

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

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: )  
APPLICATION OF CIMAREX ENERGY COMPANY )  
FOR COMPULSORY POOLING, LEA COUNTY, )  
NEW MEXICO )

CASE NO. 13,496

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

June 2nd, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, June 2nd, 2005, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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## I N D E X

June 2nd, 2005  
 Examiner Hearing  
 CASE NO. 13,496

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APPLICANT'S WITNESSES:	
<u>CINDY A. CROFT</u> (Landman)	
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\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

GAIL MacQUESTEN  
Deputy General Counsel  
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Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

JAMES G. BRUCE  
Attorney at Law  
P.O. Box 1056  
Santa Fe, New Mexico 87504

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:42 a.m.:

3           EXAMINER EZEANYIM: At this point I call Case  
4 Number 13,496, Application of Cimarex Energy Company for  
5 compulsory pooling, Lea County, New Mexico.

6           Call for appearances.

7           MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
8 representing the Applicant. I have one witness.

9           EXAMINER EZEANYIM: No other appearances?

10          May the witness stand to be sworn in?

11          (Thereupon, the witness was sworn.)

12                         CINDY A. CROFT,

13 the witness herein, after having been first duly sworn upon  
14 her oath, was examined and testified as follows:

15                                 DIRECT EXAMINATION

16 BY MR. BRUCE:

17           Q.    Would you please state your name for the record?

18           A.    Cindy Croft.

19           Q.    And where do you reside?

20           A.    Tulsa, Oklahoma.

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

22           A.    Cimarex Energy Company, and I'm a senior landman.

23           Q.    Have you previously testified before the  
24 Division?

25           A.    No, I have not.

1 Q. Could you summarize your educational and  
2 employment background for the Examiner?

3 A. I graduated from -- 1982, from the University of  
4 Oklahoma, and while I was still attending the University I  
5 worked for two different abstract companies and started  
6 doing land work.

7 And then in 1982 when I graduated, I moved to  
8 Tulsa and I worked for Petra Petroleum for a couple of  
9 years and then went to Strat Land Exploration for about  
10 seven months, went to Unit Petroleum for two and a half  
11 years, ONEOK Exploration Company for about two years, and  
12 then I started with Helmerich and Payne in 1988. And then  
13 Helmerich and Payne is now -- we merged with Key Production  
14 Company out of Denver two and a half years ago and changed  
15 the name to Cimarex Energy Company. So I've been employed  
16 by the same company since 1988.

17 Q. Okay, and does your area of responsibility at  
18 Cimarex include this part of southeast New Mexico?

19 A. Yes, it does.

20 Q. And Key did have some interests, or Key or  
21 Helmerich and Payne had New Mexico interests, did they not?

22 A. Correct.

23 Q. And recently Cimarex has acquired quite a few  
24 more interests?

25 A. Yes, we have.

1 Q. This is Cimarex's first pooling case in New  
2 Mexico, I believe?

3 A. Yes, as far as I know.

4 Q. And are you familiar with the land matters  
5 involved in this Application?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I'd tender Ms. Croft as  
8 an expert petroleum landman.

9 EXAMINER EZEANYIM: Ms. Croft is so qualified.

10 Q. (By Mr. Bruce) Let's move to Exhibit 1. Could  
11 you identify that for the Examiner and describe what you  
12 seek to pool?

13 A. This is a Midland Map Company map. It shows  
14 Section 21 of 15-36. It's Lea County, New Mexico, and  
15 we're seeking to pool the southeast-northwest quarter, the  
16 40-acre spacing, from the surface to the base of the Permo  
17 Penn for the drilling of Caudill South "21" Fee Number 1  
18 well.

19 Q. What is the well's footage location?

20 A. The well is to be located at 1830 feet from the  
21 north line and 1980 feet from the west line.

22 Q. And that would be a standard location, would it  
23 not?

24 EXAMINER EZEANYIM: Please, could you repeat  
25 that, the location?

1 THE WITNESS: Yes, the location is 1830 feet from  
2 the north line, 1980 feet from the west line.

3 EXAMINER EZEANYIM: Okay, thank you.

4 Q. (By Mr. Bruce) Before we get off of Exhibit 1,  
5 the north half -- the west half of the northwest quarter of  
6 Section 21 looks to be divided into a couple of tracts, but  
7 really, at least as to mineral ownership, the entire north  
8 half is a single tract, is it not?

9 A. That's correct.

10 Q. Okay, so some of the numbers that we're going to  
11 see might be applicable to the entire north half, rather  
12 than just the southeast quarter of the northwest quarter?

13 A. That's right.

14 Q. Okay. Could you move on to your Exhibit 2 and  
15 discuss the people you need to pool and also how much  
16 mineral ownership Cimarex controls at this point?

17 A. In Section 21 there were 73 -- there are 73  
18 mineral owners. We've acquired leases from 63 of the  
19 owners, and -- which represents approximately 76.671875  
20 percent of the unit. The remaining unleased owners are  
21 listed on Exhibit 2, and there are eight owners that we  
22 have been unable to reach agreement, contact. Some of them  
23 are unlocatable, and those parties are listed on Exhibit 2.

24 Q. Okay, so -- Well, they're listed on the first  
25 page of Exhibit 2; is that correct?

1 A. Yes, correct.

2 Q. Now -- So certain are unlocatable, and others  
3 just didn't respond?

4 A. There were a couple parties who said they just  
5 weren't sure what they wanted to do. And one party, a  
6 Randall Pettigrew, who has just .2 of an acre, he travels a  
7 lot and told us just to leave him alone, he didn't want to  
8 mess with it, so...

9 Q. Okay. Now, you're seeking to force pool a 40-  
10 acre unit. Column 2 of the first page of Exhibit 2 lists  
11 net acres. Are these the net acres in the 40-acre unit or  
12 in the half-section, 320 acres?

13 A. Those are actually to the 320-acre. And then at  
14 the very bottom -- which -- that represents 68.65 net acres  
15 in the north half. But right below that we show, that --  
16 to the southeast-northwest quarter, our 40-acre unit, we're  
17 seeking to pool 8.58125 net acres.

18 Q. Okay, and these are all undivided interests,  
19 correct?

20 A. Correct, as to the north half, yes.

21 Q. Now, on page 2 of Exhibit 2 you list the parties  
22 who are participating. Besides Cimarex, there's a couple  
23 of individuals who will -- who have committed their  
24 interest to the well and who you do not see, to pool; is  
25 that correct?

1           A.    That is correct, the Nugent family and Charles  
2 Read.

3           Q.    Okay.  let's discuss your efforts with respect to  
4 either leasing or proposing a well to these people.  Before  
5 we move on to Exhibit 3, again, these are minerals owners,  
6 and Cimarex did spend time trying to lease these people,  
7 did it not?

8           A.    Yes, we have.  We've -- a very intensive effort  
9 over the last five months to attempt to reach agreement  
10 with all these parties.

11          Q.    And again, there were 73 of them in this half-  
12 section?

13          A.    That's correct.

14          Q.    And so you've been successful in dealing with  
15 what, about 85 or 90 percent of these people?  When efforts  
16 finally came to a head, did you then send out a well  
17 proposal to everyone?

18          A.    Yes, we did, April 20th we sent out well proposal  
19 letters to all the parties.

20          Q.    And that is marked as Exhibit 3?

21          A.    Yes.

22          Q.    And these letters did contain an AFE?

23          A.    Yes.

24          Q.    Now, in addition to the letters, you tried -- did  
25 you have a lease broker go out and try to lease these

1 tracts?

2 A. Yes, we --

3 Q. Go ahead.

4 A. The last five months, right. Once we had  
5 obtained ownership reports, we've been intensively trying  
6 to lease all the parties.

7 Q. And have you also had telephone discussions, you  
8 in particular, not to mention your lease broker, with some  
9 of these unleased mineral interest owners?

10 A. Yes, the parties that were locatable, we have --  
11 I have -- we have talked to them on the telephone.

12 Q. And again, they just have not sent back the  
13 lease?

14 A. Correct.

15 Q. Regarding the unlocatable people -- and they are  
16 listed on Exhibit 2 -- what efforts were made to track down  
17 these people?

18 A. We used all the Internet sources and telephone  
19 records, as well as -- and last-known addresses, we tried  
20 to call all the parties in the different cities that had  
21 similar last names, and we tried to find -- and contact the  
22 family members. Some of -- because some of these parties,  
23 we have taken leases from some of their family members, but  
24 they told us that they didn't even know where their family  
25 members were at this time.

1 Q. Okay. And of course the Internet and phone  
2 searches, those were made after you'd already exhausted the  
3 County records; is that correct?

4 A. That's correct.

5 Q. And again, this is a fee tract, so everything  
6 should be in the county records?

7 A. Yes.

8 Q. In your opinion, has Cimarex made a good faith  
9 effort to obtain the voluntary joinder of these interest  
10 owners in the well?

11 A. Yes, we have.

12 Q. Would you identify Exhibit 4 and discuss the cost  
13 of the proposed well?

14 A. Exhibit 4 is our AFE to drill the Caudill South  
15 "21" Fee Number 1 well. It's a 10,950-foot Wolfcamp test.  
16 The dryhole cost is \$1,048,500, and the completed well cost  
17 is \$1,798,900.

18 Q. Is this cost in line with the cost of other wells  
19 drilled to this depth in this area of New Mexico?

20 A. It is. I think right now it's a little bit low.  
21 I think costs are going up just about every day.

22 Q. Does Cimarex request that it be appointed  
23 operator of the well?

24 A. Yes, we do.

25 Q. Do you have a recommendation for the amounts

1 which Cimarex should be paid for supervision and  
2 administrative expenses?

3 A. Yes, \$6000 for the producing -- I mean for the  
4 drilling portion, and then \$600 a month for the producing.

5 Q. And are these amounts equivalent to those  
6 normally charged by operators in this area for wells of  
7 this depth?

8 A. We've been heavily involved with a bunch of wells  
9 with Devon, we have numerous joint ventures going on with  
10 Devon, and these are in line with what they're doing.

11 Q. And again, the depth of this well is almost  
12 11,000 feet; is that correct?

13 A. That's correct.

14 Q. Do you request that the overhead rates be  
15 adjusted periodically as provided by the COPAS accounting  
16 procedure?

17 A. Yes, we do.

18 Q. And finally, were the unleased mineral owners  
19 notified of this hearing?

20 A. Yes.

21 Q. And that's submitted as Exhibit 5?

22 A. Yes.

23 MR. BRUCE: And again, Mr. Examiner, on Exhibit  
24 5, Exhibit A is the mailing notice that went to the various  
25 people, and Exhibit B is a publication notice. Notice was

1 published in the Hobbs paper.

2 Q. (By Mr. Bruce) Were Exhibits 1 through 5  
3 prepared by you or under your supervision or compiled from  
4 company business records?

5 A. Yes, they were.

6 Q. And in your opinion, is the granting of this  
7 Application in the interests of conservation and the  
8 prevention of waste?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I'd move the admission  
11 of Exhibits 1 through 5.

12 EXAMINER EZEANYIM: Exhibits 1 through 5 will be  
13 admitted into evidence.

14 Gail?

15 MS. MacQUESTEN: No questions.

16 EXAMINER EZEANYIM: I have not much questions but  
17 just some clarifications here.

18 EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. You're exploring the Wolfcamp, right? The  
21 Wolfcamp?

22 A. Yes, Permo-Penn, yes.

23 Q. Permo-Penn, okay. Yeah. Is that the only place  
24 you are interested in? Because you are drilling from the  
25 surface to the -- from --

1 A. -- to the base of the Permo-Penn, right.

2 Q. Yeah, yeah. So the Wolfcamp is what you need?

3 A. Yes.

4 Q. Okay. And do you -- are you in such a hurry with  
5 the other ones that I heard before, about getting an APD?

6 I mean, do you have a rig lined up like on the other case?

7 A. Yes, we do, we have a rig under contract that we  
8 are currently using and trying -- the same thing, want to  
9 hang on to.

10 EXAMINER EZEANYIM: So you have told me what --  
11 again, just told me that I want it. Okay. Okay, that's  
12 good.

13 That's all I have.

14 THE WITNESS: Thank you.

15 EXAMINER EZEANYIM: Thanks.

16 MR. BRUCE: I have nothing further in this  
17 matter, Mr. Examiner.

18 EXAMINER EZEANYIM: Well, at this point Case  
19 Number 13,496 will be taken under advisement.

20 (Thereupon, these proceedings were concluded at  
21 8:55 a.m.)

22 \* \* \* I do hereby certify that the foregoing is  
23 a complete record of the proceedings in  
24 the Examiner hearing of Case No. 13496  
25 heard by me on 02/05/06.  
*[Signature]*  
Oil Conservation Division, Examiner

## CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) ss.  
 COUNTY OF SANTA FE )

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL ~~June~~ 3rd, 2005.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006