

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 MAGNUM HUNTER)
PRODUCTION, INC., FOR COMPULSORY)
POOLING, EDDY COUNTY, NEW MEXICO)

CASE NO. 13,664

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Jr., Hearing Examiner

April 13th, 2006

Santa Fe, New Mexico

2006 APR 27 AM 9 28

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Jr., Hearing Examiner, on Thursday, April 13th, 2006, 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

April 13th, 2006
Examiner Hearing
CASE NO. 13,664

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<u>JON P. TATE</u> (Landman)	
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A P P E A R A N C E S

FOR THE APPLICANT:

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

* * *

ALSO PRESENT:

WILLIAM V. JONES, JR.
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 9:13 a.m.:

3 EXAMINER BROOKS: The next case is Case Number
4 13,664, the Application of Magnum Hunter Production, Inc.,
5 for compulsory pooling, Eddy 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 to be
9 sworn.

10 EXAMINER BROOKS: Okay, will the witness be
11 sworn?

12 (Thereupon, the witness was sworn.)

13 JON P. TATE,
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name and city of
19 residence for the record?

20 A. Jon Tate -- pardon me, Jon Tate, I live in
21 Midland, Texas.

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

23 A. I work for Magnum Hunter Production, Inc., a
24 wholly owned subsidiary of Cimarex Energy, Inc., as a
25 senior landman.

1 Q. Have you previously testified before the
2 Division?

3 A. Yes, I have.

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

6 A. Yes, sir, they were.

7 Q. And are you familiar with the land matters
8 involved in this Application?

9 A. Yes, sir, I am.

10 MR. BRUCE: Mr. Examiner, I'd tender Mr. Tate as
11 an expert petroleum landman.

12 EXAMINER BROOKS: There's nobody to object, so
13 he's so accepted.

14 Q. (By Mr. Bruce) Mr. Tate, could you identify
15 Exhibit 1 for the Examiner and discuss what Magnum Hunter
16 seeks in this Application?

17 A. Exhibit 1 is a shot of a Midland map indicating
18 the north half, highlighted in pink, of Section 33,
19 Township 17 South, Range 30 East, and we are seeking to
20 pool the north half from a depth of 3650 feet down to the
21 base of the Morrow formation.

22 MR. BRUCE: Mr. Examiner, the Application
23 actually said surface to base of Morrow, but it should have
24 been 3600 feet.

25 EXAMINER BROOKS: Okay.

1 Q. (By Mr. Bruce) Could you identify Exhibit 2,
2 discuss the interests of the working interest owners and
3 identify who you seek to pool in this case?

4 A. Yes, sir, Exhibit 2 indicates the ownership of
5 the northwest quarter and the northeast quarter and then
6 the combined ownership of the north half working interest
7 unit. Chesapeake Energy has -- in the north half unit they
8 will have about 41 percent, and we have reached terms on a
9 farmout with them, and then EOG Resources has the
10 remainder, and we have 50 percent by virtue of an
11 exploration agreement with ConocoPhillips.

12 Q. Okay, and which parties do you seek to force
13 pool?

14 A. We seek to force pool EOG.

15 Q. Okay. Could you identify Exhibit 3 and discuss
16 your contacts with the working interest owners?

17 A. Exhibit 3 is two or three letters that were sent
18 out originally when we had our title opinion written. The
19 examining attorney credited the interest of EOG to CBS
20 Partners, and we pursued them for probably 90 days. And in
21 the 23rd hour, it turns out that a term assignment that
22 nobody thought was in effect was actually in effect, so the
23 interest reverted back to EOG. So at that point we started
24 trying to make a deal with EOG, and I sent them a letter,
25 AFEs and joint operating agreement.

1 Q. And have you had phone conversations with EOG?

2 A. Several, several.

3 Q. And what has been EOG's response?

4 A. Varied. Originally they were going to
5 participate, then they were going to farm out, then they
6 were going to participate, and then they called this week
7 and said, You need to force pool us.

8 Q. And so they have, in essence, requested that
9 their interest be force pooled?

10 A. Yes, sir, that's correct.

11 Q. In your opinion, has Magnum Hunter made a good-
12 faith effort to obtain the voluntary joinder of EOG in this
13 matter?

14 A. Yes, sir.

15 Q. Could you identify Exhibit 4 and discuss that for
16 the Examiner?

17 A. That is our AFE indicating our proposed cost to
18 drill a well to test the Morrow formation to a depth of
19 11,750 feet. We have a proposed dryhole cost of \$1,801,000
20 and a total completed well cost of \$2,743,500.

21 Q. And is this cost in line with the cost of other
22 wells drilled to this depth in this area of New Mexico?

23 A. Yes, sir, it is.

24 Q. And Magnum Hunter has drilled a number of other
25 wells in this general area of Eddy County --

1 A. Yes, sir.

2 Q. And so it has a pretty good handle on well costs?

3 A. Yes.

4 Q. Who do you request be appointed operator of the
5 well?

6 A. Gruy Petroleum Management.

7 Q. And that's a related company?

8 A. Yes, it is, it's a wholly owned subsidiary of
9 Cimarex Energy.

10 Q. Okay. And do you have a recommendation for the
11 amounts which Cimarex should be paid for supervision and
12 administrative expenses?

13 A. Yes, sir, I do. We believe the drilling well
14 rate should be \$6349 in line with COPAS, and a producing
15 well rate of \$646 a month.

16 Q. Okay. What was the drilling well rate again?

17 A. \$6349.

18 Q. -- 49, okay. And are these rates in line with
19 those used by Cimar- -- or excuse me, Magnum Hunter and
20 operators in this area?

21 A. Yes, it is, and I believe they're generally --
22 that is based on the COPAS schedule.

23 Q. Do you request that these rates be adjusted
24 periodically as provided by COPAS?

25 A. Yes, sir, we do.

1 Q. And was the uncommitted interest owner notified
2 of this hearing?

3 A. Yes, sir, they were.

4 Q. And that's reflected in Exhibit 5?

5 A. Yes, sir, it is.

6 Q. Were Exhibits 1 through 5 prepared by you or
7 under your supervision or compiled from company business
8 records?

9 A. Yes, sir, they were.

10 Q. And in your opinion is the granting of this
11 Application in the interests of conservation and the
12 prevention of waste?

13 A. Yes, sir.

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

16 EXAMINER BROOKS: 1 through 5 are admitted.

17 EXAMINATION

18 BY EXAMINER BROOKS:

19 Q. This is a Morrow test well?

20 A. Yes, sir, it is.

21 Q. And what's the approximate depth?

22 A. 11,750 feet.

23 Q. Well, I guess I'm out of touch. \$2,700,000 seems
24 awfully high for an 11,000-foot well.

25 MR. BRUCE: Well --

1 THE WITNESS: It's getting brutal out there, and
2 it makes the economics get --

3 EXAMINER BROOKS: I know that, I just -- It's
4 going faster than I realized.

5 MR. BRUCE: Well, you stopped hearing the cases,
6 what, for about a year and a half?

7 EXAMINER BROOKS: Yes.

8 MR. BRUCE: And in that time period they've
9 really gone up, they've really gone up.

10 EXAMINER BROOKS: Okay, I can't think of anything
11 else.

12 Mr. Jones?

13 MR. JONES: I don't have anything, thank you.

14 EXAMINER BROOKS: Very good. Case Number 13,664
15 will be taken under advisement.

16 (Thereupon, these proceedings were concluded at
17 9:20 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13664,
heard by me on Apr 13, 2006.

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David K. Brooks, Examiner
Oil Conservation Division

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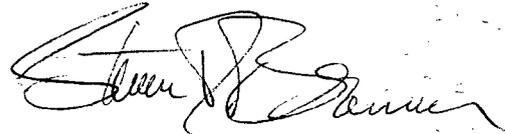
CERTIFICATE OF REPORTER

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 April 14th, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006