

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. 20656
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 8, 2019

Santa Fe, New Mexico

BEFORE: LEONARD LOWE, CHIEF EXAMINER
 MICHAEL McMILLAN, TECHNICAL EXAMINER
 DANA Z. DAVID, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Leonard Lowe, Chief Examiner; Michael McMillan, Technical Examiner; and Dana Z. David, Legal Examiner, on Thursday, August 8, 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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APPEARANCES

FOR APPLICANT CIMAREX ENERGY COMPANY:

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1 (1:15 p.m.)

2 EXAMINER LOWE: We are back on the record,
3 and we will continue the docket for today.

4 The next case we're going to be hearing is
5 Case Number 20656, application of Cimarex Energy Company
6 for compulsory pooling, Lea County, New Mexico.

7 Call for appearances.

8 MR. HOUGH: Lance Hough on behalf of
9 Cimarex Energy Company.

10 EXAMINER LOWE: Do you have any witnesses?

11 MR. HOUGH: No. This is just by affidavit.

12 So I'd --

13 EXAMINER DAVID: Ask for any other
14 appearances.

15 EXAMINER LOWE: Are there any other
16 appearances?

17 You may proceed.

18 MR. HOUGH: So I'd like to start with the
19 affidavit of Riley Morris for the land portion. You'll
20 see there that it's behind Tab A labeled Exhibit A. And
21 Mr. Morris provides here that he is a landman employed
22 by Cimarex Energy Co., and he has previously been
23 qualified and testified by the Oil Conservation Division
24 as an expert in petroleum land matters. He's providing
25 that the following information is submitted in support

1 of the above-referenced compulsory pooling application
2 filed by Cimarex, stated as Case Number 20656.

3 He provides this case involves a request
4 for an order from the Division for compulsory pooling of
5 interest owners who have refused to voluntarily pool
6 their interest for the proposed Bone Spring horizontal
7 spacing unit, which we further describe below, and then
8 also for drilling the well -- or for the spacing unit
9 for which the well will be drilled.

10 Now, prior to filing this application,
11 Cimarex made a good-faith effort to obtain voluntary
12 joinder of the working interest owners in the proposed
13 spacing unit, and Cimarex identified all the working
14 interests and overriding interest owners from the title
15 opinion. And to locate the owners, Cimarex conducted a
16 diligent search of the records in the county where the
17 well is to be located and conducted phone directory and
18 computer searches to locate contact information for the
19 parties that are entitled to notification. And then he
20 mailed all the working interest owners well-proposal
21 letters and that also included an authorization for
22 expenditure in the form of an operating agreement.

23 He provides that no opposition is expected.
24 Prior to filing this application, Cimarex contacted the
25 working interest owners being pooled regarding the

1 proposed well, and the pooled working interest owners
2 failed or refused to voluntarily commit their interest
3 to this well. And Cimarex provided all the working
4 interest owners, any unleased mineral owners and
5 overriding royalty interest owners with notice of this
6 application, and none have entered an appearance in
7 opposition to Cimarex's application.

8 Next he provides that in its application,
9 Cimarex seeks an order from the Division pooling all the
10 uncommitted mineral interests within a Bone Spring
11 horizontal spacing unit underlying the west half-east
12 half of Sections 21 and 28. That's in Township 19
13 South, Range 34 East in Lea County, New Mexico. He
14 provides that the spacing unit will be dedicated to the
15 Mescalero Ridge 21 Fed Com 2H well and to be
16 horizontally drilled. And the application reflecting
17 this is attached to his application in your packet as
18 Exhibit A1.

19 Turning to Exhibit A2, this is a well
20 location plat, and it shows the proposed well location,
21 including the first and last take points. And
22 Mr. Morris provides that the well will develop the Quail
23 Ridge; Bone Spring Pool, pool ID 50460. He also
24 provides the first and last take points will be no
25 closer than 100 feet from the proposed boundary, and the

1 completed lateral will be approximately 660 feet from
2 the proposed boundary unit. He also provides here the
3 producing interval for the wells will be orthodox and
4 will comply with the Division's setback requirements.
5 And this is provided in blue for the C-102. As I
6 understand it, they were not available at the time of
7 this hearing, and so that would be something to also
8 include as supplementation.

9 Moving next to Exhibit A3, this is a lease
10 tract map. It's for outlying for the unit to be pooled
11 and listing the working interest owners sought to be
12 pooled, and a percentage of their interest is listed
13 there as well. He provides that Cimarex owns a 33.45
14 percent interest in the proposed unit, and he has a
15 right to -- or Cimarex has a right to drill a well
16 thereon. He provides there are no depth severances
17 within this proposed spacing unit.

18 Moving to Exhibit A4, this is a sample
19 well-proposal letter that was sent to each interest
20 owner seeking their voluntary participation in the well.

21 And moving to Exhibit A5, this is
22 authorization for expenditure for the proposed well, and
23 the estimated cost -- this is the total cost for the
24 well set forth in this AFE. It's 10,871,219, and this
25 is fair and reasonable, he provides, and it's comparable

1 to the cost of other wells of similar depth and length
2 and completion method being drilled in this area of
3 New Mexico. He also provides Cimarex requests overhead
4 and administrative rates of 8,000 a month during
5 drilling and 800 a month while producing. He provides
6 these rates are fair and comparable to the rates charged
7 by other operators for wells of this type in this area
8 of southeast New Mexico and with the rates awarded by
9 the Division in recent compulsory pooling orders. And
10 Cimarex also requests these rates be adjusted
11 periodically as provided in the COPAS accounting
12 procedure. Further, he provides that Cimarex requests
13 the maximum cost plus 200 percent risk charge be
14 assessed against nonconsenting pool of working interest
15 owners, and Cimarex requests that it be designated the
16 operator of the well.

17 And he also provides Cimarex requests it be
18 allowed a period of one year between when the wells are
19 drilled and when the first well is completed under the
20 order. And the parties Cimarex is seeking to pool were
21 notified of this hearing, and Cimarex requests the
22 overriding royalty interest owners also be pooled.

23 And he provides that based on his knowledge
24 of land matters involved in this case, education and
25 training, gives his expert opinion that the granting of

1 Cimarex's application in this case is in the interest of
2 conservation and the prevention of waste.

3 He further provides that the attachments to
4 Exhibits A1 through A5 were prepared by him or compiled
5 from company business records, and he testifies to the
6 content of his affidavit.

7 So with that, I'd like to move for the
8 admission of Exhibit A and A1 through A5.

9 EXAMINER LOWE: What's the OGRID number for
10 this?

11 EXAMINER McMILLAN: Do the exhibits.

12 EXAMINER LOWE: Oh. Exhibits A1 through A5
13 are accepted for this case.

14 MR. HOUGH: Thank you.

15 (Cimarex Energy Co. Exhibits A1 through A5
16 are offered and admitted into evidence.)

17 MR. HOUGH: You're looking for the OGRID
18 number?

19 EXAMINER LOWE: Yes.

20 MR. HOUGH: I may need to supplement. I'm
21 checking the documents here.

22 EXAMINER McMILLAN: It's confusing with
23 Cimarex.

24 MR. HOUGH: Right.

25 So the OGRID Number would be 215099.

1 EXAMINER McMILLAN: Is that a statewide
2 pool?

3 MR. HOUGH: The pool?

4 EXAMINER McMILLAN: Yeah.

5 MR. HOUGH: I don't know to the extent of
6 which it's statewide. It's just the pool wasn't
7 provided to -- go ahead.

8 EXAMINER McMILLAN: Because this is an area
9 where there are a lot of pools, and there are a lot of
10 special pooling areas. We need to find that, whether
11 they're on statewide or special pool rules, because a
12 lot of times, the Bone Spring will be -- could be on
13 80s, and you have to define what would be your building
14 blocks.

15 MR. HOUGH: Oh, okay. I understand. So
16 you're asking whether this pool is falling under
17 statewide rules.

18 EXAMINER McMILLAN: Yes.

19 MR. HOUGH: Yes. Based on my conversation
20 with Mr. Morris and their design, as provided in A2,
21 it's built to comply with statewide rules.

22 EXAMINER McMILLAN: Okay. So this is a
23 statewide pool?

24 MR. HOUGH: Yes, sir.

25 EXAMINER McMILLAN: What about any

1 unlocatable interests?

2 MR. HOUGH: Referring to that portion,
3 there are going to be a few that show up behind the
4 affidavit mailing list. There were -- looks to be here
5 provided as an attachment behind Exhibit C, which I'll
6 provide here momentarily. There were ten unlocatable
7 interests out of the list of total, and -- and
8 subsequent to that, we sent out publication, and there
9 is also an Affidavit of Publication showing that that
10 was published no less than ten business days before the
11 hearing.

12 EXAMINER LOWE: You indicated there are no
13 C-102s for this well?

14 MR. HOUGH: That is correct. At this time
15 there are not. There is no C-102 for that particular
16 well. This is why we requested this particular diagram,
17 to reflect all the take points. But obviously I'll be
18 able to give that to you as soon as available. And I
19 requested it from Cimarex. It just wasn't available at
20 the time I requested it.

21 EXAMINER LOWE: Okay. Yeah. Whenever you
22 send it, send it via email and reference the case number
23 and the subject title just so we can know that this is
24 needed for this case.

25 MR. HOUGH: Okay. Case number and a title.

1 And would you like that to be sent to Kathleen or
2 directly to yourself or --

3 EXAMINER LOWE: To the -- probably the OCD
4 hearing email. I need to go there more often to verify
5 additional information.

6 MR. HOUGH: Okay.

7 EXAMINER LOWE: Unless told otherwise, but
8 I don't know what's going on. So send it there, and
9 I'll keep an eye out for it, and I'll add it to this
10 case.

11 MR. HOUGH: Okay. I'll go ahead and make
12 sure to notify Mr. Morris, and as soon as I get it, I'll
13 send it.

14 EXAMINER LOWE: That's fine. That's fine.
15 Do you have any questions, Dana?

16 EXAMINER DAVID: I do not.

17 MR. HOUGH: If there are no further
18 questions regarding Mr. Morris' affidavit and exhibits,
19 I'll move on to the second portion, which is the geology
20 component of this case.

21 As you see -- behind Tab B, you should see
22 Exhibit B. This is the affidavit of Staci Mueller. She
23 provides -- she is a geophysicist for Cimarex, and she
24 has previously been qualified by the Division as an
25 expert in petroleum geology matters.

1 She provides she conducted a geological
2 study of the area that encompasses the horizontal
3 spacing unit that is the subject of the application, and
4 she is familiar with the geological matters involved in
5 the case.

6 Further, she provides that as part of her
7 study, she has prepared geological exhibits with respect
8 to the horizontal spacing unit, and these are attached
9 to her affidavit.

10 And so turning now to Exhibit B1, behind
11 the next tab, you'll find a structure map that is on the
12 base of the 3rd Bone Spring Sand Formation. This
13 identifies the proposed unit with a red line and a
14 proposed well with a black line. It also shows the
15 structure is relatively consistent across the proposed
16 unit and dips slightly to the south and the southeast in
17 the area.

18 Under the next tab, you'll find Exhibit B2.
19 This is a net porosity map for the 3rd Bone Spring Sand
20 Formation, and this shows that the formation is
21 relatively uniform across the proposed well unit. And
22 the closest log control suggests a range of net porosity
23 between 65 feet and approximately 80 feet, with the
24 regional net porosity trend increasing towards the east.
25 This map also identifies the proposed unit and well with

1 the same markings, the red line and the black line.

2 Turning now to Exhibit B3, she provides
3 this is a reference map with the stratigraphic cross
4 section and identifies the cross-section wells in
5 proximity to the proposed wells. And the cross-section
6 wells are identified by a gray line running from A to A
7 prime, and she also includes the well names there as
8 well.

9 Turning to Exhibit B4, Ms. Mueller provides
10 that this is the stratigraphic cross section hung on the
11 top of the Wolfcamp Formation, and the well logs of the
12 cross section give a representative sample of the 3rd
13 Bone Spring Formation in the area, which is the target
14 zone for the proposed wells. The well logs also show
15 the formation is relatively consistent across the area,
16 and the target zone is identified with an arrow and
17 outlined in red as well.

18 Moving to Exhibit B5, this is -- this is
19 the Mescalero Ridge 21 Fed development plan. This
20 includes a wine-rack diagram on the right. So you'll
21 see here on this diagram is the proposed two-mile well
22 in the west half-east half of Sections 21 and 28. And
23 she also includes there an existing one-mile well in the
24 east half-east half of 21. Again, it's just their
25 development plan. And the existing well is limited to

1 one mile due to a prior producing one-mile well in that
2 area. And the unit proposed is shaded there with red.

3 And then last, she provides that based on
4 her study, as illustrated in these exhibits, and her
5 knowledge of the geology in this area, education and
6 training, it's her expert opinion that the horizontal
7 spacing unit is justified from a geological standpoint,
8 that there are no structural impediments or faulting
9 that will interfere with horizontal development and that
10 each quarter-quarter section in the unit will contribute
11 more or less equally to production. And then she
12 provides that the well orientation in this area is north
13 to south, and this is due to the fact that the regional
14 max horizontal stress orientation in this area runs
15 approximately east to west. And the producing
16 interval -- wells will be unorthodox and comply with
17 Division setback requirements.

18 With that, I'd like to move for the
19 admission of Exhibit B and B1 through B5.

20 EXAMINER LOWE: Exhibits B1 through B5 will
21 be accepted in this case.

22 (Cimarex Energy Co. Exhibits B1 through B5
23 are offered and admitted into evidence.)

24 MR. HOUGH: Are there any questions
25 regarding these?

1 EXAMINER LOWE: I have a question on
2 Exhibit B5 --

3 MR. HOUGH: Yes, sir.

4 EXAMINER LOWE: -- just to understand your
5 little -- on the right-hand side of the page, how does
6 that correlate to the rest of the -- is that red arrow
7 the same red arrow as indicated between the 2H and 1H,
8 or what is that?

9 MR. HOUGH: So my understanding of this red
10 arrow, if you're looking at, I guess you would consider
11 it the right third of this diagram or, I should say, the
12 greater exhibit, I believe that that right -- that red
13 arrow is a reflection of -- if you were to take the
14 middle exhibit and turn it vertical so it's showing the
15 west half of Section 21 and then the east half of 21 and
16 20? So really it's shown there on 21, but -- but it's
17 to show that that middle component is cut out from
18 there.

19 EXAMINER LOWE: So basically just --

20 MR. HOUGH: Yeah. Exactly. So it's going
21 from the west side of Section 21 all the way to the east
22 side. So that arrow is really -- imagine that being the
23 gray bar in the middle. Does that make sense?

24 EXAMINER LOWE: Yeah.

25 MR. HOUGH: Okay.

1 EXAMINER LOWE: Any questions, Michael?

2 EXAMINER McMILLAN: I don't have any
3 questions. Just clarify the pool.

4 MR. HOUGH: Okay.

5 And one last component is Exhibit C, which
6 is my affidavit, again providing that on behalf of
7 Cimarex, we mailed out the application and notice
8 letters. And also attached to my affidavit is proof of
9 mailings, the receipts of mailings and then the
10 publication. I provide that Cimarex has conducted a
11 good-faith, diligent effort to find the names and
12 correct addresses for the interest owners so they can
13 receive these notices and provided notice to each of
14 these interest holders at their last known address. And
15 as you mentioned earlier in the hearing -- just turn the
16 page -- there is confirmation of everybody who we mailed
17 notice out to, the status of their mailings, which ten
18 of them were undeliverable, and then, of course, the
19 Affidavit of Publication showing that we had published
20 in the newspaper.

21 So with that, I'd like to move for the
22 admission of Exhibit C and the attachments.

23 EXAMINER LOWE: Exhibit C will be accepted
24 for Case 20656.

25 MR. HOUGH: Are there any further questions

1 from the examiners?

2 EXAMINER McMILLAN: No.

3 MR. HOUGH: So just to be clear on my end,
4 we'll supplement C-102s as soon as they're available,
5 the one C-102, and I'll make sure to confirm on the
6 pool.

7 EXAMINER McMILLAN: Yes.

8 MR. HOUGH: With that, I'd request that the
9 Division take this matter under advisement.

10 EXAMINER LOWE: Okay. Case Number 20656
11 will be taken under advisement.

12 MR. HOUGH: Thank you.

13 (Case Number 20656 concludes, 1:35 p.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 19th day of August 2019.

21

22

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