1	STATE OF NEW MEXICO
2	ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
3	OIL CONSERVATION DIVISION
4	
5	In THE MATTER OF THE HEARING
6	CALLED BY THE OIL CONSERVATION
7	DIVISION FOR THE PURPOSE OF Docket No. 16-23 OCD
8	CONSIDERING:
9	Case Nos. 23448, 23449, 23450,
10	23451, 23452, 23453, 23454,
11	23455, 23594, 23595, 23596,
12	23597, 23598, 23599, 23600,
13	23601, 23508, 23509, 23510,
14	23511, 23512, 23513, 23514,
15	23515, 23516, 23517, 23518,
16	23519, 23520, 23521, 23522,
17	23523.
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1	VIDEOCONFERENCE HEARING
2	DATE: Friday, August 11, 2023
3	TIME: 8:30 a.m.
4	BEFORE: Honorable Examiner Felicia Orth
5	LOCATION: Remote Proceeding
6	Albuquerque, NM 87102
7	REPORTED BY: Jan Gibson, CCR, RPR, CRR
8	JOB NO.: 6056708
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18	ALSO PRESENT:
19	Marlene Salvidrez, Host (by videoconference)
20	John Coffman, Landman, Coterra Energy Company (by
21	videoconference)
22	Staci Mueller, Geologist, Cimarex Energy Company
23	(by videoconference)
24	Kody Murphy (by videoconference)
25	
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1	(Note: In session at 8:30.)
2	HEARING EXAMINER ORTH: This is Felicia
3	Orth. We are back for a third day in several cases:
4	23448, 23455, 23594, 233601, and 23508 through
5	23523. The principal parties are Cimarex and Read &
6	Stevens. Other parties included Foran Oil, Northern
7	Oil & Gas, Sandstone. There were some others.
8	When we broke yesterday, Mr. Rankin was
9	examining Mr. Macha. I know that we have a new
10	court reporter today, Jan Gibson. Please speak up.
11	MR. RANKIN: Adam Rankin with Holland &
12	Hart.
13	HEARING EXAMINER ORTH: Terrific. If you
14	would like to resume, unless there's some
15	preliminary matter we need to discuss?
16	MR. RANKIN: I don't believe at this time,
17	Madam Examiner. I think we can proceed, unless
18	Mr. Savage has something he'd like to raise before
19	we get started. I know we had discussed that they
20	wanted to do some surrebuttal, and I think we can
21	address that as they present it.
22	MR. SAVAGE: I agree with that.
23	HEARING EXAMINER ORTH: All right. Thank
24	you very much. Sorry, Mr. Savage?
25	MR. SAVAGE: I just said we can proceed,

1	as far as I'm concerned. Thank you.
2	HEARING EXAMINER ORTH: All right. Thank
3	
	you. Go ahead, Mr. Rankin.
4	MR. RANKIN: Thank you, Madam Examiner.
5	TRAVIS MACHA
6	(having been previously sworn, testified as
7	follows:)
8	DIRECT EXAMINATION CONTINUED
9	BY MR. RANKIN
10	Q. Mr. Macha, can you hear me okay?
11	A. Yes, sir. Can you hear me?
12	Q. I can hear you great. I'm going to share
13	my screen, and we'll pick up from where we left off
14	yesterday afternoon. Let me know when you can see
15	Exhibit I, Slide No. 2.
16	A. I can see it.
17	Q. I believe yesterday when we left off you
18	were explaining the information here on the top part
19	of this chart, the differences between the parties
20	with the orange and the blue and how this chart
21	indicates which formation they favor as well as how
22	that lines up with their working interests.
23	Now, I think what I wanted to touch on
24	before we left this slide, Mr. Macha, is if you can
25	explain what this bottom section of the chart here

	_			_
yesterday up	here on	the first c	hart, the	top chart.
reflects and	how that	relates to	what you	explained

2.5

A. Right. So obviously, we kind of summarized that top chart yesterday. Moving down to that bottom chart, I kind of just break out the Permian interest and the Permian Supporter interest, the Cimarex interest and the Cimarex Supporter interest, all out respectively. I think there are a few things to note in here. Obviously, Cimarex and Permian own a very similar interest, kind of the Bone Spring across these four sections, and Cimarex, indeed, their supporters do indeed own a bit more than Permian Supporters, so they do have a larger control in that Bone Spring pool.

However, you kind of jump over to the Wolfcamp side, you can see that that's where things change a little bit. Permian does own kind of a bit substantially larger interest in the Wolfcamp than Cimarex, as with their supporters. And the only note that I have on here is kind of just a clarification of a potential land perspective. I'm not talking about technical, that there might be a potential bias here as to why, you know, you might would rather drill the Bone Spring and deplete the Wolfcamp without taking that Wolfcamp ownership into

1 account. 2. Thank you, Mr. Macha. We'll move to the Ο. next slide here. I think a lot of this was covered 3 essentially through cross, so I don't know that we 4 5 need to spend as much time on it. But if you would, 6 just explain to us what this all means, and then at the end I'll just -- so Cimarex -- so the record is 8 clear, I believe you have a copy of each of these correspondences which have been included with this 9 exhibit; is that right? 10 11 Α. Yes. 12 So just touch on this. Explain what this Ο. 13 shows just briefly so we have it for the record. Α. I kind of broke it going from the 14 Yeah. 15 top to bottom here. The top three parties, Cimarex 16 lists as their active supporters. Challenger Crude, 17 I think, throughout this entire process has been actively, you know, stating that they're neutral. 18 19 So they have issued now three separate letters stating such, all of which are included in here. 20 Union Hill, I saw that they were listed as 21 22 a committed active supporter last week when Cimarex 23 submitted their exhibits, so I went ahead and 24 reached out because I was a little confused as he

Page 9

had stated he was neutral as well. And I got that

2.5

1 clarification in that e-mail right there. 2 Then Highland Texas, that's just one that 3 I haven't seen any evidence of that support. They might, you know, present that today, and if so, 4 5 that's great. 6 Popping over to the right side, Marks Oil, that's one that was listed as committed. I think we 7 8 talked about that might have just been a typo, but we went ahead and included that for clarification. 9 In the bottom left we can see an 10 11 assignment from Magnum Hunter to Joseph Foran back from 2004 and, you know, following those arrows, 12 13 from what we're seeing out of Cimarex's exhibits it looks as though they are crediting Foran's interest 14 15 to themselves. So I think that's just another thing 16 that we wanted to note. 17 That directly contributes what their Exhibits A10, D23 as well as their Hearing Packet 4 18 19 they have adopted as they don't have a active title opinion in the Wolfcamp, they adopted our Wolfcamp 20 21 ownership so Foran does pop up there as well. 22 Thank you, Mr. Macha. Now, there's Ο. 23 another set of slides here. If you would, just 24 These look similar to each other, number explain. 25 one. And then they also look similar to what was in

1	your direct testimony, I believe under Exhibits C8
2	and C9. Would you explain what these are and the
3	difference between these and what you submitted with
4	your direct testimony and why they are here?
5	A. Right. So this kind of this and the
6	next seven slides, they are complimentary to the
7	original division of interest that we broke out by
8	leasehold. And again, Cimarex kind of raised an
9	issue with us doing leasehold-based interest, so
L 0	here we just went ahead and supplemented the
L1	contractual, just for the reason if whatever the OCD
L 2	would prefer to see, whether that be leasehold or
L 3	contractual, that they have both interests broken
L <b>4</b>	out here.
L 5	And as a reminder, the red bars indicate
L 6	owners who own a different interest between the Bone
L 7	Spring and the Wolfcamp. The blue bars indicate
L 8	owners owning a uniform interest between the Bone
L 9	Spring and Wolfcamp.
20	Q. And you have done this for each space unit
21	so examiners can compare this against the leasehold
22	interest you did? You prepared it?
23	A. That is correct.
24	Q. Great. So this is one for each of the
25	contractual interests?

Τ	A. Yes, sir.
2	Q. Now, Mr. Macha, we included this here. I
3	had forgotten that we'd already submitted this so I
4	apologize. But this essentially is just the letter
5	that was supplemental Exhibit C12 where Chase is
6	indicating its support or concerns and maybe
7	potentially support about developing the Wolfcamp.
8	They are referring specifically to a statement that
9	was made by Northern Oil & Gas. Can you let us
10	know, what was it that Northern Oil & Gas what
11	statement did they make?
12	A. I think Northern was primarily concerned
13	with kind of disregard for the Wolfcamp and concern
14	that there was no true appraisal of that Wolfcamp.
15	So in the interest of protection of correlative
16	rights as well as the possibly more lucrative
17	development, they issued a letter that they did
18	support the exploration of a co-development
19	strategy. Chase here has adopted that statement as
20	well.
21	Q. And Northern's statement is found at
22	Exhibit C12, Page 9 of that exhibit; is that right?
23	A. That is correct.
24	Q. And then these show the supporting the
25	following pages are just the supporting
	Page 12

1 correspondence that you highlighted in the previous slide under Exhibit I? 2. Yes, sir. That's correct. All this is 3 Α. just backup documentation. Obviously, we're not 4 5 hiding anything, so this is all the evidence of 6 such. Now, the last thing in that packet that I Ο. 8 wanted to touch on that came up in the interim here, Mr. Macha, is a letter that was submitted to the 9 10 division by E.G.L. Resources. Can you explain what 11 this letter is and how you got a copy of it and what 12 your understanding of E.G.L. Resources' concerns 13 are? E.G.L. is the operating entity for PBEX, 14 Α. 15 and they have been actively following this case. 16 The first I heard from them was actually on July 17 20th, I think the day that we were supposed to have 18 this hearing. They reached out. They kind of 19 wanted some clarification as to what was going on as to, you know, why Cimarex was trying to preclude the 20 21 development in the Wolfcamp. And they, in turn, 22 issued this letter as they themselves have an 23 operated tract in the area that they are pursuing 24 co-development, and they have concerns that the 25 precedent set if Cimarex's case was to be adopted

1	would be applied to this area as a whole and
2	potentially elsewhere.
3	Q. And Mr. Macha, the next image, explain
4	what that shows and how this relates to the letter
5	you just reviewed.
6	A. Right. It says "PBEX Leasehold." Like I
7	said, E.G.L. is the operating arm of PBEX. So as
8	you can see, we have kind of discussed the Batman
9	project in this right offset, the Joker Bane, and
10	then PBEX's leasehold is just one section to the
11	west of that. And we are viewing that as fairly
12	analogous geology as well.
13	Q. Thank you. That was everything,
14	Mr. Macha. Is there anything else, in terms of
15	land, by way of Mr. Coffman's exhibits that you want
16	to touch on?
17	A. I don't think so. I think we pretty much
18	covered it.
19	Q. Thank you very much. Let me make sure I
20	covered everything myself. We did. With that,
21	Madam Hearing Officer, I have no further questions
22	of Mr. Macha at this time, and we will offer him for
23	cross-examination by counsel and the Division.
24	HEARING EXAMINER ORTH: Thank you very
25	much, Mr. Rankin. Mr. Savage, do you have questions
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1	of Mr. Macha?
2	MR. SAVAGE: I do, Madam Examiner.
3	CROSS-EXAMINATION
4	BY MR. SAVAGE
5	Q. Mr. Macha, as I ask these questions, if
6	there's anything you don't understand or didn't
7	hear, please ask me to repeat it. And good morning.
8	I appreciate your attention and consideration of
9	these questions.
LO	Do you have access, just to make sure we
L1	have everything that will be available to be viewed,
L2	do you have access to Cimarex's Hearing Packet 1
L 3	that has John Coffman's landman's statement?
L4	A. Yes, I have paper copies.
L 5	Q. Okay. I just want to make sure we have
L 6	all that up front so we're not you know, I fumble
L7	around on my end quite a bit trying to find stuff on
L 8	the fly.
L9	So you have that. And then, of course,
20	you have your testimony and exhibits and the
21	rebuttal. Do you, by chance, have a standard
22	pooling order, a typical pooling order at your
23	fingertips?
24	A. I don't have a standard pooling order at
25	my fingertips.

1	Q. I may be able to share that then when we
2	get to that point.
3	A. If you would like me to get one.
4	Q. I think we can I don't like using the
5	share option, but I can do that if needed. And do
6	you have a copy of Permian Resources' response to
7	Cimarex's brief? If not, I can share an excerpt
8	from that, I believe.
9	So let's go ahead and start with those.
10	So if I can direct your attention to Exhibit I, and
11	this is Page 5 of 44 on the rebuttal exhibits. And
12	that's where the underlying citations are. Do you
13	see that?
14	A. Page 5? Give me just one second.
15	Q. That's Page 5 of the PDF and that's the
16	page that has the underlying exhibits where you
17	point out that they are not Bone Spring only, but
18	there's complementary applications that reference
19	the Wolfcamp. You're familiar with that exhibit?
20	A. I'm familiar with I being this
21	(indicating).
22	MR. GARCIA: Mr. Savage, I lost you. Are
23	we on rebuttal exhibits?
24	MR. SAVAGE: We are on rebuttal exhibits,
25	Mr. Garcia.

1	MR. GARCIA: Thank you.
2	Q. That's one of the Exhibit Is. Above that.
3	Does your Exhibit I start with the Brief Historical
4	Timeline and there's a Cimarex brief rebuttal?
5	A. Yes.
6	Q. Okay.
7	A. Brief rebuttal is what you're talking
8	about?
9	Q. Brief rebuttal is the one I'm interested
10	in.
11	A. Okay, yes.
12	Q. In your testimony, you wondered what the
13	intention of those cites were; is that correct?
14	A. Yes, sir.
15	Q. And I understand that. Would you accept
16	that it was an error that arose while writing a
17	brief on a short deadline and that they should have
18	a notice of errata?
19	A. Yeah, absolutely. We are all human,
20	right?
21	Q. Yes. And I appreciate that. But it was
22	an attempt to make a point. And I want to
23	understand what P.R.'s inventory is regarding Bone
24	Spring units in this area. You're fully familiar
25	with Permian Resources' inventory in this area of
	Page 17

1	interest?
2	A. I would say I'm familiar with all of the
3	target formations. As for actual inventory, that
4	would be an engineering or geology question.
5	Q. Okay. In your direct testimony, in the
6	Paragraph 31 of your testimony, you say that Permian
7	Resources had been active in the area of interest
8	for about three years; is that correct?
9	A. Three years would be about right. I would
10	say more two-ish.
11	Q. Okay. I believe you used the exact
12	term you used was 36 months.
13	A. Okay, yeah. Most active operator in the
14	last 36 months, correct.
15	Q. Okay. I was looking around at the OCD map
16	last night and I came across Permian Resources North
17	Lea Wells, Nos. 1, 2 and 3, and you're familiar with
18	those, correct?
19	A. Correct.
20	Q. You got those from Read & Stevens, it
21	looks like?
22	A. Correct. We did not drill those.
23	Q. Right. But I looked at that map closely
24	after my little miscitation, and it looks like those
25	are all Bone Spring units; is that correct?

1	A. That is correct.
2	Q. Okay. So we do have one reference in here
3	that is Bone Spring. And then in your testimony
4	let's see here you say that Permian Resources in
5	the past 36 months has drilled four Bone Spring
6	wells and one Wolfcamp well. Is that an accurate
7	statement? That's Paragraph 31.
8	A. That is correct. Permian Resources.
9	Q. Okay. Do you remember the go ahead.
10	A. Being the Batman wells.
11	Q. Oh, those are the Batman wells. Okay. So
12	those are ones that you do claim co-development on
13	those?
14	A. We did the appraisal of the co-development
15	in the Wolfcamp while it was a stand-alone third-run
16	test.
17	Q. Okay. Let's see here. Okay. So let me
18	see if I can pull up the response. If you can bear
19	with me just a minute here. You don't, by chance,
20	have a law background as a landman?
21	A. No, I do not.
22	Q. I was curious about that. I'll see if I
23	can share this. Hold on just a minute.
24	MR. SAVAGE: Madam Examiner, I'm having a
25	little technical difficulty. Could I get my IT
	Page 19

1	person?
2	HEARING EXAMINER ORTH: Oh, yes.
3	MR. SAVAGE: I'm sorry. This is the first
4	time I have tried to share this. Hold on.
5	(Note: A discussion was held off the
6	record).
7	MR. SAVAGE: So I cannot share this
8	apparently under the current settings. So I will
9	have to set this up after a break.
10	Q (By Mr. Savage) So I'm going to
11	Mr. Rankin can verify this, if there's a question,
12	whether or not this is accurate, okay, Mr. Macha?
13	So in this Permian response, Permian states on Page
14	6 of this response, "Nor is there any basis to
15	conclude, from the language of the Act," and that's
16	the Oil and Gas Act, "that drainage is somehow
17	distinct from production for the purposes of
18	assessing impairment of correlative rights."
19	Do you understand that language, what
20	they're saying?
21	A. I would think I understand, but I would
22	defer legal questions.
23	Q. Okay. Let me just in plain language,
24	as I understand this, is that Permian Resources is
25	arguing there's no difference between drainage and

1	production in regards to correlative rights. Do you
2	agree with that?
3	A. Can you direct me to the exact language so
4	I can read it?
5	Q. So it says, "Nor is there any basis."
6	A. I see.
7	Q. "Nor is there any basis to conclude from
8	the language of the Act that drainage is somehow
9	distinct from production for the purposes of
LO	assessing impairment to correlative rights."
L1	So do you agree that basically, generally,
L 2	and there may be legal nuances, but generally
L 3	drainage is the same as production?
L 4	A. I would say production is what's coming
L 5	out of your wellhead. Drainage is what you are
L 6	capturing, right? But with that said, I mean, here
L 7	you're talking about correlative rights. I mean,
L 8	it's the protection of everybody's right to produce
L 9	their minerals.
20	Q. And what's being drained ends up coming
21	out of the wellhead; would you agree with that?
22	A. Everything that you are attributing to
23	your interest in your wellbore comes out of your
24	wellhead.
25	Q. And you were present yesterday when your

1	geologist, Mr. Bradford, confirmed that there was no
2	baffles between the Third Bone Spring and the Upper
3	Wolfcamp that there is in this area, subject lands,
4	that there's going to be some percentage of
5	drainage? Do you agree with that?
6	A. Yes. I think he clarified that that is a
7	common occurrence across a lot of Lea County.
8	Q. So it's a common occurrence across a lot
9	of Lea County. So that would be a common occurrence
LO	in the North Lea wells?
L1	A. That's potentially correct.
L2	Q. So let's assume that one of the North Lea
L3	wells drains a certain percentage of the Upper
L 4	Wolfcamp, and an owner in the Upper Wolfcamp comes
L 5	to Permian, comes to you and says, "Based on Permian
L 6	Resources' position, you're producing my minerals
L7	and I have a right to payment." Would you agree?
L 8	Would Permian Resources pay that owner?
L 9	A. I would say that there were no active debt
20	severances. When those wells were drilled, all
21	owners were noticed appropriately and all owners
22	participated or not consented as they chose.
23	Q. Okay. So let's say Permian Resources has
24	a Bone Spring unit. And this is an assumption, this
25	is hypothetical. And you agree that there is a lot

1	of severances in this area between the Bone Spring
2	in many areas and the Wolfcamp, correct?
3	A. That is a common occurrence, especially in
4	the Joker and Bane.
5	Q. Okay. So let's assume that Permian
6	Resources does have a Bone Spring unit, only unit,
7	in an area where there is severances, and one of the
8	owners of the Upper Wolfcamp comes to Permian and
9	says, "I have more interest in the Wolfcamp, and
LO	you're producing my minerals, and I have a right to
L1	payment." What about in that situation? Would
L 2	Permian Resources pay the owner?
L 3	A. I think that would be a legal question
L <b>4</b>	that I'm not prepared to answer.
L 5	Q. Okay. That's fair. Would you say that
L 6	the other option, an option would be that Permian
L 7	Resources has a pooling order issued by the Division
L 8	for the Bone Spring, and it's producing from the
L 9	Bone Spring as defined by the Bone Spring and
20	therefore would not be liable for the drainage? Do
21	you think that would be an option?
22	MR. RANKIN: Madam Hearing Officer. I
23	think this is treading on to asking for legal
24	conclusions about liability and how that plays out.
25	I understand where Mr. Savage is going. I mean, I
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1	landman, you received a pooling order from the
2	division. Do you, in your layman experience and how
3	you've dealt with orders and landowners, do you
4	think it would be a fair response or at least an
5	option to say that we have a bona fide order from
6	the Division that pools the Bone spring and we are
7	paying on production in the Bone Spring and that is
8	all that we have to do or are obligated?
9	A. I would say, yeah, that's mostly correct.
10	I also would say if the Wolfcamp owner has an issue,
11	they have the right to go drill their own well or do
12	whatever they want to.
13	Q. I thank you for that. That is a fair
14	sounds like a fair answer.
15	You talk in your testimony, direct
16	testimony, that you applied for development areas in
17	the potash area; is that correct?
18	A. That is correct.
19	Q. Had you applied for permits for the Bane
20	and Joker wells?
21	A. No, we have not because we are following
22	the BON OC rule.
23	Q. Okay. And you're aware that Cimarex has
24	applied for permits as well has applied for
25	permits? Are you aware of that?

1 Yes, I am aware. Α. 2 If my math is correct, and correct Ο. Okay. me if I'm wrong, but it looks like you're pooling in 3 your applications 48 wells; is that correct? 4 5 That is correct. And I'm trying to get a grasp on the 6 Ο. 7 timeline for these 48 wells, but you were present 8 during Mr. Bradford's testimony. He said it was going to take several years? 9 10 Α. Correct. 11 Okay. And so you agree that that's a fair Ο. 12 estimate of a timeline? 13 Yes. Α. In your packet in your exhibits, you have 14 Ο. 15 the well applications, correct? 16 Α. Yes. 17 Q. And you're familiar with well applications --18 19 Α. Correct. 20 Ο. -- from the past. Let's see here. Do you 21 agree that all the 48 wells were proposed in the applications as initial wells? 22 23 Α. Correct. 24 And even though you don't have a copy of 25 the standard pooling order, could you get a copy Page 26

1	real quick? Would that be something you could pull
2	real quick? I'm wondering, I can't share the order,
3	but I can read the passage that I'm interested in
4	discussing.
5	A. I can read it. I'm not going to be able
6	to pull it up.
7	Q. That's fair enough. Let me see if I
8	can okay. So this is an order?
9	MR. RANKIN: Mr. Savage, what order
10	number?
11	MR. SAVAGE: This is a Cimarex order I had
12	on my computer. And I checked it against several
13	orders. It's for Case No. 22893, Order No. R22343,
14	and this was an uncontested case so this is a very
15	simple pooling case.
16	Q. Under the order, Paragraph 19, and this
17	looks to me like standard language, it says, "The
18	operator shall commence drilling the wells within
19	one year," and it's wells plural. "The operator
20	shall commence drilling the wells within one year
21	after the date of this order and complete each well
22	no later than one year after the commencement of
23	drilling the well." Do you understand that?
24	A. Yes, I do.
25	Q. So, for example, in some of your
	Page 27

1	applications for the Bone Spring, you propose
2	multiple wells, correct?
3	A. Correct.
4	Q. And I can't remember exactly the total
5	number, but it was quite a few. Over five; is that
6	correct in a particular application?
7	A. Can you repeat that?
8	Q. At least five in the Bone Spring
9	applications, correct? I can pull up the
10	application, but it was a handful?
11	A. Yeah.
12	Q. Okay. So if I'm reading this correctly,
13	this says you have one year. You have to commence
14	the drilling of the wells, and those are all
15	proposed as initial wells, correct? Within one year
16	after the date of the order. Is that correct? Is
17	that a correct reading of that?
18	A. So I think what you're getting on is, are
19	we going to drill every single well within a year?
20	What I would say
21	Q. That's actually not what I'm getting at.
22	Let me finish what I'm getting at and then I'll let
23	you have the opportunity to elaborate or explain.
24	But in Paragraph 20 it says, "This order shall
25	terminate automatically if operator fails to comply

1	with Paragraph 19, unless operator obtains an
2	extension by amending this order for good cause
3	shown."
4	That's standard language in a pooling
5	order, correct?
6	A. To my understanding.
7	Q. Okay. So as I understand how these read
8	together, it looks to me like if this language is
9	enforced as written, if it's enforced as written, if
10	you do not commence all the wells in the application
11	within one year then this order would terminate
12	automatically, correct?
13	MR. RANKIN: Madam Hearing Officer. I
14	just want to interject here for a moment.
15	Mr. Savage, as I understand, is asserting that
16	division pooling orders require all initial wells to
17	be drilled within the time frames. The Division, as
18	I understand, does not take that position. It's
19	only to perfect an order one well is needed to be
20	drilled. I think this is getting down a rabbit hole
21	into the legal issue.
22	HEARING EXAMINER ORTH: All right.
23	MR. SAVAGE: Madam Examiner, I'm just
24	pointing out that if this language, as written, is
25	enforced as written, then it looks like an order may

1	be terminated automatically. Now, the OCD may have
2	full discretion to not enforce it or to allow it to
3	be perfected by one well. I don't see that in the
4	order, so I'm raising a question about if Permian
5	Resources has created a risk about their being able
6	to not only complete all 48 wells within their own
7	timeline but, you know, also within the plain
8	language of the order that's issued.
9	HEARING EXAMINER ORTH: Okay. And I
LO	understand the point you're going for here. I'm
L1	just wondering, though, if you have laid enough of a
L2	foundation with Mr. Macha that let's see, he has
L3	experience with the division in a variety of ways.
L 4	They write orders so that one well has to be drilled
L 5	within a year or all wells have to be drilled within
L 6	a year. I guess I haven't heard yet that Mr. Macha
L7	has personal knowledge of the basis for those kinds
L 8	of decisions.
L9	MR. SAVAGE: May I continue trying to lay
20	that foundation?
21	HEARING EXAMINER ORTH: Yes, yes.
22	MR. SAVAGE: Okay.
23	Q (By Mr. Savage) Mr. Macha, as the language
24	is written, do you agree there may be a risk that
25	the order could be terminated under the language as

1	expressed?
2	A. I would say the language is a little
3	confusing, but historically speaking, I have never
4	seen any case where an order has been terminated
5	after they have only drilled one or two or three of
6	the initial wells and not all of them.
7	Q. And you could agree that you could ask for
8	an extension; is that correct?
9	A. That's correct.
10	Q. And the criteria for an extension, that's
11	good cause; is that correct?
12	A. The criteria for an extension
13	Q. To get an extension approved you would
14	have to show good cause?
15	A. Yes.
16	Q. If you knew at the time that you made the
17	application that you would not be able to if you
18	knew at the time or had knowledge that you were not
19	able to drill the well within a year and yet you
20	went ahead and filed the application, do you think
21	that would qualify as good cause?
22	A. Yes.
23	Q. Okay. If you were not able to drill as
24	I remember, do you remember your engineer,
25	Mr. Fechtel, talking about whether or not they would

1	actually drill these wells that were applied for and
2	proposed, and Mr. Bradford also saying that there
3	may be a possibility that you would not drill the
4	wells as proposed? Do you remember those comments?
5	A. Yes.
6	Q. So if you chose which wells to drill and
7	which wells not to drill, which ones would you do
8	first?
9	A. It's currently the intent to do the Third
L O	Bone Wolfcamp A co-development first. That's what I
L1	can tell you. Other than that, the geology and
L 2	engineering drives are well-planning decisions, not
L 3	land.
L <b>4</b>	Q. So it sounded to me like the engineer, if
L 5	I remember right, he even said there may be a
L 6	possibility that you wouldn't drill the Wolfcamp if
L 7	you drilled the Third Bone Spring first and tests
L 8	came back that it looked like it was sufficient?
L 9	A. As you probably remember as well, he said
20	that is extremely unlikely.
21	Q. Okay. In your testimony, you have
22	requested edits to the well election language to
23	give owners a little bit more time to make the
24	election; is that correct?
25	A. So it's not just a little more time.

1	Under the standard compulsory pooling order, an
2	operator, if they pooled, let's say, 48 wells, an
3	operator would have the liberty to cash-call for all
4	48 wells immediately upon receiving that order. The
5	intent of this is to, in good faith, say we will not
6	cash-call anyone unless it is actively going to be
7	spud within 60 days.
8	Q. Okay. I understand that. Thank you. But
9	you are proposing and budgeting for all 48 wells.
LO	So even though this election language provides that
L1	kind of relief to the owners as to when they would
L2	have to pay, isn't the overall burden of payment or
L3	the imposition of risk penalty still the same, it's
L 4	for all 48 wells?
L 5	A. That's correct. And they also have the
L 6	liberty to consent or non-consent at their well.
L7	Q. That's correct. If they do a non-consent
L 8	they would probably get nothing for their interest
L 9	because it would be subject to the risk penalty; is
20	that correct?
21	A. That or they can sell the wellbore. They
22	can do whatever they would like.
23	Q. Okay. Let's look at our Exhibit 1, Brief
24	Historical Timeline. Do you have that in front of
25	you?

1	A. Yep.
2	Q. Okay. So I was looking through the
3	timeline, and I'm a little confused by the box that
4	say,s, "2018 to present, Read & Stevens operatorship
5	and tested by Cimarex." You've looked at the
6	landman's Cimarex's landman's testimony and
7	exhibits, correct?
8	A. Correct.
9	Q. Did you see Exhibit 8? Do you have that
L 0	in front of you, Exhibit A8 that's part of his
L1	testimony?
L 2	A. Is that the first packet?
L 3	Q. Yes. I asked that be Hearing Packet 1 to
L <b>4</b>	keep things simple. I'm trying to scroll down.
L 5	A. It's the summary judgment on the motion.
L 6	Q. That's correct. Who was the plaintiff in
L 7	that?
L 8	A. The plaintiff would be Read & Stevens.
L 9	Q. Okay. And basically, in this, if I
20	understand it, they were it was actually Hunter
21	Magnum, but that's a proxy for Cimarex. I'm just
22	going to use the term "Cimarex." So Cimarex was
23	wanting to be the operator under this existing 1979
24	operating agreement; is that correct?
25	A. That is correct.

1	Q. And Read & Stevens came along and instead
2	of Cimarex challenging Read & Stevens, Read &
3	Stevens challenged Cimarex and said, "You can't be
4	operator," is that correct?
5	A. To my understanding from my
6	understanding, that's probably correct. I did not
7	work for Read & Stevens at the time. I was not
8	personally acquainted with this stuff, so I can't
9	speak directly to the facts.
10	Q. That's fair enough. You can pick up the
11	last sentence on Exhibit A8. And am I correct that
12	it says, "Plaintiff's motion for partial summary
13	judgment holding that Magnum Hunter has for viable
14	right to serve as operator under the 1979 operating
15	agreement is denied"?
16	A. Correct.
17	Q. So basically
18	MR. SAVAGE: I'm getting an echo, Madam
19	Examiner.
20	Q. So basically that is saying that Cimarex
21	does have a right to be an operator under that.
22	A. This is not the only summary judgment they
23	issued. I believe there's one in 2017 that stated
24	that, indeed, Cimarex theoretically could be the
25	operator of that JOA, as with anybody else subject

1 to that JOA. 2. In your understanding of this, and I Ο. realize you weren't there at the time, but did not 3 Cimarex win the election to be operator after that 4 5 summary judgment? 6 I personally have not ever reviewed any elections, so I would have to defer to Cimarex's 7 8 documentation on that. Okay. Well, would it be fair to say that, 9 Ο. at least that based on what you can see from this 10 11 history, that Read & Stevens looks like 12 intentionally made it difficult for Cimarex? 13 Yeah. I mean, I do understand, just Α. looking at the historical timeline, they are the 14 15 only ones that drilled wells in those four sections 16 in the past 20 years, so I understand they were 17 probably wanting to protect that is operatorship. 18 And you understand, based on Cimarex's Q. 19 landman's description of their history of development over numerous sections as a pioneer 20 21 since 2010, that they also had a big stake in this 22 area as well? Do you agree with that? 23 Α. I would say "pioneer" is a strong word, 24 but yes, they have a large position. 2.5 0. Okay. Thank you. Let's see. Okay. Page 36

1	Let's go to your Exhibit I, Page 4 of 44. This is
2	the contractual versus leasehold summary that we
3	just that you looked at briefly just a moment
4	ago.
5	A. Yes.
6	Q. Okay. So looking at this, looking at the
7	bottom line and going across from left to right in
8	the Bone Spring, let's look at the Bone Spring
9	first, the total tally is that Permian Resources
L O	controls 875.74 acres or a 21.12 percent working
L1	interest, correct?
L 2	A. Correct.
L 3	Q. And Cimarex exceeds that amount by
L 4	controlling 1287.03 acres or 50.23 percent working
L 5	interest; is that correct?
L 6	A. That would be correct.
L 7	Q. So it's clear that Cimarex controls the
L 8	working interest in the Bone Spring, correct?
L 9	A. I would say they have a majority interest
20	of the support in the Bone Spring, correct.
21	Q. Okay. So then let's look at the bottom
22	line of the Wolfcamp. You show Permian Resources
23	controlling 1011.59 acres or 39.4 percent working
24	interest, correct? That's Permian Resources?
25	A. Yep.

1	Q. And Cimarex exceeds that amount by
2	controlling 1070.97 acres or 41.80 percent working
3	interest, correct?
4	A. That's correct.
5	Q. So one of the main things you can get from
6	this table, sounds like you get a number of things,
7	but ultimately, it's that Cimarex controls the
8	majority working interest in both the Bone Spring
9	and the Wolfcamp, correct?
LO	A. Yes, they have a larger control.
L1	Obviously
L 2	Q. Okay. Thank you. I appreciate the answer
L 3	on that. That's the answer he was looking for. Are
L <b>4</b>	you familiar with the term assignment that Cimarex
L 5	received from the Hudson Group?
L 6	A. Which, the Delmar Hudson? Or John
L 7	referenced they might have received a Josephine
L 8	Hudson Trust recently.
L 9	Q. This is, looks like, a term assignment
20	that covers Javalina, Zorro, Delmar, Josephine
21	Hudson Trust, Highland Texas, Cimarex and Shelton,
22	Lindys Trust and William Hudson and a term
23	assignment. And it looks like they support Cimarex?
24	A. I'm not aware of a term assignment from
25	Javalina or Zorro or Moore & Shelton to Cimarex.

1	Q. Okay. So assuming it was, it is, and that
2	this is what our landman informs us is the case,
3	that it's a term assignment and it's a done deal, as
4	I have been informed, that would add additional
5	acreage to Cimarex, correct?
6	A. That would be correct if that's the case.
7	Q. Okay. And, you know, it's not 50 percent
8	more, but it's a handful of acres additionally in
9	that regard?
10	A. Yeah, I would say that's all taken into
11	account in the total Cimarex support already.
12	Q. Okay. So my numbers differ from that. I
13	show numbers based on that term assignment to be
14	more that you did not take into account by the term
15	assignment. You say you did not know about it,
16	correct?
17	A. Yeah, but I'm adding that Cimarex-owned
18	plus Cimarex Support for that total Cimarex Support
19	number.
20	Q. Okay.
21	A. Javalina, Zorro, Moore & Shelton, they
22	have all been taken into account as Cimarex
23	supporters.
24	Q. Did you happen to be present when
25	Cimarex's engineer gave his testimony?

1	A. Yes.
2	Q. Could I ask you to go to Exhibit D22 as
3	part of the engineer's testimony? And I'm going
4	to let's see here. Did you see that Exhibit D22?
5	A. I'm pulling it up.
6	Q. Okay. I know it's a lot to flip through,
7	1200 pages or so.
8	A. E22, yes.
9	Q. D22.
10	A. Yep.
11	Q. Okay. So looking at this, D22, so on your
12	table in Exhibit I, you point out that HOG
13	Partnership has a little bit more acreage, 166
14	acres, in the Wolfcamp and a little bit less acres
15	in the Bone Spring. That's 142 acres, correct?
16	A. That is correct.
17	Q. And based on that, you're saying that
18	Cimarex is biased towards the Bone Spring. I mean,
19	the accumulation of those deltas is your basis for
20	saying that Cimarex is biased towards the Bone
21	Spring, correct?
22	A. I wouldn't say the additional Wolfcamp
23	owners by other parties; I would say the additional
24	Bone Spring acres by Cimarex would be biased.
25	Q. So HOG would be disadvantaged in Cimarex's

1 plan, in your view? 2. Speaking towards correlative rights, yes. Α. If you look at D22, this is part of a Ο. series of exhibits where Cimarex points out that, 4 5 take HOG as an example, where HOG -- even though HOG 6 owns less in the Bone Spring, if Cimarex's plan payment prevailed, based on this exhibit, do you 8 agree that this exhibit shows that HOG would get 9 \$45,000 per acre under Cimarex's plan and HOG would get \$15,000 per acre under Permian's plan? 10 11 That is Cimarex's math. That is correct. 12 It is, it's Cimarex's math. But do you Ο. 13 understand that that's derived from the massive 14 costs that Permian's plan imposes upon the working 15 owners? 16 Α. So I can't speak to that assumption, but I 17 would say that it's also -- you know, they are assuming economics on the Wolfcamp that are 18 19 probably, pursuant to our engineer's testimony, probably flawed. 20 21 Okay. But do you agree that massive Ο. 22 amounts of cost imposed upon a working interest is 23 going to reduce their revenue that they receive for 24 their working interest? 2.5 Assuming -- no, I don't think that's the Α. Page 41

1	case. If you're drawing a lot of wells that are all
2	economic, you're going to make a lot of money.
3	Q. You heard Mr. Bradford talk about the
4	amount that would be produced from the Wolfcamp is
5	probably more minimal than significant? Do you
6	agree with that?
7	A. I would not agree with that, and I'm not
8	going to speak to the geology or engineering, but
9	the Wolfcamp, as per testimony, has been proven to
10	be a viable target.
11	Q. So would you agree let's assume that
12	two operators are going to produce comparably the
13	same amount from production, okay? That's an
14	assumption. If one of the operators imposes 50
15	percent more costs than the other operator, wouldn't
16	the working interest owners, under, let's say,
17	Operator A, who imposed 50 percent more costs,
18	receive less revenue for their working interest than
19	under Operator B?
20	A. Hypothetically, yes.
21	Q. All right. Thank you. So everybody, all
22	the owners that own in the Wolfcamp also own in the
23	Bone Spring except for two?
24	A. That is correct.
25	Q. That's correct? Okay. And can you tell
	Page 42

1	me how much those two individuals, each one owns?
2	Let's say net acres?
3	A. Yeah, so 1.6 acres each.
4	Q. So that's a pretty small amount, would you
5	agree?
6	A. I would say you can't discount the small
7	owner.
8	Q. So Permian Resources is going to drill \$95
9	million worth of Wolfcamp wells to account for 1.6
10	acres each?
11	A. That's not why we are drilling the wells.
12	We are drilling them because we think it's an
13	economic target and we want to make money.
14	Q. But doesn't Cimarex also claim that
15	drilling the Third Bone Springs is just as much an
16	economic target and would produce the same amount of
17	production?
18	A. I would say Cimarex does not have a
19	co-development test in the area so they are relying
20	on assumptions and third-party data.
21	Q. Okay. But Cimarex did provide an ERU
22	amount, correct, in their exhibits?
23	A. Are you referring to the Parry wells?
24	Q. Well, their derivation of what the EUR
25	would be as applied to the subject lands. They did
	Page 43

1	project that information, correct?
2	A. I'm not sure. I haven't as thoroughly
3	reviewed the engineering as I have the land.
4	Q. Okay. Have you reviewed your engineering?
5	A. Yes.
6	Q. Did your engineering project a EUR?
7	A. I believe so.
8	Q. What was that EUR?
9	A. I don't remember off the top of my head.
10	Q. So we really don't know if they did or
11	not, correct?
12	A. You can ask our engineer.
13	Q. Thank you. Hold on. Let me check my
14	notes here. Let's go to Exhibit I where you have
15	those bar charts. I'm just going to look at one of
16	them here. So I'm looking at Page 9 of 44 on the
17	PDF and this is the east half west half.
18	A. East half west half of Joker or Bane?
19	Q. Joker. Do you see that?
20	A. Yep.
21	Q. Okay. So your point is, is that in the
22	Bone Spring, Magnum Hunter, Cimarex has the larger
23	bar, and as you point out, if I'm correct, that's
24	because they focus on the Bone Spring, correct? And
25	Read & Stevens has a little bit less in the Bone
	Page 44

1	Spring, correct?
2	A. Correct.
3	Q. And then in the Wolfcamp, Magnum Hunter
4	has less, 14 percent, and then Read & Stevens has a
5	little bit more, correct?
6	A. Correct.
7	Q. But you do not account in here for the
8	support that each one has, right, on those bars?
9	A. No, I have summarized that elsewhere.
10	Q. Okay. So the support, as I understand it,
11	comes from each one of these other little small
12	bars?
13	A. Correct.
14	Q. Okay. Across. Both in the Bone Spring
15	and the Wolfcamp. I haven't gone through and
16	calculated exactly, but considering that Magnum
17	Hunter has the majority support, or Cimarex has
18	majority support in the Wolfcamp, if you took these
19	and stacked them onto the Magnum Hunter, that bar
20	would actually be significantly longer, would you
21	agree?
22	A. Significantly? I mean, like I said, we
23	have summarized
24	Q. Okay. So when you account for that,
25	you're looking at and you know, Cimarex does have

1	majority working interest in the Wolfcamp. You
2	agree, right?
3	A. I would say them plus their supporters
4	have a larger working interest in the Wolfcamp,
5	correct.
6	Q. Correct. So those two bars, if you added
7	that, accounted for the additional support, it would
8	look like that with the little bar for Magnum Hunter
9	and the big bar for Read & Stevens. It would
10	actually look more comparable, correct?
11	A. Yes. The illustrations here are meant to
12	be informative, not biased either way. This is raw
13	data.
14	Q. And Magnum Hunter might even exceed, if
1 =	
15	you added the support as an illustration?
16	you added the support as an illustration?  A. Correct.
16	A. Correct.
16 17	A. Correct. Q. Let's go to your exhibit, the various
16 17 18	A. Correct.  Q. Let's go to your exhibit, the various letters of support that you mentioned. Challenger,
16 17 18 19	A. Correct.  Q. Let's go to your exhibit, the various letters of support that you mentioned. Challenger, Union Hill. Highland Texas, I don't believe, had
16 17 18 19 20	A. Correct.  Q. Let's go to your exhibit, the various letters of support that you mentioned. Challenger, Union Hill. Highland Texas, I don't believe, had ever supported Cimarex. Do you agree with that?
16 17 18 19 20 21	A. Correct.  Q. Let's go to your exhibit, the various letters of support that you mentioned. Challenger, Union Hill. Highland Texas, I don't believe, had ever supported Cimarex. Do you agree with that?  That was one of the mistakes that Mr. Rankin pointed
16 17 18 19 20 21 22	A. Correct.  Q. Let's go to your exhibit, the various letters of support that you mentioned. Challenger, Union Hill. Highland Texas, I don't believe, had ever supported Cimarex. Do you agree with that?  That was one of the mistakes that Mr. Rankin pointed out. Do you agree with that?
16 17 18 19 20 21 22 23	A. Correct.  Q. Let's go to your exhibit, the various letters of support that you mentioned. Challenger, Union Hill. Highland Texas, I don't believe, had ever supported Cimarex. Do you agree with that?  That was one of the mistakes that Mr. Rankin pointed out. Do you agree with that?  A. Per my understanding, that's correct.

1	know, their interest, they don't particularly have a
2	working interest in here. You agree with that?
3	They are interested, as you point out, in the
4	precedent. They are a little ways away, correct?
5	A. Yes.
6	Q. Okay. So would you agree that if they
7	happen to present a superior co-development plan
8	against the challenge, that they could prevail on
9	the merits even if Cimarex prevailed on the merits
10	in this case, correct?
11	A. I would potentially assume that.
12	Q. Okay. So really, precedent, it's really
13	not a significant concern considering that you have
14	an opportunity to show if you do have a
15	co-development plan that's superior, you do have an
16	opportunity to show that to the division?
17	A. I would say the precedent is somewhat
18	dangerous regardless.
19	Q. So given that you took these changes,
20	these transitions to neutrality, you took those into
21	account in your final tally on working interest?
22	A. That's correct. In mine, yes.
23	Q. So even with those minor shifts, Cimarex
24	still controls majority working interest in both the
25	Bone Spring and the Wolfcamp?

1	A. That would be my thought, yes.
2	Q. Okay. And just to go back to one more
3	question about the working interest owners that
4	support Cimarex, all except for two own in the Bone
5	Spring and the Wolfcamp, as you said. Do you agree?
6	And yet they support Cimarex, even though only their
7	Bone Spring interest will be developed and their
8	Wolfcamp interest would not be developed, correct?
9	A. Correct.
0 ـ	Q. So they're really not too concerned about
1	any issue of correlative rights regarding the
2	Wolfcamp, correct?
_3	A. They are not concerned about their
4	correlative rights. That would be my assumption. I
. 5	would also assume that, you know, they're looking
-6	at, as Cimarex pointed out, the broad history of
_7	third Bone Spring development in the area rather
8 -	than the actual test of the Wolfcamp up here.
_9	MR. SAVAGE: Madam Examiner, can I check
20	my notes real quick?
21	HEARING EXAMINER ORTH: Yes.
22	MR. SAVAGE: Madam Examiner, I think that
23	concludes my cross-examination.
24	HEARING EXAMINER ORTH: All right. Thank
25	you very much. Mr. Savage. Mr. Rankin, do you have
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1	any follow-up before I turn to the technical
2	examiners?
3	MR. RANKIN: Two minor questions just for
4	clarification just to make the record clear.
5	REDIRECT EXAMINATION
6	BY MR. RANKIN
7	Q. Mr. Macha, looking at the big chart, the
8	contractual versus leasehold interest summary on
9	your Exhibit I.
L O	A. Yes.
L1	Q. One thing I want to make clear, I don't
L 2	think it came through in the record, because in this
L 3	chart you're comparing working interest as a
L 4	contractual basis versus leasehold on the top chart.
L 5	But when you summarize the support on the bottom
L 6	chart, I don't think it came through whether those
L 7	numbers are based on leasehold interests or
L 8	contractual interests in the bottom chart.
L 9	A. Those are based on leasehold. As we
20	mentioned, it is our understanding that per OCD
21	statute, they care about the leasehold over
22	voluntary agreements.
23	Q. Thank you. That's the only thing I wanted
24	to clarify for the record. Thank you, Madam
25	Examiner. No further questions.

1	HEARING EXAMINER ORTH: Thank you,
2	Mr. Rankin. Mr. Garcia, do you have questions of
3	Mr. Macha?
4	MR. GARCIA: I have a few.
5	EXAMINATION
6	BY MR. GARCIA
7	Q. Staying on the exhibit Mr. Rankin just
8	pointed to, I may have missed it, but in the top
9	table, what are the blue and orange tables
LO	correlating to?
L1	A. Yeah, so the blue is just another
L 2	indicator of the blue owners own more in the
L 3	Wolfcamp formation than the Bone Spring formation
L <b>4</b>	and the orange owners own more in the Bone Spring
L 5	formation than the Wolfcamp formation.
L 6	Q. So blue is Wolfcamp?
L 7	A. Yes. And then the white part is the NA.
L 8	When I put formation favor, that means they own
L 9	equal in the Bone Spring and the Wolfcamp.
20	Q. Okay. I guess I didn't make that
21	connection. That makes more sense now. Going to
22	the next slide on that, it's the Joker?
23	A. Yep.
24	Q. You have an e-mail from Robert, and I'm
25	not going to attempt the last name. It sounds like
	Page 50

1	he is related to Union Hill Oil & Gas, and I guess
2	I'm just curious, because I don't know Robert, how
3	he's connected since the e-mail addresses are
4	different than Union Hill.
5	A. Yeah. So Robert, he's the owner of Union
6	Hill, from our understanding. If you all do need
7	further documentation that he is the owner, that's
8	fine. I think Cimarex would probably testify that
9	Robert is the one that they have been dealing with
LO	at Union Hill as well.
L1	Q. I believe your testimony is enough. I
L 2	mean, everything you give testimony to is under
L 3	oath, so I just didn't know who he was because I did
L <b>4</b>	not see his name in our database.
L 5	A. Right.
L 6	Q. I should have asked this question probably
L 7	a long time ago, probably when Cimarex first
L 8	started. From a birdseye view looking down on this
L 9	acreage, is all of Cimarex and all of Permian's
20	acreage 100 percent overlap or is there a slight
21	acreage that's not overlapped with these two blends?
22	A. So like the actual foothold, like the
23	footprint of our acreage on these four sections? Is
24	that what you're talking about?
25	Q. Yeah. And your counsel probably knows
	Page 51

1	what I'm talking about. Typically, we will get
2	exhibits which will be a birdseye of say, like,
3	Section 5 and Section 4 of the Contessa case, and
4	there'll be a color like orange for Company A, blue
5	for Company B, and then green will be the
6	overlapping contested area. Is it all contested?
7	A. Yes. So we mostly overlap on everything.
8	In the north half of Section 4 there was a form-out
9	from the Hudson family to Read & Stevens. That did
10	terminate as to the Bone Spring and Wolfcamp
11	formation. So pursuant to Cimarex's acquisition of
12	the Delmar Hudson Trust term assignment, they have
13	an interest in the north half of Section 4, whereas
14	we do not, so that is different in the footprint.
15	Q. But as far as your plan, there will be a
16	well there no matter what, though, for either's
17	plan?
18	A. Yes, correct.
19	Q. Okay. It seems like the common topic when
20	it comes to the landman statements is CML and
21	Warren, I believe are their names. I guess, what
22	have you guys' communication been with them and what
23	is their stance on this?
24	A. Yeah. So Warren, I reached out to I
25	made contact with both of them as well as most of

1	the other owners, or all of the other owners, since
2	we proposed these wells. And then back in, I think,
3	June and early July was when our communication
4	really kind of ramped up. You know, CLM
5	specifically, they have been pretty vocal and
6	somewhat upset about the fact that the Wolfcamp is
7	being left out. The Warren Associates, they are a
8	smaller entity out of Dallas. They have been very
9	cordial to deal with, but they also have that same
10	concern about the Wolfcamp not being developed.
11	Q. Okay. Sorry, looking through my notes.
12	I'm trying to take notes.
13	HEARING EXAMINER ORTH: Did you say you
14	are done? Oh, sorry.
15	MR. GARCIA: No, I was trying to take
16	notes. My typing is slow today.
17	Q. (By Mr. Garcia) I think my last question.
18	I am not a landman. Could you describe to me, my
19	lawyers probably understand but I do not, what is
20	the difference between working interest owners and
21	leasehold owners? I guess why does it go from total
22	PR support to 34 percent to 39 percent? Like what's
23	the difference between leaseholder ownership?
24	A. Leasehold versus contractual?
25	Q. Yeah, sorry, contractual versus leasehold.

A. So a lot of this was subject to like I
think that 1979 JOA has been kind of the center of
the conversation. That JOA covers the south halves
of Section 4, 5, 8 and 9. And when that JOA was
signed back in 1979, those owners at the time agreed
to blend their interest across that entire area.
Subsequent to that, you know that's
been 43 years ago, I think. Subsequent to that,
there's been a lot of assignments back and forth.
So the raw leasehold is where their leasehold is
derived from. Let's say I own on the west half of
Section 5 100 percent and I agree to spread my 320
acres across all sections. I would still have my
leasehold 100 percent in the west half of Section 5;
however, I would have a smaller contractual interest
across the entire area.
Q. It's like what, I guess, some of the
operators have called operating agreements, where
you may have interest here and interest there, but
you share different interests in areas you may not
have interests?
A. Yes, that's what I'm talking about, the
factual interest and then subject to a JOA.
Q. Okay. Sometimes I have to clarify the
definitions I don't know, because 400 operators,

1	they all call the same thing different things, I
2	have learned.
3	I believe that is all my questions. Thank
4	you.
5	HEARING EXAMINER ORTH: All right. Thank,
6	Mr. Garcia. Ms. Thompson, do you have questions for
7	Mr. Macha?
8	MS. THOMPSON: I have no questions at the
9	moment.
10	HEARING EXAMINER ORTH: All right. Thank
11	you. Mr. Rankin, do you have any follow-up? Or
12	anything that was raised by the questioning that you
13	would want to follow up on?
14	MR. RANKIN: No. I think Mr. Garcia asked
15	good questions about contractual interests, and it
16	sounds like Mr. Macha explained it satisfactorily
17	but, of course, if they do have any questions I am
18	happy to address that further, but I think we can
19	potentially provide some additional clarification in
20	a closing brief, if necessary.
21	HEARING EXAMINER ORTH: Thank you. Thank
22	you for your testimony, Mr. Macha.
23	MR. GARCIA: Mr. Rankin, you reminded me
24	of one thing real quick. This hearing aside, I have
25	some concern of how counsel is interpreting my

1	standard orders, like when you discussed what
2	Paragraph 19 and 20 means. So I guess I will
3	probably clarify that at our standard Thursday
4	hearing to all counsel on some Division's thoughts
5	on how that is to read, just so you are aware.
6	MR. RANKIN: So we have to wait?
7	MR. GARCIA: I mean, I can do it now.
8	Just all you guys' peers aren't here. I have no
9	issue doing it here. That paragraph is plural,
10	"wells," so it is intended all wells that are
11	attached to Exhibit A are drilled within a year and
12	completed subsequently a year after that.
13	As you know, extensions are granted based
14	off of good-faith efforts, but I think it's
15	Paragraph 2 of the recently updated standard order,
16	which before there was added some NSP wording in
17	there, "If this well needs an NSP in the future, you
18	must go get one," basically. Paragraph 2, I think,
19	says, "All wells in Exhibit A are deemed wells
20	throughout the rest of the order." So anything in
21	Exhibit is A is intended to drill within that year.
22	They are defining wells and initial wells.
23	But I will reclarify just to make sure
24	everybody, all counsel is present, on Thursday also.
25	There are other law firms like Dana, et cetera.

1	HEARING EXAMINER ORTH: Okay. Any
2	questions about that from anyone during this
3	hearing? All right. Well, thank you, Mr. Garcia.
4	Thank you, Mr. Macha, for your testimony, and we'll
5	move on to Mr. Rankin's last witness.
6	MR. RANKIN: Thank you, Madam Hearing
7	Officer. We have one final witness to call and then
8	we can do our notice. Our last witness, Mr. Davro
9	Clements. I think he will appear here shortly. We
10	had to make a quick change out of witnesses.
11	HEARING EXAMINER ORTH: If you need a
12	break to do that, that's fine.
13	MR. RANKIN: Maybe just a five-minute
14	break so we can make sure everyone is set up.
15	HEARING EXAMINER ORTH: Sure, sure. Let's
16	take ten minutes.
17	(Note: The hearing stood in recess at
18	9:46 to 9:56.)
19	HEARING EXAMINER ORTH: When we broke,
20	Mr. Rankin was about to call Mr. Clements.
21	MR. RANKIN: We call the final witness,
22	Mr. Davro Clements. He needs to be sworn in.
23	HEARING EXAMINER ORTH: Yes.
24	DAVRO CLEMENTS
25	after having been first duly sworn under oath,

1	was questioned and testified as follows:
2	DIRECT EXAMINATION
3	BY MR. RANKIN
4	Q. Thank you. Mr. Clements, will you please
5	state your full name and explain by whom are you
6	employed, and for the benefit of the court reporter
7	would you please spell it?
8	A. Yes. My name is Davro Clements. That is
9	C-L-E-M-E-N-T-S, and I'm currently employed by
10	Permian Resources as a facilities engineer.
11	Q. And have you previously testified before
12	the Division?
13	A. I have not.
14	Q. Have you included your resume, which
15	outlines your education and work experience as a
16	petroleum engineer and facilities engineer?
17	A. I have.
18	MR. RANKIN: Madam Examiner, I would
19	tender Mr. Clements as an expert in facilities
20	engineering.
21	HEARING EXAMINER ORTH: Mr. Zimsky, any
22	objection?
23	MR. ZIMSKY: No objection.
24	HEARING EXAMINER ORTH: All right. Thank
25	you. He is so recognized.

1	Q. (By Mr. Rankin) Mr. Clements, have you
2	prepared a self-affirmed statement for the purposes
3	of this case?
4	A. I have.
5	Q. You are familiar with the applications
6	that were filed by Permian Resources and by Read &
7	Stevens and by Cimarex Energy Company?
8	A. Yes.
9	Q. And your self-affirmed statement that you
10	prepared in regard to these applications, that was
11	marked as Exhibit D in the exhibit packet filed in
12	this case?
13	A. Yes.
14	Q. Did you also prepare some exhibits that
15	were attached to your statement?
16	A. Yes.
17	Q. And those are marked as Exhibits D1
18	through D5?
19	A. That's correct.
20	MR. RANKIN: At this time I would move the
21	admission of Exhibit D with the attachments D1
22	through D5 into the record.
23	HEARING EXAMINER ORTH: Mr. Zimsky?
24	MR. ZIMSKY: No objection.
25	HEARING EXAMINER ORTH: Thank you. They
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1	under the road, potentially, as I understood? Or,
2	you know do you have a comment or a response to
3	that?
4	A. Yeah. I think the biggest concern was
5	just coming back to install flow lines for our
6	development. As we drill wells we would install
7	flow lines. That is a very common practice by
8	operators.
9	It is important to note that that is
10	correct, we would come back likely three to four
11	times to install flow lines as we develop the new
12	wells. But again, it's important to note that this
13	is right-of-way. That is approved by the BLM,
14	on-site approval by the BLM or Center of Excellence,
15	also known as CEM. So every time we come back we
16	are coming back to that same parcel of land, that
17	flow land right-of-way, which is deemed
18	non-impactful to critical wildlife or native
19	vegetation.
20	Q. Can you explain whether that additional
21	returning back to install additional flow lines, is
22	that going to be disturbing additional acreage or
23	not? Can you explain that?
24	A. No, sir. So we have right-of-way granted
25	to us that is a 30-foot-wide right-of-way that runs
	Dago 61

1	from the well pads to the central tank battery. So
2	every time that we come back to install additional
3	flow lines, we are coming back to that same proven,
4	approved right-of-way.
5	Q. Thank you. Anything else, Mr. Clements,
6	in terms of responses to the facility engineering
7	testimony?
8	A. No, I think that's all.
9	MR. RANKIN: Madam Hearing Officer, no
10	further questions of Mr. Clements and offer him for
11	cross-examination by counsel and the Division.
12	HEARING EXAMINER ORTH: Thank you very
13	much, Mr. Rankin. Mr. Zimsky, do you have questions
14	of Ms. Clements?
15	MR. ZIMSKY: Yes, Madam Hearing Examiner,
16	I do.
17	CROSS-EXAMINATION
18	BY MR. ZIMSKY
19	Q. Good morning, Mr. Clements. My name is
20	William Zimsky. I'm one of the attorneys for
21	Cimarex. I have a few questions for you. Following
22	up on the flow line testimony you just provided,
23	every time you go out there you're going to have to
24	have equipment to go out on those right-of-ways to
25	install that flow line, correct?

Τ	A. That is correct.
2	Q. And each time you send that equipment out,
3	you will be in that same right-of-way, but you're
4	still going to have to go underneath; is that
5	correct?
6	A. That is correct for the most part.
7	Depending on the development plan, the number of
8	wells we will be completing at each time, we will
9	make a decision on how many bores to install across
10	the road, across the highway. So initially for a
11	full development it would be five road bores, and
12	then again, depending on the number of wells we are
13	completing at a time, we would install potentially
14	multiple road bores at once just to prevent us
15	having to come back and do that again.
16	Q. That's for drilling underneath the road,
17	but otherwise you would have the equipment out on
18	the right-of-ways to install?
19	A. Yes, sir.
20	Q. Do you use any type of emission
21	surveillance systems on this project or generally,
22	as a matter of practice at Permian Resources?
23	A. Yes, we use a multi-facet approach. In
24	previous years, 2021 and 2022, we did voluntary
25	flyovers with OGI cameras. We think this is a
	Page 63

1	decent approach to get a wildlife scale of potential
2	emission recognition, but we have focused more now
3	on mealtime monitoring. So we have piloted five
4	monitoring systems on location where we can monitor
5	potential methane emissions in realtime, and that's
6	24 hours a day. So the difference between flyover,
7	you may see something detected in the morning and
8	then you have an incident later in the day, that
9	doesn't really provide a lot of impact in terms of
10	reducing emissions. So having realtime monitoring
11	is the approach that we are taking.
12	Q. How many high-risk emission devices do you
13	have on your closed vent system off of your tanks?
14	And by high-risk emission devices, I mean end of
15	lines, B patches or vacuum valves off of your
16	device?
17	A. We have one per tank and we have seven
18	tanks on location.
19	Q. Do you have any upgrades beyond
20	containment to lower your spill risk, such as
21	stainless steel piping on your water system?
22	A. We do internally coded piping on our water

A. We do internally coded piping on our water system in some applications and poly piping in other applications.

23

24

25

Q. Do you have any stainless steel piping?

1	A. We do on some of our water transfer pumps.
2	Q. Does Permian Resources have flaring
3	guidelines, company-wide policy regarding those?
4	A. We do not have a company-wide policy. It
5	is a case-by-case basis.
6	Q. Now I'm to share Exhibit D3. Do you see
7	D3, Operations and Environmental Overview?
8	A. Yes.
9	Q. My question is, I don't see a single unit
L O	off the tanks. Does Permian Resources install
L1	well, excuse me. I can't see the flares in the
L2	picture. Does Permian Resources install a
L 3	low-pressure flare?
L <b>4</b>	A. We install a low-pressure flare.
L 5	Q. You do?
L 6	A. Yes.
L 7	Q. And does Permian Resources install
L 8	redundant vapor recovery units?
L 9	A. Yes, we do.
20	Q. And in Paragraph 10 of your statement you
21	indicate that you can operate up to 40 OSIG. Can
22	you sell oil at that pressure or do you have to
23	maintain a lower pressure to continue to operate?
24	A. We operate at a lower pressure. We just
25	use the 40-ounce tanks more so for preventative
	Page 65

1	volume swings and prevent emissions. But we operate
2	at a lower pressure.
3	Q. Now, it's your plan to use one central
4	gathering tank; is that correct?
5	A. Yes, sir.
6	Q. Now, the proposal as filed is for 96
7	wells. Paragraph 5 states that Permian, utilizing
8	the compact construction "with the ability to
9	expand." Will Permian Resources have to expand
10	their CTB pad to add all wells into the vicinity?
11	A. There is a proposal for 48 wells but not
12	96. But when we build out the central tank battery,
13	we build it for the, kind of, initial plan of wells
14	that we completed in the near term, and then we come
15	back to add wells. It's as simple as adding test
16	separators for each well.
17	Q. You are correct. My math was off by
18	double.
19	A. That's right.
20	Q. And one of your CTB pads would be
21	sufficient? You wouldn't have to expand to meet all
22	of those wells?
23	A. We would not expand the surface location,
24	the pad itself, no.
25	Q. Are you going to have enough room for all
	Page 66

1	the separators for 48 wells?
2	A. Yes.
3	Q. On the one pad as it exists?
4	A. Yes.
5	Q. And does your 33.9 acres include both of
6	the CTB pads?
7	A. We would just be 30.9 acres, and that
8	includes the one CTB pad, which is the Joker.
9	Q. If you added the second CTB pad, what
L 0	would your acreage be?
L1	A. I believe it goes up to 34.5.
L 2	Q. And has Permian Resources, to your
L 3	knowledge, ever built a facility that handles 48
L 4	wells on a CTB pad?
L 5	A. The largest that we have built to date is
L 6	24, but the facility sizing and design is dependent
L 7	more on the volume than the physical number of wells
L 8	coming to a location.
L 9	Q. The volume of production?
20	A. Yes, sir.
21	Q. And you indicate that there's currently
22	one. Is that the maximum, you have one CTB pad that
23	services 24 wells?
24	A. That's our biggest to date, yes.
25	Q. Where is that located?

1	A. That is located in New Mexico in Lea
2	County.
3	Q. And what's the development with the wells?
4	A. It's the Gordita Tostada and Eric Cartman.
5	Q. Do you have a township range?
6	A. I don't off the top of my I think it's
7	
8	Q. And can you spell those, Gordita
9	A. Gordita, G-O-R-D-I-T-A; Tostada,
10	T-O-S-T-A-D-A; and Eric Cartman, E-R-I-C,
11	C-A-R-T-M-A-N.
12	Q. Do you have a Stan Marsh development?
13	That's just a South Park reference.
14	A. We don't.
15	Q. I believe that's all the questions that I
16	have. Thank you, Mr. Clements.
17	HEARING EXAMINER ORTH: Thank you,
18	Mr. Zimsky. Mr. Rankin, do you have follow-up with
19	this witness before I turn to the technical
20	witnesses?
21	MR. SAVAGE: I do not.
22	HEARING EXAMINER ORTH: Thank you,
23	Mr. Garcia, do you have questions of Mr. Clements?
24	MR. GARCIA: Just a few.
25	

1	A. Specifically on water, oil or gas?
2	Q. I guess all three.
3	A. I'd say it's a case-by-case basis. In
4	this area specifically, you know, we have experience
5	with the Batman developments, and takeaway has been
6	very strong. Oil and gas, with the partners that
7	we're currently working with, have been very
8	reliable, very low pressure. Water is a little bit
9	more of a challenge in this area, but we already
10	have what we believe is a leg up, being connected to
11	Dellik, Faskin and our own SWD as well, so I'm
12	excited to see this development occur just because
13	of how much the emission companies are involved.
14	Q. And if you did struggle with oil and gas,
15	would the wells be shut in or how would that work?
16	A. We typically would go to a high-pressure
17	flare and work with the emission company to get that
18	resolved. Again, we haven't seen that issue up here
19	in this subject lands. We have been 99 plus percent
20	recovered.
21	Q. Okay.
22	A. When we do flare, we continue to follow
23	the OCD rules and submit C119s and C115s as
24	required.
25	Q. I think Mr. Zimsky asked, I'm looking at
	Page 70

1	your photo of the site. Is this in New Mexico?
2	A. Yes.
3	Q. Is this the Batman tank battery or is this
4	a different one?
5	A. This is a different one. This is the I
6	believe this is the Black Hawk Black Hat, which is
7	in Eddy County.
8	Q. Okay. You expect a similar design for
9	these wells?
L O	A. Yes.
L1	Q. And it looks like you have a recovery on
L 2	there. Are those BRUs on the bottom right? Is that
L 3	what those are?
L <b>4</b>	A. That's right, yeah.
L 5	Q. Okay. Is it three of them?
L 6	A. Yes.
L 7	Q. Okay. So you guys use BRTs and BRUs
L 8	combined?
L 9	A. Yes, it's a very effective method for
20	capturing gas.
21	Q. I believe that's all my questions.
22	HEARING EXAMINER ORTH: Thank you,
23	Mr. Garcia. Ms. Thompson, do you have questions of
24	Mr. Clements?
25	MS. THOMPSON: I have no questions.
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1	HEARING EXAMINER ORTH: All right. Thank
2	you. Any follow-up from you, Mr. Rankin?
3	MR. RANKIN: No, Madam Hearing Officer, I
4	have no further questions of Mr. Clements.
5	HEARING EXAMINER ORTH: All right. Thank
6	you very much, Mr. Clements, for your testimony.
7	THE WITNESS: Thank you.
8	HEARING EXAMINER ORTH: So I believe that
9	was your fourth witness, Mr. Rankin.
10	MR. RANKIN: It was. And the last item
11	remaining is for us to just review our notice and
12	have those exhibits be proffered and accepted into
13	the record. So if I may proceed with that short
14	discussion, I can get that submitted and our case
15	wrapped up.
16	HEARING EXAMINER ORTH: Thank you.
17	MR. RANKIN: Madam Hearing Officer,
18	attached to our exhibit packet that we filed back in
19	July are my affidavit marked as Exhibit G, which
20	indicates that we have provided notice to each of
21	the parties at Permian that Read & Stevens seek to
22	pool in these cases, and that affidavit reflects
23	that we provided notice by a certified letter, a
24	sample of which is included in that exhibit, showing
25	that we sent out notice to the parties on the dates

1	indicated on the letter.
2	Following the letters that we sent out in
3	each of the cases you will see in the exhibit packet
4	a manifest or report of the certified mailings that
5	were sent out as of the date indicated here. I
6	believe it is July 12th. And then following the
7	status of the certified mailing in Exhibit H is a
8	copy of the affidavit of publication for each of the
9	cases, indicating that we have published notice,
10	directing attention to the parties that were seeking
11	to pool in each case, and that is marked as Exhibit
12	н.
13	With that, Madam Hearing Officer, I would
14	move the admission of Exhibits G and H into the
15	record.
16	HEARING EXAMINER ORTH: Any objection,
17	Mr. Zimsky?
18	MR. SAVAGE: No objection. This is
19	Mr. Savage.
20	HEARING EXAMINER ORTH: Thank you,
21	Mr. Savage. Exhibits G and H are admitted.
22	(Note: Exhibits G and H admitted into
23	evidence.)
24	MR. RANKIN: Madam Hearing Officer, at
25	this time that completes our case. I want to make
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1	one comment because I want it to be on the record.
2	Mr. Garcia did make an announcement that
3	is contrary to the way the Division has interpreted,
4	up to now, the horizontal well rule that was
5	initially passed by regulation in the order. So I
6	don't know exactly how we need to address that, but
7	I want to be able to just reserve the right to
8	address it since that announcement came in the
9	middle or towards the end of the hearing.
10	So I just want to make sure that, you
11	know, there's a placeholder on that issue. We may
12	need to address it in the closing arguments and
13	we'll do so. I just want to not be prejudiced if I
14	have to come back at a later time to respond to that
15	if it becomes an issue in this case.
16	HEARING EXAMINER ORTH: I understand why
17	you would want to address that, Mr. Rankin, and I
18	think closing arguments are a great place for you to
19	address it, unless someone has a better idea. So
20	let's get Mr. Savage or Mr. Zimsky back with us on
21	the screen.
22	MR. GARCIA: Felicia, may I talk to Adam
23	real quick about that? And Darin?
24	HEARING EXAMINER ORTH: Mr. Garcia, yes,
25	of course.

1	MR. GARCIA: There may be a lot of
2	confusion. Adam and Rod are not in the picture. We
3	can always address that offline because it affects
4	more than just this case. And we can walk through
5	and make sure everyone is on the same page and make
6	sure our views are the same as, I think, Eric when
7	he made that change, I think, like two-and-a-half
8	years ago. But we can look into it offline.
9	I guess as far as these cases, I would be
10	optimistic saying either party could drill all the
11	wells proposed in one year, whether the outcome of
12	this case. So maybe in your closing arguments you
13	guys can address the paragraph that Darin brought up
14	because I don't think either party can drill
15	approximately 30 wells in one year. I mean, it's
16	something I am open to in contested hearings on
17	modifying and changing, as you proposed modifying
18	the timelines of AFE payments, et cetera. Contested
19	hearings are kind of their own beast and not set to
20	standard language, if that helps at all.
21	MR. RANKIN: Understood. And I appreciate
22	that, and I think it's something perhaps offline or
23	between now and closing we can address that, but I
24	appreciate the further clarification as we go

25

forward.

1	HEARING EXAMINER ORTH: Thank you,
2	Mr. Garcia.
3	MR. SAVAGE: Madam Hearing Examiner, may I
4	make a point of clarification based on Mr. Garcia's
5	comment?
6	HEARING EXAMINER ORTH: Yes. You're a
7	little soft.
8	MR. SAVAGE: Okay. Let me see if I can
9	turn this up. Okay. Is that better?
10	Mr. Garcia, just for clarification,
11	Cimarex did applications for ten wells in this. Our
12	plan includes 30 wells, but the actual number of
13	applications as initial wells was ten, which we
14	believe is doable within the time frame.
15	MR. GARCIA: Fine. I would put it
16	both in your closing arguments on the issue.
17	MR. SAVAGE: Thank you.
18	HEARING EXAMINER ORTH: All right. So I
19	understand that Read & Stevens has completed their
20	presentation. Mr. Zimsky, would Cimarex want to be
21	putting on any other evidence?
22	MR. ZIMSKY: Madam Examiner, we have
23	decided we don't need to call our engineer or
24	geologist or landman back to respond to the rebuttal
25	exhibits that Permian Resources submitted, I, J and

Τ.	k. I chillik they have been adequately covered.
2	We had filed some rebuttal exhibits on our
3	own, basically consisting of the investor reports, a
4	presentation made by Permian Resources recently, the
5	second quarter earnings presentation. And the
6	second one was the AFEs. I think they were dated
7	August 2nd, 2023 that coincide with our Exhibit D-18
8	that Mr. Behm testified about. I think Mr. Garcia
9	said that he wanted us to submit them. I'm not sure
10	in my recollection and he can obviously correct me.
11	So that's the purpose of the AFEs. So we
12	could call a witness, Mr. Coffman, I think, to, I
13	guess, sponsor them if obviously, subject to
14	Mr. Rankin's objections.
15	HEARING EXAMINER ORTH: All right.
16	Mr. Rankin?
17	MR. RANKIN: Madam Hearing Officer, we
18	have no objection to the submission of those
19	excerpts from the report nor to the updated AFEs.
20	HEARING EXAMINER ORTH: All right. You
21	don't feel we need Mr. Coffman to get them in?
22	MR. RANKIN: No. I understood Mr. Coffman
23	to say during his testimony that they had updated
24	numbers, so I believe AFEs are just supplementing
25	his testimony and the investor reports are just, you
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1	know, public information, and I'm not concerned
2	about that.
3	HEARING EXAMINER ORTH: Thank you very
3	HEARING EXAMINER ORTH: ITIATIR YOU VELY
4	much. Mr. Zimsky, they will be admitted then and we
5	don't need to recall Mr. Coffman.
6	(Note: Exhibits I, J and K admitted into
7	evidence.)
8	MR. ZIMSKY: Thank you, Madam Hearing
9	Examiner.
10	HEARING EXAMINER ORTH: Is there anything
11	further from anyone at all?
12	MR. RANKIN: Other than just to discuss
13	HEARING EXAMINER ORTH: Post-hearing
14	submissions.
15	MR. GARCIA: I have items I would like to
16	see in the post-hearing submissions.
17	HEARING EXAMINER ORTH: Please go ahead,
18	Mr. Garcia.
19	MR. GARCIA: I guess I will start with
20	Mr. Savage and Mr. Zimsky. In your closing
21	arguments, I'm assuming you guys are submitting
22	those through writing. One issue I think Adam
23	brought up in one of his motions maybe is, I guess
24	I'm just curious, the whole producing minerals that
25	are in a different formation with the Dep 7s

1	present, and if you could find either some statutes
2	or rule references or past cases, Supreme Court
3	cases, et cetera, that that is allowed or has been
4	done before, because I'm unaware of it.
5	MR. SAVAGE: Mr. Garcia, would it be
6	appropriate that's a pretty thick issue, and I
7	don't know how long we have for the closing
8	statement, but we did a brief and Permian Resources
9	did a response, and they raised some very good
10	issues and important issues. And typically in that
11	series you get a chance to do a reply. I'm
12	wondering if it would be possible to do a short
13	reply that addresses just that issue of the Third
14	Bone Spring producing from the Wolfcamp for your
15	records.
16	MR. GARCIA: Yeah. I guess the issue I
17	want both parties to address is the legal standings
18	of what was basically presented here of producing
19	the Bone Spring, knowingly draining the Wolfcamp
20	with the depth severance, essentially, is what I'm
21	going to call it.
22	MR. SAVAGE: Okay.
23	MR. GARCIA: So that's to you and to
24	Mr. Rankin, to kind of justify both your views on
25	that. How you do that is up to Felicia. I think
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1	your Option 2, Mr. Savage, had proposed a compulsory
2	pool rule of Wolfcamp, not put a well there. Our
3	compulsory pool rule, I don't think it talks about
4	this, so I'm also curious if there's anywhere you
5	have seen before where OCD has compulsory pool
6	formation that doesn't have a well.
7	MR. SAVAGE: I think you have to go to
8	some of the other states, such as Oklahoma, that has
9	a little bit longer history to see.
LO	MR. GARCIA: That's fine. If you need to
L1	reference other states and how they do it, I'm open
L2	to seeing that. I mean, everything is on the table
L 3	for this case. On the flip side of the coin,
L4	Mr. Rankin, I would like to see if you have
L 5	something where it is required to have a well in the
L 6	formation to compulsory pool because I think you
L7	objected to that Option 2 because of that view.
L 8	MR. RANKIN: Sure. We included that
L 9	discussion about the rules and requirements in the
20	statute in our memo, but
21	MR. GARCIA: Yeah, and if you guys have
22	said this before, sorry. I have tried my best
23	keeping up with these case files. It's just a
24	monster of a case.
25	MR. RANKIN: We don't want to over-paper

1	the Division, so we tried to keep the response very
2	tight and limited to ten pages. I think we
3	addressed it there. My only concern, Madam Hearing
4	Officer and Mr. Garcia, is I think Mr. Savage and I
5	did discuss his interest in trying to respond or
6	provide a reply of some kind to our legal arguments
7	that we raised in a legal memo. I don't necessarily
8	have a problem with that at all. I mean, I think
9	it's fair for each side to put their whole case
10	forward.
11	Not knowing what he's going to say,
12	however, my only concern would be, I'm trying to
13	figure out how to make this as streamlined as
14	possible. And if we were to file simultaneous
15	closings, I may not have the opportunity to respond
16	to whatever he says. And I don't want this to go on
17	forever, back and forth, back and forth, but if he
18	would like to provide a reply brief on the legal
19	issues, my suggestion would be that it be filed in
20	advance of closing. That way I can address any
21	issues on that front in the closing.
22	HEARING EXAMINER ORTH: That would make
23	sense. To me, that gives Mr. Savage an opportunity
24	to reply to the specific points related to the

motion. And then, of course, there's an invitation,

25

1	a request really, from Mr. Garcia to address the two
2	points in your closing. You're not constrained by
3	the boundaries of the motion, the contours of the
4	motion. All right. Mr. Garcia, was there any other
5	requests?
6	MR. GARCIA: Two more. For both
7	applicants, please submit your views on the whole
8	timeline of drillings, and we will take both of your
9	views under consideration on that. Again,
10	everything is open on the table still, so we will
11	review both of those arguments.
12	And then the last thing is I have been
13	digging through the rules all morning, and one rule
14	that popped up that was not stored in my memory is
15	19-15-12-9, which discusses pool segregations. And
16	basically, it is an operator's duty I'm
17	butchering the rule here, but operator duty to
18	produce each pool as a single common source, supply
19	and complete case, maintain and operate wells as
20	individual sources.
21	Basically, doing so is prohibited unless
22	Division pre-approves. I guess if both of you can
23	address the rule and how your operators plan on
24	complying with it, because I believe both operators
25	testified that there is drainage between these two

1	formations with either wellbore design. Each well
2	will drain both formations. And mainly Paragraph A
3	of that rule is where it's all at. The other rule I
4	had not read before.
5	HEARING EXAMINER ORTH: Is that all?
6	MR. GARCIA: I believe so.
7	HEARING EXAMINER ORTH: Thank you very
8	much, Mr. Garcia. It is helpful to know what you're
9	looking for when you weigh the technical evidence.
10	MR. GARCIA: Just as a side note, I think
11	there was some, what if the order was issued next
12	week. It will not be issued next week. I will
13	wait, at a minimum, until the transcripts come in,
14	just the three days of testimony, just so everyone
15	is on the same page.
16	HEARING EXAMINER ORTH: All right. Thank
17	you for that. So Mr. Savage, a week or ten days for
18	your reply?
19	MR. SAVAGE: Madam Hearing Examiner, since
20	Mr. Garcia says it's going to be a little while for
21	the reporter, and we have some time and it's a
22	complicated case, I wonder if we should allow just a
23	little bit more time to really be able to research
24	this. To get that initial brief in, it was on such
25	a short fuse, and you can see that as a result some

1	of the citations were miscited. And we don't want
2	to be in a situation like that. So I would
3	recommend I don't know how much time would be
4	I mean, I would think that even four weeks might be
5	sufficient to address all the issues.
6	HEARING EXAMINER ORTH: Wait, I'm sorry.
7	So I understand for the closing argument, we
8	certainly need to wait for the transcripts on that.
9	I'm just asking about the reply.
10	MR. SAVAGE: I'm sorry, I'm sorry. Yeah,
11	I would think two weeks for the reply would be fair.
12	HEARING EXAMINER ORTH: Two weeks? All
13	right. We will have the transcript within that
14	window, I'm sure.
15	MR. SAVAGE: If the transcript is not, can
16	we revisit that deadline?
17	HEARING EXAMINER ORTH: I strongly believe
18	that it will be. As I understand it, that's the
19	understanding that the Division has with the court
20	reporters.
21	MR. SAVAGE: Okay. Thank you.
22	HEARING EXAMINER ORTH: It's often
23	produced more quickly than that, but unless Marlene
24	corrects me here, I think two weeks is the outside.
25	MS. SALVIDREZ: Yes, they are supposed to

1	be sent to us in two weeks. The court reporter does
2	have 14 days. Sometimes it does go beyond that, but
3	they recently have been giving them to us within
4	about a two-week time frame.
5	HEARING EXAMINER ORTH: Thank you,
6	Marlene. All right. So if you're going to get your
7	reply in two weeks and we will have the transcript
8	in two weeks, then perhaps what do you think,
9	Mr. Rankin? Is four weeks too generous after the
10	transcript is received for closing?
11	MR. RANKIN: No, I think that's
12	reasonable. I think two weeks from the transcript
13	is reasonable, and I think that gives us time to
14	address any issues in reply that we deem appropriate
15	in closing. So I think two weeks from the
16	transcript is workable, for sure.
17	HEARING EXAMINER ORTH: Mr. Zimsky and
18	Mr. Savage?
19	MR. SAVAGE: What would be the page
20	limitation be on the closing statement?
21	HEARING EXAMINER ORTH: I'll tell you
22	what, I don't impose page limitations unless there's
23	a really compelling reason. Anyone want to
24	articulate one? I haven't heard one yet.
25	MR. RANKIN: My view is shorter is always

1	better, everyone would agree.
2	MR. SAVAGE: Agreed.
3	HEARING EXAMINER ORTH: All right.
4	MR. RANKIN: Just to be clear, I guess,
5	you had mentioned, Madam Hearing Officer, the option
6	of the Findings of Fact and Conclusions of Law. Is
7	that something you would still like to see or is
8	that still on the table?
9	HEARING EXAMINER ORTH: Very much so.
10	Very much so. And as far as I'm concerned, that
11	would just be part of the closing brief. You don't
12	have to cover the waterfront with, you know, the
13	basic proposed findings. If you want to focus on
14	kind of the trickier ones, the more contested ones,
15	that's fine.
16	MR. SAVAGE: Madam Examiner, since we're
17	going to address this thoroughly in the reply and
18	closing statement, is a closing oral statement
19	necessary?
20	HEARING EXAMINER ORTH: No, I don't invite
21	closing statements verbally because I'm looking
22	forward to them in writing. I, frankly, think
23	lawyers need to reflect on the evidence, some of it
24	surprising, what have you, that's come in before
25	they can make a reasonable closing statement.

1	MR. SAVAGE: I assumed we were going
2	towards that. I agree with that philosophy.
3	HEARING EXAMINER ORTH: One day I am
4	writing a book. Okay. Ms. Vance, do you have
5	something to add?
6	MS. VANCE: No.
7	HEARING EXAMINER ORTH: Anything else we
8	should talk about? Just to restate before we get
9	off the platform, Mr. Savage will submit a reply to
10	the motion within 14 days. We'll have the
11	transcript within 14 days and closing statements
12	will be due 14 days after that. And again, in the
13	event the transcript is, for some reason forest
14	fires, what have you not submitted within 14
15	days, the closing statement deadline would be
16	extended. Is that everyone's we're all on the
17	same page here?
18	MR. SAVAGE: Yes. Just so I know, and I
19	apologize, Marlene, are the parties notified when
20	the transcript comes in or how does that work?
21	MS. SALVIDREZ: As soon as I receive the
22	transcripts for these contested cases I e-mail them
23	to all counsel right away.
24	MR. RANKIN: Thank you.
25	HEARING EXAMINER ORTH: Anything else at
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1	
1	all? All right. I'm really pleased we got through
2	this, notwithstanding my technological difficulties
3	and the ones we had two days ago in Santa Fe. We
4	got to the other side, so thank you all very much
5	for hanging in there. I will see most of you next
6	Thursday.
7	(Note: The hearing was adjourned at
8	10:38.)
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1	STATE OF NEW MEXICO
	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
2	OIL CONSERVATION DIVISION
3	
4	
5	REPORTER'S CERTIFICATE
6	I, Jan Gibson, New Mexico Certified Court
7	Reporter, do hereby certify that I reported the
8	foregoing proceedings on August 11, 2023 in
9	stenographic shorthand and that the foregoing pages
10	are a true and correct transcript of those
11	proceedings and were reduced to printed form by me
12	or under my direct supervision.
13	I FURTHER CERTIFY that I am neither employed by
14	nor related to any of the parties or attorneys in
15	this case and that I have no interest in the final
16	disposition of this case.
17	
18 19	Jaingelson
	JAN GIBSON, CCR, RPR, CRR
20	NM CCR No. 194
	License Expires: 12/31/23
21	
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## [6 - agree]

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#### [agree - attorney]

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# New Mexico Rules of Civil Procedure for the District Courts Article 5, Rule 1-030

(e) Review by Witness; Changes; Signing.

If requested by the deponent or a party before completion of the deposition, the deponent shall have thirty (30) days after being notified by the officer that the transcript or recording is available in which to review the transcript or recording and, if there are changes in form or substance, to sign a statement reciting such changes and the reasons given by the deponent for making them. The officer shall indicate in the certificate prescribed by Subparagraph (1) of Paragraph F of this rule whether any review was requested and, if so, shall append any changes made by the deponent during the period allowed.

DISCLAIMER: THE FOREGOING CIVIL PROCEDURE RULES

ARE PROVIDED FOR INFORMATIONAL PURPOSES ONLY.

THE ABOVE RULES ARE CURRENT AS OF APRIL 1,

2019. PLEASE REFER TO THE APPLICABLE STATE RULES

OF CIVIL PROCEDURE FOR UP-TO-DATE INFORMATION.

#### VERITEXT LEGAL SOLUTIONS

COMPANY CERTIFICATE AND DISCLOSURE STATEMENT

Veritext Legal Solutions represents that the

foregoing transcript is a true, correct and complete

transcript of the colloquies, questions and answers

as submitted by the court reporter. Veritext Legal

Solutions further represents that the attached

exhibits, if any, are true, correct and complete

documents as submitted by the court reporter and/or

attorneys in relation to this deposition and that

the documents were processed in accordance with

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