

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,  
EDDY COUNTY, NEW MEXICO.

CASE NO. 20747

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 6, 2019

Santa Fe, New Mexico

BEFORE: DYLAN ROSE-COSS, CHIEF EXAMINER  
MICHAEL McMILLAN, TECHNICAL EXAMINER  
KATHLEEN MURPHY, TECHNICAL EXAMINER  
DANA Z. DAVID, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Dylan Rose-Coss, Chief Examiner; Michael McMillan and Kathleen Murphy, Technical Examiners; and Dana Z. David, Legal Examiner, on Friday, September 6, 2019, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR  
New Mexico CCR #20  
Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102  
(505) 843-9241

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APPEARANCES

FOR APPLICANT CIMAREX ENERGY COMPANY:

LANCE D. HOUGH, ESQ.  
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.  
500 4th Street, Northwest, Suite 1000  
Albuquerque, New Mexico 87102  
(505) 848-1800  
LDH@modrall.com

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1 (11:48 a.m.)

2 EXAMINER COSS: The next case the Division  
3 is going to hear is Case Number 20747, Cimarex Energy,  
4 and this case is the application of Cimarex Energy Co.  
5 for compulsory pooling, Eddy County, New Mexico.

6 Call for appearances. Do we have any  
7 appearances?

8 MR. HOUGH: Lance Hough on behalf of  
9 Cimarex Energy Co.

10 EXAMINER COSS: Are there any additional  
11 appearances?

12 Please proceed.

13 MR. HOUGH: Thank you.

14 I would like to present this case by  
15 affidavit at this time beginning with the affidavit of  
16 the landman involved here, Caitlin Pierce. As you'll  
17 see in your packet labeled Exhibit A, there is the  
18 affidavit from her providing she is a landman for  
19 Cimarex and that she has previously been qualified to  
20 testify by the Division as an expert in petroleum land  
21 matters.

22 At this time I would like to move for  
23 Ms. Pierce to be qualified as an expert in this case in  
24 expert -- or I'm sorry -- in petroleum land matters.

25 EXAMINER COSS: So qualified.

1                   MR. HOUGH: So as Ms. Pierce provides here,  
2 this case involves a request for an order from the  
3 Division for a compulsory pooling for a Wolfcamp  
4 horizontal spacing unit. She provides that prior to  
5 filing this application, Cimarex made a good-faith  
6 effort to obtain voluntary joinder of the working  
7 interest owners in the proposed well, and Cimarex  
8 identified all the working interests, unleased mineral  
9 interests and overriding royalty interest owners from  
10 the title opinion. And to locate the interest owners,  
11 Cimarex conducted a diligent search of the public  
12 records in the county where the well will be located and  
13 conducted phone directory computer searches to locate  
14 the contact information for parties entitled to  
15 notification.

16                   She provides that she mailed all working  
17 interest owners well proposals and an authorization for  
18 expenditure in the form of an operating agreement upon  
19 request. She provides that there is no opposition  
20 expected in this case. And prior to filing the  
21 applications, Cimarex contacted the working interest  
22 owners being pooled regarding the proposed well, and the  
23 pooled working interest owners have failed or refused to  
24 voluntarily commit their interest to the well. Cimarex  
25 also provides that all the working interest owners,

1   unleased mineral interest owners and overriding royalty  
2   interests have had notice, that they have provided  
3   notice to them of this application, and none have  
4   entered an appearance in this case.

5                   Now, in its application, Cimarex seeks, to  
6   the extent necessary, approval of the creation of an  
7   approximately 640-acre Wolfcamp horizontal spacing unit  
8   and then pooling of all uncommitted interests within the  
9   Wolfcamp horizontal spacing unit underlying the east  
10  half of Sections 28 and 33, Township 24 South, Range 26  
11  East in Eddy County, New Mexico. And this spacing unit  
12  will be dedicated to the Congressional 28-33 Federal Com  
13  1H well. This is to be drilled horizontally. And that  
14  application is attached to Exhibit A1.

15                   Moving to the next tab, you'll find Exhibit  
16  A2. This is the C-102 for the proposed well, and it  
17  provides that the well will develop the Purple Sage;  
18  Wolfcamp Pool. It's pool code 98220. It's a gas pool,  
19  and the producing interval for the wells will be  
20  orthodox and will comply with the Division special  
21  setback requirements in Order Number R-14262. The first  
22  and last take points will be no closer than 330 feet  
23  from the proposed unit boundary. The completed lateral  
24  will be no closer than approximately 380 feet from the  
25  proposed unit boundary. The note of the API provided

1 there is 30-015. That was 30-015.

2 Moving forward --

3 EXAMINER COSS: The API is 30-015?

4 MR. HOUGH: That's just what is provided  
5 there in the top left corner.

6 EXAMINER McMILLAN: So it's pending.

7 MR. HOUGH: Pending. Thank you for that  
8 clarification, Mr. Examiner.

9 Moving to Exhibit A2 -- or I'm sorry -- A3,  
10 this is the lease tract map outlining the units to be  
11 pooled, and, of course, the working interest owners  
12 being pooled. A percentage of their interest is also  
13 included. I will note that on there, I made one mark  
14 next to Blue Valley Mountain [sic] Energy Corp. That is  
15 one of three parties -- three working interest owners to  
16 be pooled, but they reached a JOA yesterday, so I made  
17 that notation there. And Cimarex provides that it has  
18 an interest in the proposed unit and have the right to  
19 drill a well therein.

20 Moving to the next exhibit, A4, this is a  
21 sample well proposal. It's been sent to each of the  
22 working interest owners for their voluntary  
23 participation.

24 And moving to Exhibit A5, this is the  
25 authorization for expenditure that was provided with

1 that well-proposal letter, and the total amount for the  
2 well is 12,443,650. And as she provides, this is fair  
3 reasonable and comparable to other wells of similar  
4 depth, length and completion method being drilled in  
5 this area of New Mexico. She provides that Cimarex  
6 requests overhead and administrative rates of 8,000 a  
7 month during drilling and 800 a month while producing.  
8 And she provides these rates are fair and comparable to  
9 the rates charged by other operators for wells of this  
10 type in this area of southeastern New Mexico and  
11 consistent with the rates awarded by the Division in  
12 recent compulsory pooling orders. She requests that  
13 these rates be adjusted periodically as provided in the  
14 COPAS accounting procedure. Cimarex requests that the  
15 maximum cost plus 200 percent risk charge be assessed  
16 against the nonconsenting pool of working interest  
17 owners.

18 And Cimarex requests that it be designated  
19 operator of the well and be allowed a period of one year  
20 between when the wells is drilled to when the first well  
21 is completed in the order. And she further provides  
22 that the parties Cimarex is seeking to pool have been  
23 notified of this hearing, and Cimarex also requests that  
24 the overriding royalty interest owners be pooled.

25 Last, she provides that based upon her

1 knowledge of the land matters involved in this case, her  
2 educational and training, it is her expert opinion that  
3 the granting of Cimarex's application in this case is in  
4 the interest of conservation and the prevention of waste  
5 and that the affidavits were prepared by her and  
6 compiled from her business records.

7 With that, I move for the admission of  
8 Exhibits A through A5.

9 EXAMINER COSS: Exhibits A through A5 are  
10 admitted.

11 (Cimarex Energy Company Exhibits A through  
12 A5 are offered and admitted into evidence.)

13 MR. HOUGH: Does the Division have any  
14 questions regarding --

15 EXAMINER MURPHY: I do have a couple of  
16 questions. I don't want to disappoint Mr. McMillan on  
17 his last day here and hope that he thinks of me as a  
18 quick learner.

19 On 2, the C-102, some of the other C-102s  
20 are taking up the whole page and are really legible, and  
21 there seems to be a batch here where they're pretty  
22 reduced and I can barely read anything. And so maybe  
23 you can find out -- have them enlarged and find out why  
24 some of them come in quite nicely and then others are  
25 shrunk down to pretty reduced on the page. This last

1 one, 20746, the C-102 is quite nice. It fills the whole  
2 page and you can read it, and this one is pretty  
3 reduced, just like the last one. So I would say that's  
4 an issue because you can barely see the first and last  
5 take points.

6 MR. HOUGH: Okay.

7 EXAMINER MURPHY: Thank you.

8 And on 3, the tract map, it's Chevron  
9 and -- Chevron and Magnum. You're not -- you've reached  
10 agreements with them?

11 MR. HOUGH: Yes. That's correct.

12 EXAMINER MURPHY: So it's really Ridgemont  
13 down?

14 MR. HOUGH: Yes. As I have here,  
15 McCully-Chapman Exploration, Inc. and then Ridgemont  
16 Energy Corporation are the two main remaining working  
17 interests to be pooled.

18 EXAMINER MURPHY: Okay. That's 14 tracts  
19 in there. Okay. I don't have any more questions.

20 EXAMINER McMILLAN: What are the building  
21 blocks?

22 MR. HOUGH: These would be the  
23 quarter-section equivalents. I believe that's correct.

24 EXAMINER McMILLAN: You sure about that?  
25 You need to be clear about that.

1 MR. HOUGH: The building blocks for this  
2 case, being a Wolfcamp horizontal spacing unit --

3 EXAMINER McMILLAN: Right. So you have to  
4 do half sections or quarter sections.

5 MR. HOUGH: Quarter sections.

6 EXAMINER McMILLAN: We're off the record.

7 (Discussion off the record.)

8 EXAMINER COSS: We can go back on the  
9 record.

10 MR. HOUGH: The building blocks for this  
11 case would be 320 acres.

12 EXAMINER McMILLAN: Okay. Good.

13 MR. HOUGH: Unless there are any further  
14 questions, I would like to move on to the geology  
15 component of this case at this time.

16 Turning to Exhibit B, that's the affidavit  
17 of Harrison Hastings. He provides that he is a  
18 geologist for Cimarex. He has been qualified for the  
19 Division as an expert in petroleum geology matters, and  
20 he has conducted a geological study of the area that  
21 encompasses the horizontal spacing unit that is subject  
22 to Cimarex's application. He is familiar with the  
23 geological matters involved in this case.

24 At this time I'd like to move Mr. Hastings  
25 as an expert qualified to testify regarding petroleum

1 geology matters.

2 EXAMINER COSS: So admitted.

3 MR. HOUGH: Now, he provides here that as  
4 part of his study, he prepared the following geological  
5 exhibits with respect to the horizontal spacing unit.  
6 I'll turn to Exhibit B1. This is a locator map  
7 outlining the Wolfcamp horizontal spacing unit being  
8 pooled that is subject to this application. And it's  
9 also representative of the location of the stratigraphic  
10 cross section going from A to A prime and identifying a  
11 line of cross section -- well -- yeah, A to A prime.  
12 It's a blue line that's dotted. And then the actual  
13 well names are provided for the cross section.

14 Moving to Exhibit B2, this is the structure  
15 map, and it's the top of the Wolfcamp Formation. This  
16 map identifies the section to be developed with a  
17 red-shaded rectangle. It also shows the structure dips  
18 to the east, and it also shows the location of the cross  
19 section running from A to A prime.

20 Exhibit B3 is the stratigraphic cross  
21 section hung on the top of the Wolfcamp Formation, and  
22 the well logs on the cross section give a representative  
23 sample of the Wolfcamp Formation to the -- in the area.  
24 The target zone for this well is the Wolfcamp Y Sand,  
25 and that zone is consistent across the unit. He

1 provides that the unit well path for this well is  
2 indicated by a blue-dashed line and the letters LZ.

3                   Moving to Exhibit B4, this is a gross  
4 interval isopach map targeting the Upper Wolfcamp. It  
5 provides the top of the Wolfcamp to Wolfcamp A2. It  
6 shows the formation is relatively uniform across the  
7 proposed well unit. It also shows the location of the  
8 cross section running from A to A prime.

9                   And he provides that based upon his study,  
10 as illustrated in the exhibits, his knowledge for the  
11 geology in the area and his education and training, it  
12 is his expert opinion that the horizontal spacing unit  
13 is justified from a geological standpoint, that there  
14 are no structural impediments or faulting that would  
15 interfere with horizontal development, and each quarter  
16 section in this unit will contribute more or less  
17 equally to production.

18                   He also provides that the preferred well  
19 orientation in the area is either north-south or  
20 east-west provided -- due to the fact that the regional  
21 max horizontal stress orientation in this is  
22 approximately north 45 east. And he provides that the  
23 intervals for the wells should be orthodox -- or will be  
24 orthodox and will comply with the Division setback  
25 requirements.

1                   With that, I would move for the admission  
2 of Exhibit B through B4.

3                   EXAMINER COSS: Exhibit B through B4 are  
4 admitted.

5                   (Cimarex Energy Company Exhibits B through  
6 B4 are offered and admitted into evidence.)

7                   MR. HOUGH: Does the Division have any  
8 questions regarding this component of the case?

9                   EXAMINER MURPHY: I have a couple of  
10 questions. Map 1, is the yellow leases that Cimarex  
11 has? Is that the land status there?

12                  MR. HOUGH: I would refer back to the  
13 landman's exhibits for the land status, but to answer  
14 your question here, that has been consistent with prior  
15 Cimarex exhibits. This would be Cimarex land, but I  
16 really can't confirm without that being identified in  
17 a -- in a table here.

18                  EXAMINER MURPHY: Well, then on into the  
19 second map, it's a structure map, but you still have the  
20 leases on it, which is somewhat confusing. It again  
21 goes to Map 4, which is an isopach map. And, I mean, I  
22 think those are the leases that are on there, and it's a  
23 pretty busy map. Maybe they can do a general first map  
24 and then turn off the yellow leases or have two more  
25 lines of explanation in a map. The legend's pretty

1 sparse.

2 EXAMINER COSS: Yeah. Map 101 is a north  
3 arrow scale bar legend, which these do not include,  
4 so --

5 MR. HOUGH: Okay. So just for  
6 clarification here, you'd like the removal of the lease  
7 layer from these maps, with the exception of maybe  
8 having one up front to identify that lease; is that  
9 correct?

10 EXAMINER MURPHY: That's correct.

11 On the structure map, we don't need to know  
12 the leases, and on the isopach map, we don't need to  
13 know the leases. We need to be able to see the numbers.

14 EXAMINER COSS: And on the cross sections,  
15 I need to be able to read what -- what the logs are.  
16 And it looks like the gamma ray is backwards, if that's  
17 the gamma ray. Yeah. Could the -- could the cross  
18 section be redone and resubmitted?

19 MR. HOUGH: Yeah. So for the cross  
20 section, you want -- I'm guessing -- if you could  
21 clarify, just a more zoomed-in version where it provides  
22 more detail?

23 EXAMINER COSS: No. Do you see up at the  
24 top of the logs and how you can't what the logs are  
25 displaying and what the scale to the logs is?

1 MR. HOUGH: Okay.

2 EXAMINER COSS: And the gamma ray is  
3 going -- the first log, the one that's going to the  
4 left, is going in the opposite direction from what's  
5 typical. And that's fine.

6 And what were you saying? The landing zone  
7 is --

8 EXAMINER McMILLAN: The problem we have is  
9 if you don't put the target interval and we come back  
10 and have to write the order, we're going to have to  
11 guess where the target interval is. So put that on the  
12 map.

13 MR. HOUGH: Okay.

14 EXAMINER COSS: And all of the green is --  
15 on the log, the green lines that go across it, I don't  
16 know what they represent, and it's kind of blurry the  
17 view of the logs.

18 MR. HOUGH: Okay.

19 EXAMINER MURPHY: If they probably put it  
20 on an 11-by-17 and you submitted that, we could probably  
21 see it.

22 MR. HOUGH: Okay. I'll check and see if  
23 that's the issue, with just consolidating that to one  
24 page. Maybe that's the case.

25 EXAMINER COSS: Yeah. I can't read the

1 depths, but they're covered in green lines.

2 EXAMINER MURPHY: Some of us have more  
3 elderly eyes.

4 MR. HOUGH: I think the depth is indicated  
5 there --

6 EXAMINER COSS: I see it's written there,  
7 but --

8 MR. HOUGH: The landing point is between 85  
9 and 84. But okay. So we'll -- we'll supplement an  
10 updated version of that and remove the leases from the  
11 other slides minus the initial locator map.

12 EXAMINER MURPHY: I know I gave out some  
13 gold stars yesterday for maps and cross sections but not  
14 yet today.

15 (Laughter.)

16 MR. HOUGH: I will make sure to review  
17 those case files and see what they have.

18 EXAMINER COSS: But those are all my  
19 questions for the geology, as it were.

20 MR. HOUGH: Okay. Then I'd like to move on  
21 to Exhibit C. This is my affidavit providing, as a  
22 representative for Cimarex, that we mailed notice of  
23 this hearing, along with the application to the parties  
24 entitled to notice, and the proof of mailing is  
25 attached. And there is a transaction of those mailings

1 and an Affidavit of Publication attached to the well  
2 [sic].

3 I will note, for some reason, as we've been  
4 trying to resolve issues with this public- -- this  
5 publication, as we discussed in the last case with their  
6 affidavit, they provided the publication -- or the  
7 affidavit on one page and the publication on a separate  
8 page. I don't know if that's what the Division might  
9 prefer compared to the last one, but it's separated as  
10 they provided it to us here.

11 EXAMINER DAVID: From a legal perspective,  
12 you know, I don't have any objection to it. It's  
13 nice -- since we have a reference on there, but, you  
14 know, I think we can take it, based on your affidavit,  
15 that it's -- it is what it purports to be. So I think  
16 for demonstration of proof for the -- for the -- for the  
17 hearing officer's benefit, I don't know that there is  
18 unnecessary objection to having them on separate pages.

19 EXAMINER COSS: I don't have any questions  
20 at the moment regarding notice. I'll get back with you  
21 if something comes up when I'm writing the order.

22 MR. HOUGH: I would like to move for the  
23 admission of Exhibit C as an attachment at this time.

24 EXAMINER COSS: Attachment [sic] C is  
25 admitted.

1 (Cimarex Energy Company Exhibit C is  
2 offered and admitted into evidence.)

3 MR. HOUGH: Unless there are any further  
4 questions, I'd like to ask that this case be taken under  
5 advisement, and, of course, with my supplementation that  
6 will be provided.

7 EXAMINER DAVID: Again, let me do my thing  
8 here.

9 MR. HOUGH: Yes.

10 EXAMINER DAVID: Unless the panel has  
11 questions about Exhibit C.

12 EXAMINER COSS: I do not have any  
13 questions.

14 EXAMINER DAVID: As I've been doing for the  
15 record, on Exhibit A, paragraph four, we have testimony  
16 about the due diligence used to find working interests  
17 and overriding royalty interest owners. For the sake of  
18 this -- I pointed out this in the affidavit preceding.

19 I also -- for the sake of consistency, I  
20 think that we made something difficult here because  
21 she -- I notice that on Exhibit A4, although I believe  
22 there is a list of -- of the operating interest holders,  
23 there is -- we don't have an independent -- there is no  
24 list of the overriding royalty interest holders, and I  
25 think we asked another party to provide that to us.

1                   So would you be kind enough to provide the  
2 Division a list of the overriding royalty interest  
3 owners, so it would fill out all the names to whom  
4 notices were sent in Exhibit C. And also it would  
5 probably be helpful to know like what tracts their  
6 interests are attached to.

7                   MR. HOUGH: Okay.

8                   EXAMINER DAVID: And otherwise I note for  
9 the record that in Mr. Hughes' [sic] affidavit, he notes  
10 that notice was provided to each interest holder at  
11 their last known address, so we assume, based on his  
12 representation, that notice letters were sent to  
13 everybody that they knew, and notice is apparently  
14 complete. And we also have an Affidavit of Publication,  
15 so I'm able to identify any issues with -- with notice,  
16 subject to us getting a list of the overriding royalty  
17 interest holders and what tracts they belong to.

18                   MR. HOUGH: Unless there are any further  
19 questions, I'd ask this case be taken under advisement.

20                   EXAMINER COSS: Case Number 20747 is taken  
21 under advisement.

22                   Let's come back at 1:15.

23                   (Case Number 20747 concludes, 12:14 p.m.)

24                   (Recess, 12:14 p.m. to 1:15 p.m.)

25

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court  
6 Reporter, New Mexico Certified Court Reporter No. 20,  
7 and Registered Professional Reporter, do hereby certify  
8 that I reported the foregoing proceedings in  
9 stenographic shorthand and that the foregoing pages are  
10 a true and correct transcript of those proceedings that  
11 were reduced to printed form by me to the best of my  
12 ability.

13 I FURTHER CERTIFY that the Reporter's  
14 Record of the proceedings truly and accurately reflects  
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither  
17 employed by nor related to any of the parties or  
18 attorneys in this case and that I have no interest in  
19 the final disposition of this case.

20 DATED THIS 6th day of October 2019.

21

22

23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2019  
Paul Baca Professional Court Reporters

25