

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. 20590
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 11, 2019

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, July 11, 2019, 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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1 (11:24 a.m.)

2 EXAMINER JONES: Let's call Case 20590,
3 application of Cimarex Energy Company for compulsory
4 pooling in Eddy County, New Mexico.

5 Call for appearances.

6 MR. HOUGH: Lance Hough for Cimarex Energy
7 Company.

8 MR. RANKIN: Adam Rankin on behalf of OXY
9 USA, Incorporated.

10 EXAMINER JONES: So we've got Cimarex, and
11 we've got OXY.

12 Any other appearances?

13 So you're Lance Hough.

14 MR. HOUGH: Yes. It's Hough, but that will
15 work, too.

16 EXAMINER JONES: It's nice to meet you.

17 MR. HOUGH: I will be presenting this case
18 by affidavit.

19 EXAMINER JONES: Is there any objection to
20 presentation by affidavit?

21 MR. RANKIN: No objection.

22 MR. HOUGH: We'll begin with looking at the
23 landman's portion. So in your packet there, you'll see
24 under Tab A is the affidavit of Caitlin Pierce, and
25 you'll see there that Ms. Pierce provides that she has

1 previously testified before the Division and has been
2 qualified as an expert in petroleum land matters and her
3 credentials were accepted as a matter of record by the
4 conviction.

5 She provides that she's familiar with the
6 application filed in this case and the land matters
7 involved, and she provides that the case involves a
8 request for an order from the Division for compulsory
9 pooling of interest owners who have refused to
10 voluntarily pool their interest for the proposed
11 Wolfcamp horizontal spacing unit, which I'll describe
12 below, and the wells to be drilled in the horizontal
13 spacing unit.

14 And in the application itself, Cimarex
15 seeks an order from the Division pooling all uncommitted
16 mineral interests in a 640-acre Wolfcamp horizontal
17 Spacing Unit, which is underlying the west half of
18 Section 34 and the west half of Section 3. And it's in
19 Township 26 South, Range 26 East, Eddy County, New
20 Mexico.

21 EXAMINER JONES: And 25 South, 26 East
22 for --

23 MR. HOUGH: I have 26 here. You're
24 seeing -- where are you looking for 25?

25 EXAMINER JONES: It's Section 34 and

1 Section 3, so it's got to be two separate townships.

2 MR. HOUGH: Right. I'll note that. Hope
3 it's correct in the application.

4 EXAMINER JONES: It is.

5 MR. HOUGH: Okay. Okay. So yeah. Then on
6 the two different townships, just to clarify for the
7 record, Township 25 and 26 to the south, spacing unit.
8 And this spacing unit will be dedicated to the Hayduke
9 34-3 Federal Com 1H, 2H, 3H, 4H, 5H, 6H and 7H wells, to
10 be horizontally drilled. And that application is
11 attached under Tab 1, labeled A1, and it does have the
12 corrected townships there, as you stated.

13 Turning to the next page, this here
14 provides an application. Cimarex has made a good-faith
15 effort to obtain voluntary joinder of the working
16 interest owners in this proposed well. She identified
17 the working interests and overriding royalty interest
18 owners from the title opinion. And then to locate the
19 owners, she did a diligent search of the public records
20 in the county where the wells are to be located and
21 phone directory and computer Internet searches to locate
22 the contact information, as well as mailed all working
23 interest owners well proposals. These included an
24 Authorization For Expenditure and form of operating
25 agreement to anyone who requested one.

1 She also provides here that no opposition
2 is expected. Prior to filing the applications, Cimarex
3 contacted the interest owners being pooled regarding
4 this proposed well and the -- has provided that the
5 interest owners did not voluntarily commit their
6 interest to the well. She further provides that Cimarex
7 provided all the working interest owners and unleased
8 mineral interest owners, as well the overriding royalty
9 interest owners notice to the application with the
10 exception of one potential overriding royalty. And --
11 and then Cimarex also published notice of the hearing in
12 the newspaper of general circulation in Eddy County.

13 And just in the next paragraph here, just
14 noting this one individual potential overriding royalty
15 interest was recently discovered. And so that was after
16 prior notification publication was sent out. So since
17 then, notice of the -- or notice to that potential
18 override has been -- has been mailed, and I'll cover
19 that again later on in Exhibit C.

20 Moving forward, she provides here that
21 again Cimarex plans to drill these wells, 1H through 7H,
22 to a depth sufficient to test the Wolfcamp Formation in
23 a laterally and in a southerly direction in the
24 formation, and she provides in her affidavit the details
25 of each one of these wells. And I'll refrain from going

1 through them unless the hearing examiners would like me
2 to do so, but she provides the surface-hole and
3 bottom-hole locations and well depth for each individual
4 well.

5 She provides that the well will develop the
6 Purple Sage; Wolfcamp Gas Pool, with a pool ID of 98220.
7 And she provides further that the producing intervals
8 for the wells will be orthodox. It will comply with the
9 Division's setback requirements in Order Number R-14262,
10 first and last take points, with them being no closer
11 than 330 feet from the spacing unit boundary and the
12 lateral will be no closer than 330 feet from the spacing
13 unit boundary.

14 Under the next tab is Tab 2. She includes
15 a lease tract map that outlines the unit to be pooled,
16 as well as the working interest owners being pooled.
17 And the percentage of their interests is included in
18 this exhibit, and Ms. Pierce also provided -- working
19 interest in the proposed unit has a right to drill the
20 well thereon. She further provides there is no depth
21 severance -- or no depth severances within the proposed
22 Wolfcamp spacing unit.

23 And she provides -- under Tab 3, Exhibit
24 A3, this is a sample well-proposal letter. It's what
25 she sent out to all the interest owners and their

1 voluntary participation in this well.

2 And attached behind Tab Number 4 is the
3 Authorizations for Expenditure for these proposed wells,
4 and these are included with proposal letters. And all
5 the AFEs are included in here, but within this, I guess,
6 there are backup AFEs that provide the estimated costs,
7 with the 1H well cost being 10,108,340. And then
8 Numbers 2, 3 and 4 are 9,946,340, and then the last
9 three, Numbers 5H, 6H, 7H, are 9,960,340. And she
10 provides that the estimated costs of the wells are fair
11 and reasonable, and they're comparable to the cost of
12 other wells of similar depth, length and completion
13 method being drilled in this area of New Mexico.

14 Ms. Pierce also provides that Cimarex
15 requests overhead and administrative rates of 7,000 a
16 month during drilling and 700 a month while producing,
17 and she provides these rates are fairly and comparable
18 to other wells of this type in this area of southeastern
19 New Mexico and consistent with the rates awarded by the
20 Division in recent compulsory pooling orders.

21 Cimarex also requests these rates be
22 adjusted periodically as provided in the COPAS
23 accounting procedure. Further, she provides that
24 Cimarex requests that it be allowed to recover its cost
25 for drilling, completing and equipping each of these

1 wells and that a 200 percent risk charge be assessed
2 against the nonconsenting pooled working interest
3 owners. And she provides that Cimarex be designated the
4 operator of the wells and be allowed a period of one
5 year between when the wells are drilled and when the
6 first well is completed under the order.

7 She also provides that the parties Cimarex
8 is seeking an order were notified, including this
9 follow-up notice, to that overriding royalty interest
10 and that Cimarex -- well, Cimarex requests the
11 overriding royalty interest owners be pooled.

12 With that, based upon her knowledge of the
13 land matters involved in this case, her education,
14 training and experience, it's her expert opinion that
15 the granting of Cimarex's application in these cases in
16 the interest of conservation and the prevention of
17 waste, and her attached exhibits were prepared by her or
18 compiled from her business records.

19 With that, I can take any questions on this
20 portion.

21 EXAMINER JONES: Well, have they done any
22 on-site work yet; do you know?

23 MR. HOUGH: I think just staking. I don't
24 think there is much --

25 EXAMINER JONES: So they have staked?

1 MR. HOUGH: I think that just happened.

2 Yes.

3 EXAMINER JONES: Just happened.

4 MR. HOUGH: Yeah.

5 EXAMINER JONES: Can you send me a proposed
6 C-102 for these wells? Is she still -- still wanting to
7 use all the wells as proposed wells?

8 MR. HOUGH: Yes. And that's -- you know,
9 unfortunately, we don't have the C-102 right now, but it
10 is something we can absolutely supplement with as soon
11 as they become available. I mean, I did request them,
12 but they weren't available. But, you know, as soon as
13 they're available, I can supplement.

14 EXAMINER JONES: Okay. Can you please do
15 that?

16 And let me know also, when you do that, if
17 they match the -- how close they are to the proposal
18 letters -- the footage locations in the proposal
19 letters.

20 MR. HOUGH: Okay. Okay.

21 EXAMINER JONES: Yeah. That's it.

22 MR. HOUGH: Okay.

23 EXAMINER JONES: Mr. Brooks, do you have
24 any questions?

25 EXAMINER BROOKS: I have no questions.

1 EXAMINER JONES: No concerns?

2 EXAMINER BROOKS: No. I didn't hear
3 anything that caused any concern. There might be
4 something if I read the affidavit.

5 EXAMINER JONES: There is one override.

6 MR. HOUGH: Right. And I'll provide here
7 in Exhibit C that this override -- we did send out
8 notice just as of Monday, on the 8th. We sent notice.
9 We recently discovered this I think just on Friday or
10 Saturday, so we sent that out. And, I mean, just to be
11 up front, you know, I'm going to request that the case
12 be left open just for the notice purposes so we have
13 that opportunity.

14 EXAMINER BROOKS: Okay. Does anybody have
15 an objection to limiting the continuance to notice
16 purposes?

17 MR. RANKIN: No objections.

18 EXAMINER BROOKS: Thank you.

19 EXAMINER JONES: Okay. And no objection to
20 admitting --

21 Do you move to admit?

22 MR. HOUGH: Yeah. I'll move to admit
23 Exhibit A and A1 through 4.

24 MR. RANKIN: No objections.

25 EXAMINER JONES: Not B?

1 MR. HOUGH: B, well, I need to go through
2 that with you right now.

3 EXAMINER JONES: Oh, that's for another
4 case?

5 MR. HOUGH: It's the geology for the same
6 case.

7 EXAMINER JONES: Okay. Exhibit A is
8 admitted.

9 (Cimarex Energy Company Exhibit A is
10 offered and admitted into evidence.)

11 (Examiner Brooks exits the room, 11:35
12 a.m.)

13 MR. HOUGH: So for Exhibit B, as you had
14 mentioned, this is the affidavit of geologist involved.
15 Harry [sic] Hastings provides here that he's been
16 qualified by the Division as an expert petroleum
17 geologist and had his credentials accepted as a matter
18 of record. He provides that he conducted a geological
19 study encompassing this unit -- or the land encompassing
20 this unit and that he's familiar with the geological
21 matters involved in this case. Again, he's provided
22 reference that this is for these Hayduke wells, 1H
23 through 7H. And he provides that as part of his study,
24 he prepared the geological exhibits attached to his
25 affidavit, so we'll go through these.

1 Under Tab Number 1 behind his affidavit,
2 you'll see what is labeled B1, and this is -- he's
3 provided a deep structure map on the top of the Wolfcamp
4 Formation. And this just identifies the sections to be
5 developed with a red-shaded rectangle, and he further
6 provides the structure dips slightly to the
7 east-northeast.

8 And then if you go to the next tab, Exhibit
9 B2, he's provided what he has described as a wine rack
10 diagram. And I'll direct your attention to the purple
11 portion. You know, for the sake of this particular
12 case, that that's the only portion of this diagram that
13 is relevant. And you'll see there on the purple shade,
14 he represents the Wolfcamp Formation, and the proposed
15 wells are displayed by -- I'll call them green circles
16 with the well names. And you'll see the 1 through 4
17 wells are in the Upper Wolfcamp, and 5, 6 and 7 are in
18 the Lower Wolfcamp, labeled there as Wolfcamp C and D.
19 And this also shows that the wells will be 330 feet from
20 the proposed unit boundaries.

21 Turning now to --

22 EXAMINER JONES: I like this exhibit, by
23 the way. It has the breakdown of the members of the
24 Wolfcamp that you're -- real clearly shown here that
25 you're going for.

1 MR. HOUGH: Okay. We'll make sure and
2 include these in all --

3 EXAMINER JONES: Well, you don't have to,
4 but I like it.

5 MR. HOUGH: I appreciate that.

6 Okay. Turning now to the next step, D3,
7 this is a cross-section locator map. It's really the
8 next three slides for the Upper Wolfcamp. So here we're
9 just identifying, again, the sections to be developed
10 and then the actual cross-section wells from A to A
11 that's used for the Upper Wolfcamp maps.

12 So under the next tab, Number 4, Exhibit
13 B4, he provides a gross interval isopach map of the
14 Upper Wolfcamp, and it's from the top of the Wolfcamp to
15 Wolfcamp A2. It shows that the formation is relatively
16 uniform across the proposed well unit. And as I
17 mentioned, that cross-section location from A to A.

18 Under the next tab, Number 5, you'll see
19 Exhibit B5. This is a stratigraphic cross section hung
20 on the top of the Wolfcamp Formation, and the well logs
21 on this cross section give a representative sample of
22 the Upper Wolfcamp Formation in the area. And the
23 target zones for the wells are the Wolfcamp Y Sand and
24 the Wolfcamp A Shale, and those zones are consistent
25 across the unit. And you'll see there the planned well

1 paths for these wells are indicated by two blue-dashed
2 lines and then the letters LZ. So you'll see one with Y
3 Sandstone and A Shale.

4 The next tab, Number 6, you'll see this is
5 another cross-section locator map. These are for the
6 Lower Wolfcamp wells, wells 5, 6 and 7.

7 EXAMINER JONES: Okay.

8 MR. HOUGH: It's a similar thing here.
9 We're just changing out a representation of the cross
10 section labeled B to B here rather than A to A but still
11 showing the same sections to be developed.

12 Under the next tab is B7. This is another
13 gross interval isopach map. This one is for the Lower
14 Wolfcamp. It's from the top of the Wolfcamp C to
15 Wolfcamp D5, and it shows the formation is relatively
16 uniform across the proposed well unit. And, again, it
17 just shows that cross section from B to B.

18 Under the next tab, Number 8, you'll see
19 Exhibit B8. This is another stratigraphic cross
20 section, this one being for the Lower Wolfcamp, so hung
21 on the top of the Wolfcamp C. And the Wolfcamp logs on
22 this cross section give a representative sample of the
23 Lower Wolfcamp Formation in the area. And the target
24 zones for the wells are the Wolfcamp C Shale and the
25 Wolfcamp D Shale. These zones are consistent across the

1 unit, and, again, these planned well paths are indicated
2 by two sets of dashed lines with the letters LZ.

3 And so he provides based on -- based on the
4 study and illustrated in these exhibits and his
5 education and training and knowledge of geology in the
6 area, it's his expert opinion that the horizontal
7 spacing unit in this case is justified from a geological
8 standpoint, that there are no structural impediments or
9 faulting that will interfere with the proposed
10 horizontal development, that each quarter-quarter
11 section of this unit will contribute more or less
12 equally to production. And he further provides that the
13 preferred well orientation in this area is either
14 north-south or east to east, and he says that's due to
15 the fact that the regional max horizontal stress
16 orientation in this area runs approximately 45 degrees
17 northeast. And he also provides that these wells will
18 be orthodox and comply with the Division setback
19 requirements.

20 So with that, I would take any questions
21 and move for the admission of his affidavit, Exhibit B,
22 and the attachments, B1 through B8.

23 EXAMINER JONES: You know, when you're
24 proposing so many wells in a spacing unit and you only
25 have the geologist talking about them and the engineer

1 sometimes has an opinion about whether they're
2 cannibalizing each other or they're helping each other
3 to do this, it's almost good to also include a little
4 opinion from an engineer about -- I know this is
5 happening a lot, but the geologist shows the different
6 placement of the wells. And all these maps are nice,
7 but, you know, if you're getting compulsory pooled, you
8 probably make their [sic] own opinion, but it's nice to
9 have an engineer actually have a statement in here
10 about -- about whether it's helping or hurting and why
11 you're going for so much density. I'm not sure what the
12 thinking is. Obviously, the thinking of Cimarex is that
13 this is a good thing, so --

14 I will go ahead --

15 You want to admit these, or did you already
16 ask for that?

17 MR. HOUGH: Yeah. I had asked for the
18 admission of the affidavit as Exhibit B and the
19 attachments, B1 through B8.

20 EXAMINER JONES: Okay. Exhibit B is
21 admitted -- are admitted.

22 MR. RANKIN: No objection.

23 (Cimarex Energy Company Exhibit B is
24 offered and admitted into evidence.)

25 MR. HOUGH: I'll make a note for an

1 engineering component.

2 EXAMINER JONES: I've just got a headache
3 and I'm griping a lot (laughter).

4 MR. HOUGH: No, but I appreciate it.

5 EXAMINER JONES: Is there any -- EOG has
6 got a huge interest in this. Is there any statement you
7 want to make?

8 MR. RANKIN: No. I think I entered an
9 appearance for OXY in this case.

10 EXAMINER JONES: Okay. I guess I have that
11 wrong.

12 Yeah. EOG has 40 percent, but OXY only has
13 2-and-a-half.

14 MR. HOUGH: Right.

15 MR. RANKIN: Right. Right.

16 No objections.

17 EXAMINER JONES: Okay. Did we admit C --

18 MR. HOUGH: Yeah. I will.

19 EXAMINER JONES: -- the Affidavit of
20 Notice?

21 MR. HOUGH: This last component here is my
22 affidavit stating, as a representative of Cimarex, we've
23 sent out a mailing to everyone entitled to notice of the
24 hearing and in the application itself. There's also
25 confirmation of receipts of that mailing and then an

1 Affidavit of Publication in the "Carlsbad Argus." And
2 then there is another set of proof of mailing and then
3 the status of that mailing. And there is the extra
4 override that we just located. And so if we're not able
5 to locate -- if they don't receive that, then we'll
6 publish again to make sure that they have their
7 opportunity. And that's really what I was getting at in
8 terms of keeping it left open, just strictly for that
9 one override.

10 EXAMINER JONES: Yeah.

11 MR. HOUGH: So with that, I'd move to admit
12 Exhibit C and the attachments to it.

13 EXAMINER JONES: Okay. Exhibit C and its
14 attachment is admitted.

15 (Cimarex Energy Company Exhibit C is
16 offered and admitted into evidence.)

17 EXAMINER JONES: So we heard it, and we're
18 continuing it, is that right, or are you going to
19 re-advertise?

20 MR. HOUGH: Yeah. I guess it's a limited
21 continuance just for the purposes of notice. But if
22 we can -- we'll likely re-advertise because we'll need
23 to do that before --

24 EXAMINER JONES: Yeah. You have to do
25 it -- actually, the deadline was -- wasn't it earlier

1 this week? You don't need to re-advertise?

2 MS. BENNETT: No. No. All we will be
3 doing -- and by re-advertise, you mean for OCD purposes?

4 EXAMINER JONES: Yeah. You know, if you're
5 just going to notice somebody else, you can -- we can
6 continue it and you can present that Affidavit of Notice
7 at the next hearing.

8 MS. BENNETT: I think that's Mr. Hough's
9 intent.

10 MR. HOUGH: Yes.

11 EXAMINER JONES: Actually, we somehow have
12 to do it on August 22nd.

13 MR. HOUGH: Right. Yeah. So we have
14 plenty of time to get that done.

15 EXAMINER JONES: Okay. That sounds good.

16 Thank you very much.

17 So Case 20590 is continued.

18 And let's break for lunch.

19 (Case Number 20590 concludes, 11:47 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20 DATED THIS 26th day of July 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

25