

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

ORIGINAL

5 APPLICATION OF CIMAREX ENERGY
6 COMPANY FOR A NONSTANDARD SPACING
7 AND PRORATION UNIT, PROJECT AREA
AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

CASE NO. 15619

Consolidated with

8 APPLICATION OF CIMAREX ENERGY
9 COMPANY FOR A NONSTANDARD SPACING
10 AND PRORATION UNIT, PROJECT AREA
AND COMPULSORY POOLING, EDDY
11 COUNTY, NEW MEXICO.

CASE NO. 15620

12 REPORTER'S TRANSCRIPT OF PROCEEDINGS

13 EXAMINER HEARING

14 January 19, 2017

15 Santa Fe, New Mexico

16 BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
17 LEONARD LOWE, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, Leonard Lowe, Technical Examiner, and
20 David K. Brooks, Legal Examiner, on Thursday, January
19, 2017, at the New Mexico Energy, Minerals and Natural
21 Resources Department, Wendell Chino Building, 1220 South
St. Francis Drive, Porter Hall, Room 102, Santa Fe, New
Mexico.

22
23 REPORTED BY: Mary C. Hankins, CCR
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18	Cimarex Energy Company Exhibit Numbers 1 through 5	17
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1 (8:35 a.m.)

2 EXAMINER JONES: Let's go the two Cimarex
3 cases. Let's call Case Number 15619, application of
4 Cimarex Energy Co., period, for a nonstandard spacing
5 and proration unit, project area and compulsory pooling,
6 Eddy County, New Mexico.

7 Ms. Bradfute, did we combine these two
8 cases?

9 MS. BRADFUTE: Yes. Yes, sir, please.

10 EXAMINER JONES: We'll also call Case
11 15620, application of Cimarex Energy Company for a
12 nonstandard spacing and proration unit, project area and
13 compulsory pooling, Eddy County, New Mexico.

14 Call for appearances in both cases.

15 MS. BRADFUTE: Mr. Examiner, my name is
16 Jennifer Bradfute. I'm with the Modrall Sperling Law
17 Firm, here on behalf of the Applicant.

18 MR. McMILLAN: Seth McMillan, with
19 Montgomery & Andrews, here on behalf of Devon.

20 MS. KESSLER: Mr. Examiners, Jordan
21 Kessler, from Holland & Hart, on behalf of Mobile
22 Production of Texas & New Mexico, Inc.

23 EXAMINER JONES: Are there any witnesses?

24 MS. BRADFUTE: Mr. Examiner, two witnesses.

25 EXAMINER JONES: Any other witnesses for

1 Mobile or Devon?

2 MR. McMILLAN: None, Mr. Examiner.

3 EXAMINER JONES: Will the two witnesses for
4 Cimarex please stand and the court reporter swear the
5 witnesses?

6 (Ms. Reese and Ms. Copley sworn.)

7 MS. BRADFUTE: Mr. Examiner, I'd like to
8 call my first witness.

9 KELLY REESE,
10 after having been first duly sworn under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MS. BRADFUTE:

14 Q. Can you please state your name for the record?

15 A. Kelly Reese.

16 Q. And, Ms. Reese, who do you work for and in what
17 capacity?

18 A. Cimarex Energy. I'm a landman for the Permian
19 Basin.

20 Q. And, Ms. Reese, what are your responsibilities
21 as a landman at Cimarex?

22 A. Securing all of the leasehold interests and
23 mineral interests so that we can go in and drill a well,
24 along with negotiating with other companies and getting
25 everyone on the same page.

1 Q. And, Ms. Reese, have you previously testified
2 before the Division?

3 A. Yes, I have.

4 Q. And were your credentials as a landman accepted
5 and made part of the record?

6 A. Yes, they were.

7 Q. And does your area of responsibility at Cimarex
8 include the area of Eddy County in southeastern New
9 Mexico?

10 A. Yes, it does.

11 Q. And are you familiar with the applications
12 filed by Cimarex in these cases?

13 A. Yes, I am.

14 Q. And are you familiar with the status of the
15 lands that are subject to both of these applications?

16 A. Yes, I am.

17 MS. BRADFUTE: Mr. Examiner, I would like
18 to tender Ms. Reese as an expert in petroleum land
19 matters.

20 EXAMINER JONES: Any objection?

21 MS. KESSLER: No objection.

22 MR. McMILLAN: No objection.

23 EXAMINER JONES: She is so qualified.

24 Q. (BY MS. BRADFUTE) Ms. Reese, can you please
25 turn to Exhibit Number 1 in the notebook in front of you

1 and could you please explain to the Hearing Examiners
2 what Cimarex is seeking under these exhibits?

3 A. This is the compulsory pooling order that we
4 sent out. We're seeking a nonstandard 360-acre
5 proration unit for the Bone Spring Formation consisting
6 of the north half-north half of Sections 26 and 27 and
7 the northeast-northeast of Section 28, Township 19
8 South, Range 30 East, Eddy County, New Mexico.

9 Q. Ms. Reese, will you please turn to the page
10 directly after the pink paper in Exhibit 1 and look at
11 that and could you please explain what this document is
12 to the Hearing Examiners and what Cimarex is seeking?

13 A. This is also a compulsory pooling order for a
14 nonstandard 360-acre proration unit. And this one is
15 comprised of the south half of the north half of
16 Sections 26 and 27 and the southeast of the northeast of
17 Section 28, Township 19 South, Range 30 East, Eddy
18 County, New Mexico, also for the Bone Spring Formation.

19 Q. And, Ms. Reese, just to clarify for the record,
20 both of these documents are applications, correct?

21 A. Yes. Right.

22 Q. And are both of these proposed wells in the
23 applications located in the designated potash area?

24 A. Yes, they are.

25 Q. And if you could please turn to what's been

1 marked as Exhibit Number 2 in the hearing notebook and
2 explain what these documents are to the Hearing
3 Examiners?

4 A. This is a Form C-102. The first one is for the
5 Hackberry 26 Fed Com 1H well, and this one is located
6 915 feet from the north line and 1,069 feet from the
7 east line. And the bottom-hole location is 660 feet
8 from the north line and 990 feet from the east line.

9 Q. And if you turn -- oh, I'm sorry. Could you
10 just explain the second page?

11 A. No. That was the first page.

12 The second --

13 Q. Could you explain the second page and
14 explain --

15 A. The second page is also a C-102. And this is
16 for the Hackberry 26 Fed Com 2H well, and this one is
17 located 2,022 feet from the north line, 730 feet from
18 the east line. And the bottom-hole location is 1,980
19 feet from the north line and 990 feet from the east
20 line.

21 Q. And do both of these applications involve
22 standard spacing units for the wells?

23 A. No, they do not.

24 Q. So Cimarex is seeking approval of a nonstandard
25 proration unit?

1 A. Yes.

2 Q. And have you notified the affected parties in
3 the adjoining spacing units for each of the wells about
4 the hearing?

5 A. Yes, we have.

6 Q. Has the Division identified a pool and pool
7 code for each of these wells?

8 A. Yes. Both of these are the Hackberry Bone
9 Spring, Pool Code 97020.

10 Q. And is that pool governed by the Division
11 statewide rules?

12 A. Yes, it is.

13 Q. And will the completed interval for both of the
14 wells comply with the Division setback requirements?

15 A. Yes, they will.

16 Q. And could you please turn to what's been marked
17 as Exhibit Number 3 in the notebook and explain what
18 these documents are to the Hearing Examiners?

19 A. The first one is for the Hackberry 26 Federal
20 Com 1H well. This is a plat showing the federal leases
21 and the ownership -- the leasehold ownership for each
22 one. I'll just go through them.

23 Tract 1 is Federal Lease 130860. And that
24 is owned 100 percent by MRC Permian, and they have
25 elected to participate and have submitted all their

1 documents.

2 Tract 2 is Federal Lease 0554497. That is
3 100 percent owned by McBride Oil & Gas Corporation, who
4 has also agreed to participate in the well.

5 Tract 3 is Federal Lease 0006769-A. And
6 that is Magnum Hunter Production, Inc., which is a
7 Cimarex entity company.

8 Tract 4 is Federal Lease 0556571. This
9 particular tract is comprised of Shackelford Oil
10 Company, who has elected to participate, and Devon
11 Energy who is also electing to participate, but we do
12 not have all of our signed documents from them. And,
13 therefore, they are one of the parties listed for
14 pooling.

15 Also, this particular lease is a potash
16 lease that was in suspense, and from the date that we
17 start building location or spud the well, it'll start a
18 time clock of 241 days until the lease expires, which is
19 why we are moving along with this hearing.

20 EXAMINER JONES: Sorry. Which lease was
21 that?

22 THE WITNESS: Federal lease 0556571.

23 EXAMINER JONES: 240 days?

24 THE WITNESS: Yes. 241.

25 EXAMINER JONES: 241.

1 Q. (BY MS.. BRADFUTE) And, Ms. Reese, just to
2 follow up on your description here, was McBride Oil
3 Corporation one of the parties listed as a party to be
4 pooled in the application?

5 A. No, they were not.

6 Q. And was -- actually, if you turn back to
7 Exhibit Number 1, I believe they were initially.

8 A. Oh. They were initially. MRC Permian was not.

9 Q. Yes. Great.

10 And since filing the application, McBride
11 Oil & Gas Corporation has executed a JOA?

12 A. Yes, they have.

13 Q. And then also Shackelford Oil Company, was that
14 a party that was listed as a party to be pooled in your
15 application?

16 A. Yes, they were.

17 Q. And have they since executed a JOA?

18 A. Yes, they have.

19 Q. And has Cimarex reached a deal in principle
20 with Devon Energy?

21 A. Yes, we have.

22 Q. And are you just awaiting the executed JOA at
23 this point?

24 A. Yes, we are.

25 Q. If you turn to the second page of this exhibit,

1 could you please explain what this page says to the
2 Hearing Examiners?

3 A. This is a plat for the Hackberry 26 Federal Com
4 2H also showing the federal leases and the ownership for
5 each one. Tract 1 is Federal Lease 0062152. It 100
6 percent owned by Magnum Hunter, which is a Cimarex
7 subsidiary.

8 Tract 2 is Federal Lease 0006769-A, which
9 is also 100 percent owned by Magnum Hunter.

10 Tract 3 is Federal Lease 0556571. And this
11 is owned by Shackelford Oil Company and Devon Energy,
12 and Devon Energy is the party that we are seeking to
13 pool. This is the same federal lease that also has the
14 lease expiration date.

15 Tract 4 is Federal Lease 004608. This
16 particular tract, we've been working on the title.
17 Shackelford Oil Company and Devon have filled out and
18 reached -- or gotten assignments, but they have not been
19 approved by the BLM. And as a result, we wanted to
20 notify the Estate of Earl Lyle, given the circumstances
21 that they have not been approved for record title
22 ownership. So we are seeking to pool both the Estate of
23 Earl Lyle or Devon Energy Production Company.

24 Q. And just to clarify, Ms. Reese, those
25 assignments were assignments from the Estate of Earl

1 Lyle to Shackelford?

2 A. Yes. They were assignments from the heirs of
3 the Estate of Earl Lyle to Shackelford Oil Company. And
4 I've looked at all of them and seen what he supplied to
5 the BLM, and from what I understand, they are working on
6 approving all of those. It just hasn't been approved
7 yet.

8 Q. And can you please summarize for the Hearing
9 Examiners what efforts you've made to obtain voluntary
10 pooling of these interests?

11 A. For the Estate of Earl Lyle and Devon and
12 Shackelford, we sent out well-proposal letters and AFEs
13 and have tried to follow up and contact those parties to
14 let them know.

15 Q. And can you please turn to what's been marked
16 as Exhibit Number 4 in your exhibit notebook and explain
17 what these documents are to the Hearing Examiners?

18 A. This is the well proposal that we sent out to
19 all the working interest parties along with the AFE.

20 Q. Okay. And if you turn to -- there should be a
21 yellow tab in everyone's notebook. And if you turn to
22 that yellow tab, could you explain which well that
23 proposal letter is for?

24 A. Yes. This is the well-proposal letter for the
25 Hackberry 26 Fed Com 1H describing the location of the

1 well and the costs.

2 Q. And did you send the working interest owners an
3 AFE along with well-proposal letters?

4 A. Yes, we did.

5 Q. Could you please tell the Hearing Examiners
6 your estimated costs for drilling and completing each of
7 those wells?

8 A. Yes. For the Hackberry 26 Fed Com 2H, the
9 drilling costs were 2,465,000 and the completed cost,
10 8,754,000.

11 For the Hackberry 26 Fed Com 1H, the
12 drilling costs were 2,415,000 and completed well costs,
13 8,794,000.

14 Q. And in your opinion, has Cimarex made a
15 good-faith effort to try to obtain voluntary joinder in
16 both of the wells?

17 A. Yes, we have.

18 Q. Are the costs that you just described in the
19 AFEs in line with costs for other horizontal wells
20 drilled for these lengths and depths in this area of
21 New Mexico?

22 A. Yes, they are.

23 Q. And who do you believe should be appointed as
24 operator of both of the wells?

25 A. Cimarex Energy.

1 Q. And do you have a recommendation for the
2 amounts which Cimarex should be paid for supervision and
3 administrative expenses?

4 A. Yes, we do. And 7,000 for drilling and 700 for
5 completing.

6 Q. Okay. And these amounts equivalent to those
7 normally charged by Cimarex and other operators in this
8 area for horizontal wells drilled to this length and
9 this depth?

10 A. Yes, they are.

11 Q. And do you request that these rates be adjusted
12 periodically as provided by the COPAS accounting
13 procedure?

14 A. Yes.

15 Q. Does Cimarex request a maximum cost plus 200
16 percent risk charge if any pooled working interests
17 owners -- costs for drilling and completing the wells?

18 A. Yes, we do.

19 Q. If you could please turn to what's been marked
20 as Exhibit Number 5 in the hearing notebook and please
21 explain what that exhibit is to the Hearing Examiners.
22 Is this the notice exhibit that shows the working
23 interest owners have been properly notified?

24 A. Yes, it is.

25 MS. BRADFUTE: And, Mr. Examiners, this

1 exhibit contains a 5A and a 5B for each of the cases.
 2 So there is an Affidavit of Notice that I have prepared.
 3 It includes copies of the letters that were sent to the
 4 offsets and the pooled parties, along with mailing
 5 receipts. There was one returned mailing in both of the
 6 cases, and we published notice pursuant to the
 7 Division's rules. And there is an Affidavit of
 8 Publication on the back of each of these exhibits.

9 Q. (BY MS. BRADFUTE) Ms. Reese, were Exhibits 1
 10 through 5 prepared by you or under your supervision or
 11 compiled from company business records?

12 A. Yes, they were.

13 Q. And is the granting of this application in the
 14 interest of conservation and the prevention of waste?

15 A. Yes, it is.

16 MS. BRADFUTE: Mr. Examiners, I'd like to
 17 move the admission of Exhibits 1 through 5 into the
 18 record.

19 EXAMINER JONES: Any objections?

20 MS. KESSLER: No objection.

21 MR. McMILLAN: No objection.

22 EXAMINER JONES: Let me make sure I've got
 23 this straight. Is Devon and Mobile making an appearance
 24 in both cases?

25 MS. KESSLER: That's correct.

1 MR. McMILLAN: (Indicating.)

2 EXAMINER JONES: Is it Mobile Company or
3 potash?

4 MS. KESSLER: Mobile Oil Company, and
5 they're an offset as well.

6 EXAMINER JONES: Okay. Thank you.

7 Okay. Exhibits -- is it 1 through 5?

8 MS. BRADFUTE: 1 through 5.

9 EXAMINER JONES: 1 through 5 in both cases
10 are admitted.

11 (Cimarex Energy Co. Exhibit Numbers 1
12 through 5 are offered and admitted into
13 evidence.)

14 MS. BRADFUTE: Thank you.

15 EXAMINER JONES: Mr. McMillan, any
16 questions?

17 MR. McMILLAN: None.

18 EXAMINER JONES: Ms. Kessler?

19 MS. KESSLER: No questions.

20 EXAMINER JONES: Mr. Lowe, any questions?

21 EXAMINER LOWE: No, I don't.

22 CROSS-EXAMINATION

23 BY EXAMINER JONES:

24 Q. I guess when you say Cimarex, you're always
25 saying Cimarex Energy Company or --

1 A. Yes, company.

2 Q. What's the deal with the Colorado company?
3 What does it cover in New Mexico now? Cimarex Energy
4 Company of Colorado is listed as operator for a lot of
5 the properties in New Mexico. So is there a rhyme or
6 reason to that?

7 A. Our corporate office is in Denver, Colorado, so
8 that's just where the headquarters is.

9 Q. So is that the parent company to the --

10 A. Yes. Yes. There are several entities that
11 kind of fall underneath Cimarex Energy Co. of Colorado,
12 and that is the operating company.

13 EXAMINER BROOKS: Okay. But this case is
14 Cimarex Energy Co., not Co. of Colorado, correct?

15 Q. (BY EXAMINER JONES) So Cimarex Energy Co. got
16 interest through obtaining a federal lease in these two
17 proposed project areas?

18 A. Yes. I believe two of the federal leases are
19 in Magnum Hunter Production, Inc., which is a subsidiary
20 of Cimarex Energy Co., and then Cimarex Energy Co.
21 obtained another federal lease under their name. So
22 they're both in there.

23 Q. Okay. This has the dash A on it. What does
24 that mean? Is that an assignment?

25 A. That's just the federal lease number.

1 EXAMINER BROOKS: That's an assignment of
2 a -- when a segregated portion of a federal lease is
3 assigned, the BLM segregates that as a separate lease,
4 and they give it the "A" number to indicate it's a -- of
5 the original lease under that number.

6 EXAMINER JONES: So like the State Land
7 Office, they use numbers instead of --

8 EXAMINER BROOKS: Maybe the State Land
9 Office identifies leases in that status, but I am
10 familiar with the way the BLM does it.

11 Q. (BY EXAMINER JONES) Okay. The first well,
12 Number 1A is in our records -- the Division records has
13 a different surface-hole location than your C-102 that
14 you showed. Is the one you showed for this hearing, is
15 that an updated one?

16 A. Yes. I believe this is a sundry, and I believe
17 this is the updated one.

18 MS. BRADFUTE: Mr. Examiner, I got this off
19 of the Division's Web site, these C-102s, in the well
20 files. And if you notice, if you turn to Exhibit Number
21 2, and you look at the top, it has the Oil Conversation
22 stamp on there for the Artesia District Office.

23 Q. (BY EXAMINER JONES) Okay. That is December the
24 2nd. I think I printed one out for December the 2nd,
25 and it's got -- it's checked "amended," and it says "915

1 from the north line, 1,069" -- okay. That's the same
2 thing. That's the same thing. Okay. So it's correct.
3 My apologies. Okay.

4 The other question is the well is being
5 spud in Unit letter A and then the other well in letter
6 Unit H. Are those -- is the first take point in -- is
7 there a first take point in letter Unit A?

8 A. Yes, there will be.

9 Q. There will be?

10 A. Yes.

11 Q. Okay. Do you know what those are, or we'll get
12 those later from the --

13 A. I do not know what those are off the top of my
14 head, but I do know that both the first 40 acres will
15 be --

16 Q. Will be drained?

17 A. Yes.

18 Q. Okay. So it's part of the project area.

19 And why are you going over into Section 28?

20 A. Well, one of those -- we didn't want to
21 strand -- we own one of those 100 percent, and then MRC
22 owns the other one 100 percent. And they did not want
23 to be stranded. They wanted to be included in these
24 wells.

25 Q. Okay. And your drilling engineer said he could

1 drill that far, or she could drill that far?

2 A. Yes. Yes.

3 Q. Okay. So Mr. Shackelford has signed on both of
4 these wells?

5 A. Yes. He has signed everything.

6 Q. And you have some record of contact with the
7 Estate of Earl R. Lyle in here somewhere?

8 A. Yes. I believe one of the exhibits that was
9 submitted is our well-proposal letter and AFE to his
10 address or last known address in our system.

11 MS. BRADFUTE: And there is a confirmation
12 delivery to him. In the well-proposal letter, we
13 attached all of the mailing receipts. But we used the
14 same address for notice of this hearing, and it came
15 back undelivered.

16 EXAMINER JONES: Okay. Now, the newspaper
17 notice, when was it published?

18 MS. BRADFUTE: It was published, I think,
19 January 6.

20 EXAMINER BROOKS: January 6.

21 EXAMINER JONES: Is that okay?

22 EXAMINER BROOKS: Let's see. I'm pretty
23 sure it is because it was 13 days ago. But it's
24 supposed to be ten business days, and there was one
25 holiday during that period. So that would be -- let's

1 see. The 6th -- published on the 6th, which was what
2 day? 6th was a Friday. So it would be -- well, it
3 hasn't been ten business days.

4 MS. BRADFUTE: I thought it was on the
5 tenth business day.

6 EXAMINER BROOKS: Well, that's right,
7 because you don't count the day you're counting from and
8 you do count the day you're counting to. So -- and I
9 think it -- let's see. I've got to check this. The 6th
10 was a Friday, wasn't it?

11 MS. BRADFUTE: Uh-huh. I believe so.

12 EXAMINER BROOKS: The thing is, that's only
13 four days -- last week and -- you start on Friday. So
14 you have five days the week of the 13th. But then
15 Monday was a holiday.

16 MS. BRADFUTE: I may not have counted
17 Monday as a holiday because it was not a holiday for us.

18 EXAMINER BROOKS: But it is a New Mexico
19 State holiday. So that's what determines it. I believe
20 we're going to have to continue this. But you do agree
21 that it's ten days --

22 MS. BRADFUTE: I believe the rule says
23 that.

24 EXAMINER BROOKS: -- which is ten business
25 days by statute?

1 MS. BRADFUTE: Yes. It's ten business
2 days.

3 EXAMINER BROOKS: Yeah. But it was
4 published on Friday. You don't count Friday. So you
5 have Monday, Tuesday, Wednesday, Thursday, Friday of the
6 week of the -- so the 9th, 10th, 11th, the 12th, the
7 13th, the 17th, the 18th, and the 19th. That's only
8 eight business days.

9 MS. BRADFUTE: Okay.

10 EXAMINER BROOKS: Yeah. We'll have to
11 continue it to February the 2nd docket.

12 MS. BRADFUTE: Okay. Can we ask that the
13 evidence be heard today?

14 EXAMINER BROOKS: Yeah.

15 MS. BRADFUTE: And we have the Affidavit of
16 Publication.

17 EXAMINER BROOKS: We do that routinely.

18 EXAMINER JONES: Get it ready and release
19 it as soon as the hearing --

20 MS. BRADFUTE: Great. Thank you.

21 EXAMINER JONES: We'll do that.

22 Q. (BY EXAMINER JONES) The potash company -- I
23 notice you're drilling right underneath. So as far as
24 the federal requirements for notice, I guess they
25 know -- it's their -- it's their potash minerals. So do

1 they require any extra notice for permitting the well to
2 the potash lessees?

3 A. I do not know.

4 Q. That's -- that's -- that's taken care of by the
5 well anyways.

6 A. Yeah.

7 Q. We're talking about compulsory pooling here.
8 So it's a different deal.

9 EXAMINER BROOKS: There is a notice,
10 11(1)(B) [sic], but I haven't read it in several years.
11 I don't remember what it is, Order 11B [sic].

12 EXAMINER JONES: It's in the Secretary's
13 area, and it's also in the --

14 MS. BRADFUTE: Yeah. So we will comply
15 with all of those.

16 EXAMINER JONES: So it's just on one of
17 those drilling islands? Is that the well site itself?

18 MS. BRADFUTE: Yes. Yeah. Is it on a
19 drilling island? I believe so.

20 THE WITNESS: It's been approved. These
21 are the locations they provided us.

22 EXAMINER JONES: Yeah. And even the OCD
23 gave it an API number, so --

24 MS. BRADFUTE: Yes.

25 Q. (BY EXAMINER JONES) It's all approved.

1 So can you talk about, first of all,
2 Mobile, in your conversations with them, as to why
3 they're here making an appearance in the case?

4 A. I believe they're here as an offset operator.

5 MS. BRADFUTE: Mr. Examiner, my
6 understanding is that there is not a lot of information
7 concerning wells that have been drilled in this area
8 because it is the designated potash area, so Mobile
9 wanted to enter an appearance to get a copy of the
10 exhibits that are being offered today.

11 EXAMINER JONES: Okay (laughter).

12 Ms. Kessler, is that correct?

13 MS. KESSLER: That's true. I think that
14 also the limited number of drilling islands is a factor
15 that Mobile is looking at and is interested in, and I
16 think a lot of companies in the area are going to be
17 interested in issues like that.

18 Q. (BY EXAMINER JONES) Okay. And can you talk
19 about Devon Energy and your conversations with them?

20 A. Yes. Devon has sent in a signed AFE for the
21 well and an election letter saying they want to
22 participate. We were going back and forth on terms of
23 the joint operating agreement, which we have since
24 agreed to. They just haven't been able to get it
25 executed in time for this hearing.

1 MR. McMILLAN: That's correct.

2 EXAMINER JONES: Thanks, Mr. McMillan.

3 I don't have any other questions.

4 Mr. Brooks?

5 MR. BROOKS: I don't believe I have any
6 questions.

7 EXAMINER LOWE: I have questions.

8 CROSS-EXAMINATION

9 BY EXAMINER LOWE:

10 Q. In relation to Exhibit 3, you mentioned your
11 lease for both wells, the #1H and 2H. The lease,
12 556571, has an expiration date of 241 days?

13 A. Yes.

14 Q. Is that -- you brought that up because it's
15 going to expire sooner?

16 A. I brought that up because -- what has happened
17 is they were in suspense due to potash. And now that we
18 have started construction of the well, our time clock
19 has essentially started that's the remainder of what was
20 on that lease when it went into suspense, and that was
21 241 days. That is the extended term of the lease, and,
22 therefore, we have to be producing by that 241-day time
23 clock. Normally, a date is provided in the APD, and it
24 was not. So we are working with the BLM to get an exact
25 date of when our time clock starts. But typically that

1 is, you know, from construction of the well pad or spud
2 of the well.

3 RE CROSS EXAMINATION

4 BY EXAMINER JONES:

5 Q. What was the primary term on the lease? Ten
6 years?

7 A. Yes, originally.

8 Q. So it's got an extended?

9 A. It's already in the extended term.

10 MS. BRADFUTE: And these wells, the potash,
11 they've been suspended for many years, for decades, due
12 to potash development.

13 EXAMINER JONES: Oh. Oh, that's the --

14 MS. BRADFUTE: Yes.

15 EXAMINER LOWE: Okay.

16 EXAMINER JONES: Good question.

17 MS. BRADFUTE: They have been held in
18 suspense now under the Secretary's order. Development
19 in the area is feasible, but as soon as Cimarex starts
20 construction, under the BLM timeline and the IBLA
21 precedence, then the clock starts running again.

22 THE WITNESS: The federal lease on the
23 Hackberry 2H, 004608, it also was in suspense. However,
24 the remainder term on that is over 2,000 days. So we're
25 not worried about meeting that expiration date.

1 RECROSS EXAMINATION

2 BY EXAMINER LOWE:

3 Q. Okay. So each one of those leases has
4 different time frames?

5 A. Just those two.

6 Q. Just those two. Okay. Okay.

7 That's all I've got. Thank you.

8 EXAMINER JONES: Thank you. Thank you very
9 much.

10 MS. BRADFUTE: Mr. Examiner, that concludes
11 my questions for this witness. I'd like to call our
12 second witness.

13 EXAMINER BROOKS: Do either of the other
14 counsel wish to question this witness?

15 MS. KESSLER: No. Thank you, Mr. Examiner.

16 MR. McMILLAN: No. Thank you.

17 MS. BRADFUTE: I'd like to call Lauren
18 Copley.

19 LAUREN COPLEY,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MS. BRADFUTE:

24 Q. Ms. Copley, would you please state your name
25 for the record?

1 A. Lauren Copley.

2 Q. Ms. Copley, who do you work for and in what
3 capacity?

4 A. I work for Cimarex Energy Co. as a geologist
5 for the Permian Basin.

6 Q. And what are your responsibilities as a
7 geologist?

8 A. I'm responsible for the exploration and
9 development in all of the Bone Spring Formation in
10 southern Lea and Eddy Counties.

11 Q. Ms. Copley, have you previously testified
12 before the Division?

13 A. No, I have not.

14 Q. Can you please describe your educational
15 background and your work history for the Examiners?

16 A. I have a bachelor's in science and geosciences
17 from Trinity University in San Antonio, and I have a
18 master's of science in geosciences from the University
19 of Texas at Austin. And I've been employed by Cimarex
20 as a geologist since June of 2015.

21 Q. And, Ms. Copley, do you belong to any
22 professional associations?

23 A. Yes, I do. I belong to the American
24 Association of Petroleum Geologists and the West Texas
25 Geological Society.

1 Q. Are you familiar with the applications that
2 have been filed by Cimarex in this matter?

3 A. Yes, I am.

4 Q. And are you familiar with the status of the
5 lands that are subject to both of those applications?

6 A. Yes, I am.

7 Q. Are you familiar with the drilling plan for the
8 Hackberry 26 Federal Com 1H well and 2H well?

9 A. Yes, I am.

10 Q. And have you conducted a geologic study of the
11 area bracing [sic] the proposed spacing units for the
12 wells?

13 A. Yes, I have.

14 MS. BRADFUTE: Mr. Hearing Examiners, I'd
15 like to tender Ms. Copley as an expert in petroleum
16 geology matters.

17 EXAMINER JONES: Any objections?

18 MS. KESSLER: No objection.

19 MR. McMILLAN: (Indicating.)

20 EXAMINER JONES: She is so qualified.

21 Q. (BY MS. BRADFUTE) Ms. Copley, what is the
22 targeted interval for each of the Hackberry wells?

23 A. Both wells are going to target the 2nd Bone
24 Spring Sand.

25 Q. Could you please turn to what's been marked as

1 Exhibit Number 6 in the exhibit notebook in front of you
2 and explain what this exhibit is to the Hearing
3 Examiners?

4 A. This is a structure map on the top of the 2nd
5 Bone Spring Sand Formation. It is posted in subsurface
6 TVD. The yellow on the map represents Cimarex acreage,
7 and all of the orange wells on the map are the 2nd Bone
8 Spring Sand producers in the area. The two purple lines
9 are the Hackberry 1H and 2H, and they are labeled. The
10 structure map shows -- the green colors would be
11 shallower, and the blue colors are the deepest. So it
12 shows that the 2nd Bone Spring Formation is dipping down
13 to the southeast.

14 Q. And when you prepared this structure map, did
15 you notice any geological impediments within the area?

16 A. No, I did not.

17 Q. And all of the orange triangles that are shown
18 on the structure map, are those other Bone Spring wells
19 in the area?

20 A. Yes. Correct.

21 Q. Could you please turn to Exhibit Number 7 in
22 the notebook and explain what this exhibit is to the
23 Hearing Examiners?

24 A. This is a net pay map for the 2nd Bone Spring
25 Sand Formation. It's showing the same map area as the

1 previous map. And, again, the same wells are the 2nd
2 Bone Spring Sand producers, and the purple wells are the
3 Hackberry locations. Net pay for the 2nd Bone Spring is
4 based on over 10 percent density-porosity, with neutron
5 density cross-over in this area. And this map is shown
6 with 25-foot contour intervals. And the main thing to
7 take away from this map is that the darker shaded colors
8 indicate areas of thicker net pay, and, therefore,
9 better reservoir. And the black line labeled "A to A
10 prime" on the map presents the cross section that I've
11 created.

12 Q. And can you please turn to what's been marked
13 as Exhibit Number 8 in the hearing notebook and explain
14 what that is to the Hearing Examiners?

15 A. This is the cross section I just mentioned. It
16 goes from A to A prime, which moves from southwest to
17 southeast. It highlights the 2nd Bone Spring Sand
18 Formation. And this is a stratigraphic cross section,
19 which is hung on the top of the 2nd Bone Spring Sand,
20 and that is shown by the orange line. And the base of
21 the 2nd Bone Spring Sand, which is the 3rd Bone Spring
22 Carbonate, is shown with the blue line.

23 These logs are laid out in a -- from left
24 to right as a gamma ray log and the neutron
25 density-porosity log and a resistivity log. And the

1 density-porosity log is the blue line in the middle, and
2 it is shaded orange where it's over 10 percent
3 density-porosity, which can you give a better idea where
4 the net pay is located in the formation.

5 And we will be targeting -- oh, there is
6 roughly about 400 feet of gross formation expected along
7 the lateral. And the net pay develops towards the top
8 and the middle, and we plan to target the middle of the
9 formation. So that will be on the right well. That
10 will be located around 8,550 TVD.

11 Q. And do you consider the wells included in the
12 cross section that you prepared to be representative of
13 the Bone Spring Formation in the area near the proposed
14 spacing units?

15 A. Yes, I do.

16 Q. What conclusions have you drawn from your
17 geologic study of the area?

18 A. The conclusions I have drawn are that there is
19 good net pay along the length of the lateral, and it is
20 a prospective area for the 2nd Bone Spring Sand.

21 Q. And did you see any impediments to drilling
22 horizontal wells in this area?

23 A. No, I did not.

24 Q. Will each quarter-quarter section of the wells
25 be productive in the Bone Spring Formation?

1 A. Yes, they will.

2 Q. And do you anticipate that each quarter-quarter
3 section will contribute approximately equally to each of
4 the wells?

5 A. Yes, approximately.

6 Q. And is horizontal drilling the most efficient
7 method and will it prevent the drilling of unnecessary
8 wells and result in the greatest EUR?

9 A. Yes, it is.

10 Q. Could you please turn to what is marked as
11 Exhibit 9 and explain in detail to the Hearing Examiners
12 what this document is?

13 A. The first page is a wellbore diagram for the
14 Hackberry 1H, and this shows the planned -- the drilling
15 plan in both map view and cross-section view. And the
16 main point of this is to show that target TVD is roughly
17 8,550 TVD. And the second page is the same type of
18 diagram for the Hackberry 2H.

19 Q. And in your opinion, would granting both of
20 these applications be in the best interest of
21 conservation, the prevention of waste and the protection
22 of correlative rights?

23 A. Yes.

24 Q. Ms. Copley, were Exhibits 6 through 9 prepared
25 by you or compiled under your direction and supervision?

1 A. Yes, they were.

2 MS. BRADFUTE: Mr. Hearing Examiners, I
3 would like to admit Exhibits 6 through 9 into the
4 record.

5 EXAMINER JONES: Any objection?

6 MS. KESSLER: No objection.

7 MR. McMILLAN: No objection.

8 EXAMINER JONES: Exhibits 6 through 9 are
9 admitted.

10 (Cimarex Energy Co. Exhibit Numbers 6
11 through 9 are offered and admitted into
12 evidence.)

13 Q. (BY MS. BRADFUTE) Ms. Copely, just one or two
14 more questions.

15 This area is in the designated potash area;
16 is that correct?

17 A. That's correct.

18 Q. So some of the drilling plans are somewhat
19 dictated by the BLM within the area; is that right?

20 A. Yes. Correct.

21 Q. And the BLM has encouraged the drilling of
22 longer laterals to produce within the potash area?

23 A. Yes, that's correct.

24 MS. BRADFUTE: And those are all the
25 questions I have right now for Ms. Copley.

1 EXAMINER JONES: Any questions,
2 Mr. McMillan?

3 MR. McMILLAN: No questions.

4 EXAMINER JONES: Ms. Kessler?

5 MS. KESSLER: No questions, Mr. Examiner.

6 EXAMINER JONES: Mr. Lowe?

7 EXAMINER LOWE: No questions at this time.

8 EXAMINER JONES: Okay.

9 CROSS-EXAMINATION

10 BY EXAMINER JONES:

11 Q. Well, that 10 percent density-porosity, that's
12 decent porosity, then. You've got good porosity in this
13 formation.

14 A. Yes, sir.

15 Q. Is that gross -- I mean, what would you think
16 the effective porosity is in the Bone Spring? In other
17 words, what is connected? What's -- that's just a gross
18 porosity, right? I mean, that's your -- that's based on
19 the --

20 A. That's log porosity, not core porosity, if
21 that's what you're --

22 Q. Okay. Well, is it -- is the log kind of a line
23 matrix like they usually are in the southeast?

24 A. Yes. Yes.

25 Q. And so -- but you calculated that based on --

1 A. Oh. We've done --

2 Q. -- sandstone?

3 A. We've done core studies in the area, and we've
4 determined that 10 percent density-porosity on the log
5 correlates to the parts of the formation that we
6 assigned to be contributed, yes, productively.

7 Q. So if it's less than that, it won't even
8 contribute?

9 A. Well, we can't say that for sure, but we feel
10 by using the 10 percent cutoff with cross-over in this
11 area, that we are highlighting the parts of the
12 formation that are prospective.

13 Q. Okay. And then you've got good cross-over,
14 too, so it's kind of a no-brainer --

15 A. Yes.

16 Q. -- to look at them and see?

17 A. Yes. This is a more proximal setting, so the
18 type of deposition that we see -- yes. Those are
19 appropriate cutoffs.

20 Q. So that's a gas effect cross-over, not --

21 A. No. That's what sand looks like on a line
22 matrix.

23 Q. Okay. Okay. I notice there is a new way of
24 looking at the clay field porosity in the Wolfcamp,
25 published recently.

1 A. Uh-huh.

2 Q. Did you read that paper?

3 A. No, I did not. But our tech team has been
4 working for a while. They're always trying to figure
5 out how to best calculate true porosity from logs.

6 Q. Yeah. Does your -- you don't have -- your
7 engineer's not going to testify today?

8 MS. BRADFUTE: That is correct.

9 Q. (BY EXAMINER JONES) I just wondered if you had
10 heard any stories about how they matched the decline
11 behavior with the calculated -- calculated volume of
12 recovery based on volumetrics. So in other words,
13 volumetrics versus decline. Is there any kind of way to
14 match them up nowadays in these rocks?

15 A. I'm not super familiar with that. That's not
16 my primary task at work.

17 Q. This Bone Spring is getting pretty -- a lot
18 thicker as you go to the northeast, the Bone Spring
19 Sand? Is that -- is that why you see all these wells to
20 the northeast, or is that -- are you guys kind of
21 stepping out here a little bit to the west?

22 A. Well, the potash begins roughly where our
23 surface holes are and is to the west, so that is why
24 there is a lack of wells in the west half of the map.

25 Q. Okay. So there is no relation that way?

1 A. I would say that's more based on the difficulty
2 to get a surface location in the area.

3 Q. So why is the 2nd Bone Spring Sand thicker as
4 you go northeast?

5 A. It's channelized. That's the deposition in
6 this area, and so where a channel exists, you get
7 thicker net pay.

8 Q. And what about the 1st through the Avalon or --
9 I don't know if you call it Leonard.

10 We've got Leonard here today.

11 (Laughter.)

12 A. We're always looking for new formations to
13 target in all of our areas.

14 Q. Okay. So as far as the Bone Spring, this is
15 the primary target? That's pretty much the only target?

16 A. The 2nd Bone Spring Sand is our primary target
17 in this area, correct.

18 Q. And what about the Delaware or the Wolfcamp?
19 Are they prospective in here, also?

20 A. Like I said, we're always looking for new
21 opportunities in different formations.

22 EXAMINER JONES: Mr. Brooks?

23 EXAMINER BROOKS: No questions.

24 EXAMINER LOWE: No questions.

25 EXAMINER JONES: Thank you.

1 MS. BRADFUTE: Mr. Examiner, that concludes
2 my presentation today. We would ask that the case be
3 continued to the next docket date.

4 EXAMINER JONES: Okay. We're going to --

5 EXAMINER BROOKS: Ms. Kessler or --

6 EXAMINER JONES: Ms. Kessler or

7 Mr. McMillan, do you have anything?

8 MS. KESSLER: Nothing further.

9 MR. McMILLAN: And nothing from Devon.

10 EXAMINER JONES: Okay. Nothing further.

11 We have heard Cases 15619 and 15620, and
12 we're going to continue both cases until February the
13 2nd.

14 (Cases 15619 and 15620 conclude, 9:19 a.m.)

15 (Recess 9:19 a.m. to 9:42 a.m.)

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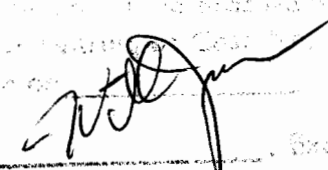
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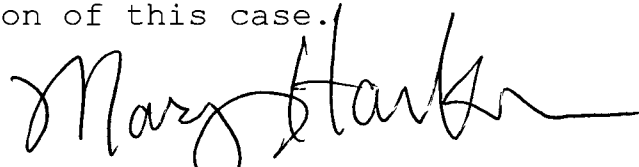
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