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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:

ORIGINAL

CASE NO. 14466

APPLICATION OF CIMAREX ENERGY
COMPANY FOR APPROVAL OF A
NONSTANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

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REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

May 13, 2010
Santa Fe, New Mexico

BEFORE: TERRY WARNELL: Hearing Examiner
DAVID BROOKS: Legal Adviser

This matter came for hearing before the New Mexico
Oil Conservation Division, Terry Warnell Hearing Examiner,
on May 13, 2010, at the New Mexico Energy, Minerals and
Natural Resources Department, 1220 South St. Francis
Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Peggy A. Sedillo, NM CCR No. 88
Paul Baca Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

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E X H I B I T S

Page

APPLICANT'S EXHIBITS:

Exhibit No. 1 - 4 9

COURT REPORTER'S CERTIFICATE 10

A P P E A R A N C E S

FOR THE APPLICANT: JAMES BRUCE, ESQ.
Attorney at Law
P. O. Box 1056
Santa Fe, NM 87504

FOR LINN ENERGY HOLDINGS, LLC;
FUEL PRODUCTS, INC.;
PEAR RESOURCES;
FASKEN OIL AND RANCH: WILLIAM F. CARR, ESQ.
Holland & Hart, LLC
110 North Gonzales, Suite 1
Santa Fe, NM 87501

1 HEARING EXAMINER: Let's call Case No. 14466,
2 Application of Cimarex Energy Company for Approval for a
3 Nonstandard Oil Spacing and Proration Unit and Compulsory
4 Pooling, Lea County, New Mexico. Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
6 representing the Applicant. I'm submitting this by
7 affidavit.

8 MR. CARR: May it please the Examiner, in this
9 case I'd like to enter an appearance for Linn Energy
10 Holdings, LLC; Fuel Products, Inc.; Pear Resources; and
11 Fasken Oil and Ranch.

12 HEARING EXAMINER: And Mr. Carr, that's pretty
13 well going to hold true for the rest of --

14 MR. CARR: That will hold true for the next
15 three cases. They're all in the same section. We are in
16 negotiations with Cimarex. I do not intend to call a
17 witness.

18 Hearing EXAMINER: Okay. Thank you. Whenever
19 you're ready, Mr. Bruce.

20 MR. BRUCE: Mr. Examiner, I've submitted to you
21 four exhibits in this case, and will do so in each of
22 these succeeding cases.

23 In this case, Exhibit 1 is the verified
24 statement of Mike Wallace, landman for Cimarex. And they
25 are seeking to force pool the south half south half of

1 Section 35, 19 South, 34 East.

2 The vertical portion of the wellbore is in the
3 southwest southwest. So I'm asking to pool from the
4 surface to the top of the Bone Spring.

5 Let me take a step back. As Mr. Carr said, this
6 is all in one section. The section is covered by one
7 lease, although there are varying interests in the well
8 unit.

9 But each of those cases, I'm going to present,
10 I'm going to ask for force pooling from surface to the top
11 of the Bone Spring in a 40 acre tract, and then force
12 pooling the Bone Springs formation underlying the project
13 area or nonstandard unit.

14 Although the interests set forth are for the
15 south half south half -- or, I should say, the project
16 area in each of these cases, the interest owners also own
17 interests in the 40 acres where the vertical portion of
18 the wellbore is located.

19 Again, this case involves the south half south
20 half of Section 35, and the well is the Mallon 35 Well
21 No. 4, which starts in the southwest southwest and heads
22 eastward to a terminus in the southeast southeast.

23 The affidavit lists the interest owners being
24 pooled and their percentage interests. The Applicant
25 requests a 200 percent risk charge be assessed against any

1 nonconsenting interest owner. And the offset operators
2 are also identified in the affidavit.

3 The overhead charges requested in each of these
4 cases is \$6,500 a month for a drilling well, and \$650 per
5 month for a producing well.

6 Attachment A to the landman's exhibit is simply
7 a land plat showing the well unit.

8 Attachment B is the correspondence, initial well
9 proposals, and this includes correspondence from Cimarex
10 Energy Company and correspondence to Cimarex Energy
11 Company.

12 You'll notice that the parties have been
13 provided with -- The initial well proposal went out about
14 five months ago and there has been written correspondence
15 between the parties. There have been e-mails. Also,
16 there have been phone calls.

17 Cimarex is continuing to work with these
18 interest owners and hopes to conclude JOAs with a number
19 of these parties, in particular, Fuel Products, Inc., Pear
20 Resources, and Linn Energy.

21 Mr. Carr also entered an appearance for Fasken
22 Oil and Ranch. They're an offset interest owner. They're
23 not a direct offset, but they do have a number of wells in
24 the area.

25 And so, I think Cimarex and Fasken have been in

1 some other OCD cases involving Bone Springs wells in this
2 area. So I think Fasken is simply an interested party
3 seeing what is going on in an area of interest to it.

4 MR. BROOKS: May I ask Mr. Carr a question in
5 that regard? Do you know if Brooks Oil and Gas owns any
6 interest in any offsetting properties?

7 MR. CARR: No, do not. I'm not aware of it.

8 MR. BROOKS: Well, I think probably I should
9 withdraw from participation in the case just in case
10 that's the case, if I'm not advised of it. We wouldn't
11 have been noticed as offsets?

12 MR. BRUCE: You would not have been notified as
13 offsets because you are not a direct -- Fasken is not a
14 direct offset.

15 MR. BROOKS: Okay. In order to avoid any
16 appearance of impropriety, I will withdraw from the
17 consideration of this case.

18 MR. CARR: And I would just state that for each
19 of the properties, including Fasken, I'm not intending to
20 call a witness or cross-examine or present evidence, we're
21 simply here to maintain our position while we're
22 negotiating a joint operating agreement.

23 So there won't be any arguments that you would
24 need counsel to aid you with.

25 MR. BRUCE: And again, I would reiterate that

1 Cimarex is continuing to negotiate with all of the
2 interest owners, like I said, in particular, Pear
3 Resources, Fuel Products, Inc., and Linn Energy.

4 As a matter of fact, over the last couple of
5 days, I believe they have gotten signed JOAs from interest
6 owners. Sundown Energy Inc. has elected to participate
7 but has not yet signed a JOA.

8 And then Attachment C is the AFE for the well.
9 And it's about a \$4 million completed well cost for a
10 horizontal well.

11 Exhibit 2 is the affidavit of Lee Catalano, who
12 is the geologist, and his testimony includes a structure
13 map, a cross-section, and the horizontal drilling plan for
14 the proposed well.

15 Cimarex anticipates that all four quarter
16 quarter sections in the proposed nonstandard well unit
17 will be productive and that a horizontal wellbore will
18 test for a great reservoir length and increase the chances
19 for an economic completion.

20 And if I didn't say it before, each of the
21 Interest owners, as I understand, own an interest in each
22 quarter quarter section.

23 And then Exhibit 3 is the affidavit of notice to
24 the parties being pooled. Each of the parties did receive
25 actual notice.

1 I would point out one thing, Mr. Examiner, that
2 when the initial well proposal went out, the owner of the
3 Linn Energy interests were the Merit Energy Group. And
4 sometime in late March, pretty close to the time when I
5 filed these applications, Linn Energy acquired these
6 interests. And so, since then, since they were
7 notified -- afterwards, Cimarex was notified of the
8 acquisition and has been in negotiations with Linn Energy.

9 And subsequent to the original notice letter, I
10 did send a certified mail notice of these applications to
11 Linn Energy, so they did have actual notice of the
12 hearing.

13 HEARING EXAMINER: And that's the one here dated
14 April 22nd?

15 MR. BRUCE: Yes, sir.

16 HEARING EXAMINER: Okay.

17 MR. BRUCE: And then Exhibit 4 is the affidavit
18 of notice to the offsets. And they all received notice,
19 except Western Equipment Company, they did not pick up
20 their certified mail.

21 And you'll see this in a couple of the others.
22 Notice was left. I never got back the letter itself, but
23 the last page of Exhibit 4 shows that notice was left a
24 couple of times for Western Equipment Company and they
25 never picked up their certified mail.

1 I will represent to the Division that this is a
2 current and accurate address that shows up on the State
3 Land Office website for rental payment purposes. They are
4 the record title owner of the lease, so that is the latest
5 address I could find for them.

6 And with that, I would move the admission of
7 Exhibits 1 through 4, and ask that the matter be taken
8 under advisement.

9 HEARING EXAMINER: Exhibits 1 through 4 are
10 admitted, assuming that there was no objection. And if
11 there are no other questions, Case No. 14466 will be taken
12 under advisement.

13 (Whereupon, the proceedings concluded.)

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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. _____,
heard by me on _____.

_____, Examiner
Oil Conservation Division

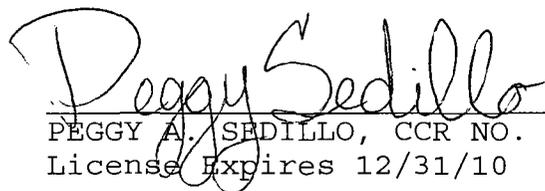
1 STATE OF NEW MEXICO)
) ss.
2 COUNTY OF BERNALILLO)

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REPORTER'S CERTIFICATE

I, PEGGY A. SEDILLO, Certified Court Reporter of the firm Paul Baca Professional Court Reporters do hereby certify that the foregoing transcript is a complete and accurate record of said proceedings as the same were recorded by me or under my supervision.

Dated at Albuquerque, New Mexico this 23rd day of March, 2010.


PEGGY A. SEDILLO, CCR NO. 88
License Expires 12/31/10