

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

Case No. 14796

APPLICATION OF CIMAREX ENERGY COMPANY FOR A NON-STANDARD OIL
SPACING AND PRORATION UNIT AND COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: TERRY WARNELL, Technical Examiner
DAVID K. BROOKS, Legal Examiner

February 16, 2012

Santa Fe, New Mexico

This matter came on for hearing before the New
Mexico Oil Conservation Division, TERRY WARNELL, Technical
Examiner, and DAVID K. BROOKS, Legal Examiner, on February
16, 2012, at the New Mexico Energy, Minerals and Natural
Resources Department, 1220 South St. Francis, Drive, Room
102, Santa Fe, New Mexico.

REPORTED BY: Irene Delgado, NM CCR 253
Paul Baca Professional Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, New Mexico 87102

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1 A P P E A R A N C E S
2 FOR THE APPLICANT:

3 JAMES BRUCE
4 P.O. Box 1056
5 Santa Fe, NM 87504

6 I N D E X

7 HAYDEN TRESNER
8 Direct by Mr. Bruce 03

9 RALPH WORTHINGTON
10 Direct by Mr. Bruce 11

11 EXHIBITS
12 EXHIBITS 1 THROUGH 7 ADMITTED 09
13 EXHIBITS 8 THROUGH 10 ADMITTED 16

24
25

1 EXAMINER WARNELL: Very well. With that, then,
2 let's call our first case, Case Number 14796, application of
3 Cimarex Energy for a non-standard oil spacing and proration
4 unit and compulsory pooling, Chaves County, New Mexico. Call
5 for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
7 representing the applicant. I have two witnesses.

8 EXAMINER WARNELL: Will the witnesses please stand
9 and be sworn in.

10 (Oath administered.)

11 HAYDEN TRESNER

12 (Sworn, testified as follows:)

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Would you please state your name for the record?

16 A. Hayden Tresner.

17 Q. And who do you work for and in what capacity?

18 A. I'm a landman for Cimarex Energy Company.

19 Q. Have you previously testified before the Division?

20 A. Yes, I have.

21 Q. And were your credentials as an expert petroleum
22 landman accepted as a matter of record?

23 A. Yes, they were.

24 Q. And are you familiar with the land matters regarding
25 this application?

1 A. Yes, I am.

2 Q. And are you responsible for land matters for Cimarex
3 regarding this area of southeast New Mexico?

4 A. Yes, I am.

5 MR. BRUCE: Mr. Examiner, I tender Mr. Tresner as an
6 expert petroleum landman.

7 EXAMINER WARNELL: So recognized.

8 Q. Mr. Hayden, could you identify Exhibit 1 for the
9 Examiner and describe the proposed well?

10 A. Yes. Exhibit 1 is a land map of Township 15 South,
11 Range 31 East. The proposed 240 acre spacing unit is
12 highlighted in the south half of the northeast of Section 8
13 and the south half of the north half of Section 9.

14 Q. And what is the name of the proposed lot?

15 A. The Independent 8 Federal Com Number 2H Well.

16 Q. And what is the -- the formation you will test with
17 this one?

18 A. The Lower Abo-Wolfcamp Formation.

19 Q. And what is the spacing in the Abo or the
20 Wolfcamp?

21 A. Forty acres.

22 Q. And turning to Exhibit 2, does that identify the
23 well's surface location and --

24 A. Yes, it does.

25 Q. Okay. Is a portion of the APD prepared for this

1 well?

2 A. That's correct.

3 Q. If you would refer back to Exhibit 1, Page 2 of
4 Exhibit 1, what is the working interest ownership in the
5 well?

6 A. That's just a breakdown of the spacing unit
7 dedicated to the well consisting of three federal leases. So
8 I have the ownership set forth on a tract basis and the well.
9 Cimarex owns a little over 98 percent working interest.
10 Mitchell Minerals is participating with their one percent,
11 and then we are seeking to force pool the interest of Sigyn
12 Lund.

13 Q. She is the only person you seek to pool?

14 A. That's correct.

15 Q. Let's discuss the -- Cimarex's efforts to obtain the
16 voluntary joinder of the interest owners in this well. Could
17 you comment on how long have been working on this prospect?

18 A. We originally proposed this well back in the spring
19 of 2010, and since that time I've had a conversation with the
20 interest owner's son who -- who instructed me to -- to direct
21 all future correspondence through him.

22 He was handling his mother's affairs, and so I
23 explained the situation to him and the process involved. The
24 process involved that they did not make a decision, and then
25 we repropose the well in November of 2011.

1 Q. This well unit was previously force pooled by the
2 Division, was it not?

3 A. It was, in June of 2010.

4 MR. BRUCE: And that order number, Mr. Warnell, is
5 R-13290.

6 Q. That order lapsed, did it not, because the well was
7 not drilled?

8 A. That's correct.

9 Q. So you had force pooled Ms. Lund at that time a year
10 and a half ago?

11 A. Yes, we did.

12 Q. And so what is Exhibit 3, then?

13 A. Exhibit 3 is a copy of the well proposal letter
14 which describes the well that -- the well that we want to
15 drill, and a copy of the order for expenditure that sets
16 forth the estimated well costs.

17 Q. Okay. So there was other correspondence prior to
18 this with Ms. Lund, and that would be in the case file for
19 the prior order, would it not?

20 A. Yes. There was prior correspondence with Ms. Lund's
21 son, Hilmer Graham.

22 Q. In your opinion, has Cimarex made a good faith
23 effort to obtain the voluntary joinder of the interest owners
24 in the well?

25 A. Yes, we have.

1 Q. Could you identify Exhibit 4 and discuss the cost of
2 the proposed well?

3 A. Exhibit 4 is the authorization for expenditure, and
4 it sets forth the estimated dry hole cost of approximately
5 3.5 million, and the completion cost of 4.8 million, and the
6 completed well costs.

7 Q. And is this cost in line with the cost of other
8 wells drilled to this depth and of this length in this area
9 of New Mexico?

10 A. Yes, they are.

11 Q. Do you request that Cimarex be appointed operator of
12 the well?

13 A. Yes.

14 Q. And was -- do you have a recommendation for the
15 overhead rates for this well?

16 A. Yes. The -- the drilling rate is \$7,000 per month
17 and the producing well rate is \$700 a month.

18 Q. And are those amounts equivalent to those normally
19 charged by Cimarex and other operators in this township where
20 Abo-Wolfcamp runs?

21 A. Yes.

22 Q. And there have been a fair number of wells built in
23 this township to the Abo, have there not?

24 A. There have been.

25 Q. Do you request that the overhead rates be

1 periodically adjusted under the COPAS Accounting
2 Procedures?

3 A. Yes, we do.

4 Q. And was Ms. Lund notified of this hearing?

5 A. She was, and that's set forth on Exhibit 5.

6 MR. BRUCE: Mr. Examiner, if you turn to the final
7 page of this, we did send notice, and they did not pick it
8 up.

9 Q. And I would ask, Mr. Tresner, if you look at the
10 notice letter, is that the address that Cimarex has in its
11 files for Hilmer Graham, the son of Sigyn Lund?

12 A. That's correct. That's the address that Hilmer
13 Graham instructed me to -- to send future correspondence
14 to.

15 Q. And has Cimarex sent correspondence to that address
16 which was received and picked up by Mr. Lund?

17 A. Yes.

18 EXAMINER WARNELL: Which address is this, Mr. Bruce?

19 MR. BRUCE: Exhibit 5, if you turn to the third
20 page.

21 EXAMINER WARNELL: Forrest Hills, New York?

22 MR. BRUCE: Uh-huh.

23 Q. And what is Exhibit 6?

24 A. Exhibit 6 is a land plat that shows the offset
25 operators to our proposed spacing unit, and there is also a

1 copy of the notice that you sent to those operators.

2 Q. Okay. And does M & W refer to Marshall & Winston?

3 A. Yes.

4 Q. And notice was received by all -- by the other
5 offset operators other than Cimarex, correct?

6 A. Notice was received, yes.

7 Q. Were Exhibits 1 through 7 prepared by you or under
8 your supervision or compiled from company business records?

9 A. Yes, they were.

10 Q. And, in your opinion, is the granting of this
11 application in the interest of conservation and prevention of
12 waste?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I move the admission of
15 Exhibits 1 through 7.

16 EXAMINER WARNELL: Exhibits 1 through 7 will be
17 admitted.

18 (Exhibits 1 through 7 admitted.)

19 MR. BRUCE: I have no further questions of the
20 witness.

21 EXAMINER WARNELL: Thank you. Mr. Brooks, any
22 questions?

23 EXAMINER BROOKS: Are both the Mitchell and the Lund
24 interests to be pooled?

25 THE WITNESS: Mitchell Minerals have signed our

1 operating agreement. They are participating.

2 EXAMINER BROOKS: Only the Lund?

3 THE WITNESS: Yes. Point 833 percent is being
4 pooled.

5 EXAMINER BROOKS: Let's see. You had the
6 ownership -- this Lund interest is in Tracts 2 and 3 as
7 designated, which is, okay --

8 THE WITNESS: The south half of the north half of
9 Section 9 that consists of two different federal leases.

10 EXAMINER BROOKS: Right. And the adjacent Section
11 8, doesn't have an interest?

12 THE WITNESS: No, she does not.

13 EXAMINER BROOKS: Okay. I think that's all I have.

14 EXAMINER WARNELL: Do we have an API Number on this
15 well?

16 MR. BRUCE: I'm certain there is, Mr. Examiner. I
17 will e-mail that to you later because the well was permitted.

18 THE WITNESS: It's not on the APD, but I think
19 one --

20 EXAMINER WARNELL: Well, this is --

21 EXAMINER BROOKS: Did you state your overhead rate?

22 THE WITNESS: Yes, sir. 7,000 for drilling and 700
23 for producing.

24 EXAMINER BROOKS: That's a little higher than we
25 have been seeing. What's the reason for that?

1 THE WITNESS: This a longer lateral. It's a 240
2 acre spacing unit. We typically drill, you know, 4,000 foot
3 laterals, and this one is another 25 hundred foot.

4 EXAMINER BROOKS: Does that equate to higher
5 supervision and costs?

6 THE WITNESS: Yes.

7 EXAMINER BROOKS: I know the director is going to
8 ask that question.

9 THE WITNESS: Longer drill time and completion time
10 and so forth.

11 EXAMINER BROOKS: Yeah. Well, of course the longer
12 time you are going to get paid for because you get it every
13 month, but are you telling me that it's actually going to
14 cost you more to -- to operate that well than what a normal
15 length --

16 THE WITNESS: That is my understanding, yes.

17 EXAMINER BROOKS: Okay. Very good.

18 EXAMINER WARNELL: Good question. No questions.

19 RALPH WORTHINGTON

20 (Sworn, testified as follows:)

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name and city of
24 residence?

25 A. Ralph Worthington, Midland, Texas.

1 Q. And who do you work for and in what capacity?

2 A. I work for Cimarex Energy Company, and I'm a
3 regional geological manager for the Permian District.

4 Q. Have you previously testified before the Division?

5 A. Yes, I have.

6 Q. And were your credentials as an expert petroleum
7 geologist accepted as a matter record?

8 A. Yes.

9 Q. Are you familiar with the geology involved in this
10 application?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I tender Mr. Worthington
13 as an expert petroleum geologist.

14 EXAMINER WARNELL: So recognized.

15 Q. Mr. Worthington, could you identify Exhibit 8 for
16 the examiner and discuss its contents?

17 A. Well, the map that is Exhibit Number 8 is a
18 combination map that shows the well control in the area. It
19 shows the Cimarex lease position. Superimposed on top of
20 that is an isopach map of the net porosity within our pay
21 interval, and then also a structure map is superimposed on
22 top of that. And the structure, you can notice, are the thin
23 gray lines going from left to right identified as the sub-sea
24 depth of minus 41 hundred feet going to a little over minus
25 43 hundred feet to the east, so dip is to the southeast in a

1 down direction and about 100 to 125 feet per mile.

2 The isopach are the heavy dark lines on that. Well
3 control is shown at the surface locations for all of the
4 wells in the area that have penetrated this formation. And I
5 will note that this is just the wells shown here that have
6 penetrated this formation. There is a shallow oil field
7 above this, and I've stripped those wells off of there for
8 clarity.

9 The isopach thicknesses in this area vary from --
10 from a zero to a little over 30 feet, and, as you can see,
11 that our surface local based on the nearest offset well to
12 the south is very near the -- the -- what we believe to be
13 the edge of the -- of the reservoir, and we expect to be
14 drilling surface location of similar around four or five feet
15 of net porosity within that zone and then drilling back to
16 the east where we expect to see the zone increase in
17 thickness.

18 Q. And what is Exhibit 9?

19 A. Exhibit 9 is a cross-section that goes from our
20 nearest point of control, the Medlin 8 Fed Com Number 1,
21 which is our nearest southern offset where we've got about
22 four feet of net porosity. Throughout the length of the
23 lateral, the well and it's north half of the south half of
24 Section 9, the Medlin 9 Number 1 did not have a pilot hole
25 and did not record the thickness of porosity within that

1 interval, so I have had to extend it another -- another mile
2 over to the Concho Oil and Gas Company towards Fed Number 2,
3 which has a control point over there.

4 So it just shows the pay interval, and it's very
5 hard to see at this scale, but the gross pay interval is
6 about 75 feet thick, and within that 75 feet we've got about
7 anywhere from 10 to 30 feet of porosity that we consider the
8 productive interval.

9 Q. Okay. Based on your mapping, you believe that each
10 quarter-quarter section in the well will contribute to
11 production?

12 A. Yes.

13 Q. And do you believe they will contribute more or less
14 equally to production?

15 A. Yes.

16 Q. Will this well, in your opinion, adequately drain
17 this particular portion of the Abo-Wolfcamp Reservoir?

18 A. Yes, we believe it will.

19 Q. Could you identify Exhibit 10 for the Examiner, and
20 maybe describe a little bit how Cimarex drills these wells?

21 A. Exhibit 10 is a -- is the directional drilling
22 company's plan for the horizontal part of this -- of this
23 well. It shows our estimated depth where we will begin to
24 drill the curve in the lateral, and it shows where we plan to
25 land the lateral, at what depth. And then as we drill on out

1 to the end of the lateral, about what our TBD will be, our
2 estimated measured depth at the end of the lateral. This is
3 a planning guide that the directional company provides as a
4 service, and then we will try to execute this as we drill the
5 well.

6 Q. How many completion stages does Cimarex normally
7 have in the -- normally have in these wells?

8 A. Well, as Mr. Tresner said, this is a longer lateral
9 than we normally drill. Normally we would have between five
10 and eight completion stages in the normal 43 hundred foot
11 length lateral. I think we are going to be going as high as
12 somewhere between 10 and 15 stages in this well.

13 Q. Okay. In your opinion, is the granting of this
14 application in the interest of conservation and the
15 prevention of waste?

16 A. Yes.

17 Q. And were Exhibits 8 and 9 prepared by you?

18 A. Yes, they were.

19 Q. And is Exhibit 10 part of Cimarex's business
20 records?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I move the admission of
23 Exhibits 8, 9 and 10.

24 EXAMINER WARNELL: Exhibits 8 through 10 are
25 admitted.

1 (Exhibits 8 through 10 admitted.)

2 MR. BRUCE: I have no further questions of the
3 witness.

4 EXAMINER BROOKS: No questions.

5 EXAMINER WARNELL: Well, Mr. Worthington, let's go
6 back to your first exhibit there, Exhibit 8. And what
7 porosity cut-off did you use?

8 THE WITNESS: Our standard cutoff that we use here
9 is a 4 percent cross-plot porosity between density and
10 neutron porosity.

11 EXAMINER WARNELL: And are the two wells that are in
12 your cross-section on Exhibit 9, could you point those out to
13 me here on Exhibit 8?

14 THE WITNESS: Sure. From our surface location where
15 I've got that red arrow right there, just to the south and
16 west of that is a well -- it's a Medlin 8 Fed Lease, and then
17 there's a purple line --

18 EXAMINER WARNELL: Right.

19 THE WITNESS: -- and there is a data point that says
20 four feet --

21 EXAMINER WARNELL: Yes, sir.

22 THE WITNESS: -- okay, and then right below that is
23 a "W" for the west side of the cross-section, and then there
24 is a light blue line that goes from that Medlin well to our
25 proposed location and then two miles to the east.

1 EXAMINER WARNELL: I see that line.

2 THE WITNESS: The north half of Section 10, or the
3 north half of the south half. The surface location for that
4 well is in the east part of the section.

5 EXAMINER WARNELL: Okay.

6 THE WITNESS: And then the distance between the
7 wells are identified on the cross-section, also, down below
8 it. So 29 hundred feet away from the south offset and over
9 12,000 feet away from the east -- eastern most control point.

10 EXAMINER WARNELL: Then didn't we say that it
11 would -- the formation increases to the southeast, or
12 decreases?

13 THE WITNESS: The -- the amount of porosity?

14 EXAMINER WARNELL: No.

15 THE WITNESS: Or the depth?

16 EXAMINER WARNELL: The depth.

17 THE WITNESS: The depth decreases to the south or
18 increases to the southeast.

19 EXAMINER WARNELL: Okay.

20 THE WITNESS: Southeast.

21 EXAMINER WARNELL: In the crossbar, maybe it's just
22 my goofy glasses, almost looks to me like it's going the
23 other way. Would it be possible to get a digital file of
24 this Exhibit Number 9?

25 THE WITNESS: Sure.

1 EXAMINER WARNELL: Something that I can blow up and
2 look at?

3 THE WITNESS: Absolutely.

4 EXAMINER WARNELL: I'm an old Schlumberger guy, and
5 when I see those little bitty Schlumberger --

6 THE WITNESS: Absolutely. We can do that for you,
7 sir.

8 EXAMINER WARNELL: Thank you. I have no further
9 questions.

10 MR. BRUCE: I have nothing further in this matter.

11 EXAMINER WARNELL: Very well. With that, then, Case
12 Number 14796 will be taken under advisement.

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22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. _____
25 heard by me on _____.

~~Examiner~~
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY
CERTIFY THAT ON February 16, 2012, proceedings in the
above-captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set forth
herein, and the foregoing pages are a true and correct
transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by nor
related to nor contracted with any of the parties or
attorneys in this case and that I have no interest whatsoever
in the final disposition of this case in any court.

WITNESS MY HAND this _____ day of February
2012.


Irene Delgado, CCR 253
Expires: 12-31-2012