

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:

CASE NO. 16294

Application of Cimarex Energy Company for a
non-standard oil spacing and proration unit
and compulsory pooling, Lea County, New Mexico

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

THURSDAY, JULY 26, 2018

SANTA FE, NEW MEXICO

This matter came on for hearing before the
New Mexico Oil Conservation Division, William B. Jones,
Examiner, and David Brooks, Legal Examiner, on Thursday,
July 26, 2018, 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 Therese Macfarlane
New Mexico CCR 122
PAUL BACA COURT REPORTERS
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Albuquerque, New Mexico 87102

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1 (Time noted: 2:03 p.m.)

2 MR. JONES: Okay. Let's call Case 16294
3 Application of Cimarex Energy Company for a non-standard
4 spacing and proration unit and compulsory pooling in Lea
5 County, New Mexico.

6 Call for appearances.

7 MR. DeBRINE: Good afternoon, Mr. Examiner.
8 Earl DeBrine from the Modrall Sperling firm for the
9 Applicant Cimarex Energy Company.

10 MR. JONES: Any other appearances?

11 MS. KESSLER: Jordan Kessler from the Santa Fe
12 office of Holland & Hart on behalf of MRC Delaware.

13 MR. JONES: Any other appearances?

14 (Note: No response.)

15 Does MRC Delaware Resources, LLC, have any
16 witnesses today?

17 MS. KESSLER: No witnesses.

18 MR. DeBRINE: We will have two witnesses, Mr.
19 Examiner.

20 MR. JONES: Two witnesses for Cimarex. Will the
21 witnesses please stand and the court reporter will swear
22 the witnesses:

23 (Whereupon the designated witnesses were
24 duly sworn.)

25 MR. DeBRINE: We would like to call Cody

1 Elliott.

2 CODY ELLIOTT,

3 having been duly sworn testified as follows:

4 DIRECT EXAMINATION

5 BY MR. DeBRINE:

6 Q. Would you state your name for the record.

7 A. Cody Elliott.

8 Q. Who do you work for, Mr. Elliott?

9 A. Cimarex Energy.

10 Q. What do you do for Cimarex?

11 A. I'm a landman.

12 Q. How long have you worked for them?

13 A. Ten years.

14 Q. What are your general responsibilities as a
15 landman?

16 A. Generally just preparing wells and getting them
17 ready to be drilled.

18 Q. Have you previously testified before the
19 Division?

20 A. Yes, sir.

21 Q. Were your credentials as a landman accepted as a
22 matter of record in that proceeding?

23 A. Yes, sir.

24 MR. DeBRINE: We would submit and ask that
25 Mr. Elliott be qualified as an expert in petroleum land

1 matters.

2 MR. JONES: He is qualified as an expert in
3 petroleum land matters.

4 Q. If you could turn to Exhibit 1 and explain what
5 Cimarex is seeking by its application in this case.

6 A. Yes. This is our application we filed for our
7 Mescalero Ridge 21 Federal 1H Well. We seek to pool the
8 east quarter of Section 21, 19 South, 34 East for a
9 horizontal non-standard proration unit and pool all
10 Uncommitted working interest owners in the proposed
11 proration unit.

12 MR. JONES: Did you say the east quarter?

13 THE WITNESS: East half/east half of the east
14 quarter.

15 Q. If you could turn to Exhibit 2. Where is the
16 prospect located, approximately?

17 A. This is a fairly large map of southwest Lea
18 County. On the west side you can see the county line
19 here, and on the east side is the Texas border.

20 Q. If you will turn to Exhibit 3, which is the
21 C-102 for the well. Could you explain to the examiner
22 what it represents.

23 A. Yeah. This is your C-102 acreage dedication
24 plat. As you can see it depicts the proration unit that
25 we have proposed, covering the east half/east half and it

1 shows the surface hole location and bottom hole location.

2 Q. Has the Division identified a pool code for this
3 well?

4 A. No, sir, because it's a wildcat Bone Spring
5 well.

6 Q. Will the well comply with the statewide rules in
7 terms of setbacks?

8 A. Yes, sir.

9 Q. Is Cimarex requesting that we create a
10 non-standard spacing unit for the well?

11 A. Yes.

12 Q. If you can turn to Exhibit 4, please, and
13 explain what that represents.

14 A. Yeah. This is our tract plat. On the bottom it
15 depicts Section 21. You can see the east half/east half.
16 It's just only one federal oil and gas lease. Then above
17 that are the owners we are seeking to pool. It's the XTO
18 and some of their different companies, and also Matador
19 Resources Company.

20 Below that you've got, underneath the
21 total, Magnum Hunter Production Inc., which is I think 50
22 percent interest in the tract, and the balance is the
23 other 50 percent.

24 Q. And Magnum Hunter, is that an affiliate of
25 Cimarex?

1 A. It is.

2 Q. If you could summarize for the examiner the
3 efforts that you undertook to try to seek voluntary
4 pooling before the application.

5 A. Yeah. We mailed letters to them with the
6 proposed JOA covering each half of the section, and
7 followed up with phone calls to my counterparts at Matador
8 and XTO.

9 Q. What is the current status of those discussions?

10 A. It appears that XTO intends to participate. I
11 haven't gotten a whole lot of feedback from Matador yet
12 but we will definitely keep calling them, and try to get
13 them on our JOAs as opposed to force pooling.

14 Q. And if the pooled working interest parties end
15 up signing a JOA, will you notify the Division so they can
16 be excepted from the terms of the Order?

17 A. Yes, sir.

18 Q. If you can turn to Exhibit 5. Is that the Well
19 Proposal letters that you sent out to the proposed working
20 interest owners?

21 A. Yes.

22 Q. Did it include the Authority For Expenditure?

23 A. Yes, sir.

24 Q. If you could take a look at that and describe
25 for the examiner what the well costs are.

1 A. Our estimated cost for drilling the well is
2 \$2,259,000, to complete it an estimated cost of
3 \$6,745,100, for a total well cost of \$8,965,600.

4 Q. Are these estimated costs consistent with the
5 cost of other horizontal wells drilled to this length and
6 depth in this area of New Mexico?

7 A. Yes, sir.

8 Q. Are you asking the Division to appoint Cimarex
9 as operator of the well?

10 A. Yes, sir.

11 Q. Do you have a recommendation as to the amounts
12 which should be paid for supervision and administrative
13 expenses?

14 A. Yes, sir. \$7,000 a month for drilling the well
15 and \$700 a month for producing the well.

16 Q. Are those amounts consistent with those charged
17 by other operators?

18 A. Yes.

19 Q. Do you request the Division allow the rates to
20 be adjusted periodically in accordance with COPAS
21 accounting procedures?

22 A. Yes, sir.

23 Q. Are you also requesting the Division impose a
24 maximum cost plus 200 percent risk charge for working
25 interest owners who do not consent with regard to the

1 well?

2 A. Yes, sir.

3 Q. If you could turn to Exhibit 6, which is my
4 Affidavit of Publication, did you notify the pooled
5 working interest owners with regard to the proposed
6 application?

7 A. Yes, sir.

8 Q. Did you also notify the offset owners?

9 A. Yes, sir.

10 Q. I notice there were a couple of cards that were
11 returned, James Stivason and Balog Family Trust. Are you
12 seeking to pool those parties or were those just offset?

13 A. They are just offset owners.

14 Q. What was the nature of the interest that they
15 held?

16 A. I believe it was a working interest.

17 Q. Was it an unleased mineral interest?

18 A. Uhm, I don't recall.

19 Q. Okay. Are you also seeking to pool overriding
20 royalty interest owners?

21 A. Yes, sir.

22 Q. And were the overrides notified of the
23 application?

24 A. We have not notified them at this time.

25 MR. DeBRINE: Mr. Examiner, we just recently

1 discovered there were some overrides out there, and so we
2 are asking the case be held open and we will provide
3 Notice to them and we'll come back, if necessary, for any
4 additional clean-up.

5 MR. BROOKS: That would require a continuance of
6 four weeks to give the 20 days notice.

7 MR. DeBRINE: Right. We will be returning. So
8 we will probably be back on September 6th.

9 Q. Do you have an opinion whether the granting of
10 the application is in the interest of conservation,
11 prevention of waste, and protection of correlative rights?

12 A. Yes, sir.

13 Q. Will it?

14 A. Yes, sir.

15 Q. Were Exhibits 1 through 6 prepared by you or
16 under your supervision?

17 A. Yes, sir.

18 MR. DeBRINE: We would ask the admission of
19 Exhibits 1 through 6.

20 MR. JONES: Exhibits 1 through 6 are admitted.

21 I'm sorry. Any objection?

22 MS. KESSLER: No objection.

23 MR. JONES: No objection.

24 MR. DeBRINE: Pass the witness.

25 MS. KESSLER: I do have one question for Mr.

1 Elliot.

2 THE WITNESS: Yes, ma'am.

3 CROSS-EXAMINATION

4 BY MS. KESSLER:

5 Q. I'm looking at the third page of Exhibit 6. No,
6 I'm looking at the fourth page of Exhibit 6.

7 A. It is the letter to working interest owners, and
8 it says that you're creating a non-standard 640-acre
9 spacing unit comprised of, and skipping down a few lines,
10 the east quarter.

11 It's the east half/east half, right?

12 A. Yes, ma'am. Should be 160.

13 MS. KESSLER: Just wanted to make sure.

14 Thank you.

15 CROSS-EXAMINATION

16 BY MR. JONES:

17 Q. So who is the main parties you're trying to
18 pool?

19 A. It would be both XTO and Matador.

20 Q. Oh, yeah, there they are.

21 So XTO and Matador, and also -- XTO has the
22 biggest one, looks like.

23 A. Right. Nadel and Gussman, they are on there.
24 The big three executed the JOAs.

25 Q. Okay. Is Magnum Hunter -- I know it's your

1 **company, but is it out of Dallas?**

2 A. There's a Magnum Hunter that's out of Dallas but
3 it's no relationship to Magnum Hunter Production.

4 **Q. That's interesting, because I dealt with one.**

5 A. It's Joe Brands (phonetic).

6 **Q. Okay. I know Williston years ago deals with**
7 **them.**

8 **So you're calling it all one tract?**

9 A. Yes, sir.

10 **Q. Just one commonly owned tract?**

11 A. Yes, sir.

12 **Q. And there was no talk of drilling more than one**
13 **mile. You'll just drill one mile?**

14 A. Yeah. There is a Mescalero Ridge unit south of
15 it that would prevent us from going to the south.

16 **Q. I saw a bunch of wells, Mescalero-named wells,**
17 **but this one is not permitted yet?**

18 A. No, it's permitted.

19 **Q. I couldn't find the API number.**

20 A. Let's --

21 **Q. I couldn't find it in our system yet. Could be**
22 **it just hasn't been scanned in.**

23 A. We recently got it, I believe.

24 **Q. Okay. From the owner?**

25 A. Yes, sir.

1 Q. Do you know that API number yet?

2 A. I'm looking at it on the C-102.

3 Q. Okay.

4 A. That's Exhibit 3.

5 Q. Say again what it is.

6 A. Exhibit 3. Do you see it on --

7 Q. Yeah, but mine's...

8 MR. DeBRINE It's incomplete, because it hasn't
9 been filled in.

10 THE WITNESS: Okay. My apologies. You're
11 right. Yeah. There's a chance we might not have it,
12 then. I thought I did check that before I came up here,
13 but...

14 MR. JONES: No problem.

15 Mr. Brooks?

16 CROSS-EXAMINATION

17 BY MR. BROOKS:

18 Q. You think you've now identified all the
19 overriding owners?

20 A. Yes, sir.

21 Q. I'm not sure -- I think a question was raised
22 about whether you needed 30 days versus 20 days, and I'm
23 not sure of the answer to that the more I think about it.

24 You don't have to make a proposal to the
25 overriding owners because they don't have a right to

1 participate but there's nothing in the Division rules to
2 provide when you can file an amended application. I
3 assume that's going to be necessary, an amended
4 application, since you did not identify them. Is that
5 what you were thinking?

6 MR. DeBRINE: We have sufficient time to proceed
7 in a way that will --

8 MR. BROOKS: It's just up to you, then?

9 MR. DeBRINE: Because we've got two cases set on
10 September 6th, so we have a sufficient amount of time to
11 file an amended application. So we will be back.

12 MR. BROOKS: Okay. Continue to September 6th.

13 No more questions.

14 MR. JONES: Just one more.

15 FURTHER CROSS-EXAMINATION

16 BY MR. JONES:

17 **Q. What was your conversations with Matador**
18 **Resources, MRC?**

19 A. Matador, they indicated they were pushing the
20 paperwork through their various teams and would hopefully
21 have an answer for me soon. XTO said they were interested
22 in participating.

23 So that's where we stand now.

24 **Q. Okay. So it's possible everybody will sign up.**

25 A. Yes, sir, that's the hope.

1 Q. You still will need to do the override, though,
2 I guess, no matter what.

3 A. Yep.

4 MR. JONES: Okay. Thanks.

5 MR. DeBRINE: I'll call Lauren Copely.

6 LAUREN COPELY,
7 having been previously sworn, testified as follows:

8 DIRECT EXAMINATION

9 BY MR. DeBRINE:

10 Q. Please state your name.

11 A. Lauren Copley.

12 Q. Who do you work for, Ms. Copley?

13 A. Cimarex Energy Company.

14 Q. What is your responsibility and position with
15 Cimarex?

16 A. I'm an exploration geologist for Cimarex, and
17 I'm responsible for all formations is Southeastern New
18 Mexico.

19 Q. And how long have you been working for them?

20 A. Just over three years.

21 Q. Have you ever previously testified before the
22 New Mexico Oil Conservation Division?

23 A. Yes, I have.

24 Q. In those proceedings were your credentials
25 accepted as a matter of record as a geologist?

1 A. Yes, they were.

2 MR. DeBRINE: We would ask the admission of
3 Ms. Copley as an expert in petroleum geology.

4 MR. JONES: Objections?

5 (Note: No response.)

6 Where did you go to school?

7 THE WITNESS: I went to undergrad at Trinity in
8 San Antonio and graduate school at Austin.

9 MR. JONES: Well, should she be qualified?

10 MR. BROOKS: That's --

11 MR. JONES: I guess.

12 THE WITNESS: Does that get me in?

13 MR. JONES: She is qualified.

14 **Q. (BY MR. DeBRINE) Are you familiar with the**
15 **application filed by Cimarex in this case?**

16 A. Yes, I am.

17 **Q. Are you also familiar with the status of the**
18 **lands that are the subject of the application?**

19 A. Yes, I am.

20 **Q. Are you familiar with the drilling plans for the**
21 **well?**

22 A. Yes, I am.

23 **Q. Have you conducted geological studies of the**
24 **area embraced in the proposed unit we are asking the**
25 **Division permission for?**

1 A. Yes, I have.

2 **Q. What is the target interval?**

3 A. It's the Third Bone Spring Sand.

4 **Q. If you could turn to Exhibit 7 and tell the**
5 **examiner what this document represents.**

6 A. This is a structure map of the base of the Third
7 Bone Spring Sand. It's a subsurface TVD. The location of
8 the well in question is the purple stick located there;
9 the surface hole is shown with the circle.

10 Uhm, as I said, this is subsurface TVD of
11 the base of the Third Sand. It's using 100-foot contours.
12 All of the numbers on the map are the data points, and it
13 is showing that the structure is decreasing or getting
14 deeper as you move to the south.

15 Then the black line is indicating the cross
16 section I will be showing you next.

17 **Q. Does it indicate that the structure is fairly**
18 **continuous throughout the proposed unit?**

19 A. Yes, it does.

20 **Q. Did you identify anything structurally that**
21 **would be an impediment to drilling a horizontal well?**

22 A. No.

23 **Q. If you could turn to Exhibit 8 and walk the**
24 **examiner through that exhibit.**

25 A. This exhibit is a cross section of the Third

1 Bone Spring Sand. It is a stratigraphic cross section and
2 it is hung on that base of the Third Sand.

3 The depths are shown on the end where they
4 are marked by 100 feet.

5 And the red line shows the top of the Third
6 Bone Spring Sand and the blue line shows the base of the
7 Third Bone Spring Sand.

8 On each log I have shown the gamma ray on
9 the left, neutron density in the middle, resistivity on
10 the right.

11 **Q. Are the three wells you selected to include a**
12 **cross section representative of the Bone Spring Wells**
13 **described in this area?**

14 A. Yes, they are.

15 **Q. If you could please turn to the next exhibit,**
16 **Exhibit 9, and explain to the examiner what we are seeing**
17 **here.**

18 A. This is a Net Pay Map of the Third Bone Spring
19 Sand. It's the exact same location that I showed you on
20 the map before. Again, the well that we're talking about
21 is located with the purple stick. This is a net pay map
22 of the Third Bone Spring Sand and it's showing that our
23 well is located in an area we believe will be productive
24 along the length of the lateral.

25 **Q. As a result of your geological study did you**

1 determine if there were any impediments to drilling a
2 horizontal well?

3 A. There are not.

4 Q. If you could turn to the east quarter/quarter
5 section, is this comprising wells productive in the Bone
6 Spring?

7 A. Definitely.

8 Q. If you could please turn to Exhibit 10, which is
9 a wellbore diagram, and just kind walk us through.

10 A. This is a wellbore diagram for the Mescalero
11 Ridge 1H. On the left it shows a cross section view of
12 the wellbore and on the right it shows a map view of the
13 wellbore.

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

17 A. Yes, it would.

18 Q. Were Exhibits 7 through 10 prepared by you or
19 compiled under your direction and supervision?

20 A. Yes, they were.

21 MR. DeBRINE: We would request the admission of
22 Exhibits 7 through 10.

23 MS. KESSLER: No objection.

24 MR. JONES: Exhibits 7 through 10 are admitted.

25 MR. DeBRINE: Pass the witness.

1 MS. KESSLER: No questions.

2 MR. JONES: I like this map you use, the cross
3 section you use.

4 CROSS-EXAMINATION

5 BY MR. JONES:

6 Q. I guess after that point they put it in unit
7 letter B, the surface location, was there --

8 A. I'm sorry, I am not looking -- I mean I'm not
9 seeing what you're referring to.

10 Q. The surface location that was over to --

11 A. Yes, that was due to BLM. It was due to surface
12 issues. There are sand dunes, there are burrowing owls,
13 there are lizards, as well as chickens.

14 Q. Oh, wow. You got the whole zoo.

15 A. It's got the trifecta or whatever. All of them.

16 MR. BROOKS: Dangerous area.

17 MR. JONES: But then they've got all these wells
18 out there, too.

19 THE WITNESS: Right. Right. So we have to be
20 very careful where we...

21 Q. So as an exploration geologist, where is the
22 best place to explore in Southeast New Mexico?

23 A. All of it. It's all prospective.

24 Q. Okay. You've got a net -- your -- did you do
25 your own log analysis of this stuff?

1 A. Yes, sir.

2 Q. Did you -- you picked some pay criteria, and
3 you've got a pay track picked on these three logs.

4 Can you talk about that, what...

5 A. Yes. We did use a cut-off of over 90 percent
6 density porosity for the sand.

7 Q. Oh, wow. You've got pretty good porosity.

8 A. Yes.

9 Q. How much of that would be effective porosity, do
10 you think?

11 A. A large amount of it.

12 Q. Okay.

13 A. It's mostly sand. It is silty sand in some
14 areas. So that does preclude some of the porosity, but
15 generally where we do see porosity, it is effective
16 porosity.

17 Q. Do you have any bores that you can cross plot
18 with the logs' porosity?

19 A. Yes.

20 Q. Does it make a pretty good line, a nice line?

21 A. Yes.

22 Q. And this is a big, thick interval. Where was
23 your target inside here? Was it on the bottom?

24 A. Our target is the basal part of the section so
25 generally the basal...

1 Q. Basal Third Spring.

2 A. 100 feet is generally the target.

3 Q. Okay.

4 A. 100, 150 feet is the typical target.

5 Q. Okay. Do you talk to Paul Coutts (phonetic), our
6 geologist in Hobbs, anything about the pools out here,
7 or...

8 A. No, I don't get to go there very often. It's
9 more our field people.

10 Q. Okay. What about did you talk to the Matador or
11 the XTO geologists?

12 A. Not on this specific well.

13 Q. But you talk in a -- you all get together and
14 talk about prospects out here a little bit?

15 A. Generally when we propose operators I usually
16 get a call from their geologist.

17 Q. Okay.

18 A. And so we are communicating either through land,
19 geology, or floor engineering.

20 MR. JONES: Okay. Mr. Brooks?

21 MR. BROOKS: No more questions.

22 MR. DeBRINE: That concludes our presentation.

23 MR. JONES: Thank you.

24 Okay. Case No. 16294 has been heard but
25 it's continued till September 6th. Thank you for coming.

1 MR. DeBRINE: Thank you.
2 (Time noted: 2:25 p.m.)
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1 STATE OF NEW MEXICO)
2) SS
3 COUNTY OF TAOS)
4

5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico Reporter
7 CCR No. 122, DO HEREBY CERTIFY that on Thursday, July 26,
8 2018, the proceedings in the above-captioned matter were
9 taken before me; that I did report in stenographic
10 shorthand the proceedings set forth herein, and the
11 foregoing pages are a true and correct transcription to
12 the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by
14 nor related to nor contracted with (unless excepted by the
15 rules) any of the parties or attorneys in this case, and
16 that I have no interest whatsoever in the final
17 disposition of this case in any court.

18

19

20 _____
21 MARY THERESE MACFARLANE, CCR
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