

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

ORIGINAL

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

APPLICATION OF CIMAREX ENERGY COMPANY Case 14802  
FOR APPROVAL OF A NON-STANDARD OIL SPACING  
AND PRORATION UNIT AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

2012 APR 11 P 2:29  
RECEIVED OOD

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

March 29, 2012

Santa Fe, New Mexico

This matter came on for hearing before the  
New Mexico Oil Conservation Division, WILLIAM V. JONES,  
Technical Examiner, and DAVID K. BROOKS, Legal Examiner,  
on Thursday, March 29, 2012, at the New Mexico Energy,  
Minerals and Natural Resources Department, 1220 South St.  
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91  
Paul Baca Professional Court Reporters  
500 Fourth Street, N.W., Suite 105  
Albuquerque, NM 87103 505-843-9241

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES BRUCE, ATTORNEY AT LAW  
P.O. Box 1056  
Santa Fe, New Mexico 87504  
(505)982-2043

FOR FASKEN OIL & RANCH:

HOLLAND & HART  
MICHAEL H. FELDEWERT, ESQ.  
110 N. Guadalupe, Suite 1  
Santa Fe, New Mexico 87501  
(505)988-4421

WITNESSES: PAGE

Hayden Tresner:

Direct examination by Mr. Bruce	4
Cross-examination by Mr. Feldewert	10
Examination by Examiner Jones	12
Examination by Examiner Brooks	15
Further Examination by Examiner Jones	17

Lee Catalano: (Telephonically)

Direct examination by Mr. Bruce	19
Cross-examination by Mr. Feldewert	23
Examination by Examiner Jones	24
Recross examination by Mr. Feldewert	28

INDEX PAGE

EXHIBITS 1 THROUGH 6 WERE ADMITTED	11
EXHIBITS 7 THROUGH 10 WERE ADMITTED	
REPORTER'S CERTIFICATE	30

1                   EXAMINER JONES: Let's call the first case  
2 of the day, Case 14802, application of Cimarex Energy  
3 Company, I assume of Colorado, for approval of a  
4 non-standard oil spacing and proration unit and  
5 compulsory pooling, Lea County, New Mexico. Call for  
6 appearances.

7                   MR. BRUCE: Mr. Examiner, Jim Bruce of  
8 Santa Fe, representing the applicant. I have two  
9 witnesses, one of whom will be by telephone.

10                  MR. FELDEWERT: Mr. Examiner, Michael  
11 Feldewert, Santa Fe office of Holland & Hart, appearing  
12 on behalf of Fasken Oil & Ranch, and we have no witnesses  
13 here today.

14                  EXAMINER JONES: Any other appearances?  
15 Okay. Mr. Bruce, let's call your witness telephonically.

16                  MR. BRUCE: This is Mr. Bruce. You are on  
17 the air in the OCD hearing room. Hayden is going to  
18 testify first, but both of you will need to be sworn in.

19                  EXAMINER JONES: Will all witnesses please  
20 stand and state your names?

21                  MR. TRESNER: Hayden Tresner.

22                  MR. CATALANO: Lee Catalano.

23                  (Two witnesses were sworn.)

24

25

1 HAYDEN TRESNER

2 Having been first duly sworn, testified as follows:

3 DIRECT EXAMINATION

4 BY MR. BRUCE:

5 Q. Mr. Tresner, would you state your full name  
6 and city of residence?

7 A. Hayden Tresner, and I reside in Midland,  
8 Texas.

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

10 A. I'm a landman for Cimarex Energy.

11 Q. Have you previously testified before the  
12 Division?

13 A. Yes.

14 Q. Were your credentials as an expert petroleum  
15 landman accepted as a matter of record?

16 A. Yes, they were.

17 Q. Are you familiar with the land matters  
18 involved in this case?

19 A. Yes.

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

22 EXAMINER JONES: Any objection?

23 MR. FELDEWERT: No objection.

24 EXAMINER JONES: He's so qualified.

25 Q. (By Mr. Bruce) Mr. Tresner, Could you

1 identify Exhibit 1 and describe what Cimarex seeks in  
2 this case?

3 A. Exhibit 1 is a package of C-102s that we filed  
4 with the OCD. It shows the section, Section 26 of 2032,  
5 where we plan on drilling four horizontal wells, the  
6 wells being the Snoddy Federal Number 20, which has a  
7 surface location in northeast/northeast quarter, and a  
8 bottomhole location in the northwest/northwest quarter;  
9 the Snoddy Federal Well Number 21, which has a surface  
10 location in the northeast/northeast quarter and a  
11 bottomhole location in the northwest of the southwest  
12 quarter; Snoddy Federal Number 22, which has a surface  
13 location in the northeast/northeast quarter and a  
14 bottomhole located in the southeast quarter of the  
15 southwest quarter; and then the Snoddy Federal Number 23  
16 Well, which has a surface location in the  
17 northeast/northeast quarter and a bottomhole in the  
18 southeast/southeast quarter.

19 Q. Mr. Tresnor, does Cimarex request separate  
20 well units for each well?

21 A. No, we don't. We request the formation of a  
22 single 640-acre project area, which consists of the  
23 entire Section 26 of 2032.

24 Q. And what type of wells are these?

25 A. Bone Spring wells, second sand.

1 Q. What is the spacing in the Bone Spring?

2 A. Forty acres.

3 Q. Why are all of the locations in the  
4 northeast/northeast quarter of section?

5 A. This area is a potash area, and we have a  
6 certain restrictions there in Section 26.

7 Q. So this is the only area the BLM would allow  
8 surface locations for the wells?

9 A. Yes. The northeast/northeast quarter is the  
10 only spot where we can have a drill site.

11 Q. What is the interest ownership in Section 26?  
12 And I refer you to Exhibit 2.

13 A. Yes. Exhibit 2 is a breakdown of the  
14 ownership of Section 26. You have the interest listed  
15 for each company. And the only company that we do not  
16 have committed to the project is Dow Chemical Company.  
17 Dow owns a 15 percent working interest in the south half  
18 of Section 26, which would give them a seven and a half  
19 percent working interest in the 640-acre project area?

20 Q. Is Dow Chemical Company the only person you  
21 seek to pool?

22 A. That's correct, yes.

23 Q. Could you discuss your efforts to obtain the  
24 voluntary joinder of the interest owners in the well?

25 And I refer you to Exhibit 3.

1           A.       Exhibit 3 is a copy of the well proposals that  
2 were sent to Dow Chemical Company. They were sent in  
3 November of last year.

4           I had a conversation with Rose Davidson of the  
5 Treasury Department of Dow Chemical in January of this  
6 year. I've talked to her on the phone twice, so we have  
7 contacted Dow. We just have not gotten a deal worked out  
8 with them yet.

9           Q.       Have they responded in writing or anything to  
10 your proposals?

11          A.       No.

12          Q.       In your opinion, has Cimarex made a good-faith  
13 effort to obtain the volutary joinder of the interest  
14 owners in the well?

15          A.       Yes.

16          Q.       Does Exhibit 3 also contain the AFEs for the  
17 wells?

18          A.       Yes, it does.

19          Q.       Could you discuss the cost of these wells?

20          A.       The dryhole costs for the wells are  
21 approximately \$3 million. The application cost  
22 approximately \$3.6 million, and a total completed well  
23 cost of approximately \$6.5 million.

24          Q.       Are these costs in line with the costs of  
25 other Bone Spring wells drilled to this depth in this

1 area of New Mexico?

2 A. Yes, they are.

3 Q. Do you request that Cimarex be appointed  
4 operator of the wells?

5 A. Yes, we do.

6 Q. What is your recommendation as to overhead  
7 rates?

8 A. For the drilling rate, we request 6,000, and  
9 for the producing well rate, 600.

10 Q. And are those rates equivalent to those  
11 normally charged by operators in this general area for  
12 wells of this depth?

13 A. Yes.

14 Q. Do you request that the rates be adjusted  
15 periodically according to the COPAS accounting  
16 procedures?

17 A. Yes.

18 Q. Was Dow Chemical notified of this hearing?

19 A. Yes.

20 Q. Is that reflected in Exhibit 4?

21 A. Yes. Exhibit 4 is the notice pursuant to the  
22 working interest owner, Dow Chemical Company.

23 Q. What is Exhibit 5?

24 A. Exhibit 5 is a list of the offset working  
25 interest owners for Section 26.

1 Q. Were the offsets notified of this hearing?

2 A. Yes, they were.

3 Q. Is that reflected in Exhibit 6?

4 A. Yes, it is.

5 MR. BRUCE: Mr. Examiner, all of these  
6 parties did receive actual notice of the application.

7 Q. (By Mr. Bruce) Were Exhibits 1 through 6  
8 prepared by you or under your supervision or compiled  
9 from company business records?

10 A. Yes, they were.

11 Q. In your opinion, is the granting of this  
12 application in the interest of conservation and the  
13 prevention of waste?

14 A. Yes, it is.

15 MR. BRUCE: Mr. Examiner, I move the  
16 admission of Exhibits 1 through 6.

17 EXAMINER JONES: Any objection?

18 MR. FELDEWERT: No.

19 EXAMINER JONES: Exhibits 1 through 6 will  
20 be admitted.

21 (Exhibits 1 through 6 were admitted.)

22 MR. BRUCE: I have no further questions of  
23 this witness.

24 EXAMINER JONES: Mr. Feldewert?

25

## CROSS-EXAMINATION

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

BY MR. FELDEWERT:

Q. Mr. Tresner, do you know who the potash lessees are in this particular area?

A. I do not.

Q. Have you had any discussions with them?

A. No.

Q. Your surface restriction up there in the northeast quarter of -- is that the northeast quarter of the northeast quarter?

A. Yes, sir.

Q. Is that driven by the BLM, or is it driven in any way by the potash lessee?

A. It is driven be a combination of both, I believe. There was an existing location there in the northeast/northeast quarter, so that's the only spot where we'll be able to conduct operations.

Q. When you say that, was that a restriction imposed by the Bureau of Land Management?

A. I'm not sure.

Q. Okay. So you're not aware of the source of that surface restriction?

A. No.

Q. And do you intend to utilize a single wellbore for all four of these laterals, or are you looking at

1 four different --

2 A. No. Four different wellbores from a single  
3 pad site.

4 Q. How large is your pad site?

5 A. I believe it will be approximately 300 by 300  
6 to approximately 350 by 350.

7 Q. That's all been approved by the BLM?

8 A. The permit -- the APD for the Snoddy Federal  
9 Number 20 Well, that will be the -- well, the north  
10 half/north half has been approved.

11 Q. The other three have not been approved?

12 A. No. The C-102s have been submitted but not  
13 approved yet.

14 Q. Have you been in touch with the BLM as to why  
15 they have not been approved?

16 A. It has to do with the timing on our part. We  
17 just submitted them not too long ago.

18 Q. Just recent submissions?

19 A. Yes.

20 Q. Did you submit the remaining three about the  
21 same time?

22 A. No. We submitted the Number 20 first, and  
23 then 21, 22 and 23 followed that, I believe.

24 Q. 21, 22 and 23 in a single package or about the  
25 same time?

1           A.       I'm not exactly sure.

2                       MR. FELDEWERT: That's all I have. Thank  
3 you.

4                                       EXAMINATION

5 BY EXAMINER JONES:

6           Q.       Mr. Tresner, you have a dryhole cost, an after  
7 casing cost and a completed well cost. Are there  
8 elections between each one of those? I mean once they  
9 drill the hole, is there an election to decide to set  
10 pipe?

11          A.       Yes. Under the operating agreements that we  
12 use, you have a casing point election that occurs at the  
13 total measured depth of the well. And you can either not  
14 pay the completion cost, or you can pay the completion  
15 cost and you're in the well.

16          Q.       But the completion cost would be running pipe,  
17 and the -- but then you've got another step there to go  
18 to completed well cost?

19          A.       The dryhole costs are just the costs to drill  
20 to total measured depth. The after casing point costs  
21 would include the setting pipe and the stimulation, and  
22 then the total well cost would be the combination of both  
23 the dryhole and the casing.

24          Q.       Okay. And the first well is planned to be  
25 north, east, west, straight across the top of the

1 section?

2 A. Yes, sir. The first well will be the Number  
3 20. That will be drilled from east to west. The surface  
4 hole is in the northeast/northeast quarter. The bottom  
5 hole is located in the northwest/northwest quarter.

6 Q. So is Dow Chemical Company -- their interests  
7 are with them now? Are they not doled out to someone  
8 else?

9 A. No, sir. It's still held in -- Dow Chemical  
10 Company is still the record title. They own 15 percent  
11 working interest in the south half of the section.

12 Q. Okay. Well, if you drill this one well and  
13 you never drill any more, you would -- your allowable  
14 would be 16 times the depth allowable, I assume?

15 A. Yes, sir.

16 Q. It would be quite a potential well, anyway.

17 A. We have plans to drill the wellbore in the  
18 north half/north half first, the Number 20. And then we  
19 would most likely drill the Number 23, which has the  
20 surface hole in the northeast/northeast quarter and the  
21 bottomhole in the southeast/southeast quarter.

22 And at that point, we would come in and drill  
23 the two diagonals across the section after we drilled the  
24 north half/north half and the east half/east half.

25 Q. For someone to participate here, do they have

1 to send you money up front for all four wells or just for  
2 one well at a time?

3 A. We would propose these as we went. We would  
4 drill the north/north half first. We would evaluate that  
5 data, and then we would drill the second well.

6 Q. But when you drill the second well, you would  
7 send another AFE?

8 A. Yes.

9 EXAMINER JONES: David, do you have  
10 questions?

11 EXAMINER BROOKS: Yeah. I missed the  
12 announcements, I guess.

13 You're representing Dow, Mr. Feldewert?

14 MR. FELDEWERT: No, I'm not. I represent  
15 Fasken Oil & Ranch.

16 EXAMINER BROOKS: What is their interest  
17 in this?

18 MR. FELDEWERT: They are a lessee in  
19 Sections 22 and 23. So they got notice of this. They're  
20 an offset operator.

21 EXAMINER BROOKS: They don't have any  
22 interest in the proposed unit?

23 MR. FELDEWERT: Correct.

24 EXAMINER BROOKS: I suppose since Fasken  
25 has an interest in the offsetting unit, I suppose I

1 should raise the issue do I have an interest in that  
2 offset location? Because I probably should recuse myself  
3 if I do.

4 Do you know the answer to that?

5 MR. FELDEWERT: I'm not going to give you  
6 any advice, Mr. Brooks.

7 EXAMINER BROOKS: This is in 20 -- I don't  
8 think that I do, but I don't know. I'll go ahead and ask  
9 questions. I'm not going to be making any decision  
10 anyway.

11 EXAMINATION

12 BY EXAMINER BROOKS:

13 Q. What pool is this in?

14 A. This would be the Bone Spring pool.

15 Q. What Bone Spring pool; do you know?

16 MR. BRUCE: Mr. Examiner, I looked that up  
17 at some point, but I don't remember where it is right  
18 now. I can email that to you later.

19 THE WITNESS: Lee Catalano might be able  
20 to answer that.

21 EXAMINER BROOKS: The Bone Spring pools  
22 usually own 40- or 80-acre spacing. I don't know of any  
23 that's anything else other than 40 or 80.

24 MR. BRUCE: There's a couple on 160s. I  
25 do believe these on 40s.

1 Q. (By Examiner Brooks) Is the ownership all an  
2 undivided interest, or is it split up by areas?

3 A. The ownership -- with the exception of Dow  
4 Chemical Company, the ownership is common in the north  
5 half and the south half. Dow only owns an interest in  
6 the south half of the section.

7 Q. So if you didn't, in effect, unitize all of  
8 this, they wouldn't own anything in this north half/north  
9 half?

10 A. That's correct.

11 Q. Now, you said something in response to  
12 Mr. Jones' questions about casing point elections. Are  
13 you aware of the fact that we don't normally provide  
14 casing point elections in compulsory pooling orders?

15 A. Yes, I am.

16 Q. So you would give that to the people under  
17 your operating agreement?

18 A. That's correct.

19 Q. But are you asking that we make that provision  
20 in the compulsory pooling order? Because I'm not aware  
21 that we ever have.

22 A. No, we're not requesting that.

23 Q. Very good. But are you asking that we make  
24 separate elections for each well?

25 A. That's correct.

1 Q. Okay. Dow's interest, is that an interest  
2 under an oil and gas lease, or is that a federal --

3 A. It's a federal lease.

4 Q. The whole section is federal?

5 A. There's one federal lease that covers the  
6 entire section.

7 EXAMINER BROOKS: Thank you. That's all I  
8 have.

9 EXAMINER JONES: I've got a couple  
10 comments. I looked it up, and it looks like Salt Lake  
11 Bone Spring.

12 MR. BRUCE: That sounds right.

13 EXAMINER BROOKS: What is the spacing; do  
14 you know?

15 MR. BRUCE: I'm pretty sure it's 40. I'll  
16 verify that.

17 EXAMINER BROOKS: I don't guess it makes  
18 any difference. I never saw a Bone Spring pool spaced on  
19 640.

20 EXAMINER JONES: Just a couple more  
21 points.

22 FURTHER EXAMINATION

23 BY EXAMINER JONES:

24 Q. The specifics in the application, are they all  
25 correct? Has anything changed since -- in other words,

1 the locations of these wells, the names of the wells?

2 A. The location, both the surface hole and the  
3 bottomhole for the Number 20 that we have permitted, that  
4 stayed the same, those footages have.

5 Q. Okay.

6 A. I'm sure that the other three will stay the  
7 same, as well.

8 Q. And the application was under Cimarex Energy  
9 Company, but Cimarex Energy Company of Colorado would be  
10 the operator?

11 A. That's the operator for Cimarex Energy  
12 Company.

13 EXAMINER JONES: As far as Fasken is  
14 concerned, the entry was for Fasken Oil & Ranch, Limited.  
15 But there's also a Fasken Land & Minerals, Limited?

16 MR. BRUCE: Mr. Examiner, I named both.  
17 Generally I -- and correct me if I'm wrong. One is the  
18 entity that owns working interest. The other one is  
19 generally the operator. And Fasken Oil & Ranch is the  
20 operator, and Fasken Land & Minerals owns the working  
21 interest themselves.

22 EXAMINER JONES: You can tell I'm not a  
23 landman. Okay. I don't believe we have any more  
24 questions of this witness.

25

LEE CATALANO

Having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Catalano, can you hear me?

A. Yes.

Q. Would you please state your name and city of residence?

A. My name is Lee Catalano and I live in Midland, Texas.

Q. And who do you work for?

A. Cimarex Energy.

Q. What is your job there?

A. I'm a geologist with Cimarex.

Q. Have you previously testified before the Division?

A. Yes.

Q. And were your credentials as an expert petroleum geologist accepted as a matter of record?

A. Yes.

Q. And does your area of responsibility at Cimarex include this portion of Lea County?

A. Yes, it does.

Q. Are you familiar with the geology involved in application?

1           A.       Yes.

2                       MR. BRUCE:  Mr. Examiner, I tender  
3 Mr. Catalano as an expert petroleum geologist.

4                       EXAMINER JONES:  Any objection?

5                       MR. FELDEWERT:  No.

6                       EXAMINER JONES:  Mr. Catalano is so  
7 qualified.

8           Q.        (By Mr. Bruce)  Mr. Catalano, could you refer  
9 to Exhibit 7, the structure map, and discuss that for the  
10 Examiners?

11           A.        Sure.  This is a structure map on top of the  
12 Bone Spring Formation.  The contour interval is 100 feet.  
13 It shows that dip is to the south/southeast at about 75  
14 foot per mile or thereabouts.

15                       Also shown on that map are the four locations  
16 that we are seeking here, the Number 20, the 21, 22, 23,  
17 with the surface and bottomhole locations.  And also  
18 shown are the -- this is an area that because of the  
19 potash, there's very limited drilling and not much well  
20 control.

21                       There are two wells in the area that have  
22 produced or are producing from the Bone Spring Formation.  
23 The well in the northeast of the northeast of 26 produced  
24 about 1,200 barrels of oil from the Bone Spring, in the  
25 third Bone Spring carbonate to be exact.  That well is

1 currently producing out of the Delaware Sand Formation.

2 And then the well up in Section 23 produces  
3 from the Second Bone Spring Sand and the Third Bone  
4 Spring Carbonate commingled.

5 Q. Let's move on to your Exhibit 8, the type log.  
6 Discuss that and tell us what the primary target is in  
7 the initial well.

8 A. Okay. Yeah, this is a type log. And what  
9 I've shown on here is the top of the Bone Spring at 7,900  
10 feet, the base of the Bone Spring at 10,970 feet. Our  
11 proposed well -- all our wells will be basically twins to  
12 this well.

13 The Number 20 well is located 100 -- or this  
14 well is located 151 feet north of the proposed Snoddy  
15 Federal Number 20, so it's basically a twin to it. The  
16 target that we have for this well for our horizontal is  
17 down in the Second Bone Spring Sand. On the exhibit  
18 you're looking at, that's colored in orange. The end of  
19 curve target is at 9,900 feet TTD.

20 Q. And what is Exhibit 9?

21 A. Exhibit 9 is an isopach map, porosity isopach  
22 map, on the Second Bone Spring Sand Reservoir, which is  
23 the target of this horizontal well. I mapped that using  
24 a 10 percent density/porosity cutoff. It shows the  
25 trend -- hopefully, the trend of this sand coming through

1 Section 26 from kind of northwest to southeast.

2 Q. In your opinion, will each quarter/quarter  
3 section contribute to production from these wells?

4 A. I do, based upon the control that I have.

5 Q. And in your opinion, are multiple wells  
6 necessarily to adequately drain this portion of the Bone  
7 Spring Reservoir?

8 A. Yes, they are.

9 Q. Finally, Mr. Catalano, Exhibit 10 is the  
10 directional drilling plan. Could you just discuss that  
11 briefly and describe how Cimarex completes these wells,  
12 how many stages, et cetera?

13 A. Okay. That's our plan that we prepare to file  
14 our permits. And this was prepared under our direction  
15 by Baker Hughes Company.

16 And what it shows is our surface hole location  
17 811 feet from the north, 644 from the east line. And we  
18 will be drilling to the west/northwest and landing our  
19 curve at a 9,900 foot TTD and basically drilling it flat  
20 across the top part of the section there.

21 Typically what we do is run  
22 five-and-a-half-inch casing through our curve and to the  
23 total of the lateral, and then do a frack, a  
24 multiple-stage frack. Usually -- and we would have eight  
25 stages planned with about 300,000 pounds of sand per

1 stage.

2 Q. Were Exhibits 7 through 10 prepared by you or  
3 compiled from company records?

4 A. Yes.

5 Q. And in your opinion, is the granting of this  
6 application in the interest of conservation and the  
7 prevention of waste?

8 A. Yes, it is.

9 MR. BRUCE: Mr. Examiner, I move the  
10 admission of Exhibits 7 through 10.

11 EXAMINER JONES: Any objection?

12 MR. FELDEWERT: No objection.

13 EXAMINER JONES: Exhibits 7 through 10  
14 will be admitted.

15 (Exhibits 7 through 10 were admitted.)

16 MR. BRUCE: And I pass the witness.

17 CROSS-EXAMINATION

18 BY MR. FELDEWERT:

19 Q. Mr. Catalano, I think you testified that the  
20 target of your proposed wells is the Second Bone Spring  
21 Sand Reservoir; is that correct?

22 A. That's correct.

23 Q. Would you agree that that's a -- the Second  
24 Bone Spring Sand Reservoir is a reservoir that's  
25 independent from, say, the Third Bone Spring Sand

1 Reservoir?

2 A. Yes.

3 Q. And the target of all four of your wells is  
4 going to be the Second Bone Spring Sand Reservoir;  
5 correct?

6 A. At this point, that's what we're applying for  
7 right now. There could be other pays, I guess, that are  
8 encountered. But more than likely, that's going to be  
9 our target.

10 MR. FELDEWERT: That's all the questions I  
11 have.

12 EXAMINATION

13 BY EXAMINER JONES:

14 Q. Mr. Catalano, the four wells you're going to  
15 drill, it looks like they would drain that sand pretty  
16 good in the northeast quarter, but in the southwest  
17 quarter, they look kind of sparse. Is there any plans  
18 to -- what would you do about that?

19 A. What we attempt to do and what we've done in  
20 similar situations like this, is the toe stages, we would  
21 pump extra sand to try to get more growth, to try to  
22 drain more of the acreage, and then less sand as you go  
23 back to the northeast where those -- all four of those  
24 horizontals kind of converge. But other than that,  
25 that's about all you can do.

1 Q. Did you say you're drilling a pilot hole at  
2 least for one of these wells?

3 A. No. Basically, that well in the northeast  
4 quarter is the pilot hole. So we'll just drill to a  
5 kickoff point of about 9,600 feet and then start turning  
6 it at the point.

7 Q. You said that five-and-a-half casing would be  
8 set at the end of your curve or at the end of the toe of  
9 the well?

10 A. It will be run back to the surface, all the  
11 way to the end of the well.

12 Q. Okay. But your first perforation -- well,  
13 your wells are being spudded at a standard location?

14 A. Yeah. We're within the -- well within the 330  
15 setbacks.

16 Q. Do you have any trouble cementing these wells,  
17 getting a good cement job? You're going to cement the  
18 whole thing; is that correct?

19 A. Yes. We haven't -- I can't really recall off  
20 the top of my my head any that we've had problems with,  
21 and we've drilled quite a few out in this area.

22 Q. Okay. And are you picking this target because  
23 of the success of that well up in Section 23?

24 A. Yes.

25 Q. Okay. But that well is a vertical well; is

1 that correct?

2 A. That's a vertical well. It's a good vertical  
3 well.

4 Q. So your potash reserves would be protected  
5 pretty well? How would they be protected here? A.

6 We're drilling within -- it's kind of an offset to that  
7 or a twin to that existing well, the Snoddy Number 1.

8 And our regulatory guy has -- one of the  
9 questions that came up was about the restrictions. And  
10 our regulatory guy has communicated with the BLM in the  
11 potash, and we restricted to right around that well, that  
12 old wellbore.

13 Q. But your kickoff point is so much -- even  
14 below the Delaware. It's in the Bone Spring; is that  
15 correct?

16 A. Yeah. It will be about 4- or 500 foot above  
17 the our target. So it will be in the Bone Spring.

18 Q. Is there a way you could ever use these wells  
19 to target an upper Bone Spring horizontal target?

20 A. Yes. It would be -- and we have done that in  
21 other wells in the play, drilling an additional  
22 horizontal well perhaps in the First Bone Spring Sand or  
23 the Avalon Shale, which would be shown on that type log.

24 Q. Your strike is southwest/northeast and your  
25 dip is basically to the southeast; is that correct?

1 A. Correct.

2 Q. Does that have anything to do with your  
3 fracturing of the formation?

4 A. No.

5 Q. Okay. So this is not a real fractured  
6 formation; is that correct?

7 A. It's not -- as far as we know, it's not  
8 fractured at all.

9 Q. So you don't have any idea of preferential  
10 permeability?

11 A. We don't have any data right in the immediate  
12 area. We have data that's a ways away from here that  
13 would indicate kind of a northeast to an east/west to  
14 maybe a northeast drilling best stress direction. But we  
15 don't know specifically right in here.

16 Q. Your drilling engineer, which way did they  
17 want to drill in here, or do they care?

18 A. Frankly, there's only one way to do this here.  
19 So we want to drill the first one, because we're more or  
20 less drilling towards -- in the direction of where that  
21 good well was up to the north.

22 Q. Okay.

23 A. I have no control to the south here at all or  
24 to the west.

25 Q. And what kind of -- do you do a logging while

1 drilling? Do you do an induction log behind your dip?

2 A. No, just a gamma ray.

3 Q. Just a gamma ray?

4 A. Yes. And a mud log, of course.

5 Q. So the mud log gives you some pretty good  
6 information?

7 A. Yeah. And we'll be able to land our curve in  
8 the target and then just follow it from there. It's  
9 fairly -- the overall interval is a big interval of 3,400  
10 feet, so we should be able to stay within sand.

11 EXAMINER JONES: Thank you.

12 THE WITNESS: Thanks.

13 EXAMINER BROOKS: No questions.

14 MR. FELDEWERT: Mr. Examiner, I do have  
15 two additional questions, if I may.

16 RE-CROSS EXAMINATION

17 BY MR. FELDEWERT:

18 Q. Mr. Catalano, how many barrels of fluid do you  
19 anticipate pumping per stage of your fracks?

20 A. Somewhere -- I want to say 300,000 to 400,000,  
21 per stage, gallons.

22 Q. And what do you anticipate the fracture  
23 orientation to be out here?

24 A. It may be northeast/southwest, or it could be  
25 east/west. We're not quite sure. So the well going

1 east/west here, is -- either way, it's going to -- I  
2 don't think it's going to be east/west. It's either  
3 northeast or maybe more northerly of northeast. But  
4 again, I don't have any data right here specifically to  
5 know that.

6 MR. FELDEWERT: Thank you, sir.

7 THE WITNESS: Yes, sir

8 MR. BRUCE: No further questions.

9 EXAMINER JONES: Thank you, Mr. Catalano.  
10 We're going to hang up the phone now.

11 THE WITNESS: Okay. Thank you.

12 MR. BRUCE: That's all I have,  
13 Mr. Examiner.

14 EXAMINER JONES: With that, we'll take  
15 Case 14802 under advisement.

16 EXAMINER BROOKS: I'm sorry. Does Fasken  
17 take a position on this? Are you opposing the  
18 application?

19 MR. FELDEWERT: We are not.

20 EXAMINER BROOKS: Very good.

21 MR. FELDEWERT: Just interested in the  
22 project.

23 EXAMINER BROOKS: Thank you.

24 \* \* \*

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

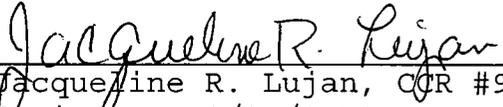
REPORTER'S CERTIFICATE

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on February 2, 2012, proceedings in  
the above captioned case were taken before me and that I  
did report in stenographic shorthand the proceedings set  
forth herein, and the foregoing pages are a true and  
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by  
nor related to nor contracted with any of the parties or  
attorneys in this case and that I have no interest  
whatsoever in the final disposition of this case in any  
court.

WITNESS MY HAND this 7th day of February, 2012.

  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2012