

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 CIMAREX ENERGY COMPANY CASE NO. 16437
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 4, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 4, 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.

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APPEARANCES

FOR APPLICANT CIMAREX ENERGY COMPANY:

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1 (3:47 p.m.)

2 EXAMINER McMILLAN: Call the hearing back
3 to order.

4 Let's go ahead and call application of
5 Cimarex Energy Company for compulsory pooling, Lea
6 County, New Mexico.

7 Call for appearances.

8 MS. BENNETT: Deana Bennett on behalf of
9 the Applicant.

10 EXAMINER McMILLAN: Any other appearances?
11 Please proceed.

12 MS. BENNETT: Thank you.

13 Good afternoon. Again, my name is Deana
14 Bennett, and I'm here on behalf of the Applicant,
15 Cimarex Energy Company. I will be presenting this case
16 by affidavit. I have given you a packet that has three
17 affidavits in it, the affidavit of the landman, the
18 affidavit of the geologist and my notice affidavit. And
19 each affidavit has exhibits behind Tabs A, B, C and D,
20 respectively. I will ask to move all the exhibits for
21 admission into the record once I'm done with the entire
22 package.

23 The first affidavit I'd like to present is
24 that of Riley Morris, a petroleum landman for Cimarex.
25 Mr. Morris has not previously testified before the

1 Division and has not been accepted as an expert witness,
2 and so I'd like to briefly go over his credentials. He
3 attended Texas Tech University where he received a
4 Bachelor of Business Administration with a focus in
5 energy commerce. He graduated in the spring of 2010.
6 He has worked as a landman since 2010. He has worked
7 for Devon Energy, Shell and Anadarko. He worked for
8 Anadarko for four-and-a-half years before joining
9 Cimarex. He is a member of the American Association of
10 Professional Landmen and the PBLA, the Permian Basin
11 Landmen's Association.

12 With that, I'd like to tender Mr. Morris as
13 an expert petroleum landman.

14 EXAMINER McMILLAN: So qualified.

15 MS. BENNETT: Thank you.

16 Mr. Morris has attached several items to
17 his affidavit, which I'll go through with you-all as we
18 go through his affidavit.

19 First, I should note that the purpose of
20 this application -- of Cimarex's application is to force
21 pool working interest owners into the horizontal spacing
22 unit described below in the well to be drilled in the
23 unit. No opposition is expected, and none has been
24 advanced.

25 Cimarex seeks an order pooling all of the

1 mineral interests in the Bone Spring Formation
2 underlying the west half of the east half of Section 7,
3 Township 20 South, Range 35 East, Lea County, New
4 Mexico, and this unit will be dedicated to the Lea
5 Federal Com 29H well.

6 A plat outlining the unit being pooled is
7 attached as Exhibit A. This exhibit also identifies the
8 surface-hole location within the tract and identifies
9 the owners -- the unleased mineral owners and their
10 percentages.

11 The parties being pooled last known
12 addresses are included in my affidavit that we'll be
13 discussing momentarily.

14 The interest ownership is the same for both
15 the Wolfcamp and the Bone Spring Formation in this area.

16 Mr. Morris testified that he conducted a
17 diligent search of the public records in the county
18 where the well is located and conducted computer
19 searches to locate contact information for parties
20 entitled to notice and mailed all parties well
21 proposals, including an AFE and a JOA. In his opinion,
22 Cimarex made a good-faith effort to contact working
23 interest owners and obtain voluntary joinder of the
24 working interest owners.

25 There are no depth severances within the

1 Bone Spring Formation.

2 Attached as Exhibit B is a proposed C-102
3 for the well. The well will develop a wildcat Bone
4 Spring pool, which is an oil pool, and it's Pool Code
5 97983.

6 And to address Hearing Examiner McMillan's
7 email to me earlier this week about the discrepancy
8 between what's in the files -- OCD files and the
9 application, Cimarex is contacting Hobbs to correct the
10 discrepancy.

11 The C-102 also shows the surface location
12 and the bottom-hole location for the proposed well. And
13 the well will have a TVD of approximately 11,060 feet.
14 The producing interval for the well will be orthodox and
15 will comply with the Division setback requirements.

16 Exhibits C and D attached are the sample
17 proposal letter and the AFE that Cimarex sent out. The
18 AFE contains estimated expenditures, and it's
19 Mr. Morris' opinion that the estimate cost of the wells
20 set forth in the AFE is fair and reasonable and
21 comparable to the cost of other wells being drilled of
22 similar depths and lengths -- length in this area of
23 New Mexico.

24 Cimarex requests overhead and
25 administrative rates of 7,000 a month for drilling a

1 well and 700 a month for a producing well. And in
2 Mr. Morris' opinion, these rates are fair and comparable
3 to rates charged by other operators for wells of this
4 type in this area of New Mexico. And Cimarex requests
5 that these rates be adjusted periodically as provided in
6 the COPAS accounting procedure. Cimarex also requests
7 the maximum cost, plus 200 percent risk charge be
8 assessed against nonconsenting working owners and that
9 it be designated operator of the well.

10 I would also note that Cimarex respectfully
11 requests an expedited order because the spud date for
12 this well is currently set for December 1st, 2018.

13 Mr. Morris notes that the affidavit -- I'm
14 sorry -- the attachments to this affidavit were prepared
15 by him or compiled from company business records and
16 that the information included is correct to the best of
17 his belief, and he testifies that the granting of this
18 application is in the interest of conservation and the
19 prevention of waste.

20 Any questions about Mr. Morris' affidavit
21 or his exhibits attached to his affidavit?

22 EXAMINER BROOKS: No. Oh, well, yeah. I
23 did have one question. Where he lists the interests to
24 be pooled on Exhibit A --

25 MS. BENNETT: Yes, sir.

1 EXAMINER BROOKS: -- does Cimarex own the
2 rest of the 99. -- no. Wait. This is net acres. This
3 is done on net acres, not percent. Does Cimarex own all
4 the rest of it?

5 MS. BENNETT: No. I have a list here that
6 I received from the landman yesterday showing some of
7 the -- showing the other owners, and there are 12 in
8 addition to Cimarex.

9 EXAMINER BROOKS: And they're all
10 committed?

11 MS. BENNETT: They are.

12 EXAMINER BROOKS: Okay. Thank you.

13 EXAMINER McMILLAN: And what about the
14 Lowes? Did you have an address on them?

15 MS. BENNETT: We did. And I spoke with the
16 landman about the Lowes for the other case, the earlier
17 case.

18 EXAMINER BROOKS: Yeah, the case before.

19 EXAMINER McMILLAN: Yeah.

20 MS. BENNETT: They were in that case. But
21 in this case, oddly enough, there was someone that
22 signed for the certified letter at the same address
23 Cimarex has been sending it to all along, the original
24 address that we sent it to. So I am not entirely clear
25 why it was not signed for in the earlier case, the 30H

1 well case. But in this case, I do have a signature. I
2 looked for that specifically, to see if we have a
3 signature, and we do have a signature for our letter
4 that was sent out.

5 EXAMINER BROOKS: You know, of course, the
6 post office doesn't do anything to verify that the
7 person who signs for it has authority.

8 (Laughter.)

9 MS. BENNETT: Right. So we can only do
10 what we can do, right?

11 EXAMINER BROOKS: Well, that's some
12 evidence, I guess, that it's a correct address. And if
13 you sent it to a correct address, then they don't have
14 to --

15 MS. BENNETT: But I did also -- just to
16 circle back to this point, I spoke with the landman
17 about the address that we found on the Texas Secretary
18 of State website, and he informed me, which I passed
19 along to Mr. Brooks and yourself, that they have sent
20 letters to that address as well, and they have received
21 no response even after sending letters to that other
22 address as well.

23 Any other questions about Mr. Morris'
24 affidavit or exhibits?

25 EXAMINER BROOKS: No, not from me.

1 MS. BENNETT: Great.

2 Then we'll turn to Tab 2, which is the
3 exhibit prepared by -- I'm sorry -- the affidavit
4 prepared by the geologist. The geologist is Staci
5 Mueller. And although Staci -- excuse me -- although
6 Ms. Mueller has not presented before the Division in
7 person, I did present her testimony by affidavit in the
8 Lea Fed Com 30H well case, and the Division accepted her
9 testimony there. So I'd ask that she be accepted here
10 again.

11 EXAMINER McMILLAN: So qualified.

12 MS. BENNETT: Thank you.

13 Again, she is a petroleum geologist for
14 Cimarex Energy Company, and her work for Cimarex
15 involves Lea County. And she is familiar with the
16 geological matters involved in this case, including the
17 Bone Spring Formation. She provided three exhibits.

18 Exhibit A is a structure map on the base of
19 the 3rd Bone Spring Sand. Exhibit A identifies the
20 proposed well in the purple-dashed box with the lateral
21 by a purple line. It also shows 3rd Bone producers in
22 the area, and it shows a cross section from A to A
23 prime. And she notes that the structure map shows that
24 the structure dips down to the southeast.

25 Exhibit B is the 3rd Bone Spring Sand cross

1 section. It's a stratigraphic cross section hung on the
2 base of the 3rd Bone Spring Sand. And the target zone
3 for the well is the basal 3rd Bone Spring Sand, and
4 that's identified by the red line traversing the cross
5 section, as well as the green arrow identifying target
6 zones. She notes that the zone is continuous across the
7 well, and she also noted that the well logs on the cross
8 section give a representative sample of the 3rd Bone
9 Spring Sand Formation in the area.

10 Exhibit C is a 3rd Bone Spring Sand net pay
11 map. And, again, this shows the proposed unit
12 identified by the purple-dashed box and the lateral by
13 the purple line. She notes, based on her review of this
14 map, that the 3rd Bone Spring Sand is uniform across the
15 proposed well unit. She concludes from these maps that
16 the unit is justified from a geologic standpoint, that
17 there are no structural impediments or faulting that
18 will interfere with horizontal development, and that
19 each quarter-quarter section in the unit will contribute
20 more or less equally to production. She also noted that
21 the preferred well orientation in this area is
22 north-south, and that is because of the maximum
23 horizontal stress direction.

24 Any questions about her affidavit or her
25 exhibits?

1 EXAMINER McMILLAN: No.

2 MS. BENNETT: I did ask Staci about her
3 choice of wells for the cross section, given that
4 they're a little bit aways from the proposed unit, and
5 she noted that they are the closest wells available that
6 contain logs through the 3rd Bone Spring Sand and that
7 the target zone is clearly visible on these wells, with
8 lower gamma ray, low resistivity and the convergence of
9 neutron porosity and dentistry porosity.

10 So the last exhibit is my affidavit,
11 Exhibit 3. And Exhibit 3 contains an attachment,
12 Attachment A, which is the names and addresses of the
13 interest owners that we are seeking to pool. I should
14 note that there are no overriding royalty interest
15 owners.

16 EXAMINER BROOKS: I was going to ask you
17 that.

18 MS. BENNETT: Yeah. There are zero.

19 The next page of Exhibit A is our certified
20 mail report that shows all of the letters were
21 delivered. And then to confirm delivery, I did print
22 the signature pages of all four of the certified
23 letters.

24 EXAMINER BROOKS: Okay.

25 MS. BENNETT: I would move the admission of

1 Exhibits 1 through 3 and the attachments at this time.

2 EXAMINER McMILLAN: Exhibits 1 through 3
3 and attachments may now be accepted as part of the
4 record.

5 (Cimarex Energy Company Exhibit Numbers 1
6 through 3 are offered and admitted into
7 evidence.)

8 MS. BENNETT: Thank you.

9 I would also ask that this case be taken
10 under advisement and that an expedited order be entered.

11 EXAMINER McMILLAN: Case 16379 will be
12 taken under advisement.

13 Thank you.

14 (Case Number 16437 concludes, 4:00 p.m.)

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MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters