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 OF COLORADO FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15215

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 20, 2014

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and Gabriel Wade, Legal Examiner, on Thursday, November 20, 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
New Mexico CCR #20
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APPEARANCES

FOR APPLICANT CIMAREX ENERGY COMPANY OF COLORADO:

EARL E. DeBRINE, JR., ESQ.
JENNIFER L. BRADFUTE, ESQ.
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EXHIBITS OFFERED AND ADMITTED

(9:57 a.m.)

EXAMINER JONES: This is number 15215, the case of Cimarex Energy Company of Colorado for a nonstandard spacing and proration unit and compulsory pooling, Eddy County, New Mexico.

Call for appearances.

MR. DEBRINE: Earl DeBrine and Jennifer Bradfute, with the Modrall Sperling Law Firm, for the Applicant, Cimarex Energy of Colorado.

EXAMINER JONES: Other appearances in this case?

MR. DEBRINE: I don't believe there is any opposition, Mr. Examiner.

EXAMINER JONES: We have a record of an interested party that has not shown up today?

MR. DEBRINE: No. We have reached an agreement with them, and they're now a consenting party, and they're not going to be a pooled party anymore.

EXAMINER JONES: You've got two witnesses?

MR. DEBRINE: Yes, Mr. Examiner.

EXAMINER JONES: Will the court reporter please swear the witnesses?

(Ms. Cockrell and Mr. Ritterbacher sworn.)

JORDAN COCKRELL,

after having been first duly sworn under oath, was

questioned and testified as follows:

DIRECT EXAMINATION

BY MR. DEBRINE:

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

A. Jordan Cockrell.

Q. Ms. Cockrell, who do you work for?

A. I work with Cimarex Energy in Midland, Texas.

Q. What are your responsibilities as a landman for Cimarex?

A. I work as a petroleum landman at Cimarex. I am part of an exploration team, and our goal is find locations and drill wells. I have specifically worked the Permian Basin, and I have moved over to Eddy County and worked there since the beginning of this year.

Q. Have you previously testified before the Division?

A. Yes.

Q. Were your credentials as a petroleum landman accepted as a matter of record by the Examiners?

A. Yes, they were.

MR. DEBRINE: Mr. Examiner, we would submit Ms. Cockrell as an expert landman.

EXAMINER JONES: Can you spell your last name, please?

THE WITNESS: C-O-C-K-R-E-L-L.

EXAMINER JONES: Ms. Cockrell is qualified in petroleum land matters.

Q. (BY MR. DEBRINE) Ms. Cockrell, will you turn to Exhibit 1 and explain to the Examiners what Cimarex is seeking?

A. Exhibit Number 1 is the Form C-102 for the Jake 36 State 7H well. We seek approval to form a nonstandard oil spacing unit or project area covering the west half of the east half of Section 36, Township 24 South, Range 26 East, in Eddy County for the purpose of drilling a horizontal well as exhibited in Exhibit 1. We also seek to pool the uncommitted working interest owners.

Q. And how much acreage is covered by the nonstandard project area?

A. 160 acres.

Q. Is the well going to be drilled and completed in a standard location?

A. Yes.

Q. What is the pool involved in the acreage?

A. The Cottonwood Draw Bone Spring pool, and that number is 97494.

Q. And what is the well that you're seeking to dedicate the acreage to?

A. The Jake 36 State 7H.
Q. What is the API number for that well?
A. 3001542614.
Q. And what is the character of the lands involved in the unit?
A. They are state lands.
Q. Are there any Special Pool Rules for this particular formation?
A. No.
Q. Could you provide the Examiners with a surface and bottom-hole locations for the well?
A. The surface-hole location is 330 feet from the south line and 1,725 feet from the east line. The bottom-hole location is 330 feet from the north line, 1,725 feet from the east line, both being in Section 36.
Q. Let's take a look at Exhibit 2 and if you could explain what that represents.
A. Exhibit Number 2 is a list of the working interest owners in Section 36. It lists the committed versus the uncommitted interest owners. Those that are highlighted in yellow are those that we seek to compulsory pool. Those that are not highlighted are committed. Specifically, we seek to pool the uncommitted owners Larry Turner, Sandy Wische, Chester J. Stuebben, Alan D. Tuck Jr. and wife Evelyn Tuck.

Q. Just to clarify, the Examiner had a question and issue with regard to Isramco Resources. They're now listed as a committed owner in the unit?

A. Right. We have reached a voluntary agreement with Isramco Resources. They are no longer a party that we are seeking to pool.

Q. If you could turn to Exhibit 3 and explain to the Examiners what efforts you undertook to come to a voluntary agreement and form a unit with the --

A. Exhibit 3 --

EXAMINER JONES: Excuse me. Would you -- Exhibit 3 -- got these beforehand, and we had trouble printing them out. And I'm trying to make sure that I got it --

EXAMINER WADE: (Indicating.)

EXAMINER JONES: Oh, here we go. Here we go. Excuse me. I've got it right here.

A. Exhibit Number 3 compiles all of the documents that were sent to the working interest owners well proposal packet that includes well proposal letters, the AFEs and the proposed operating agreement covering the contract area. I sent the proposal packets on June 11th of 2014, and subsequently, after sending these, I placed regular phone calls and regular e-mails to those that I could locate and get ahold of.

Q. (BY MR. DEBRINE) What are the costs -- the dry-hole and completion costs for the well that were identified in the AFE sent to the working interest owners?

A. The dry-hole cost, 1,974,000. Completion costs are 5,002,200.

Q. And are those costs consistent with the costs that Cimarex has incurred when drilling similar horizontal wells of this depth and length?

A. Yes.

Q. Have you estimated the overhead costs while drilling and producing the well?

A. Yes.

Q. What are those amounts?

A. Those amounts are 7,000 per month for drilling, 700 per month for producing.

Q. And are those amounts the same as you proposed in the JOA for the working interest owners?

A. Yes. You will see in Exhibit 3 the JOA is included, and the drilling and producing rates are included in the COPAS, which is Exhibit C of the JOA.

Q. And are those costs in line with those charged by Cimarex and other operators in the area for drilling wells of similar depth and length?

A. Yes.

Q. Are you asking the Division to include these overhead administrative costs in its order for forced pooling?

A. Yes, we are.

Q. Did you prepare a summary of your communications with the working interest owners to voluntarily form a unit for the well?

A. I did. That is Exhibit 4, and it lists the dates and a summary of my communications with various working interest owners.

Q. With regard to the cost that you're proposing for the well, are you also asking the Division to incorporate -- be adjusted in accordance with the COPAS accounting procedures?

A. Yes.

Q. Are you also asking the Division to include a 200 percent risk charge as part of its order?

A. Yes, I am.

Q. Let's turn to the notice that was given in the Cimarex application. Have you identified all of the operators of leased minerals in the 40-acre tracts that surround this proposed unit that are offset operators?

A. Yes, we did.

Q. Did you prepare a list of them and a map of where they are located?

A. Yes. If you look at Exhibit 5, I have put together a Midland -- it's a Midland Map land plat. The blue outline is the Jake State -- Jake State 36 7H proration unit. The yellow is those that we have noticed that offset us, and then the attached paper to this exhibit lists the operators that we have notice or sent notice to.

Q. Now, let's turn to Exhibit 6, which is the notice letters that were sent out by our office and the Affidavit of Publication and also my Affidavit of Notice. If you could describe the efforts that were made to identify the working interest owners and the notice that was given to them.

A. For the --

Q. For the proposed unit.

A. Yes. I'm sorry. I want to make sure I understand your question. So you're wanting me to --

Q. Just to identify within Exhibit 6 what consists of the different notices sent out. And I understand it's covered by my Affidavit of Notice, but if you could just describe Exhibit 6.

A. These are just the notice letters that were sent to those in the nonstandard oil spacing proration unit. We also published notice because there were a few within the proration unit that we cannot locate, have

not been able to get in touch with.

Q. What efforts did you make to locate the working interest owners?

A. That we cannot locate or just any of them?

Q. All of them.

A. We sent --

I'm sorry. I'm hoping I'm understanding your question correctly.

We sent these notification letters. We sent the proposals. I've made phone calls.

Q. And you sent notice by certified mail, return receipt?

A. Yes. We sent it by certified mail, which those are included. The copies of the receipts are included here in this exhibit.

Q. And for those you couldn't locate, you published notice within a newspaper circulated in the county where the proposed well is located?

A. Yes. Yes, we did.

Q. Were Exhibits 1 through 6 prepared by you or under your direction and supervision from the business records of Cimarex?

A. Yes.

MR. DEBRINE: Mr. Examiner, we'd move for the admission of Exhibits 1 through 6.

EXAMINER JONES: Exhibits 1 through 6 will be admitted.

(Cimarex Energy of Colorado Exhibit Numbers 1 through 6 were offered and admitted into evidence.)

Q. (BY MR. DEBRINE) Ms. Cockrell, in your opinion, have you made a good-faith effort to identify the interest owners in the proposed unit?

A. Yes.

Q. And did you make a good-faith effort to try and seek their voluntary agreement to form a proposal [sic] to the well?

A. Yes, we did.

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

A. Yes.

MR. DEBRINE: No further questions.

CROSS-EXAMINATION

BY EXAMINER JONES:

Q. You said you published also the ones you couldn't find?

A. Yes.

Q. What exhibit is that?

A. It's in Exhibit 6.

MR. DEBRINE: It's at the very end of Exhibit 6.

EXAMINER JONES: Okay. I see it.

THE WITNESS: You did find it?

EXAMINER JONES: I did find it. It lists their names.

MR. DEBRINE: And my affidavit with regard to the certified notices is right in front of that.

EXAMINER JONES: Okay.

Q. (BY EXAMINER JONES) This is all state land; is that correct?

A. Yes. It's one state lease.

Q. It's one state lease?

A. One lease covering the entire section.

Q. So there is actually one -- it's all one interest block?

A. Right, covering the entire section.

Q. So you have no nonstandard location issues here? It's one drill block, and it's -- the APD to drill is -- how old is that? Is that pretty recent, or would that be a cost estimate?

A. The cost estimate -- we sent this with the well proposal. It's dated -- it's dated March 27th. We sent these in June.

Q. Would you say it's -- you just have to send

them an estimate anyway, but it's reasonably the same costs --

A. Yes.

Q. -- isn't it?

A. Yes.

Q. There is a huge difference between, obviously, dry hole and after-casing point costs and completed costs. Is there any elections between -- in other words, if they make one election to do the well, are you going to -- are you going to do a dry-hole election?

A. In the JOA -- in the JOA, there is a casing-point election.

Q. There is?

A. Yes. So they have the option -- once we've reached TD, they have the option to participate in completion or not.

Q. And they'll be able to see the information --

A. Right.

Q. -- and decide --

A. We will have provided them with logs and reports, and they'll be able to make an educated decision.

Q. How long did you give them? 24 hours or so?

A. 48.

Q. 48 hours. Okay.

A. Uh-huh.
Q. 7,000 drilling, 700 producing.
This is Bone Spring. Did you say that pool was Cotton Draw Bone Spring North or just Cotton Draw Bone Spring?
A. Cottonwood Draw Bone Spring.
Q. I can't think of any other land questions, so pass the witness.
EXAMINER WADE: I don't have any other questions.
EXAMINER JONES: Thank you very much.

DAVE RITTERSBACHER,

after having been previously sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MS. BRADFUTE:
Q. Can you please state your name for the record?
A. My name is Dave Rittersbacher.
Q. And what do you do for Cimarex?
A. I'm a geologist for Cimarex in the Permian Basin, actually work the Delaware Basin; that includes Eddy County, New Mexico.
Q. Could you describe your educational background and work history?
A. I have a bachelor of science degree in geology

from Colorado State University, a master of science in geology from Colorado School of Mines. And I've been employed as a petroleum geologist for 29 years, the last 11 have been with Cimarex Energy.

Q. Do you hold any certifications or belong to any professional organizations?

A. I'm a professional geologist in the state of Texas and in the state of Wyoming and a member of the American Association of Petroleum Geologists.

Q. And have you previously testified before the Division?

A. I have.

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

A. They were.

Q. Are you familiar with the application that's been filed by Cimarex today?

A. I am.

Q. And are you familiar with the status of the lands that are subject to the application?

A. Yes, I am.

Q. Are you familiar with the APD for the Jake 36 State 7H well?

A. Yes.

Q. And have you conducted a geologic study of the

area embracing the proposed spacing unit for the Jake 36 State 7H well located in Section 36, Township 24 South, Range 26 East NMPM, Eddy County, New Mexico?

A. I have.

MS. BRADFUTE: Mr. Examiner, I'd like to tender the witness as an expert in geologic matters.

EXAMINER JONES: Will you please spell your last name?

THE WITNESS: R-I-T-T-E-R-S-B-A-C-H-E-R.

EXAMINER JONES: Thank you.

He is so qualified.

Q. (BY MS. BRADFUTE) Would you please turn to what's been marked as Exhibit 7?

A. Exhibit 7 is a net sandstone map for the 2nd Bone Spring sandstone. It's contoured on a 25-foot contour interval. The proposed Jake 36 State No. 7H location is the red arrow. That shows the surface-hole location of the Jake 36 State No. 7. Then the red line represents the well path, one mile in length, drilling from south to north. And the proration unit that you just heard Jordan Cockrell discuss is the west half of the east half of Section 36 and is outlined by the green-dashed line.

The next exhibit will be a type log. It's the Jake State No. 3, and it's identified by a black

arrow. The producing wells that surround the proposed Jake 36 State No. 7 are the heavy purple lines that you see located to the south, to the east and to the southeast. Those are all 2nd Bone Spring sand producers and all operated by Cimarex. The proposed location has net sandstone values in excess of 30 feet, and we have found that to be productive in the area in all the producing wells.

Q. Can you please turn to Exhibit 8 and explain that exhibit to the Examiner?

A. We mentioned that Exhibit 8 was the black arrow on Exhibit 7. This type log is a neutron density log.

On the left-hand side of the log is a gamma ray log. As it departs to the left, those are clean -- what we call clean gamma ray values that are low, and those represent sandstones and limestones. And the gamma ray log departs to the right. Those are shales, the high values.

The right-hand side of the log is both neutron and density porosity, and it's scaled from minus 10 to 30. The heavy red line that you see there is the 10 percent porosity cutoff that we used to make the net sandstone map you saw on Exhibit 7.

The approximate landing -- the equivalent landing zone on this log is the land -- the well would

be about 7,215 measured depth on the type log.

Q. And do you consider the wells that you have studied to be representative of the Bone Spring Formation in the area near the proposed spacing unit?

A. I do.

Q. And did you identify any geological impediments?

A. I did not. Because of the thick nature of the sandstone along the well path, we feel like all of the 40-acre tracts on that well path will contribute to production.

Q. What conclusions have you drawn from your geologic study?

A. Our conclusions are that we think this is a potentially highly economic well and will have economic production along its entire life.

Q. Are there any impediments to drilling a horizontal well?

A. None.

Q. And is each quarter section-quarter section productive in the Bone Spring Formation?

A. We feel it will be.

Q. Is horizontal drilling the most efficient method of producing?

A. Absolutely. Vertical wells in this area have

been proven to be uneconomic.

Q. Will drilling this well prevent the drilling of any unnecessary wells?

A. It will prevent unnecessary wells to be drilled.

Q. And will drilling this well as a horizontal well result in the greatest horizontal recovery?

A. It will.

Q. Would you please turn to Exhibit 9?

A. Exhibit 9 documents the proposed well path. The left-hand side of the exhibit is the TVD or cross-section view. The blue line represents the well path. You can see that it's drilled vertically, down to a measured depth of 6,650 feet.

At that point we're going to kick the well off and build a curve at ten degrees per 100 feet. We're going to land the well at 7,557 measured depth or TVD of about 7,233 feet. At that point we'll continue on horizontally to the last take point at the end of the well, which is 330 feet from the north line, and that's the measured depth of 11,618.

The upper, right-hand part of that diagram is the map view of the proposed well plan. The red lines are the hard lines at 330 from each of the section lines. The proposed location, as discussed earlier, is

330 from south and 1,725 from east. We'll drill the well from south to north. You can see the landing point at 7,557 measured depth, and then we'll continue on to the north to a bottom-hole location of 330 from the north line and 1,725 from the east line. And, again, that will be the measured depth of 11,618.

Q. Is the completed interval -- is it going to be within an orthodox area and within the setback requirements of the statewide rule?

A. It will.

Q. In your opinion, would granting Cimarex's application be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. In my opinion, it would.

Q. Were Exhibits 7 through 9 prepared by you or compiled under your direction and supervision?

A. Yes, they were.

MS. BRADFUTE: Mr. Examiner, we'd like to move Exhibits 7 through 9 and 10.

EXAMINER JONES: Exhibits -- 7 through 9?

MS. BRADFUTE: Yes.

EXAMINER JONES: Exhibits 7 through 9 are admitted.

(Cimarex Energy of Colorado Exhibit Numbers

7 through 9 were offered and admitted into evidence.)

CROSS-EXAMINATION

BY EXAMINER JONES:

Q. So the toe of the well will have a little bit more thickness according to your isopach?

A. Right.

Q. And what control did you have for that isopach? I mean, I know there are some horizontal wells, but do they drill pilot holes on those?

A. This area was initially developed for deep Morrow gas.

Q. Oh, okay.

A. So on your log, you'll see -- on my copy, they're kind of a reddish-brown color. Those are actually the net sandstone values from the deep horizontal control in the area.

Q. So your control is shown on this map?

A. Right.

Q. In the red -- okay. They're reddish?

A. Right.

Q. Just reddish.

Okay. So you've got pretty good control really?

A. Yeah. There is generally -- it's fully

developed on 160-acre gas well spacing from the Morrow, so we have decent control in the area.

Q. The logs that you used, were they just pulled up through intermediate [sic] pipe? In other words, was it gamma ray and porosity through pipe numbers?

A. No. These are open-hole logs.

Q. Okay.

A. Right. You may see along the well path -- it's a little hard to read because of the contours covering it, but you'll see a note that's very close to the well path, where it says "CNL only." That was a cased hole log, and we did not use those to construct the map.

Q. Oh, wow. This is really precise mapping.

So basically this 2nd Bone Spring sand, do you consider that to include the shales and the sands in that type log?

A. We do. We don't feel like the shales are contributing to production, only the sands.

Q. So you're going to drill right there at minus 3,700 subsea depth? Not there, but -- where are you going to drill?

A. If you can find -- our equivalent landing zone was at 7,215 measured depth, and we find that we're better off in the lower third of the section than letting the frack grow up and contact the remainder --

Q. So you think the frack will grow pretty --
A. Yeah. Even though there are some limestones present, they don't seem to be frack barriers for us from the work we've done.
Q. And what have you used while you're drilling? Are you just going to mud log it, or are you going to log in while drilling and --
A. We'll have an MWD gamma ray and mud logs. And that's how we've handled all the logs to date. Because of the Morrow deep gas well control, we probably don't need any more data than that, in our opinion.
Q. What about during the frack job? Are you going to tag -- tag it with chemical tagging so that you --
A. No. We typically don't pursue any tracer in these sands. We don't have any problem putting the fracks away, so all the stages seem to take the fracks very well.
Q. But as far as the tracer coming back would tell you whether your -- whether your water and oil from different areas of the well, like from the toe or from the --
A. Right. At this point there are no plans to do that.
Q. Okay. I don't have any other questions. Thank you very much.

A. Thank you.

MR. DEBRINE: That concludes our presentation, Mr. Examiner.

EXAMINER JONES: Thank you very much. Let's take Case 15215 under advisement.

(Case Number 15215 concludes, 10:23 a.m.)

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 _____.

_____, Examiner
Oil Conservation Division

STATE OF NEW MEXICO

COUNTY OF BERNALILLO

CERTIFICATE OF COURT REPORTER

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

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

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

Mary C. Hankins

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2014