

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 NO: 14764

APPLICATION OF CIMAREX ENERGY COMPANY OF COLORADO FOR
APPROVAL OF A NON-STANDARD OIL SPACING AND PRORATION UNIT, AN
UNORTHODOX LOCATION, AND COMPULSORY POOLING, LEA COUNTY, NEW
MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Technical Examiner
DAVID K. BROOKS, Legal Examiner

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January 19, 2012

Santa Fe, New Mexico

This matter came on for hearing before the New
Mexico Oil Conservation Division, WILLIAM V. JONES, Technical
Examiner, and DAVID K. BROOKS, Legal Examiner, on January 19,
2012, at the New Mexico Energy, Minerals and Natural
Resources Department, 1220 South St. Francis, Drive, Room
102, Santa Fe, New Mexico.

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2 FOR FUEL PRODUCTS INC.:
3 HOLLAND & HART
4 ADAM RANKIN
5 P.O. Box 2208
6 Santa Fe, NM 87504-2208

7 FOR THE APPLICANT:
8 JIM BRUCE
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11 I N D E X

12 WITNESSES
13 MIKE WALLACE
14 Direct by Mr. Bruce 04
15 LEE CATALANO
16 Direct by Mr. Bruce 21

17 EXHIBITS
18 EXHIBITS 1 THROUGH 8 ADMITTED 14
19 EXHIBITS 9 THROUGH 13 ADMITTED 26
20
21
22
23
24
25

1 EXAMINER JONES: Let's go back on the record this
 2 morning and call Case 14764, application of Cimarex Energy of
 3 Colorado for approval of a non-standard oil spacing and
 4 proration unit in an unorthodox location and compulsory
 5 pooling, Lea County, New Mexico. Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce representing the
 7 applicant. I have two witnesses.

8 EXAMINER JONES: Other appearances?

9 MR. RANKIN: Adam Rankin with Holland and Hart,
 10 Santa Fe, representing Fuel Products Incorporated. No
 11 witnesses.

12 EXAMINER JONES: Say again?

13 MR. RANKIN: Fuel Products.

14 EXAMINER JONES: Fuel Products. Any other
 15 appearances?

16 EXAMINER JONES: I think I have something about from
 17 Spiral.

18 MR. BRUCE: Mr. Examiner, they -- and I will into
 19 this towards the end of Mr. Wallace's testimony, but Ernie
 20 Padilla entered an appearance on behalf of Spiral Inc., and
 21 David Vanderburg entered an appearance on behalf of Read and
 22 Stevens, Inc., and some of their internal working interest
 23 partners. And Mr. Wallace will testify that we have more or
 24 less come to terms, but there is a couple of things I will
 25 mention when get to the notice issues.

1 EXAMINER JONES: Two witnesses, and no witnesses for
2 Fuel Products?

3 MR. RANKIN: That's correct.

4 EXAMINER JONES: Will the two witnesses please stand
5 and state your names.

6 MR. WALLACE: Mike Wallace.

7 MR. CATALANO: Lee Catalano.

8 (Witnesses duly sworn.)

9 MIKE WALLACE

10 (Sworn, testified as follows:)

11 DIRECT EXAMINATION

12 BY JIM BRUCE:

13 Q. Would you please state your name and city of
14 residence?

15 A. Mike Wallace, Midland, Texas.

16 Q. Who do you work for and in what capacity?

17 A. Landman Cimarex Energy.

18 Q. Have you previously testified before the Division?

19 A. Yes.

20 Q. Were your credentials as an expert petroleum landman
21 accepted as a matter of record?

22 A. Yes.

23 Q. Are you familiar with the land matters involved in
24 this case?

25 A. I am.

1 MR. BRUCE: Mr. Examiner, I tender Mr. Wallace as an
2 expert petroleum landman.

3 EXAMINER JONES: Any objection?

4 MR. RANKIN: No objection.

5 EXAMINER JONES: He is so qualified.

6 Q. Mr. Wallace, could you identify Exhibit 1 and
7 describe what Cimarex seeks in this case?

8 A. Exhibit 1 is a company plat identifying the well
9 unit for the Chaparral 33 Fed Number 3 Well. Cimarex Energy
10 of Colorado seeks an order approving 160-acre non-standard
11 oil well unit from the Bone Spring Formation from the east
12 half east half of Section 33, 19 South, 34 East.

13 Q. Turning to Page 2 of Exhibit 1, what is the well's
14 location?

15 A. The well's location -- it's going to be a horizontal
16 well. The surface location will be 230 feet from the north
17 line and 810 feet from the east line with a terminus of 330
18 feet from the south line 660 from the east line.

19 Q. Will the entire producing interval be at an orthodox
20 location?

21 A. It will.

22 Q. What is -- turning to Page 3 of Exhibit 1 -- what is
23 the reason for the well's unorthodox surface location?

24 A. There is preexisting pipelines and roads.

25 Q. And why did you move the well to the north rather

1 than the south?

2 A. To maximize the -- the interval.

3 Q. The productive interval?

4 A. Productive interval, yes.

5 Q. Okay. And turning to Exhibit 2, what is the
6 interest -- or could you identify Exhibit 2 for the Examiner,
7 please?

8 A. Exhibit 2 is a portion of our title opinion which
9 shows all the working interest owners and their interest.

10 Q. Okay. Now, there's a, "Before Payout Interest," and
11 "After Payout Interest," correct?

12 A. That is correct.

13 Q. So there is some after payout people who do not own
14 in the -- who do not own before payout interest?

15 A. Correct.

16 Q. Okay. And of these parties, maybe -- obviously you
17 don't -- take a step back. Is Cimarex Energy of Colorado the
18 operator for Magnum Hunter Production?

19 A. Yes.

20 Q. Is Magnum Hunter Production a related sister company
21 of Cimarex?

22 A. It's a wholly-owned subsidiary, yes.

23 Q. Okay. So obviously you are not seeking to force
24 pool Magnum Hunter?

25 A. No.

1 Q. Of the parties listed, are you -- which ones are you
2 not seeking to pool, maybe at this point.

3 A. We have reached agreement with Watson Properties,
4 Pecos Air and HHB Limited Partnership.

5 Q. Okay. So other than that, at this point you are
6 seeking to force pool everyone?

7 A. That's correct, everyone.

8 Q. In a minute we will talk about your negotiations.
9 Do you have either signed AFEs or verbal agreements from a
10 number of parties?

11 A. I do.

12 Q. And when you receive their signatures on the JOA,
13 will you notify the OCD so that they are not subject to a
14 pooling order?

15 A. That's correct.

16 Q. Okay. Let's discuss your efforts to obtain the
17 voluntary joinder of the interest owners in the well. What
18 is Exhibit 3?

19 A. Exhibit 3 is a summary sheet of the well proposals.
20 We originally proposed all the parties or a large portion of
21 the parties in August 2010. For rig scheduling reasons and
22 title issues, we retracted those proposals and repropose in
23 early 2011.

24 Q. So you first proposed the well about a year and a
25 half ago?

1 A. That is correct.

2 Q. And then repropose it about a year ago?

3 A. Correct.

4 Q. And in looking through, there are certain -- there
5 are letters from August 2010, January 2011, February 2011,
6 and March 2011. Is that correct?

7 A. That's correct.

8 Q. And have you -- did you also send the parties a
9 proposed form of JOA?

10 A. I did.

11 Q. And have you had e-mails and telephone conferences
12 with any of the interest owners?

13 A. Yes. I have had numerous conversations,
14 negotiations, and whatnot over the past year, year and a
15 half.

16 Q. At this point it's kind of hard to remember how many
17 you have had?

18 A. Most definitely, yes.

19 Q. But you have had ongoing negotiations with these
20 interest owners?

21 A. I have.

22 Q. And do Exhibits 4A through 4E contain copies of your
23 correspondence with the parties?

24 A. Yes.

25 MR. BRUCE: And that's where the bulk of the

1 paperwork comes in, Mr. Examiner. What you will see are
2 letters, grouped by date of send out, but there are -- there
3 is quite a bit of correspondence in there. There is actually
4 more correspondence than that, but I figured this was enough.

5 EXAMINER BROOKS: I agree. Ponderous, indeed.

6 MR. BRUCE: Just to show that they have been in
7 touch.

8 Q. And were all of the interest owners locatable
9 parties?

10 A. Yes.

11 Q. Okay. In your opinion, has Cimarex made a
12 good-faith effort to obtain the voluntary joinder of the
13 interest owners in the well?

14 A. I do.

15 Q. Would you identify Exhibit 5 and discuss the cost of
16 the proposed well.

17 A. Exhibit 5 is our AFE for the Chaparral 33 Fed 3.
18 We've got a dry hole of \$3,126,000, an estimated cost, and as
19 well as completed well cost of \$7,040,000.

20 Q. And is this cost in line with the cost of other
21 horizontal Bone Spring wells drilled in this area of New
22 Mexico?

23 A. Yes, it is.

24 Q. Do you request that Cimarex Energy of Colorado be
25 appointed operator of the well?

1 A. Yes.

2 Q. Do you have the recommendation for the amounts which
3 Cimarex should be paid for supervision and administrative
4 expenses?

5 A. Yes.

6 Q. Go ahead.

7 A. I'm sorry. We do request 7,000 a month allowed for
8 drilling the well and \$700 a month for producing.

9 Q. And are these amounts equivalent to those normally
10 charged by operators for wells of this depth in this area of
11 New Mexico?

12 A. Yes.

13 Q. Do you request that the overhead rates be adjusted
14 periodically as appointed by the COPAS accounting
15 procedure?

16 A. Yes.

17 Q. One point I forgot to ask you. At this point, what
18 is the percentage interest committed to the well?

19 A. We have 71.27 percent committed and 28.73
20 uncommitted.

21 Q. And do you anticipate a lot of that 28 percent will
22 eventually be committed?

23 A. I anticipate all of it.

24 Q. Okay.

25 A. If not, the majority.

1 Q. And were the uncommitted interest owners notified of
2 this hearing?

3 A. Yes.

4 Q. Looking at Exhibits -- and is that reflected in the
5 affidavit of notice from our Exhibit 6?

6 A. Yes, that is correct, yes.

7 Q. Looking at Exhibit 6, Mr. Wallace, if you turn to
8 the back three pages, there's a track and confirm notice from
9 USPS, and Steven Rodrigue, individually and as trustee of a
10 certain trust, is that address the letter where you sent the
11 proposal letters to those entities?

12 A. That is correct.

13 Q. And in Exhibit 4A through 4E, your proposal letters
14 were sent certified mail, were they not?

15 A. Correct.

16 Q. And letters sent to that address were received and
17 signed for by those parties, were they not?

18 A. That is correct.

19 MR. BRUCE: So, Mr. Examiner this shows that they
20 didn't pick up the mail, but it is a current address for
21 those parties.

22 Q. Now, Mr. Wallace, the last two pages are letters
23 sent to Mr. Rankin's clients. Have you had contact with Tom
24 Beall who is the president of Fuel Products and the, I
25 believe, the husband of Carolyn Beall, correct?

1 A. That is correct.

2 Q. What did Mr. Beall tell you about the notice that
3 was sent?

4 A. He said that he didn't -- did not receive the
5 notice.

6 Q. And there was no -- there were no cards left?

7 A. That is correct.

8 Q. There were no cards left at his P. O. box?

9 A. That is correct.

10 Q. And this is a correct address for him, P. O. Box
11 3098?

12 A. That is correct. That's where we sent the
13 proposals, and Tom verbally told me that is his P. O. box.

14 MR. BRUCE: The reason I bring this up,
15 Mr. Examiner, I have had contact, telephone conferences with
16 Mr. Carr, not with Mr. Rankin, but Mr. Beall did want to
17 receive, and his entity, his wife, and Fuel Products did want
18 to receive actual notice. What Mr. Carr and I discussed is
19 that I will resend notice, so, at the end of this hearing, I
20 would like this hearing -- this case continued for four
21 weeks. I will send him additional notice to these three
22 entities. They requested that, and we have no problem with
23 doing that.

24 And I have informed both Mr. Padilla on behalf of
25 Spiral Inc. and Mr. Vanderburg on behalf of Read and Stevens

1 Inc. that we were going to do this, and they were -- they had
2 no objection to that being done, either, obviously.

3 Q. And, Mr. Wallace, do you continue to work with Fuel
4 Products and Mr. Beall?

5 A. Yes.

6 Q. Are you continuing to work with Read and Stevens
7 Inc.?

8 A. Yes, I am.

9 Q. Do you plan on meeting with them this afternoon?

10 A. Yes.

11 Q. Have you been in touch with Spiral Inc., also,
12 regarding their concern?

13 A. That is correct.

14 Q. Finally, Mr. Wallace, does Exhibit 7 list all of the
15 offset operators to the non-standard unit?

16 A. Yes.

17 Q. And was notice given to those operators?

18 A. Yes, that's correct. It's reflected in Exhibit A.

19 MR. BRUCE: And, Mr. Examiner, Exhibit A is the only
20 notice given to Chesapeake. All of the other offsets
21 received notice as part of the Exhibit 6 notice.

22 EXAMINER BROOKS: So they also have interest in the
23 unit?

24 MR. BRUCE: Yes.

25 Q. Were Exhibits 1 through 8 prepared by you or under

1 your supervision or compiled from company business records?

2 A. Yes.

3 Q. And, in your opinion, is the granting of this
4 application in the interest of conservation and prevention of
5 waste?

6 A. Yes, that's correct.

7 MR. BRUCE: Mr. Examiner, I move admission of
8 Exhibits 1 through 8.

9 EXAMINER JONES: Any objection?

10 MR. RANKIN: No objection.

11 EXAMINER JONES: Exhibits 1 through 8 will be
12 admitted.

13 (Exhibits 1 through 8 admitted.)

14 MR. BRUCE: I have no further questions of the
15 witness.

16 EXAMINER JONES: Mr. Rankin?

17 MR. RANKIN: No questions.

18 EXAMINER JONES: No questions?

19 MR. RANKIN: No.

20 EXAMINER JONES: Well, that throws it back onto the
21 engineer to ask land questions, so I will start them out.
22 Magnum Hunter is a wholly-owned subsidiary, but they are not
23 going to be the operator? I thought they had 68 percent in
24 this well?

25 THE WITNESS: Actually they are the -- they are a

1 wholly-owned subsidiary of Cimarex Energy Company, and
2 Cimarex Energy of Colorado is the actual operator for Magnum
3 Hunter because we acquired Magnum Hunter.

4 EXAMINER JONES: Oh, okay. Okay. So Cimarex Energy
5 Company in Colorado will be the operator?

6 THE WITNESS: Yes, that's correct.

7 EXAMINER JONES: And the -- let's see. And you said
8 all owners -- you had -- you had P. O. boxes or addresses for
9 all of them, but to reiterate that, some of them didn't pick
10 up their mail, is that correct?

11 THE WITNESS: Yes, we -- with the address that we
12 had sent information to them before, we proposed wells and
13 sent them notice, and as in with Tom Beall, there was an
14 issue with the mail, I guess, and --

15 EXAMINER JONES: For this case. But previously,
16 these addresses have been workable?

17 THE WITNESS: That's correct.

18 EXAMINER JONES: Okay. Okay. And what kind of deal
19 are you offering these people that they don't want to sign
20 on?

21 THE WITNESS: Honestly, we've done the gamut on
22 deals. I'm doing farm-outs. I'm doing term assignments.
23 I'm -- with Read and Stevens, we were negotiating a joint
24 venture for a number of months, and they eventually decided
25 to participate, and that's when we started negotiating JOAs.

1 EXAMINER JONES: Read and Stevens has had lots of
2 changes in their --

3 THE WITNESS: They have, yes.

4 EXAMINER JONES: And does Spiral, you said they have
5 signed on now. Is that correct?

6 THE WITNESS: They are evaluating a proposal. I
7 think they are going to participate. It's in the -- in the
8 works. They had a -- I guess one of the family members had
9 something happen there, and so they were -- they couldn't get
10 an answer in the past several weeks, so they are going to
11 make a decision soon, I think.

12 EXAMINER JONES: So it's not a done deal right now?

13 THE WITNESS: No, it's not, as with several parties
14 in there.

15 EXAMINER JONES: And is that the same -- I'm sorry.
16 You went into the Fuel Products status extensively, but it's
17 not a done deal with them, either. Is that correct?

18 THE WITNESS: That's correct. They -- they are
19 evaluating the proposal and JOA.

20 EXAMINER JONES: Okay. And you are going to have
21 another witness to talk about the Bone Spring target?

22 THE WITNESS: Yes.

23 EXAMINER JONES: The -- the notice for the
24 non-standard location, all of the producing interval, you
25 say, will be in -- will be orthodox?

1 THE WITNESS: (Nodding.)

2 EXAMINER JONES: But you did provide any notice for
3 the surface location being -- or portions of the well being
4 unorthodox under current rules? It would be encroaching on
5 the south -- well, the 40 acres in the south -- southeast
6 southeast of Section 28.

7 MR. BRUCE: Mr. Examiner, if you go to Exhibit 7.

8 EXAMINER BROOKS: I think Exhibit 7 is a list of
9 offset operators.

10 MR. BRUCE: The only two parties are Cimarex and
11 Chesapeake, and they -- of course Cimarex didn't need notice,
12 but Chesapeake was given notice.

13 EXAMINER JONES: Okay. And when the notice went
14 out, the whole project was noticed to them?

15 MR. BRUCE: Yes.

16 EXAMINER BROOKS: I was going to ask some questions
17 about that, but I will get to that point when you get
18 through.

19 EXAMINER JONES: Actually, I'm through, David. Go
20 ahead.

21 EXAMINER BROOKS: Well, we get a little bit of
22 problem on this use of the term producing interval, and
23 usually you are pretty careful about it, Mr. Bruce, I
24 noticed, but when you say the producing interval will be a
25 standard -- or the producing interval will be at a standard

1 location, does that mean all of the wellbore that's within --
2 well, what's the target formation?

3 THE WITNESS: Bone Spring.

4 EXAMINER BROOKS: Bone Spring, that's right. I was
5 thinking I wasn't sure if I had it confused with the previous
6 case. But is all of the -- will all of the wellbore that's
7 in the Bone Spring Formation be at a standard location?

8 THE WITNESS: Yes.

9 EXAMINER BROOKS: So it's not going to penetrate the
10 top of the Bone Springs --

11 MR. BRUCE: Mr. Examiner, I think maybe our next
12 witness could better discuss that because he does have the
13 well plans.

14 EXAMINER BROOKS: Yeah, well what I was trying to
15 figure out was whether there actually is a non-standard
16 location under the present rule.

17 MR. BRUCE: I think the penetration point in the
18 Bone Spring will be at an unorthodox location.

19 EXAMINER BROOKS: Okay. That's what I was trying to
20 figure out, but you said the next witness can testify.

21 MR. BRUCE: Yes.

22 EXAMINER BROOKS: You are going to re-notice this,
23 you said, by agreement?

24 MR. BRUCE: I was going to re-notice it to
25 Mr. Rankin's clients.

1 EXAMINER BROOKS: Even though they are here, they
2 are prepared --

3 MR. BRUCE: They requested --

4 EXAMINER BROOKS: You have done that by agreement
5 with them that you will give them new notice. And how long
6 are you going to ask us to continue the case?

7 MR. BRUCE: Four weeks.

8 EXAMINER BROOKS: Four weeks. So there is a pretty
9 good chance when the order comes out on this that the new
10 horizontal well rule will be in effect.

11 MR. BRUCE: That could be.

12 EXAMINER BROOKS: But we don't know that. When you
13 said the producing interval is entirely within the, within --
14 what you really mean is the completed interval as defined in
15 the new rule will be entirely within --

16 MR. BRUCE: The project area.

17 EXAMINER BROOKS: -- the project -- well, within the
18 producing area.

19 MR. BRUCE: Yes.

20 EXAMINER BROOKS: In the horizontal well at least.
21 Now, on these people that you've got -- that you did not have
22 green cards from, which ones are those?

23 MR. BRUCE: That would be Exhibit 6. Really,
24 Mr. Examiner, it would be Mr. Rankin's client, Tom Beall,
25 Carolyn Beall, and Fuel Products, who are all -- tom Beall is

1 the president of Fuel Products.

2 EXAMINER BROOKS: So there is nobody that's not here
3 represented that you don't have a green card from?

4 MR. BRUCE: The only one we don't have, other than
5 Mr. Rankin's clients.

6 EXAMINER BROOKS: Steven Rodrigue?

7 MR. BRUCE: Yes. And if you look at the prior
8 correspondence, the Exhibits 4A through 4E, you will see that
9 letters were sent to him at the same address, and green cards
10 came back.

11 EXAMINER BROOKS: Okay. And when was that? What's
12 the time frame involved there?

13 MR. BRUCE: Certainly last -- you know, a year
14 ago.

15 EXAMINER BROOKS: Have you got anything to confirm
16 that his address is still valid?

17 MR. BRUCE: I will ask Mr. Wallace.

18 Q. (By Mr. Bruce) Are they part of the Read and
19 Stevens group, Mr. Wallace?

20 A. Not that I'm aware of.

21 Q. Well, I don't have --

22 A. Here. Go ahead.

23 Q. Give me all of them.

24 A. Sure.

25 MR. BRUCE: Mr. Examiner, if you look at Exhibit

1 4C --

2 EXAMINER BROOKS: Four C.

3 MR. BRUCE: -- the very first top page.

4 EXAMINER BROOKS: Okay.

5 MR. BRUCE: You will see the same address, and there
6 is a green card on Page 2.

7 EXAMINER BROOKS: Of course that was a year ago, and
8 people can move within a year, so, you know, you are going to
9 be continuing the case for four weeks, anyway, you might want
10 to check into that and see if you can get any information
11 about whether -- get us any information about whether that
12 address is still valid.

13 MR. BRUCE: Okay.

14 EXAMINER BROOKS: I think that's all I have.

15 MR. BRUCE: I have nothing further of this witness.

16 LEE CATALANO

17 (Sworn, testified as follows:)

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name and city of
21 residence?

22 A. Lee Catalano, Midland, Texas.

23 Q. Who do you work for and in what capacity?

24 A. I'm a geologist with Cimarex Energy.

25 Q. Have you previously testified before the Division?

1 A. Yes.

2 Q. Were your credentials as an expert geologist
3 accepted as a matter of record?

4 A. Yes.

5 Q. Does your area of responsibility at Cimarex include
6 this portion of Southeast New Mexico?

7 A. Yes, it does.

8 Q. Are you familiar with the geology involved in this
9 application?

10 A. Very much.

11 MR. BRUCE: Mr. Examiner, I tender Mr. Catalano as
12 an expert petroleum geologist.

13 EXAMINER JONES: Any objection?

14 MR. RANKIN: No objection.

15 EXAMINER JONES: So qualified.

16 Q. Mr. Catalano, I will interfere as little as possible
17 in your testimony, why don't we start with your first
18 exhibit, Exhibit 9, what does that reflect?

19 A. Exhibit 9 is a. --

20 Q. First of all, take a step back, what interval are
21 you seeking to test with this proposal?

22 A. Specifically the Third Bone Spring Sandstone.

23 Q. Okay.

24 A. Which is part of the Bone Spring Formation.

25 Q. Okay. Then move on to Exhibit 9.

1 A. Exhibit 9 is a production map of the area. The
2 Chaparral 33 Number 3 surface and down hole location are
3 shown in red there, the east half east half of Section 33
4 where we plan to drill this well. The green -- or the wells,
5 all the wells are shown on this map. The green, large green
6 circles that you see are wells that produce from the Bone
7 Spring Formation at some interval within the Bone Spring, not
8 necessarily the Third Bone Spring. And then the cums, oil
9 cums are listed in green below each well.

10 Q. Okay. Looking at this well unit, there are three
11 existing Bone Spring Wells. Are those Third Bone Spring
12 producers?

13 A. No, they're not, and I'll show you on a
14 cross-section here in a little bit where they produce from.

15 Q. What does Exhibit 10 reflect?

16 A. Exhibit 10 is a structure map at the top of the
17 Bone -- at the top of the Bone Spring Formation, and what is
18 shown is this gentle dip from north to south across the area.
19 Our well we'll be drilling in a slightly down -- going in a
20 slightly down-dip direction.

21 Q. And what is be Exhibit 11?

22 A. Exhibit 11 is a net porosity isopach map of the
23 target, Third Bone Spring C Sandstone, what we called the C
24 Sandstone, that's the reservoir that we are targeting. It's
25 productive. In Section 34 we have drilled four horizontal

1 wells there in Section 34. We have drilled another one over
2 in Section 32.

3 Q. And based on this map would you expect each quarter
4 quarter section to contribute to a -- fairly equally to
5 production from the well?

6 A. Yes. Based upon the control I have, the net sand
7 pay along the lateral path should be somewhere between 20 to
8 30 feet.

9 Q. Let's move on to your cross-section, Exhibit 12.
10 Please discuss that for the Examiner.

11 A. Okay.

12 What I have shown on this cross-section is the north
13 south cross-section. On the left is our proposed well,
14 Chaparral 33 Number 3, far left of the cross-section. And
15 our bottom hole location in the southeast and the southeast
16 would be approximately equal in depth to the last well you
17 see on the cross-section. That's the well, the Mallon 34 Fed
18 Number 16, which is a third -- it's a horizontal well that
19 produces out of the C Sandstone, so that's our target. And
20 what you notice on the cross-section is, in our well, on the
21 far left, our target, to land our curve is at 10,820 feet.
22 None of the three existing Bone Spring Wells that we'll be
23 drilling right past is that -- is deep enough to hit that
24 zone. They are all producing out of the -- the First Bone
25 Spring pay interval.

1 Q. In looking at your exhibits combined, would you
2 anticipate that this horizontal well can efficiently and
3 economically drain this portion of the Third Bone Spring
4 Sand?

5 A. Yes, I do.

6 Q. Finally, Mr. Catalano, what is Exhibit 13?

7 A. Exhibit 13 is our directional plan.

8 Q. Maybe --

9 A. Preliminary directional plan that we are required to
10 submit with the well permit application.

11 Q. And if you would turn to the very last page, could
12 you discuss where the end of the curve will -- will come, and
13 discuss whether that will be orthodox?

14 A. Yeah. The end of the curve, it would actually be
15 easier -- okay. If you look -- that is a diagrammatic
16 picture of what it's going to look like from north to south,
17 but if you look up in here where it says, "Section Details,"
18 and you look at the -- there's the middle line there that
19 says, "TVD 10820, inclination 90 degrees," and if you look at
20 the north south, it says, "Minus 191 feet," essentially, so
21 that curve will be landed 191 feet south of the surface
22 location. So our surface location is at 200 -- 200 feet.

23 Q. 230 feet?

24 A. 230 feet, plus that 190, so that's going to be,
25 what?

1 Q. 420 feet?

2 A. 420 feet.

3 Q. From the north line?

4 A. From the north line.

5 Q. And that will be the beginning of the productive
6 interval?

7 A. Yes.

8 Q. Okay. And how many frac stages does Cimarex
9 normally use on these wells?

10 A. We, currently we are using eight stages, and about
11 350,000 pounds of sand per stage.

12 Q. Were Exhibits 9 through 13 prepared by you or
13 compiled from company business records?

14 A. Yes.

15 Q. And, in your opinion, is the granting of this
16 application in the interest of conservation and prevention of
17 waste?

18 A. Yes, I do.

19 MR. BRUCE: Mr. Examiner, I move the admission of
20 Exhibits 9 through 13.

21 EXAMINER JONES: Any objection?

22 MR. RANKIN: No objection.

23 EXAMINER JONES: Exhibits 9 through 13 will be
24 admitted.

25 (Exhibits 9 through 13 admitted.)

1 MR. RANKIN: No questions.

2 EXAMINER JONES: The -- but clearly it looks like --
3 well, let me first ask you, on the Bone Spring -- the -- the
4 OCD pools in this area, is there going to be a Wildcat pool,
5 or does it have a defined pool?

6 THE WITNESS: I don't know what it -- maybe Jim has
7 that. It's not Wildcat, no. It's within a defined pool, I
8 believe.

9 EXAMINER JONES: Because you guys have drilled right
10 next door in the Third Bone Spring C Sand to the east. Is
11 that correct?

12 THE WITNESS: Correct.

13 EXAMINER JONES: And those were all drilled east
14 west?

15 THE WITNESS: Yes.

16 EXAMINER JONES: And here you are drilling north
17 south.

18 THE WITNESS: Uh-huh, yes.

19 EXAMINER JONES: Because geologic reasons?

20 THE WITNESS: Yes. The way I have it mapped, it's
21 going to be thicker that way, plus we're -- I like to stay
22 close to production. We've got four producing wells in that
23 next section, so we are going to step our way out to the
24 west.

25 EXAMINER JONES: But your structure map shows it

1 dropping off to the south. Is that correct?

2 THE WITNESS: That's correct.

3 EXAMINER JONES: So usually you design your well to
4 drain from the end back closer to the pilot hole or the
5 surface hole location, but because the formation is dropping
6 off to the south is that still going to be possible?

7 THE WITNESS: Oh, yes. It's not that much dip and
8 there's not enough -- there is plenty of reservoir pressure
9 that that's not a factor.

10 EXAMINER JONES: Okay. Okay. Well, I'll look at
11 the pool here, but if the pool starts at the top of the Bone
12 Spring Formation, it looks like under current rules, it's
13 still -- now, is the casing that would happen here, is
14 that -- are you going to case off your curve?

15 THE WITNESS: Well, yeah, let me explain. What
16 we'll do here, we are going to drill a pilot hole down
17 basically to scratch the top of the Wolfcamp Formation so we
18 can see the porosity in the C Sand; it lays right on top of
19 the Wolfcamp. And then we'll plug it back, open hole plug,
20 and then kick off the plug, and then drill our lateral. Once
21 the well reaches TD, we'll run five-and-a-half-inch casing
22 from surface all the way through the curve to TD.

23 EXAMINER JONES: And cement it back?

24 THE WITNESS: Yeah, cement it back to surface.

25 EXAMINER JONES: Where do you get rid of your water

1 in this area for the production on those wells?

2 THE WITNESS: I'm not sure.

3 EXAMINER JONES: But what formation do you think it
4 would go into? Would it go down into the permo pin, or would
5 it go up into the Delaware? The reason I'm asking is --

6 THE WITNESS: I don't know. I think --

7 EXAMINER JONES: -- as far as planning what well you
8 are going to -- how you are going to cement your well, if
9 you're going to plug back your pilot hole with just open hole
10 plug.

11 THE WITNESS: No. We fill it up with cement.

12 EXAMINER JONES: Totally?

13 THE WITNESS: Oh, yeah, yeah. I'm not an engineer,
14 so I probably don't explain things quite accurately, but, no,
15 we just fill it up with cement.

16 EXAMINER JONES: You're going to log your pilot
17 hole.

18 THE WITNESS: Yes.

19 EXAMINER JONES: And mudlog it?

20 THE WITNESS: Yes.

21 EXAMINER JONES: All the way to TD?

22 THE WITNESS: Yes.

23 EXAMINER JONES: Where do you put the mudlog.

24 THE WITNESS: Delaware.

25 EXAMINER JONES: Top of the Delaware?

1 THE WITNESS: Yes.

2 EXAMINER JONES: You said 350,000 pounds. Is that
3 per stage?

4 THE WITNESS: Yes. That's -- I think they said 350.
5 I have a note from my engineer, yeah 350.

6 EXAMINER JONES: Per stage for eight stages?

7 THE WITNESS: Yes.

8 EXAMINER JONES: You're going to have a railroad car
9 train of sand coming in out there, it sounds like. I suppose
10 it's big sand, is it 100 mesh, or 24-40 sand?

11 THE WITNESS: I don't know. I'm not sure.

12 EXAMINER JONES: But what I mean is, I guess the
13 Bone Spring, that sand that you are going to frac, it
14 actually needs to be augmented around the wellbore pretty
15 well.

16 THE WITNESS: Yeah. I know they pump some resin
17 coated with it and some ceramic sometimes, but as far as what
18 kind and all that, I'm not familiar with that.

19 EXAMINER JONES: But it's a pretty tight formation?

20 THE WITNESS: Yes. Yes.

21 EXAMINER JONES: So there's -- there's some risk
22 here with this project?

23 THE WITNESS: There's always a mechanical risk with
24 drilling these, but we have drilled enough of them that
25 that's pretty minuscule, I would say.

1 EXAMINER JONES: The wells, how good are the wells
2 to the -- over in Section 34?

3 THE WITNESS: They are economical enough to --

4 EXAMINER JONES: To drill another one.

5 THE WITNESS: -- I guess, to go spend \$7 million to
6 drill this one.

7 EXAMINER JONES: That's a good way to put it. Which
8 is surprising that you're not having more people sign on to
9 this project.

10 THE WITNESS: Yeah, they're good wells.

11 EXAMINER JONES: And you've chosen the Third Bone
12 Spring, rather than the ones above the hole, is that because
13 of the mudlog shows or log shows?

14 THE WITNESS: Well, it's just based upon our work in
15 the area, and recognize that that is a -- a target in this
16 particular area. There is other intervals that we've drilled
17 in the general area, different pays in the Second Bone Spring
18 Sand, First Bone Spring Sand, yes.

19 EXAMINER JONES: Where is this located in laymen's
20 terms, this location?

21 THE WITNESS: It is --

22 EXAMINER JONES: What is the nearest town and
23 direction?

24 THE WITNESS: It's on -- right off of the Carlsbad-
25 Hobbs highway. Half near, halfway, kind of in that general

1 area.

2 EXAMINER JONES: So it's down in the midst of the
3 Delaware Basin.

4 THE WITNESS: Yes, it is. The Lea Field, if you
5 know where the Devonian Field, it's just to the east of this
6 about two miles. Mescalero Ridge is to the north of this
7 area where you come off of Caprock there.

8 MR. BRUCE: The nearest city is Monument.

9 EXAMINER JONES: Monument.

10 MR. BRUCE: If you want to call it a city.

11 THE WITNESS: And that's a ways east of there.

12 EXAMINER JONES: I don't have any more questions.

13 EXAMINER BROOKS: If you -- I want to clarify about
14 this producing interval, completed interval. Where will --
15 this, this is non-standard to the north location, right?

16 THE WITNESS: (Nodding.)

17 EXAMINER BROOKS: And where will the well penetrate
18 the top of the Bone Spring Formation? Will that be at
19 approximately the surface location?

20 THE WITNESS: Pretty close, yeah, that's correct.

21 EXAMINER BROOKS: So that's probably going to be
22 non-standard, also?

23 THE WITNESS: Yes, sir.

24 EXAMINER BROOKS: Less than 330 feet from the
25 northwest?

1 THE WITNESS: That's correct.

2 EXAMINER BROOKS: Now, how is this well going to be
3 completed? Is it going to be cased?

4 THE WITNESS: It will be a cased completion with
5 a -- with each stage there will be three -- I believe it's
6 three or four perf clusters. And in a situation like this,
7 we -- we intentionally don't perforate any closer to that
8 330 -- I mean, we don't go closer than the 330.

9 EXAMINER BROOKS: So your first perf will be further
10 than 330?

11 THE WITNESS: It will be beyond 330 feet, yes,
12 sir.

13 EXAMINER BROOKS: Are you going to have an
14 intermediate casing string?

15 THE WITNESS: Yes, and -- let's see. I don't --
16 it's up around 54 hundred foot, something like that, plus or
17 minus.

18 EXAMINER BROOKS: So it's going to be -- your
19 intermediate casing string is going to be in the vertical
20 portion of the well?

21 THE WITNESS: That's right. That's right.

22 EXAMINER BROOKS: Okay. Very good. I think that's
23 all I have.

24 EXAMINER JONES: Any more for this witness? Just
25 one comment. On your structure map --

1 THE WITNESS: Yes.

2 EXAMINER JONES: And I have spoken about this to
3 another geologist that came in recently, and it's pretty
4 obvious here that you are below sea level, your contours are
5 below sea level contours, but for some reason you don't put a
6 strike line and a dip line -- a dip arrow. Is that just oil
7 patch jargon instead of academics? It seems like in the
8 academic geologists they do that.

9 THE WITNESS: Oh, yeah. I haven't done that since
10 college.

11 EXAMINER JONES: College, okay. There we go.

12 THE WITNESS: I know what you're talking about,
13 though.

14 EXAMINER JONES: Okay. You get so familiar with the
15 area you're working that you know it so well.

16 THE WITNESS: Right.

17 EXAMINER JONES: Okay. Okay. Nothing more in this
18 case?

19 MR. BRUCE: Nothing further.

20 EXAMINER JONES: Thank you both. Thank you all.
21 We'll continue Case 14764 to February 16.

22 MR. BRUCE: Yes. And the docket is closed.

23 (Adjourned 10:11 a.m.)

24

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14764
heard by me on Jan 19, 2012.

David K. Burt Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO: 14764

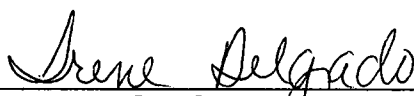
APPLICATION OF CIMAREX ENERGY COMPANY OF COLORADO FOR
APPROVAL OF A NON-STANDARD OIL SPACING AND PRORATION UNIT, AN
UNORTHODOX LOCATION, AND COMPULSORY POOLING, LEA COUNTY, NEW
MEXICO.

REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY
CERTIFY THAT ON January 19, 2012, 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 January 2012.


Irene Delgado, CCR 253
Expires: 12-31-2012