

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

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

ORIGINAL

APPLICATION OF CIMAREX ENERGY
COMPANY OF COLORADO FOR A
NONSTANDARD GAS SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15140

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 29, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, on Thursday, May 29, 2014, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT CIMAREX ENERGY COMPANY OF COLORADO:

JAMES G. BRUCE, ESQ.
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EXHIBITS OFFERED AND ADMITTED

Cimarex Energy Co. of Colorado Exhibit Numbers 1 through 8	11
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1 (8:27 a.m.)

2 EXAMINER GOETZE: So let us start with the
3 first case, Case 15140, application of Cimarex Energy
4 Company of Colorado for a nonstandard gas spacing and
5 proration unit and compulsory pooling, Eddy County,
6 New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 Santa Fe representing the Applicant. I have two
10 witnesses.

11 EXAMINER GOETZE: Would the witnesses
12 please stand, state your name and be sworn in?

13 MS. REESE: Kelly Reese.

14 MR. BAKER: Joel Baker.

15 (Ms. Reese and Mr. Baker sworn.)

16 EXAMINER GOETZE: And for formalities,
17 there are no other appearances?

18 Very good. Mr. Bruce, continue.

19 KELLY REESE,

20 after having been first duly sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Ms. Reese, where do you reside?

25 A. In Midland, Texas.

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

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

3 Q. Have you previously testified before the
4 Division?

5 A. No, I have not.

6 Q. Would you please summarize your educational and
7 employment background?

8 A. I have an undergrad in energy management from
9 the University of Oklahoma. I worked with
10 ConocoPhillips as a landman for four years, until March
11 2013, at which point I joined Cimarex Energy.

12 Q. Have you testified as a landman before any
13 other regulatory body?

14 A. Yes. I've testified in the Oklahoma City
15 Conservation Division.

16 Q. And the land at issue here today, is that your
17 area of responsibility at Mewbourne --

18 A. Yes.

19 Q. -- excuse me -- at Cimarex?

20 A. Yes, it is.

21 Q. And are you familiar with the land matters
22 involved in this case?

23 A. Yes, I am.

24 MR. BRUCE: Mr. Examiner, I tender
25 Ms. Reese as an expert petroleum landman.

1 EXAMINER GOETZE: She is so qualified.

2 Q. (BY MR. BRUCE) Ms. Reese, could you identify
3 Exhibit 1 for the Examiner and describe what we're
4 asking for today?

5 A. Yes. Exhibit 1 is a Midland Map Company land
6 plat. It's highlighting the southeast quarter of
7 Section 34, 25 South, 26 East and the east half of
8 Section 34, 26 South, 26 East. We are requesting
9 approval of a 480-acre well unit for the Hayduke 34 Fed
10 Com Well #3H, and it'll be a horizontal well in the
11 Wolfcamp Formation. We also seek to pool the
12 uncommitted interest owners.

13 Q. And what is Exhibit 2?

14 A. Exhibit 2 is a Form C-102 for the well. It's a
15 horizontal well to be drilled with the surface location
16 at 1,980 [sic] feet from the south line and 200 feet
17 from the east line of Section 34, with a terminus of 660
18 feet from the south line and 760 feet from the east line
19 of Section 3. The well's API number is 300153955. And
20 the pool is in the East Sage Draw Wolfcamp gas pool,
21 which is based on 320 acres of wells located at least
22 660 feet from the quarter section line.

23 MR. BRUCE: Mr. Examiner, the next witness
24 will have more information on the well plan.

25 EXAMINER GOETZE: Very good.

1 Q. (BY MR. BRUCE) Moving back to Exhibit 1, what
2 is the interest ownership in the proposed well unit?

3 A. Cimarex owns or controls 100 percent of the
4 well unit, except for the northwest quarter of the
5 southeast quarter of Section 34. That 40-acre tract is
6 owned, 81.25 percent, by EOG, and the remaining 18.75
7 percent interest is uncertain.

8 Q. And what is the cause of the uncertainty of the
9 interest ownership?

10 A. The interest is owned of record by Partnership
11 Properties Company, which was acquired over 30 years
12 ago. However, that company is no longer in existence.
13 We have examined corporate records in various states,
14 and we believe Freeport-McMoran Oil and Gas is the
15 successor to Partnership Properties. However, there is
16 an assignment filed with the BLM in which Legacy
17 Reserves Operating may claim an interest as well.
18 However, Legacy, the signor, never owned an interest of
19 record.

20 Q. So at this time do you seek to pool EOG,
21 Partnership Properties, Freeport-McMoran and Legacy
22 Reserves?

23 A. Yes.

24 Q. And let's discuss your efforts to obtain the
25 voluntary joinder of these parties. So what is Exhibit

1 3?

2 A. Exhibit 3 is the well proposal that we sent to
3 each party, and Partnership Properties was returned.

4 Q. The others parties did receive their letters;
5 did they not?

6 A. Yes, they have.

7 Q. Now, have you also contacted these parties by
8 phone or by e-mail, the locatable ones, to discuss the
9 matter with them?

10 A. Yes, we have. I've spoken with the landmen at
11 Legacy and Freeport-McMoran about the land situation,
12 and we are currently trying to work out a farm-out
13 agreement with EOG.

14 Q. And if EOG does sign the farm-out, will you
15 notify the Division so they are dismissed from the
16 pooling application?

17 A. Yes, we will.

18 Q. And with respect to Freeport-McMoran and Legacy
19 Reserves, since there is a title issue, are they
20 reluctant to join in the well?

21 A. Yes, they are.

22 Q. They don't want to pay the money if they don't
23 own an interest, correct?

24 A. Correct.

25 Q. In your opinion, has Cimarex made a good-faith

1 effort to obtain the voluntary joinder of the interest
2 owners in the well?

3 A. Yes, we have.

4 Q. And what is Exhibit 4?

5 A. This is a copy of our AFE.

6 Q. And what is the cost?

7 A. It has an estimated dry-hole cost of 3,459,000
8 and a completed well cost of 9,995,869.

9 Q. And is this cost in line with the costs of
10 other horizontal wells drilled to this depth in this
11 area of New Mexico?

12 A. Yes, it is.

13 Q. And do you request that Cimarex Energy Company
14 of Colorado be appointed operator of the well?

15 A. Yes.

16 Q. And do you have a recommendation to the amounts
17 which Cimarex should be paid for supervision and
18 administrative expenses?

19 A. Yes. We request that 700 a month be allowed
20 for drilling and the 7,000 a month be allowed for
21 producing the well.

22 Q. Just the reverse?

23 A. Oh. 7,000 a month for drilling the well and
24 700 for producing the well.

25 EXAMINER GOETZE: There is a sharp profit

1 margin there (laughter). Continue.

2 Q. (BY MR. BRUCE) And are these amounts equivalent
3 to those normally charged by Cimarex and other operators
4 in this area of wells of this depth?

5 A. Yes, they are.

6 Q. And do you request that the overhead rates be
7 adjusted periodically provided by the COPAS accounting
8 procedure?

9 A. Yes.

10 Q. And were the uncommitted interest owners
11 notified of this hearing?

12 A. Yes. And that is reflected in the affidavit
13 marked Exhibit 5.

14 MR. BRUCE: Mr. Examiner, one thing. I
15 couldn't find my letter to Freeport-McMoran, so I
16 re-sent notice to Freeport-McMoran. At the end of the
17 hearing, I will have to ask that the hearing be
18 continued two weeks just so I can submit notice to you
19 on that.

20 EXAMINER GOETZE: Okay. Proceed.

21 Q. (BY MR. BRUCE) Was notice published as against
22 Partnership Properties?

23 A. Yes. And that is marked Exhibit 6.

24 MR. BRUCE: And, Mr. Examiner, I submitted
25 a bunch of notices to the Carlsbad newspaper. They're

1 notoriously late getting the full affidavits of
2 publication in, but I'll review the actual Affidavit of
3 Publication.

4 EXAMINER GOETZE: So you want to go ahead
5 and provide both documents at the next hearing?

6 MR. BRUCE: Correct.

7 EXAMINER GOETZE: Okay.

8 Q. (BY MR. BRUCE) And what is Exhibit 7?

9 A. Exhibit 7 lists the offset operators or working
10 interest owners.

11 Q. And were they notified of this hearing?

12 A. Yes. And that's reflected in the affidavit
13 marked Exhibit 8.

14 MR. BRUCE: And, Mr. Examiner, all the
15 offsets did receive actual notice.

16 Q. (BY MR. BRUCE) Ms. Reese, were Exhibits 1
17 through 8 either prepared by you or under your
18 supervision or compiled from company business records?

19 A. Yes.

20 Q. And in your opinion, is the granting of this
21 application in the interest of conservation and the
22 prevention of waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I'd move the
25 admission of Exhibits 1 through 8.

1 EXAMINER GOETZE: Exhibits 1 through 8 are
2 accepted into record.

3 (Cimarex Energy Company of Colorado Exhibit
4 Numbers 1 through 8 were offered and
5 admitted into evidence.)

6 MR. BRUCE: I have no further questions of
7 the witnesses.

8 CROSS-EXAMINATION

9 BY EXAMINER GOETZE:

10 Q. In the application for this unit, we have in
11 here a notation that we wish to pool everything with
12 320-acre spacing within the vertical extent. Is there
13 clarification on that?

14 MR. BRUCE: Well, it's strictly the
15 Wolfcamp.

16 EXAMINER GOETZE: Just strictly the
17 Wolfcamp. I appreciate that.

18 Q. (BY EXAMINER GOETZE) And maybe this is not the
19 right question to ask of a land person, but previously
20 you have had applications in this area to do horizontal
21 wells east-west as opposed to north-south. Are there
22 plans by Cimarex to develop this area on a more extent?
23 Are there additional --

24 MR. BRUCE: I think the geologist will
25 testify to that.

1 EXAMINER GOETZE: Okay. Then I will defer
2 to the geologist.

3 JOEL BAKER,
4 after having been previously sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Mr. Baker, where do you reside?

9 A. I reside in Littleton, Colorado.

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

11 A. I work for Cimarex Energy as a geologist.

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

14 A. I have not.

15 Q. Would you summarize your educational and
16 employment background?

17 A. Yes. I received a bachelor of science degree
18 from Texas A & M University in geology in 1985 and my
19 master of science degree in geology also from
20 Texas A & M University in 1987. Since then, I've been
21 employed in the oil industry as a petroleum geologist.
22 I started work with Tenneco and then moved, in 1988, to
23 work for Mobil. I worked for Mobil for a few years, and
24 then I've been with a handful of independents. The last
25 ten years I've been employed by Cimarex Energy in

1 Colorado, and the last seven months, specifically, I've
2 been assigned to the Delaware Basin Group as a
3 geologist.

4 Q. And are you familiar with the geology involved
5 in this application?

6 A. Yes.

7 MR. BRUCE: And, Mr. Examiner, I would
8 tender Mr. Baker as an expert petroleum geologist.

9 EXAMINER GOETZE: He is so qualified.

10 Q. (BY MR. BRUCE) Mr. Baker, could you refer to
11 your combination structure isopach map?

12 A. Yes.

13 MR. BRUCE: Which is the second one I gave
14 you, Mr. Examiner.

15 Q. (BY MR. BRUCE) And identify this and describe
16 the contents, please.

17 A. Yes. On this map, there are two geologic
18 elements portrayed here. The black contours are
19 contours of the net feet of organic shale in the
20 Wolfcamp Formation. The light gray contours are the
21 structure map representative of the Wolfcamp Formation.
22 The red arrow points to our surface location for the
23 Hayduke 34 Fed #3H horizontal well we want to drill.
24 That surface location was moved due to topographic
25 reasons.

1 I'll get into this later, but we'll drill a
2 well directionally to penetrate the Wolfcamp well 660
3 feet from the north line of the proposed unit, and the
4 bottom hole of the lateral will be 660 feet from the
5 south line of the proposed unit.

6 Q. And so the well -- the entire productive
7 interval of the well will be orthodox?

8 A. Yes, that is correct. That is correct.

9 Q. Go ahead.

10 A. Okay. Directly north in Section 34 of the well
11 we plan to drill is the Hayduke 34 Fed #1H. The surface
12 hole of that well is marked with an arrow. It says
13 "type log." That well found 301 feet of Wolfcamp net
14 shale. And the contour map illustrates, when we drill
15 our proposed, we'll find very similar amounts of shale
16 along the whole lateral.

17 It's anticipated, at the start of the
18 lateral, we will encounter somewhere close to 300 feet
19 of net shale, probably about 290 feet, and as we move
20 south to our bottom-hole location, the amount of shale
21 will increase. And we're anticipating somewhere in the
22 neighborhood of 310 feet of shale at the end of the
23 lateral. So it's essentially the same amount of
24 thickness along the whole lateral, plus or minus ten
25 feet. So we're expecting each quarter section along the

1 lateral to produce similar amounts.

2 Now, what you'll notice in the well to the
3 north, it is oriented east-west. The reason for that is
4 at the time that well was drilled, we were of the belief
5 that it was better to have the heel of the well downdip
6 and to drill the well in an updip direction. Since then
7 we have learned that that is basically irrelevant.

8 We also know that the preferred frack
9 direction in this area is from the southwest to
10 northeast, and so there is no geologic preference to an
11 east-west well versus a north-south orientation. So we
12 have elected to drill this well and future wells out
13 here in a north-south direction because it's easier and
14 more cost effective to drill the lateral at 90 degrees
15 and follow structural strike and not have to constantly
16 steer the well to stay in zone moving across dip.

17 Q. And provided this well turns out well, will you
18 anticipate -- would Cimarex anticipate drilling a well
19 to the west of the same length?

20 A. Yes. Yes, we would.

21 Q. And then could you identify the type log and
22 discuss that a little bit?

23 A. Right. So I mentioned on the map the location
24 of the type log about a half mile north of our surface
25 location. So this is the log interval across the

1 Wolfcamp Formation. The horizontal lines are internal
2 markers, Wolfcamp B, C, D, E markers. These are log
3 correlation points in the Wolfcamp that Cimarex uses
4 internally to zone the Wolfcamp.

5 This map that we just talked about is the
6 summation of all the net shale across the whole Wolfcamp
7 interval, so it includes our internal B, C and D
8 Wolfcamp zones.

9 The logs on the right-hand side, the key
10 log is the bulk density log, and there is a vertical
11 line marked in red, 2.55 grams per cc. That is a cutoff
12 that we use at Cimarex, and it very closely corresponds
13 to the amount of organic carbon in the shale. We
14 believe that with the density, it's less than 2.5 grams
15 per -- .55 grams per cc. There is enough organic
16 content in the shale to be commercially productive. So
17 we count all of the shale that meets criteria, and it
18 gets lumped together into the net shale map that we
19 talked about on the other exhibit.

20 The horizontal-dashed green line is our
21 proposed horizontal target zone. That's where we intend
22 to land the well and drill our horizontal.

23 Q. Were Cimarex's wells to the north landed in a
24 similar depth?

25 A. Yes. Yes. They were landed in that same

1 stratigraphic zone.

2 Q. And finally, could you identify Exhibit 11 and
3 just briefly discuss the plan for drilling the well?

4 A. Exhibit 11 shows our well plan. There are
5 actually two views superimposed on here. The larger
6 view is -- the L-shape is a vertical view of the well,
7 so you can see that the well is directionally drilled
8 because of the move in the surface location. And it's
9 located such that after we drill the curve, we will
10 penetrate the Wolfcamp Formation at a legal location,
11 660 feet from the north line of the unit, and then we
12 will drill approximately 6,600 feet of lateral length to
13 the terminus of the well.

14 We plan on -- once the well is drilled, we
15 plan on fracking the well with roughly 30 stages. Each
16 stage, we will pump 300,000 pounds of sand, with 9,000
17 barrels of water per stage.

18 Q. Mr. Baker, I notice on the isopach map that it
19 says "Author: Dave Rittenbacher." Who is Dave
20 Rittenbacher?

21 A. David is my colleague. We work on the same
22 geologic team. It's a multidisciplinary team, but we
23 are both geologists on this team.

24 Q. And have you reviewed the well data, and do you
25 agree with this interpretation?

1 A. Yes. Yes, I do. I do. I've reviewed all this
2 with Dave. We work this area.

3 Q. And were the type log and the drilling plan
4 compiled from Cimarex's company records?

5 A. Yes.

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

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I'd move the
11 admission of Exhibits 9, 10 and 11.

12 EXAMINER GOETZE: Exhibits 9, 10 and 11 are
13 so entered.

14 (Cimarex Energy Company of Colorado Exhibit
15 Numbers 9, 10 and 11 were offered and
16 admitted into evidence.)

17 MR. BRUCE: I have no further questions for
18 the witness.

19 CROSS-EXAMINATION

20 BY EXAMINER GOETZE:

21 Q. Just one question. You mentioned some sort of
22 topographical restriction. Was there a surface
23 requirement for you to relocate, or was this just the --

24 A. Right. It was -- it was just -- this was as
25 close to a flat area to build the pad as we could get.

1 Q. Oh. So physically it's just impossible without
2 making a big mess to find a location to put the pad at?

3 A. That is correct. Yeah. That was as close as
4 we could get. The surface was approved by the BLM.

5 Q. We always know they approve.

6 A. Right. Right.

7 EXAMINER GOETZE: So I have no further
8 questions of this witness.

9 MR. BRUCE: I have nothing further in the
10 matter.

11 EXAMINER GOETZE: Very good. Case 15140 is
12 continued to June 12th for submission of affidavits.

13 (Case Number 15140 concludes, 8:48 a.m.)
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19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
the examiner hearing of Case No. 15140
21 heard by me on May 29th 2014.
22 [Signature], Examiner
Oil Conservation Division
23
24
25

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3
4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19
20 

21 MARY C. HANKINS, CCR, RPR
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