

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:

APPLICATION OF CIMAREX ENERGY
COMPANY FOR A NONSTANDARD OIL
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO. CASE NO. 15848

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 26, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, October 26, 2017, 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 CIMAREX ENERGY COMPANY:

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1 (9:01 a.m.)

2 EXAMINER DAWSON: Moving on down the list,
3 we're going to go down to Case Number 15848, which is
4 number two on the list. Case Number 15848 is
5 application of Cimarex Energy Company for a nonstandard
6 spacing and proration unit and compulsory pooling in Lea
7 County, New Mexico.

8 Call for appearances.

9 MS. BRADFUTE: Jennifer Bradfute. I'm with
10 the Modrall Sperling Law Firm and appearing on behalf of
11 Cimarex Energy Company.

12 EXAMINER DAWSON: Okay. Do you have
13 witnesses?

14 MS. BRADFUTE: Yes. I have two witnesses.

15 EXAMINER DAWSON: Can your witnesses please
16 stand and be sworn in by the court reporter.

17 (Ms. Reese and Mr. Hastings sworn.)

18 MS. BRADFUTE: Mr. Examiner, I'd like to
19 call my first witness.

20 EXAMINER DAWSON: Okay, Ms. Bradfute.
21 Please call your first witness.

22 MS. BRADFUTE: My first witness is
23 Ms. Reese.

24 KELLY REESE,
25 after having been previously sworn under oath, was

1 questioned and testified as follows:

2 DIRECT EXAMINATION

3 BY MS. BRADFUTE:

4 **Q. Could you please state your name for the**
5 **record?**

6 A. Kelly Reese.

7 **Q. And, Ms. Reese, who do you work for and in what**
8 **capacity?**

9 A. I work for Cimarex Energy as an exploration
10 landman.

11 **Q. And what are your responsibilities as a landman**
12 **at Cimarex?**

13 A. To negotiate oil and gas leases, term
14 assignments and work with other oil and gas companies to
15 secure the necessary documents for us to go and drill an
16 oil and gas well.

17 **Q. Ms. Reese, have you previously testified before**
18 **the Division?**

19 A. I have.

20 **Q. And were your credentials as a landman accepted**
21 **and made part of the record?**

22 A. Yes, they were.

23 **Q. And does your area of responsibility at Cimarex**
24 **include the area of Lea County?**

25 A. Yes. My area is north Lea and Eddy Counties.

1 Q. Are you familiar with the applications filed by
2 Cimarex in this matter?

3 A. Yes.

4 Q. Are you familiar with the status of the lands
5 which are the subject matter of this application?

6 A. Yes, I am.

7 MS. BRADFUTE: Mr. Examiner, I'd like to
8 tender Ms. Reese as an expert witness in petroleum land
9 matters.

10 EXAMINER DAWSON: Ms. Reese will be
11 tendered as a petroleum expert in land matters.

12 Q. (BY MS. BRADFUTE) Ms. Reese, could you
13 please --

14 EXAMINER BROOKS: Will be accepted.

15 EXAMINER DAWSON: Will be accepted. I'm
16 sorry.

17 Q. (BY MS. BRADFUTE) Ms. Reese, could you please
18 turn to what has been marked as Exhibit Number 1 in the
19 notebook in front of you and identify what this exhibit
20 is to the Examiners?

21 A. This is our application for a nonstandard oil
22 spacing and proration unit to pool 160 acres in the Bone
23 Spring Formation for the Lea 7 Federal Com Unit 1H well.

24 Q. And I apologize. Can you please describe where
25 that acreage is located?

1 A. That is in the west half-west half of Section
2 7, Township 20 South, Range 35 East, Lea County, New
3 Mexico.

4 **Q. Could you please turn to what's been marked as**
5 **Exhibit Number 2 and explain what this exhibit is to the**
6 **Hearing Examiner?**

7 A. This is the C-102 form showing the 160
8 dedicated acreage to the proration unit. The
9 surface-hole location of the Lea 7 Federal 1H well is
10 660 from the west line, 330 from the south line. And
11 the bottom-hole location is 868 feet from the west line
12 and 330 from the north line.

13 **Q. And has the Division identified a pool code for**
14 **this well?**

15 A. Yes, it has. It is 97983.

16 **Q. And is that listed as a wildcat Bone Spring**
17 **Pool?**

18 A. Yes, it is.

19 **Q. And is that pool governed by the Division**
20 **statewide rules?**

21 A. It is.

22 **Q. Does the completed interval for this well**
23 **comply with the Division setbacks requirements?**

24 A. It does.

25 **Q. And, Ms. Reese, has this well already been**

1 **drilled by Cimarex?**

2 A. Yes. This well has already been drilled. It
3 was drilled in December of 2014, put on production in
4 2015.

5 **Q. And why is Cimarex seeking a pooling in this**
6 **matter now?**

7 A. As we prepared to drill the Lea 7 Federal 2H,
8 it came to our attention that there were unleased
9 interests that had not been pooled for the 1H, and we
10 are doing that now.

11 **Q. Thank you.**

12 **Can you please turn to what's been marked**
13 **as Exhibit Number 3 and explain what this exhibit is to**
14 **the Hearing Examiners?**

15 A. This is a list of uncommitted interests to the
16 lease on the Federal 1H well. It is a combination of
17 unleased mineral interests and one leasehold interest
18 being AOG Mineral Partners. It provides net acreage for
19 each party, and the total being 3.83867239 net acres to
20 be pooled. And all of these interests are located in
21 Tract 2, which is the south half of the west half-west
22 half being fee interest.

23 **Q. And what type of leases are going to be**
24 **developed by the well?**

25 A. There is a federal lease in the north half and

1 then fee interests on various leaseholds and some
2 unleased interests in the south half.

3 **Q. And could you please summarize for the Hearing**
4 **Examiners what efforts Cimarex has made to obtain**
5 **voluntary pooling of these interests?**

6 A. Cimarex has contacted these parties from giving
7 them well proposals to showing them the AFEs that
8 originally went out. In addition, we've provided them
9 actual costs. They've had the opportunity, essentially,
10 to take a peek at the well because it's already been
11 drilled, and we've sent them operating agreements,
12 offered them lease bonuses in consideration to lease or
13 did an assignment of their interest. And for the most
14 part, these remaining interest parties are unresponsive,
15 and there are a few that we're still talking with and
16 hoping to get something worked out.

17 **Q. In your opinion, why are these interests**
18 **nonresponsive to the --**

19 A. Because their interests are so small, I believe
20 that's why they're not responsive.

21 **Q. Could you please turn to what's been marked as**
22 **Exhibit Number 4 and identify what this exhibit is for**
23 **the Hearing Examiners?**

24 A. This is a well-proposal letter that we sent out
25 to one of the unleased mineral others owners -- well,

1 all of them, and -- telling them where the well is
2 drilled, the actual cost, showing them the AFE, actual
3 costs, operating agreement. And then, additionally,
4 after talking to them, we even gave them the opportunity
5 to sign an oil and gas lease or do a term assignment.

6 Q. And in your opinion, has Cimarex made a
7 good-faith effort to obtain voluntary joinder in the
8 well?

9 A. Yes, we have.

10 Q. And could you please tell the Examiners what
11 the costs for drilling and completing the well are?

12 A. The AFE that we sent out showed that the well
13 costs would be, for dry hole, 3,006,000, and for the
14 completed well costs, 7,427,343.

15 Q. And are these costs in line with the cost to
16 drill other horizontal wells which are drilled to this
17 length and depth of this area of New Mexico?

18 A. Yes.

19 Q. And who should be appointed as the operator of
20 this well?

21 A. Cimarex Energy Co.

22 Q. And do you have a recommendation for the amount
23 Cimarex should be paid for supervision and
24 administrative expenses?

25 A. Yes, 7,000 per month and 700 -- for drilling

1 and 700 for completing per month.

2 Q. Are these amounts normally charged by Cimarex
3 and other operators in this area for horizontal wells
4 that are drilled to this length and depth?

5 A. Yes, they are.

6 Q. And do you request that these rates be adjusted
7 periodically as provided by the COPAS accounting
8 procedure?

9 A. Yes, we do.

10 Q. And does Cimarex request a maximum cost plus
11 200 percent risk charge to any pooled working interest
12 owner if they fail to pay their share of costs for
13 drilling, completing and equipping any infill wells
14 drilled for the proration unit?

15 A. Yes.

16 Q. Were the parties that you are seeking to pool
17 notified of this hearing?

18 A. Yes, they were.

19 Q. And were offset interests affected by this
20 application also notified of this hearing?

21 A. Yes, they were.

22 Q. Could you please turn to what's been marked as
23 Exhibit Number 5? Is this exhibit an Affidavit of
24 Notice that's been prepared by your counsel, along with
25 proof of mailing return receipts and a publication of

1 notice?

2 A. Yes.

3 Q. Were Exhibits 1 through 5 prepared by you or
4 under your supervision or compiled from company business
5 records?

6 A. Yes, they were.

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

9 A. Yes, it is.

10 MS. BRADFUTE: Mr. Examiner, I'd like to
11 move that Exhibits 1 through 5 be admitted into the
12 record.

13 EXAMINER DAWSON: Exhibits 1 through 5 will
14 be admitted to the record.

15 (Cimarex Energy Company Exhibit Numbers 1
16 through 5 are offered and admitted into
17 evidence.)

18 MS. BRADFUTE: Thank you.

19 EXAMINER DAWSON: Does that conclude your
20 questions?

21 MS. BRADFUTE: Yes, it does.

22 EXAMINER DAWSON: Mr. Brooks, do you have
23 any questions?

24 EXAMINER BROOKS: Yeah.

25

1 CROSS-EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. In Exhibit 3, at the bottom that says "interest
4 to pool in Tract 2," you are not seeking to pool any
5 interests in Tract 1; is that correct?

6 A. No, we are not.

7 Q. Okay. And this list -- all of these people
8 you're seeking -- all of the people listed on Exhibit 3
9 you are seeking to pool?

10 A. Yes. They're all in Tract 2.

11 Q. Okay. Now, are there any of these people for
12 whom you do not have valid addresses?

13 A. The one that came back that we have submitted
14 was for William H. Kennann, Trustee of the John E. and
15 Helen M. Kennann Family Trust, but we submitted that.
16 We have located them and are in contact with the family,
17 and we're just trying to work through the various
18 cousins on getting things aligned.

19 Q. Have you given the trustee the notice of --
20 actual notice of the time, place and circumstances of
21 this hearing?

22 MS. BRADFUTE: We mailed notice,
23 Mr. Examiner, certified mail and it came back returned,
24 and we published notice to the heirs and to the estate.

25 Q. (BY EXAMINER BROOKS) Okay. You said William H.

1 Kennann, trustee. Is he the person who holds the
2 title -- the legal title?

3 A. Yes. Yes.

4 Q. Okay. So you have -- you said you had an
5 address for Mr. Kennann?

6 A. Yes. And then our original mail-out came back,
7 but we have since discussed this with him, and it was
8 posted as well.

9 Q. So he would have actual notice of the --

10 A. Yes, he does.

11 Q. -- time and place of this hearing --

12 A. Yes.

13 Q. -- if he wanted -- if he had wanted to come
14 here?

15 A. Yes.

16 Q. Okay. That's what I was trying to establish.

17 The others you've got green cards from?

18 A. Yes.

19 Q. Okay. Thank you. I think that's all I have.

20 CROSS-EXAMINATION

21 BY EXAMINER DAWSON:

22 Q. So, Ms. Reese, on Exhibit 3 -- going back to
23 Exhibit 3, you're really only dealing with point --
24 roughly .6 percent?

25 A. It's even less than that. It's like 2 percent.

1 Yeah.

2 **Q. Okay. That's all the questions I have. Thank**
3 **you very much.**

4 MS. BRADFUTE: Thank you.

5 EXAMINER BROOKS: Oh, I didn't really ask a
6 question. And I think you probably answered it in your
7 direct, and I wasn't paying attention.

8 RE CROSS EXAMINATION

9 BY EXAMINER BROOKS:

10 **Q. All these people that are identified as**
11 **unleased mineral owners, did Cimarex make an offer to**
12 **lease --**

13 A. Yes.

14 **Q. -- these premises to each of those persons?**

15 A. Yes.

16 **Q. Thank you.**

17 MS. BRADFUTE: Thank you.

18 I would like to call my second witness.

19 HARRISON R. HASTINGS,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MS. BRADFUTE:

24 **Q. Could you please state your name?**

25 A. Harrison Hastings.

1 **Q. Mr. Hastings, who do you work for and in what**
2 **capacity?**

3 A. Cimarex Energy Co. I'm a geologist.

4 **Q. And what are your responsibilities as a**
5 **geologist for Cimarex?**

6 A. I evaluate geologic prospectivity in northern
7 Lea and Eddy Counties, specifically in areas where we
8 are actively drilling or in areas where we have
9 interests in wells drilled by other operators.

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

12 A. I have not.

13 **Q. Could you please describe your educational and**
14 **your work background for the Hearing Examiners?**

15 A. I have a Bachelor's of Science in Geology
16 granted from Texas A&M and a Master's of Science in
17 Geology also granted from Texas A&M.

18 **Q. How long have you been working?**

19 A. I've been working with Cimarex for six months.
20 I graduated earlier this year.

21 **Q. And do you belong to any professional**
22 **associations?**

23 A. Yes. I'm a member of AAPG and the Houston
24 Geological Society and the West Texas Geological
25 Society.

1 Q. And are you familiar with the application
2 that's been filed in this matter?

3 A. Yes.

4 Q. Are you familiar with the status of the lands
5 that are the subject matter of this application?

6 A. I am.

7 Q. And are you familiar with the drilling plan for
8 the Lea 7 Federal 1H well?

9 A. Yes.

10 Q. Have you conducted a geologic study of the area
11 embracing the proposed spacing unit for the well?

12 A. I have.

13 MR. BRADFUTE: Mr. Examiner, I'd like to
14 tender Mr. Hastings as an expert in geology matters.

15 EXAMINER DAWSON: Mr. Hastings will be
16 admitted as an expert in petroleum geology matters.

17 MS. BRADFUTE: Thank you.

18 Q. (BY MS. BRADFUTE) Mr. Hastings, what is the
19 targeted interval for this well?

20 A. It's the 3rd Bone Spring Sand Formation.

21 Q. And could you please turn to what's been marked
22 as Exhibit Number 6 in the notebook in front of you and
23 explain what this is to the Examiners?

24 A. This is a structure map hung on the top of the
25 Wolfcamp, which is the base of the targeted interval.

1 The acreage highlighted in yellow represents a Cimarex
2 leasehold, and the well in question is pointed out. And
3 what I want you to take away is that this well is
4 drilled along strike, and there are no geologic hazards
5 present. I'd also like to point out the location of the
6 cross section A to A prime.

7 **Q. Did you prepare a cross section of logs that**
8 **determine the relative thickness and porosity of the**
9 **formation of the area?**

10 A. I did.

11 **Q. And could you turn to what's been marked as**
12 **Exhibit Number 7 and explain this document to the**
13 **Hearing Examiners?**

14 A. This is a north-to-south cross section showing
15 the relative thickness of the 3rd Bone Spring Sand. The
16 red line represents the top of the 3rd Sand, and the
17 pink line represents the top of the Wolfcamp. The depth
18 highlighted in green represents net pay within the
19 interval, and the dashed line represents the landing
20 zone for the well in question.

21 **Q. And could you turn back to your structure map**
22 **in Exhibit Number 6 and kind of show how the structure**
23 **map correlates with the cross section that you prepared?**

24 A. Yeah. So it's a little misleading here because
25 this is a stratigraphic cross section hung on the top of

1 the 3rd Sand. But over the course of the cross section,
2 we are going downdip slightly, and that is represented
3 by how far below the 3rd Sand that the Wolfcamp top is.

4 **Q. Okay. Can you please turn to Exhibit Number 8**
5 **and explain what that document is to the Hearing**
6 **Examiners?**

7 A. Sure. This is a 3rd Bone Spring net pay map.
8 It represents porosity development within the 3rd Sand
9 across the area of interest. The wells on the map are
10 all wells in the area which have been drilled and
11 completed within the 3rd Sand. And based on the map, we
12 interpret that -- we're seeing approximately 75 to 100
13 feet of net pay across the length of the lateral.

14 **Q. And could you please turn to the second page of**
15 **this exhibit and just briefly explain what this is?**

16 A. This is a zoom-in of the same map. It
17 represents our planned development in this section in
18 the 3rd Sand, and we anticipate coming and drilling
19 three additional wells offset the well in question
20 today.

21 **Q. And when you were conducting your geologic**
22 **study of the area, did you notice any impediments to the**
23 **drilling of a horizontal well?**

24 A. I did not. There are no geologic impediments.

25 **Q. And will each quarter-quarter section that's**

1 going to be developed by the well be productive in the
2 Bone Spring Formation approximately equally?

3 A. Yes. We anticipate that being the case.

4 Q. And is horizontal drilling the most efficient
5 method?

6 A. It is.

7 Q. And will it result in the greatest recovery?

8 A. Yes.

9 Q. What conclusions have you drawn from your
10 geologic study of the area?

11 A. We've concluded that the 3rd Sand is productive
12 based on porosity development and offsetting production,
13 and we anticipate drilling economic wells within the
14 section.

15 Q. Can you please turn to what's been marked as
16 Exhibit Number 9 and explain what this document is?

17 A. This is a wellbore diagram for the Lea 7 Fed
18 Com 1H. It shows that the length of the lateral drilled
19 was a little bit over 4,600 feet, and the total vertical
20 depth of the well was approximately 11,070 feet.

21 Q. And in your opinion, would the granting of this
22 application be in the best interest of conservation, the
23 prevention of waste and the protection of correlative
24 rights?

25 A. Yes.

1 **Q. And were Exhibits 6 through 9 prepared by you**
2 **or compiled under your direction and supervision?**

3 A. They were.

4 MS. BRADFUTE: Mr. Examiner, I'd like to
5 admit Exhibits 6 through 9 into the record.

6 EXAMINER DAWSON: Exhibits 6 through 9 will
7 be admitted to the record.

8 (Cimarex Energy Company Exhibit Numbers 6
9 through 9 are offered and admitted into
10 evidence.)

11 EXAMINER DAWSON: Does that conclude your
12 questions?

13 MS. BRADFUTE: Yes, it does.

14 EXAMINER DAWSON: Mr. Brooks?

15 EXAMINER BROOKS: No questions.

16 CROSS-EXAMINATION

17 BY EXAMINER DAWSON:

18 **Q. I do have a few questions, Mr. Hastings. That**
19 **Fed 7 -- or I'm sorry -- the Lea 7 Fed #1H has been**
20 **drilled --**

21 A. Yes.

22 **Q. -- correct?**

23 How much -- do you know how much oil that
24 well's produced?

25 A. It's produced a little over 200,000 barrels.

1 Q. Okay. And so -- I probably should have asked
2 this question of Ms. Reese. The revenues from that
3 well, are they being held in an account, or is there an
4 account established for payment to those peoples -- the
5 people that are uncommitted if they do come to
6 agreement?

7 A. Yes, there is.

8 Q. Okay. And the other wells within the section?

9 A. This is the only existing horizontal well in
10 this section.

11 Q. Yes.

12 The other ones -- there are three more that
13 you said you plan on drilling?

14 A. That's correct.

15 Q. Do you have an idea as to when those wells are
16 going to be drilled?

17 A. We're anticipating drilling the second well
18 offsetting this one at the end of this year.

19 Q. Okay. Do you foresee the same entities being
20 pooled in the subsequent well?

21 MS. BRADFUTE: Mr. Examiner, there was a
22 case for the other entities previously where pooling was
23 granted.

24 EXAMINER DAWSON: Oh, okay.

25 That's all the questions I have. Thank you

1 very much.

2 MS. BRADFUTE: I'd ask this case be taken
3 under advisement.

4 EXAMINER DAWSON: Yes. Case Number 15848
5 will be taken under advisement at this time.

6 It's 9:21. We'll take a break until 9:30
7 and resume at 9:30. Thank you.

8 (Case Number 15848 concludes, 9:21 a.m.)

9 (Recess, 9:21 a.m. to 9:36 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

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters

25