

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 FOR A NON-STANDARD OIL  
SPACING AND PRORATION UNIT AND  
COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.

CASE NO. 14361

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Presiding Examiner  
TERRY G. WARNELL, Technical Examiner  
WILLIAM V. JONES, Technical Examiner

August 20, 2009

Santa Fe, New Mexico

This matter came on for hearing before the  
New Mexico Oil Conservation Division, DAVID K. BROOKS,  
Presiding Examiner, WILLIAM V. JONES, Technical Examiner,  
and TERRY G. WARNELL, Technical Examiner, on Thursday,  
August 20, 2009, at the New Mexico Energy, Minerals and  
Natural Resources Department, 1220 South St. Francis  
Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91  
Paul Baca Professional Court Reporters  
500 Fourth Street, N.W., Suite 105  
Albuquerque, NM 87103 505-843-9241

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE, ATTORNEY AT LAW  
P.O. Box 1056  
Santa Fe, New Mexico 87504-1056

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EXHIBITS 1 THROUGH 4 WERE ADMITTED

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REPORTER'S CERTIFICATE

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1 MR. BROOKS: Call Case Number 14361, the  
2 application of Cimarex Energy Company for a non-standard  
3 oil spacing unit and compulsory pooling, Lea County, New  
4 Mexico. Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of  
6 Santa Fe representing the applicant. I am submitting  
7 this one by affidavit, too.

8 MR. BROOKS: Mr. Bruce, before we proceed  
9 on this, a gentleman named -- I don't know if it's a man  
10 or a woman because it's androgenous name -- Blair  
11 Hamburg, wrote a letter to me, and I believe copied you  
12 on it, and it's, "Re: Application of Cimarex for a  
13 non-standard spacing unit and compulsory pooling." It  
14 doesn't give a case number, so I don't know which  
15 application it relates to.

16 MR. BRUCE: It must be this one. It has  
17 to be this one.

18 MR. BROOKS: It says, "The Northwest  
19 Southwest of Section 34."

20 MR. BRUCE: That would be the surface  
21 location of this horizontal well. I did not receive a  
22 copy of the letter.

23 MR. BROOKS: It says, "Pursuant to the  
24 matter, our firm has apprised Cimarex's representative,  
25 both verbally and via email, of its desire to farm out

1 and/or take a working interest, but to date the AFE has  
2 not been received for a bona fide decision to be  
3 ascertained." I'll let you look at the letter.

4 MR. BRUCE: He sent it to my street  
5 address, which I never check my mail there. Mr.  
6 Examiner, I will address that in my presentation.

7 MR. BROOKS: Okay. You may proceed, Mr.  
8 Bruce.

9 MR. BRUCE: Mr. Examiner, I submitted  
10 several exhibits. Exhibit 1 is the affidavit of landman  
11 Hayden Tresner. In this case Cimarex seeks to re-enter  
12 existing Mallon 34 Federal Well No. 16, which is located  
13 in the northwest southwest of Section 34, 19 South and 34  
14 East and drill eastward with the terminus of the well  
15 being in the Northeast Southeast of Section 34.

16 The letter -- the parties being pooled are  
17 listed. You'll notice that one of them is Hyde Oil and  
18 Gas Corporation. Since, I guess, they are going to farm  
19 out, based on his representations, I was informed that an  
20 AFE has been submitted to them. Rather than compound or  
21 continue this case, I would simply ask that Hyde Oil and  
22 Gas be dismissed from this matter.

23 MR. BROOKS: I will -- let's go on and  
24 present the evidence.

25 MR. BRUCE: Anyway, it lists the parties

1 being pooled. This affidavit also lists the -- excuse  
2 me -- it also contains the copies of the proposal letters  
3 and AFE for the well. Applicant does request a 200  
4 percent risk charge against nonconsenting mineral owners,  
5 and the overhead rates are \$7,000 a month for a drilling  
6 well and \$700 a month for a producing well. The  
7 affidavit also lists the offset operators or mineral  
8 interest owners for purposes of the nonstandard unit.

9           Exhibit 2 is the affidavit of Lee Catalano,  
10 who's a geologist for Cimarex. If you turn to the first  
11 exhibit, Exhibit A, you will see that the Mallon 34  
12 Federal Well did produce about 69,000 barrels of oil.  
13 They plan to re-enter and drill it eastward across three  
14 additional quarter quarter sections that have no  
15 production on them. It is Cimarex's intent to test all  
16 of the quarter quarter sections. We believe that -- they  
17 believe that drilling the horizontal well is the most  
18 economic way to access these reserves. The directional  
19 drilling plan is also included with this exhibit.  
20 Besides the economics, it -- the economics are better  
21 because it will test a greater reservoir length.

22           MR. BROOKS: I do not see a C-102 in here.  
23 What is the configuration of the --

24           MR. BRUCE: It's actually Exhibit A to the  
25 landman's exhibit.

1                   MR. BROOKS: Yeah. There we are. You're  
2 doing a 120-acre, north half south half?

3                   MR. BRUCE: 160-acre.

4                   MR. BROOKS: 160-acre. I'm sorry.

5                   MR. BRUCE: It is all one federal lease.

6                   MR. BROOKS: Okay. The ownership then is  
7 uniform throughout the proposed unit?

8                   MR. BRUCE: Yes, sir. Exhibit 3 is the  
9 affidavit of notice. All parties did receive notice of  
10 this application.

11                  MR. BROOKS: The pooled parties are Pear  
12 Resources, Fuel Products, Hyde and Merit Group?

13                  MR. BRUCE: Yes.

14                  MR. BROOKS: Those four? No more?

15                  MR. BRUCE: Yes. Notice was given to  
16 Michael Moncrief Trust and two other Moncrief Trusts, but  
17 terms have been reached with those interest owners.

18                  Then Exhibit 4 is an affidavit to the offset  
19 owners. The only two offset owners, other than the  
20 parties who are being pooled and Cimarex Energy Company,  
21 are Providence Minerals and Read & Stevens, and actual  
22 notice was received by them.

23                  MR. BROOKS: Okay.

24                  MR. BRUCE: The only thing -- I would move  
25 the admission of Exhibits 1 through 4, Mr. Examiner.

1 And the only thing I know with respect to Hyde  
2 is they were notified for this hearing, and they had  
3 previously indicated an intent to farm out, but that was  
4 a couple of months ago, and they never farmed out.

5 MR. BROOKS: Exhibits 1 through 4 will be  
6 admitted.

7 Well, Ms. Hamburg, as the case may be --  
8 (Exhibits 1 through 4 were admitted.)

9 MR. BRUCE: I think it's a Mister.

10 MR. BROOKS: Okay. Anyway, does not  
11 request a continuance of this case, but merely requests  
12 that we take this information into consideration. And,  
13 as you know, generally we enter an order pooling all  
14 interests, but we deem the interest to be governed by the  
15 contractual rights if a contract is subsequently formed.  
16 So I see no need to postpone this case or to limit out  
17 Hyde's interest, since -- if they do not reach an  
18 agreement, you will need to have it pooled anyway. If  
19 you do reach an agreement, even if it's subsequent to  
20 entry of the order, the interest will be controlled by  
21 the agreement.

22 So I believe I have all the information I  
23 need. If there's nothing further, Case Number 14361 will  
24 be taken under advisement. the Examiner hearing of Case No. 14361.

heard by me on 8-20-09

\* \* \*  
David K. Pappas, Examiner  
Oil Conservation Division

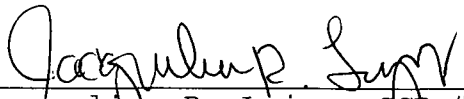
## REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on August 20, 2009, proceedings in  
the above captioned case were taken before me and that I  
did report in stenographic shorthand the proceedings set  
forth herein, and the foregoing pages are a true and  
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by  
nor related to nor contracted with any of the parties or  
attorneys in this case and that I have no interest  
whatsoever in the final disposition of this case in any  
court.

WITNESS MY HAND this 4th day of September,  
2009.

  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2009