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APPEARANCES

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1 (10:42 a.m.)

2 EXAMINER MURPHY: I believe that brings us
3 to the Cimarex Energy cases, and those are numbers 46,
4 47, 48 and 49.

5 Is that correct?

6 MR. HOUGH: Yes, and also including 20745,
7 so it would be four applications we have today.

8 EXAMINER MURPHY: Are they combined?

9 MR. HOUGH: The two that will be combined
10 are 746 and 748, Parkway wells, and the other two are
11 separate.

12 EXAMINER MURPHY: Which ones will you bring
13 first?

14 MR. HOUGH: We can start with the Parkway
15 ones, so that would 20746 and 20748.

16 EXAMINER MURPHY: Okay. Cases 20746 and
17 20748 will be heard next. This is application of
18 Cimarex Energy for compulsory pooling in Eddy County,
19 New Mexico.

20 Call for appearances.

21 MR. HOUGH: Lance Hough on behalf of
22 Cimarex Energy Co.

23 EXAMINER MURPHY: Any other appearances?

24 MR. BRUCE: Jim Bruce representing
25 Mewbourne Oil Company.

1 I have no witnesses, and I have no
2 objection to the case being presented by affidavit.

3 EXAMINER MURPHY: Are you here for the
4 exhibits?

5 MR. BRUCE: Yeah, but I can wait until the
6 end.

7 MR. HOUGH: Yeah. I'll get you a packet.

8 MR. BRUCE: Yeah. You can do it later.

9 EXAMINER MURPHY: Are there any other
10 appearances?

11 MR. HOUGH: Appears not.

12 EXAMINER MURPHY: Any witnesses?

13 MR. HOUGH: None. I just have affidavit
14 testimony.

15 EXAMINER MURPHY: Please proceed.

16 MR. HOUGH: As I mentioned, I'd like to
17 present this case by affidavit, and I'm looking for one
18 moment for the affidavits relevant to this case.

19 So I'll start with the Tab A packet. This
20 is the affidavit of Riley Morris. As he provides here,
21 he is a landman working on behalf of Cimarex Energy, and
22 he has previously been qualified to testify by the
23 Division as an expert in petroleum land matters, and his
24 credentials were accepted as a matter of record by the
25 Division. He provides that he's familiar with these two

1 predictions, and he provides these two cases involve
2 request for orders from the Division for compulsory
3 pooling of interests who have refused to voluntarily
4 pool their interests in the proposed Bone Spring
5 horizontal spacing units, which are described below, and
6 wells to be drilled horizontally, spacing units.

7 EXAMINER DAVID: I'm sorry. Just stop
8 here. Let's go on record that we're going to accept the
9 affidavit as an expert witness.

10 MR. HOUGH: Okay. I'll move to -- that
11 Mr. Morris be qualified as an expert in petroleum land
12 matters.

13 EXAMINER MURPHY: He is so qualified.

14 EXAMINER McMILLAN: Any objections, Jim?

15 MR. BRUCE: I have no objection.

16 EXAMINER MURPHY: So qualified.

17 MR. HOUGH: Thank you.

18 So I was just providing that these two
19 units for these wells are located in the north half of
20 Sections 16 and 17, Township 19 South, Range 29 East,
21 and that's in Eddy County, New Mexico.

22 Now, prior to filing these applications,
23 Cimarex made a good-faith effort to obtain the voluntary
24 joinder of the working interest owners in the proposed
25 wells. Cimarex identified the working interests and the

1 overriding royalty interest owners from a title opinion.
2 And then to locate these owners, Cimarex conducted a
3 diligent search of the public records in the county
4 where the wells are to be located and conducted a phone
5 directory and computer Internet searches to locate
6 contact information on parties entitled to notification.
7 And then Mr. Morris mailed all working interest owners
8 well proposals, and that included an authorization for
9 expenditure in the form of an operating agreement to any
10 owner who requested one. He provides here that there
11 is -- no opposition is expected. Prior to filing these
12 applications, Cimarex contacted the interest owners
13 being pooled regarding these proposed wells, and the
14 pooled interest owners have failed or refused to
15 voluntarily commit their interests in the wells at this
16 time. Cimarex provided all these working interest
17 owners and the unleased mineral interest owners and
18 overriding royalty interest owners with notice of this
19 application, and I'll touch on that more, the affidavit,
20 later on. And no one else has entered an appearance
21 here.

22 Now, in his affidavit is a description of
23 the fact supporting each case for compulsory pooling.
24 We can start with the first case. It's number 20746.
25 And in this application, Cimarex is seeking, to the

1 extent necessary, just approving of a 320-acre more or
2 less Bone Spring horizontal spacing unit, and of course
3 pooling all uncommitted mineral interests within that
4 Bone Spring horizontal spacing unit. And that's
5 underlying the north half-north half of Sections 16 and
6 17, Township 19 South, Range 29 East in Eddy County, New
7 Mexico. And this spacing unit will be dedicated to the
8 Parkway 16-17 State Com 1H well and to be horizontally
9 drilled. And the application is attached here as -- it
10 should be Exhibit A under Tab 1 there.

11 Moving forward to the next tab is Exhibit
12 A2 attached. This is the proposed C-102 for the well,
13 and this well will develop the Turkey Track; Bone Spring
14 Pool, with a pool ID of 60660. This is an oil pool.
15 And producing intervals for this well will be orthodox
16 and comply with the Division setback requirements, which
17 for this pool is a statewide requirement. And the first
18 and last take point will be no closer than 100 feet from
19 the spacing boundary, and the completed lateral will be
20 no closer than 330 from the spacing unit boundary.

21 Next is a -- behind the next tab is Exhibit
22 A3. This is a lease tract map outlining the unit to be
23 pooled, and then the working interest owners being
24 pooled, a percentage of their interest is also included
25 as part of this exhibit. And Cimarex owns a working

1 interest in the unit and has a right to drill the well
2 thereon.

3 EXAMINER MURPHY: What is their symbol
4 there? Is it XEC?

5 MR. HOUGH: Yes. XEC represents Cimarex
6 Energy.

7 So he further provides here that there are
8 no depth severances within the proposed Bone Spring
9 spacing unit.

10 On to the next tab, Exhibit A4, this is a
11 sample well-proposal letter sent to each of the interest
12 owners seeking voluntary participation in the well.

13 And then behind the next tab is Exhibit A5.
14 This is the Authorization for Expenditure for the
15 proposed well, and you'll see the estimated costs for
16 the well is -- I believe it's 11,774,000, which is fair
17 and reasonable and is comparable to the cost of other
18 wells of similar depth and length and completion method
19 being drilled in this area of New Mexico.

20 So with that, I'll move on to the next
21 case, unless you have any questions about that one in
22 particular.

23 This is Case Number 20748.

24 EXAMINER COSS: This well has been drilled
25 from the west -- or the east to the west instead of the

1 north to the south?

2 MR. HOUGH: That's correct.

3 EXAMINER COSS: And is there a geology --
4 in here?

5 MR. HOUGH: Yes. There is geology
6 component to it. So my approach would be to present all
7 the land materials for both cases, and then I'll move on
8 to the geology, if that's acceptable.

9 EXAMINER COSS: That's acceptable to me.

10 EXAMINER MURPHY: Proceed.

11 MR. HOUGH: Thank you.

12 So as I was mentioning, Exhibit A6 in the
13 next tab is the application for Case Number 20748, which
14 provides what Cimarex is seeking here, again to the
15 extent necessary, the creation of a 320-acre more or
16 less Bone Spring horizontal spacing unit, and then
17 pooling all uncommitted mineral interests within a Bone
18 Spring horizontal spacing unit underlying the south half
19 of the north half of Sections 16 and 17, Township 19
20 South, Range 29 East, Eddy County, New Mexico. This
21 spacing unit will be dedicated to the Parkway 16-17
22 State Com 2H. And this will also be horizontally
23 drilled. This would be, as you mentioned, lay-down or
24 east to west.

25 And so moving on to the next tab --

1 EXAMINER COSS: The pool again was.

2 MR. HOUGH: The pool is the same as the
3 last one. This would be shown in -- I guess it's not
4 shown in this draft C-102, but it is the Turkey Track;
5 Bone Spring Pool, so the same pool ID, 60660. This
6 is -- follows the statewide rules for setbacks.

7 And Mr. Morris further provides that this
8 well will comply with the setbacks and be orthodox, that
9 it'll no closer than 100 feet from the spacing boundary,
10 and then the completed laterals will be no closer than
11 330 feet.

12 The next is Exhibit A8. This is a lease
13 tract map just like we showed you before for the other
14 case. This outlines the new pool and the working
15 interest owners being pooled, and a percentage of their
16 interest is also provided. Again, Cimarex owns a
17 working interest in the proposed unit and has a right to
18 drill a well there. There are also no depth severances
19 within this proposed Bone Spring spacing unit.

20 The next tab is Exhibit A9. This is the
21 sample well-proposal letter sent to each of the interest
22 owners, again, seeking their voluntary participation.

23 And behind the next tab is A10. This is
24 the Authorization for Expenditure, which was provided
25 with the proposal letter. And you see there the

1 estimated cost is 11,750,000. And Mr. Morris provides
2 that this is fair and reasonable and is comparable to
3 the cost of other wells of similar depth, length and
4 completion method being drilled in this area of
5 New Mexico.

6 And he provides that Cimarex requests
7 overhead and administrative rates of 8,000 a month
8 during drilling and 800 a month while producing, and he
9 provides that these rates are fair and comparable to the
10 rates charged by other operators for wells of this type
11 in this area of southeast New Mexico and are consistent
12 with the rates awarded by the Division in recent
13 compulsory pooling orders. And Cimarex requests that
14 these rates be adjusted periodically as provided in the
15 COPAS accounting procedure.

16 Cimarex also requests that it be allowed to
17 recover its cost for drilling, completing and equipping
18 each of these wells and a 200 percent risk charge be
19 assessed against the nonconsenting working interest
20 owners.

21 Cimarex requests that it be designated the
22 operator for these two wells, and Cimarex requests that
23 it allowed a period of one year between when the wells
24 are drilled and when the first well is completed under
25 the order. And the parties Cimarex is seeking to pool

1 were notified of this hearing.

2 And based upon his knowledge of the land
3 matters involved and his education and training, it is
4 his expert opinion that the granting of Cimarex's
5 applications in this case is in the interest of
6 conservation and the prevention of waste.

7 He also provides that the exhibits and his
8 affidavit were prepared by him or compiled from company
9 business records.

10 With that, I'd like to move the admission
11 of Exhibits A through A10.

12 EXAMINER MURPHY: Exhibits A through A10 --

13 EXAMINER McMILLAN: No.

14 EXAMINER MURPHY: Sorry.

15 MR. BRUCE: I have no objection.

16 EXAMINER MURPHY: Okay.

17 EXAMINER McMILLAN: Go ahead.

18 EXAMINER MURPHY: Any objection, Mr. Bruce?

19 EXAMINER McMILLAN: He said no.

20 EXAMINER MURPHY: Okay. Exhibits A through
21 A10 are accepted.

22 (Cimarex Energy Company Exhibits A through
23 A10 are offered and admitted into
24 evidence.)

25 MR. HOUGH: Thank you.

1 Can I answer any questions regarding this
2 portion, or I can move on to the geology components.

3 EXAMINER MURPHY: Any questions?

4 I have no questions.

5 EXAMINER COSS: I'm curious. You said
6 8,000 per month while drilling and 8,000 post-drilling?

7 MR. HOUGH: 800 is what I meant. I think
8 that's what we have here in the affidavit. Let me
9 double-check rather than testifying to that.

10 So his affidavit here provides, yeah, that
11 Cimarex is requesting overhead and administrative rates
12 of 8,000 a month during drilling and 800 per month while
13 producing.

14 EXAMINER DAVID: Let's clarify for the
15 record. That's paragraph nine of Exhibit A.

16 MR. HOUGH: That's correct. Thank you.

17 EXAMINER COSS: I don't have any other
18 questions.

19 EXAMINER McMILLAN: I get confused by their
20 OGRID, so verify the OGRID.

21 And do these wells have an API?

22 MR. HOUGH: No API on this yet.

23 And the OGRID --

24 EXAMINER McMILLAN: They have two active
25 OGRIDs, and it's utterly confusing.

1 MR. HOUGH: Yeah. The OGRID number is
2 215099.

3 EXAMINER COSS: So these are correct
4 C-102s?

5 MR. HOUGH: That is my understanding. Yes.

6 EXAMINER COSS: When can we expect to get
7 completed C-102s?

8 MR. HOUGH: I would have to verify with
9 Cimarex. They may be waiting on the pooling order to
10 have a -- to get a final one, but I can follow up with
11 them if necessary. I think maybe they're just waiting
12 for the pooling order.

13 EXAMINER COSS: That sounds fair.

14 EXAMINER DAVID: Just to -- just to clarify
15 the record. So I noticed on the applications, there are
16 no case numbers on it, so -- and I think this is
17 explaining the affidavit. But for the sake of the
18 record, for Exhibit A1, this is for Case Number 20746;
19 is that correct?

20 MR. HOUGH: That's correct.

21 EXAMINER DAVID: And for Exhibit A6, that
22 would be for 20748?

23 MR. HOUGH: That's correct.

24 EXAMINER DAVID: Thank you.

25 MR. HOUGH: Without any further questions,

1 I'll move on to the geology component in this case.
2 That would be behind Tab B. You'll find the affidavit
3 of Staci Mueller. She provides here that she is a
4 geophysicist for Cimarex Energy Company, and she has
5 been qualified by the Oil Conservation Division as an
6 expert in petroleum geology matters, and her credentials
7 were accepted as a matter of record by the Division.
8 And she provides she conducted a geological study of the
9 area that encompasses the horizontal spacing units that
10 is the subject of Cimarex's application and that she is
11 familiar with the geological matters involved in this
12 case.

13 At this time I'd like to move to have
14 Ms. Mueller qualified as an expert in petroleum geology
15 matters.

16 MR. BRUCE: No objection.

17 EXAMINER COSS: She has been sworn in
18 before as an expert?

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

20 EXAMINER MURPHY: So qualified.

21 MR. HOUGH: Thank you.

22 She provides that as part of her study, she
23 prepared the following geological exhibits with respect
24 to the horizontal spacing unit. They're attached to her
25 affidavit.

1 Turning to the next exhibit there, it's B1.
2 This is a structure map of the base of the 3rd Bone
3 Spring Formation. It identifies the areas of interest
4 for the two proposed units with a red line, and then the
5 proposed wells are identified there with a black line as
6 well. And it shows that the structure is relatively
7 consistent across the proposed unit and dips slightly to
8 the south and southeast of the area.

9 Moving to the next exhibit, B2, this is a
10 net porosity map for the 3rd Bone Spring Sand Formation,
11 and it shows the formation is relatively uniform across
12 the proposed units, and the closest log control suggests
13 a range of net porosity between approximately 100 feet
14 and 200 feet. And this map also identifies again the
15 area of interest with the red outline. It's somewhat
16 hard to see there with the coloring, but it's there, and
17 also the wells with the black lines.

18 Moving to the next tab, Exhibit B3, this is
19 a reference map with the stratigraphic cross section.
20 This exhibit identifies the cross-section wells in
21 proximity to the proposed well with a gray line going
22 from A to A prime and includes the well names there.

23 Moving to -- the next tab is Exhibit B4,
24 which is a stratigraphic cross section hung on the top
25 of the Wolfcamp Formation. And the well logs and the

1 cross section give a representative sample of the 3rd
2 Bone Spring Formation in the area, which is the target
3 zone for the proposed wells, and the well logs also
4 shows the formation is relatively consistent across the
5 area. And the target zone is identified there outlined
6 in red with the arrow simply stating the target.

7 Moving to the next exhibit, Exhibit B5,
8 this is the Parkway 16-17 development plan. This
9 includes the wine-rack diagram, and this diagram
10 identifies the proposed two-mile wells within the north
11 half section of Sections 16 and 17. And, again, just
12 the area of interest is identified with red shading.

13 So she provides that based upon her studies
14 and illustrated exhibits, her knowledge of geology in
15 the area and education and training, it is her expert
16 opinion that two horizontal spacing units are justified
17 from a geologic standpoint. There are no structural
18 impediments that will interfere with the horizontal
19 development, and each quarter-quarter section in the
20 unit will contribute more or less equally to production.
21 She also provides the preferred well orientation in the
22 area is east to west. This is due to the fact that the
23 regional max horizontal stress orientation in this area
24 runs approximately north to south. She also provides
25 that the producing intervals for each of these wells

1 will be orthodox and comply with the Division setback
2 requirements.

3 So with that, I move for the admission of
4 Exhibits B through B5.

5 MR. BRUCE: No objection.

6 EXAMINER MURPHY: So accepted, B through
7 B5.

8 (Cimarex Energy Company Exhibits B
9 through B5 are offered and admitted into
10 evidence.)

11 MR. HOUGH: Unless there are any questions,
12 I will move on to --

13 EXAMINER COSS: Staci is her name?

14 MR. HOUGH: Yes.

15 EXAMINER COSS: Would she be able to
16 provide kind of a more general basin location for this
17 and the Zoback figure that illustrates the stress
18 direction here to prove her case for the well
19 orientation?

20 MR. HOUGH: Okay. So you're looking for a
21 locator map, as you mentioned, that has been zoomed out
22 to locate this well's location in the general area?

23 EXAMINER COSS: And some sort of figure
24 citation that validates a stress-direction claim.

25 MR. HOUGH: Of course.

1 EXAMINER MURPHY: The location map.

2 EXAMINER COSS: The location map could
3 prove that. It could be one and the same.

4 EXAMINER MURPHY: It includes the Capitan
5 Reef.

6 MR. HOUGH: Okay. We'll submit that by
7 email, if that is acceptable.

8 EXAMINER COSS: That is acceptable.

9 EXAMINER McMILLAN: Do you have any
10 questions?

11 EXAMINER DAVID: No, I don't.

12 MR. HOUGH: All right. I'll move on to the
13 final component. This is Exhibit C. This is my
14 affidavit here providing that, as an authorized
15 representative OF Cimarex, we provided the application
16 and notice letters of this hearing and proof of the
17 mailing, and then the status of the mailing reports.
18 And publication in the newspaper are attached to my
19 affidavit.

20 And I provide here that Cimarex conducted a
21 good-faith, diligent effort to find the names and
22 correct addresses for the interest owners entitled to
23 receive notice of the applications and provide notice to
24 each of them at their last known address.

25 So with that, I would move for the

1 admission of Exhibit C and the attachments.

2 EXAMINER MURPHY: Mr. Bruce?

3 EXAMINER DAVID: Mr. Bruce, any objection?

4 MR. BRUCE: No objection.

5 EXAMINER MURPHY: So Exhibit C is accepted.

6 (Cimarex Energy Company Exhibit C is

7 offered and admitted into evidence.)

8 MR. HOUGH: Are there any further questions
9 at this time?

10 EXAMINER DAVID: I'll just note for the
11 record on notice issues that page 2, paragraph four of
12 the affidavit does explain the good-faith efforts of the
13 Applicant to notify all interested parties, and also in
14 the affidavit that appears at Exhibit C does state that
15 notices were sent to all of the interested parties that
16 were identified by the Applicant.

17 EXAMINER McMILLAN: And the statement of
18 Riley Morris, paragraph five, says that -- okay. So I
19 guess I'm not clear. Who -- who are you -- who are you
20 pooling?

21 MR. HOUGH: So for this case, it's -- right
22 now it's all the working interest holders. They're
23 listed in, I believe, Exhibits A3 and A8. I do know
24 that Cimarex is very close to reaching an agreement with
25 Mewbourne, my understanding. But all the working

1 interest holders are listed there that they're seeking
2 to pool.

3 EXAMINER McMILLAN: What about overrides?

4 MR. HOUGH: They are seeking to the pool
5 the overrides as well, although they're not listed in
6 this particular one. This is the list of the working
7 interest holders.

8 EXAMINER McMILLAN: Well, so where is --
9 where is the exhibit that shows that?

10 MR. HOUGH: The overrides?

11 EXAMINER McMILLAN: Yeah, that are being
12 pooled.

13 MR. HOUGH: It's not provided in this set
14 of exhibits that I've provided at this time. I do note
15 that notice has been sent out to them, but I don't have
16 that actual exhibit right now. Just to be clear,
17 they're all identified in our list of individuals we
18 provided notice to, and they're also listed there in the
19 publication.

20 EXAMINER McMILLAN: Well, provide that list
21 to us.

22 MR. HOUGH: The list is --

23 EXAMINER McMILLAN: I want a breakdown of
24 the overrides. I want to -- I want to know who -- the
25 names of those affected parties, will be supplemented to

1 the record. And you will also -- and you will also be
2 expected to supply that to Mewbourne's attorney.

3 MR. HOUGH: Will do. Thank you.

4 Unless there are any further questions, I
5 would move that these cases be taken under advisement,
6 of course with my supplementation for the locator map
7 and evidence supporting the stress direction and then
8 the list of overrides.

9 EXAMINER McMILLAN: Jim, do you have any
10 objections?

11 MR. BRUCE: No objection.

12 EXAMINER MURPHY: Case 20746 and Case 20748
13 will be taken under advisement.

14 MR. HOUGH: Thank you.

15 (Case Numbers 20746 and 20748 conclude,
16 11:09 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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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