

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

6 APPLICATION OF CIMAREX ENERGY COMPANY
7 OF COLORADO FOR A NONSTANDARD OIL
8 SPACING AND PRORATION UNIT AND
9 COMPULSORY POOLING, LEA COUNTY,
10 NEW MEXICO.

CASE NO. 15034

ORIGINAL

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 August 22, 2013

14 Santa Fe, New Mexico

15 BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
16 DAVID K. BROOKS, LEGAL EXAMINER

17
18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Phillip Goetze,
20 Chief Examiner, and David K. Brooks, Legal Examiner, on
21 Thursday, August 22, 2013, at the New Mexico Energy
22 Minerals and Natural Resources Department, 1220 South
23 St. Francis Drive, Porter Hall, Room 102, Santa Fe,
24 New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

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APPEARANCES

FOR APPLICANT CIMAREX ENERGY COMPANY OF COLORADO:

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1 (8:21 p.m.)

2 EXAMINER GOETZE: This would be Case 15034,
3 application of Cimarex Energy Company of Colorado for a
4 nonstandard oil spacing and proration unit and
5 compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant. I have two
9 witnesses.

10 EXAMINER GOETZE: Would the witnesses
11 please stand, identify yourselves and be sworn in?

12 MS. RAMOUTAR: Meera Ramoutar, geologist,
13 Cimarex Energy.

14 MR. COMPTON: Mark Compton, landman,
15 Cimarex Energy.

16 EXAMINER GOETZE: The clerk [sic] will
17 swear you in.

18 (Ms. Ramoutar and Mr. Compton sworn.)

19 EXAMINER GOETZE: Proceed.

20 MARK COMPTON,
21 after having been first duly sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Compton, where do you reside?

1 A. Midland, Texas.

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

3 A. Cimarex Energy Co. as a landman.

4 Q. Have you previously testified before the
5 Division?

6 A. I have.

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

9 A. They were.

10 Q. Are you familiar with the land matters involved
11 in this case?

12 A. I am.

13 MR. BRUCE: Mr. Examiner, I tender Mr.
14 Compton as a petroleum landman.

15 EXAMINER GOETZE: So accepted.

16 Q. (BY MR. BRUCE) Mr. Compton, could you identify
17 Exhibit 1 and discuss the well unit and the formation
18 and the well name that we're here for today?

19 A. The spacing unit is the west half of the east
20 half of Section 33, and the well name is the Chaparral
21 33 Fed Com #4H.

22 Q. And what is the township and range?

23 A. I believe it's 20 South, 34 East -- I'm
24 sorry -- 19 South, 34 East.

25 Q. What zone are you seeking to force pool?

1 A. The Bone Spring.

2 Q. Who are the interest owners that you seek to
3 force pool?

4 A. Mr. Steven Rodrigue and the Jessica and Tyler
5 Rodrigue Trust.

6 Q. Combined, what percentage interest do they own
7 in the well unit?

8 A. .000625.

9 Q. What is Exhibit 2?

10 A. Are the letters that we sent, dated April 24th
11 of 2013. It's a well proposal, and also included with
12 that is a proposed operating agreement.

13 Q. Have you ever received any response from the
14 parties being pooled?

15 A. No.

16 Q. Have you tried to call them?

17 A. Yes.

18 Q. Were they also involved in the #3 well, which
19 is over in the east half-east half of Section 33?

20 A. They were. They own that interest all the way
21 across the section.

22 Q. And I think the 33-3 well was drilled last
23 year?

24 A. Yes.

25 Q. So you've been trying to contact them for quite

1 some time regarding your prospects in this area?

2 A. We have exhausted every avenue we can find to
3 try to get ahold of these people.

4 Q. In your opinion, has Cimarex made a good-faith
5 effort to obtain the voluntary joinder of these two
6 parties in your proposed well?

7 A. I believe we have.

8 Q. Could you identify Exhibit 3 for the Examiner
9 and discuss the cost of the proposed well?

10 A. It's the AFE that was sent to all partners, and
11 at the time, it was \$7,078,917 to drill and complete.

12 Q. In your opinion, is -- of course, this AFE is
13 dated in February. Is this cost fair and reasonable?

14 A. Yes.

15 Q. And is it comparable to the cost of other wells
16 drilled to this depth in this area of New Mexico?

17 A. Yes.

18 Q. What overhead rates do you request?

19 A. 7,000 drilling and 700 producing.

20 Q. And are those equivalent to the rates charged
21 by other operators in this area for wells of this depth?

22 A. Yes.

23 Q. And are these also the rates set forth in your
24 JOAs in this area?

25 A. Yes.

1 Q. Do you request, assuming that these parties go
2 nonconsent, that the maximum cost plus 200-percent risk
3 charge be assessed against these interest owners?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, Exhibit 4 is my
6 Affidavit of Notice, and actual notice was given to
7 these parties. You'll notice that I neglected to go get
8 my signature notarized yesterday, so I would ask
9 permission to go out today and submit a signed
10 affidavit -- it's not only this, but Exhibit 7, also --
11 after the hearing.

12 EXAMINER GOETZE: Permission is granted to
13 go ahead and resubmit it with --

14 MR. BRUCE: Signed and notarized?

15 EXAMINER GOETZE: Yes, sir.

16 MR. BRUCE: Mr. Examiner, Exhibit 5 is an
17 Affidavit of Publication against the two parties being
18 pooled.

19 Q. (BY MR. BRUCE) Mr. Compton, despite dealing
20 with these -- or trying to deal with these people,
21 trying to contact them for well over a year, were you
22 afraid that -- that their address wasn't valid?

23 A. Yes.

24 Q. And that's the reason we published in the
25 newspaper?

1 A. Correct.

2 Q. Does Exhibit 6 set forth the offset operators
3 to your proposed well?

4 A. Yes, it does.

5 Q. Have you received any objection from Chevron
6 U.S.A., Inc. or Read & Stevens, Inc. to your proposed
7 nonstandard well unit?

8 A. No. As a matter of fact, Read & Stevens are in
9 these wells.

10 MR. BRUCE: And, again, Mr. Examiner,
11 Exhibit 7 is the notice to the offsets, so I will be
12 submitting a signed and notarized copy today.

13 Q. (BY MR. BRUCE) Mr. Compton, were Exhibits 1
14 through 7 either prepared by you or compiled from
15 company business records?

16 A. Yes.

17 Q. In your opinion, is the granting of this
18 application in the interest of conservation and the
19 prevention of waste?

20 A. It is.

21 MR. BRUCE: Mr. Examiner, I tender Exhibits
22 1 through 7 into evidence.

23 EXAMINER GOETZE: Let's see. Exhibits 1,
24 2, 3, 5 and 6 will be accepted as is. Exhibits 4 and 7
25 will be resubmitted with notarization.

1 MR. BRUCE: Yes, sir.

2 (Cimarex Energy Exhibit Numbers 1 through 7
3 were offered and admitted into evidence.)

4 MR. BRUCE: And I have nothing further of
5 the witness.

6 EXAMINER GOETZE: Very good.

7 Mr. Brooks, any questions?

8 EXAMINER BROOKS: Why does it say "San
9 Miguel" across the front of Exhibit 1? Curiosity. I
10 looked at that for the first time in the package, and I
11 thought, are they trying to drill a well in San Miguel
12 County (laughter)?

13 MR. BRUCE: That must be it (laughter).

14 THE WITNESS: Oh. That came off of a
15 Midland map.

16 EXAMINER BROOKS: I assumed it did, but I
17 wondered what the significance of it was.

18 That's all.

19 EXAMINER GOETZE: I don't have any
20 questions for this witness, but I do have a question.
21 We did have an appearance on behalf of Spiral.

22 MR. BRUCE: Yes, Mr. Examiner.

23 EXAMINER GOETZE: Do you know anything?

24 MR. BRUCE: Yes. Mr. Padilla entered an
25 appearance on behalf of Spiral, Inc. They are an

1 interest in the well unit, but we are not seeking to
2 force pool them, if you care to ask Mr. Compton. They
3 are in the other well in this section, and they
4 anticipate Spiral, Inc. signing a JOA, so we're not
5 seeking to force pool them.

6 EXAMINER GOETZE: Well, I will return to
7 the witness and get clarification.

8 CROSS-EXAMINATION

9 BY EXAMINER GOETZE:

10 Q. So Spiral is not participating in this well?

11 A. No. We expect that they will. We're simply
12 executing some documents, so we have no intention of
13 force pooling Spiral. They have a three-eighths
14 interest. They also participated in the 33-3, and we
15 expect that they will participate in this one as well.

16 Q. Very good.

17 EXAMINER GOETZE: No more questions for
18 this witness.

19 Your next witness?

20 MEERA RAMOUTAR,

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

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Ms. Ramoutar, who do you work for and in what

1 capacity?

2 A. I work for Cimarex Energy in the capacity of a
3 geologist.

4 Q. Have you previously testified before the
5 Division as a geologist?

6 A. I have.

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

9 A. They were.

10 Q. Does your area of responsibility at Cimarex
11 include this portion of southeast New Mexico?

12 A. It does.

13 Q. And are you familiar with the geology involved
14 in this application?

15 A. I am.

16 MR. BRUCE: Mr. Examiner, I tender
17 Ms. Ramoutar as an expert petroleum geologist.

18 EXAMINER GOETZE: She is so qualified.

19 Q. (BY MR. BRUCE) Ms. Ramoutar, you have several
20 exhibits. Would you look at what's marked as Exhibit 8.
21 Why don't you run through those for the Examiner and
22 discuss the geology.

23 A. Okay. The first packet that's stapled is just
24 a PowerPoint taking you through the geology for the well
25 in question. Flipping over from the title page, the

1 first exhibit -- the first figure, if you will, it is a
2 structure map on the top of the Wolfcamp, which is
3 simply the formation just underneath the Bone Spring,
4 and that has an influence structurally on the deposition
5 of the Bone Spring. We can see here -- basically, this
6 map shows us -- the well in question is in Section 33,
7 west half of the east half of Section 33, and our
8 contours basically tell us that our structure is dipping
9 towards the south, southwest, if you will.

10 Q. Very -- very small change in structure?

11 A. Yes. And so, basically, where our well is
12 located, it's pretty flat. And you'll see a couple
13 figures from now, you know, that our cross sections do
14 display that.

15 Q. And the next page?

16 A. So the next page, what this is is a net
17 porosity isopach, and this is on the 3rd Bone Spring,
18 member of the Bone Spring Formation, which is the member
19 that we were targeting -- or are targeting in this well.
20 And so the isopach is contoured in a 20-foot contour
21 interval, with porosities -- in that section, Section
22 33, the porosities are ranging anywhere between 40 and
23 60 feet of the net porosity.

24 Q. Now, when you drilled the 33-3 well in the east
25 half-east half, in your review of the geology, was each

1 quarter-quarter section of that well productive in the
2 3rd Bone Spring?

3 A. Yes, sir.

4 Q. And do you anticipate that each quarter-quarter
5 section in the #4 well will be -- will contribute more
6 or less equally to production in the well?

7 A. That, we do.

8 Q. And finally, your cross section, what does that
9 show?

10 A. So the cross section, again, it just takes us
11 through the geology of that area. We're going from A to
12 A prime. The first well, Chesapeake Codorniz 28 Fed #3,
13 is just north of our surface-hole location for the well
14 in question, and the Read & Stevens Hudson Fed #1 is to
15 the south and east of our bottom-hole location for that
16 well.

17 You can see here that the cross section
18 takes us through each of the members of the 3rd -- of
19 the Bone Spring, our 1st Bone Spring Sand, 2nd and the
20 target, which is the 3rd Sand. You can see here we have
21 the appearance of what we term "pay" internally in
22 Cimarex, and you can see our pay does thicken from north
23 to south, as we can see in the previous figure.

24 Q. The two wells in this cross section are
25 vertical wells; are they not?

1 A. Yes, sir.

2 Q. And based on the continuity, you expect each
3 quarter-quarter section to be productive?

4 A. Yes.

5 Q. Could you identify Exhibit 9 for the Examiner?

6 A. Exhibit 9 is a directional plan to this well.
7 And basically what it shows is, we are going to drill
8 down, and we're going to land our lateral at 10836 TVD
9 in the section-long lateral, and TD is at 330 off the
10 south line.

11 Q. And the producing interval of the wellbore will
12 be at a standard location, correct?

13 A. Yes, sir.

14 MR. BRUCE: Mr. Examiner, I think this is
15 in the South Quail Ridge Bone Spring pool, and I think
16 there are some special pool rules. It's 40-acre
17 spacing. I'm trying to remember. It seems to me it may
18 have somewhat increased awhile ago from the standard. I
19 don't remember right now.

20 EXAMINER GOETZE: We'll find out, won't we?

21 Q. (BY MR. BRUCE) Ms. Ramoutar was Exhibit 8
22 prepared by you?

23 A. Yes.

24 Q. And was Exhibit 9 compiled from Cimarex's
25 business records?

1 A. It was.

2 Q. In your opinion, is the granting of this
3 application in the interest of conservation and the
4 prevention of waste?

5 A. Yes.

6 MR. BRUCE: Mr. Examiner, I move the
7 admission of Exhibits 8 and 9.

8 EXAMINER GOETZE: Exhibits 8 and 9 are
9 accepted.

10 (Cimarex Energy Exhibit Numbers 8 and 9
11 were offered and admitted into evidence.)

12 MR. BRUCE: And I have no further questions
13 of the witness.

14 EXAMINER GOETZE: Mr. Brooks.

15 MR. BROOKS: No questions.

16 CROSS-EXAMINATION

17 BY EXAMINER GOETZE:

18 Q. One question regarding pooling. We're just
19 looking at the Bone Spring?

20 MR. BRUCE: That is it.

21 Q. (BY EXAMINER GOETZE) And then out of curiosity,
22 we have existing wells in 33. These are deep wells into
23 the --

24 A. The Morrow. So the gas wells are the closer
25 ones to the Morrow.

1 Q. So you'll be threading a needle here. Very
2 impressive.

3 A. Just the Permian Basin (laughter).

4 Q. No more questions of this witness. Thank you.

5 MR. BRUCE: I have nothing further, and I
6 will get the original affidavits to you.

7 EXAMINER GOETZE: At this time, we will
8 take Case 15034 under advisement.

9 (Case Number 15034 concludes, 8:36 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15034
heard by me on August 22 2013
Phillip P. Zook, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19



20

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2013

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