

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 A NONSTANDARD SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15755

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 21, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
PHILLIP GOETZE, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, Phillip Goetze, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, December 21, 2017, 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.

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1 (8:47 a.m.)

2 EXAMINER DAWSON: At this point we'll go
3 back to Case Number 15755, which is number 25 on the
4 list, and this is an application of Cimarex Energy
5 Company for a nonstandard spacing and proration unit and
6 compulsory pooling, Eddy County, New Mexico.

7 Call for appearances.

8 MR. McMILLAN: Mr. Examiner, Seth McMillan,
9 of Montgomery & Andrews, on behalf of Cimarex.

10 EXAMINER DAWSON: Okay.

11 MS. KESSLER: Mr. Examiners, Jordan Kessler
12 behalf of EOG Resources, Inc. and Matador Production.
13 No witnesses.

14 EXAMINER DAWSON: Okay.

15 MR. McMILLAN: If I may, I have exhibits.

16 EXAMINER DAWSON: Okay. Do you have
17 witnesses?

18 MR. McMILLAN: I do have two witnesses.

19 EXAMINER DAWSON: Okay. Can Mr. McMillan's
20 witnesses stand up and be sworn in at this time?

21 (Ms. Reese and Mr. Patson sworn.)

22 EXAMINER DAWSON: You may call your first
23 witness.

24 MR. McMILLAN: Okay. Thank you. Cimarex
25 would call its first witness, Kelly Reese.

1 KELLY REESE,
2 after having been first duly sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. McMILLAN:

6 Q. Good morning.

7 A. Good morning.

8 Q. Would you please state your full name and place
9 of residence?

10 A. Kelly Reese, Midland, Texas.

11 Q. And by whom are you employed and in what
12 capacity?

13 A. By Cimarex Energy Co. as an exploration
14 landman.

15 Q. Are you authorized today to testify on
16 Cimarex's behalf?

17 A. I am.

18 Q. Have you previously testified before the
19 Division or one of its Examiners and had your
20 credentials accepted and made a matter of record?

21 A. Yes, I have.

22 Q. Excellent.

23 Are you familiar with the applications
24 filed in this case?

25 A. Yes, I am.

1 **Q. And are you familiar with the subject area.**

2 A. Yes.

3 MR. McMILLAN: Mr. Examiner, I would tender
4 Kelly Reese as an expert petroleum landman.

5 EXAMINER DAWSON: Any objections?

6 MS. KESSLER: No objections.

7 EXAMINER DAWSON: Ms. Reese will be
8 admitted as an expert petroleum landman at this time.

9 MR. McMILLAN: Thank you.

10 **Q. (BY MR. McMILLAN) Ms. Reese, would you state**
11 **for us what Cimarex seeks by its application?**

12 A. Cimarex seeks an order approving a nonstandard
13 oil spacing and proration unit comprised of the west
14 half of Sections 12 and 13, Township 25 South, Range 28
15 East, Eddy County, New Mexico, including all the
16 underlying mineral interests in the Wolfcamp Formation,
17 Purple Sage Formation Gas Pool 98220, underlying the
18 nonstandard unit. The unit will be dedicated to
19 Cimarex's proposed River Bend 12-13 Fed Com 29H well to
20 be drilled from an approximate surface location of 1,379
21 feet from the south line and 1,396 feet from the west
22 line of Section 1, Township 25 South, Range 28 East,
23 with a bottom-hole location of 330 feet from the south
24 line and 2,200 feet from the west line of Section 13,
25 Township 25 South, Range 28 East.

1 Q. And have you prepared certain exhibits for
2 introduction in this case?

3 A. Yes, I have.

4 Q. Can we turn together to your Exhibit 1. Does
5 this show -- is this a C-102 showing the proposed unit?

6 A. It is.

7 Q. And are the surface- and bottom-hole locations
8 shown on the C-102?

9 A. Yes, they are.

10 Q. And have those -- has the surface location
11 changed since the C-102 was issued?

12 A. Yes, they have. The surface-hole location has
13 changed. The bottom hole has not.

14 Q. Okay. Can you please discuss with us why the
15 surface location has changed and -- well, let's start
16 there. Could you discuss that with us?

17 A. There were numerous topographical issues in BLM
18 wetlands and numerous archives [sic], and so we had to
19 go out with the BLM and EOG and agree on a location
20 off-lease in Section 1.

21 Q. And so did Cimarex get together with BLM and
22 EOG at a recent meeting to do exactly that?

23 A. Yes, it did.

24 Q. And do you recall when that meeting took place,
25 more or less?

1 A. It was last Tuesday. I'm not sure what that
2 date is.

3 Q. Last Tuesday.

4 Okay. And is it your understanding,
5 following that meeting, all parties believe that the
6 revised surface location is acceptable?

7 A. Yes, they did.

8 Q. And that BLM is he also approving of the new
9 surface location?

10 A. Yes, they have.

11 Q. Has BLM yet issued an approved NOS?

12 A. Yes, they have.

13 Q. Excellent.

14 What pool rules govern development of the
15 Wolfcamp in this area?

16 A. Purple Sage.

17 Q. And do you know what the setbacks are for this
18 pool?

19 A. 330.

20 Q. Is it your understanding that the take points
21 will be situated within the setbacks?

22 A. Yes, they will.

23 Q. Remind us what the primary objective is for
24 this well?

25 A. Lower Wolfcamp.

1 **Q. Okay. Does Cimarex own the right to drill on**
2 **this tract that will be traversed by the wellbore?**

3 A. Cimarex owns in every tract except for the
4 southwest quarter of the northwest quarter and the
5 northwest quarter of the southwest quarter of Section
6 12, which is owned by COG, and they have agreed to
7 participate and sign the JOA.

8 **Q. Perhaps we should turn now to your Exhibit 2.**
9 **Is this an ownership breakdown that you worked up?**

10 A. Yes, this is. This is an ownership breakdown
11 showing the interests that will be pooled and which
12 tracts they are underneath.

13 **Q. Can you describe for us Cimarex's ownership**
14 **here in Sections 12 and 13?**

15 A. Cimarex has a 64.57 [sic] working interest in
16 all of the west half of 12 and 13.

17 **Q. And how long has Cimarex owned its interests**
18 **here?**

19 A. Cimarex inherited their interest through
20 Magnum-Hunter, which still owns interests, and they
21 obtained it back in 2004 from Tom Browning.

22 **Q. And when did Cimarex first commence its**
23 **geologic evaluation in the area?**

24 A. For several years, they've been reviewing this
25 area to drill a one-mile directly in Section 14 in 2015.

1 Q. And was that a Wolfcamp well?

2 A. It was.

3 Q. When did Cimarex submit its APD to OCD for this
4 well?

5 A. July 25th.

6 Q. Okay. And has it been -- has it been approved
7 it yet?

8 A. It has not. They are holding it deficient for
9 our new plat showing the surface-hole location.

10 Q. Is it your understanding that that's the only
11 kind of glitch holding up approval, is the surface-hole
12 location?

13 A. Yes. Yes.

14 Q. Remind us what percentage of the acreage in the
15 proposed unit is voluntarily committed to the well?

16 A. 91 percent.

17 Q. Great.

18 And of the remaining percentage, is Cimarex
19 asking the Division to pool any unjoined working
20 interests and mineral interests?

21 A. Yes, we are.

22 Q. And are there, in fact, any unleased mineral
23 interest owners?

24 A. Yes. There is one. And it's CWPLCO, Inc.,
25 which is Clayton Williams.

1 Q. And was this entity locatable?

2 A. Yes. They are locatable.

3 Q. And was notice -- notice furnished to this
4 mineral interest owner?

5 A. Yes. We've given them notice to participate.
6 I've offered them a leasing offer. And they had
7 responded at first, and then they were just
8 unresponsive.

9 Q. Okay. Did they, however, receive notice of
10 this hearing?

11 A. Yes, they did.

12 Q. In connection with this application, does
13 Cimarex seek the imposition of a 200 percent risk
14 penalty for any unjoined working interests?

15 A. Yes, we do.

16 Q. Does Cimarex also seek to be designated
17 operator for the well?

18 A. Yes.

19 Q. Can you discuss for us the efforts that Cimarex
20 took -- undertook to obtain the voluntary participation
21 of any unjoined working interest owners?

22 A. Yes. Exhibit 3 are the letters that I sent out
23 to everyone in the west half of Sections 12 and 13.
24 It's a well proposal. Additionally, I've been in
25 communications with all of the parties involved. I'm

1 continuing some of the -- I know that Devon Energy has
 2 recently reached out, wanting to possibly do a farm-out.
 3 So we're going to continue to work with them. And RKI
 4 Exploration, Inc., or WPX, additionally has a few issues
 5 they just want to address on the JOA. So we're going to
 6 try and come to agreement with them. As I said, CWPLCO
 7 has been unresponsive, and it is my understanding that
 8 EOG will make an election under the pooling order.

9 Q. In your opinion, has Cimarex made a good-faith
 10 effort to locate all the unleased mineral interest
 11 owners and working interest owners and communicate with
 12 them in order to obtain their voluntary participation in
 13 this well?

14 A. Yes.

15 Q. With respect to the well-proposal letters in
 16 Exhibit 3, did each of those include an AFE?

17 A. Yes, they did.

18 Q. Is that AFE also set forth as separate Exhibit
 19 4?

20 A. Yes, it is.

21 Q. Great.

22 Can you review for us the total for the
 23 completed well?

24 A. 12,681,293.

25 Q. And have these AFE cost estimates been updated

1 since the time of Cimarex's original well proposals?

2 A. No. They have not.

3 Q. Are the costs sent forth in Cimarex's AFE in
4 line with what is being charged by other operators in
5 the area for similar wells?

6 A. Yes, they are.

7 Q. Have you made an estimate of overhead and
8 administrative costs while drilling and producing the
9 well?

10 A. Yes. We're asking for 6,500 per month drilling
11 overhead and 650 a month producing overhead.

12 Q. And in your opinion, are these costs in line
13 with what is being charged by other operators in the
14 area?

15 A. Yes.

16 Q. And do you recommend that these drilling and
17 producing overhead rates be incorporated into the order
18 that results from this hearing?

19 A. Yes.

20 Q. And does Cimarex request that the order issued
21 in this case provide for adjustments of the drilling and
22 overhead rates in accordance with the current COPAS
23 bulletin for the area?

24 A. Yes.

25 Q. In your opinion, Ms. Reese, would the granting

1 of Cimarex's application be in the best interest of
2 conservation, the prevention of waste and the protection
3 of correlative rights?

4 A. Yes, we do.

5 Q. And were Exhibits 1 through 4 prepared by you
6 or at your direction and control?

7 A. Yes, they were.

8 Q. And if we turn to Exhibit 5, does that appear
9 to be an Affidavit of Notice produced by my law firm
10 with notice letters and green slips attached showing
11 that all of the appropriate individuals and entities
12 were given notice of the hearing?

13 A. Yes, they are.

14 Q. Great.

15 MR. McMILLAN: Mr. Examiner, I would move
16 at this time for the admission of Exhibits 1 through 5.

17 EXAMINER DAWSON: Any objection?

18 MS. KESSLER: No objection.

19 EXAMINER DAWSON: At this time Exhibits 1
20 through 5 will be admitted to the record.

21 (Cimarex Energy Company Exhibit Numbers 1
22 through 5 are offered and admitted into
23 evidence.)

24 MR. McMILLAN: And that's all the questions
25 I have for this witness at this time.

1 EXAMINER DAWSON: Okay.

2 Ms. Kessler, do you have any questions?

3 MS. KESSLER: I do have questions.

4 CROSS-EXAMINATION

5 BY MS. KESSLER:

6 Q. Good morning, Ms. Reese.

7 A. Good morning.

8 Q. You mentioned that EOG stated that they would
9 potentially make an election under the pooling order; is
10 that correct?

11 A. It is my understanding that that is what
12 they're interested in doing.

13 Q. Can you tell me the basis of that
14 understanding, please?

15 A. In my communications with them, they did not
16 indicate that they wanted to elect under the JOA, or we
17 briefly mentioned trying to do a term assignment, and
18 then they hadn't gotten back to me. And so at this
19 point, it's my understanding that that is probably what
20 they're wanting to do.

21 Q. Okay. Can you turn with me to Exhibit 2. This
22 reflects various parties' interests in the spacing unit,
23 correct?

24 A. This reflects just the parties that we are
25 interested in pooling.

1 Q. Okay. How did you -- what information did you
2 rely on to prepare this exhibit?

3 A. A title opinion.

4 Q. Was that title opinion provided to EOG?

5 A. Yes. I believe they have -- well, so there is
6 an old JOA that covers a portion of these lands, and I
7 know they have the title as to their interest to those
8 lands. And then I have additionally submitted to them
9 information from the new, updated title opinion that
10 covers the new JOA.

11 Q. And you mentioned -- let's see. I'm looking at
12 well-proposal letters. What other -- what other offers
13 did you make to EOG in order to achieve an agreement?

14 A. We have -- I only had discussed them joining
15 the JOA and signing, and then also, vaguely, we
16 discussed the idea of doing a term assignment.
17 Primarily, the communications we have had with them have
18 been working together on getting the surface-hole
19 location figured out.

20 Q. Okay. Did EOG raise the term assignment, or
21 did you raise the term assignment?

22 A. I raised the term assignment.

23 Q. That's all I have. Thank you.

24 EXAMINER DAWSON: Mr. Goetze, do you have
25 any questions?

1 EXAMINER GOETZE: I have no questions of
2 this witness. Thank you.

3 EXAMINER BROOKS: I do have some.

4 EXAMINER DAWSON: Okay.

5 CROSS-EXAMINATION

6 BY EXAMINER BROOKS:

7 Q. In looking at Exhibit Number 1, the Block 12
8 dedicated acres is filled in "360 acres." That doesn't
9 appear to be right based on both the fact that it's two
10 half sections and the measurements, which indicates that
11 those half sections are full-measure -- excess.

12 A. No, it does not. And we can -- we will be
13 getting an updated C-102 to reflect the new surface-hole
14 location, and I guess we can submit that at another
15 time --

16 Q. Yeah.

17 A. -- and update this as well. That is not right.

18 Q. It should be 640 acres or more?

19 A. Correct.

20 Q. Looking at Exhibit 2, you have two federal
21 leases -- no. You have one federal lease covering two
22 tracts, right?

23 A. Yes.

24 Q. That's Tract 1, and that's going to be in --
25 well, I won't read through all that.

1 A. Yeah, it's in Sections 12 and 13.

2 Q. Part of Section 12 and part of Section 13.

3 Now, the other tracts in Section 12 are labeled "fee,"
4 right?

5 A. Correct.

6 Q. The other tracts in Section 13 are not labeled.
7 What is the land type on those?

8 A. There are also fee interests in there.

9 Q. So those are fee tracts?

10 A. Yes, they are.

11 Q. This diagram is a diagram of only the west
12 half, not the entire section?

13 A. Correct. This is only the west half of 12 and
14 13.

15 Q. Okay. That's what appeared to be the case.

16 A. Yes. And I had not labeled the other ones
17 because they're all committed.

18 Q. Okay. Are there any overrides on the federal
19 lease?

20 A. Yes. I believe there are some.

21 Q. Okay. Have those owners been notified?

22 A. Well, I'll need to double-check that. I
23 believe they all have, but I'll need to -- I don't know
24 off the top of my head right now.

25 Q. If you can find out if they have been --

1 A. Yeah.

2 Q. I am getting -- I have -- some things I have
3 run into have caused me to be concerned about overrides
4 on federal and state leases in terms of the compulsory
5 pooling, and I'm not sure which way I will eventually go
6 on that. I probably would not make it -- require it to
7 be done if it hasn't been done until I figure the
8 situation out a little bit more, but I do want to know
9 about that.

10 A. Right. And I can get that information.

11 Q. Now, this CWPLCO, are they the only unleased
12 mineral owner in this unit?

13 A. Yes, they are.

14 Q. And all of this 57.05 percent interest shown on
15 Exhibit 2 doesn't seem to correlate with what you said.
16 60-something percent is committed?

17 A. It's 57 net acres.

18 Q. 57 net acres?

19 A. Yes.

20 Q. Okay. It's not percentage.

21 A. It equates to about 10 percent uncommitted.

22 Q. Would you be willing to give us a revised
23 exhibit that shows --

24 A. Percent?

25 Q. -- a percentage interest in the unit of each of

1 these owners that are pooled?

2 A. Yes. I can do that.

3 Q. I would appreciate that.

4 Thank you. That's all I have.

5 CROSS-EXAMINATION

6 BY EXAMINER DAWSON:

7 Q. Okay, Ms. Reese. In looking at your
8 well-proposal letter --

9 A. Yes.

10 Q. -- in Exhibits -- in Exhibit 3, those
11 well-proposal letters --

12 A. Yes.

13 Q. -- the surface-hole location, it says on this
14 letter, is intended at 330 from the north and 2,200 from
15 the west in Section 12.

16 A. We proposed this well prior to going out and
17 staking it, and so at that time when we went out is when
18 we discovered we could not put a surface-hole location
19 anywhere on Section 12. And at that time, got into
20 discussions with EOG on putting the surface-hole
21 location on their section, Section 1.

22 Q. So these interest owners, are you going to
23 provide them another letter with the correct locations
24 on it?

25 A. I have -- I've been talking with them, and

1 they're all aware of the situation, which is partly why
2 this hearing has been continued numerous times, for us
3 to get the surface-hole location corrected. But yes,
4 once we get everything finalized, I will send them
5 notification.

6 **Q. Okay. All right. That's all the questions I**
7 **have. Thank you very much.**

8 EXAMINER DAWSON: You may call your next
9 witness.

10 MR. McMILLAN: Great. Thank you.

11 Cimarex would call Michael Patson.

12 MICHAEL PATSON,
13 after having been previously sworn under oath, was
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. McMILLAN:

17 **Q. Good morning, sir. Would you please state your**
18 **full name for the record?**

19 A. Michael Patson.

20 **Q. And where do you reside?**

21 A. Midland, Texas.

22 **Q. By whom are you employed?**

23 A. Cimarex Energy.

24 **Q. And what is your current position with Cimarex?**

25 A. Exploration geologist.

1 Q. Have you previously testified before the
2 Division and had your credentials as an expert in
3 petroleum geology accepted and made a matter of record?

4 A. No, I have not.

5 Q. Well, we better discuss your educational
6 background. Can you please give the Examiners a sense
7 of that?

8 A. Yes. I received my bachelor's degree from
9 Villanova University in earth science. I went on to the
10 University of Texas at Austin and received my master's
11 in geoscience.

12 Q. And will you please also summarize your work
13 experience?

14 A. Yes. I've been employed with Cimarex for about
15 3-1/2 years working as an exploration geologist for our
16 Permian region.

17 Q. Are you familiar with the application filed in
18 this case?

19 A. Yes, I am.

20 Q. And are you familiar with the geology in the
21 subject area?

22 A. Yes, I am.

23 Q. And have you conducted a geologic investigation
24 of the same?

25 A. Yes, I have.

1 **Q. Great.**

2 MR. McMILLAN: Mr. Examiner, I would tender
3 Mr. Patson as an expert in petroleum geology.

4 EXAMINER DAWSON: Any objection?

5 MS. KESSLER: No objection.

6 EXAMINER DAWSON: Mr. Patson will be
7 admitted as an expert petroleum geologist at this time.

8 **Q. (BY MR. McMILLAN) Sir, you've conducted a**
9 **geologic investigation to determine whether each of the**
10 **tracts comprising the proposed project area for the**
11 **subject well are all prospective for production,**
12 **correct?**

13 A. Yes, I have.

14 **Q. And what have you concluded?**

15 A. They are all equally prospective along the
16 entire well --

17 **Q. Which is to say each tract will contribute**
18 **approximately the same amount of reserves to the well?**

19 A. Yes, I believe so.

20 **Q. Have you prepared certain exhibits for use in**
21 **this case?**

22 A. Yes, I have.

23 **Q. Let's take a look at your Exhibit 6, which**
24 **appears to be a PowerPoint with a cover page and then**
25 **three pages following, correct?**

1 A. Yes.

2 Q. Can you please discuss with the Examiners, with
3 reference to your Exhibit 6, the geologic development in
4 this area, the Permian Basin and the depositional
5 environment of the Wolfcamp Formation?

6 A. Yes. The Wolfcamp is a series of shale and
7 interbedded limestone located below the Bone Spring, and
8 it's above the Pennsylvanian interval. The shale is a
9 marine organic-rich shale, and it's deposited in the
10 shallow sea environment.

11 Q. Okay. Looking at your Exhibit 6 -- let's flip
12 past the cover page -- can you tell us what we're
13 looking at here on the first page of your -- or the
14 second page, really, of Exhibit 6?

15 A. This is a structure map of the Lower Wolfcamp.
16 It's subsurface TVD. I called out our Wolfcamp
17 producers here with the red diamonds. Our proposed well
18 is with the purple line. I have a cross section
19 prepared, A through A prime, and my control points
20 labeled in black.

21 Q. And is the project area delineated by a dashed
22 purple line?

23 A. Yes, it is.

24 Q. Excellent.

25 With respect to your cross section, A to A

1 **prime, let's take a look at the next page of your**
2 **exhibit, and can you tell us what that is?**

3 A. Sure. I flattened a cross section on what we
4 call the Lower Wolfcamp. We have our gamma ray, our
5 resistivity and our density logs. I've summed pay
6 calculated from our density logs, and this cross section
7 shows that pay is continuous throughout the area of
8 investigation.

9 **Q. Excellent.**

10 Turning to the fourth and final page of
11 **Exhibit 6, can you tell us what we're looking at here?**

12 A. Yes. This is, again, that net pay map I've
13 generated from calculating from density logs through
14 this area. We see that the pay is continuous through
15 our interval.

16 **Q. Excellent.**

17 Are you seeing, sir, any faults or
18 **discontinuities in the project area --**

19 A. No, sir.

20 **Q. -- in the Wolfcamp?**

21 A. No. I have not mapped any faults or dis- --

22 **Q. Discontinuities.**

23 A. Thank you.

24 **Q. Sure.**

25 **Let's take a look at Exhibit 7. Is this**

1 **Cimarex's development plan?**

2 A. Yes. This is our idealized development plan.
3 We believe that in the Lower Wolfcamp we can space eight
4 wells, an additional seven to our proposed well.

5 Q. And are those additional wells shown in the
6 bluish color on Exhibit 7?

7 A. Yes, that's correct.

8 Q. And -- let's see. Okay. Have you developed an
9 opinion as to whether Wolfcamp reserves in this area are
10 best developed with your proposed two-mile lateral as
11 opposed to a one-mile lateral?

12 A. Yes. A two-mile lateral will be the best.

13 Q. And, generally, what is the basis for your
14 opinion in this regard?

15 A. It's been Cimarex's experience that drilling
16 two-mile wells is more economic.

17 Q. And Cimarex has run the economics on this
18 particular well, correct?

19 A. Yes. My petroleum engineer and I have run
20 those calculations.

21 Q. And in doing so, your conclusion is that the
22 two-mile lateral is preferable?

23 A. Yes, that's correct.

24 Q. Does drilling a two-mile lateral entail more
25 mechanical risk than a shorter lateral?

1 A. Yes, but the risk is very slight. Cimarex has
2 experienced two-mile laterals in the Wolfcamp. There is
3 a two-mile lateral shown on this map right in our area.
4 That's Mewbourne's Hoss well. And we believe that any
5 risk is more than justified by the economic gain.

6 **Q. Does Cimarex actually have experience drilling**
7 **Wolfcamp Formation horizontal wells in the area?**

8 A. Yes. Cimarex has much experience drilling
9 wells in this area, and we've also successfully drilled
10 hundreds of Wolfcamp wells in the Delaware Basin.

11 **Q. Are there additional potential targets for**
12 **developments in the west half of Section -- or in**
13 **Sections 12 and 13?**

14 A. Yes, there are. We believe we can develop
15 Lower Wolfcamp, Upper Wolfcamp and the 2nd Bone Spring.

16 **Q. With reference to your Exhibit 7, what's the**
17 **prevailing development pattern in the Wolfcamp in this**
18 **area?**

19 A. Wells that are drilled north to south are
20 stand-ups.

21 **Q. And is Cimarex's orientation consistent with**
22 **that prevailing development pattern?**

23 A. Yes, it is.

24 **Q. And, in fact, is it Cimarex's opinion that**
25 **developing these sections in lay-down units could result**

1 in the drilling of unnecessary wells?

2 A. Yes, that's correct.

3 Q. Would waste result?

4 A. Absolutely. Yes.

5 Q. And by developing Sections 12 and 13 with
6 stand-up unit orientations, will the drilling of
7 unnecessary wells potentially be avoided?

8 A. Yes.

9 Q. And in your opinion, if the Division approves
10 Cimarex's application, will Cimarex be able to recover
11 additional incremental reserves that would otherwise go
12 unproduced?

13 A. Yes. That's my opinion.

14 Q. And would waste occur as a result?

15 A. Yes.

16 Q. Would this -- is Cimarex's proposed
17 configuration likely to result in improved project
18 economics so that premature abandonment can be avoided?

19 A. Yes.

20 Q. Okay. Let's look at your Exhibit 8 now. And
21 can you please give the Examiners a brief overview of
22 drilling and completion plans for the proposed well?

23 A. Yes. We'll drill 8-3/4 hole approximately to
24 75 degrees set in the Wolfcamp D or the Lower Wolfcamp.
25 We'll set 7-inch casing. We'll drill 6-1/8 hole out of

1 7-inch casing and land the well in the Lower Wolfcamp.
2 We'll drill to approximately 10,000 feet vertical
3 section, then we'll run a 4-1/2-inch liner and cement it
4 in place. We will then fracture stimulate the lateral
5 in approximately 50 stages, then drill out the plugs and
6 place the well on production.

7 Q. Was this well-design casing plan reviewed and
8 approved by OCD?

9 A. This -- we have used this plan with other wells
10 that we've drilled in the Wolfcamp in New Mexico.

11 Q. And it has been -- this plan has been approved
12 in other wells?

13 A. Yes, sir.

14 Q. Is it your understanding that this particular
15 well design and casing plan has not yet been approved
16 because of the holdup with the surface location?

17 A. It's my understanding it's been held up because
18 we don't have a surface-hole location.

19 Q. Okay. Any reason -- well, that's good enough
20 there.

21 So let's talk about surface disturbance.
22 Is it your opinion that the development of these
23 sections with horizontal wells will allow Cimarex to
24 minimize surface disturbance?

25 A. Yes, it is.

1 Q. How so?

2 A. Less pads, less roads, production facilities,
3 those sorts of things, surface lines.

4 Q. And in your opinion as an expert petroleum
5 geologist, will the granting of Cimarex's application be
6 in the best interest of conservation, the prevention of
7 waste and the protection of correlative rights?

8 A. Yes.

9 Q. Were Exhibits 6 through 8 prepared by you or at
10 your direction?

11 A. Yes, they were.

12 MR. McMILLAN: Mr. Examiner, I would at
13 this time move the admission of Exhibits 6 through 8.

14 EXAMINER DAWSON: Any objection?

15 MS. KESSLER: No objection.

16 EXAMINER DAWSON: At this time Exhibits 6
17 through 8 will be admitted to the record.

18 (Cimarex Exhibit Numbers 6 through 8 are
19 offered and admitted into evidence.)

20 MR. McMILLAN: Those are all my questions
21 for this witness.

22 EXAMINER DAWSON: Ms. Kessler, questions?

23 MS. KESSLER: No questions.

24 EXAMINER DAWSON: Phillip?

25

1 CROSS-EXAMINATION

2 BY EXAMINER GOETZE:

3 Q. Good morning, Mr. Patson. Just a few
4 questions.

5 With Cimarex's history with doing two miles
6 in the Wolfcamp, do we have a number as to how many
7 wells have been completed and are operating at this
8 time?

9 A. We've drilled many two-mile Wolfcamp wells down
10 in Culberson County. In Eddy County, we've drilled
11 less, and we've been drilling those mostly to the west
12 in what we call our White City area. And we have now --
13 we've drilled three wells in the last year that are
14 two-mile Wolfcamp laterals.

15 Q. And you feel, with that information, that
16 pushing to two miles is enough an economic incentive to
17 continue with this pattern?

18 A. Yes, I do.

19 Q. Especially in the Wolfcamp?

20 A. Especially in the Wolfcamp.

21 Q. And we're looking at Lower Wolfcamp, so we're
22 looking at very tight shales with -- or low
23 nano-darcies --

24 A. That's correct.

25 EXAMINER GOETZE: I have no further

1 questions for this witness.

2 CROSS-EXAMINATION

3 BY EXAMINER BROOKS:

4 Q. You're only proposing one well at this time; is
5 that correct?

6 A. That's correct.

7 Q. But you eventually plan to drill three wells in
8 this unit?

9 A. Yes, that's correct.

10 Q. So I assume those would be proposed under the
11 infill provisions of the rules?

12 A. I'm not sure.

13 CROSS-EXAMINATION

14 BY EXAMINER DAWSON:

15 Q. Mr. Patton [sic], you were talking about a
16 Mewbourne well?

17 A. Yes, sir.

18 Q. And is that the well that looks like a two-mile
19 lateral over in Sections 2 and 11?

20 A. Yes, that's correct.

21 Q. What's the name of that well? The Hoss?

22 A. Hoss, H-O-S-S.

23 Q. Okay. How long has that well been producing?

24 A. Less than a month, I believe.

25 Q. Do you have any initial production rates on

1 **that one?**

2 A. I'm not sure at this time.

3 **Q. Okay.**

4 A. We have been receiving those. I just don't
5 know what they are.

6 **Q. Okay. But it looks like Mewbourne kind of has**
7 **the same plan of development, drilling either**
8 **north-south or south-north in two-mile laterals?**

9 A. Yes, sir. And that plan we view as a positive
10 result, the current well. And what production we do
11 have, we view it as positive results for our drilling
12 plan.

13 **Q. Do you know if Mewbourne has any other two-mile**
14 **laterals in the immediate area?**

15 A. In the Wolfcamp, I don't believe they do.

16 **Q. So it's really just beginning to take off in**
17 **the Wolfcamp?**

18 A. That's correct.

19 **Q. Okay. And in the -- let's see. Bear with me**
20 **here.**

21 Under Exhibit 6, in your Wolfcamp cross
22 **section --**

23 A. Yes.

24 **Q. -- can you tell me which one of those Wolfcamp**
25 **zones you're targeting in this well?**

1 A. Sure. We're targeting between the Wolfcamp D
2 and D floor. Our proposed landing zone will be about
3 160 to 200 feet below the top of that Wolfcamp D, the
4 green line.

5 Q. Okay. So between the green and the -- the dark
6 green and light green?

7 A. Yes, sir.

8 Q. Okay. All right. That's all the questions I
9 have. Thank you very much.

10 A. Thank you.

11 MR. McMILLAN: May the witness be excused?

12 EXAMINER DAWSON: Yes.

13 MR. McMILLAN: That's all we have.

14 EXAMINER DAWSON: So that concludes Case
15 Number 15755, which will be taken under advisement at
16 this time.

17 MR. McMILLAN: Just one quick question.
18 I'm sorry. It looks like we have a little bit of
19 homework supplementing a couple of exhibits. Would it
20 be the pleasure of the Examiners to continue this
21 pending the submission of those items, or should we just
22 submit them in the next week or two?

23 EXAMINER BROOKS: I don't believe it's
24 necessary. I can we can take it under advisement. The
25 Commission will not close the record at a particular

1 point, so --

2 MR. McMILLAN: All right. I would ask that
3 the Division take the case under advisement.

4 EXAMINER DAWSON: Okay. We will do so. We
5 will take it under advisement, and we will expect
6 exhibits -- further exhibits from you.

7 MR. McMILLAN: You got it.

8 EXAMINER DAWSON: Thank you.

9 At this point it's 9:23. We'll take a
10 break until 9:30. Be back at 9:30. Thank you.

11 (Case Number 15755 concludes, 9:23 a.m.)

12 (Recess, 9:23 a.m. to 9:30 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 12th day of January 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
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