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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 FOR A NONSTANDARD SPACING
AND PRORATION UNIT, EDDY COUNTY,
NEW MEXICO.

ORIGINAL
CASE NO. 15561

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 17, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, November 17, 2016, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
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FOR APPLICANT CIMAREX ENERGY COMPANY:

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1 (8:21 a.m.)

2 EXAMINER McMILLAN: Okay. I would like to
3 call Case Number 15561, application of Cimarex Energy
4 Company for a nonstandard spacing and proration unit
5 Eddy County, New Mexico.

6 Call for appearances.

7 MS. BRADFUTE: Mr. Examiner, my name is
8 Jennifer Bradfute appearing on behalf of Cimarex Energy
9 Co.

10 EXAMINER McMILLAN: Please proceed.

11 MS. BRADFUTE: I have two witnesses here
12 today, Mr. Examiner.

13 Cimarex has filed an application for a
14 nonstandard proration unit and project area for a
15 horizontal well that's going to be drilled in Eddy
16 County. This application was filed after Cimarex
17 communicated with the Division and had some decisions as
18 to whether or not they could proceed administratively or
19 the Division wanted this matter to come to hearing, so I
20 just wanted to provide that background information to
21 you.

22 EXAMINER McMILLAN: Thank you.

23 MS. BRADFUTE: I have three witnesses here
24 today that will present evidence.

25 EXAMINER McMILLAN: Okay. If the witnesses

1 would please stand up and be sworn in at this time.

2 (Mr. Meador, Ms. Ramoutar and Mr. Sirgo
3 sworn.)

4 MS. BRADFUTE: Mr. Examiner, I have
5 exhibits that I'd like to hand out.

6 EXAMINER McMILLAN: Thank you.

7 MS. BRADFUTE: Mr. Examiner, I'd like to
8 call my first witness, Todd Meador.

9 EXAMINER McMILLAN: Please proceed.

10 TODD MEADOR,

11 after having been previously sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MS. BRADFUTE:

15 Q. Would you please state your name for the
16 record?

17 A. Sure. Todd Meador.

18 Q. And, Mr. Meador, who do you work for and in
19 what capacity?

20 A. Cimarex Energy Company as a landman.

21 Q. And what are your responsibilities as a landman
22 at Cimarex?

23 A. It's my responsibility to make sure that the
24 contracts for the drilling of wells is ready to go. My
25 primary area of responsibility is Culberson County, with

1 a joint venture with Chevron. But my area of
2 responsibility spills over into New Mexico and what we
3 call our state-line area in New Mexico.

4 Q. Have you previously testified before the
5 Division?

6 A. I have not.

7 Q. Could you please describe your educational
8 background and your work history for the Hearing
9 Examiners?

10 A. Sure. I got my undergraduate degree at Notre
11 Dame with a bachelor's in government, a government
12 major, got a J.D. from SMU, worked for about six years
13 as a prosecutor with Dallas County, did about two years
14 criminal defense work. And then I moved out to Midland,
15 have been working for about eight years with Cimarex in
16 my current capacity as a landman.

17 Q. Mr. Meador, do you belong to any professional
18 associations?

19 A. I do, the Permian Basin Landmen's Association
20 and State Bar of Texas.

21 Q. And does your area of responsibility at Cimarex
22 include the area of Eddy County in southeast New Mexico?

23 A. It does.

24 Q. Are you familiar with the application that's
25 been filed by Cimarex in this case?

1 A. I am.

2 Q. And are you familiar with the status of the
3 lands that are subject to this application?

4 A. I am.

5 MS. BRADFUTE: Mr. Examiner, I'd like to
6 tender the witness as an expert in petroleum land
7 matters.

8 EXAMINER McMILLAN: So qualified.

9 Q. (BY MS. BRADFUTE) Mr. Meador, could you please
10 turn to what's been marked as Exhibit Number 1 in the
11 notebook in front of you and explain what Cimarex is
12 seeking under its application in this case?

13 A. Cimarex is seeking a 446.86-acre nonstandard
14 project area. It would be comprised -- it's for the
15 Bone Spring Formation, and it will be comprised of the
16 east half-west half and west half-east half of Section
17 28 and also unit letters B, C and Lots 2 and 3 of what
18 is an irregular section, Section 33, right along state
19 line, all of this being in Township 26 South, 27 East,
20 NMPM, Eddy County, New Mexico.

21 Q. Can you please turn to what's marked as Exhibit
22 Number 2? Could you please explain what this exhibit is
23 to the Hearing Examiner?

24 A. Okay. This is a C-102 that's been filed in
25 anticipation of the Klein 33 Fed Com 7H well.

1 Q. And in looking at the C-102, has a pool code
2 been identified for where the well is going to be
3 drilled?

4 A. It has. 98018.

5 Q. And is that pool governed by the Division's
6 statewide rules?

7 A. It is.

8 Q. Can you please turn to what's been marked as
9 Exhibit Number 3 and explain what this exhibit is to the
10 Hearing Examiners?

11 A. Okay. Exhibit 3 is a map I got from our
12 geophysicist, but I've also made it into a land map.
13 The red outline on Exhibit 3 shows the nonstandard
14 project area that we're trying to create for the Klein
15 7H. The yellow shown on the map is where Cimarex Energy
16 Company is the operator.

17 If you look to the north of Section 28 and
18 33, in Sections 20 and 21, kind of the pale orange
19 color, Yates Petroleum is the operator in those two
20 sections in the Bone Spring Formation. To the northeast
21 and immediate east of the project area in the kind of
22 light green color, Mewbourne is the operator of the --
23 of the Bone Spring Formation. And then in that blue
24 color, there are 80 acres in Section 28 that really
25 doesn't have an operator, and so for notice purposes, we

1 notified the mineral owners in that case.

2 Q. Mr. Meador, how many wells are going to be
3 drilled in Section 28 and irregular Section 33?

4 A. We're going to drill five Bone Spring wells.

5 Q. And approximately where is the 7H well located?

6 A. It's more or less right down the center.

7 Q. Okay. Will the completed interval for the 7H
8 well comply with the Division setback requirements?

9 A. It will.

10 Q. And were the offset operators and lessees of
11 the -- notified of this hearing?

12 A. They were.

13 Q. Could you please turn to what's been marked as
14 Exhibit Number 4 and explain what this exhibit is to the
15 Hearing Examiners?

16 A. Okay. This is an Affidavit of Notice signed by
17 you.

18 MS. BRADFUTE: And, Mr. Examiner, this
19 notice exhibit includes the copies of the certified
20 mailings and the green cards that we received back. We
21 did not receive all of the green cards back, and one
22 mailing was returned to us. We did publish notice ten
23 business days before the hearing and have an Affidavit
24 of Publication included as page 2 of this exhibit.

25 EXAMINER WADE: As to all the people --

1 MS. BRADFUTE: As to all the people and all
2 the people named in the publication.

3 Q. (BY MS. BRADFUTE) Mr. Meador, were Exhibits 1
4 through 4 prepared by you or under your supervision and
5 compiled from company business records?

6 A. They were.

7 MS. BRADFUTE: I would like to move that
8 Exhibits 1 through 4 be admitted into the record.

9 EXAMINER McMILLAN: Exhibit 1 through 4 may
10 now be accepted as part of the record.

11 (Cimarex Energy Co. Exhibit Numbers 1
12 through 4 are offered and admitted into
13 evidence.)

14 Q. (BY MS. BRADFUTE) And, Mr. Meador, in your
15 opinion, is the granting of this application in the best
16 interest of conservation and the prevention of waste?

17 A. Yes. Absolutely.

18 Q. Thank you.

19 CROSS-EXAMINATION

20 BY EXAMINER McMILLAN:

21 Q. Okay. The first question I've got is going
22 back to Exhibit 2. You said that this well is going to
23 comply with the state required -- with the required
24 setbacks?

25 A. It will be -- the heel and toe will be 330 feet

1 off of the south -- you know, the surface location or
2 the -- will be 330 feet off the south line, and the toe
3 will be 330 feet off the north line of Section 28.

4 Q. But why the -- but will they -- then they would
5 be nonstandard with respect to the quarter-quarter
6 sections, right?

7 A. That's true. Yes, that's true.

8 MS. BRADFUTE: Well -- and what we're
9 asking in this case, Mr. Examiner, is the establishment
10 of a three -- or a project area on a proration unit
11 where the well will actually be drilled approximately in
12 the middle of the proration unit and the project area.

13 Q. (BY EXAMINER McMILLAN) Okay. Let me ask you a
14 question. What acreage has been developed so far?

15 A. The -- what is effectively the west half-west
16 half of Section 28 and the northwest-northwest of
17 Section 33.

18 Q. West half-west half of 28 --

19 A. The northwest-northwest of Section 33.

20 MS. BRADFUTE: And I should add,
21 Mr. Examiner --

22 REDIRECT EXAMINATION

23 BY MS. BRADFUTE:

24 Q. Mr. Meador, is the mineral ownership within
25 Exhibit 3, when you look at this map that's highlighted

1 in yellow, identical as to all of the interest owners?

2 A. Yeah. Within Section 28 and 33, everything
3 contained within the yellow is exactly identical. That
4 includes working interests, mineral interests,
5 overriding royalty interests. That's all we have.

6 CONTINUED CROSS-EXAMINATION

7 BY EXAMINER McMILLAN:

8 Q. You said the mineral interests and state owners
9 are identical?

10 A. Yeah. The mineral -- these are two Fed leases,
11 so each one of them -- everything shown in yellow in 28
12 and 33 is a Fed lease with a 12-and-a-half percent
13 royalty.

14 Q. So the only royalty interest owner in this case
15 is the BLM?

16 A. That's true. That's right.

17 Q. There is no -- there is no -- so you're saying
18 there is no state acreage?

19 A. Not within the red box, which is the project
20 area that we're trying to create.

21 Q. And there is no fee acreage?

22 A. That's correct.

23 Q. Okay. Well, the question I have -- okay. I
24 see that you -- first of all, for the Klein 33 Fed 7H,
25 there is a two-year extension, right?

1 A. Yes. I believe that's right.

2 Q. Okay. And you're saying that the west
3 half-west half of 28 and the northwest quarter-northwest
4 quarter of Section 33, that is developed?

5 A. No. Hang on. There's more to it than that.
6 We have two producing wells in Sections 28 and 33 at the
7 moment in the Bone Spring Formation.

8 Q. Where?

9 A. If you'll flip to Exhibit 3 and if you'll take
10 a look, you can see we've got five wells planned to be
11 drilled there. There is -- one shown with a black dot
12 that's effectively the west half-west half of Section
13 28.

14 Q. That's the 5H?

15 A. That is the 1H.

16 Q. Oh, but that's -- okay. But that's -- that's
17 not part of the application.

18 A. That's true. But I guess the concept we're
19 attacking here is five-well spacing in a single section,
20 right? That's what we're trying to do. And so if I
21 could walk you through each well that's been drilled so
22 far and what we plan to do with the remainder of the
23 section, I think that would be the full picture as to
24 what we're trying to accomplish here.

25 Q. Okay.

1 A. Okay. So we drilled the 1H, which is
2 effectively the west half-west half.

3 Q. Okay.

4 A. And then we've also drilled the 5H, which is
5 effectively the east half of the west half of those two
6 sections. And we're kind of just marching from east to
7 west. And so the well that we're here to talk about now
8 goes right down the center of the two sections, and that
9 is the Klein 7H. And it's right in the middle of that
10 red box that is shown on that exhibit.

11 And just for -- to get the whole picture,
12 we also have plans to drill the 7 and the 8 off of the
13 same pad, back-to-back, and so we will be drilling the 7
14 and the 8, which will then leave one space left, being
15 the east half-east half or the 10H. And we have plans
16 to drill that later this year -- or excuse me -- later
17 in 2017.

18 CROSS-EXAMINATION

19 BY EXAMINER WADE:

20 Q. Is that one marked according to the key
21 permitted already?

22 A. That's correct. Yeah. That's correct. It
23 goes through that blue 80 acres right there.

24 Q. And the 7 and 8 will be the black dot and the
25 red circle around it and the sort of --

1 A. Yeah. Those are going to be drilled off the
2 same pad. You know, this is an environmentally
3 sensitive area, so we're limited in that surface area
4 that we're allowed to disturb, and both of those will be
5 off the same pad.

6 Q. Is that the need for this project area, that
7 that would come down to surface issues?

8 A. No, not at all. The need for the project area
9 is -- we're trying to skin an unusual cat, right? I
10 mean, how do you drill five wells when you're used to
11 putting one well per 160, right? So what do you do with
12 that fifth well? And what we did here is -- I mean, we
13 just -- if you think about a section and if you're going
14 to develop it with five wells, your middle well needs to
15 go right down the centerline. And so that's what the 7H
16 is.

17 And, you know, I think -- I think the deal
18 is it's closer to the centerline than 10 foot, what it
19 boils down to, and so we've been told we need to create
20 a 320-acre project area -- excuse me -- a 446-acre
21 project area.

22 RE CROSS EXAMINATION

23 BY EXAMINER McMILLAN:

24 Q. Okay. If the OCD were willing to approve that,
25 would you submit a plan of development? Anytime you

1 have this irregular project area, OCD wants to ensure
2 all the acreage is developed.

3 A. Right.

4 Q. And would you be willing to submit to that?

5 A. Well, I think you have that in front of you
6 right now and with my testimony that I just gave.

7 Q. In writing?

8 MS. BRADFUTE: Mr. Examiner, I don't think
9 that Cimarex would have any objections to doing that. I
10 don't think it's required for them to get approval for
11 the application, but I don't see any problems with
12 submitting that to the Division --

13 EXAMINER McMILLAN: Okay.

14 MS. BRADFUTE: -- if that's something you
15 request.

16 EXAMINER McMILLAN: Yeah. It is required.

17 MS. BRADFUTE: Okay.

18 Q. (BY EXAMINER McMILLAN) And would you be willing
19 to put a time frame? If the acreage is not developed
20 within a one-year period, would you --

21 A. No.

22 MS. BRADFUTE: That, Mr. Examiner, I don't
23 know. We would need to confer. I don't think there is
24 a time frame, and there is always the unexpected. But I
25 think that 10H has already been permitted. There's a

1 C-102 for the 7H. The 1H and the 5H have been drilled.

2 REDIRECT EXAMINATION

3 BY MS. BRADFUTE:

4 Q. Mr. Meador, do you know what the status of the
5 8H well is?

6 A. The 8H is permitted and plans are to drill
7 back-to-back with the --

8 Q. 7?

9 A. -- 7H.

10 Right.

11 So, I mean, the timing -- we're looking
12 to -- can I confer with them (indicating) real quick on
13 the timing of these wells?

14 MS. BRADFUTE: Actually, we'll have another
15 witness --

16 THE WITNESS: Who will talk to that.

17 MS. BRADFUTE: -- who will present evidence
18 on the timing of the wells.

19 THE WITNESS: Yeah.

20 The one thing I can tell you is that we
21 have plans to get all five of these wells drilled within
22 calendar year 2017, if they're not already drilled and
23 producing.

24 MS. BRADFUTE: Yeah. And they are
25 permitted, so if you need an affidavit from somebody at

1 Cimarex --

2 EXAMINER McMILLAN: We just want to make
3 sure we're not -- you know, we're not allowing one well
4 for the whole 446 acres.

5 MS. BRADFUTE: Yes.

6 EXAMINER McMILLAN: That's where we're
7 coming from.

8 THE WITNESS: Right. And you've already
9 got one well that's producing within that 446 acres.
10 We're asking for a second well. We plan to drill the
11 third well in that 446 acres back-to-back with this
12 well.

13 EXAMINER McMILLAN: We've had this huge --
14 in the northwest well. We've got one well holding
15 10,000 acres.

16 THE WITNESS: Right.

17 EXAMINER McMILLAN: And that is our
18 concern. We just want to make sure all of the acreage
19 is fully developed.

20 THE WITNESS: Yeah. And I definitely
21 appreciate that.

22 Section 28, for what it's worth, is all one
23 lease, one Fed lease, and because of the fact it's
24 already producing, it is HBP. Section 33 is a second
25 Fed lease, and because of the fact that it's already

1 producing, it also is HBP. And so regardless of any
2 future development, for the life of the Klein 1H and the
3 life of the Klein 5H, those leases are going to be HBP.
4 And I actually think there are additional wells that are
5 HBP in those leases as well, but I know the name of
6 those two wells, are drilled on those leases.

7 RE CROSS EXAMINATION

8 BY EXAMINER McMILLAN:

9 Q. Technically you're saying that the 1H
10 technically holds a section and a half?

11 A. Right. And the 5H, which is already producing.

12 Q. Oh, okay.

13 A. And other wells. We have other wells producing
14 as well that are holding those leases. And I could give
15 you the exact -- we have a Wolfcamp well that is drilled
16 on those two leases that is also producing and holding
17 those leases.

18 Q. Okay.

19 A. And I could probably give you maybe one or two
20 other wells as well if it's worthwhile.

21 MS. BRADFUTE: And, Mr. Examiner, we have
22 two other witnesses here today to also speak to these
23 issues.

24 EXAMINER McMILLAN: Great. Thank you.
25 Go ahead.

1 EXAMINER WADE: I don't have any further
2 questions.

3 MS. BRADFUTE: Thank you, Mr. Meador.

4 THE WITNESS: Thank you.

5 EXAMINER McMILLAN: Thank you.

6 MS. BRADFUTE: I would like to call
7 Cimarex's next witness Meera Ramoutar.

8 EXAMINER McMILLAN: Please proceed.

9 MEERA RAMOUTAR,
10 after having been previously sworn under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MS. BRADFUTE:

14 Q. Could you please state your name for the
15 record?

16 A. Meera Ramoutar.

17 Q. Ms. Ramoutar, who do you work for and in what
18 capacity?

19 A. Cimarex Energy Co. as a geologist.

20 Q. And what are your responsibilities as a
21 geologist at Cimarex?

22 A. I'm responsible for areas of southeast
23 New Mexico, looking and prospecting for and proposing
24 wells and proposing the drilling.

25 Q. And have you previously testified before the

1 Division?

2 A. I have.

3 Q. And were your credentials as a geologist
4 accepted and made part of the record?

5 A. They were.

6 Q. Are you familiar with the application that's
7 been filed by Cimarex in this case?

8 A. I am.

9 Q. And are you familiar with the status of the
10 lands that are subject to this application?

11 A. Yes.

12 Q. Are you familiar with the drilling plan for the
13 Klein 33 Federal Com 7H well?

14 A. Yes, ma'am.

15 Q. And have you conducted a geologic study of the
16 area and the proposed spacing unit for that well?

17 A. I have.

18 MS. BRADFUTE: Mr. Examiners, I'd like to
19 tender Ms. Ramoutar as an expert witness in petroleum
20 geology matters.

21 EXAMINER McMILLAN: So qualified.

22 Q. (BY MS. BRADFUTE) Ms. Ramoutar, what is the
23 targeted interval for the Klein 33 Federal Com 7H well?

24 A. The Klein 7H will target the 2nd Bone Spring
25 Sand.

1 Q. And could you please turn to what's been marked
2 as Exhibit Number 5 in your notebook and explain to the
3 Hearing Examiners what this exhibit is?

4 A. So Exhibit 5 is very similar to what you looked
5 at with Mr. Meador a little bit earlier. What this is
6 is a structure map on the top of the 2nd Bone Spring
7 Sand. But before we delve into that, the lands here in
8 yellow are lands that are operated by Cimarex Energy,
9 and the wells that are spotted on this map are
10 exclusively 2nd Bone Spring Sand laterals in this area.

11 The producing wells are in three or --
12 they're in the really dark color, and then the permitted
13 wells that have yet to be drilled are the red sticks.
14 And so as you can see here, we have quite a few
15 producers -- 2nd Bone Spring producers within this area.

16 Again, this is state-line acreage, so
17 immediately south of the Klein project area that we're
18 talking about, in Sections 28 and 33, that's across the
19 border in Texas, and we've had -- we've done quite a lot
20 of work there looking at spacing within the 2nd Bone
21 Spring Sand, and we're trying to apply those learnings
22 on the state-line acreage in New Mexico. And so this
23 map kind of gives you an idea of what the development
24 looks like for the 2nd Bone Spring in this area.

25 Superimposed on all of that is our

1 structure map, and this is at subsea. As you can see
2 here, just based on the values, our dip is towards the
3 east, and so we're getting deeper towards the east.

4 Q. Ms. Ramoutar, are there any geologic
5 impediments within Section 28 and irregular Section 33?

6 A. No.

7 Q. Did you prepare a cross section of logs to
8 determine the relative thickness and porosity of the
9 Bone Spring Formation in the area?

10 A. I did.

11 Q. And is that cross section contained in Exhibit
12 Number 7?

13 A. It is.

14 Q. If you could please turn to that and explain
15 that to the Hearing Examiners.

16 A. Exhibit 7 is a two-well cross section
17 highlighting the 2nd Bone Spring Sand. It goes just
18 west -- it goes to the west and the east. And so the
19 Medwick 32 Fed Com 12H is a well offsetting deeper wells
20 to the east of the Klein acreage, and then the Klein 33
21 Fed Com #6H is actually a deeper Wolfcamp producer that
22 we have that was alluded to earlier in the Klein project
23 area, Sections 28 and 33, that produces out of the
24 Wolfcamp. But the log that shows the Bone Spring is
25 from that well.

1 So what we have here is we've got a cross
2 section that is hung on the top of the 3rd Carbonate.
3 You can see there. And so the 3rd Carbonate top is
4 highlighted on the cross section, as well as the 2nd
5 Bone Spring Sand on top. And then just hanging on the
6 top of the 3rd Bone Spring Carb, you can see the
7 relative thickness of the 3rd Bone Spring package. It
8 is relatively thick, you know, upwards of 350 feet in
9 both of these. And then on top of that, what we've done
10 is -- Cimarex's internal qualification for pay reservoir
11 within the 2nd Bone Spring Sand is greater than 10
12 percent density, and that is shaded in yellow on the two
13 cross sections.

14 So you can see here that we have quite
15 good, you know, pay development within these two wells,
16 showing that the Bone Spring in this area is highly
17 prospective.

18 Q. And, Ms. Ramoutar, if you could turn back with
19 me to Exhibit Number 6.

20 A. Sure.

21 Q. Would you please explain what this exhibit is?

22 A. Exhibit 6 is hinged off Exhibit 7 that we just
23 talked about, basically. And what it is is an isopach
24 that was generated from those net pay calculations that
25 we talked about previously, so, again, greater than 10

1 percent density. And this is contoured on a 25-foot
2 contour interval. So what you can see here is that this
3 area is very thick and very prospective for 2nd Bone
4 Spring Sand. Where the Klein section and the Klein 7H
5 actually sit, that well is, you know, projected -- those
6 wells are projected to target an interval that is
7 greater than 100 feet of net pay, which is very good for
8 the 2nd Bone Spring Sand. So, again, just really a good
9 area of 2nd Bone Spring Sand development.

10 I talked about the wells in Texas earlier
11 that we did spacing tests on, and those are highlighted
12 on Exhibit Number 6 as the Swale, the Owl Draw and the
13 Shut Out sections. And those sections were developed on
14 five-well spacing with very excellent results. So we
15 are just trying to take those learnings to our
16 state-line acreage and develop them as economically as
17 possible.

18 Q. And what conclusions have you drawn from your
19 geologic study of the area?

20 A. That this area is really very good for 2nd Bone
21 Spring Sand, and we should go ahead and develop it as
22 economically and productively as possible.

23 Q. And in your opinion, will Cimarex's plan of
24 development to drill five wells within these sections
25 prevent waste?

1 A. Oh, absolutely.

2 Q. And will the Klein 7 -- the Klein 33 Fed Com 7H
3 well effectively drain the proposed proration unit?

4 A. Yes.

5 Q. Can you please turn to what's been marked as
6 Exhibit Number 8 and explain what this exhibit is to the
7 Hearing Examiners?

8 A. So Exhibit 8 is -- it's generated from our
9 final plans. This is actually a directional -- the
10 Klein 7H has actually been drilled. The 7 and the 8H
11 wells have both been drilled. Like Todd said, they were
12 drilled off the same pad, and so that proration unit --
13 that irregular proration unit we're talking about today
14 is actually fully developed as far as Bone Spring wells
15 drilled.

16 Q. They were drilled --

17 A. They're drilled. They have not been completed.
18 And so they have been drilled.

19 So this is a -- it's both a planned view
20 and a cross-sectional view of how we actually executed
21 this well. And you can see here that we drilled
22 approximately 6,800 VS, so longer than a section, and we
23 landed the well at 7,490 TVD, and basically laid our
24 lateral along the structure of this area and -- yeah.

25 Q. And in your opinion, will the granting of

1 Cimarex's application be in the best interest of
2 conservation, the prevention of waste and the protection
3 of correlative rights?

4 A. Yes.

5 MS. BRADFUTE: Mr. Examiner, I'd like to
6 move Exhibits 5 through 8 -- oh, excuse me.

7 Q. (BY MS. BRADFUTE) Were Exhibits 5 through 8
8 prepared by you or compiled under your direction?

9 A. Yes, they were.

10 MS. BRADFUTE: Mr. Examiner, I'd like to
11 move that Exhibits 5 through 8 be admitted into the
12 record.

13 EXAMINER McMILLAN: Exhibits 5 through 8
14 will now be accepted as part of the record.

15 (Cimarex Energy Co. Exhibit Numbers 5
16 through 8 are offered and admitted into
17 evidence.)

18 CROSS-EXAMINATION

19 BY EXAMINER McMILLAN:

20 Q. The question I've got here is going back to
21 Exhibit 6.

22 A. Okay.

23 Q. So if I'm understanding what you're saying is
24 that you're using the analogies in Texas that shows that
25 five wells per section is optimum development. And

1 because the geology is similar --

2 A. Yes.

3 Q. -- you believe that it's applicable in this
4 situation?

5 A. Absolutely. Yes.

6 Q. Okay. Now, the only thing I got really
7 confused about was you said something about the 7H will
8 drain all the acreage. I'm sorry. I was confused on
9 that point.

10 A. Well, the proration unit -- the regular
11 proration unit that we're applying for today is 446
12 acres. That well will not drain that by itself. But
13 the three wells that we have within the project area
14 effectively will drain that as far as we believe.

15 Q. Okay. That makes -- yeah. That makes a lot
16 more sense.

17 A. Sorry.

18 Q. You had me confused there.

19 A. Sorry.

20 Q. Okay.

21 A. And those numbers are -- I believe they're the
22 5, the 7 and the 8H.

23 Q. Hold on. I'm making notes. The geology
24 analogy in Texas --

25 So the question there -- so basically the

1 same producing intervals within the Bone Spring in Texas
2 are what you're seeing in New Mexico?

3 A. Oh, absolutely. Yes.

4 Q. Okay. So you could actually have multiple Bone
5 Spring wells within there, right? That's what the cross
6 section --

7 A. Well, the cross section is really thick, you
8 know, 300 -- as far as the gross thickness, I don't --
9 you know, we're always evaluating whether or not we can
10 place more wells inside, so that's up for debate.

11 EXAMINER WADE: I have no questions.

12 EXAMINER McMILLAN: Thank you very much.

13 THE WITNESS: You're very welcome.

14 MS. BRADFUTE: Mr. Examiner, I'd call my
15 last witness.

16 EXAMINER McMILLAN: Please proceed.

17 WILLIAM F. SIRGO,

18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MS. BRADFUTE:

22 Q. Could you please state your name for the
23 record?

24 A. Will Sirgo.

25 Q. And, Mr. Sirgo, who do you work for and in what

1 capacity?

2 A. Cimarex Energy as a reservoir engineer.

3 Q. And what are your responsibilities at Cimarex
4 as a reservoir engineer?

5 A. I am the reservoir engineer over our south Eddy
6 County, New Mexico and Culberson County, Texas assets.

7 Q. And have you previously testified before the
8 Division?

9 A. Yes.

10 Q. Were your credentials as a reservoir engineer
11 accepted and made part of the record?

12 A. Yes.

13 Q. Are you familiar with the application that's
14 been filed by Cimarex in this case?

15 A. I am.

16 Q. And are you familiar with the status of the
17 lands that are the subject of that application?

18 A. Yes.

19 Q. Are you familiar with the drilling plan for the
20 Klein 33 Federal Com 7H well?

21 A. I am.

22 MS. BRADFUTE: Mr. Examiner, I would like
23 to tender the witness as an expert in petroleum
24 reservoir engineering matters.

25 EXAMINER McMILLAN: So qualified.

1 Q. (BY MS. BRADFUTE) Mr. Sirgo, if you could turn
2 back to Exhibit Number 6 in the exhibit notebook? This
3 is a map that shows there are going to be five wells
4 drilled within Section 28 and in irregular Section 33;
5 is that correct?

6 A. That's correct.

7 Q. Why has Cimarex decided to use five-well
8 spacing within these sections?

9 A. Based off work we've done just to the south in
10 Culberson County, we have found that to properly drain
11 these sections, it requires a denser spacing unit than
12 we had used in the past. We have done this in three
13 different sections to the south. You have two you can
14 see on this exhibit, the Shut Out and the Owl Draw. And
15 we put five wells down in these sections and saw -- I'll
16 show you another exhibit in a second. But we saw just
17 as good results from looser spacing.

18 Q. And if you go ahead and turn to what's been
19 marked as Exhibit Number 9 within your exhibit notebook,
20 could you please explain what this exhibit is to the
21 Hearing Examiners?

22 A. I apologize. The labels on the axis didn't
23 come through.

24 On the y-axis, you have cumulative oil, and
25 on the x-axis, you have months of production on. And so

1 what I tried to do for you-all here is I took two
2 sections that have very similar stimulations.
3 Stimulations are always changing, and so I wanted to
4 normalize for that.

5 What we did is we took all the oil produced
6 in the Shut Out section, which was developed on
7 five-well spacing, versus the Swale section, which was
8 developed on four-well spacing, and compared their
9 average while producing. You can see that the
10 production is very similar between the two sections. So
11 this was some of our learnings from the study south, and
12 it just told us that going to denser spacing, see no
13 degradation, continue to see similar results to what we
14 saw.

15 Q. And if you turn back to Exhibit Number 6 and
16 you look at Section 28 and Section 33, in your opinion,
17 is Cimarex -- would Cimarex's plan to drill five wells
18 in this section, will it result -- or these two
19 sections, will it result in a higher amount of estimated
20 recoverables?

21 A. Yes. By developing federal spacing we will
22 recover, yeah, additional --

23 Q. In your opinion, will this plan of development
24 be successful?

25 A. Yes. We have -- we have wells in the area, so

1 we -- we are able to quickly tie these analogies to our
2 Texas development. We're very excited to go -- go
3 forward and develop these sections.

4 Q. In your opinion, would the granting of
5 Cimarex's application be in the best interest of
6 conservation, the prevention of waste and the protection
7 of correlative rights?

8 A. Yes, it would be.

9 Q. And, Mr. Sirgo, was Exhibit Number 9 prepared
10 by you or compiled under your direction and supervision?

11 A. Yes, it was.

12 MS. BRADFUTE: Mr. Examiner, I'd like to
13 move that Exhibit Number 9 be admitted into the record.

14 EXAMINER McMILLAN: Exhibit 9 may now be
15 accepted as part of the record.

16 (Cimarex Energy Co. Exhibit Number 9 is
17 offered and admitted into evidence.)

18 CROSS-EXAMINATION

19 BY EXAMINER McMILLAN:

20 Q. Okay. So do you believe you're stranding
21 reserves with only four wells?

22 A. In this particular area, I do.

23 Q. Okay. What's the justification for saying
24 that?

25 A. So when we're studying 2nd Bone Spring all

1 throughout the Delaware Basin, sometimes packages are
2 thicker, thinner, porosities higher, perms different.
3 Spacing will behave a little differently. And we have a
4 very, what I would call, tier one reservoir here. So
5 when we came in with kind of our old practice, the first
6 thing we started noticing is the wells didn't see each
7 other like they used to in some of our other areas. And
8 so that, you know, told us we should maybe test a denser
9 spacing and see what we get.

10 The region is comfortable doing that
11 because of how much reservoir we had, MR [phonetic] in
12 place and recoverable calculation that this could be
13 possible. We then proceeded with two tests of denser
14 spacing, and the results were great. And so now we're
15 just using that as an analogy for this data in Eddy
16 County.

17 EXAMINER WADE: I have no questions.

18 EXAMINER McMILLAN: No further questions.

19 MS. BRADFUTE: Mr. Examiner, we ask this
20 application be taken under advisement.

21 EXAMINER McMILLAN: Case Number 15561 shall
22 be taken under advisement.

23 MS. BRADFUTE: Thank you.

24 EXAMINER McMILLAN: Thank you.

25 (Case Number 15561 concludes, 8:56 a.m.)

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

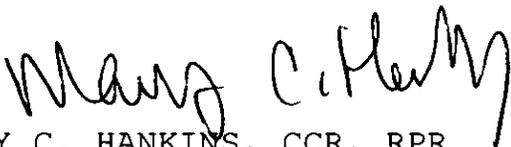
5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings 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

21


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