

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

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

ORIGINAL

APPLICATION OF CIMAREX ENERGY  
COMPANY OF COLORADO FOR A  
NONSTANDARD SPACING AND  
PRORATION UNIT, COMPULSORY  
POOLING AND NONSTANDARD  
LOCATION, EDDY COUNTY, NEW MEXICO.

CASE NO. 15188

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 18, 2014

Santa Fe, New Mexico

BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, Richard Ezeanyim,  
Chief Examiner, and Gabriel Wade, Legal Examiner, on  
Thursday, September 18, 2014, at the New Mexico Energy,  
Minerals and Natural Resources Department, Wendell Chino  
Building, 1220 South St. Francis Drive, Porter Hall,  
Room 102, Santa Fe, New Mexico.

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APPEARANCES

FOR APPLICANT CIMAREX ENERGY COMPANY OF COLORADO:

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and  
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1 (10:12 a.m.)

2 EXAMINER EZEANYIM: Let us go back into the  
3 record and continue with the hearings. We are still on  
4 page 2. The next case is case number six, which is Case  
5 15188, amended and readvertised, application of Cimarex  
6 Energy Company of Colorado for a nonstandard spacing and  
7 proration unit, compulsory pooling and nonstandard  
8 location, Eddy County, New Mexico.

9 Call for appearances.

10 MS. KESSLER: Jordan Kessler and Earl  
11 DeBrine, Modrall, Sperling Law Firm for the Applicant.

12 EXAMINER EZEANYIM: Any other appearances?

13 MR. FELDEWERT: May it please the Examiner,  
14 Michael Feldewert, with the Santa Fe office of  
15 Hollard & Hart, on behalf of CL&F Resources, and I have  
16 no witnesses.

17 EXAMINER EZEANYIM: Any other appearances?

18 MR. CARSON: Read & Stevens Inc., Carolyn  
19 Beall, Betty Young and Diamond Star Production.

20 EXAMINER EZEANYIM: Very good.

21 Any other appearances?

22 Okay. I don't know if you have witnesses.

23 MR. CARSON: I submitted a pre-hearing  
24 statement with two witnesses, but we agreed on a  
25 resolution between the Read Group and Cimarex, so I

1 won't be putting on any evidence today.

2 EXAMINER EZEANYIM: How many witnesses do  
3 you have?

4 MS. KESSLER: We have three witnesses.

5 EXAMINER EZEANYIM: Do you have any  
6 witnesses?

7 MR. FELDEWERT: I do not.

8 EXAMINER EZEANYIM: Okay.

9 Will the witnesses stand up and state your  
10 name fully for the court reporter and then be sworn?

11 MR. HEITZMAN: Steve Heitzman.

12 MS. COCKRELL: Jordan Cockrell.

13 MR. NORDSTOG: Kim Nordstog,

14 N-O-R-D-S-T-O-G.

15 (Mr. Heitzman, Ms. Cockrell and  
16 Mr. Nordstog sworn.)

17 EXAMINER EZEANYIM: Call your first  
18 witness.

19 JORDAN J. COCKRELL,  
20 after having been previously sworn under oath, was  
21 questioned and testified as follows:

22 EXAMINER EZEANYIM: You may proceed,  
23 Ms. Kessler.

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DIRECT EXAMINATION

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BY MS. KESSLER:

Q. Please state your name for the record and tell the Examiner by whom you are employed and in what capacity.

A. My name is Jordan Jenkins Cockrell. I'm employed by Cimarex Energy Company in Midland, Texas as a petroleum landman.

Q. And have you previously testified before the Division?

A. No, I have not.

Q. Can you please outline for the Examiner your educational background?

A. I graduated in May of 2013 from Texas Tech University in Lubbock, Texas with a bachelor's degree in energy commerce.

Q. Have you worked for Cimarex since that time?

A. Yes.

Q. Are you a member of any professional associations?

A. I'm a member of the American Association of Professional Landmen and the Permian Basin Landmen's Association.

Q. Would you review for us your experience in the Permian Basin?

1           A.    I've been working in the Permian Basin for a  
2 little over a year now.  I began my work in Texas, and I  
3 began working Eddy County, New Mexico at the beginning  
4 of this year.

5           Q.    Are you familiar with the application that has  
6 been filed by Cimarex in this case?

7           A.    Yes.

8           Q.    And are you familiar with the status of the  
9 lands that are the subject of this application?

10          A.    Yes.

11          Q.    And the APD which has been approved?

12          A.    Yes.

13                   MS. KESSLER:  Mr. Examiner, I would offer  
14 Ms. Cockrell as an expert in petroleum land matters.

15                   EXAMINER EZEANYIM:  So qualified.  But --  
16 you are qualified.

17                   But now why is it called "landmen"?

18                   THE WITNESS:  Land woman?

19                   EXAMINER EZEANYIM:  I don't know.

20                   MS. KESSLER:  We'll work on that for next  
21 time.

22                   EXAMINER EZEANYIM:  Okay.  So qualified.

23          Q.    (BY MS. KESSLER) I'd like to start by  
24 discussing the application that Cimarex has filed in  
25 this case.  If you can turn to what's been marked as

1 Cimarex Exhibit Number 1 and identify this exhibit and  
2 explain for the Examiner what Cimarex seeks under this  
3 application.

4 A. Exhibit Number 1 is the C-102 to the subject  
5 well, which is the Gramma Ridge 14 Federal Com 2H well.  
6 We request approval for a 320-acre gas spacing and  
7 proration unit covering the west half of Section 14,  
8 Township 25 South, Range 28 East, Eddy County,  
9 New Mexico.

10 Q. And do you seek to dismiss the portion of the  
11 application that requests a nonstandard spacing and  
12 proration unit?

13 A. Yes.

14 EXAMINER EZEANYIM: Excuse me, Ms. Kessler.  
15 I made a mistake. You know, from my understanding -- I  
16 didn't know this case was contested, and it was brought  
17 to my notice, and I failed to introduce the Legal  
18 Examiner here, Mr. Gabriel Wade, because he's going to,  
19 you know, cover my butt whenever you have legal  
20 questions. Otherwise, I overrule all objections. So  
21 he's here to answer the legal questions. I'm sorry. I  
22 forgot to introduce him in the first place.

23 For the record, Gabriel Wade will be the,  
24 you know, the Legal Examiner for this case.

25 MS. KESSLER: Thank you, Mr. Examiner.

1 Q. (BY MS. KESSLER) So do you seek to dismiss the  
2 nonstandard spacing and proration unit?

3 A. Yes.

4 Q. And is that because the standard project area  
5 for the Wolfcamp and gas is 320 acres?

6 A. That's correct.

7 Q. Do you also seek two nonstandard locations?

8 A. Yes. We seek two nonstandard locations at the  
9 first and last perf points.

10 Q. And you seek to pool the mineral interests  
11 underlying the spacing unit in the Wolfcamp, correct?

12 A. Yes.

13 Q. Are the working interests committed, or are you  
14 also seeking to pool them?

15 A. We seek to pool the uncommitted working  
16 interest owners.

17 Q. And you seek to dedicate the spacing unit to  
18 the Riverbend 2H, correct?

19 A. Yes.

20 Q. What are the surface-hole and bottom-hole  
21 locations?

22 A. The surface-hole location for the Riverbend 14  
23 Fed Com 2H is -- the surface hole is 75 feet from the  
24 north line and 10,980 feet from the west line. The  
25 bottom-hole location is 330 feet from the south line and

1 10,980 feet from the west line.

2 Q. And all of the project area is federal land?

3 A. Yes.

4 Q. And what is the API number for this well?

5 A. The API number is 30015-41589.

6 EXAMINER EZEANYIM: Dash what? 41 --

7 THE WITNESS: Yes. 30015-41589.

8 EXAMINER EZEANYIM: Thank you.

9 Q. (BY MS. KESSLER) What pool is involved in this  
10 application?

11 A. It's a wildcat Wolfcamp gas pool.

12 Q. And it's governed by New Mexico Administrative  
13 Code Rule Number 19.16.15(10)(B)?

14 A. Yes.

15 Q. What are the special rules for that pool?

16 A. The special rules are 320-acre spacing and  
17 660-foot setbacks.

18 EXAMINER EZEANYIM: I need to comment -- I  
19 need to comment here because maybe you dropped some of  
20 the context. You are drilling for gas in the Wolfcamp;  
21 320 is standard. There are no special pool rule. So  
22 you are asking for me to form a 320, you know, in the  
23 Wolfcamp. It's not going to happen. It's standard for  
24 the Wolfcamp. So that part of the application will be  
25 dismissed. There is no rule that set up 320 in the

1 Wolfcamp. 320 in the Wolfcamp is standard, so it's one  
2 of the mistakes that was made on the application. That  
3 part of the application will be dismissed. I don't  
4 know, but I wanted to make sure I pointed that out to  
5 you. There is no special pool rule that establishes  
6 320.

7 MS. KESSLER: Thank you, Mr. Examiner.

8 EXAMINER EZEANYIM: So the only thing you  
9 are dealing with there is a nonstandard location and  
10 compulsory pooling, right?

11 MS. KESSLER: Yes. Correct.

12 Q. (BY MS. KESSLER) And the Wolfcamp also has a  
13 660-foot setback, correct?

14 A. Correct.

15 Q. Let's discuss the pooling and unorthodox  
16 location application. You requested two nonstandard  
17 locations?

18 A. Yes.

19 Q. And this is for the first and the last perf?

20 A. Yes.

21 Q. Why have you requested those?

22 A. The geologist believes this will maximize  
23 capacity.

24 Q. Did you notify all affected parties, including  
25 those to the north and those to the south, of the

1 project boundary line?

2 A. Yes, we did.

3 Q. And is this shown in Exhibit Number 2?

4 A. Yes.

5 Exhibit Number 2 is a Midland Map land plat  
6 that outlines the project area being the west half of  
7 Section 14. The highlighted acreage represents the  
8 acreage and the working -- or the interest owners that  
9 were notified for both the proration unit and the  
10 nonstandard locations.

11 Q. Were all of the parties on this list noticed as  
12 reflected also in Exhibit Number 9?

13 A. Yes.

14 Q. Have any of the affected interest owners  
15 appeared today or otherwise notified you of any  
16 objection?

17 A. No, not for the nonstandard location.

18 Q. Have you been able to identify the interest  
19 owners in the spacing proration unit?

20 A. Yes.

21 Q. Can you please turn to what's been marked as  
22 Exhibit Number 3? Does this identify the working  
23 interest owners for the proposed project area?

24 A. Yes. On Exhibit 3, this represents 100 percent  
25 of the working interest owners in the proration unit or

1 the project area.

2 Q. What is the total percentage of working  
3 interest owners who are committed?

4 A. 83 percent.

5 Q. And are the highlighted parties those whom you  
6 seek to pool?

7 A. Yes.

8 Q. Okay. Do you also seek to pool these parties  
9 for the purpose of a federal comm agreement?

10 A. Yes, we do.

11 Q. Have you proposed -- proposed the well to the  
12 interest owners in Exhibit 3?

13 A. Yes.

14 Q. And is this reflected by Exhibit Number 4?

15 A. Yes. Exhibit Number 4 are the well proposal  
16 letters that were sent out on June 18th of 2014. It was  
17 sent to all the working interest owners in the project  
18 area. These were sent in a well-proposal packet that  
19 also included the AFE, the Joint Operating Agreement and  
20 the communitization agreement.

21 Q. Did you become aware after these well-proposal  
22 letters were sent out that Read & Stevens had assigned a  
23 portion of their interest?

24 A. Yes. Cimarex was informed on July 10th that  
25 Read & Stevens had assigned their interest out to eight

1 other parties.

2 Q. Is Exhibit 5 a copy of each of the  
3 well-proposal letters that you sent to the parties who  
4 are assigned interest after the initial well proposal?

5 A. Yes, they are.

6 Q. And is Exhibit 6 the AFE cost proposal for the  
7 well?

8 A. Yes.

9 Q. What date did you send this AFE?

10 A. I sent this on June 18th with the well-proposal  
11 packets.

12 Q. What are the dry hole and completion costs as  
13 reflected on this AFE?

14 A. The dry-hole cost is 3,813,000. The completion  
15 cost is 5,662,941.

16 Q. Now, turning back to Exhibit Number 3, could  
17 you outline for the Examiners what efforts, in addition  
18 to sending these exhibits [sic], Cimarex has taken to  
19 obtain the voluntary joinder?

20 A. In addition to the well-proposal packets that  
21 were sent in June, I have placed multiple and regular  
22 phone calls to the parties -- to the uncommitted  
23 parties, and we also sent regular e-mails.

24 Q. Was an agreement recently reached with Read &  
25 Stevens, Carolyn Beall, Betty Young and Diamond Star

1 Production?

2 A. Yes.

3 Q. So they have signed the JOA agreement?

4 A. They have signed the JOA.

5 Q. Do you feel that Cimarex has made a good-faith  
6 effort to reach a voluntary agreement with all of these  
7 parties?

8 A. Yes.

9 Q. And is Exhibit 8 a copy of the comm agreement?

10 A. Yes, it is.

11 Q. Are there expiring leases for this well?

12 A. Yes. The southwest quarter of the project area  
13 is expiring. It expires December 31st of this year.

14 Q. And in light of these expiring leases, are you  
15 asking that any order resulting from this hearing be  
16 expedited?

17 A. Yes, we are.

18 Q. If you could turn to the AFE cost proposal,  
19 which is Exhibit 6, are the costs reflected on the AFE  
20 in line with costs that Cimarex has incurred in drilling  
21 similar horizontal wells?

22 A. Yes.

23 Q. And in addition to the AFE, has Cimarex  
24 estimated the overhead costs and the costs while  
25 drilling this well and while producing it should it be

1 successful?

2 A. Yes.

3 Q. What are those?

4 A. The drilling cost per month is \$7,000.

5 Producing is 700 per month.

6 Q. Are these costs in line with what Cimarex and  
7 other operators in this area charge for similar wells?

8 A. Yes.

9 Q. Do you ask that administrative and overhead  
10 costs be incorporated into any order resulting from this  
11 hearing?

12 A. Yes.

13 Q. And do you also ask that it be adjusted  
14 according to appropriate accounting procedures?

15 A. Yes.

16 Q. With respect to the interest owners who remain  
17 uncommitted, do you request that the Division assess a  
18 200 percent risk penalty?

19 A. Yes, we do.

20 Q. Has Cimarex brought a geologist to testify  
21 about this proposed unit?

22 A. Yes, we have.

23 Q. And have you identified the operators -- or  
24 ownership of leased minerals in the 40-acre tracts  
25 surrounding the nonstandard unit?

1 A. Yes.

2 Q. Is a list of offset owners for the 40-acre  
3 tracts contained on the same Exhibit as those noticed  
4 for nonstandard locations?

5 A. Yes. Attached to -- I believe it's Exhibit  
6 2 --

7 Q. It's Exhibit 2.

8 A. -- 2 -- attached to the plat are the names of  
9 the owners that were notified for the proration unit and  
10 the nonstandard location.

11 Q. Is Exhibit 9 an affidavit with attached copies  
12 of letters sent to pooled parties and offset interests  
13 giving them notice of this hearing?

14 A. Yes.

15 Q. Does this correspond -- did you also provide  
16 notice to the parties affected by the two nonstandard  
17 locations?

18 A. Yes, it does.

19 Q. And is a plat attached to that letter showing  
20 the affected parties received notice?

21 A. Yes.

22 Q. Were you able to locate all of the offset  
23 operator interests?

24 A. We were able to locate all the operators.

25 Q. Were there any parties you were not able to

1 locate?

2 A. We were unable to locate one unleased mineral  
3 owner.

4 Q. Did you publish notice?

5 A. We did publish notice.

6 Q. Is an Affidavit of Publication included as part  
7 of Exhibit 9?

8 A. Yes.

9 Q. In your opinion, have you made a good-faith  
10 effort to identify the interest owners?

11 A. Yes, we have.

12 Q. And were Exhibits 1 through 8 prepared by you  
13 or compiled under your direction or supervision?

14 A. Yes, they were.

15 MS. KESSLER: Mr. Examiner, I would move to  
16 have Exhibits 1 through 9 admitted into evidence,  
17 including Exhibit 9, which I prepared.

18 EXAMINER EZEANYIM: Any objection?

19 MR. FELDEWERT: No objection.

20 MR. CARSON: No objection.

21 EXAMINER EZEANYIM: Exhibits 1 through 9  
22 will be admitted.

23 (Cimarex Energy Company of Colorado Exhibit  
24 Numbers 1 through 9 were offered and  
25 admitted into evidence.)

CROSS-EXAMINATION

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BY MR. FELDEWERT:

Q. Is it Ms. Jenkins or Ms. Cockrell?

A. I recently got married. It's Ms. Cockrell.

Q. Okay. Ms. Cockrell, you mentioned that your overhead rates are 7,000 and 700, and that's what you're requesting.

A. Uh-huh.

Q. Is that consistent at least in the JOA that you have with Read & Stevens?

A. Yes, it is.

Q. Now, you mentioned that one of the federal leases is expiring in the southwest quarter of your proposed spacing unit, expiring on December 31st.

A. It's expiring December 31st.

Q. Have you had discussions with CL&F Resources about their concerns with respect to drilling a well to meet that lease expiration deadline?

A. Yes. I've spoken with CL&F quite a few times about this.

Q. When do you intend to commence the drilling of the 2H well?

A. Currently on our rig schedule, this well is scheduled to be drilled late October, possibly early November. It would be the first week of November.

1 Q. And you have -- so you have a rig schedule for  
2 late October, first week of November?

3 A. Yes. It's scheduled to be drilled at that  
4 time.

5 Q. And you have all your approvals in place?

6 A. Yes.

7 Q. Has your communitization agreement been at  
8 least primarily approved by the BLM?

9 A. We were told by the BLM to wait on the pooling  
10 order so that we can send it with the -- attach it to  
11 the communitization agreement so that they are aware  
12 that some of the parties were uncommitted and had to be  
13 pooled. That way it would expedite the approval of the  
14 communitization agreement.

15 Q. All right. Good.

16 So you've had discussions with them about  
17 expediting the approval of the communitization  
18 agreement?

19 A. Yes. I've talked to the BLM several times.  
20 They're very aware of the expiring acreage in the  
21 southwest quarter. We just have to keep in touch with  
22 them, let them know what's going on, and they'll work  
23 with us.

24 Q. In light of your drilling schedule, would the  
25 company have any objection to modifying the pooling

1 order to reflect that it would expire if the well is not  
2 drilled by the first week of November?

3 A. You know, we would. We're going -- we're going  
4 to drill a well. We're very aware of the expiring  
5 acreage. We just don't want -- you know, if something  
6 happens, rig availability, equipment, you know,  
7 equipment problems, we don't want to have that  
8 constraint on the drilling of the well. Even though it  
9 doesn't expire until December 31st, by drilling in  
10 November, we have plenty of time. But --

11 Q. Let me ask you this: Does the company have any  
12 interest in the federal lease that's expiring?

13 A. No, we do not.

14 Q. So you can appreciate CL&F's concerns about  
15 wanting at least some documented deadline for drilling  
16 of the well in order to meet that lease expiration date?

17 A. Sir, I can, but I feel like we've already  
18 really shown good faith that we want this well drilled  
19 as well. You know, we were approached by the owners of  
20 the southwest quarter. I'm not saying CL&F  
21 specifically, but some of the owners in the southwest  
22 quarter approached Cimarex and asked us to drill it, so  
23 the lease would not expire so the acreage would be  
24 saved, and we were very willing to do that. And we are  
25 committed, and we want this well drilled. So we're

1 not --

2 Q. And you recognize, do you not, that if they put  
3 that drilling deadline in and something did happen, that  
4 you could apply to the Division for an extension of that  
5 deadline?

6 A. Yes.

7 Q. Secondly, I notice in the amended application  
8 that there is a reference -- at least in the attachments  
9 for a 1H well in the west half-west half of Section 14.

10 A. Right.

11 Q. Do you intend to -- is that an infill well that  
12 you have scheduled?

13 A. It is an infill well. We are not certain when  
14 we will drill this well.

15 Q. Okay. So that's -- you're not going to propose  
16 that without requiring kind of an election until after  
17 that first --

18 A. Right.

19 Q. -- 2H well is completed, correct?

20 A. Right. I mean, we don't have plans right now  
21 to drill the well, you know, anytime soon.

22 Q. Okay. All right. So you're not -- you're  
23 going to be asking the interest owners to make an  
24 election on that 1H well until after the 2H well is  
25 completed?

1           A.    Right.

2                   MR. FELDEWERT:  That's all the questions I  
3 have.

4                   EXAMINER EZEANYIM:  Thank you very much.  
5                   What's your name?

6                   MR. CARSON:  Joel Carson.

7                   EXAMINER EZEANYIM:  Okay.  Go ahead,  
8 Mr. Carson.

9                                   CROSS-EXAMINATION

10           BY MR. CARSON:

11           Q.    Ms. Cockrell, I just have a couple of questions  
12 for you.  You testified about your Exhibit 3.

13           A.    Yes.

14           Q.    And it had three parties that were highlighted  
15 on it, and I believe your testimony was that those are  
16 the three parties that you're seeking to pool today?

17           A.    Right.  Those are the uncommitted parties.

18           Q.    Okay.  And as of today, with Read & Stevens and  
19 the associated parties executing your JOA, you're no  
20 longer to pool their interest, right?

21           A.    Right.  We are no longer seeking to pool Read &  
22 Stevens and the parties that have signed the JOA.

23                   MR. CARSON:  That's all I have.

24                   EXAMINER EZEANYIM:  Thank you very much.  
25                   Anything further?

1 MS. KESSLER: (Indicating.)

2 EXAMINER EZEANYIM: Okay. Nothing further.

3 Okay. Good.

4 CROSS-EXAMINATION

5 BY EXAMINER EZEANYIM:

6 Q. Is your name Jordan?

7 A. Jordan, yes.

8 Q. That's a popular name.

9 EXAMINER EZEANYIM: This is Jordan  
10 (indicating) (laughter).

11 MR. DEBRINE: We have two of them.

12 EXAMINER EZEANYIM: Yeah.

13 Q. (BY EXAMINER EZEANYIM) Okay. Now, what is the  
14 pool name for this pool?

15 A. Wildcat Wolfcamp.

16 Q. Oh, it's wildcat? Okay.

17 A. Yes.

18 Q. I know we have -- we have a plat. We have a  
19 plat that describes the location of the well, right?

20 A. Yes. I believe it's Exhibit Number 1, the  
21 C-102.

22 Q. I'm looking for your newspaper -- where you  
23 have published in the newspaper, because one owner is  
24 unlocatable. Did you publish in the newspaper?

25 A. We did. And it's Exhibit 9, correct?

1 MS. KESSLER: Yes.

2 Mr. Examiner, it's the second page.

3 EXAMINER EZEANYIM: Exhibit what?

4 MS. KESSLER: Exhibit 9, the second page.

5 Q. (BY EXAMINER EZEANYIM) What happened? Did you  
6 send information, and it was returned to you?

7 A. Yes, that's correct.

8 Q. And I'm looking at -- and you say you are going  
9 to be drilling the first week of November?

10 A. That's when it's scheduled, yes, sir.

11 Q. That's when it's scheduled. Do you have a rig  
12 available?

13 A. Yes.

14 Q. And that's why you are asking for an expedited  
15 order?

16 A. Yes, sir.

17 Q. Okay. You may step down. I have no further  
18 questions for you.

19 EXAMINER EZEANYIM: Call your next witness.

20 KIM NORDSTOG,

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

23 DIRECT EXAMINATION

24 BY MS. KESSLER: " " "

25 Q. Please state your name for the record and tell

1 the Examiner by whom you're employed and in what  
2 capacity.

3 A. My name is Kim Nordstog. I work for Cimarex  
4 Energy Company as a geologist.

5 EXAMINER EZEANYIM: Kim what?

6 THE WITNESS: Kim Nordstog.

7 Q. (BY MS. KESSLER) Have you previously testified  
8 before the Division?

9 A. Yes.

10 Q. And were your credentials as a petroleum  
11 geologist accepted and made a matter of record?

12 A. Yes, they were.

13 Q. Are you familiar with the application that has  
14 been filed by Cimarex in this case?

15 A. I am.

16 Q. Have you reviewed the geologic study of Section  
17 14?

18 A. Yes.

19 MS. KESSLER: Mr. Examiner, I would tender  
20 this witness as an expert in petroleum geology matters.

21 EXAMINER EZEANYIM: So accepted.

22 Any objection?

23 MR. FELDEWERT: No objection.

24 EXAMINER EZEANYIM: Accepted.

25 Q. (BY MS. KESSLER) If you could turn to Exhibit

1 10, please? And could you identify this exhibit and  
2 walk us through it?

3 A. Exhibit 10 is a map that shows the location of  
4 the Riverbend 14 Fed #2H shown by the red arrow in the  
5 west half of 14, which is outlined by a dashed red line.  
6 That also shows the location of a type log in Section 11  
7 to the north of the Riverbend well, and that is the Salt  
8 Draw 11 Fed Com #1 that we will look at on the next  
9 exhibit.

10 The contours on this map, the black  
11 contours are net shale contours. On the Wolfcamp B, C  
12 and D zones, net shale greater than 10 percent, density  
13 on a limestone matrix or less than 2.55 grams per cc.

14 The light blue-gray contours are structural  
15 contours at the top of the Wolfcamp D zone, and they  
16 slow down dip, structural dip to the east. The net  
17 shale isopach contours show that Section 14 is between  
18 300 and 400 net feet of shale in the Wolfcamp B, C, D.

19 The bluish lines on wells to the west and  
20 north of Section 14 -- the heavy blue lines are Wolfcamp  
21 horizontal producing wells in the area.

22 EXAMINER EZEANYIM: Excuse me. What is the  
23 net density? The net density, you said it. I need to  
24 get that. What is the net density?

25 THE WITNESS: Greater than 10 percent

1 density porosity or less than 2.55 grams per cc, which  
2 is the equivalent on a limestone matrix.

3 Q. (BY MS. KESSLER) If you can turn to Exhibit 11,  
4 this is a type log for the well that was identified on  
5 the previous exhibit, correct?

6 A. Yes.

7 Q. Does this also depict the target interval?

8 A. Yes, it does.

9 Q. And do you consider this well to be  
10 representative of the area that is the subject of the  
11 application?

12 A. I do.

13 Q. In your opinion, does this show continuity in  
14 the target interval?

15 A. Yes, it does.

16 Q. Can you identify any geologic impediments on  
17 the target interval?

18 A. No.

19 Q. And this is the Wolfcamp D, correct?

20 A. Target interval is the Wolfcamp D, the top of  
21 which shown on this type log at 10,527 feet in the  
22 vertical well.

23 Q. What conclusions have you drawn from the  
24 geologic study of this --

25 A. That the Wolfcamp is a viable target for

1 horizontal drilling to recover the gas and associated  
2 liquids at this depth, and this is the best depth in the  
3 Wolfcamp D to do that.

4 Q. Have you identified any impediments?

5 A. No.

6 Q. In your opinion, will each quarter-quarter  
7 section produce equally?

8 A. Yes.

9 Q. And do you believe that horizontal drilling is  
10 the most efficient method?

11 A. We believe it is, yes.

12 Q. If you could identify Exhibit Number 12,  
13 please?

14 A. Exhibit Number 12 is a summary of the  
15 directional plan for this horizontal well. The critical  
16 points depth-wise are shown on the table, the upper  
17 left. A cross-sectional view of the lateral is shown in  
18 the lower left, with north on the left and south on the  
19 right. And then on the right of this exhibit is shown a  
20 plan view or map view of the wellbore, with the north  
21 end on the north -- I mean the north end on the top of  
22 the page and the south end on the bottom.

23 If you go to the lower, left-hand corner  
24 and look at the cross-sectional view, the TVD is shown  
25 on the y-axis. The first take point is labeled by a

1 label at 330 feet from the north line in the bottom of  
2 the curve. And the TD of the well TD, of the lateral,  
3 the last take point is labeled at 330 feet from the  
4 south line.

5 On the map view of that lateral, the  
6 east-west black lines at the top and the bottom of that  
7 map are the section lines, and the first take point  
8 positions are at the red lines at the top and the  
9 bottom, 330 off the lines.

10 Q. So the first and last take points, which are  
11 nonstandard, are identified on this map?

12 A. Yes.

13 Q. Why are those two nonstandard locations  
14 necessary?

15 A. To maximum recovery from the Wolfcamp D by this  
16 lateral.

17 Q. In your opinion, would the granting of  
18 Cimarex's application be in the best interest of  
19 conservation and the prevention of waste and for the  
20 protection of correlative rights?

21 A. Yes.

22 Q. And were Exhibits 10 through 12 prepared by you  
23 or compiled by your team and subject to your review?

24 A. Yes, they were.

25 MS. KESSLER: Mr. Examiner, I'd move to

1 have Exhibits 10 through 12 admitted into evidence.

2 EXAMINER EZEANYIM: Any objections?

3 MR. FELDEWERT: No objection.

4 MR. CARSON: No objection.

5 EXAMINER EZEANYIM: Exhibits 10 through 12?

6 MS. KESSLER: Yes.

7 EXAMINER EZEANYIM: Okay. Exhibits 10  
8 through 12 are admitted.

9 (Cimarex Energy Company of Colorado Exhibit  
10 Numbers 10 through 12 were offered and  
11 admitted into evidence.)

12 EXAMINER EZEANYIM: Mr. Feldewert, any  
13 questions?

14 MR. FELDEWERT: I do not. I'm sorry. I do  
15 not.

16 EXAMINER EZEANYIM: Mr. Carson?

17 MR. CARSON: No questions.

18 CROSS-EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. Why are you talking about two nonstandard  
21 locations? What does that mean? A nonstandard location  
22 is a nonstandard location. I don't care whether the  
23 penetration point is north-south or -- I mean the  
24 terminus is -- when you say two nonstandard, are you  
25 drilling two wells?

1 A. No.

2 Q. Okay. I want to correct that. You are just  
3 asking for approval of a nonstandard location? You  
4 know, if the -- is nonstandard, we don't worry about  
5 that. The location point is where we worry. Could be  
6 nonstandard. The terminus point can be nonstandard.

7 You are just asking for a nonstandard  
8 location, right? When I see two nonstandard, I was  
9 wondering whether you are drilling two wells.

10 MS. KESSLER: We were trying to clarify.

11 EXAMINER EZEANYIM: Just one well, right?

12 THE WITNESS: Yes.

13 MS. KESSLER: One well on the first and  
14 last take points.

15 EXAMINER EZEANYIM: Well, I know. It's  
16 still nonstandard.

17 MS. KESSLER: Okay.

18 Q. (BY EXAMINER EZEANYIM) Are you a geologist?

19 A. Yes.

20 Q. Is anybody coming here to testify after that?

21 MS. KESSLER: Yes. We have an engineer  
22 also.

23 Q. (BY EXAMINER EZEANYIM) In that case, standard  
24 proration unit, to the geologist, why did you want to  
25 drill it north-south or south to north? Why do you want

1 to drill it in that direction orientation?

2 A. We think that's the best direction to optimize  
3 recovery from the reservoir because of the direction  
4 that our hydraulic fractures will be generated. And  
5 also if you look back at the map exhibit, which is  
6 Exhibit 10, the closest neighboring laterals for the  
7 same objective that were highlighted in blue are also  
8 north-south, and they performed well going north-south.

9 Q. So you think the north-south is better than  
10 east-west by inference?

11 A. We think it is better, yes.

12 EXAMINER EZEANYIM: Any other questions for  
13 this witness?

14 MR. FELDEWERT: No, sir.

15 MR. CARSON: No.

16 EXAMINER EZEANYIM: You may be excused.

17 THE WITNESS: Thank you.

18 EXAMINER EZEANYIM: Call your next witness,  
19 please.

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

23 DIRECT EXAMINATION

24 BY MS. KESSLER:

25 Q. Could you please state your name for the record

1 and tell the Examiner by whom you are employed and in  
2 what capacity?

3 A. My name is Steve Heitzman, and I'm employed by  
4 Cimarex Energy in Midland, Texas as a drilling and  
5 completions engineer.

6 Q. Have you previously testified before the  
7 Division?

8 A. No, I have not.

9 Q. Okay. If you could review for the Examiner  
10 your educational background.

11 A. I graduated in 2007 from the University of  
12 Tulsa with a bachelor's degree in chemical engineering.

13 Q. And have you worked for Cimarex for the past  
14 several years?

15 A. Yes, the past three years.

16 Q. Could you also outline your experience in the  
17 Permian Basin?

18 A. Yes. I've been working as a drilling and  
19 completions engineer for the entire time in the Permian  
20 Basin.

21 Q. Are you a member of any professional  
22 associations?

23 A. I'm a member of the Society of Petroleum  
24 Engineers and the American Association of Drilling  
25 Engineers.

1 Q. And are you familiar with the application that  
2 has been filed by Cimarex in this case?

3 A. Yes.

4 Q. Are you familiar with Exhibit 6, which is the  
5 estimate for the cost for drilling and completing the  
6 Riverbend 2H well?

7 A. Yes.

8 MS. KESSLER: Mr. Examiner, I would offer  
9 Mr. Heitzman as an expert in petroleum engineering.

10 EXAMINER EZEANYIM: Any objections?

11 MR. FELDEWERT: No objections.

12 MR. CARSON: No objection.

13 EXAMINER EZEANYIM: Your qualifications are  
14 accepted.

15 Q. (BY MS. KESSLER) If you could turn to Exhibit  
16 13, please, and identify this exhibit for the Examiner.

17 A. Exhibit 13 is a map of southern Eddy County  
18 containing 12 townships. It shows horizontal wells that  
19 Cimarex has drilled, and then it also shows the proposed  
20 Riverbend 14 2H location.

21 (Exhibit Number 13 identified.)

22 Q. How many horizontal wells has Cimarex drilled  
23 in this area?

24 A. In this -- in the map on this exhibit; Cimarex  
25 has drilled approximately 40 wells.

1 Q. And how many horizontal wells in Eddy and Lea  
2 County?

3 A. Approximately 160.

4 Q. Are the well costs depicted in Exhibit 6  
5 consistent with costs that Cimarex has incurred in  
6 drilling similar horizontal wells in this area?

7 A. Yes.

8 Q. Do you have an opinion as to whether the  
9 Riverbend 2H well is likely to be successful?

10 A. Yes. I believe it will be successful.

11 Q. And in your opinion, will the granting of  
12 Cimarex's application prevent waste and protect  
13 correlative rights?

14 A. Yes.

15 MS. KESSLER: That concludes Cimarex's  
16 case.

17 EXAMINER EZEANYIM: Any questions?

18 MR. FELDEWERT: I have no questions.

19 MR. CARSON: No questions.

20 EXAMINER EZEANYIM: No questions. Thank  
21 you very much.

22 CROSS-EXAMINATION

23 BY EXAMINER EZEANYIM:

24 Q. We are looking at this Exhibit Number 13.  
25 Cimarex has drilled about 40 wells, right?

1 A. Yes.

2 Q. Is this in the wildcat Wolfcamp or some other  
3 formation?

4 A. The blue shows Bone Spring, and the orange  
5 shows Wolfcamp.

6 Q. All right. Wolfcamp.

7 A. Yes.

8 Q. So we have established that Cimarex is here to  
9 ask for approval of a nonstandard location and  
10 compulsory pooling, right?

11 MS. KESSLER: Correct.

12 EXAMINER EZEANYIM: I want the record to  
13 reflect what we're trying to do here.

14 And then -- let me see if I have more  
15 questions for you.

16 Do you guys have anything else to ask this  
17 witness?

18 MR. FELDEWERT: Nothing of this witness.  
19 I do have a request.

20 EXAMINER EZEANYIM: Go ahead.

21 MR. FELDEWERT: I don't have anything  
22 further for this witness.

23 EXAMINER EZEANYIM: Okay. The witness may  
24 step down.

25 MR. FELDEWERT: Mr. Examiner, in light of

1 the lease-expiration issue that exists for the southwest  
2 quarter of the spacing unit, we ask that the Division  
3 issue a pooling order that contains a drilling deadline  
4 that would meet their rig schedule, which is the first  
5 week of November, recognizing that if there are reasons  
6 for a slight delay, they can request an extension of  
7 that drilling deadline. And we would just ask that we  
8 receive notice of such extension.

9           But CL&F Resources is the only interest  
10 owner in that federal lease that's here today. The  
11 Applicant is not an interest owner in that lease.

12           Cimarex has indicated that they fully  
13 intend to drill the well in the first week of November,  
14 that they've got their rig scheduled, they've got the  
15 approvals in place, and that's all fine and dandy. But  
16 I will note that if you look at the record, the original  
17 APD was filed back in August of 2013, and at that time  
18 they said that the work was going to start in September  
19 of 2013. Now, that did not happen, and they've gotten  
20 amendments. They filed a sundry to change their  
21 location, so that's understandable.

22           But we do have a deadline here. And in  
23 light of that deadline, a drilling deadline in the  
24 pooling order, if it's not reached and that pooling  
25 order expires, then CL&F Resources will have time, if

1 it's the 1st of November, to take action with the BLM,  
2 file their own APD and get an extension of their lease  
3 from the BLM. But they're not in a position to do that  
4 given the current circumstances of an existing APD and a  
5 pooling order.

6 For that reason, we ask that there be a  
7 drilling deadline in this pooling order that meets their  
8 rig schedule. And given that they have the rig  
9 scheduled and given that they're committed to drilling  
10 and given that we do have this lease expiration on it, I  
11 don't see any reason why the Division would not place  
12 such a deadline in the order recognizing that if a  
13 slight extension is needed, it can be applied for and  
14 obtained.

15 EXAMINER EZEANYIM: Thank you, Counselor.  
16 Are you done?

17 MR. FELDEWERT: I am.

18 EXAMINER EZEANYIM: Do you have anything?

19 MR. DEBRINE: Yes, Mr. Examiner, if I could  
20 respond to Mr. Feldewert.

21 Cimarex doesn't believe there is any  
22 jurisdiction within the Division to order the well be  
23 drilled by a specific date under the pooling statute or  
24 the Division's compulsory pooling rule. Standard  
25 practice has been for many, many years to issue a

1 compulsory pooling order which expires within a year.  
2 You have a year to drill a well, and the order expires  
3 after that date.

4 CL&F only owns a 10 percent interest. The  
5 vast majority of the parties have committed to the  
6 drilling of the well under the terms of the JOA, which  
7 CL&F refuses to sign. If they wanted to include terms  
8 in a JOA that would impose certain requirements on  
9 Cimarex, they could have chosen that route. What  
10 they're trying to do is ask the Division to order  
11 specific requirements and obligations on Cimarex that  
12 you would normally see in an agreement, and that's  
13 beyond the jurisdiction of the Division to do.

14 There are no guarantees that a well can be  
15 drilled by a specific date. Drilling of a well, as  
16 everyone knows, is subject to a variety of factors. The  
17 rig has been scheduled to drill in a two-week time  
18 frame. You know, we're right now seeing the remnants of  
19 a hurricane passing through New Mexico. That's wreaking  
20 havoc on people's drilling schedules right now in the  
21 Permian Basin. Typically, there are force majeure  
22 provisions in JOAs that recognize acts of God,  
23 administrative delay. A variety of factors will excuse  
24 performance, and we don't need to start including those  
25 provisions in a pooling order from the Division. It

1 would be unjustice and unreasonable for you to do so in  
2 this case.

3 EXAMINER EZEANYIM: Mr. Wade?

4 (Consultation off the record.)

5 MR. DEBRINE: And if I can add one more  
6 thing, CL&F didn't come with any evidence, present any  
7 evidence that even if there was a specific date like  
8 December 1st that they could even, within the month that  
9 was left, obtain an APD and get it approved or obtain  
10 approval from the BLM to suspend the expiration date of  
11 the lease. So it's really speculation and a nullity  
12 anyway that somehow they'd be able to do something in  
13 that month.

14 EXAMINER EZEANYIM: Do you have any  
15 comment?

16 MR. CARSON: I don't have any position on  
17 this issue.

18 EXAMINER EZEANYIM: Do you have any  
19 comment?

20 MR. FELDEWERT: Yeah. Let me respond.

21 It does cause me now concern that given  
22 that they have a commitment to drilling the well and  
23 they have a rig scheduled, that they're suddenly adamant  
24 about not having a drilling deadline in their pooling  
25 order.

1                   Secondly, in terms of the jurisdiction of  
2 the Division, they certainly have jurisdiction to enter  
3 a pooling order under the terms of New Mexico -- Section  
4 70-2-17C. It states that all orders affecting such  
5 pooling shall be made after notice in hearing and shall  
6 be upon such terms and conditions as are just and  
7 reasonable.

8                   We have a unique circumstance here. We  
9 have a lease expiring where an operator does not have an  
10 interest in that lease. They're asking to invoke the  
11 police power of this state to pool my client's interest  
12 who does have an interest in this lease. If they want  
13 to invoke that pooling authority under terms that are  
14 just and reasonable in this circumstance, given the  
15 facts that are presented, it would seem to me it's just  
16 and reasonable to impose a drilling deadline that's  
17 consistent with their schedule, knowing that if there is  
18 a reason for a slight delay, they can come back and get  
19 an extension after notice to the parties.

20                   So I would submit that putting a drilling  
21 deadline, under this circumstances, of the first week of  
22 November, whatever that date is, is just and reasonable,  
23 and the Division has jurisdiction to do it, and it's  
24 warranted in this case.

25                   MR. WADE: You did say 17-2-17C?

1 MR. FELDEWERT: Correct.

2 EXAMINER EZEANYIM: Anything further?

3 MR. DEBRINE: Nothing else, Mr. Examiner.

4 EXAMINER EZEANYIM: We're going to take  
5 this case under advisement and decide to do -- do  
6 whatever, you know, is pertinent in the order. We're  
7 not going to tell you we are going to grant your request  
8 or not, so it will be take it under advisement.

9 The Legal Examiner is asking me to ask you  
10 to maybe draft an order, and we'll take a look. And if  
11 there is anything we need, we can ask you further. I  
12 know you are all bent on the economics. If I were you,  
13 I would do that. I would do all kinds of things to get  
14 my client's wish. But as you know, when you get your  
15 order back, you don't get what you asked for. So  
16 whether it is drafted or not, it doesn't matter. We  
17 still have to look at it. The draft order doesn't mean  
18 anything, but you can go ahead and draft an order.

19 Both parties can tell us what you're going  
20 to do, and we will take a look, maybe sit down with the  
21 lawyers and decide what should happen under the Oil and  
22 Gas Act. We don't have authority to do anything or not  
23 because I will have to work under the confines of that  
24 Act, see whether we have the power or not. I'm not, you  
25 know -- I don't know how to do it.

1                   So we take the case under advisement.  
2     Draft the order, and then we'll take a look and see what  
3     happens. At that point, if we need to have more  
4     information, we will make sure everybody is included,  
5     have you contacted in the contested case. Is that  
6     correct? Okay.

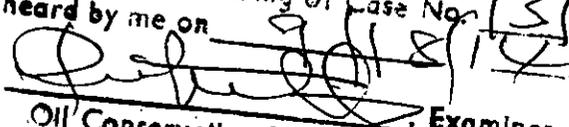
7                   MR. DEBRINE: Yes. Thank you,  
8     Mr. Examiner.

9                   MR. FELDEWERT: Thank you.

10                  EXAMINER EZEANYIM: At this point Case  
11     Number 15188 will be taken under advisement.

12                                 (Case Number 15188 concludes, 10:57 a.m.)

13  
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25

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 15188  
heard by me on 8/14/88  
  
Paul Baca, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

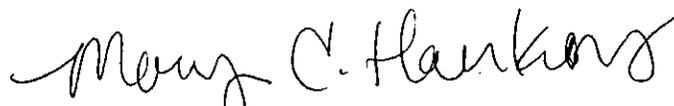
5 I, MARY C. HANKINS, New Mexico Certified  
6 Court Reporter No. 20, and Registered Professional  
7 Reporter, do hereby certify that I reported the  
8 foregoing deposition in stenographic shorthand and that  
9 the foregoing pages are a true and correct transcript of  
10 those proceedings that were 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



21

MARY C. HANKINS, CCR, RPR  
Paul Baca Court Reporters, Inc.  
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Date of CCR Expiration: 12/31/2014

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23

24

25

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

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

7 APPLICATION OF CIMAREX ENERGY CASE NO. 15188  
8 COMPANY OF COLORADO FOR A  
9 NONSTANDARD SPACING AND  
10 PRORATION UNIT, COMPULSORY  
11 POOLING AND NONSTANDARD  
12 LOCATION, EDDY COUNTY, NEW MEXICO.

13 REPORTER'S TRANSCRIPT OF PROCEEDINGS

14 EXAMINER HEARING

15 September 18, 2014

16 Santa Fe, New Mexico

17 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER  
18 GABRIEL WADE, LEGAL EXAMINER

19 This matter came on for hearing before the  
20 New Mexico Oil Conservation Division, Richard Ezeanyim,  
21 Chief Examiner, and Gabriel Wade, Legal Examiner, on  
22 Thursday, September 18, 2014, at the New Mexico Energy,  
23 Minerals and Natural Resources Department, Wendell Chino  
24 Building, 1220 South St. Francis Drive, Porter Hall,  
25 Room 102, Santa Fe, New Mexico.

26 REPORTED BY: Mary C. Hankins, CCR, RPR  
27 New Mexico CCR #20  
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