

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 NONSTANDARD OIL SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO

CASE NO. 14481

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

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June 10, 2010

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Presiding Examiner, and TERRY G. WARNELL, Technical Examiner, on Thursday, June 10, 2010, 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:

GARY W. LARSON, ESQ.
 HINKLE, HENSLEY, SHANOR & MARTIN, LLP
 218 Montezuma
 Santa Fe, New Mexico 87504
 (505)982-4554

FOR HARVEY E. YATES COMPANY:

OCEAN MUNDS-DRY, ESQ.
 HOLLAND & HART
 110 North Guadalupe, Suite 1
 Santa Fe, New Mexico 87501
 (505)988-4421

I N D E X

P A G E

EXHIBITS 1 THROUGH 4 WERE ADMITTED

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REPORTER'S CERTIFICATE

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1 EXAMINER BROOKS: At this time we will
2 call Case Number 14481, application of Cimarex Energy
3 Company for a nonstandard oil spacing unit and compulsory
4 pooling, Eddy County, New Mexico. Call for appearances.

5 MR. LARSON: Mr. Examiner, Gary Larson of
6 Hinkle, Hensley, Shanor & Martin, for Cimarex.

7 EXAMINER BROOKS: Any other appearances?

8 MS. MUNDS-DRY: Mr. Examiner, I don't mean
9 to spring this on Mr. Larson. I'm sorry. I got a call
10 last night at 5:30 from Harvey E. Yates Company
11 requesting that I enter my appearance. I'm sorry, Mr.
12 Larson. We're not planning on presenting anything. I'm
13 just entering my appearance this morning.

14 EXAMINER BROOKS: For the record, is
15 Harvey E. Yates a company that was noticed or required to
16 be noticed in this proceeding?

17 MS. MUNDS-DRY: Yes, sir.

18 EXAMINER BROOKS: You may proceed, Mr.
19 Larson.

20 MR. LARSON: Thank you, Mr. Examiner.
21 Since we're unaware of any opposition, we'll be
22 presenting this case by affidavit.

23 EXAMINER BROOKS: No objection has been
24 interposed to your doing so, so you may proceed.

25 MR. LARSON: Thank you.

1 I've given the original of the affidavits to
2 the court reporter.

3 EXAMINER BROOKS: Thank you.

4 MR. LARSON: This case concerns an
5 application by Cimarex Energy Company for approval of a
6 nonstandard 160-acre spacing and proration unit in the
7 west half of the east half of Section 21, Township 19
8 South, Range 31 East, in Eddy County. The application
9 further seeks the pooling of all committed mineral
10 interests in the 160-acre project area from 2,500 feet
11 subsurface to the base of the Bone Spring formation.

12 As the Examiner noted, none of the uncommitted
13 interest owners of the project have opposed Cimarex's
14 application. The proposed project area will be dedicated
15 to a horizontal well that Cimarex calls the Penny Pincher
16 21 Fed. Com. Number 3H.

17 I direct your attention to the verified
18 statement of Mark Compton, who is a Cimarex landman, and
19 I've marked Mr. Compton's statement as Exhibit Number 1.
20 And Exhibit A to Mr. Compton's verified statement is a
21 C-102 and plat showing the location of the proposed
22 horizontal well.

23 As indicated, the surface location of the well
24 is 330 feet from the north line and 2,310 feet from the
25 east line of Section 21. Bottomhole location is 330 feet

1 from the south line and 100,980 feet from the east line.
2 As you'll note, the entire well will be in an orthodox
3 location.

4 As indicated in Mr. Compton's verified
5 statement, more than 30 days prior to the filing of
6 Cimarex's application, Mr. Compton sent certified letters
7 to all of the uncommitted interest owners within the
8 project area who are listed on pages 2 and 3 of his
9 verified statement. Mr. Compton enclosed with the
10 proposal letter an AFE and a proposed operating
11 agreement.

12 Exhibit B to Mr. Compton's verified statement
13 is an exemplar of the proposal letters that Mr. Compton
14 sent to the interest owners in the project area. A
15 letter identical to this was sent to each of the interest
16 owners listed in the statement.

17 Exhibit C to Mr. Compton's verified statement
18 is Cimarex's AFE for the proposed horizontal well. As
19 noted in the AFE, the estimated dry-hole cost of the
20 Penny Pincher 21 Federal Com. Number 3H well is
21 \$1,000,863, and the completed well cost is estimated to
22 be \$3,687,061.

23 In its application, Cimarex is requesting the
24 establishment of overhead charges of \$7,000 a month for a
25 drilling well, and \$700 a month for a producing well.

1 And as set out in his verified statement, Mr. Compton is
2 of the opinion that the requested charges are reasonable
3 and in line with the rates that the Division has
4 established for other Cimarex horizontal wells in the
5 area.

6 And after Cimarex sent out its proposal
7 letters and the application was filed, written notice of
8 the application and today's hearing was sent by certified
9 mail to all interest owners within the project area at
10 their correct addresses. The successful provision of
11 notice to the interest owners is addressed in my
12 affidavit of notice to interest owners, which I've marked
13 as Exhibit 2.

14 Personal notice of the application of today's
15 hearing also was sent via certified mail to offset
16 operators and interest owners within a quarter section of
17 the proposed project area. The successful provision of
18 the notice to these offset operators and interest owners
19 is addressed in my second affidavit, the affidavit of
20 notice to offset operators and interest owners, which is
21 marked as Cimarex Exhibit Number 3.

22 The final exhibit that I've introduced, which
23 is marked as Number 4, is the affidavit of Lee Catalano
24 who is a senior geologist with Cimarex, and there are
25 three attachments to Mr. Catalano's affidavit. The first

1 is a structure map of the second Bone Spring sandstone
2 formation, which is the target for Cimarex's proposed
3 horizontal well.

4 The second attachment is a cross-section
5 prepared by Mr. Catalano, which shows the producing
6 interval and strategic target for horizontal wells in the
7 Bone Spring. The third exhibit is the horizontal
8 drilling plan for the proposed Penny Pincher 21 Federal
9 Com. Number 3H well.

10 And as stated in his affidavit, Mr. Catalano
11 is of the opinion that all four quarter/quarter sections
12 in the proposed project area are prospective in the Bone
13 Spring formation, and he anticipates that Cimarex will
14 produce reserves from each quarter/quarter section of the
15 project area.

16 At this point, Mr. Examiner, I move the
17 admission of Cimarex Exhibits 1 through 4.

18 EXAMINER BROOKS: Exhibits 1 through 4 are
19 admitted.

20 (Exhibits 1 through 4 were admitted.)

21 MR. LARSON: In summation, I request that
22 the Division enter an order granting the relief requested
23 by Cimarex in its application, including the
24 establishment of a 160-acre oil spacing and proration
25 unit in the west half/east half of Section 21; the

1 pooling of all uncommitted interests from 2,500 feet
2 subsurface to the base of the Bone Spring formation
3 within the project area; the dedication of the project
4 area to the Penny Pincher 21 Federal Com. Number 3H well;
5 designating Cimarex Energy of Colorado as the operator of
6 the Penny Pincher 21 Fed. 3H Number 1 well; authorizing
7 Cimarex to withhold a proportionate share of the
8 reasonable well costs attributable to each nonconsenting
9 working interest owner; and as a charge for risk
10 involving in drilling the well, 200 percent of those
11 charges, and setting charges for supervision in the
12 amounts of \$7,000 per month while Cimarex is drilling the
13 well, and \$700 a month while the well is being produced,
14 with annual adjustments made pursuant to the COPAS
15 accounting procedure.

16 EXAMINER BROOKS: That concludes your
17 presentation?

18 MR. LARSON: That concludes my
19 presentation.

20 EXAMINER BROOKS: Okay. This is the
21 160-acre strip immediately to the east of the proposed
22 unit that was the subject immediately preceding the case?

23 MR. LARSON: That's correct.

24 EXAMINER BROOKS: Are you asking for the
25 same thing in terms of pooling; that is, a 40-acre

1 unit -- I believe in the previous, it was a 40-acre unit
 2 from 2,500 to the base of the Bone Spring in the north
 3 quarter/quarter section, and then a nonstandard
 4 horizontal unit, north/south unit, in the Bone Spring
 5 only?

6 MR. LARSON: That's correct. And that map
 7 is indicated in the application.

8 EXAMINER BROOKS: Okay. That's from
 9 2,500? Yeah, I see it here.

10 MR. LARSON: Yes. For both the 40-acre
 11 and the 160-acre.

12 EXAMINER BROOKS: Yeah. You're asking for
 13 that entire interval in the lateral, also, although it
 14 has been our policy not to grant that.

15 Did you get green cards from all of the people
 16 who you sent notice?

17 MR. LARSON: Yes.

18 EXAMINER BROOKS: And there were no
 19 unlocateable persons? You said you had addresses for
 20 everyone?

21 MR. LARSON: We had good addresses for
 22 everyone entitled to notice.

23 EXAMINER BROOKS: That includes both the
 24 offsets and the persons who have interest in the proposed
 25 unit?

1 MR. LARSON: That's correct.

2 EXAMINER BROOKS: I believe that's all my
3 questions. Thank you.

4 If there's nothing further, Case Number 14481
5 will be taken under advisement.

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I do hereby certify that the foregoing is
a complete and true report of the proceedings in
the above-captioned case No. _____
heard by me on _____.

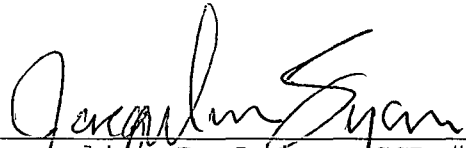
_____, Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on June 10, 2010, 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 23rd day of June, 2010.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2010