

**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. 14966
ORDER NO. R-13708**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 4, 2013 at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 10th day of May, 2013, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Cimarex Energy Co. ("Applicant"), seeks approval of a non-standard 240-acre oil spacing and proration unit and project area ("the Unit") in the Abo and Wolfcamp formations consisting of the N/2 NE/4 (Units A and B) of Section 8 and the N/2 N/2 (Units A, B, C and D) of Section 9, Township 15 South, Range 31 East, NMPM, in Chaves County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit in the Abo and Wolfcamp formations.

(3) Applicant intends to dedicate the Unit to its proposed Independence 8 Federal Com. Well No. 1H (API No. 30-005-29151) ("the proposed well"), a horizontal well to be drilled from a standard surface location 510 feet from the North line and 2310 feet from the East line (Unit B) of Section 8. The well will penetrate the Abo/Wolfcamp formation at a standard oil well location in Unit B of Section 8 and continue horizontally in the Abo/Wolfcamp to a standard terminus, or bottomhole location, 660 feet from the North line and 330 feet from the East line (Unit A) of Section 9.

(4) This is a wildcat area in the Abo and Wolfcamp formations. Accordingly, spacing is governed by statewide Rule 19.15.15.9.A NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of six adjacent quarter-quarter sections. The completed interval of the proposed wellbore would be entirely within the prescribed setbacks from the outer boundary of the project area.

(5) Applicant appeared at the hearing through counsel and presented geologic evidence by affidavit to the effect that:

(a) This area is suitable for development by horizontal drilling.

(b) There is no clear distinction in this area between the lower Abo and the Wolfcamp formations.

(c) All quarter-quarter sections to be included in the Unit are expected to be productive in the Abo/Wolfcamp, so that formation of the Unit as requested will not impair correlative rights.

(d) Seismic information indicates that the target formation pinches out to the west, either in the NE/4 of Section 8, as suggested by the "0" contour line shown on the isopach map admitted in evidence as Exhibit 9, or in the W/2 of Section 8. This information is consistent with information from the Independence 8 Federal Com. Well No. 2H, a 1 ½ mile horizontal well previously drilled, and located in a 240-acre project area immediately south of the proposed project area.

(e) Due to the expected pinch-out to the west, Applicant does not believe it would be economic to develop this prospect by separate mile-long horizontals in Sections 8 and 9.

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) This application should be denied because the proposed 240-acre non-standard unit departs from the spacing pattern on which this area has been developed, and because it appears likely to impair correlative rights by diluting the interests of the owners pooled by inclusion of less productive acreage in the Unit.

(8) In Order No. 13425-A, issued in Case No. 14661 on September 28, 2011, we stated in Finding Paragraph (15):

In order to comply with statutory policy and to protect correlative rights, the Division Director has concluded that applications for establishment and compulsory pooling of non-standard oil units departing from the

parameters described in Ordering Paragraph (14) [160 acres consisting of four 40-acre standard spacing units in a line] should not be granted except in unusual cases where persuasive technical evidence demonstrates that departure from these parameters is essential to prevent waste or to protect correlative rights.

(9) In this case, the motivation for extending the proposed Unit to include the N/2 NE/4 of Section 8 appears to be basically exploration, to ascertain how far the productive formation extends.

(10) While Applicant's geologic witness testified, in response to a quasi-leading question, that "each quarter-quarter section in the proposed well unit [will] contribute more or less equally to production," [Transcript at 17], the entirety of her testimony does not appear to support this conclusion.

(11) The geologist testified that the productive formation pinches out to the north-northwest. The isopach map, admitted in evidence as Exhibit 9, depicts the -0- contour line as crossing the N/2 NE/4 of Section 8 and intersecting the proposed wellbore in the NE/4 NE/4 of Section 8, close to the east line of Section 8. If the pinch-out is accurately presented on this isopach, the NE/4 NE/4 would likely be marginally, if at all, productive, and the NW/4 NE/4 would be wholly unproductive.

(12) The geologist expressed uncertainty as to exact location of the pinch-out, and suggested that additional data would likely require a revision of the location depicted on Exhibit 9. However, she testified generally that the pay interval thickens from west to east.

(13) A reasonable conclusion from the geologist's testimony is that the quarter-quarter sections in the N/2 NE/4 of Section 8 will likely be less productive in the target formation, quite possibly substantially less productive, than the quarter-quarter sections in the N/2 of Section 9.

(14) The proposed 240-acre non-standard unit is not in accordance with the general spacing pattern on which this area has been developed. With the sole exception of Applicant's Independence 8 Federal Com. Well No. 2H in the S/2 N/2 of Section 9 and S/2 NE/4 of Section 8, all of the horizontal wells drilled to the Abo-Wolfcamp in this area are located on 160-acre, in-line, project areas.

(15) Since the owners other than Applicant whose interests would be pooled if this application were granted own only in Section 9, combining their interests in a non-standard unit and project area including less productive, or unproductive, acreage in Section 8 would impair their correlative rights. Any inference that the approval of this unit would prevent waste (for instance by allowing production of otherwise uneconomic reserves from Section 8) would be highly speculative on this record, and does not justify the Division in mandating a departure from the existing spacing pattern.

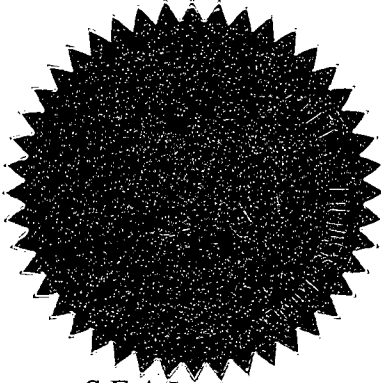
IT IS THEREFORE ORDERED THAT:

(1) The application of Cimarex Energy Company for establishment of a non-standard 240-acre wildcat oil spacing and proration unit in the Abo and Wolfcamp formations, consisting of the N/2 NE/4 (Units A and B) of Section 8 and the N/2 N/2 (Units A, B, C and D) of Section 9, Township 15 South, Range 31 East, NMPM, in Chaves County, New Mexico, and compulsory pooling of such unit, is denied.

(2) This denial is without prejudice to Applicant's right to apply for approval and pooling of a non-standard spacing unit in the N/2 N/2 of Section 9 that would conform to the existing spacing pattern in the area and the Division's policies as described in Order No. R-13425-A.

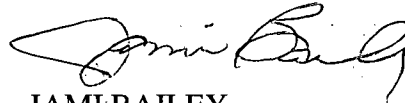
(3) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



JAMI BAILEY
Director