

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 14581

APPLICATION OF CIMAREX ENERGY CO. OF
COLORADO FOR APPROVAL OF A NON-STANDARD
OIL SPACING AND PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
WILLIAM V. JONES, Technical Examiner

January 6, 2011

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, WILLIAM V. JONES,
Technical Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, January 6, 2011, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
Street Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

1 EXAMINER BROOKS: We call case number 14581.
 2 It's the application of Cimarex Energy Company of
 3 Colorado for approval of a non-standard oil spacing unit
 4 and proration unit and compulsory pooling. Eddy County,
 5 New Mexico.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of
 7 Santa Fe representing the applicant. I have two
 8 witnesses.

9 MS. MUNDS-DRY: Mr. Examiner, Oceans
 10 Munds-Dry with the law firm Holland & Hart, LLP. I'm
 11 here representing Chesapeake Operating, LLC, and
 12 Nearburg Exploration, LLC. I have no witnesses.

13 EXAMINER BROOKS: Very good. Will the
 14 witnesses identify themselves for the record, please?

15 MR. WALLACE: Mike Wallace.

16 MR. CATALANO: Lee Catalano.

17 EXAMINER BROOKS: Will the court reporter
 18 please swear the witnesses.

19 [Whereupon two witnesses were duly sworn.]

20 DAVID MICHAEL WALLACE
 21 after having been first duly sworn under oath,
 22 was questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name and your city of

1 residence for the record?

2 A. David Michael Wallace, Midland, Texas.

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

4 A. I'm a landman for Cimarex Energy Company.

5 Q. Have you previously testified before the
6 division?

7 A. No, I have not.

8 Q. Would you please summarize your educational and
9 employment background for the Examiner?

10 A. I have a degree in energy management from the
11 University of Oklahoma. And I worked for Merder Energy
12 for about a year and a half, Hunt Oil Company for three
13 years, and Cimarex for a year.

14 Q. And does your responsibility at Cimarex this area
15 of Southeast New Mexico?

16 A. It does.

17 Q. And are you familiar with the land matters
18 involved in this application?

19 A. I am.

20 MR. BRUCE: Mr. Examiner, I tender
21 Mr. Wallace as an expert petroleum landman.

22 MS. MUNDS-DRY: No objection.

23 EXAMINER BROOKS: So qualified.

24 Q. (By Mr. Bruce) Mr. Wallace, with respect to this
25 well, what does Cimarex seek in this case?

1 A. Cimarex seeks an order approving 160 acre
2 non-standard oil spacing exploration unit at the Bone
3 Spring formation comprised of the east half east half of
4 section 23.

5 Q. Excuse me, Mr. Wallace, we're on the west
6 shugart.

7 A. I apologize. I have the wrong one. I'll be
8 right back.

9 EXAMINER BROOKS: I was going to say it
10 looked like the west half west half.

11 A. Exhibit 1 is a plat, 160 acre non-standard oil
12 spacing unit. Fifteen of the west half west half of
13 section 32 south 31 east, we seek an order approving
14 non-standard oil spacing proration unit and we also seek
15 to pool all oil interests as to the Bone Spring
16 formation underlying the west half west half.

17 Q. (By Mr. Bruce) And what is the name of well in
18 this case?

19 A. It's a West Unit 32 State Well, number 31.

20 Q. And is the well being drilled from the north to
21 south or south to north?

22 A. It's drilled from the southwest southwest quarter
23 to the northwest northwest quarter.

24 Q. And will the location be orthodox?

25 A. Yes.

1 Q. And we are only seeking to force pool the Bone
2 Spring formation, correct?

3 A. Correct.

4 Q. Could you identify Exhibit 2 and describe what
5 that showed?

6 A. Exhibit 2 is a list of all working interest
7 owners in the well unit and the percentage of interest.

8 Q. And does Exhibit 2 identify the parties who you
9 need to force pool?

10 A. It does.

11 Q. And for the record, who are they?

12 A. Daniel Energy and Bone Fish, LLC.

13 Q. And Nearburg?

14 A. Nearburg, yes.

15 Q. And the other interest owners are participating?

16 A. Correct.

17 Q. Let's discuss your efforts to obtain the
18 voluntary joiner of the interest owners of the well.
19 What is Exhibit 3?

20 A. Exhibit 3 contains all the correspondence towards
21 the interest owners. We sent out certified proposal
22 letters to each one of the interest owners with an AFE
23 and terms to acquire the interest if they would all
24 participate, each one of them.

25 Q. And the first letters went out, what, at this

1 point about --

2 A. March.

3 Q. -- 10 months ago?

4 A. Yes.

5 Q. Have you had telephone calls or e-mail
6 correspondence or any other type of contact with the
7 parties?

8 A. Everyone has been contacted via e-mail or phone
9 for this proposal?

10 Q. And each of the interest owners being force
11 pooled is locatable?

12 A. Correct.

13 Q. And in your opinion has Cimarex made a good-faith
14 effort to obtain the voluntary driver of the interest
15 proration of the well?

16 A. Yes.

17 Q. If anyone does not accept the request for maximum
18 cost plus do you request a penalty?

19 A. We do.

20 Q. What is Exhibit 4?

21 A. Exhibit 4 is a copy of the AFE.

22 Q. And what are the dry hole and completed well
23 costs?

24 A. The dry well cost is \$1,594,375 and the completed
25 well cost of \$3,306,311.

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

4 A. Yes.

5 Q. And does applicant request that it be appointed
6 operator of the well?

7 A. Yes.

8 Q. And what overhead amounts does Cimarex request?

9 A. 7,000 a month for drilling and 700 a month for
10 producing the well.

11 Q. And are these amounts equivalent to those
12 normally charged by operators in this area for wells of
13 this depth?

14 A. They are.

15 Q. And do you request that the overhead rates be
16 adjusted periodically under the COPAS accounting
17 procedure?

18 A. Yes, we do.

19 Q. And is Exhibit 5 my affidavit of notice to the
20 parties being pooled?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, through some flub,
23 not Mr. Wallace's but mine, Daniels Energy was not
24 notified which I found out late yesterday afternoon.

25 EXAMINER BROOKS: And they're one of the

1 parties.

2 MR. BRUCE: So I would request that this
3 matter be continued before the end of the hearing so
4 that I can give notice of the hearing to Daniels Energy.

5 EXAMINER BROOKS: Okay.

6 Q. (By Mr. Bruce) Mr. Wallace, does Exhibit 6
7 reflect all offset operators or working interest owners
8 in offsetting the proposed non-standard unit?

9 A. That's correct.

10 Q. And was notice of the non-standard unit given to
11 those offsets?

12 A. Yes, they were.

13 Q. And is that reflected in Exhibit 7?

14 A. Yes, that's correct.

15 Q. Were Exhibits 1 through 7 prepared by you or
16 under your supervision or compiled from company business
17 records?

18 A. They were, yes.

19 Q. And in your opinion is the granting of this
20 application in the interest of conservation and the
21 prevention of waste?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I move the
24 admission of Exhibits 1 through 7.

25 MS. MUNDS-DRY: No objection.

1 EXAMINER BROOKS: 1 through 7 are admitted.

2 MR. BRUCE: And I pass the witness.

3 MS. MUNDS-DRY: No questions.

4 EXAMINER BROOKS: I'm sorry. I forgot your
5 name.

6 THE WITNESS: I go by Mike Wallace.

7 EXAMINER BROOKS: Okay.

8 MR. BRUCE: And my next witness will be
9 Morley Safer.

10 EXAMINER BROOKS: I was going to say I don't
11 write a column for the New York Times. I assume you're
12 not a television actor.

13 THE WITNESS: I'm not.

14 EXAMINER BROOKS: People ask me that all the
15 time. Hey, I read your column.

16 Where is the ownership of these pool parties, is
17 it undivided or is it in particular tracts?

18 THE WITNESS: Nearburg has the northwest to
19 the southwest quarter, 100 percent. And the rest of the
20 parties are divided by the rest of the acreage.

21 EXAMINER BROOKS: Okay. And Nearburg is not
22 opposing this. Is that the case?

23 MS. MUNDS-DRY: They're not opposing.

24 EXAMINER BROOKS: Okay. Very good.

25 The others are what?

1 THE WITNESS: The others throughout the
2 portions of the spacing unit, mostly the southwest of
3 the southwest -- I'm sorry. We're 100 percent southwest
4 southwest, Cimarex is. And the rest of them are the
5 west half of the northwest.

6 EXAMINER BROOKS: West half of the
7 northwest, the Bone Fish and Daniels own undivided
8 interest in the west half of the northwest. Okay. Are
9 they unleased interest owners or are they --

10 THE WITNESS: They're leasehold owners.

11 EXAMINER BROOKS: Okay. Once again, are you
12 asking for a shallower unit in this case?

13 MR. BRUCE: No, sir.

14 EXAMINER BROOKS: Okay. We won't have to
15 worry about that.

16 Now, the two that you did notify, we don't have
17 to worry about Nearburg because they're here. Bone
18 Fish, you've got a green card for them?

19 THE WITNESS: Yes.

20 EXAMINER BROOKS: Now, did we go into the
21 notice to the offset?

22 MR. BRUCE: Yes, we did.

23 EXAMINER BROOKS: Did you get green cards on
24 all those?

25 MR. BRUCE: Yes, we did.

1 EXAMINER BROOKS: Well, I think that's all I
2 have.

3 Mr. Jones?

4 EXAMINER JONES: I have no questions.

5 EXAMINER BROOKS: Call your next witness,
6 please.

7 LEE CATALANO

8 after having been first duly sworn under oath,
9 was questioned and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

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

14 A. Lee Catalano, Midland, Texas.

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

16 A. Cimarex Energy as a geologist.

17 Q. Have you previously testified before the
18 division?

19 A. Yes.

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

22 A. Yes.

23 Q. Does your area of responsibility at Cimarex
24 include this portion of Southeast New Mexico?

25 A. Yes.

1 Q. And are you familiar with the geology involved in
2 this particular application?

3 A. I am, yes.

4 MR. BRUCE: Mr. Examiner, I tender my
5 witness as an expert petroleum geologist.

6 MS. MUNDS-DRY: No objection.

7 EXAMINER BROOKS: So qualified.

8 Q. (By Mr. Bruce) Mr. Catalano, can you identify
9 Exhibit 8 for the Examiner and describe the horizontal
10 target?

11 A. Exhibit 8 is a typed log of the well in that
12 area, the West Shugart 31, number 2 in section 31. What
13 it shows is the different Bone Spring zones in that
14 area, top of the Bone Spring limestone is marked on the
15 log, Top of the first Bone Spring and top of the second
16 Bone Spring sand. And our horizontal target is
17 indicated by the arrow on the left-hand side of that log
18 in the second Bone Spring sand.

19 Q. Let's move on to your Exhibit 9 and discuss that
20 for the Examiner.

21 A. Exhibit 9 is a structure map that I made. On the
22 top of the Bone Spring line the contra interval is
23 100 feet. Scaled to map is one inch equals 1,000. The
24 proposed west half west half well is shown in the west
25 half there of section 32. The green dots on the map are

1 the Bone Spring producers in that particular area. The
2 structural dip in this area is off to the east southeast
3 as shown on the map.

4 Q. Insofar as this particular well unit, it shows
5 the other Bone Spring producers. There are no existing
6 Bone Spring wells in your proposed unit; is that
7 correct?

8 A. That's correct.

9 Q. And the other Bone Spring wells in section 31,
10 the horizontal wells were they drilled by Cimarex?

11 A. Yes, they were. And those are second Bone Spring
12 sand producers.

13 Q. Have they been decent wells?

14 A. Very good. Very good wells.

15 Q. Let's move on to Exhibit 10. What does that
16 show?

17 A. Exhibit 10 is an isopach map. This is of the
18 target second Bone Spring sandstone. It's a net
19 porosity map using a 10 percent density cut off. And
20 the contra interval is 50 feet. The two horizontal
21 producers in section 31 are shown with the large green
22 dots. Again, our proposed location in the west half of
23 the west half of section 32 is shown on the map also.
24 What it indicates, based upon the subsurface control, is
25 that each 40-acre unit will be contributing equally to

1 pay somewhere between 50 to 100 feet of pay should be
2 encountered along the length of the lateral.

3 Q. Now, the wells drilled by Cimarex in section 31
4 are more or less east/west. Is there any particular
5 reason for drilling this one north/south?

6 A. The reason would be to encounter more pay. Our
7 whole philosophy on horizontal drilling is to encounter
8 as much reservoir as we can along the length of the
9 lateral.

10 Q. And so in section 32 the pay thickness appears to
11 drop off on the east?

12 A. Yes, it does.

13 Q. And so on this particular well it looks like the
14 pay will be pretty similar in each quarter quarter
15 section?

16 A. That's correct.

17 Q. Next, what does Exhibit 11 reflect?

18 A. Exhibit 11 is a cross section A, A prime.
19 There's a small index map in the bottom left hand corner
20 of that exhibit to show you the orientation of that
21 cross section. Our projected well is in between these
22 two wells. This is structural cross section showing the
23 top of the second Bone Spring sand, the top of the third
24 Bone Spring carbony and then the target interval within
25 the second Bone Spring sandstone. And it's going to be

1 at approximately 8917 feet true vertical depth.

2 Q. And finally if you could move on to Exhibit 12.
3 Identify that for the Examiner and describe how Cimarex
4 drills and completes its horizontal wells.

5 A. I don't have a copy of exhibit -- is that
6 directional?

7 Q. Yes.

8 A. Okay. Exhibit 12 is a directional plan that was
9 created for us by Baker Hughes. We drilled the well
10 down to -- well, this particular well we drilled down
11 through the target second Bone Spring sand. We log it,
12 come back up, plug it back and kick it off. And we'll
13 be landing our curve in the second Bone Spring sand at
14 that 8917 true vertical depth and then perceive to drill
15 the well out a vertical section of about 4500 feet or
16 so.

17 Q. How many completion stages does Cimarex drill in
18 its wells?

19 A. On this particular well I believe the plan is to
20 run a case tole completion. We'll have approximately
21 six stages with perf clusters within those six stages,
22 so it will effectively be about a 20-stage type frag.
23 I'm not an engineer but that's my knowledge of what they
24 do.

25 Q. But you did stay at a Holiday Inn Express last

1 night?

2 A. I actually did.

3 Q. Mr. Catalano, were Exhibits 9, 10, and 11
4 prepared by you?

5 A. Yes.

6 Q. And was Exhibit 12 compiled from company business
7 records?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I move the
10 admission of Cimarex exhibits 8 through 12.

11 MS. MUNDS-DRY: No objection.

12 EXAMINER BROOKS: 8 through 12 are admitted.

13 MR. BRUCE: And I have no further questions
14 of the witness.

15 EXAMINER BROOKS: Okay. I believe Mr. Bruce
16 asked you essentially the same questions that I need to
17 ask, so I'm going to Mr. Jones.

18 MS. MUNDS-DRY: And I don't have any
19 questions for Mr. Catalano, and I know he's probably
20 surprised by that.

21 EXAMINER JONES: The only thing I should
22 really ask is what pool is this?

23 MR. BRUCE: I will find out. I believe it's
24 a shugart to Bone Spring pool and it is spaced on 40s.

25 EXAMINER JONES: And the top of it would be

1 at the top of the Bone Spring?

2 THE WITNESS: That's correct.

3 EXAMINER JONES: Sometimes we don't know
4 what the pools are either. It's a communication thing.

5 MR. BRUCE: Yeah, the wells to the west in
6 section 31 are assigned to a particular Bone Spring
7 pool. And I should know that off the top of my head but
8 I don't.

9 EXAMINER BROOKS: Well, we actually do not
10 have our act together on this subject.

11 EXAMINER JONES: Every other subject is
12 fine, but not this one.

13 EXAMINER BROOKS: Does that conclude your
14 presentation in this case?

15 MR. BRUCE: Yes, sir.

16 EXAMINER BROOKS: Case number 14581 will be
17 continued to February 3rd. Thank you for reminding me,
18 Mr. Jones. It will be continued to the February 3rd
19 docket for the purposes of notice.

20 [Testimony concludes on Case 14581.]

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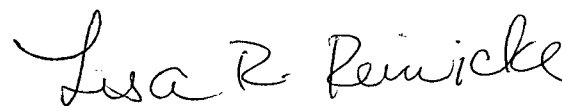
I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____

_____, Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to 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.


Lisa R. Reinicke,
Provisional License P-405
License expires: 8/21/2011

Ex count: