

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: 14730

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING  
October 27, 2011  
Santa Fe, New Mexico

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BEFORE: RICHARD EZEANYIM, Technical Examiner

This matter came on for hearing before the New  
Mexico Oil Conservation Division, RICHARD EZEANYIM, Technical  
Examiner, on October 27, 2011, at the New Mexico Energy,  
Minerals and Natural Resources Department, 1220 South St.  
Francis, Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Irene Delgado, NM CCR 253  
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Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN AND KELLAHIN  
W. THOMAS KELLAHIN  
706 Gonzales Road  
Santa Fe, NM 87501

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1           The first item on the docket on Page 2 is Case  
2   Number 14730, and this is the application of Cimarex Energy  
3   Company for a non-standard oil spacing and proration unit and  
4   compulsory pooling, Chaves County, New Mexico. At this point  
5   I will call for appearances.

6           MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin from  
7   the Santa Fe law firm of Kellahin and Kellahin, appearing  
8   this morning on behalf of the applicant. I have two  
9   witnesses to be sworn.

10          EXAMINER EZEANYIM: Are there any other appearances?

11          (No response.)

12          EXAMINER EZEANYIM: Okay. May the witnesses stand  
13   up, state your full name, and be sworn. State your name,  
14   first.

15          MR. TRESNER: Hayden Tresner.

16          MR. WORTHINGTON: Ralph Worthington.

17          (Witnesses sworn.)

18          EXAMINER EZEANYIM: Mr. Kellahin?

19          MR. KELLAHIN: Thank you, Mr. Examiner. The first  
20   witness this morning is Mr. Hayden Tresner. Mr. Tresner is a  
21   petroleum landman for Cimarex.

22

23

24

25

1 HAYDEN TRESNER

2 (Sworn, testified as follows:)

3 DIRECT EXAMINATION

4 BY MR. KELLAHIN:

5 Q. Mr. Tresner, for the record, sir, will you please  
6 state your name and occupation?

7 A. My name is Hayden Tresner. I'm a landman at Cimarex  
8 Energy Company in Midland, Texas.

9 Q. On prior occasions have you testified before the  
10 Examiner and had your qualifications as a landman accepted  
11 and made a matter of record?

12 A. Yes.

13 Q. Pursuant to your employment by Cimarex, were you the  
14 landman responsible for determining the ownership in each of  
15 these four 40-acre tracts?

16 A. Yes.

17 Q. As part of your -- as part of your work did you  
18 attempt to consolidate, on a voluntary basis, the various  
19 interest owners to participate in the drilling of this well?

20 A. Yes.

21 Q. Are the land exhibits that we are about to present  
22 exhibits that you are familiar with or that were generated by  
23 you?

24 A. Yes.

25 MR. KELLAHIN: We tender Mr. Tresner as an expert.

1 petroleum landman.

2 EXAMINER EZEANYIM: So qualified.

3 Q. Mr. Tresner, let's turn to what is marked as Exhibit  
4 Number 1. Let's take a moment and orient the Examiner as to  
5 what your project is. First of all, in this nine-section  
6 plat, identify for the Examiner the 160-acre tract that you  
7 are trying to consolidate for the spacing unit.

8 A. This is a land plat with a 160-acre non-standard  
9 spacing unit we are seeking, highlighted in yellow. It is  
10 comprised of the south half of the north half of Section 3,  
11 Township 15 South, Range 31 East, Chaves County, New  
12 Mexico.

13 Q. As part of that consolidation, does this 160-acre  
14 proposed spacing unit consist of multiple tracts?

15 A. Yes. It consists of three different mineral tracts.

16 Q. The consolidation will be for the purpose of  
17 drilling what type of well?

18 A. A 160-acre laydown Lower Abo Wolfcamp well.

19 Q. As part of that process, have you prepared an  
20 application for permit to drill and filed it with the  
21 appropriate regulatory agency?

22 A. Yes, we have.

23 Q. Let's turn to what is marked as Exhibit Number 2,  
24 Mr. Tresner, and identify for us what we are looking at when  
25 we look at the first page of this APD.

1           A.   Exhibit 2 is a copy of the APD that's been filed  
2           with the BLM. We are still waiting on final approval, which  
3           we should have in the very near future.

4           Q.   Let's turn to Page 2 of that exhibit and look at the  
5           Form C-102 for a moment. When you look at that form, would  
6           you find the starting point, the surface location for the  
7           proposed well?

8           A.   Yes. The -- the surface location for the proposed  
9           well was 2135 from the north line, 170 foot from the east  
10          line of Section 3, 15-31.

11          Q.   And the plan for the well then is to start at this  
12          location and drill down, get into the top of the Abo and the  
13          Wolfcamp and then drill horizontally to an end point over in  
14          Tract E of Section 3?

15          A.   Yes.

16          Q.   Are you familiar with the horizontal rules currently  
17          in place with the Division?

18          A.   Yes.

19          Q.   The surface location of this well would not be  
20          standard at its surface location when you start?

21          A.   That is correct.

22          Q.   But by the time you get into the reservoir and find  
23          your point of production, you will be at a standard  
24          location?

25          A.   We will be 330 off the east.

1 EXAMINER EZEANYIM: Excuse me. Let me interrupt you  
2 here for a moment. We -- we had a horizontal well rule last  
3 week. I hope you are not referring to that, because it is  
4 not yet --

5 MR. KELLAHIN: No, no.

6 EXAMINER EZEANYIM: You are referring to the current  
7 rule?

8 MR. KELLAHIN: Yes, sir. Mr. Hayden was at that  
9 hearing last week.

10 EXAMINER EZEANYIM: Oh, he was?

11 MR. KELLAHIN: So we are talking about the existing  
12 rules before the new rules are --

13 EXAMINER EZEANYIM: There is no new rule is adopted.  
14 We hope it will be, but currently we use the current rule  
15 right now. I hope that's what you are talking about.

16 MR. KELLAHIN: Yes, sir.

17 Q. So when you get into the reservoir, the drilling and  
18 producing people are going to control the wellbore in such a  
19 way that it will not have open to the reservoir anything that  
20 would be at an unorthodox location?

21 A. That's correct.

22 Q. And then Page 3 of Exhibit 2 is another locator map,  
23 is it not?

24 EXAMINER EZEANYIM: In fact, Mr. Kellahin, one of  
25 the questions I had was the entry point, and then going back

1 to the current rule, what is your entry point into the  
2 Wolfcamp here?

3 THE WITNESS: The entry point into the top of the  
4 Lower Abo Formation would be -- would be 2145 from the north  
5 line and 458 from the east line.

6 EXAMINER EZEANYIM: Okay.

7 THE WITNESS: The OEC, the beginning production  
8 zone, it's the middle text block in the southern part of the  
9 plat.

10 EXAMINER EZEANYIM: So, anyway, so I can answer that  
11 question. So your entry point, your terminus -- I mean, your  
12 production location is standard, then, right? It's a  
13 standard location?

14 THE WITNESS: Yes, sir.

15 EXAMINER EZEANYIM: Okay. Go ahead.

16 Q. Mr. Tresner, let's turn to Exhibit Number 3. Is  
17 this an exhibit that you prepared?

18 A. Yes, it is.

19 Q. Before we talk about the details, describe for us  
20 how you organized Exhibit 3.

21 A. I've -- I've organized Exhibit 3 based on the  
22 mineral tracts, and the mineral tracts included in our  
23 proposed 160-acre spacing unit. We are dealing with three  
24 separate lease tracts. Tract 1, you can see I've -- I've  
25 blocked it off and then set forth the ownership down at the



1 bottom, and I have done that for Tract 1, Tract 2 and Tract  
2 3. And it just shows a breakdown of the working interest by  
3 tract. And then at the bottom I have broken it down to show  
4 the working -- the working interest in the proposed spacing  
5 unit, the unit working interest.

6 Q. At the very bottom, then -- at the very bottom,  
7 then, you have some -- the percentages that each of these  
8 parties would have in the entire 160-acre spacing unit?

9 A. That's correct.

10 Q. If you look above that, you can see their interest  
11 broken out for each of the two tract areas?

12 A. Each of the three tract areas, yes, correct.

13 Q. When you look at the summary, then, identify for us  
14 which parties or entities have not yet agreed to  
15 participate?

16 A. The only two individuals that we do not have  
17 commitments from, we have not done a deal with them or they  
18 have not signed our operating agreement is Clare Fraser, she  
19 is the third owner down, and, following her, the fourth --  
20 the fourth owner that's listed, Sigyn Lund, she is  
21 uncommitted as well.

22 EXAMINER EZEANYIM: Who is that?

23 THE WITNESS: Clare Fraser, the third one down, and  
24 then the fourth one down is Sigyn Lund, those are the two  
25 individuals that we are seeking to pool.

1 EXAMINER EZEANYIM: Were you able to locate them?

2 THE WITNESS: Yes, we were.

3 EXAMINER EZEANYIM: They don't want to participate?

4 THE WITNESS: It doesn't appear so.

5 EXAMINER EZEANYIM: Okay. Go ahead.

6 Q. If you will set Exhibit 3 aside for a moment, let's  
7 turn to Exhibit 4. When this application was first filed,  
8 does Exhibit 4 represent the list of parties that had not yet  
9 come to a voluntary agreement with Cimarex?

10 A. Yes, that's correct. At the time this was filed,  
11 these owners were -- were not committed to participating in  
12 the well nor had done a deal with us.

13 Q. And as of this morning we are down to the two  
14 individuals that have not yet agreed to participate?

15 A. That's correct. These two individuals, Sigyn Lund  
16 and Clare Fraser, represent 1.25 percent of the proposed  
17 spacing unit.

18 Q. Let's turn now to your proposal for drilling this  
19 well. You have a letter that you sent to the various parties  
20 to be pooled?

21 A. Yes. Exhibit --

22 Q. How is that marked? Is that marked as an exhibit?

23 A. Yes. Exhibit 5 is the letter that we sent to all  
24 the working interest owners of the three tracts.

25 Q. Is that your first letter for this project?

1 A. This was the letter that went out to the working  
2 interest owners, yes.

3 Q. This is the first of this type of letter for this  
4 project?

5 A. That's correct.

6 Q. Included with this letter, did you provide these  
7 parties with an accurate estimate of well costs?

8 A. Yes, we did.

9 Q. In addition, have you provided parties with a  
10 proposed joint operating agreement?

11 A. We did, yes. The original packet contained the well  
12 proposal letter, the estimated cost of drilling to complete  
13 the well, and our proposed form of operating agreement.

14 Q. Have you had some of the parties involved in this  
15 spacing unit sign and approve your joint operating agreement?

16 A. Yes. The parties that are listed on Exhibit 3 as  
17 participating have -- have signed their operating  
18 agreement.

19 Q. As part of signing that operating agreement, what  
20 overhead rates have they agreed to use under the terms of  
21 that contract?

22 A. \$7,000 for a drilling well rate, and \$700 for  
23 producing.

24 Q. Are those --

25 EXAMINER EZEANYIM: How much for producing?

1 THE WITNESS: \$700 for producing, 7,000 for  
2 drilling.

3 EXAMINER EZEANYIM: Okay.

4 Q. Are those the rates you recommend to the Examiner to  
5 be included in the pooling order to be issued in this case?

6 A. Yes.

7 Q. In your opinion, are those rates fair and  
8 reasonable?

9 A. Yes.

10 Q. Do you utilize a COPAS escalator with regards to  
11 those costs?

12 A. We do, yes.

13 Q. And you would ask the Examiner to include an  
14 escalator procedure in the pooling order?

15 A. Yes, we would.

16 Q. Have the parties that have signed the joint  
17 operating agreement also agreed to the AFE?

18 A. They have signed the AFE, yes. They have approved  
19 the AFE.

20 Q. Have any of those parties objected either to the  
21 location, your operatorship of the clause, or the joint  
22 operating agreement?

23 A. No, they have not.

24 Q. Do you have a copy in the proposed exhibits of  
25 the -- of the estimated cost of expenditures for this

1 wellbore?

2 A. Yes. Exhibit 6 sets forth the estimated cost to  
3 drill and complete the -- the proposed well.

4 Q. Is Exhibit 6 the form that you included with your  
5 well proposal letter in June 20 of this year?

6 A. That's the AFE that was included in the well  
7 proposal package.

8 Q. To the best of your knowledge, is this AFE accurate  
9 and correct?

10 A. Yes.

11 Q. Is this the AFE that you propose to have the  
12 Examiner adopt so far as necessary for purposes of the  
13 pooling order?

14 A. Yes.

15 Q. Let's turn to the topic of notifications,  
16 Mr. Tresner. Would you turn with me to what is marked as  
17 Exhibit Number 7. This is an affidavit from Mr. Bruce  
18 attesting to notifications. Would you thumb through that for  
19 me and make sure, to the best of your knowledge, that the  
20 parties that you are seeking a pooling order against today in  
21 fact received notice of this hearing?

22 A. On Page 3 of Exhibit 7, Sigyn Lund and both Clare  
23 Fraser are listed as people being notified of this hearing.

24 Q. In addition, now would you turn to Exhibit Number 8.  
25 Has Mr. Bruce prepared for you a list of the offset operators

1 and interest owners that have joined the non-standard  
2 proration unit, 160-acre spacing unit?

3 A. Yes.

4 Q. To the best of your knowledge, is this tabulation on  
5 Exhibit 8 correct?

6 A. Yes, it is.

7 Q. Would you turn now to Exhibit Number 10. Would you  
8 review Exhibit Number 10 with me and determine whether or  
9 not, in your opinion, the appropriate offset interest owners  
10 were notified of the non-standard proration unit for this  
11 case?

12 A. I have either misplaced or am missing Exhibit 10.

13 Q. I'm sorry, I misspoke. It's 9.

14 A. That's the affidavit that was filed by James Bruce,  
15 our attorney. The notice letter that was sent to the  
16 Division and the offset operators are listed on Exhibit 8.  
17 They both received the notice.

18 Q. At this point, Mr. Tresner, can you conclude that  
19 it's reasonable and fair to have a forced pooling order  
20 entered against the remaining parties?

21 A. Yes, I believe it is.

22 Q. In your opinion, is it necessary in order to prevent  
23 waste and to protect correlative rights?

24 A. Yes, it is.

25 MR. KELLAHIN: Mr. Examiner, that concludes my

1 examination of Mr. Tresner. We move the introduction of his  
2 Exhibits 1 through 9.

3 EXAMINER EZEANYIM: Thank you very much. Exhibits 1  
4 through 9 will be admitted.

5 (Exhibits 1 through 9 admitted.)

6 EXAMINER EZEANYIM: Okay. Let's go to your  
7 application. That appears to me, as a land person, I'm going  
8 to ask you this -- maybe a geologist coming up or  
9 something -- you are doing two pooling provisions, one, you  
10 are pooling that one 40-acre from the top of the Abo Wolfcamp  
11 to the surface, then you are pooling the Abo -- I mean the  
12 Wolfcamp, really, or your horizontal well, are you still  
13 asking me to pool you on that well, on that 40-acre unit?

14 THE WITNESS: No. We are asking you to unitize or  
15 pool the Lower Abo slash Wolfcamp Formation under our  
16 proposed 160-acre spacing unit.

17 EXAMINER EZEANYIM: Okay. Now, are you  
18 withdrawing --

19 THE WITNESS: Those intervals only.

20 EXAMINER EZEANYIM: Okay. Now, are you withdrawing  
21 the first request? And, okay, if I can read the first  
22 request because I want to know, are you going to go ahead  
23 with that? It says -- let me see -- from the surface -- you  
24 can see "i" -- from the surface to the top of the Abo  
25 Wolfcamp Formation underlying that southeast northeast

1 quarter, the 40 acre, the northeast quarter where you are at,  
2 where the well -- you want me to pool from the surface to the  
3 top of the Abo Wolfcamp Formation, do you still want that to  
4 be done or not?

5 THE WITNESS: If that's what was requested in the  
6 original -- the application that's been filed by James Bruce,  
7 yes.

8 EXAMINER EZEANYIM: Okay. Well, that will take care  
9 of a lot of questions there. So you see you are asking me to  
10 do that. And the second one, "ii," you want to pool that,  
11 which that 160 acre is from -- the proration unit, then we  
12 can pool it, but I'm concerned about it on a vertical well.

13 MR. KELLAHIN: Mr. Examiner, I checked with the  
14 geologist. It's not necessary to pool that 40-acre tract  
15 from the shallower zones, so we will withdraw that portion.

16 EXAMINER EZEANYIM: See, that's what I'm asking for,  
17 because one of the -- you have any targets above the -- on  
18 those shallow formation right now, because the way it works,  
19 I think I have to say it again, is that if you have -- I  
20 think what people do is when they come to hearing, they want  
21 to get it all, but if you are going to take money from people  
22 who participate in that shallow zone and keep it for ten  
23 years before you go, then I don't think it's right. I think  
24 the best thing to pool for is a horizontal well in that unit.  
25 And now, if you -- if you want to complete uphole, say you



1 want to go uphole to some zone which is up uphole of the Abo  
2 and the Wolfcamp, then at that point you can still come back  
3 and get a compulsory pooling hearing.

4 MR. KELLAHIN: Yes, sir. That's exactly what we're  
5 trying to do.

6 THE WITNESS: I might have confused things.

7 EXAMINER EZEANYIM: Right now I don't think the  
8 Division would allow you to compulsory pool that vertical  
9 well, collect money and keep it there for 20 years. I don't  
10 think it's right. That's what -- if you collect it and  
11 you're not doing any completions above that formation.

12 MR. KELLAHIN: We are withdrawing that,  
13 Mr. Examiner.

14 EXAMINER EZEANYIM: That makes my job easier. It  
15 makes everything easier. At this point I wanted to bring it.  
16 It's better to clear it before we proceed. Okay. Let me see  
17 if I have any more land questions to ask you since you are --  
18 I can ask you, as a land person, are there any vertical wells  
19 on that 160 acre, are there currently any vertical wells  
20 producing from the Wolfcamp?

21 THE WITNESS: No, sir.

22 EXAMINER EZEANYIM: There are no vertical wells  
23 there?

24 THE WITNESS: There are no vertical wells producing  
25 from the Wolfcamp Formation on that 160-acre spacing unit.

1 EXAMINER EZEANYIM: Okay. Very good. And you  
2 already answered this question. Okay. You may step down.  
3 You made my job by withdrawing that compulsory pooling.

4 THE WITNESS: Thank you.

5 MR. KELLAHIN: Mr. Examiner, the geologic witness  
6 for Cimarex is Ralph Worthington.

7 EXAMINER EZEANYIM: Okay.

8 MR. KELLAHIN: Give Mr. Worthington just a moment to  
9 get settled in.

10 EXAMINER EZEANYIM: Mr. Worthington, you have  
11 already been sworn in, so you are under oath.

12 MR. KELLAHIN: Mr. Examiner, Mr. Worthington's  
13 exhibit is Exhibit Number 10, and it's the color copy.

14 RALPH WORTHINGTON

15 (Sworn, testified as follows:)

16 DIRECT EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Mr. Worthington, for the record, sir, would you  
19 state your name and occupation?

20 A. My name is Ralph Worthington. I am the regional  
21 geologic manager for Cimarex Energy Company in Midland,  
22 Texas.

23 Q. On prior occasions have you testified before the  
24 Division's Examiners?

25 A. Yes, I have.

1 Q. And as part of your responsibilities, are you  
2 knowledgeable about the geology and drilling of this proposed  
3 Boxer 3 Federal Com Number 1 Well?

4 A. Yes, sir.

5 Q. Is the -- is the geologic map we are about to review  
6 a work product that you have generated?

7 A. Yes, sir.

8 Q. And based upon, based upon this exhibit and your  
9 studies, do you have expert opinions with regards to the  
10 formation of a non-standard proration unit?

11 A. Yes, sir.

12 MR. KELLAHIN: We tender Mr. Worthington as an  
13 expert petroleum geologist.

14 EXAMINER EZEANYIM: So qualified.

15 Q. Mr. Worthington, before we get into the exhibit,  
16 let's take a moment and divide this into pieces. First of  
17 all, describe for us generally the type of map that you are  
18 looking at.

19 A. This is a map that shows the -- the thickness of the  
20 porosity interval within our target zone in the Lower Abo  
21 Wolfcamp Formation. It's -- it is a contour map, and it goes  
22 from about zero to 30 feet. Data points are identified in  
23 the blue lettering below each data point.

24 Q. Let's take a moment and talk to the Examiner about  
25 how you have utilized this map for several things. First of

1 all, let's talk about the color code for the horizontal  
2 wells. When we look at the Boxer 3 in the south half of the  
3 north half of 3, it is a -- it's a light orange color?

4 A. Orange-reddish, yes.

5 Q. That color represents what, sir?

6 A. That is a planned well to be drilled.

7 Q. Have you displayed on this exhibit other horizontal  
8 wells that have that color code?

9 A. Yes. Over in Section 4 and Section 9 are three  
10 other locations that have been identified as potential  
11 locations that have permits to drill.

12 Q. Also on the map are horizontal wells that have a  
13 different color code. There are some over in 2 and 11 that  
14 are coded with a green color?

15 A. Yes.

16 Q. What does the green represent?

17 A. The green represents wells that are operated by  
18 Cimarex Energy Company.

19 Q. And then last there is some horizontal wellbores  
20 located on here using a purple color?

21 A. Yes, sir.

22 Q. And what do those represent?

23 A. Those colors represent wells producing from the --  
24 or drilled to the Wolfcamp Abo that are operated by other  
25 companies other than Cimarex Energy Company.

1 Q. I also see displayed on the isopach there is an  
2 overlay of a structural component?

3 A. That's correct.

4 Q. And describe for the examiner how he is going to see  
5 your structural lines on this map.

6 A. The structure lines here are represented by the gray  
7 lines. The contour interval for that is 100 feet. That  
8 contour interval represents the top of the Wolfcamp Formation  
9 or the base of the Lower Abo producing zone.

10 Q. There are three of those, and they are very lightly  
11 shaded in gray?

12 A. That's correct. And in the top left corner you see  
13 a minus, a subsurface value of minus 4200, and the dip is to  
14 the east, southeast at about 100 feet per mile.

15 Q. Let me ask you the conclusion about the structure.  
16 Does structure play any kind of significance for you in  
17 determining either risk or the consolidation of tracts for  
18 the 160-acre spacing unit?

19 A. Generally not.

20 Q. In this case it did not?

21 A. It did not.

22 Q. Let's look in the area, there's a well in 35 that  
23 says "Marshal and Winston"?

24 A. Yes, sir.

25 Q. What's the status of that wellbore?

1           A.    That well is plugged and abandoned.  It was drilled  
2   vertically down into the Lower Abo.  They drilled a lateral  
3   to the east and plugged the well without attempting a  
4   completion.

5           Q.    Do you have --

6                   EXAMINER EZEANYIM:  Is that in the Wolfcamp?

7                   THE WITNESS:  Yes.

8                   EXAMINER EZEANYIM:  On Section 35?

9                   THE WITNESS:  In Section 35, yes, that was drilled  
10   and plugged without attempting to --

11                   EXAMINER EZEANYIM:  When was that well drilled?

12                   THE WITNESS:  When?

13                   EXAMINER EZEANYIM:  Yeah, when.

14                   THE WITNESS:  I'm not exactly sure of the date, but  
15   it was approximately, I would guess, in the 2007 --

16                   EXAMINER EZEANYIM:  Okay.

17                   THE WITNESS:  -- 2008 time frame.

18                   EXAMINER EZEANYIM:  And they never produced  
19   anything?

20                   THE WITNESS:  That's correct.

21                   EXAMINER EZEANYIM:  Even on the horizontal well?

22                   THE WITNESS:  That's correct.

23                   EXAMINER EZEANYIM:  Do you know who drilled this?

24                   THE WITNESS:  The company is Marshal and Winston.

25                   EXAMINER EZEANYIM:  Okay.

1 Q. When you're -- that well is interesting to you as a  
2 geologist because you are looking for data points to tell you  
3 the thickness of the Abo Wolfcamp that's your target zone?

4 A. That's correct.

5 Q. Were you able to obtain from any source the  
6 thickness component realized from drilling that well?

7 A. Not with any degree of certainty.

8 Q. So what have you done in terms of your isopach in  
9 deciding where a zero line would be?

10 A. Well, we do know that they plugged the well without  
11 completing it. We do know that they had very thin shows  
12 within the interval of interest. They were not able to  
13 obtain a porosity log in that well. They were able to obtain  
14 a resistivity log only. And we know from comparing it to our  
15 other resistivity logs in this area that the zone is either  
16 very thin or absent in that well. So from that I have  
17 indicated on here that there may be a trace of porosity, but  
18 I don't have any way to measure that directly.

19 Q. As we move south, then, you are going to get to a  
20 data point for the Wasp 2 State Number 3 Well. I see 33  
21 feet.

22 A. Yes.

23 Q. That's a wellbore that Cimarex drilled?

24 A. Yes.

25 Q. Give us an understanding of how the data is gathered

1 from these horizontal wells. If you are looking for a  
2 thickness component for which to do calculations and  
3 construct maps, how do you achieve that in a horizontal  
4 wellbore?

5 A. We did it through the vertical well that we drill,  
6 and then by running porosity and resistivity logs we are able  
7 to calculate with some -- some standard cutoffs for net  
8 porosities and then sum that total within the producing  
9 interval.

10 Q. As the well then is drilled horizontally from that  
11 entry point, do you continue to have data from which you can  
12 get values about thickness of your -- your target zone?

13 A. No, sir.

14 Q. So for that entire lateral extent of the horizontal  
15 wellbore you have one data point?

16 A. That's correct.

17 Q. So as you move farther away from your entry point,  
18 you simply don't have data as to what the reservoir thickness  
19 is for your target?

20 A. That's correct.

21 Q. When we look at the 35 feet and go north to the  
22 Marshal and Winston, you have drawn in some contour lines. I  
23 assume that you have no controls for those lines?

24 A. That's right. They are just basically equal spaced  
25 between the Wasp 2 State Number 3 and the Marshal and Winston



1 Well just to reflect a thinning of the porosity interval.

2 Q. Let's do something. If you start at the Wasp Well  
3 with the 33 feet and follow the 30 foot contour line, it  
4 continues to the west and then goes down to the southwest and  
5 you keep going along that line until you get down to the  
6 south half of Section 9.

7 A. That's correct.

8 Q. At some point in that process do you get another  
9 data point?

10 A. Only at that point in the southwest quarter of  
11 Section 9 is the only data point for that contour.

12 Q. And what was that number?

13 A. That was 29 feet.

14 Q. And using those two numbers then you have displayed  
15 this configuration of what appears to be the isopach of the  
16 top of the Wolfcamp?

17 A. That's correct.

18 Q. When you look at the south half of the north half of  
19 the proposed spacing unit, Mr. Tresner has subdivided this  
20 into the three tracts, and you can see visually how those are  
21 divided among the spacing unit?

22 A. Yes.

23 Q. Based upon the data that you now have, is it  
24 possible to apportion a relative share to the 40-acre tracts  
25 on anything other than a straight acreage basis?

1 A. I don't believe so, no.

2 Q. If you hypothecate at the point of entry for the  
3 Boxer 3 1 Well, and say it's like the Wasp 2, 3, that you are  
4 going to get about 33 feet --

5 A. Yes, that's what we believe.

6 Q. -- you would have that value at the entry point for  
7 thickness, but as you move to the west you have no other  
8 value for thickness?

9 A. That's correct.

10 Q. It would not be possible to generate any reliable  
11 net pay isopach or volumetric calculation or some kind of  
12 full volume calculation to apportion recoverable oil per  
13 tract?

14 A. That is right. We cannot do that.

15 Q. So coming back to the conclusion, then, the science  
16 available for horizontal wells doesn't give you the option to  
17 apportion relative share of production to individual  
18 tracts?

19 A. That's correct.

20 Q. You have to do it on a straight-acreage basis?

21 A. Yes.

22 Q. And you think that's fair and reasonable?

23 A. Yes.

24 MR. KELLAHIN: That concludes my examination of Mr.  
25 Worthington. We move the introduction of his Exhibit

1 Number 10.

2 EXAMINER EZEANYIM: Exhibit 10 will be admitted.

3 (Exhibit 10 admittted.)

4 EXAMINER EZEANYIM: Thank you for that clarification  
5 that you are making. That eliminates some of my questions  
6 with those answers. Why did you include that Marshal and  
7 Winston Well that is non-productive, why did you put it in  
8 your testimony?

9 THE WITNESS: Well, I have to have that there as a  
10 data point because it did penetrate the formation.

11 EXAMINER EZEANYIM: Okay. Now, if you did penetrate  
12 the formation, that means that we have -- it appears to me  
13 that you don't drill a horizontal well as a Wildcat, right,  
14 do you?

15 THE WITNESS: I'm sorry, would you ask that again?

16 EXAMINER EZEANYIM: Do you drill a horizontal well  
17 as a Wildcat well?

18 THE WITNESS: We don't consider this necessarily a  
19 Wildcat well because we are --

20 EXAMINER EZEANYIM: I'm not talking about yours.  
21 I'm talking about that, because I asked you why you included,  
22 and you say, "Well, I want to include to show a data point,"  
23 which I appreciate you did that because I might have to go  
24 out and find an API and see why that well was drilled. Your  
25 well currently you are going to drill vertical is more than

1 \$5 million. That well may be as much, if you attempt it, but  
2 now is wet.

3 So my point is -- and then that would bring us to  
4 intention -- the intention to drill horizontal wells. So if  
5 that well is wet, it's not produced anything, I begin to  
6 wonder whether you have geologist and engineers who advised  
7 them not to drill that well because it's not going to produce  
8 anything. Before you drill a well, a horizontal well, you  
9 must have the data point which you are doing here. I'm not  
10 criticizing you. I'm just happy that that well was drilled  
11 and it didn't produce anything. It's not something wrong  
12 with you, you know, don't get me wrong. But when you said  
13 it's non-productive, it could have been non-productive  
14 because it could have gotten data to demonstrate that they  
15 were going to get something.

16 Now, if you have data demonstrating you are going to  
17 get something, then we wonder here, because now you're  
18 relying here on those wells along the east west horizon, is  
19 that really the real orientation? Do you see what I'm  
20 saying?

21 THE WITNESS: Uh-huh.

22 EXAMINER EZEANYIM: Could that have changed to north  
23 south, you know, because to approve any project area, we want  
24 to strike the most productive, you know, zone of that pool.  
25 If the east west is not going to do it, maybe we try north

1 south. Depends on the lenticular of the pool, and that would  
2 be the work of the geologist to determine that.

3 THE WITNESS: That's correct.

4 EXAMINER EZEANYIM: It's also the work of the  
5 engineers to find out offsets, whether, you know, if you  
6 drill a \$10 or \$5 million well, are you going to be  
7 productive. And that well -- one of the questions I'm going  
8 to ask you, why are we going east west? And that is really  
9 tantamount to why that project area could be approved.  
10 Because if the project area is not approved, they are no  
11 compulsory pooling going on, we don't approve the project  
12 area before we consider the compulsory pooling as part of the  
13 application.

14 So that's why when you say that was non-productive,  
15 I begin to wonder -- working as an engineer to drill that  
16 well in that section, I will make sure that I was going to  
17 get something, because to advise my client to do \$5 million  
18 and don't get anything -- so I don't know, I hope it's not.

19 Then that brings us, you have this green, I'm very  
20 color blind, you want to operate this one in green.

21 THE WITNESS: Yes.

22 EXAMINER EZEANYIM: Okay. You are producing them  
23 now from the Wolfcamp?

24 THE WITNESS: Yes.

25 EXAMINER EZEANYIM: Are they productive?

1 THE WITNESS: Yes.

2 EXAMINER EZEANYIM: How prolific are they?

3 THE WITNESS: Very prolific. On the order of 600 to  
4 800 barrels a day on initial production.

5 EXAMINER EZEANYIM: Okay, very good. But that one  
6 on that 5 -- of course on that -- but the way you have been  
7 drilling at all in that 5, because they are not in there,  
8 they are part of the Wolfcamp, right?

9 THE WITNESS: It was a very risky well to drill.  
10 They did step out quite a way from existing production, and I  
11 believe that it was based on their lease ownership, that was  
12 as close as they could get to existing production. And there  
13 was no other data for them to say yes or no, so it was a very  
14 risky location for them to drill.

15 EXAMINER EZEANYIM: Well, that's a commercial waste.  
16 I'm not -- well, I don't know if I'm supposed to prevent  
17 commercial waste. I'm supposed to prevent hydrocarbon waste,  
18 and they didn't find any so they lost the money?

19 THE WITNESS: They did.

20 EXAMINER EZEANYIM: Now, let's go to your  
21 orientation. The orientation I can see across the way you  
22 indicated on this isopach, and you really cut most of the  
23 well for the horizontal well east west?

24 THE WITNESS: Yes.

25 EXAMINER EZEANYIM: And you told me that all are

1     prolific. You don't know -- other operators, I'm assuming  
2     that they drill wells, too?

3             THE WITNESS: They are. This is a very good area in  
4     this formation, very good production rates for all of the  
5     wells here.

6             EXAMINER EZEANYIM: Excellent. Okay. I know this,  
7     that we ask to see, do we actually approve your non-standard  
8     spacing unit under the current rule. Under the proposed rule  
9     it might be different. I hope you were here last week when  
10    we were presenting that to the Commission, but I'm hoping  
11    that when the new rule is approved it's going to make your  
12    job lighter. But one of the questions I'm going to ask, I'm  
13    going to ask this question to the engineer is, why are you  
14    going that east west? And your attorney said that on this  
15    map here, that's why you are doing that, so that's my  
16    question.

17            Let me see if I have any other questions here.  
18    Okay. Now, I see the frac in that project area, and then I  
19    know they are acreage basis, right?

20            THE WITNESS: Yes.

21            EXAMINER EZEANYIM: Has to be on acreage, not on the  
22    project?

23            THE WITNESS: That's right.

24            EXAMINER EZEANYIM: Anyway, that concludes my --

25            MR. KELLAHIN: Thank you, Mr. Examiner. That

1 concludes our case.

2 EXAMINER EZEANYIM: Okay. Thank you very much. At  
3 this point Case Number -- Case Number 14730 will be taken  
4 under advisement.

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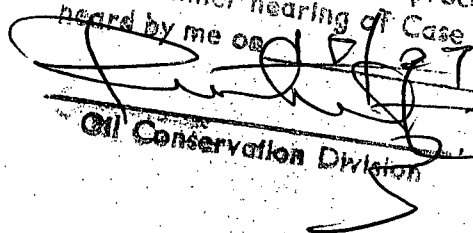
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 14730  
heard by me on 08/27/11  
  
Oil Conservation Division, Examiner

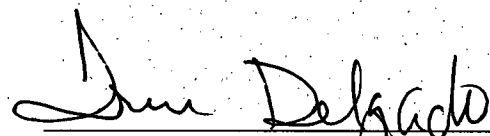


## REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY  
CERTIFY THAT ON October 27, 2011, proceedings in the  
above-captioned case were taken before me and that I did  
report in stenographic shorthand the proceedings set forth  
herein, and the foregoing pages are a true and correct  
transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by nor  
related to nor contracted with 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.

WITNESS MY HAND this \_\_\_\_\_ day of November  
2011.

  
Irene Delgado, CCR 253  
Expires: 12-31-2011