

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:

7 APPLICATION OF CIMAREX ENERGY CASE NO. 15688
8 COMPANY FOR COMPULSORY POOLING,
9 EDDY COUNTY, NEW MEXICO.

10

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 May 11, 2017

14 Santa Fe, New Mexico

15

16 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
17 DAVID K. BROOKS, LEGAL EXAMINER

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21 This matter came on for hearing before the
22 New Mexico Oil Conservation Division, Michael McMillan,
23 Chief Examiner, and David K. Brooks, Legal Examiner, on
24 Thursday, May 11, 2017, at the New Mexico Energy,
25 Minerals and Natural Resources Department, Wendell Chino
 Building, 1220 South St. Francis Drive, Porter Hall,
 Room 102, Santa Fe, New Mexico.

26

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1 (8:28 a.m.)

2 EXAMINER McMILLAN: Okay. At this time I
3 would like to call Case Number 15688, application of
4 Cimarex Energy Company for compulsory pooling, Eddy
5 County, New Mexico.

6 Call for appearances.

7 MS. BRADFUTE: Mr. Examiner, my name is
8 Jennifer Bradfute, and I'm representing Cimarex Energy
9 Company.

10 EXAMINER McMILLAN: Any other appearances?

11 MR. BRUCE: Mr. Examiner, Jim Bruce of
12 Santa Fe representing Mewbourne Oil Company. I have no
13 witnesses.

14 MR. CARR: Mr. Examiner, William F. Carr,
15 senior counsel for Concho Resources. I represent COG
16 Operating. I do not have any witnesses.

17 EXAMINER McMILLAN: Okay. And if the
18 witnesses in this case would please stand up and be
19 sworn in at this time.

20 Thank you.

21 (Mr. Meador and Mr. Baker sworn.)

22 OPENING STATEMENT

23 MS. BRADFUTE: Mr. Examiner, I wanted to
24 start off this hearing by pointing out to the Division
25 that this case does involve a title dispute in one of

1 the tracts that we are seeking to be pooled. In the
2 application, what Cimarex is asking is it has said that
3 it will carry the disputed interest until the ownership
4 is decided by the courts. So they will be considered
5 carried -- costs, and then they'll give an opportunity
6 to whoever is determined to be the rightful owner the
7 option to participate in the well.

8 EXAMINER BROOKS: Okay. What is the case
9 number?

10 MS. BRADFUTE: The case number for this
11 matter?

12 EXAMINER BROOKS: Yes.

13 EXAMINER McMILLAN: 15688.

14 EXAMINER BROOKS: 15688. It's not shown on
15 the exhibit book. Otherwise, if the exhibit books get
16 lost from the file --

17 MS. BRADFUTE: Thank you.

18 And, Mr. Examiner, Mr. Brooks, a previous
19 case has been heard by the Division where there was a
20 title dispute, and that Case Number was 13286.

21 EXAMINER BROOKS: Was that the same title
22 dispute that's involved in this?

23 MS. BRADFUTE: No. It's a different title
24 dispute. And the Division found that the parties could
25 pay the costs up front who had the disputed title

1 interest and that the cost would be held in an escrow
2 account. And then whoever was determined to be the
3 rightful owner, their fees that they paid would be
4 attributed to their election to participate in the well,
5 and whoever wasn't determined by the court system to be
6 the rightful owner, they would receive a reimbursement
7 from the escrow funds.

8 EXAMINER BROOKS: Okay. That's assuming
9 both parties -- both sides of the title dispute want to
10 participate; is that right?

11 MS. BRADFUTE: That's right.

12 And so here what Cimarex has proposed in
13 its application is just to carry all the costs until
14 ownership is determined.

15 EXAMINER BROOKS: Then if the title dispute
16 is resolved, the winner can elect to use the escrowed
17 funds to --

18 MS. BRADFUTE: Here there would be no
19 escrow because Cimarex is just going to carry the costs,
20 and then once the title dispute is determined, the
21 party --

22 EXAMINER BROOKS: The winner can elect to
23 pay costs and will be a participant in the well?

24 MS. BRADFUTE: Yes.

25 EXAMINER BROOKS: And they will have -- in

1 order to do that, they will have to reimburse Cimarex
2 for the cost that it paid to carry that interest? Is
3 that the way it's going to work?

4 MS. BRADFUTE: Yes. And they'll
5 essentially get a look after the well has been drilled.

6 EXAMINER BROOKS: But is this -- if they
7 don't want to participate, Cimarex pays that cost and
8 gets the nonconsent to elect to pay? Then Cimarex won't
9 get the consent relief? Is that the way it's going to
10 work?

11 MS. BRADFUTE: Yes.

12 And we would like to proceed and call our
13 first witness.

14 EXAMINER McMILLAN: Yes.

15 TODD MEADOR,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. BRADFUTE:

20 Q. Could you please state your name for the
21 record?

22 A. Sure. Todd Meador.

23 Q. And, Mr. Meador, who do you work for and in
24 what capacity?

25 A. Cimarex Energy as a landman.

1 Q. And what are your responsibilities as a landman
2 at Cimarex?

3 A. Primarily preparing -- or ensuring that all the
4 contracts -- all the contractual interests for each well
5 that we drill are in place prior to the well being
6 drilled.

7 Q. And, Mr. Meador, have you previously testified
8 before the Division?

9 A. I have.

10 Q. And were your credentials as a landman accepted
11 and made part of the record?

12 A. They were.

13 Q. Does your area of responsibility at Cimarex
14 include the area of Eddy County in southeastern New
15 Mexico?

16 A. It does.

17 Q. And are you familiar with the application
18 that's been filed by Cimarex in this case?

19 A. I am.

20 Q. And are you familiar with the status of the
21 lands which are the subject matter of this application?

22 A. I am.

23 MS. BRADFUTE: Mr. Examiner, I'd like to
24 tender Mr. Meador as an expert witness in land matters.

25 MR. CARR: No objection.

1 MR. BRUCE: No objection.

2 EXAMINER McMILLAN: So qualified.

3 Q. (BY MS. BRADFUTE) Mr. Meador, would you turn to
4 Exhibit 1 in the notebook in front of you and explain
5 what this exhibit is to the Hearing Examiner?

6 A. This is Cimarex's application for pooling of
7 all the uncommitted interests to the spacing unit that
8 we are proposing for the Klein 10H well -- Klein 33 Fed
9 Com 10H well.

10 Q. And where is this well located?

11 A. Section 28 and Section 33 of Township 26 South,
12 27 East, Eddy County, New Mexico.

13 Q. And is Section 33 in a regular-size section?

14 A. It is. It's right -- just north of the state
15 line with Texas, just north of Culberson County, and
16 it's one of the smaller sections. I think it's about
17 240 acres.

18 Q. Could you please turn to what's been marked as
19 Exhibit Number 2 and explain what this is to the Hearing
20 Examiners?

21 A. Okay. And this is -- this is what established
22 the nonstandard proration unit for the well in which
23 we're drilling, the Klein 33 10H.

24 Q. And is this the Administrative Order issued by
25 the Division for a nonstandard proration unit for the

1 Klein 33 Fed Com 10H well?

2 A. That's right. And I think the reason that we
3 needed that is just because we had -- one of those
4 sections was right there along the state line. So --

5 Q. Could you please turn to what's been marked as
6 Exhibit Number 3 and explain what that exhibit is to the
7 Hearing Examiners?

8 A. Okay. This is the C-102 plat, and it shows the
9 project area for the Klein 10H.

10 Q. And how many dedicated acres will be in the
11 project area?

12 A. It will be 223.47.

13 Q. Has the Division identified a pool code for
14 this well?

15 A. They have.

16 Q. And what is that?

17 A. WC-015G-04S262625, the Bone Spring pool, Pool
18 Code 98018.

19 Q. Governed by the Division statewide rules?

20 A. It is.

21 Q. Will the completed interval for the well comply
22 with the Division setback requirements?

23 A. It will.

24 Q. And will you please turn to what's been marked
25 as Exhibit Number 4 and explain what this exhibit is to

1 the Hearing Examiners?

2 A. Okay. Exhibit 4 is a plat showing the
3 different tracts that are involved in the spacing unit
4 or the project area that we are proposing for the Klein
5 10H. It consists of three different tracts. Tract 1
6 and Tract 3 are both federal -- federal acreage and two
7 separate leases, one covering Tract 1, one covering
8 Tract 3. And then in Tract 2 is an 80-acre tract in the
9 section that is fee ownership.

10 Q. And where is this disputed mineral interest
11 located within the --

12 A. In Tract 2, the fee ownership.

13 Q. And have you identified the type of interest
14 that Cimarex seeks to pool in this matter?

15 A. We have.

16 Q. And what type of interest do you seek to pool?

17 A. The uncommitted interest.

18 Q. And are the parties who you are seeking to pool
19 listed in Exhibit 4?

20 A. They are, yes.

21 Q. Could you please identify those parties to the
22 Hearing Examiners?

23 A. Okay. They are -- in the Tract 2, any party
24 that is highlighted are the interests that we're seeking
25 to pool.

1 Q. And are the disputed interest owners listed in
2 Exhibit 4 as well?

3 A. They are. If you'll notice, in Tract 2, the
4 interests that are listed above the term "Disputed
5 Interests," those are all interests that are in Tract 2
6 and subject to good title at the moment. Then you'll
7 see the words "Disputed Interest" about halfway down in
8 Tract 2, and any party listed underneath the words
9 "Disputed Interest" is subject to the 40 acres that are
10 in dispute. The interest that's in dispute in Tract 2
11 is an undivided 50 percent interest or 40 of the 80 net
12 acres that are involved in Tract 2.

13 Q. What efforts had Cimarex made to contact the
14 parties to this dispute?

15 A. Okay. The disputed interest is currently being
16 litigated in the Eddy County courts, and so we've
17 obtained copies of all the different pleadings with
18 regard to the disputed interest. We've reached out to
19 all of the attorneys involved in the case and contacted
20 some of the parties individually as well. We've let
21 them know what we're trying to do here with regard to
22 this well. We sent them well proposals, AFEs as well.
23 And we've just made a real effort to try to understand
24 the different theories in the cases that are involved
25 with regard to the disputed interests and what the

1 possible outcomes might be and worked with the attorneys
2 in the case to let them understand what we're doing here
3 and reach a good outcome for everybody.

4 Q. So they've all been notified about this
5 application and the pooling matter that's being heard
6 today?

7 A. Yes. Yes.

8 Q. And could you please summarize for the
9 Examiners the other efforts that Cimarex has made to
10 obtain voluntary pooling of the interests that are not
11 in dispute?

12 A. For the interests that are not in dispute, we
13 sent a JOA, a well proposal and an AFE, given all the
14 parties an opportunity to participate in the well, and
15 we've also made an offer to lease if they wanted to
16 lease.

17 Q. In your opinion, has Cimarex made a good-faith
18 effort to obtain voluntary joinder in the well?

19 A. Yes.

20 Q. Could you please turn to what's been marked as
21 Exhibit Number 5, which contains both a subpart A and
22 subpart B and identify what these documents are to the
23 Hearing Examiners?

24 A. Okay. The first document there is a copy of
25 our well-proposal letter for the well, and then behind

1 that -- behind the letter is proof of all the
2 documentation showing the letters that have gone out,
3 the tracking through the postal system and the returned
4 green cards.

5 Q. And if you turn to subset B, could you please
6 identify what this document is for the Examiners?

7 A. That's the AFE for the well. That particular
8 AFE was signed by Premier Oil & Gas, the party that's
9 participating in the well.

10 Q. And AFEs were sent to all of the interested
11 parties in this project area of the development of the
12 well, correct?

13 A. They were.

14 Q. Could you please tell the Hearing Examiners
15 what your estimated costs for drilling and completing
16 the well are?

17 A. 6.8 million.

18 Q. Does the AFE include estimated costs for
19 drilling the well, dry-hole costs and completion costs?

20 A. It does.

21 Q. And could you please identify what those costs
22 are?

23 A. Okay. The dry-hole cost is 1.6 million, and
24 the completion costs were 5.1 million.

25 Q. Who should be appointed as operator of the

1 well?

2 A. Cimarex.

3 Q. And are the costs that were included in the AFE
4 in line with costs for other horizontal wells drilled to
5 this length and depth within this area of New Mexico?

6 A. They are.

7 Q. Do you have a recommendation for the amounts
8 which Cimarex should be paid for supervision and
9 administration expenses?

10 A. Yeah. We are recommending \$7,000 a month for
11 drilling -- for the cost of drilling the well and \$700 a
12 month for producing.

13 Q. And are these amounts equivalent to those
14 normally charged by Cimarex and other operators in this
15 area for horizontal wells drilled to this length and
16 this depth?

17 A. They are.

18 Q. Do you request that these rates be adjusted
19 periodically as provided by the COPAS accounting
20 procedures?

21 A. Yes, please.

22 Q. And does Cimarex request the maximum cost plus
23 200 percent risk charge if any pooled working interest
24 owner fails to pay its fair share of costs for drilling
25 and completing and equipping the well?

1 A. Yes.

2 Q. Were the parties you are seeking to pool
3 notified of this hearing?

4 A. They were.

5 Q. And if you would please turn Exhibit Number
6 6 --

7 MS. BRADFUTE: I will represent to the
8 Hearing Examiners this is an Affidavit of Notice that I
9 have executed. There were two separate mailings sent
10 out for this application. We did have an amended
11 Exhibit A, which are the parties who were entitled to
12 notice for this application, and that was sent 20 days
13 before this hearing to everyone, with a prior notice
14 also sent of the application to all of the parties.

15 In addition, we have had some mailings
16 returned and some green cards that we did not receive
17 back. Ten business days prior to the hearing, we did
18 publish notice, and the very last page of this exhibit
19 includes the Affidavit of Publication. Since there is a
20 dispute in this matter as to title, we went ahead and
21 listed all of the parties who could claim an interest by
22 name and the published notice, which ran on April 26th.

23 EXAMINER BROOKS: So everyone you sent a
24 certified letter to was also included in the publication
25 by name and the publication notice?

1 MS. BRADFUTE: That is correct.

2 EXAMINER BROOKS: Thank you.

3 Q. (BY MS. BRADFUTE) Mr. Meador, were Exhibits 1
4 through 6 prepared by you or under your supervision or
5 compiled from company business records?

6 A. They were.

7 Q. And in your opinion, is granting this
8 application in the interest of conservation and the
9 prevention of waste?

10 A. Yes. Absolutely.

11 Q. Thank you.

12 MS. BRADFUTE: I have no further questions.

13 Oh, Mr. Examiner, I'd like to move to
14 tender Exhibits 1 through 6 into the record.

15 MR. BRUCE: No objection.

16 MR. CARR: No objection.

17 EXAMINER McMILLAN: Exhibits 1 through 6
18 may now be accepted as part of the record.

19 (Cimarex Energy Company Exhibit Numbers 1
20 through 6 are offered and admitted into
21 evidence.)

22 CROSS-EXAMINATION

23 BY EXAMINER McMILLAN:

24 Q. What's the status of the well?

25 A. It's going to be drilled in August.

1 Q. And so it's proposed.

2 There are obviously unlocatable interests.

3 Any depth severances within the Bone

4 Spring?

5 A. With regard to the leasehold that we have or --

6 Q. Within the project area within the pool --

7 designated pool?

8 A. We're seeking to pool the entire Bone Spring.

9 CROSS-EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. There are no depth severances within the Bone

12 Spring Formation, right?

13 A. That's right.

14 Q. All the interests are uniform throughout --

15 A. Oh, right. They are all uniform throughout the
16 entire Bone Spring Formation.

17 EXAMINER McMILLAN: I don't have any
18 further questions.

19 MS. BRADFUTE: Okay. Thank you.

20 EXAMINER McMILLAN: Thank you.

21 MS. BRADFUTE: I'd like to call my second
22 witness.

23 EXAMINER McMILLAN: Please proceed.

24

25

1 JOEL F. BAKER,

2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MS. BRADFUTE:

6 Q. Please state your name on record.

7 A. Joel Baker.

8 Q. And, Mr. Baker, who do you work for and in what
9 capacity?

10 A. I work for Cimarex Energy Company. I'm a
11 geologist.

12 Q. And what are your responsibilities as a
13 geologist at Cimarex?

14 A. I primarily correlate and interpret information
15 from our well logs, mud logs and cores, and I assimilate
16 that information into maps and assess the risks and
17 potential of our target reservoir intervals. I work
18 closely with the reservoir engineer to determine landing
19 zones and appropriate well spacing, and I work closely
20 with the drilling engineers to actually design the
21 laterals.

22 Q. And have you previously testified before the
23 Division?

24 A. Yes.

25 Q. And were your credentials accepted and made

1 part of the record?

2 A. Yes.

3 Q. Are you familiar with the application that's
4 been filed by Cimarex in this case?

5 A. Yes.

6 Q. And are you familiar with the status of the
7 lands which are the subject matter of that application?

8 A. Yes.

9 Q. Are you familiar with the drilling plan for the
10 well?

11 A. Yes.

12 Q. And have you conducted a geologic study of the
13 area embracing the proposed spacing unit?

14 A. Yes, I have.

15 MS. BRADFUTE: Mr. Examiner, I'd like to
16 tender Mr. Baker as an expert witness in petroleum
17 geology matters.

18 EXAMINER McMILLAN: Any objections?

19 MR. BRUCE: No objection.

20 MR. CARR: No objection.

21 EXAMINER McMILLAN: So qualified.

22 Q. (BY MS. BRADFUTE) Mr. Baker, could you please
23 identify what the targeted interval is for this well?

24 A. 2nd Bone Spring Sandstone.

25 Q. And could you please turn to what's marked as

1 Exhibit Number 7 in the notebook in front of you and
2 identity for the Hearing Examiners what this exhibit is?

3 A. This exhibit is a structure map on the top of
4 the 2nd Bone Spring Sandstone interval.

5 Before I talk about the structure, I want
6 to explain kind of the background on the map. First of
7 all, the only wells posted on this map are Bone
8 Spring -- 2nd Bone Spring wells. So the Wolfcamp,
9 Avalon wells, they've been taken off. The dark green
10 wells on this map are wells that are drilled and
11 producing, and the yellow on the map shows where Cimarex
12 -- the area where Cimarex has a leasehold. The red
13 wells on the maps are wells that Cimarex has planned.
14 We have plans to drill, but they are not drilled yet.
15 So you can kind of get a feel for how we're going to
16 infill this area. And the red wells with the black
17 dashes on them are wells that we actually have a rig on
18 now and are actively drilling.

19 So I've highlighted the Klein section in a
20 green box to kind of orient you. That's where we're
21 drilling our Klein wells, and I've specifically labeled
22 the location the Klein 10H well that we're talking about
23 today.

24 So you'll notice we're drilling these wells
25 on a five-well spacing in these sections. If you go

1 south of the state line into Texas, you'll see some of
2 our sections are drilled with four-well spacing and some
3 with five-well spacing. We've determined from that
4 study that the five-well spacing is optimal in this area
5 for the 2nd Bone Spring, so that's why we're drilling
6 these wells in Eddy County at five-well spacing.

7 So now the structure map -- getting back to
8 the original intent of the exhibit -- shows that these
9 are 100-foot contours, subsea contours, and it just
10 shows a monoclinal dip basically from east to west. No
11 complications in the structure, no impediment to
12 drilling this well.

13 And the other thing I want to point out, if
14 you look at the location of the Klein 10H, there are
15 producing wells on either side of that location, so we
16 feel this well needs to be drilled to effectively drain
17 all of the area in there.

18 Q. And did you prepare a cross section of logs to
19 determine the relative thickness and porosity of the
20 Bone Spring Formation in the area?

21 A. I did. And that cross section is labeled on
22 this map with the blue circles. It shows the wells.
23 We've got logs. So they are in the immediate area of
24 where we're drilling this well.

25 Q. Okay. Could you please turn to Exhibit Number

1 8 --

2 A. Yes.

3 Q. -- and identify what this exhibit is to the
4 Hearing Examiners?

5 A. This is a stratigraphic cross section
6 illustrating the 2nd Bone Spring sands of the logs.
7 With these two wells, each one of them is a neutron
8 density-porosity log and is stratigraphically hung on
9 the 3rd Carbonate, which is the base of the 2nd Bone
10 Spring Sandstone.

11 I've also noted on the cross section a
12 correlation line at the top of the 2nd Bone Spring
13 Sandstone, and I've noted the gross thickness to the
14 right-hand side of each log of our zone of interest.
15 The area highlighted in yellow is where the porosity of
16 the sandstone meets our cutoff, and so we would call
17 that reservoir. We use -- at Cimarex, we use a cutoff
18 of 10 percent of density porosity from our logs, which
19 are on a limestone matrix.

20 So if we sum up all of the reservoir sands
21 that are highlighted in yellow, we get what we call a
22 net sandstone for that particular location. And so I've
23 marked on the bottom of each log the amount of net
24 sandstone in the Bone Spring interval.

25 Q. And do you consider the wells included in your

1 cross section to be representative of the Bone Spring
2 Formation for the area near the proposed spacing unit?

3 A. Yes.

4 Q. And can you please turn to what's been marked
5 as Exhibit Number 9 and explain what this exhibit is to
6 the Hearing Examiners?

7 A. This exhibit is an isopach map showing the map
8 of the net sandstones that I described on the cross
9 section. So everywhere I've got a star on this map is
10 where we have a log where I can calculate the amount of
11 net sandstone. And what this map shows -- it's on a
12 25-foot contour interval, but it shows that we have a
13 fairly constant thickness of reservoir sand across the
14 area where we're drilling. And we expect, at the Klein
15 10 location, to have anywhere between 130 feet of net
16 sand and 100 feet of net sand along the lateral. That
17 is consistent with the other wells in the area.

18 Q. And what conclusions have you drawn from your
19 geologic study?

20 A. The conclusion would be that we expect to find
21 reservoir sand along the full length of this lateral.
22 It's similar to the other wells in the area that have
23 been drilled and are producing, and there are no
24 impediments in anything that would cause a risk in
25 drilling this lateral.

1 Q. And will each quarter-quarter section in each
2 section of the irregular Section 33 be productive in the
3 Bone Spring Formation and contribute approximately
4 equally to the well?

5 A. Yes.

6 Q. And is horizontal drilling the most efficient
7 method to develop the area?

8 A. It is.

9 Q. Will horizontal drilling prevent the drilling
10 of unnecessary wells and result in the greatest
11 recovery?

12 A. Yes.

13 Q. And would you please turn to what's been marked
14 as Exhibit Number 10 and identify what this exhibit is
15 for the Hearing Examiners?

16 A. This is a wellbore plan for the lateral -- or
17 the well that we plan to drill. It shows the landing
18 and the lateral plan.

19 Q. And in your opinion, would the granting of
20 Cimarex's application be in the best interest of
21 conservation, the prevention of waste and the protection
22 of correlative rights?

23 A. Yes.

24 Q. Were Exhibits 7 through 10 prepared by you or
25 compiled under your direction and supervision?

1 A. Yes.

2 MS. BRADFUTE: I would like to admit
3 Exhibits 7 through 10 into the record.

4 MR. BRUCE: No objection.

5 MR. CARR: No objection.

6 EXAMINER McMILLAN: Exhibits 7 through 10
7 may now be accepted as part of the record.

8 (Cimarex Energy Company Exhibit Numbers 7
9 through 10 are offered and admitted into
10 evidence.)

11 CROSS-EXAMINATION

12 BY EXAMINER McMILLAN:

13 Q. Okay. Let's go back and look at Exhibit Number
14 9.

15 A. Okay.

16 Q. What I'm trying to do is -- let's
17 essentially -- for the time being, let's look at your
18 proposed well #10.

19 A. Yes, sir.

20 Q. And if I go essentially south of that in
21 Section 5, in Texas, how far are the setbacks in Texas?
22 How far can you get from the --

23 A. Oh, well, that's the -- it's the Derby field,
24 and the rules in the Derby field are 200 feet from the
25 section lines.

1 Q. So you're going 330, right?

2 A. Yes.

3 MS. BRADFUTE: They're a little bit more
4 330, Mike, if you look back at the C-102.

5 Q. (BY EXAMINER McMILLAN) Yeah. But you're
6 saying -- just to give an idea, would it be fair to say
7 that since they're going 200 and you're going 330, could
8 they possibly be draining your reserves? Is that a fair
9 question to ask?

10 A. The wells in Texas?

11 Q. Yeah.

12 A. I don't think so because our frac direction is
13 predominantly east to west, so I don't think the fracs
14 would propagate into New Mexico.

15 Q. Okay. Thank you.

16 Now, going -- now, we're going to 8,
17 looking at your cross section. Do you -- do you expect
18 multiple wells within the 2nd Bone Spring, or do you
19 think one well will drain the whole thing, or do you
20 even have any idea?

21 A. I mean, nobody knows exactly what's happening
22 downhole, but our presumption is -- we'll land the
23 lateral in the bottom third of the sand, the gross
24 interval, and the presumption is that we do frac all
25 this together and produce it together.

1 Q. So you think the frac will propagate through
2 the whole thing?

3 A. Yes. That's our presumption. I mean --

4 Q. It's hard to tell right now?

5 A. I could see a time in the future where we may
6 try an upper landing and see if we can stack, but right
7 now we don't have plans to do that.

8 Q. Okay.

9 EXAMINER McMILLAN: Go ahead.

10 EXAMINER BROOKS: I don't have any
11 questions for this witness. When we're concluded with
12 this witness, I have -- would like to ask a couple more
13 questions of the land witness, but I have no questions
14 for this witness.

15 MS. BRADFUTE: Thank you.

16 EXAMINER McMILLAN: I have no further
17 questions.

18 If the landman would please --

19 TODD MEADOR,

20 after having been previously sworn under oath, was
21 recalled, questioned and testified as follows:

22 RE CROSS EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. All the highlighted interests are in this Tract
25 2?

1 A. Yes.

2 Q. So Cimarex and Chevron own all of Tracts 1 and

3 3 --

4 A. Yeah, that's right.

5 Q. -- I mean as lessees in an oil and gas lease?

6 A. Yes.

7 Q. Okay. And Chevron is committed to this well,
8 right?

9 A. That's right.

10 Q. These people listed -- what is the lease status
11 of Tract 2?

12 A. Okay. We split it up between the good interest
13 and the disputed interest.

14 Q. Yes. You list these people with the tract
15 interest for each, but there is no distinction as to
16 whether they're lease owners or unleased interest
17 owners. Is it all leased, and, if so, to whom?

18 A. Yeah. Let's just go one by one.

19 Q. Okay.

20 A. Starting with -- do you want to only cover the
21 yellow, or do you want to cover all of them?

22 Q. Well, Cimarex owns a 3.17 -- .78 [sic]
23 interest. Does Cimarex own any -- does the Cimarex
24 lease have any -- have any disputed interest --

25 A. No, sir.

1 Q. -- behind it?

2 A. No, sir.

3 Q. Okay. Then go ahead.

4 A. James E. Logan Corporation, that is a mineral
5 interest that is currently uncommitted. I do expect
6 that they're going to lease to Cimarex.

7 Q. Okay. So that's unleased?

8 A. That's unleased right now. Yes, sir.

9 Q. Okay. Go ahead.

10 A. That Mewbourne Oil Company/J.S.M. Oil & Gas,
11 Inc., J.S.M. Oil & Gas, Inc. is the mineral owner there.
12 Currently, Mewbourne owns a lease covering that
13 interest. It is under continuous development, and we
14 expect that that lease will expire by the time the well
15 is drilled. So that mineral interest is currently
16 leased to Mewbourne, but we expect it will be unleased
17 at the time of the drilling of that well.

18 Q. Okay.

19 A. Nearburg Exploration Company, that is a mineral
20 interest. They've signed the JOA, so they're going to
21 participate with mineral interest.

22 Mobil Producing Texas and New Mexico, that
23 is a mineral interest, and it's unleased. We've really
24 heard very little out of them with regard to this well
25 other than making sure we got the forced pooling notice

1 to the right address.

2 Petrorep Resources and Corexcal, those are
3 two companies out of Canada. I don't think they're in
4 existence any longer, and we expect them to be
5 uncommitted all the way through the process.

6 Q. So that's an unleased interest?

7 A. Yes, sir. Yeah.

8 And then once we get below that, we get
9 into the disputed interests.

10 Q. Okay. Are the disputed interests all unleased?

11 A. No, they're not. It's --

12 Q. Okay. That's what I was kind of curious about.
13 We have lessees that own a leased interest under the --
14 in titles that --

15 A. Yeah.

16 Q. Is it the title to the lease that's disputed or
17 the title to the underlying fee?

18 A. The underlying fee. And the underlying fee is
19 40 acres that comes from an old family that used to own
20 it, and the subject of the dispute is multiple wills
21 that are effectively battling over that disputed
22 interest. And the different family members, some of
23 them have leased to Mewbourne, some of them have leased
24 to Premier, or that interest has been assigned to
25 presently here and Concho as well. Those are the three

1 parties that have leases involved or protection leases
2 involved on some of that disputed interest. And then
3 some of the potentially disputed interest is unleased.

4 Q. Okay. You have Premier on here. Now, what
5 about -- what about Concho? I didn't see Concho here.
6 You said they had a lease?

7 A. Yeah, you're right. Yeah. I apologize.
8 Concho's been left off that list right there. It is on
9 Exhibit A.

10 Q. But they're committed?

11 A. They are not committed yet, but I do anticipate
12 that they're going to sign the JOA.

13 Q. So Concho is on here, in addition to Mewbourne
14 and Premier, as a lessee, part of the unleased
15 interest -- or part of the disputed interest?

16 A. Part of the disputed interest. That's right.

17 MS. BRADFUTE: And I would like to point
18 out to the Hearing Examiners, in Exhibit A, two of our
19 applications, which is included in Exhibit 1 in the
20 notebook, it lists the parties to be pooled, and Concho
21 is listed as the first party.

22 MR. CARR: May it please the Examiners,
23 Concho has signed an AFE for the well. I think at this
24 point, they have finalized negotiation on the operating
25 agreement or are just waiting to get that signed. And

1 so that's where we are in this process. We're very
2 close to the end.

3 EXAMINER BROOKS: But your interest is
4 disputed because of the mineral fee --

5 MR. CARR: It is.

6 EXAMINER BROOKS: The mineral fee that you
7 have leased is disputed?

8 MR. CARR: Right. That's correct.

9 EXAMINER BROOKS: All of it?

10 MR. CARR: As far as I know.

11 THE WITNESS: Yeah, all of it.

12 Q. (BY EXAMINER BROOKS) Okay. Is there any
13 working interest owner who owns both undisputed and
14 disputed interests?

15 A. That's a good question. Mewbourne is --

16 Q. Mewbourne.

17 A. Yeah, Mewbourne.

18 Q. Yeah. I thought I saw Mewbourne twice on this
19 list.

20 A. Yeah. And -- although when the well gets
21 drilled, we anticipate that that lease under continuous
22 development will be expired, and by the time the well is
23 drilled, that will not be the case. They will only own
24 subject to the disputed interest.

25 Q. Okay. So then all the interests below Premier

1 are all mineral fee interests that are -- that are
2 disputing?

3 A. Yeah.

4 Q. Are they -- now, some of these are leased and
5 some are not, right?

6 A. That's exactly right.

7 Q. So when we're dealing with the order, we're
8 going to have to deal with how the lease interests are
9 to be treated and how the unleased interests are to be
10 treated, but we don't have to deal with how the -- it
11 doesn't make any difference if the -- yeah, it does,
12 because if they're leased to one person -- if one side
13 is leased to one person, the other side is leased to --
14 the other is leased to another person?

15 A. Yeah. And there are some competing leaseholds
16 effectively out there. But I think the -- I think at
17 the end of the day, the mineral interests will be
18 resolved through the court process, and then the
19 amount -- or the leases that are valid will -- will be
20 resolved as a result of the resolution of the mineral
21 interests.

22 And the bottom line is no matter -- no
23 matter how it gets resolved, anybody with a leasehold
24 interest or a mineral interest, we will carry the cost
25 of the well up until -- and then we'll recoup the cost

1 out of payout, and we'll give every party, whether
2 they're a leaseholder or a mineral interest, an
3 opportunity to sign the JOA and participate once the
4 interest is resolved.

5 Q. Okay. Now, are there some people that -- are
6 some of these leasehold -- are some of the lease
7 owners -- owners of the leasehold interest that are
8 subject to this dispute, are any of them parties to the
9 JOA already so they're committed to the well?

10 A. Premier.

11 Q. Okay. And then if they've signed the JOA,
12 they're committed. They had to elect under the JOA
13 whether to participate or not.

14 A. Yeah, because it was the initial well. So by
15 virtue of the fact that they signed a JOA, they're
16 committed to participate in the initial well.

17 Q. So they're on board regardless of what happens
18 with the compulsory pooling proceeding?

19 A. That's right. Yeah.

20 Q. And they will advance their share, and whether
21 they get it back or not is dependent on the outcome of
22 the suit?

23 A. No. We are going to include language in the
24 JOA in Article 16 that says with regard to the disputed
25 interest, we're going to carry the whole thing.

1 Q. You're going to carry all the disputed
2 interests, and you're going to give everybody, even
3 those who are already committed --

4 A. Yeah. They're going to get --

5 Q. -- an opportunity to elect under the terms of
6 the pooling order after -- after the title dispute is
7 resolved?

8 A. Yeah. I'd say it would be under the terms
9 of -- I would actually say if they signed the JOA, it
10 would be under the terms of the provision that we're
11 putting into Article 16, which says exactly what we've
12 just told you, which is we've got this disputed
13 interest, we're going to carry the cost. When the issue
14 gets resolved, whether you've signed the JOA or not at
15 this point, you will have a chance to sign the JOA if
16 you haven't, and if you have signed the JOA, you will
17 get the chance to participate with your interest if you
18 want to.

19 Q. And if you don't, you will be an uncommitted
20 pooled party -- uncommitted -- nonconsenting pooled
21 party?

22 A. That's right. That's right.

23 Q. Okay.

24 MS. BRADFUTE: And, Mr. Examiner, if I
25 could follow up with just one question to Mr. Meador.

1 REDIRECT EXAMINATION

2 BY MS. BRADFUTE:

3 Q. Mr. Meador, does Cimarex have any timing
4 restrictions in regards to the federal leases involved
5 within this spacing unit?

6 A. We've got a permit that is set to expire March
7 of 2018. So that permit has already been granted the
8 two-year extension, and so we need to get a well
9 drilled.

10 EXAMINER BROOKS: Well, March of 2018 is
11 still a fairly long time away.

12 THE WITNESS: Yeah, but time moves fast
13 (laughter).

14 EXAMINER BROOKS: I recognize that because
15 I'm going to be 70, and I would prefer that it move much
16 more slowly.

17 Q. (BY MS. BRADFUTE) Mr. Meador, you would expect
18 the title dispute to be ongoing past that time frame?

19 A. I would think so.

20 EXAMINER BROOKS: Yeah. But you can drill
21 without regard to the title dispute because there's --
22 you're going to put up all the money to the disputed
23 interest.

24 THE WITNESS: Right. I really think our
25 management stepped up on this deal and said, We're going

1 to carry this interest no matter what. We're not going
2 to charge any interest, nothing. We're going to get
3 this well drilled. And that's good for everybody.

4 EXAMINER BROOKS: Okay. Mr. Bruce, did you
5 want to say something?

6 MR. BRUCE: Yeah, Mr. Brooks. Just to
7 clarify that Premier and Mewbourne and those Welch
8 heirs' interest, Premier owned a lease or leases on
9 certain tracts in this general area, and Mewbourne
10 bought a portion of their leasehold, and then the
11 subsequent title exam showed that there was some
12 questionable probates or they hadn't been taken --
13 leases had not been taken from the correct heirs, and
14 that's what resulted in the lawsuits. Actually, there
15 are two lawsuits.

16 EXAMINER BROOKS: Okay. Very good. That's
17 all I have.

18 MS. BRADFUTE: We ask that this matter be
19 taken under advisement.

20 EXAMINER McMILLAN: Okay. Case Number
21 15688 shall be taken under advisement.

22 (Case Number 15688 concludes, 9:08 a.m.)
23
24
25

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
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