

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:)
APPLICATION OF CIMAREX ENERGY COMPANY)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 13,777

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

September 14th, 2006

Santa Fe, New Mexico

2006 SEP 28 AM 8 51

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, September 14th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

September 14th, 2006
Examiner Hearing
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REPORTER'S CERTIFICATE

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E X H I B I T S

Applicant's

Identified

Admitted

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
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Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 10:06 a.m.:

3 EXAMINER JONES: Okay, let's go back on the
4 record, and next case would be, I think -- is it 13,777?

5 MR. BRUCE: Yes.

6 EXAMINER JONES: Okay, Application of Cimarex
7 Energy Company for compulsory pooling, Lea County, New
8 Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
11 representing the Applicant. I'm submitting this case by
12 affidavit.

13 EXAMINER JONES: Okay, not sure I have the case
14 here. Here it is. I'm sorry, go ahead.

15 MR. BRUCE: Okay. I'll tell you up front, this
16 case is a little different, simply because it's a
17 horizontal well, and we're seeking to pool the project
18 area, not a normal well unit.

19 EXAMINER JONES: Even though it's spaced on 40s?

20 MR. BRUCE: Even though it's spaced on 40s, under
21 the directional drilling rule the project area is 80 acres.

22 EXAMINER JONES: So is it kind of like a
23 unitization or a --

24 MR. BRUCE: I don't think it's really
25 unitization. I mean, when you -- Let's just say everything

1 was all one lease --

2 EXAMINER JONES: Okay.

3 MR. BRUCE: -- and you drilled down and you --
4 the horizontal wellbore touched two 40s or three 40s, the
5 well unit is going to be 80 acres of 120 acres, and the
6 Applicant need do nothing further other than file the
7 acreage dedication.

8 EXAMINER JONES: Yeah. Is this well going to
9 touch the first 40 acres?

10 MR. BRUCE: Yeah, I'll get into that.

11 EXAMINER JONES: Okay.

12 MR. BRUCE: So anyway, Mr. Examiner, submitted to
13 you as Exhibit 1 is the landman's affidavit for the pooling
14 of this well unit.

15 If you'll turn to Exhibit A to Exhibit 1, which
16 is the C-102, Applicant proposes to drill the well -- the
17 surface location, 2000 feet from the south line and 940
18 feet from the west line. They will drill vertically and
19 then go horizontal, and it will go to an approximate
20 location 1650 feet from the north line and 940 feet from
21 the west line. The well unit will be the southwest
22 quarter, northwest quarter, and northwest quarter,
23 southwest quarter. So the wellbore will be in each 40
24 acres.

25 EXAMINER JONES: Okay.

1 MR. BRUCE: Normal spacing -- It's Wolfcamp, but
2 it's the Caudill-Permo Upper Penn Pool, spaced on 40 acres,
3 but it will touch each 40 acres. And the reason I say it's
4 odd -- as you say, the spacing is 40 acres, but it is an
5 80-acre project area. I think if the Division is going to
6 authorize larger project areas for these horizontal wells,
7 it should allow pooling of those wells. Otherwise you're
8 going to be dealing with a lot of uncommitted interest
9 owners in many of these instances.

10 EXAMINER JONES: So in this case are we pooling
11 these -- this whole 80 acres?

12 MR. BRUCE: The whole 80 acres.

13 EXAMINER JONES: Okay, okay.

14 MR. BRUCE: And as a matter of fact, I can verify
15 that. I believe that the people being pooled are actually
16 in the southwest quarter, northwest quarter, which is where
17 the terminus is.

18 EXAMINER JONES: Okay.

19 MR. BRUCE: They are pooling, I think, eight
20 people, combined for 4.5-percent interest. These are all
21 unleased mineral interest owners.

22 Proposal letters were sent to the people, however
23 as noted in page 2, paragraph (e) of the affidavit, there
24 are several unlocatable people when you mail certified mail
25 to these people. Bruce Crockett, James Baker, Fred

1 Schooler and M.K. Bennett, mail always comes back. And as
2 a matter of fact, M.K. Bennett has no address.

3 In addition there are Randall Pettigrew and
4 Richard Pettigrew. Those are living people who I have
5 actually spoken with, but they never pick up their
6 certified mail.

7 Attached as Exhibit B is the correspondence sent
8 to the people with addresses, although as I said, except
9 for the Blanco Company and Frank Hayford, the mail always
10 comes back.

11 I have also spoken with Mr. Hayford and he said
12 he may well participate, but nonetheless he has not signed
13 on at this time.

14 I've also spoken with the Blanco Company and
15 they're looking at it, they don't know what they're going
16 to do.

17 Attached as Exhibit C is the affidavit -- excuse
18 me, the AFE for the well. As you can see, it's a pretty
19 expensive well. Completed well costs of three and two-
20 thirds million dollars.

21 And with respect to the unlocatable people, as
22 testified in the affidavit, the landman or their brokers
23 did look in the county records and checked at various
24 Internet services, et cetera, and -- It's one of those old
25 fee tracts in Lea County where people have owned interest

1 forever and a day, and they disappeared a number of decades
2 ago and they haven't been able to track them down.

3 And Cimarex has been looking in this area. They
4 have drilled another well in this north half of Section 21,
5 and so they've been looking for these interest owners for
6 two-plus years now.

7 Submitted as Exhibit 2 is my affidavit of
8 mailing. And as you can see, the only green cards that
9 came back were Mr. Hayford and the Blanco Company. The
10 others were returned unsigned, and some of them I still
11 have not -- even though they were mailed almost a month
12 ago, I still haven't gotten even the return letters back.

13 As a result, submitted as Exhibit 3 is the notice
14 published in the Hobbs newspaper as against all of the --
15 either unlocatable or the Pettigrew brothers. Should take
16 care of notice.

17 And with that we would submit Exhibits 1 through
18 3 into the record.

19 And subject to your determination on the -- force
20 pooling a project area, we would ask that this matter be
21 taken under consideration.

22 EXAMINER JONES: Exhibits 1, 2 and 3 will be
23 admitted.

24 So this -- Are you asking for a -- basically a
25 pooling of the 80 acres, so the 80 acres will share in the

1 production --

2 MR. BRUCE: On an acreage --

3 EXAMINER JONES: -- of that well?

4 MR. BRUCE: On an acreage basis.

5 EXAMINER JONES: On an acreage basis.

6 MR. BRUCE: Yes.

7 EXAMINER JONES: Okay. And they'll have the --
8 obviously the right to drill multiple more wells, right, if
9 they --

10 MR. BRUCE: They would. If you look at the
11 Division's records, Cimarex did drill or has completed a
12 Wolfcamp or Permo-Upper Penn well in the southeast quarter
13 of the northwest quarter, not a -- and there are a lot of
14 old Permo-Penn wells in this area, a lot of them P-and-A'd,
15 and so they're going in and trying to find a better way to
16 produce it. The vertical well they completed in the
17 southeast northwest was not exactly a barn-burner, but they
18 are looking to increase production from this old pool.

19 EXAMINER JONES: Okay. Will they test the
20 vertical portion of the well before they kick off? At
21 least log it or something?

22 MR. BRUCE: I think -- they are logging it, but
23 -- and as you can see, we are only seeking to pool that
24 Wolfcamp interval. We're not seeking to pool anything
25 above that. But yeah, they will log it and they do plan

1 definitely to go horizontal in this area.

2 EXAMINER JONES: Okay. Three and a half million,
3 it's going to take a while to pay that one out.

4 MR. BRUCE: It sure is.

5 EXAMINER JONES: Is there any analogies to -- Is
6 this just standard compulsory pooling?

7 MR. BRUCE: Mr. Examiner, I do not know of a --
8 all of the horizontal wellbores, well units that I have
9 seen so far -- and mainly they're in southern Eddy County
10 -- have either been on one lease or have been on some state
11 leases or state and federal leases where everybody has
12 voluntarily committed their interests under a JOA and under
13 a com agreement. This is the first one I know where you're
14 actually seeking to force pool what would in effect be a
15 nonstandard unit, except it is allowable under Rule 111 to
16 form a project area of this 80 acres.

17 EXAMINER JONES: Okay, Rule 111. And as far as -
18 - Are all these owners signed? Are they just unlocatable,
19 or are they --

20 MR. BRUCE: As I said, the first -- Frank Hayford
21 and the Blanco Company, they're considering joining in the
22 well. They're all unleased mineral owners.

23 EXAMINER JONES: All unleased, okay.

24 MR. BRUCE: Yeah, they're not working interests
25 -- well, they're not lessees. Two of them are considering

1 signing. But as you said, these well costs may frighten
2 people. And all the others just cannot be located.

3 EXAMINER JONES: Okay, and as far as -- go ahead
4 -- because I think as far as -- if we turn them into
5 working interest owners through the pooling --

6 MR. BRUCE: -- they would still have a one-eighth
7 royalty.

8 EXAMINER JONES: It would be one-eighth.

9 MR. BRUCE: One-eighth royalty under the pooling.

10 EXAMINER JONES: And 200-percent penalty and --

11 MR. BRUCE: 200 -- Yeah, they do request a 200-
12 percent penalty.

13 EXAMINER JONES: Okay. And would -- let's see,
14 who's the -- Would Cimarex be the only working interest
15 owner?

16 MR. BRUCE: Other than these pooled parties, I
17 believe they are the only working interest owner.

18 EXAMINER JONES: Yeah.

19 MR. BRUCE: They've done considerable leasing
20 activity in this area.

21 EXAMINER JONES: Okay.

22 MR. BRUCE: If there are other working interest
23 owners, they have signed a JOA, but I believe Cimarex is
24 the only one. And I can verify that if you'd like.

25 EXAMINER JONES: Well, but as far as -- there

1 wouldn't be a need for a COPAS then -- or yeah, there
2 would, because there's --

3 MR. BRUCE: Well, there would be a need for a
4 COPAS --

5 EXAMINER JONES: Just to --

6 MR. BRUCE: -- assessment, because these people
7 would be considered working interest owners as to seven-
8 eighths of their interest.

9 EXAMINER JONES: Okay, here it is, \$6000 and
10 \$600.

11 MR. BRUCE: Yes, sir.

12 MS. MacQUESTEN: Mr. Bruce, did you say that the
13 people being pooled are the people in the area where the
14 terminus is located?

15 MR. BRUCE: I can verify that. I think that's
16 correct, but I will -- I can verify that.

17 MS. MacQUESTEN: So is it just the entities
18 having an interest in the 40 acres where the bottomhole is,
19 or the --

20 MR. BRUCE: Well, the --

21 MS. MacQUESTEN: -- the full 80 acres?

22 MR. BRUCE: The horizontal wellbore will be in
23 all 80 acres, not just in --

24 MS. MacQUESTEN: Right.

25 MR. BRUCE: Yeah.

1 MS. MacQUESTEN: So are you pooling all the
2 owners within an 80-acre space?

3 MR. BRUCE: Yes.

4 MS. MacQUESTEN: Okay.

5 EXAMINER JONES: And it will produce from all of
6 the 80 acres?

7 MR. BRUCE: All of the 80 acres.

8 MS. MacQUESTEN: Oh, not just from the
9 terminus --

10 MR. BRUCE: That is correct.

11 MS. MacQUESTEN: -- area? Okay.

12 Do you have to change the spacing requirements if
13 the well spacing is 40 acres?

14 MR. BRUCE: Well I don't --

15 MS. MacQUESTEN: Does this work?

16 MR. BRUCE: -- I don't think so because under
17 Rule 11 you can tack 40-acre well units together to form
18 the project area, without changing the spacing.

19 MS. MacQUESTEN: Okay.

20 EXAMINER JONES: Does Cimarex have an interest in
21 the terminus?

22 MR. BRUCE: Yes, they have an interest
23 throughout --

24 EXAMINER JONES: -- both of them?

25 MR. BRUCE: -- both quarter quarter sections.

1 But yes, the whole 80 -- assuming they make a well, the
2 whole 80 will be productive, not just a particular 40.

3 EXAMINER JONES: There's -- I saw that -- I think
4 I saw in this case that there are other -- and I might be
5 mistaken, but the only pools out there are deeper
6 Pennsylvanian pools, like Atoka-Strawn.

7 MR. BRUCE: Other than that Permo-Penn, that is
8 correct.

9 EXAMINER JONES: So -- But they're not planning
10 on going on deep and then backing up and going in the
11 Wolfcamp?

12 MR. BRUCE: No, I think that the well I mentioned
13 in the southeast northwest, the Permo-Penn well, I think
14 that actually went to the Atoka and was not productive
15 there.

16 EXAMINER JONES: Okay, so they're ruling it out
17 anyway --

18 MR. BRUCE: Yeah.

19 EXAMINER JONES: -- so that's not a question.
20 Okay, that's all we have so thank you very much.
21 We'll take Case 13,777 under advisement.

22 (Thereupon, these proceedings were concluded at
23 10:20 a.m.)

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

STEVEN T. BRENNER, CCR

(505) 989-9317 Oil Conservation Division

Examiner

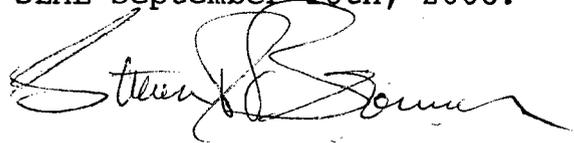
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL September 16th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006