

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

CASE 15329
& 15330
(Consolidated)

APPLICATION OF COG OPERATING, LLC, FOR
A NON-STANDARD SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

JUNE 25, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, 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, William V. Jones, Examiner, and Gabriel
Wade, Legal Examiner, on June 25, 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
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A P P E A R A N C E S

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I N D E X

CASE NUMBER 15329 AND 15330 CALLED

COG OPERATING, LLC, CASE-IN-CHIEF:

WITNESS DAVID MICHAEL WALLACE

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By Ms. Kessler	4		

EXAMINATION

Examiner McMillan	10
Examiner Jones	11

WITNESS HENRY ZOLLINGER

	Direct	Redirect	Further
By Ms. Kessler	13		

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1 (Time noted 11:29 a.m.)

2 EXAMINER McMILLAN: Let's call case No.
3 15329, 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 MS. KESSLER: Mr. Examiner, Jordan Kessler
8 with Holland and Hart in Santa Fe for the applicant.

9 EXAMINER McMILLAN: Any other appearances?
10 (No response.)

11 MS. KESSLER: Mr. Examiner, this case has
12 been combined with case 15330. We request that it be
13 consolidated.

14 EXAMINER McMILLAN: Okay. Please proceed.

15 MS. KESSLER: I have two witnesses today,
16 Mr. Examiner.

17 EXAMINER McMILLAN: Will the witnesses
18 please stand up and be sworn in.

19 (Whereupon, the presenting witnesses were
20 administered the oath.)

21 DAVID MICHAEL WALLACE
22 having been first duly sworn, was examined and testified
23 as follows:

24 DIRECT EXAMINATION

25 BY MS. KESSLER:

1 Q. Would you please state your name for the record
2 and tell the Examiners by whom you are employed and in
3 what capacity.

4 A. It's David Michael Wallace. I'm with COG
5 Operating LLC.

6 Q. Have you previously testified before the
7 Division?

8 A. Yes.

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

11 A. Yes.

12 Q. Are you familiar with the applications filed in
13 these consolidated cases?

14 A. Yes, I am.

15 Q. Are you familiar with the status of the lands in
16 the subject area?

17 A. Yes, I am.

18 MS. KESSLER: Mr. Examiner, I tender
19 Mr. Wallace as an expert in petroleum land matters.

20 EXAMINER McMILLAN: So accepted.

21 Q. Mr. Wallace, please turn to what I have marked as
22 COG Exhibits 1 and 2 and identify these exhibits for the
23 Examiner.

24 A. These are the filed C-102s for the Salvador Fee
25 3H and 4H, the west half of section ten, 24 South, 34

1 East. The east half of the west half is going to be the
2 spacing unit for the 3H well and the west half, west
3 half will be for the 4H. We seek two non-standard
4 160-acre spacing units for these and seek to pool the
5 Bone Spring, the uncommitted mineral interests as to the
6 Bone Spring within the spacing units.

7 Q. What are the API numbers for each well?

8 A. The Salvador 3H is 30-025-41545. And the 4H is
9 30-025-41538.

10 Q. Has the Division identified a pool and pool code
11 for these wells?

12 A. Yes. It is going to be the Red Hills Bone Spring
13 North, and that code is 96434.

14 Q. Is this pool governed by Division statewide
15 rules?

16 A. It is.

17 Q. And will the completed intervals for each well
18 comply with the 330 setback requirements?

19 A. Yes.

20 Q. Are the spacing units comprised of fee land?

21 A. They are.

22 Q. Would you please turn to COG Exhibit 3 and
23 identify COG's interests and the uncommitted interest
24 owners in the proposed spacing units?

25 A. Yes. The west half of ten is undivided fee

1 acreage with the same ownership: And this ownership
2 tract plat shows the total ownership for the west half.

3 And the bolded entities are the interests that
4 are uncommitted at this point.

5 Q. You seek to pool both the uncommitted working
6 owners and unleased mineral interest owners; is that
7 correct?

8 A. That is correct.

9 Q. Please turn to COG Exhibits 4 and 5. Is
10 Exhibit 4 an example of the well proposal letter that
11 you sent to the working interest owners for each well?

12 A. That is correct.

13 Q. And what is the date on this?

14 A. April 20th, 2015.

15 Q. And did this letter include an AFE?

16 A. It did.

17 Q. Did you subsequently identify two additional
18 addresses for unleased mineral owners with interests in
19 the proposed spacing units?

20 A. Yes, I did.

21 Q. Did you send both the well proposal letter and an
22 AFE for both wells to those addresses?

23 A. Yes, I did.

24 Q. And is that included as COG Exhibit 5?

25 A. Yes, it is. It's actually Exhibit 6, yes.

1 Q. Okay. Did you also identify an heir for Mary D.
2 Alexander?

3 A. I did. That was Kelly Van Sant.

4 Q. And did you send that heir a well proposal letter
5 and AFE for both wells?

6 A. I did, yes.

7 Q. And that's included as Exhibit 7?

8 A. That's correct.

9 Q. In addition to the well proposal letters, what
10 other efforts did COG undertake to reach agreement with
11 the parties whom you seek to pool in the drilling of
12 these wells?

13 A. I'm in the process of negotiating leases with all
14 the parties, with the majority of the parties. I've
15 negotiated a term assignment -- I'm sorry.

16 Oxy is -- they are going to farm out in this
17 acreage. We are negotiating that right now. Chevron is
18 evaluating the proposal. And I've negotiated leases
19 with the majority of the addressees and I've leased some
20 too.

21 Q. Did each of the well proposal letters that you
22 sent also contain an AFE?

23 A. Yes.

24 Q. And are the costs reflected on these AFEs
25 consistent with what COG's incurred for drilling similar

1 horizontal wells in this area?

2 A. Yes.

3 Q. Do the well proposal letters also identify the
4 overhead and administrative costs while drilling this
5 well and also while producing it should you be
6 successful?

7 A. That's correct.

8 Q. What are those costs?

9 A. 7,000 a month for drilling and 700 a month for
10 producing.

11 Q. And are these overhead rates consistent with what
12 other operators are charging for similar wells?

13 A. Yes, that is correct.

14 Q. Do you ask that these administrative and overhead
15 costs be incorporated into any order resulting from this
16 hearing?

17 A. Yes.

18 Q. And do you ask that those rates be adjusted in
19 accordance with the appropriate accounting procedures?

20 A. Yes.

21 Q. With respect to any uncommitted interest owners,
22 do you request that the Division impose a 200 percent
23 risk penalty?

24 A. Yes, that's correct.

25 Q. Did COG also identify the offset interest owners

1 in the 40 acres tracts surrounding the proposed
2 non-standard unit?

3 A. We did.

4 Q. And were those offset interests included in the
5 notice of this hearing?

6 A. Yes.

7 Q. Are those letters as well as an affidavit from my
8 office attached as Exhibit 8?

9 A. Yes.

10 Q. Was it necessary to publish notice or were all of
11 the parties locatable?

12 A. We were able to locate addresses for the parties.

13 Q. Did you prepares Exhibits 1 through 7?

14 A. I did.

15 MS. KESSLER: Mr. Examiner, I move the
16 admission of Exhibits 1 through 8, which includes my
17 affidavit.

18 EXAMINER McMILLAN: Exhibit 1, Exhibit 2,
19 Exhibit 3, Exhibit 4, Exhibit 5, Exhibit 6, Exhibit 7
20 and Exhibit 8 may now be accepted as part of the record.

21 (Whereupon, COG EXHIBITS 1 THROUGH 8 WERE
22 OFFERED AND ADMITTED.)

23 MS. KESSLER: Thank you, Mr. Examiner.

24 EXAMINATION BY EXAMINER McMILLAN

25 EXAMINER McMILLAN: Any depth severances?

1 THE WITNESS: Not that I'm aware of, no.

2 EXAMINER McMILLAN: I wasn't clear on your.
3 Exhibit 7. You located this individual?

4 THE WITNESS: Yes, I did. As a matter of
5 fact, I'm speaking to her attorney and I'm in the
6 process of leasing her. Yes, they received notice and
7 they all received the proposal.

8 EXAMINER McMILLAN: And they have the green
9 cards back from them?

10 THE WITNESS: Yes.

11 MS. KESSLER: That's correct, Mr. Examiner.

12 EXAMINER McMILLAN: Thank you.

13 The location of the project area will be
14 standard relative setbacks, correct?

15 THE WITNESS: That's correct.

16 EXAMINER McMILLAN: And they are proposed
17 wells, correct?

18 THE WITNESS: The 3H is proposed -- they are
19 proposed wells, yes.

20 EXAMINER McMILLAN: I have no further
21 questions.

22 EXAMINATION BY EXAMINER JONES

23 EXAMINER JONES: Your conversations with
24 Chevron and Oxy, what's going on with them; what did
25 they tell you?

1 THE WITNESS: Oxy has -- they want to farm
2 out to us. But as in other areas, we are negotiating a
3 form. That's what we are waiting on there.

4 Chevron, they have elected to not
5 participate in the 3H, but they're evaluating the 4H,
6 so --

7 EXAMINER JONES: They are going to go
8 non-consent with the 3H?

9 THE WITNESS: Yes.

10 EXAMINER JONES: But they are going to go
11 into one of the wells but not the other?

12 THE WITNESS: I'm not sure yet.

13 EXAMINER JONES: Okay. Well, different
14 strategies, I guess.

15 THE WITNESS: And they do have a very small
16 interest.

17 EXAMINER JONES: Okay. I don't have any
18 more questions.

19 EXAMINER McMILLAN: I have no further
20 questions. So thank you very much.

21 MS. KESSLER: I will call my next witness.

22 EXAMINER McMILLAN: Yes, please.

23 HENRY ZOLLINGER
24 having been first duly sworn, was examined and testified
25 as follows:

DIRECT EXAMINATION

1
2 BY MS. KESSLER:

3 Q. Please state your name for the record and tell
4 the Examiners by whom you're employed and in what
5 capacity?

6 A. My name is Henry Zollinger, and I'm employed by
7 COG Operating LLC as a geologist.

8 Q. Have you previously testified before the
9 Division?

10 A. I have, yes.

11 Q. And were your credentials as a petroleum
12 geologist accepted and made a matter of public record?

13 A. They were.

14 Q. And are you familiar with the applications filed
15 in these consolidated cases?

16 A. I am, yes.

17 Q. And have you conducted a geologic study of the
18 lands that are the subject of this hearing?

19 A. I have.

20 MS. KESSLER: Mr. Examiner, I would tender
21 Mr. Zollinger as an expert petroleum geologist.

22 EXAMINER McMILLAN: So accepted.

23 Q. Mr. Zollinger, what is the targeted interval for
24 these two wells?

25 A. The targeted interval for both wells is the

1 Second Bone Spring Sand of the Bone Spring Formation.

2 Q. Have you prepared a structure map and cross
3 section of the targeted interval for the Examiners?

4 A. Yes, I have.

5 Q. Will you please identify COG Exhibit No. 9..

6 A. Yes. This is a figure depicting a structure map
7 on the base on the Second Bone Spring Sand and true
8 vertical depth, subC.

9 The contour lines are the black lines. And there
10 is a 50-foot contour interval. The orange lines are the
11 two wells which we are seeking to pool today.

12 The solid orange lines are the surrounding second
13 Bone Spring development wells within the area. And then
14 the green line and dots and A to A Prime is the line of
15 section -- which is a following exhibit.

16 Q. Do you consider the wells that will be depicted
17 on the next exhibit on A to A Prime representative of
18 wells in this area?

19 A. Yes, I do.

20 Q. Will you turn to COG Exhibit 10. Is this a cross
21 section that you prepared for the Examiners?

22 A. Yes. This is a stratigraphic cross section hung
23 on the base of the Second Bone Spring Sand, which is the
24 map of the previous exhibit. The base of the sand is
25 the solid orange line at the bottom. And the top of the

1 sand, as I have it mapped, is the dashed line at the top
2 of the section.

3 Q. What is the targeted landing zone?

4 A. The targeted landing zone is in the bottom third.
5 If you look on the center well, it will be right above
6 the 11,200-foot measured depth mark on the log.

7 Q. Have you identified continuity across the
8 proposed non-standard units?

9 A. Yes. There's a slight variation in thickness
10 across these sections, but it is not large enough to
11 make a difference for flow of the water pool.

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

14 A. There are no geologic impediments to developing
15 these acres of horizontal wells. Horizontal wells are
16 an efficient and effective way to develop these
17 hydrocarbons, and that each proration unit along each
18 well bore path will contribute equally, more or less, to
19 the production of the well bore over the lifetime.

20 Q. Mr. Wallace mentioned earlier that the completed
21 interval will comply with the Division's 330 foot
22 setback requirements; is that correct?

23 A. That is correct.

24 Q. Do Exhibits 11 and 12 show the proposed well path
25 and demonstrate compliance with these 330 foot setbacks?

1 A. Yes, they do.

2 Q. Did you prepare Exhibits 9 through 12?

3 A. I did.

4 MS. KESSLER: Mr. Examiner, I would move the
5 admission into evidence of Exhibits 9 through 12.

6 EXAMINER McMILLAN: Exhibit 9, Exhibit 10,
7 Exhibit 11, and Exhibit 12 now are part of the record.

8 (Whereupon, COG EXHIBITS 9 THROUGH 12 WERE
9 OFFERED AND ADMITTED.)

10 MS. KESSLER: That completes my examination
11 of this witness, Mr. Examiner.

12 EXAMINATION BY EXAMINER McMILLAN

13 EXAMINER McMILLAN: Okay. I am going to
14 give you the same question, is this a stratigraphic or
15 structural...

16 THE WITNESS: That is an interesting
17 question. And it is actually being debated within
18 industry at the moment.

19 These are not conventional rocks, so we
20 don't adhere to the standard structural trap or
21 stratigraphic trap as a production mechanism.

22 They are not quite resource rock since they
23 are not hemipelagic shales or mud rocks, so they are
24 just very tight -- well, I like to call them crappy
25 conventional rocks that need horizontal development in

1 order to make an economic rock:

2 Well, to that point, what I'd like to say is
3 it's being debated --

4 EXAMINER McMILLAN: Okay.

5 THE WITNESS: -- and even internally at
6 Concho.

7 EXAMINER McMILLAN: You said it's internally
8 debated. But an isopach will strengthen your case,
9 right?

10 THE WITNESS: I don't believe an isopach
11 would be fully necessary with the cross section that I
12 have provided. The thicknesses between the wells are
13 within five percent of each other. So an isopach would
14 show consistency over the wells.

15 EXAMINER McMILLAN: That's all I'm trying
16 to --

17 THE WITNESS: Sure, yeah.

18 EXAMINER McMILLAN: That's what I would like
19 to see.

20 And just for clarification, on 11, on
21 Exhibit 11, the perforated -- the penetration point will
22 be 330 from the south; I didn't see it on there. I
23 wanted to make sure we are clear on that.

24 THE WITNESS: Yeah, that is correct. So the
25 blue dashed line on this exhibit shows our proposed well

1 bore trajectory within that brown box.

2 The gray dash line is just a straight from
3 surface hole to bottom hole location.

4 EXAMINER McMILLAN: Because I see the 330
5 from the north, not necessarily the two sections.

6 THE WITNESS: Oh, understood.

7 EXAMINER McMILLAN: That's what I'm trying
8 to get at.

9 THE WITNESS: Sure.

10 EXAMINER McMILLAN: And I have no further
11 questions. Please proceed.

12 EXAMINATION BY EXAMINER JONES

13 EXAMINER JONES: Mr. Zollinger, the Third
14 Bone Spring seems to be really easy for me to see but
15 the Second looks different.

16 What is the difference between those two
17 geologically?

18 THE WITNESS: I guess I don't understand the
19 question --

20 EXAMINER JONES: Well, as far as the
21 behavior -- if you look at your cross-section under the
22 letter A, the second tract over, is a resistivity tract?

23 THE WITNESS: Uh-huh.

24 EXAMINER JONES: You got high resistivity
25 going down to lower. And then as you shift down a

1 little bit, you got high going to lower and high going
2 to lower. So oil over water, oil over water, oil over
3 water.

4 THE WITNESS: Yeah, I am not sure we can
5 make that interpretation off these logs. This is an
6 older vintage of log on the well bore on the left under
7 A. And I don't believe that it's just the same standard
8 of what we are collecting today, such as the well in the
9 middle, which is one of our pilot holes on one of these
10 wells.

11 EXAMINER JONES: So the well in the middle
12 is the best log?

13 THE WITNESS: Yes. And if you look at the
14 density tracts, the density neutrons, they do seem to
15 fall in line a little bit more with each other, as
16 opposed to looking at the resistivity.

17 EXAMINER JONES: Okay. So your gamma ray
18 doesn't seem -- so sequenced stratigraphy out here, is
19 that term used for the Bone Spring or you would say, no,
20 there is --

21 THE WITNESS: When interpreting the
22 deposition of the entire basin, I would use sequence
23 stratigraphy as the term to describe the deposition of
24 all of these rocks. So, yes, I would.

25 EXAMINER JONES: But there's no coarse rocks

1 over --

2 THE WITNESS: I don't see the standard
3 sequences, no, not on these well rocks.

4 EXAMINER JONES: I don't have any more
5 questions.

6 EXAMINER McMILLAN: Okay. I have no further
7 questions. And case No. 15329 will be taken under
8 advisement. And case No. 15330 will be taken under
9 advisement.

10 MS. KESSLER: Mr. Examiner, do we have time
11 for one more case?

12 EXAMINER McMILLAN: That's what I was
13 getting ready to mention. Let's go ahead and let's do
14 case 15236.

15 MS. KESSLER: That's the --

16 EXAMINER McMILLAN: -- that's the Antelope
17 Ridge.

18 MS. KESSLER: My witnesses are coming back
19 after lunch for that, but the Scooter witnesses are here
20 right now.

21 EXAMINER McMILLAN: Okay. Give me a second.
22 Okay. We'll call 15331 next.

23

24

25

(Time noted 11:47 a.m.) I hereby certify that the foregoing is
a true and correct record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____, Examiner

Conservation Division

1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF BERNALILLO)
4
5
6

7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, June 25,
11 2015, the proceedings in the above-captioned matter were
12 taken before me, that I did report in stenographic
13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control:

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

22
23
24
25


ELLEN H. ALLANIC, CSR

NM Certified Court Reporter No. 100

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