

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 A NONSTANDARD OIL SPACING AND)
PRORATION UNIT AND COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

CASE NO. 13,925

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

May 24th, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Hearing Examiner, on Thursday, May 24th, 2007, 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

May 24th, 2007
Examiner Hearing
CASE NO. 13,925

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
 Attorney at Law
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 11:02 a.m.:

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5
6 EXAMINER JONES: Call Case Number 13,925,
7 Application of Cimarex Energy Company for a nonstandard oil
8 spacing and proration unit and compulsory pooling, Lea
9 County, New Mexico.

10 Call for appearances.

11 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
12 representing the Applicant. I have two witnesses.

13 EXAMINER JONES: Any other appearances?
14 Will the witnesses please stand to be sworn?
15 (Thereupon, the witnesses were sworn.)

16 MR. BRUCE: Mr. Examiner, before we begin, this
17 case and the next case involve pretty much the same thing,
18 and what we are here for is compulsory pooling.

19 The next case, which involves some land in
20 Section 21 in 15 South, 36 East, we had originally
21 attempted to pool, and you were the Hearing Examiner. It
22 was done by affidavit, and we received an order saying that
23 since these are directional wells, you wanted additional
24 evidence regarding pooling and the nonstandard unit, and so
25 that's why we are here today.

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ANTHONY J. CERVI,

the witness herein, after having been first duly sworn upon
his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of
residence for the record?

A. Yes, my name is Tony Cervi, that's C-e-r-v-i, and
I live in Dallas -- or actually, I live in Frisco, Texas.

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

A. I work for Cimarex Energy Company as a petroleum
landman.

Q. Have you previously testified before the
Division?

A. Yes, I have.

Q. And were your credentials as an expert accepted
as a matter of record?

A. Yes, they were.

Q. And are you familiar with the land matters
involved in this case?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Cervi as
an expert petroleum landman.

EXAMINER JONES: Mr. Cervi is qualified as an

1 expert petroleum landman.

2 I'm sorry to interrupt, but Mr. Bruce, we did get
3 an e-mail yesterday from a Vickie Caudill and a Sharon
4 Caudill, actually with -- they were intending to enter an
5 appearance --

6 MR. BRUCE: Correct.

7 EXAMINER JONES: -- in this case on behalf of
8 Hershail Caudill and Vickie Caudill.

9 MR. BRUCE: I think they're in the next case, Mr.
10 Examiner.

11 EXAMINER JONES: Oh.

12 MR. BRUCE: But as you'll see, there are lots of
13 interest owners in these cases --

14 EXAMINER JONES: Okay.

15 MR. BRUCE: -- and I've gotten calls, as Mr.
16 Cervi, from a dozen -- actually people representing a
17 couple of dozen of the interest owners, just interested in
18 what was going on, and I knew that some of these people
19 were going to -- I told them to send letters to the
20 Division if they couldn't make it to the hearing, so...

21 Q. (By Mr. Bruce) Mr. Cervi, could you identify
22 Exhibit 1 and describe the well Cimarex seeks to -- the
23 well unit Cimarex seeks to pool?

24 A. Yes, Exhibit 1 is a Midland map representing part
25 of Township 14 South, Range 38 East, and highlighted in

1 green is the west half of the southwest quarter of Section
2 31, which is the acreage that we attempt to pool.

3 Q. And what well do you seek to drill?

4 A. The name of the well is the Pyramid Number 1.

5 Q. And this -- What type of well will it be?

6 A. This is going to be a horizontal well to test the
7 Wolfcamp formation.

8 Q. What is the Wolfcamp spacing in this area?

9 A. Forty acres.

10 Q. And what does Cimarex seek in this case?

11 A. We seek an order to create an 80-acre nonstandard
12 unit in the Wolfcamp formation.

13 Q. And do you seek to force pool certain interest
14 owners -- certain uncommitted interest owners into that
15 well unit?

16 A. Yes, we do.

17 Q. Now just overall, without going into details,
18 what is the -- what type of land is this?

19 A. This is all fee surface and fee minerals. We
20 have approximately 125 mineral owners underlying this
21 particular tract.

22 Q. Is this all -- This 80 acres, is it a single fee
23 tract with undivided mineral ownership?

24 A. Yes, the undivided mineral ownership actually
25 covers the entire west half of Section 31.

1 Q. Okay. What is Exhibit 2?

2 A. Exhibit 2 is a list of the uncommitted interest
3 owners, their last known addresses and the interests that
4 they own in this unit.

5 Q. Okay. Now these are the uncommitted mineral
6 owners?

7 A. That's correct.

8 Q. And you do have leases from what, 95 or 100
9 interest owners already?

10 A. I don't know the exact number. We have leases
11 from approximately 80 percent of the mineral ownership.

12 Q. Okay.

13 A. I'd probably -- yeah, 90 or 100 is probably a
14 good guess.

15 Q. And since these are undivided interests, whether
16 this was a horizontal well or a vertical well the interest
17 ownership remains the same?

18 A. That's correct.

19 Q. And do you seek to force pool all of the interest
20 owners listed on Exhibit 2?

21 A. Yes, we do.

22 Q. Now let's discuss Cimarex's efforts to obtain the
23 voluntary joinder of the interest owners in the well.
24 First of all, how long has Cimarex been in this area
25 leasing these mineral owners?

1 A. We started leasing in this area in early 2005.

2 Q. And did Cimarex have title opinions prepared, and
3 did they then hire brokers to go out and lease these
4 interest owners?

5 A. Yes, we have had brokers working this area based
6 on ownership reports prepared by the brokerage firm. We've
7 also had a title opinion prepared by a title attorney, and
8 we've reviewed those records and have attempted to lease
9 all of the mineral owners.

10 Q. Okay, those who you could locate?

11 A. Correct.

12 Q. So after trying to lease all of the interests --
13 either track them down and/or lease them over two years,
14 did you then send out a well proposal to the remaining
15 unleased parties?

16 A. Yes, we did.

17 Q. And is that reflected in Exhibit 3, the big
18 exhibit you have in front of you?

19 A. Yes, it is.

20 Q. Were most of the people listed on Exhibit 2
21 unlocatable?

22 A. Yes, they were.

23 Q. And which ones listed on Exhibit 2 do you know
24 the addresses are valid?

25 A. There are four, it's Thelma Sundgren, Loleita

1 Patterson, Clay Cureton and Marjorie Olds.

2 Q. Okay. Now what efforts did Cimarex make to
3 locate the people on Exhibit 2 that did not have valid
4 addresses?

5 A. We conducted a search of the county records, we
6 searched Internet and phone records, did our best to locate
7 last known relatives, but we just were not successful.

8 Q. Okay. So the brokers also placed phone calls to
9 various people on this list, or at least relatives they
10 thought --

11 A. Yes.

12 Q. -- who could fill them in better?

13 A. Uh-huh.

14 Q. In your opinion, has Cimarex made a good faith
15 effort to either obtain the voluntary joinder of the
16 interest owners in the well or to locate the last available
17 address for these interest owners?

18 A. Yes, we have.

19 Q. What is Exhibit 4, Mr. Cervi?

20 A. Exhibit 4 Is the AFE that has been prepared by
21 Cimarex for the drilling and completion of this horizontal
22 Wolfcamp well.

23 Q. And what are the estimated costs of the well?

24 A. The dryhole cost is \$2,655,180. Completed well
25 cost is \$3,865,930.

1 Q. Is this cost in line with the cost of other wells
2 drilled to this depth in this area of New Mexico?

3 A. Yes, it is.

4 Q. And do you request that Cimarex be appointed
5 operator of the well?

6 A. Yes, I do.

7 Q. What is your recommendation as to the amounts
8 which Cimarex should be allowed for supervision and
9 administrative expenses?

10 A. We request \$6000 a month for a drilling well and
11 \$600 a month for a producing well.

12 Q. Are these amounts equivalent to those charged by
13 Cimarex and other operators in this area for wells of this
14 depth?

15 A. Yes.

16 Q. Do you request that these rates be adjusted
17 periodically under the COPAS accounting procedure?

18 A. Yes, I do.

19 Q. And were the uncommitted interest owners notified
20 of this hearing?

21 A. Yes.

22 Q. Were Exhibits 1 through 4 prepared by you or
23 under your supervision, or compiled from company business
24 records?

25 A. Yes, they were.

1 MR. BRUCE: Mr. Examiner, the notice -- Once
2 again, I had three cases in Lea County and I didn't get any
3 of the publication affidavits back. So again, I would
4 request that this matter be continued for two weeks.

5 Also, just this morning I was preparing the
6 notice affidavit, or the attachment to the notice
7 affidavit, and I went to the post office and I received
8 additional green cards back. So I will submit that all at
9 the next hearing, since there is still outstanding return
10 green cards.

11 And then before I turn the witness over, Mr.
12 Examiner, with respect to this one -- and I'll pass this by
13 Mr. Brooks -- in this case since all the interests are
14 uniform, we did not notify the leased parties, the 80 to
15 100 leased parties. We only notified the unleased parties.
16 If Mr. Brooks wants me to do the additional notice, I can
17 certainly do so.

18 MR. BROOKS: What are you -- you don't have --
19 I'm not sure what you mean by leased parties versus
20 unleased parties.

21 MR. BRUCE: Well, in the next hearing, as you
22 will see, because there were two separate fee tracts, we
23 notified every single interest owner. On this one, we only
24 notified the unleased parties, because mineral interests
25 are uniform in this tract. So I don't know if we needed to

1 notify anybody for the nonstandard unit.

2 MR. BROOKS: Oh, for the nonstandard unit
3 application, not for the --

4 MR. BRUCE: -- the force pooling.

5 MR. BROOKS: -- the force pooling. Well, for a
6 nonstandard unit, no, as long as -- you don't have any non-
7 included owners --

8 MR. BRUCE: Correct.

9 MR. BROOKS: -- so it's just the surrounding --
10 it's just the offsets. And as long as the offsets are
11 uniform ownership, then you don't have to notify the people
12 that -- you don't have to notify anybody except the working
13 interest owners.

14 MR. BRUCE: Okay. And with that, I'd pass the
15 witness.

16 EXAMINATION

17 BY EXAMINER JONES:

18 Q. All the west half, you said, is the same, of that
19 section? All the west half of Section 31?

20 A. Yes, the ownership is the same.

21 Q. Okay, I -- Are you going to be the only witness
22 here?

23 MR. BRUCE: I have a geologist.

24 EXAMINER JONES: Okay, that's -- I don't have any
25 questions.

1 MR. BROOKS: You're going to be filing additional
2 evidence on the notice?

3 MR. BRUCE: Yes, I will.

4 MR. BROOKS: -- right?

5 I did not get -- you went a little fast for me,
6 and I did not get -- On Exhibit 2, the parties you
7 specifically named are the ones for whom you believe the
8 address to be good, correct?

9 MR. BRUCE: That's correct --

10 MR. BROOKS: Four people --

11 MR. BRUCE: -- Mr. Examiner.

12 EXAMINATION

13 BY MR. BROOKS:

14 Q. Okay, one of them was Marjorie Olds, one of them
15 was Loleita Fay Patterson. Who were the other two?

16 A. The other two were Thelma Sundgren and Clay
17 Cureton.

18 Q. Okay, and the reason I'm having trouble finding
19 those is because I'm not sure how to spell them. What was
20 the first one? Thelma --

21 A. -- Sundgren.

22 Q. -- Sundgren. And where is that on the list?

23 MR. BRUCE: It might have been omitted, Mr.
24 Examiner, but I did give notice to her and I've --

25 MR. BROOKS: Okay. And how do you spell that?

1 MR. BRUCE: S-u-n-d-g-r-e-n.

2 MR. BROOKS: Okay, and you have a good address
3 for her.

4 Q. (By Mr. Brooks) And who is the other one?

5 A. Clay Cureton, C-u-r-e-t-o-n.

6 Q. Okay, we've got him here, yeah. And all these
7 others you have no valid address?

8 A. Correct.

9 Q. And they would be included in the publication?

10 MR. BRUCE: Yes.

11 EXAMINER JONES: Thank you.

12 DAVID J. RITTERSBACHER,

13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Would you please state your name and city of
18 residence for the record?

19 A. My name is David J. Rittersbacher. I live in
20 Superior, Colorado.

21 Q. Who do you work for and in what capacity?

22 A. I'm a geologist for Cimarex Energy Company.

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

25 A. Yes, I have.

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

3 A. They were.

4 Q. And are you familiar with the geology involved in
5 this Application?

6 A. Yes, I am.

7 MR. BRUCE: Mr. Examiner, I'd tender Mr.
8 Rittersbacher as an expert petroleum geologist.

9 EXAMINER JONES: He is so qualified. Do you know
10 Zeno Ferris? Is he --

11 THE WITNESS: I sure do.

12 EXAMINER JONES: -- with your company?

13 THE WITNESS: You bet.

14 EXAMINER JONES: Does he live in Colorado also,
15 or --

16 THE WITNESS: No, he lives in Dallas. He works
17 in the same office as Tony.

18 EXAMINER JONES: Okay.

19 Q. (By Mr. Bruce) Would you please identify Exhibit
20 7 and maybe just give a general overview of what you're
21 hoping to accomplish here.

22 A. Exhibit 7 identifies several fields in northern
23 Lea County. We're interested, for the purposes of this
24 hearing, in the Denton field, which is in Township 14
25 South, 37 East, and 15 South, 37 East, as noted on the map.

1 The Denton field was discovered in 1949. It
2 produces primarily from the Devonian and Wolfcamp
3 formations. We're going to be discussing exclusively the
4 Wolfcamp formation today, which is the target of the
5 Pyramid Number 1 well, and you'll see that well noted in
6 Section 31 of 14 South, 38 East. That's a horizontal well.

7 Q. Is Cimarex attempting to extend production from
8 this old field to the east?

9 A. Yes, our geologic concept is, we would like to
10 push the field limits, if possible, to the east.

11 Q. What is Exhibit 8?

12 A. Exhibit 8 focuses in on the northeast portion of
13 the Denton field, which includes the Pyramid Number 1 well.
14 That map shows Cimarex acreage in yellow. It's a structure
15 map on top of the Wolfcamp formation. You can see that the
16 Wolfcamp dips gently off to the northeast, away from the
17 field.

18 The production is a Wolfcamp cumulative oil
19 bubble map, and the cumulative oil production for each of
20 the wells is posted in the upper right-hand corner in green
21 next to each well.

22 Also shown is the Pyramid Number 1 location. The
23 surface hole location for the Pyramid Number 1 is in the
24 northwest of the southwest. It will be drilled to the
25 south, to the southwest southwest.

1 Shown as a dashed line in green is the proposed
2 80-acre proration unit for the Pyramid Number 1.

3 Q. What is Exhibit 9?

4 A. Noted on Exhibit 8 is the location of the type
5 log, and that is in blue with the blue arrow, and Exhibit
6 Number 9 is a copy of that type log. That's the Sinclair
7 Oil and Gas Mann Number 1 well. On that type log it shows
8 the top of the Wolfcamp formation at 9256. It shows the
9 perforations for that well highlighted in red to the left
10 of the well.

11 And because this well is updip in relationship to
12 the Pyramid Number 1, we show the proposed horizontal
13 target zone for our Pyramid Number 1 in the green box at
14 the very top of the Wolfcamp. We won't have as much oil
15 column to work with here, since we're moving downdip 75 to
16 100 feet.

17 Q. And finally, what is your Exhibit 10?

18 A. Exhibit 10 is our directional plan for the well.
19 This exhibit was provided by Black Viper Energy Services,
20 LTD out of Midland. It's really broken up into two
21 significant parts.

22 In the upper right-hand part is a map view plot
23 of the well. To the north it shows the surface hole
24 location. And then the wellbore trajectory is shown in
25 blue, heading from north to south. Importantly, you'll

1 note that we cross the quarter-quarter section boundary
2 approximately 890 feet south of the surface hole location.

3 The second part of this diagram that's important
4 is what -- is referred to as a vertical section plot, which
5 is essentially a cross-section along the well path. That's
6 in the lower or bottom part of the diagram. Again, the
7 well path is shown in blue. It shows a kickoff point
8 around 9150, it shows that we build the curve and land the
9 well around 9260. That's going to -- and we're projecting
10 a straight-line horizontal well from that point. The top
11 of the Wolfcamp is shown in red.

12 MR. BROOKS: 9360?

13 THE WITNESS: Yes, excuse me, 9360. And again,
14 we cross the quarter-quarter section boundary about 890
15 feet south of the surface hole location.

16 Q. (By Mr. Bruce) Does the drilling plan envision
17 producing reserves from each quarter-quarter section?

18 A. It does. Based on our analysis, we feel that
19 both quarter-quarter sections along the horizontal well
20 path are prospective. The reason why we chose a horizontal
21 well for this location is that the production from the
22 vertical wells at this structural elevation is not very
23 economic, so we feel like we need to expose ourselves to
24 more reservoir length with this well, to give ourselves an
25 economic completion.

1 Q. And because of the horizontal wellbore and
2 because you believe that each quarter-quarter section is
3 equally prospective, do you believe that the nonstandard
4 unit is necessary and proper?

5 A. We do.

6 Q. Were Exhibits 7 through 10 prepared by you or
7 under your supervision, or compiled from company business
8 records?

9 A. They were.

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

13 A. It is.

14 MR. BRUCE: Mr. Examiner, I'd move the admission
15 of Exhibits 7 through 10.

16 EXAMINER JONES: Exhibits 7 through 10 will be
17 admitted.

18 EXAMINATION

19 BY EXAMINER JONES:

20 Q. You flatten the well just a slight bit down as
21 you go to the south, just --

22 A. No, it's actually flat.

23 Q. Is it?

24 A. Yeah, I think it's a -- that's an optical
25 illusion as you look at that diagram --

1 Q. Oh.

2 A. -- but it's supposed to stay at -- under

3 Annotations --

4 Q. Okay.

5 A. -- that little box, it shows a hold a 9362
6 feet --

7 Q. Okay.

8 A. -- TVD.

9 Q. How good are they at staying exactly where they
10 plan these --

11 A. Well, they're actually very good at it, but it
12 depends on the rock. This rock is pretty consistent, and
13 we would be able to drill in the right spot.

14 Q. Are they going to drill under ballast?

15 A. It's difficult to drill under ballast in a
16 directional well. Most of the directional companies in the
17 Permian are not set up to do that, because you have to get
18 a mud pulse back through the mud system --

19 Q. Okay.

20 A. -- and if you aerate that --

21 Q. Okay.

22 A. -- that makes that difficult.

23 Q. Okay, so they're sending their signals through
24 mud pulse --

25 A. Yes.

1 Q. -- still?

2 A. Yes.

3 Q. Are you doing any logging while drilling, or are
4 you going to log the well?

5 A. We'll log it with a gamma-ray while drilling, and
6 then we'll have a mudlogger.

7 Q. The gamma-ray is how far back from your --

8 A. About 40 feet.

9 Q. Okay. And your mudlogger, so no logging
10 afterwards?

11 A. We don't plan any at this point.

12 Q. Because you've got a log through the vertical
13 section.

14 A. We'll drill a pilot hole.

15 Q. You will?

16 A. Yes, we will.

17 Q. Okay.

18 A. And we will have that to help us land the well in
19 the proper location.

20 Q. Okay, and your -- you never have to actually just
21 use that pilot hole as a producer. Pretty much you can
22 always kick off and set your plug and kick off and --

23 A. Well, we can use it as a producer, and the way
24 we'd have to do that would be to set a retrievable
25 whipstock. We could complete that well, and then we could

1 drill the lateral, and then we could --

2 Q. -- retrieve --

3 A. -- pull the whipstock -- well, we cut the casing,
4 the lateral, pull the whipstock --

5 Q. Okay.

6 A. -- and you could commingle that.

7 Q. Are you going to cement 5-1/2 all the way down?

8 A. No, and the next hearing you'll see how we
9 complete these wells. But what we do is, we put a packer
10 and sliding sleeve assembly in there to complete stages
11 along the horizontal lateral.

12 Q. Okay.

13 A. And this will be acidizing --

14 Q. Okay.

15 A. -- those stages.

16 Q. Okay, so basically your cement job will go from
17 what portion on back?

18 A. Well, what we'll do is, we'll drill the pilot
19 hole on down through the target interval, we will cement
20 that case with 5-1/2-inch casing. Then we'll set a
21 whipstock, and we'll mill a window in the casing and kick
22 off, and we'll run 2-7/8-inch casing, or tubing
23 essentially, out to the end of the lateral.

24 Q. Oh, okay. And perforate it?

25 A. No, we'll just acidize through the sliding

1 sleeves --

2 Q. Oh, it's a sliding sleeve.

3 A. -- after setting the packers.

4 Q. Okay. So at what point would the 5-1/2-inch be
5 -- cemented all the way from the bottom of the pilot hole,
6 obviously. Any section mill or something, your -- and your
7 2-7/8 --

8 A. That will run from -- we'll have to tie -- We'll
9 tie that back in, but we'll have to run it from above the
10 kickoff point --

11 Q. Okay.

12 A. -- down through the curve, to the end of the
13 lateral.

14 Q. Okay. So you're actually -- Will you have any
15 sliding openings until you get to the bottom of the true
16 vertical depth? What I mean is, is the 2 7/8 open?

17 A. No, there's a packer assembly in the 5-1/2-
18 inch --

19 Q. Yeah.

20 A. -- that isolates that.

21 Q. Yeah.

22 A. And then depending on what we see on the mudlog
23 and the gamma-ray, we will choose our packer points along
24 the horizontal section. We can't set a packer in the
25 curve, because it won't hold.

1 Q. Okay. Okay, but your first packer in your
2 horizontal part will isolate your build section, right?

3 A. Yes, hopefully.

4 Q. Hopefully.

5 A. Right.

6 Q. Okay. But basically, both of these 40-acre
7 tracts will be -- they're all common ownership, and they're
8 all going to drain pretty much evenly? As a geologist, do
9 you think they'll -- your production will come from both 40
10 acres?

11 A. That's the way we envision it. And you can see
12 by the structure map that that well is being drilled along
13 strike. So each 40-acre tract has a similar structural
14 position, which will be advantageous for production.

15 Q. Okay, but they'll all share in production?

16 A. Yes, they'll kind of commingle in all the stages.

17 EXAMINER JONES: Okay. I don't have any more
18 questions.

19 EXAMINATION

20 BY MR. BROOKS:

21 Q. You testified, I believe, that the vertical wells
22 in this area would -- to the Wolfcamp, would in your
23 opinion not be economic.

24 A. I think they'd be marginal.

25 Q. Yeah.

1 A. Yes.

2 Q. Do you have -- Have you done any studies to
3 determine what the expected drainage radius is of the
4 Wolfcamp wells in this area?

5 A. We have not, and the reason we haven't is, we
6 have -- this field was discovered in 1949. We have very
7 old logs that are not adequate for porosity determination
8 to help us make that analysis effective.

9 Q. Do you have any kind of opinion as to what area
10 you'll drain with this horizontal well?

11 A. Well, we will drain portions of the 40, but
12 whether or not we'll effectively drain the entire 80-acre
13 interval, we're uncertain at this point.

14 Q. But you would expect it would not drain more than
15 that?

16 A. No, I wouldn't think so. If you look at the
17 cumulative production of wells on this map that are on
18 strike with us --

19 Q. Back on --

20 A. That was Exhibit 8.

21 Q. -- 8. Okay, yeah.

22 A. You'll see up in Section 25 that the wells that
23 are on a similar structural elevation as we are have
24 cumulative production of 20,000 barrels and 38,000 barrels.
25 That won't meet our economic guidelines, so we feel like we

1 need to do a better job of exposing ourselves to more
2 reservoir.

3 Q. Okay. Now this yellow in Exhibit 8 indicates
4 that's Cimarex acreage?

5 A. That's right, there's at least some Cimarex
6 ownership in everything colored yellow.

7 Q. Okay. Then what about the acreage to the west of
8 here, over in -- I guess it's Section --

9 A. In 36? Should be immediately west?

10 Q. No, the west would be over in the adjoining
11 township.

12 A. The acreage that is shown in white to the west of
13 the Pyramid is all HBP.

14 Q. Okay. But does Cimarex have any ownership in
15 that area?

16 A. No, we do not.

17 MR. BROOKS: Okay.

18 Mr. Bruce, was notice -- Notice was given to the
19 people to the west, was it not?

20 MR. BRUCE: No, I did not.

21 MR. BROOKS: You did not notify the people to the
22 west?

23 MR. BRUCE: I can if necessary, but the way I
24 read the Division's Rules is, on a nonstandard unit you
25 only notify the people who are being excluded.

1 MR. BROOKS: That is correct, and it says, Or as
2 required. And we didn't --

3 MR. BRUCE: Yeah, I mean --

4 MR. BROOKS: Unless we require it, you wouldn't
5 be required --

6 MR. BRUCE: I don't have any objection if the
7 Division wants some additional notice.

8 MR. BROOKS: Okay. You know, I really think you
9 should, but I realize it doesn't -- isn't required. But it
10 seems to me the issue here where you're asking for a
11 nonstandard unit to drill a horizontal well is whether or
12 not it will affect correlative rights, and it seems to me
13 the only people whose correlative rights it could affect
14 would be the people in the adjoining spacing units. But
15 since this is being continued anyway, perhaps that would be
16 a good thing to do.

17 MR. BRUCE: I'll take care of it.

18 MR. BROOKS: Okay, appreciate it.

19 EXAMINER JONES: So you're saying everybody, all
20 around us --

21 MR. BROOKS: Well, Cimarex is all around it,
22 except right --

23 EXAMINER JONES: Except for --

24 MR. BROOKS: -- except for at the west --

25 EXAMINER JONES: Yeah --

1 MR. BROOKS: -- correct?

2 EXAMINER JONES: -- it would just be the leasee
3 or the operator.

4 MR. BROOKS: Yeah.

5 MR. BRUCE: Just be the operator --

6 MR. BROOKS: And you told me a minute ago that
7 the ownership was uniform, so --

8 MR. BRUCE: In all the -- Yeah, in all the
9 adjoining yellow acreage, yeah.

10 MR. BROOKS: Right. So the only issue would be
11 the people to the west.

12 MR. BRUCE: That's correct.

13 MR. BROOKS: Okay. I think they probably -- I
14 think they should be notified, especially since this is the
15 west half of the 160.

16 FURTHER EXAMINATION

17 BY EXAMINER JONES:

18 Q. So this is really kind of risky. You're stepping
19 out east here and -- What defined the area that -- the
20 boundary of the reservoir so far?

21 A. Well, what we've seen on these old fields is that
22 the original wells were drilled to the Devonian, and not
23 just this field but other fields in the area. The followed
24 up with subsequent recompletions to the Wolfcamp. But the
25 Wolfcamp structure is much broader, because it's more

1 shallow. And because of that, the field boundaries tend to
2 extend out to a greater geographic area than does the
3 Devonian, but people typically didn't take advantage of
4 that opportunity.

5 Q. Because it was uneconomic?

6 A. Well, they either viewed it as uneconomic or felt
7 they were going too far downdip, and we think that the
8 structure is a little flatter over there.

9 Q. Do you think you might have to handle a bunch of
10 water if it's downdip further?

11 A. It's a possibility. That's one of the risks of
12 the project.

13 EXAMINER JONES: Okay, I guess we're -- Thank you
14 very much.

15 So Case 13,925 has been heard, but it's going to
16 be continued to June the 7th. Is that okay?

17 MR. BRUCE: Yeah.

18 EXAMINER JONES: Two weeks.

19 MR. BROOKS: That will work.

20 EXAMINER JONES: Okay, keep them straight here.

21 (Thereupon, these proceedings were concluded at
22 11:35 a.m.)

23 * I hereby certify that the foregoing is
24 a complete record of the proceedings
25 the Examiner hearing of Case 13,925.
heard by me on _____

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 May 29th, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010