

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:

COPY

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

CASE NO. 15756

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 3, 2017

Santa Fe, New Mexico

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

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, August 3, 2017, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

APPEARANCES

FOR APPLICANT CIMAREX ENERGY COMPANY:

JENNIFER L. BRADFUTE, ESQ.
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.
500 4th Street, Northwest, Suite 1000
Albuquerque, New Mexico 87102
(505) 848-1800
jlb@modrall.com

FOR INTERESTED PARTY REALEZA DEL SPEAR, L.P.:

SCOTT S. MORGAN, ESQ.
CAVIN & INGRAM, P.A.
40 First Plaza Center, Northwest, Suite 610
Albuquerque, New Mexico 87102
(505) 243-5400
smorgan@cilawnm.com

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1 (8:23 a.m.)

2 EXAMINER GOETZE: At the request of
3 counsel, we will go ahead with Case 15756, application
4 of Cimarex Energy Company for a nonstandard spacing unit
5 and compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. BRADFUTE: Mr. Examiner, my name is
8 Jennifer Bradfute, with the Modrall Sperling Law Firm,
9 on behalf of Cimarex Energy Company.

10 MR. MORGAN: And Scott Morgan, with
11 Cavin & Ingram, on behalf of Realeza Del Spear.

12 EXAMINER GOETZE: Thank you.

13 MS. BRADFUTE: Mr. Examiner, I have two
14 witnesses that are here this morning.

15 EXAMINER GOETZE: Do you have any
16 witnesses?

17 MR. MORGAN: Your Honor, we actually have
18 come to agreement, I think, on this case, so we're not
19 going to be calling our witnesses this morning.

20 EXAMINER GOETZE: Okay.

21 Would your witnesses please stand and
22 identify themselves, and the court reporter will swear
23 them in?

24 MR. ELLIOTT: Cody Elliott.

25 MS. COPLEY: Lauren Copley, C-O-P-L-E-Y.

1 (Mr. Elliott and Ms. Copley sworn.)

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

4 EXAMINER GOETZE: Please.

5 CODY ELLIOTT,
6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MS. BRADFUTE:

10 Q. Good morning.

11 A. Good morning.

12 Q. Could you please state your name for the
13 record?

14 A. Cody Elliott.

15 Q. And, Mr. Elliott, who do you work for?

16 A. Cimarex Energy Company.

17 Q. And what is your position at Cimarex?

18 A. Landman.

19 Q. And what are your responsibilities as a landman
20 at Cimarex?

21 A. I look over Eddy and Lea Counties, New Mexico
22 managing oil and gas leases, contracts and preparing
23 wells for drilling.

24 Q. Have you previously testified before the
25 Division?

1 A. No.

2 Q. Could you please describe your educational
3 background and work experience for the Examiners?

4 A. I got a degree -- BBA degree from Texas Tech in
5 2004. I worked in the field for four years and got
6 hired on with Cimarex in 2009, July, and I've been there
7 ever since.

8 Q. Do you belong to any professional
9 organizations?

10 A. The PBLA.

11 Q. And what is your area of responsibility at
12 Cimarex in Lea County, in southeastern New Mexico?

13 A. Yes.

14 Q. And are you familiar with the application filed
15 by Cimarex in this matter?

16 A. Yes.

17 Q. And are you familiar with the status of the
18 lands that are the subject matter of that application?

19 A. Yes.

20 MS. BRADFUTE: Mr. Examiner, I'd like to
21 tender Mr. Elliott as an expert in land matters.

22 EXAMINER GOETZE: Even though you are
23 not -- you have the opportunity to --

24 MR. MORGAN: No objection.

25 EXAMINER GOETZE: Very good.

1 He is so qualified.

2 MS. BRADFUTE: Thank you.

3 Q. (BY MS. BRADFUTE) Mr. Elliott, could you please
4 turn to what's been marked as Exhibit Number 1 in the
5 notebook in front of you?

6 A. (Witness complies.)

7 Q. Could you please explain for the Hearing
8 Examiners what this document is?

9 A. Yeah. This is our application to seek pooling
10 of all interests in the east half-west half of Section
11 7, 20 South, 35 East, Lea County, New Mexico as to the
12 Bone Spring Formation.

13 Q. And does this application pertain to the
14 development of a particular well?

15 A. Yes, the Lea 7 Federal 2H well.

16 Q. And what is the target zone for the proposed
17 well?

18 A. Bone Spring.

19 Q. Could you please turn to what's been marked as
20 Exhibit Number 2 in the notebook and identify what this
21 exhibit is to the Hearing Examiners?

22 A. This is our C-102. This shows the proration
23 unit for the well. It's got our first hole location,
24 our bottom-hole location and our first take point.

25 Q. And how many acres are included within the

1 proposed project area for the well?

2 A. 160 acres.

3 Q. And has the Division identified a pool and a
4 pool code for the well?

5 A. Yes. The pool code is on this. It's
6 WC-025G-086203506D.

7 Q. Okay. Great.

8 And is there a pool code associated with
9 that pool?

10 A. Yeah. The pool code is -- I believe it's
11 31387 --

12 Q. Actually, if you look over right on your
13 C-102 --

14 A. Oh, I'm sorry. Yeah. 97983.

15 Q. Okay. Great.

16 And is that pool governed by the Division
17 statewide rules?

18 A. Yes, ma'am.

19 Q. And will the well comply with the Division
20 setback requirements?

21 A. Yes.

22 Q. Could you please turn to what's been marked as
23 Exhibit 3 in the notebook in front of you and identify
24 what this exhibit is for the Hearing Examiners?

25 A. Yeah. This is our -- a tract plat that we

1 built. Tract 1 is north 80 acres of the proration unit.
2 That's a federal lease. And the south 80 acres is an
3 ownership. It's fee interest. It's the south 80 acres
4 of the proration unit. And then the chart out to the
5 right are the parties we seek to pool.

6 Q. And the parties that you seek to pool, do they
7 own interests in any particular tract that you've
8 identified?

9 A. Yeah. They all own interest in Tract Number 2.

10 Q. Are there any depth severances within the
11 proposed project area?

12 A. No, ma'am.

13 Q. Could you please summarize for the Hearing
14 Examiners the efforts that Cimarex has made to obtain
15 voluntary joinder in the well?

16 A. Yes. We -- in March of 2017, we contacted or
17 attempted to contact all these parties to acquire an oil
18 and gas lease. Subsequently, in May, we sent all these
19 parties well proposals to participate in the well with
20 an AFE and a JOA.

21 Q. And realizing that Spear is a party to this
22 case, has Cimarex made an offer to lease Realeza Del
23 Spear's interest?

24 A. Yes, ma'am. And we've agreed to terms. We
25 just have not signed yet.

1 Q. Has Cimarex sent a proposed joint operating
2 agreement to the mineral interest owners that it seeks
3 to pool?

4 A. Yes, ma'am.

5 Q. Could you please turn to Exhibit Number 4 and
6 identify what this document is?

7 A. This is the form of operating agreement that we
8 have proposed with the AFE in the well-proposal letter.

9 Q. In your opinion, has Cimarex made a good-faith
10 effort to obtain voluntary joinder in the well?

11 A. Yes, ma'am.

12 Q. And what is the spud date?

13 A. Anticipated date, I believe, is mid-November.

14 Q. And could you please turn to what's been marked
15 as Exhibit Number 5 and explain what this exhibit is?
16 It has a cover letter on the following document.

17 A. Yeah. This is our well-proposal letter. It
18 gives the well name, the intended surface and
19 bottom-hole location, objective target. And behind that
20 is the AFE, which is our estimated costs to drill,
21 complete and equip the well.

22 Q. And could you please explain to the Hearing
23 Examiners what your estimated costs for drilling and
24 completing the well are?

25 A. Yes. Yeah. We have a before-casing-point cost

1 of \$2,155,000, an after-casing-point cost of \$497,000,
2 and the cost to complete the well is \$2,396,000, for a
3 total of the \$7,854,176.

4 Q. And are the costs included within the AFE
5 combined with the costs of other horizontal wells
6 drilled to this length and depth within this area of New
7 Mexico?

8 A. Yes, ma'am.

9 Q. Who should be appointed as operator of the
10 well?

11 A. Cimarex Energy Co.

12 Q. And do you have a recommendation for the amount
13 which Cimarex should be paid for supervision and
14 administrative expenses?

15 A. Yes. We have be requested \$7,000 a month to
16 drill the well and \$700 a month to produce the well.

17 Q. And are these amounts equivalent to those
18 normally charged by Cimarex and other operators for
19 horizontal development for wells of this length and
20 depth?

21 A. Yes, ma'am.

22 Q. And do you request that these rates be adjusted
23 periodically as provided for in the COPAS accounting
24 procedure?

25 A. Yes, ma'am.

1 Q. Does Cimarex request cost -- a maximum cost
2 plus 200 percent risk charge to any pooled working
3 interest owner who fails to pay its share of the cost
4 for drilling, completing and equipping the well?

5 A. Yes, ma'am.

6 Q. And have you identified who the offset owners
7 are for the proposed well?

8 A. Yes.

9 Q. And were the offset owners given notice of the
10 hearing?

11 A. Yes, ma'am.

12 Q. Were the parties that you seek to pool notified
13 of the hearing?

14 A. Yes, ma'am.

15 Q. Could you please turn to what's been marked as
16 Exhibit Number 6?

17 A. Uh-huh.

18 Q. Is Exhibit 6 a copy of my affidavit confirming
19 that notice of this hearing has been provided?

20 A. Yes, ma'am.

21 Q. And if you turn to the last page of Exhibit
22 Number 6, does this last page contain an Affidavit of
23 Publication from the "Hobbs News-Sun," which shows that
24 notice was also provided of this hearing via
25 publication?

1 A. Yes, ma'am.

2 Q. Were Exhibits 1 through 6 prepared for you or
3 under your supervision or compiled from company business
4 records?

5 A. Yes, ma'am.

6 Q. Can you testify to their accuracy?

7 A. Yes.

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

10 A. Yes.

11 MS. BRADFUTE: Mr. Examiner, I'd like to
12 move that Exhibits 1 through 6 be admitted into the
13 record.

14 MR. MORGAN: No objection.

15 EXAMINER GOETZE: Exhibits 1 through 6 are
16 so entered.

17 (Cimarex Energy Company Exhibit Numbers 1
18 through 6 are offered and admitted into
19 evidence.)

20 MS. BRADFUTE: And that completes my direct
21 for this witness.

22 EXAMINER GOETZE: Since you're at the
23 table, you have the opportunity.

24

25

CROSS-EXAMINATION

BY MR. MORGAN:

Q. Just to confirm a couple of your answers, Cimarex has reached an agreement with Realeza Del Spear; is that correct?

A. That's correct.

Q. And that includes all the lease terms, including bonus, for the timelines of the lease form, et cetera?

A. Yes, sir.

Q. Perfect.

So effectively you're not seeking to pool their interest at this time?

A. Not at this time, no.

MR. MORGAN: That's all the questions.

EXAMINER GOETZE: Thank you very much.

Mr. Brooks?

EXAMINER BROOKS: I don't believe I have any questions.

EXAMINER GOETZE: Very good.

CROSS-EXAMINATION

BY EXAMINER GOETZE:

Q. This operating agreement, is this specific to this or just an example?

A. No. That's -- that's the specific one we sent

1 out.

2 Q. Specific?

3 A. Yes, sir.

4 Q. Typically, we don't see them. Typically, they
5 hide them.

6 MS. BRADFUTE: There had been an initial
7 indication -- pre-hearing statement with an issue, but
8 all matters have been resolved.

9 EXAMINER GOETZE: Okay. Very good.

10 EXAMINER BROOKS: This is the 1999 [sic]
11 form. It's not the new horizontal well form.

12 THE WITNESS: That's the '89. Yes, sir.

13 EXAMINER BROOKS: That came out just last
14 year.

15 THE WITNESS: Right.

16 EXAMINER BROOKS: -- well, 1989 [sic] form.
17 It approved --

18 THE WITNESS: Yes, sir, it is.

19 Q. (BY EXAMINER GOETZE) And you had no situations
20 of not being able to locate any of the mineral interest
21 owners?

22 A. Yeah. We've got a couple of situations of
23 that.

24 Q. But you've been able to identify all interest
25 parties, and you're not having anything out there

1 that's -- that's not documented as far as mineral
2 interest owners?

3 A. Yes, sir.

4 Q. Okay. Very good.

5 EXAMINER GOETZE: I have no further
6 questions for this witness.

7 MS. BRADFUTE: Okay. Thank you.

8 Mr. Examiner, I'd like to call my second
9 witness.

10 EXAMINER GOETZE: Please.

11 LAUREN COPLEY,

12 after having been previously sworn under oath, was
13 questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MS. BRADFUTE:

16 Q. Could you please state your name for the
17 record?

18 A. Lauren Copley.

19 Q. Ms. Copley, who do you work for?

20 A. Cimarex Energy Co.

21 Q. And what is your position at Cimarex Energy
22 Company?

23 A. I'm a geologist.

24 Q. And what are your responsibilities as a
25 geologist with Cimarex?

1 A. I work on exploration in southeastern New
2 Mexico, and I'm responsible for all of the Bone Spring
3 in Eddy and Lea Counties.

4 Q. And, Ms. Copley, have you previously testified
5 before the Division, and were your credentials accepted
6 and made part of the record?

7 A. Yes.

8 Q. Are you familiar with the application that's
9 been filed by Cimarex in this matter?

10 A. Yes, I am.

11 Q. And are you familiar with the status of the
12 lands which are the subject of matter of that
13 application?

14 A. Yes, I am.

15 Q. And are you generally familiar with the
16 drilling plan for the Lea 7 Federal Com 2H well?

17 A. Yes.

18 Q. Have you conducted a geologic study of the area
19 and proposed spacing unit as well?

20 A. Yes, I have.

21 MS. BRADFUTE: Mr. Examiner, I'd like to
22 tender Ms. Copley as an expert in geology matters.

23 MR. MORGAN: No objection.

24 EXAMINER GOETZE: Very well. She's so
25 qualified.

1 MS. BRADFUTE: Thank you.

2 Q. (BY MS. BRADFUTE) Ms. Copley, what is the
3 targeted interval for the well?

4 A. The well is targeting the 3rd Bone Spring Sand.

5 Q. And if you could please turn to what's been
6 marked as Exhibit Number 7 in the notebook in front of
7 you and explain what that document represents to the
8 Hearing Examiners.

9 A. This is a structure map on the top of the 3rd
10 Bone Spring Sand. It is mapped using subsurface TVD on
11 the top of the Bone Spring Sand, and it is mapped on
12 100-foot contours.

13 And the greener colors represent shallower
14 depths, and the bluer colors represent deeper depths.
15 All of the red diamonds on the map represent Bone Spring
16 Sand producers. The purple line in the middle is
17 representative of the location of the Lea Fed Com 2H,
18 and the dashed outline is representative of the unit.

19 Q. Did you find anything that is depicted in your
20 map that would structurally interfere with the
21 contribution of the acreage to the proposed well?

22 A. No.

23 Q. Did you prepare a cross section of logs to
24 determine the relative thickness and porosity of the
25 Bone Spring Formation in this area?

1 A. Yes, I did. And the line on the map marked A
2 to A prime is the cross section that I created.

3 Q. Could you turn to what's been marked as Exhibit
4 Number 8 and identify what this exhibit is for the
5 Hearing Examiners?

6 A. This is a stratigraphic cross section. It is
7 hung on the top of the 3rd Bone Spring Sand. The top of
8 the 3rd Bone Spring Sand is marked with the orange line,
9 and the blue line represents the base of the 3rd Bone
10 Spring Sand or the top of the Wolfcamp. The logs are
11 organized by gamma ray on the farthest left, density and
12 neutron in the middle and resistivity on the right. And
13 the shaded-yellow area, which is a little difficult to
14 see on this, is representative of our target horizon.

15 Q. And are the wells that you've selected to
16 include within this cross section representative of the
17 Bone Spring Formation?

18 A. Yes, they are.

19 Q. Can you please walk through -- oh, excuse me.

20 And what does your cross section show you
21 about the acreage that's proposed to be dedicated to the
22 well?

23 A. It shows that all of the acreage along the
24 lateral should produce equally.

25 Q. And can you please turn to what's been marked

1 as Exhibit Number 9 and explain what this exhibit is to
2 the Hearing Examiners?

3 A. Yes. This is a net pay map for the 3rd Bone
4 Spring Sand. It is mapped on 50-foot contours. And,
5 again, all of the red diamonds on the map are 3rd Bone
6 Spring Sand producers in the area. The black line
7 represents the top that I just showed you, and, again,
8 the purple line is the location of the Lea 7 Fed Com 2H.

9 Q. Could you please turn to the second page of
10 this exhibit and explain what this document is to the
11 Hearing Examiners?

12 A. This is the exact same map I just showed,
13 except now we have two gray lines which represent future
14 development locations in the 3rd Bone Spring Sand.

15 Q. And what conclusions have you drawn from your
16 geologic study of the area?

17 A. There are no geologic impediments along the
18 lateral, and all of the -- all of the area along the
19 lateral should produce equally.

20 Q. And did you find that each quarter-quarter
21 section would be productive within the Bone Spring
22 Formation?

23 A. Yes.

24 Q. And in your opinion, will each quarter-quarter
25 tract contribute approximately equally to the production

1 from the well?

2 A. Yes.

3 Q. Would you please turn to what's been marked as
4 Exhibit Number 10 and identify what this exhibit is for
5 the Hearing Examiners?

6 A. This is a wellbore diagram created for the Lea
7 7 Fed 2H. It shows both a map view and cross-section
8 view of the planned lateral, along with critical points
9 along the lateral.

10 Q. Ms. Copley, in your opinion, would the granting
11 of Cimarex's application be in the interest of
12 conservation, the prevention of waste and the protection
13 of correlative rights?

14 A. Yes, it would.

15 Q. Were Exhibits 7 through 10 prepared by you or
16 compiled under your direction and supervision?

17 A. Yes, they were.

18 MS. BRADFUTE: Mr. Examiner, I'd like to
19 move for the admission of Exhibits 7 through 10.

20 MR. MORGAN: No objection.

21 EXAMINER GOETZE: Exhibits 7 through 10 are
22 so entered.

23 MS. BRADFUTE: Thank you.

24 (Cimarex Energy Company Exhibit Numbers 7
25 through 10 are offered and admitted into

1 evidence.)

2 MS. BRADFUTE: Thank you. That completes
3 my direct.

4 EXAMINER GOETZE: Mr. Morgan, any
5 questions?

6 MR. MORGAN: No.

7 EXAMINER GOETZE: Mr. Brooks?

8 EXAMINER BROOKS: No questions.

9 CROSS-EXAMINATION

10 BY EXAMINER GOETZE:

11 Q. Good morning.

12 A. Good morning.

13 Q. Out of curiosity, you have a one-mile to the
14 west of you, in the west half of the west-half section?

15 A. Correct.

16 Q. Is that Cimarex's well?

17 A. Correct. Yes, it is.

18 Q. And what's the history of production there?
19 Any success?

20 A. It was a successful well.

21 Q. And it's currently on line, and we're
22 getting --

23 A. Yes, sir. It's producing very well.

24 Q. But we don't have any numbers?

25 A. No. I do not have numbers for you at this

1 time.

2 Q. Just curiosity.

3 And when was that completed?

4 A. I believe that was completed in the past year
5 or two, I believe.

6 Q. That's fine.

7 A. Okay. It's a pretty recent well.

8 Q. Okay. So all the standard questions we have
9 are pretty much answered by your examples. Very good.
10 Thank you.

11 A. Thank you.

12 EXAMINER GOETZE: I have no more questions
13 for her, and --

14 MS. BRADFUTE: We ask this matter be taken
15 under advisement.

16 EXAMINER GOETZE: Very good. Thank you
17 very much.

18 THE WITNESS: Thank you.

19 MS. BRADFUTE: Thank you.

20 EXAMINER GOETZE: Case Number 15756 is
21 taken under advisement.

22 (Case Number 15756 concludes, 8:41 a.m.)

23 I hereby certify that the foregoing is
24 a complete record of the proceedings
25 of the Examiner hearing of Case No. 15756
taken by me on _____

PAUL BACA
COMMUNICATIONS DIVISION

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

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

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

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.
20

21
22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters