

17 Q. And do both Exhibits 1 and 2 provide the
18 Examiners with the API numbers for the two proposed
19 wells?

20 A. They do.

21 Q. And they are both in the same pool, correct?

22 A. That's correct.

23 Q. And do they also then provide the Examiners with
24 the pool name and the pool code for these wells?

25 A. It is the Red Hills Bone Spring North Pool, No.

1 96434.

2 Q. And is this pool governed by the Division
3 statewide rules?

4 A. It is.

5 Q. And will the completed intervals for these wells
6 comply with the Division's setback requirements?

7 A. They will.

8 Q. Mr. Wallace, when I take a look at these C-102s
9 that comprise Exhibits 1 and 2, I see that they were
10 submitted back in April of 2013; is that right?

11 A. That is correct.

12 Q. Has the company obtained an extension of the time
13 in which to drill these wells?

14 A. Yes.

15 Q. And has that been approved by the Division?

16 A. It has.

17 Q. And when are these wells required to be
18 drilled now?

19 A. By April 12, 2016.

20 Q. Okay. Is section 11 involved here; is this all
21 fee lands?

22 A. It is.

23 Q. And if I turn to what has been marked as COG
24 Operating Exhibit No. 3, is this a lease tract map that
25 identifies the interest owners in the two proposed

1 160-acre spacing units?

2 A. It is.

3 Q. How have you organized this exhibit?

4 A. I've labeled each tract with the interest owners
5 in each tract, and then I have a recap at the end for
6 the total interest.

7 Q. These have only one tract involved here?

8 A. That is correct.

9 Q. And that is for both the west half of the east
10 half and then the east half of the west half?

11 A. That's correct.

12 Q. And if I take a look at the second page of
13 Exhibit 3, it indicates that the only party you seek to
14 pool here is Chevron; is that correct?

15 A. That's correct.

16 Q. Have you provided well proposal letters to
17 Chevron?

18 A. I have.

19 Q. If I turn to what has been marked to COG Exhibits
20 numbers 4 and 5, are these two well proposal letters
21 that you've provided to Chevron for these
22 applications?

23 A. They are.

24 Q. And do each of those letters include an AFE?

25 A. They do.

1 Q. And are the costs that are reflected on this AFE
2 consistent with what the company has incurred in
3 drilling similar horizontal wells in this area?

4 A. That is correct.

5 Q. If I take a look, Mr. Wallace, at Exhibit No. 5,
6 at that AFE, and I compare it to Exhibit No. 4, why are
7 the drilling costs for the Van Gogh Fee 2H slightly
8 higher than what you see for the 1H?

9 A. The 2H includes the cost of a pilot hole in the
10 operation.

11 Q. Does the company intend to drill the 2H first?

12 A. Yes.

13 Q. Okay. Now, if I look at the first page of these
14 well proposal letters, about halfway down, do they
15 identify the overhead and the administrative costs that
16 the company is requesting in these two consolidated
17 cases?

18 A. That is correct.

19 Q. And what are those figures?

20 A. \$7,000 a month for drilling and \$700 a month for
21 producing.

22 Q. And are these overhead rates consistent with
23 what the company is charging for similar wells in this
24 area?

25 A. That is correct.

1 Q. Let me ask this. In addition to sending these
2 well proposal letters to Chevron, have you had
3 discussions with the company about your development of
4 this area?

5 A. That is correct. We have discussed over the
6 phone and we have also had e-mail correspondence in
7 regards to these proposals as well as the operating
8 agreement.

9 Q. And are you still in contact with the company?

10 A. I am.

11 Q. In the event that the parties reach an agreement,
12 will the company notify the Division?

13 A. We will.

14 Q. In preparation for this hearing, did the company
15 identify the lease mineral interest owners in the
16 40-acre tracts surrounding each of these proposed
17 non-standard spacing units?

18 A. We did.

19 Q. And did the company include a list of these known
20 interest owners to my office so that they would be
21 provided notice of this hearing?

22 A. Yes.

23 Q. I then turn to what has been marked as COG
24 Operating Exhibit No. 6; is this an affidavit prepared
25 by my office, with attachments, providing notice of this

1 hearing for both of these consolidated cases?

2 A. It is.

3 Q. Finally, Mr. Wallace, were Exhibits 1 through 5
4 prepared with your involvement and your direction and
5 supervision?

6 A. They were.

7 MR. FELDEWERT: Mr. Examiner, I would move
8 the admission into evidence of COG's Exhibits 1 through
9 6, which includes my affidavit.

10 EXAMINER GOETZE: Exhibits 1 through 6 are
11 so entered.

12 (COG Operating LLC's Exhibits 1 through 6
13 were offered and admitted into evidence.)

14 MR. FELDEWERT: And that concludes my
15 examination of this witness.

16 EXAMINER WADE: No questions.

17 CROSS-EXAMINATION

18 EXAMINER GOETZE: So the only party we are
19 after as far as pooling is Chevron USA, and you're still
20 talking with them?

21 THE WITNESS: Yes.

22 EXAMINER GOETZE: And your feeling is that
23 it will be reached -- is it about small details or is it
24 big issues?

25 THE WITNESS: There are changes to the

1 operating agreement they're working on, not only on this
2 well but on a global basis.

3 EXAMINER GOETZE: So their presence in this
4 area is significant as far as --

5 THE WITNESS: They do have some other wells
6 in the area, yes.

7 EXAMINER GOETZE: Okay. I have no further
8 questions for this witness.

9 MR. FELDEWERT: We will call our next
10 witness.

11 EXAMINER GOETZE: Thank you.

12 HENRY ZOLLINGER

13 having been first duly sworn, was examined and
14 testified as follows:

15 DIRECT EXAMINATION

16 BY MR. FELDEWERT:

17 Q. Please state your name and identify by whom you
18 are employed and in what capacity.

19 A. My name is Henry Zollinger. I'm employed by COG
20 Operating LLC out of Midland, Texas. And I'm a
21 geologist.

22 Q. Mr. Zollinger, you've previously testified before
23 this Division as an expert in petroleum geology; is that
24 correct?

25 A. Yes.

1 Q. And had your credentials as an expert accepted
2 and made a matter of public record; is that correct?

3 A. Yes.

4 Q. Are you familiar with the applications filed in
5 these consolidated cases?

6 A. Yes, sir.

7 Q. And, Mr. Zollinger, have you conducted a geologic
8 study of the area that is the subject of these
9 consolidated cases?

10 A. Yes, sir.

11 MR. FELDEWERT: I would once again tender
12 Mr. Zollinger as an expert witness in petroleum geology.

13 EXAMINER GOETZE: He's so qualified.

14 Q. Please identify for the Examiners what the target
15 is for both of these proposed wells.

16 A. Yes. The target is the 2nd Bone Spring Sand of
17 the Bone Spring Formation.

18 Q. And have you prepared a structure map and a cross
19 section for use here today?

20 A. I have.

21 Q. If I turn to what has been marked as COG
22 Exhibit 7, would you please identify it and explain to
23 the Examiners what is shown.

24 A. Yes. This is a structure map on the base of the
25 2nd Bone Spring Sand Formation, which is the target

1 interval for these two wells.

2 The orange dashed lines in section 11 represent
3 the locations for the two proposed well bores which we
4 are pooling today. The solid orange lines surrounding
5 that acreage are existing 2nd Bone Spring wells that are
6 currently producing.

7 The sticks without colors on them are either
8 proposed wells in other formations or wells that are
9 drilled in other formations.

10 The line of sections in a following exhibit is
11 the blue line from A to A prime, and the contour
12 interval on this structure map is 50 feet.

13 Q. What do you observe with respect to the structure
14 in this area?

15 A. I observe that there are no faulting or geologic
16 impediments to horizontal drilling.

17 Q. Now, the wells that you have chosen for your
18 cross section that are reflected on Exhibit No. 7, are
19 these wells representative of the area?

20 A. Yes, they are.

21 Q. And if I then turn to what has been marked as COG
22 Exhibit 8, is this the stratigraphic cross section that
23 corresponds to the wells shown on Exhibit 7?

24 A. Yes, it is.

25 Q. And would you please explain to us what is shown

1 or what you observe from this stratographic cross
2 section of the area?

3 A. Yes. What this is is a cross section flattened
4 on that base of the 2nd Bone Spring Sand, which is the
5 mapped interval on the previous exhibit.

6 The top of the sand is marked near the top of the
7 this cross section. And the wells on here -- the one in
8 the middle is near the toe of the Van Gogh Fee No. 1H,
9 which is being pooled today.

10 So the other thing you can see from this cross
11 section is the sand thickness is not highly variable
12 across this area. There is also not evidence of
13 lithologic changes between the wells in this cross
14 section.

15 Q. So you see continuity in the sands across this
16 area?

17 A. Absolutely, yes.

18 Q. Now if I am looking at the middle well that you
19 identified, can you identify for the Examiners
20 approximately where the landing location will be for
21 your two proposed wells?

22 A. The target for the well bore is in the bottom
23 third of middle well bore in between the depths of
24 10,700 feet and 10,750 feet DVD.

25 Q. Mr. Zollinger, what conclusions have you drawn

1 from your geologic study of this area?

2 A. I have concluded there are no geologic
3 impediments to horizontal drilling, that drilling
4 horizontal wells is the most efficient way of developing
5 this acreage, and that each proration unit along the
6 trajectory of this well path will contribute more or
7 less equally to the flow of this well bore.

8 Q. Now, Mr. Wallace testified that these two wells
9 will both comply with the -- the completed interval for
10 these wells will comply with the Division setback
11 requirements?

12 A. That is correct.

13 Q. And if you turn to what has been marked as COG
14 Exhibits 9 and 10, are these well diagrams for each of
15 the proposed wells demonstrating compliance with the
16 setback requirements?

17 A. Yes, they do.

18 Q. In your opinion, will the granting of this
19 application be in the best interest of conservation and
20 the prevention of waste and the --

21 A. Yes.

22 Q. And were COG Exhibits 7 through 10 prepared by
23 you or compiled under your direction or supervision?

24 A. Yes, they were.

25 MR. FELDEWERT: Mr. Examiner, I move the

1 admission of COG Exhibits 7 through 10 into evidence.

2 EXAMINER GOETZE: Exhibits 7 through 10 are
3 so entered.

4 (COG Operating LLC's Exhibits 7 through 10
5 were offered and admitted into evidence.)

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

8 EXAMINER GOETZE: Very good. Counselor.

9 EXAMINER WADE: I have no questions.

10 EXAMINER GOETZE: Very good.

11 EXAMINATION

12 EXAMINER GOETZE: Let's do a couple of
13 questions in the adjacent acreage. We have evidence of
14 vertical wells. We have no other completions in Bone
15 Springs?

16 THE WITNESS: Not to my knowledge. Not in
17 the 2nd Bone Spring Sand.

18 EXAMINER GOETZE: But we do have other Bone
19 Spring production in this area?

20 THE WITNESS: Well, let me step back just a
21 second. These well boards which are colored with orange
22 in solid sticks are in the 2nd Bone Spring Sand and they
23 are horizontals.

24 The vertical wells in the area, there are
25 some 3rd Bone Spring Sand completions as well as Avalon.

1 They are just not marked on this map. And then some of
2 the well boards down to the south, I believe two of them
3 are drilled and completed in the 3rd Bone Spring Sand as
4 laterals.

5 EXAMINER GOETZE: And the north, south
6 orientation appears to be beneficial?

7 THE WITNESS: Yes.

8 EXAMINER GOETZE: And that would be because
9 of its structure and thickness that you are going to get
10 better production out of it that way?

11 THE WITNESS: That, yes, coupled with the
12 maximum horizontal stress direction is perpendicular to
13 the north, south direction of these well bores.

14 EXAMINER GOETZE: Very good. I have no
15 further questions of this witness. Wait a minute --
16 never mind. Would you like to take this case under
17 advisement?

18 MR. FELDEWERT: Please, Mr. Examiner.

19 (Discussion off the record between the
20 Examiners.)

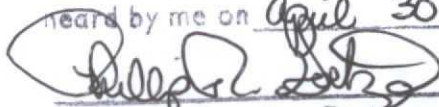
21 EXAMINER GOETZE: Anyhow, we are done.
22 Thank you very much. Cases 15293 and 15294,
23 consolidated, taken under advisement.

24 And in looking at the docket, we have one
25 last case. And we have a crowd here, so let's take a

1 few minutes. Let's come back at ten after and then we
2 will do the final case on the docket.

3 (Time noted 9:00 a.m.)
4
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10 I do hereby certify that the foregoing is
11 a complete record of the proceedings in
12 the Examiner hearing of Case No. S 15293 & 15294
13 heard by me on April 30 2015

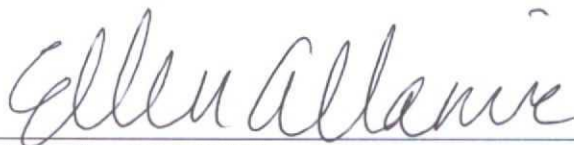
14 , Examiner
15 Oil Conservation Division
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1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF BERNALILLO)
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7 REPORTER'S CERTIFICATE

8 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
9 No. 100, DO HEREBY CERTIFY that on Thursday, April 30,
10 2015, the proceedings in the above-captioned matter were
11 taken before me, that I did report in stenographic
12 shorthand the proceedings set forth herein, and the
13 foregoing pages are a true and correct transcription to
14 the best of my ability and control.

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

20 

21 ELLEN H. ALLANIC, CSR
22 NM Certified Court Reporter No. 100
23 License Expires: 12/31/15
24
25