

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:

CASE NO. 14582

APPLICATION OF CIMAREX ENERGY CO. FOR APPROVAL
OF A NON-STANDARD OIL SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
WILLIAM V. JONES, Technical Examiner

January 6, 2011

Santa Fe, New Mexico

RECEIVED OCD
2011 JAN 20 P 2:04

This matter came on for hearing before the
New Mexico Oil Conservation Division, WILLIAM V. JONES,
Technical Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, January 6, 2011, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
Street Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

1 EXAMINER BROOKS: At this time we will call
2 case number 14582, application of Cimarex Energy Company
3 for approval of a non-standard oil spacing and proration
4 unit and compulsory pooling. Lea County, New Mexico.
5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of
7 Santa Fe representing the applicant. I have two
8 witnesses.

9 MS. MUNDS-DRY: Mr. Examiner, Ocean
10 Munds-Dry with Holland & Hart, LLP here representing
11 Nearburg Exploration, LLC. And I have no witnesses.

12 MR. BRUCE: And, Mr. Examiner, if the record
13 could reflect that I have the same witnesses,
14 Mr. Wallace and Mr. Catalano, and if they reflect they
15 were previously sworn and qualified.

16 EXAMINER BROOKS: The record will so
17 reflect.

18 DAVID MICHAEL WALLACE
19 after having been first duly sworn under oath,
20 was questioned and testified as follows:

21 EXAMINATION

22 BY MR. BRUCE:

23 Q. Mr. Wallace, in this case what does Cimarex seek?

24 A. Cimarex seeks an order approving 160-acre onset
25 oil spacing proration unit to the Bone Spring comprised

1 of the east half east half of section 23, 20 south 34
2 east. We also seek to pool the mineral interest in the
3 Bone Spring formation underlying the east half east half
4 of Section 23 for a non-standard 160-acre oil spacing
5 proration unit for any pools developed on 40-acre
6 spacing. That would be dedicated to the Lynch 23 Fed
7 Well Number 2 with the horizontal well drilled in the
8 location of the northeast northeast quarter to the
9 determine and southeast southeast of section 23.

10 Q. And the surface and the terminus will be at
11 orthodox locations; is that correct?

12 A. That's correct.

13 Q. And, again, we're only seeking to force pool the
14 Bone Spring formation?

15 A. Correct.

16 Q. Would you turn to Exhibit 2 and identify that for
17 the Examiner?

18 A. Exhibit 2 is a list of all the interest owners in
19 the spacing unit, all the working interest owners, and
20 their interests.

21 Q. And other than Cimarex you seek to force pool
22 everybody else on this?

23 A. All parties, that's correct.

24 Q. And we'll get into this again in a minute. Are
25 all of these interest owners in more or less internal

1 working interest partners of Nearburg Exploration
2 Company?

3 A. That is my understanding, that's correct.

4 Q. And when it comes to notice or when it came to
5 dealing with these parties, did Nearburg inform you to
6 send proposals only to Nearburg Exploration Company on
7 behalf of all of the interest owners?

8 A. Yes.

9 Q. They expressly requested that?

10 A. That's correct.

11 Q. Now, does Exhibit 3 contain copies of your
12 correspondence to the interest owners?

13 A. Yes.

14 MR. BRUCE: And, Mr. Examiner, in your
15 package and in the package given to the court reporter
16 there is well proposals to all of the interest owners
17 listed on your Exhibit 2.

18 Q. (By Mr. Bruce) Correct, Mr. Wallace?

19 A. That's correct.

20 MR. BRUCE: The letter I gave to Mr. Jones
21 and to Ms. Munds-Dry is simply a letter to the Nearburg
22 Exploration Company. But the record before the division
23 are in the division's files and we'll show proposal
24 letters to each and every interest on them.

25 EXAMINER BROOKS: But each was addressed to

1 Nearburg?

2 MR. BRUCE: Yes, each was addressed to
3 Nearburg.

4 Q. (By Mr. Bruce) Was the well first proposed last
5 summer and fall?

6 A. September 7th, actually.

7 Q. And have you had contact with Nearburg on behalf
8 of the interest owners regarding the well proposal?

9 A. Yes, we have.

10 Q. What has been the response to your proposal?

11 A. The response was they didn't want to participate
12 or farm out at the time, and they wanted to wait until
13 they were either pulled or if they were under JOA.

14 Q. And was a JOA proposed to Nearburg?

15 A. Yes.

16 Q. And so they were sent a copy of a JOA?

17 A. That's correct.

18 Q. On behalf of themselves and the other interest
19 owners?

20 A. That's correct.

21 Q. And, again, were all of these interest owners,
22 since they're going through Nearburg, they were all
23 locatable, were they not?

24 A. Yes, they were.

25 Q. There were no unlocatable owners?

1 A. That is correct.

2 Q. Or, I'm sorry, working interests?

3 A. Yes.

4 Q. And in your opinion has Cimarex made a good faith
5 effort to obtain the voluntary joinder of the interest
6 owners in the well?

7 A. Yes.

8 Q. Do you request that a maximum cost plus 200
9 hundred percent penalty be assessed?

10 A. Yes, we do.

11 Q. What is Exhibit 4?

12 A. Exhibit 4 is an AFE attached to the proposal for
13 this well. It's got a dry hole cost of \$2,015,550 and a
14 completed well cost of \$4,356,706.

15 Q. And is this cost in line with the cost other
16 horizontal wells drilled to this depth in this area in
17 Lea County?

18 A. Yes, that's correct.

19 Q. Did you ask that Cimarex Energy Company be
20 appointed operator of the well?

21 A. Yes.

22 Q. And what overhead rights did you request?

23 A. \$7,000 for drilling and \$700 for producing.

24 Q. And are those amounts equivalent to those
25 normally charged by Cimarex and other operators in this

1 area for wells of this depth?

2 A. Yes.

3 Q. Do you request that the overhead rates be
4 adjusted under the COPAS accounting procedure?

5 A. Yes, we do.

6 Q. And were the uncommitted interest owners given
7 notice of this application?

8 A. Yes.

9 Q. And is that reflected in Exhibit 5?

10 A. It is.

11 Q. Does Exhibit 6 accurately reflect all offset
12 operators' two-year proposed wells?

13 A. Yes, it does.

14 Q. And were those persons notified of the hearing?

15 A. Yes, they were.

16 Q. And was that reflected in Exhibit 7?

17 A. Yes.

18 Q. And did they all receive actual notice?

19 A. Yes, they did.

20 MR. BRUCE: Mr. Examiner, on Exhibit 7 the
21 letter to Nearburg Exploration Company, the postal
22 services online information reflects that it was
23 delivered over a month ago but I have not yet received a
24 green card back regarding that mailing.

25 EXAMINER BROOKS: To whom?

1 MR. BRUCE: To Nearburg Producing Company.

2 EXAMINER BROOKS: Well, they're one of your
3 clients, are they not?

4 MS. MUNDS-DRY: Yes.

5 EXAMINER BROOKS: Okay. So if there's any
6 failure of notice it has been waived.

7 Q. (By Mr. Bruce) Were Exhibits 1 through 7
8 prepared by you or under your supervision?

9 A. They were.

10 Q. And in your opinion was the granting of this
11 application in the interest of conservation and the
12 prevention of waste?

13 A. It is.

14 MR. BRUCE: Mr. Examiner, I move the
15 admission of Exhibits 1 through 7.

16 MS. MUNDS-DRY: No objection.

17 EXAMINER BROOKS: 1 through 7 are admitted.

18 MR. BRUCE: I pass the witness.

19 MS. MUNDS-DRY: No questions of Mr. Wallace.

20 EXAMINER BROOKS: Again, are you asking for
21 any shallower units here?

22 MR. BRUCE: No, sir.

23 EXAMINER BROOKS: Where is the ownership of
24 these to-be pooled parties located?

25 THE WITNESS: The east half of the southeast

1 quarter.

2 EXAMINER BROOKS: All of them?

3 THE WITNESS: Yes.

4 EXAMINER BROOKS: And each of them have
5 undivided interests that quarter quarter?

6 THE WITNESS: That's correct.

7 EXAMINER BROOKS: And the rest of the
8 interest is owned by Cimarex?

9 THE WITNESS: Cimarex, yes.

10 EXAMINER BROOKS: Thank you. No further
11 questions.

12 Mr. Jones?

13 EXAMINER JONES: No questions.

14 EXAMINER BROOKS: Okay. You may call your
15 next witness.

16 MR. BRUCE: I call Catalano back to the
17 stand.

18 LEE CATALANO

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. And, Mr. Catalano, what is Exhibit 8?

24 A. Exhibit 8 is a typed log of the Bone Spring
25 formation in this area showing the different intervals

1 within the Bone Spring. The target that we have for
2 this particular well is the third Bone Spring sand down
3 at 11,089 feet TBD.

4 MS. MUNDS-DRY: Mr. Bruce, do you have an
5 extra copy?

6 MR. BRUCE: Yes. Do you want one? I didn't
7 even hand them out.

8 MS. MUNDS-DRY: Thank you. Sorry for
9 interrupting.

10 Q. (By Mr. Bruce) Okay. Let's start from the top.
11 Go ahead, Mr. Catalano.

12 A. Exhibit 8 is the type log of the Bone Spring in
13 this area showing different markers within the Bone
14 Spring formation. The target that we will be drilling
15 for is in the third Bone Spring sand down at 11,089 feet
16 TBD.

17 Q. And this is different from the prior case, a
18 different sand?

19 A. Yes, it's deeper and a different sand. Correct.

20 Q. And what is Exhibit 9?

21 A. Exhibit 9 is a structure map. Again, this is on
22 the top of the Bone Spring line contrary of 100 feet.
23 Bone Spring producers or wells that produce from the
24 Bone Spring are shown by the green dots on the map. Our
25 location is shown there in the east half of the east

1 half of section 23. Structural dip is off to the west
2 southwest.

3 Q. The Bone Spring wells identified on this plat,
4 are they all vertical wells?

5 A. Those are all vertical wells.

6 Q. And by placing the well at your location you're a
7 little closer to well control, are you not?

8 A. That is correct.

9 Q. What is Exhibit 10?

10 A. That's an isopach map of the third Bone Spring
11 sand C sandstone, which is the target interval. The
12 contra interval here is 10 feet, and I use a 10 percent
13 density cutoff to determine pay within this formation
14 also.

15 Q. And based on your mapping would each of the
16 quarter quarter sections in this well contribute to
17 production?

18 A. Yes, they will.

19 Q. And also based on that mapping is each quarter
20 quarter section more or less equally contributed to
21 production?

22 A. Yes. I expect between 40 to 50 feet of pay
23 within each quarter quarter along the length of the
24 lateral based upon a well to the north and a well to the
25 south.

1 Q. And what is Exhibit 11?

2 A. That's the cross section. The well we're going
3 to drill is in between these two wells. The cross
4 section Exhibit 8A prime from north to south shows the
5 top of the third Bone Spring sand. The target third
6 Bone Spring C stand stone, and our horizontal target
7 there at 11,089 feet. And you can see it's a fairly
8 consistent sand that sits right on top of the wolf camp.

9 Q. And the Nearburg well in the southeast southeast
10 of this section is completed in a different zone, is it
11 not?

12 A. It was a shallower Bone Spring producer that's no
13 longer producing.

14 Q. So there wouldn't be any interference between
15 production of those two wells?

16 A. No.

17 Q. And finally, what is Exhibit 12?

18 A. Again, I'll have to borrow that from you. But
19 that's a direction plan similar to the one we just
20 looked at. The only difference is here are target end
21 of curve, TBD target is at 11,089 feet. Planned to
22 drill and complete it in a similar manner to the other
23 wells that we do in this area.

24 Q. Similar number of completion intervals?

25 A. Yes. We'll equally space our perf clusters along

1 the length of the lateral within each quarter quarter
2 section. They'll equally contribute to the well.

3 Q. And were Exhibits 8 through 11 prepared by you?

4 A. Yes.

5 Q. And Exhibit 12, the directional plan, was that
6 compiled from company business records?

7 A. Yes.

8 Q. In your opinion will the granting of this
9 application be in the interest of conservation and the
10 prevention of waste?

11 A. Yes, it will.

12 MR. BRUCE: Mr. Examiner, I move the
13 admission of Exhibits of 8 through 12.

14 MS. MUNDS-DRY: No objection.

15 EXAMINER BROOKS: 8 through 12?

16 MR. BRUCE: Yes, sir.

17 EXAMINER BROOKS: 8 through 12 are admitted.

18 MR. BRUCE: And I pass the witness.

19 MS. MUNDS-DRY: I have no questions.

20 EXAMINER BROOKS: And I have no questions.

21 Mr. Jones?

22 EXAMINER JONES: Why don't you target the
23 carbonate? The carbonate don't look good to you?

24 THE WITNESS: Well, actually it's good in
25 those wells off to the east but it's better suited for

1 vertical completion. It's not tight like the sands are.

2 EXAMINER JONES: Oh. But the sands in
3 between are like deep cleans?

4 THE WITNESS: Deep turbidites.

5 EXAMINER JONES: Deep turbidites, okay.

6 THE WITNESS: Yeah. Turbidite sands.

7 EXAMINER JONES: But it looks like it goes
8 right on down into that wolf camp.

9 THE WITNESS: It sits right on top of the
10 wolf camp sand.

11 EXAMINER JONES: And I don't see any
12 difference. It's kind of hard to.

13 THE WITNESS: Well, there's a change to more
14 of a lime, shale interval at the top of the wolf camp.

15 EXAMINER JONES: Okay. Thanks a lot.

16 EXAMINER BROOKS: Thank you.

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

19 EXAMINER BROOKS: Very good. Case number
20 14582 will be taken under advisement. If there's
21 nothing further, this docket number 1-11 will be
22 adjourned.

23 [Exhibits 1 - 12 admitted]

24 [Testimony concludes on case number 14582]

25 [Docket number 1-11 is adjourned at 2:50 PM.]

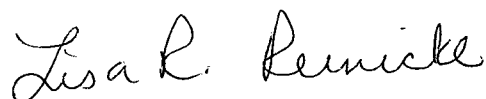
I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14582
checked by me on Jan 6, 2011
David [Signature]
Oil Conservation Division, Examiner

REPORTER'S CERTIFICATE

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District of New Mexico, 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 and was reduced to printed form under my direct supervision.

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 whatsoever in the final disposition of this case in any court.



Lisa R. Reinicke,
Provisional License P-405
License expires: 8/21/2011

Ex count: