

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

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

CASE NO. 15476

7 APPLICATION of MATADOR PRODUCTION COMPANY
8 FOR COMPULSORY POOLING, EDDY COUNTY,
9 NEW MEXICO
10
11

12 REPORTER'S TRANSCRIPT OF PROCEEDINGS
13 EXAMINER HEARING
14 THURSDAY, JULY 7, 2016
15 SANTA FE, NEW MEXICO
16

17 This matter came on for hearing before the
18 New Mexico Oil Conservation Division, Michael McMillan,
19 Examiner, and David Brooks, Legal Examiner, on Thursday,
20 July 7, 2016 at the New Mexico Energy, Minerals, and
21 Natural Resources Department, Wendell Chino Building, 1220
22 South St. Francis Drive, Porter Hall, Room 102, Santa Fe,
23 New Mexico

24 REPORTED BY: Mary Therese Macfarlane
25 New Mexico CCR 122
PAUL BACA COURT REPORTERS
500 Fourth Street NW, Suite 105
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

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I N D E X

CASE NUMBER 15476 CALLED

APPLICANT CASE-IN-CHIEF

| WITNESS: | PAGE |
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| EXAMINATION BY MS. KESSLER: | 5 |
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| EXAMINATION BY EXAMINER BROOKS: | 13 |

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|----|--------------------------------------|------------|--|--|----------|
| 1 | E X H I B I T I N D E X | | | | |
| 2 | EXHIBIT | | | | ADMITTED |
| 3 | APPLICANT | | | | |
| 4 | APPLICANT MATADOR PRODUCTION COMPANY | EXHIBIT 1 | | | 12 |
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| 6 | APPLICANT MATADOR PRODUCTION COMPANY | EXHIBIT 3 | | | 12 |
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1 (Time noted: 8:24 a.m.)

2 EXAMINER McMILLAN: Okay. I would now like to
3 call Case No. 15476 Application of Matador Production
4 Company for compulsory pooling, Eddy County, New Mexico.
5 Call for appearances.

6 MS. KESSLER: Mr. Examiner, Jordan Kessler of
7 the Santa Fe office of Holland & Hart on behalf of the
8 Applicant.

9 EXAMINER McMILLAN: Any other appearances?

10 (Note: No response.)

11 MR. CARLETON: Chris Carleton, landman.

12 MS. KESSLER: I have two witnesses today.

13 EXAMINER McMILLAN: If the two witnesses would
14 stand and be sworn.

15 MS. KESSLER: I'm sorry. One witness.

16 (Note: Whereupon the presenting witness
17 was duly sworn.)

18 MS. KESSLER: Mr. Examiner, if I may, I would
19 like to give a brief opening statement in this case.

20 EXAMINER McMILLAN: Please proceed.

21 MS. KESSLER: If we could turn to Exhibit 3,
22 what you will see here is an Order from the Oil
23 Conservation Division, Order No. R-13667, which was
24 ordered had back in December of 2012. This Order formed a
25 spacing unit that was a 320-acre spacing unit comprising

1 of the north half of Section 10. Under Order 13667 the
2 320-acre spacing unit was for gas and was in the Wolfcamp
3 Formation. It was dedicated to a vertical well, which is
4 the Guitar 10 Well No. 1. The well was completed.

5 Matador is now drilling or has now drilled the infill
6 well, which is the well that is subject of this hearing.

7 And in preparing to drill for that infill
8 well, Matador discovered additional mineral owners,
9 through title work, who are not subject to Order 13667.
10 So now we are here to today to supplement the parties
11 under the existing Order for the 320-acre gas unit, which
12 is comprised of the north half of Section 10.

13 And with that, I'll proceed with my
14 witness.

15 CHRIS CARLETON,

16 having been duly sworn, testified as follows:

17 EXAMINATION

18 BY MS. KESSLER:

19 Q. Could you please state your name for the record
20 and tell the examiners by whom you are employed and in
21 what capacity.

22 A. Chris Carleton, employed by MRC Energy Company,
23 the parent company for Matador Production Company.

24 Q. Have you previously testified before the
25 Division?

1 A. Yes.

2 Q. Were your credentials as a petroleum landman
3 accepted and made a matter of record?

4 A. Yes.

5 Q. Are you familiar with the Application that has
6 been filed in this case?

7 A. Yes.

8 Q. Are you familiar with the status of the land in
9 the subject area?

10 A. Yes.

11 MS. KESSLER: I tender Mr. Carleton as an expert
12 in petroleum land matters.

13 EXAMINER McMILLAN: So qualified.

14 Q. (BY MS. KESSLER) Mr. Carleton, please turn to
15 Exhibit 1 and identify this exhibit and explain what
16 Matador seeks under this Application.

17 A. This is a C-102 for the Guitar 10, 24S 28E RB
18 No. 202H well. We are seeking to supplement Order No.
19 R-13667 and form the north -- with the north half spacing
20 unit comprised of 320 acres, and pool the uncommitted
21 interests.

22 Q. So you seek to supplement that Order to pool
23 additional mineral interests in the Wolfcamp formation
24 that were recently identified; is that correct?

25 A. That's correct, yes.

1 Q. Does the Division designate a pool for this
2 well?

3 A. Yes.

4 Q. Is that the Culebra Bluff-Wolfcamp South Pool?

5 A. That's correct.

6 Q. And is the pool code for that 75750?

7 A. Yes.

8 Q. And that's a gas well, correct?

9 A. Yes.

10 Q. And is this a gas well?

11 A. Yes.

12 Q. What is the character of these lands?

13 A. These are fee lands.

14 Q. And the well has been drilled, correct?

15 A. That's correct.

16 Q. Do the first and last perf points comply with
17 the Division's 660-foot gas setback requirement?

18 A. No, they do not. We have received a
19 non-standard location.

20 Q. Is that NSL Order 7180?

21 A. Yes.

22 Q. Is Exhibit 2 a Midland map showing us the
23 subject area?

24 A. Yes. It shows the north half of 10 as fee
25 lands.

1 Q. Turning to Exhibit 3, this Order states that a
2 320-acre gas spacing and proration unit was formed,
3 previously formed in the north half of Section 10.
4 Correct?

5 A. That's correct. It's dedicated to the Guitar 10
6 Well API 30-015-23099 appointing Guardian Operating Corp.
7 as the operator.

8 Q. And this pooled the uncommitted interest owners
9 in the Wolfcamp that were known at the time?

10 A. That's correct.

11 Q. You mentioned that Guardian Operating
12 Corporation was appointed as the operator. Is Matador the
13 successor operator to Guardian Operating Corporation?

14 A. That's correct. And that's shown on Exhibit 4.

15 Q. And that is a Change of Operator form that has
16 been filed with the Division?

17 A. That's correct.

18 Q. Was the initial vertical well, the Guitar 10
19 Well No. 1 successfully drilled?

20 A. Yes.

21 Q. And was the Guitar 202H well the infill well for
22 that spacing unit?

23 A. That's correct.

24 Q. Or one of the infill wells.

25 In the process of preparing to drill the

1 Guitar 202H, did you discover additional mineral owners
2 who were not subject to the R-13667?

3 A. Yes. Those are shown on Exhibit 5 with the
4 interests that were pooled under the original Order.
5 There's approximately 4.5 percent pooled under the
6 original Order and we are seeking to pool another .184268
7 percent.

8 Q. What is Matador's percentage in this well?

9 A. Matador currently has 70.93 percent.

10 Q. Did all of the interest owners that were pooled
11 subject to Order R-13667 receive a Well Proposal Letter?

12 A. Yes.

13 Q. And is Exhibit 6 a list that includes only the
14 uncommitted interest owners who have not been pooled yet?

15 A. Yes.

16 Q. And these are the parties that you seek to add
17 to Order R-13667?

18 A. Yes.

19 Q. Does Exhibit 7 include copies of the Well
20 Proposal Letters that you sent to the interest owners for
21 the Guitar 202H well that you seek add to the preliminary
22 Order?

23 A. Yes. These were sent out April 1, 2016, and
24 they include an AFE for the Guitar 10 24 South, 28 East
25 RB, No. 202H well.

1 Q. Are the costs reflected on this AFE consistent
2 with other operators drilling similar horizontal wells in
3 the area?

4 A. Yes.

5 Q. Do you also seek to supplement the Order to
6 include the Department of Transportation?

7 A. That's correct. And their Well Proposal is
8 shown on Exhibit 8, sent out November 13, 2015, and
9 includes the same AFE.

10 Q. What additional efforts have you undertaken to
11 reach agreement with these additional parties?

12 A. We've sent out leases, made phone calls, sent
13 emails. We've been successful with a number of the
14 parties to get leases but either weren't able to contact
15 these folks or unable to reach an agreement.

16 Q. Okay. Did Order R-13667 set forth overhead and
17 administrative costs for drilling and completion?

18 A. Yes, they were set at 7,000 per month while
19 drilling and 700 while producing.

20 Q. And you are not requesting any changes to that,
21 correct?

22 A. That's correct, no changes.

23 Q. Did the Order also set forth a 200 percent risk
24 penalty for uncommitted interest owners?

25 A. Yes.

1 Q. And you are not requesting a change to that
2 either?

3 A. That's correct.

4 Q. Was it necessary to provide notice to offsets
5 for this well?

6 A. No.

7 Q. And is that because it's a standard 320-acre gas
8 spacing unit?

9 A. That's correct.

10 Q. Did you publish Notice?

11 A. Yes.

12 Q. Is that included as Exhibit 9?

13 A. Yes. Exhibit 9 is an Affidavit of Publication.

14 Q. Is that because several of the additional
15 parties whom you speak to pool were unlocatable?

16 A. Yes. We are still waiting for green cards on a
17 few of the folks, and published Notice just in case.

18 Q. Okay. And is Exhibit 10 an affidavit prepared
19 by my office confirming that the attached letters sent by
20 Jim Bruce were in fact sent and provided Notice of this
21 hearing to the parties to be pooled?

22 A. Yes.

23 Q. Were Exhibits 1 through 8 prepared by you or
24 compiled under your direction and supervision?

25 A. Yes.

1 MS. KESSLER: Mr. Examiner, I would move to
2 admit Exhibits 1 through 10.

3 EXAMINER McMILLAN: Okay. Exhibits 1 through 10
4 may now be accepted as part of the record.

5 MS. KESSLER: And that concludes my examination.

6 EXAMINER McMILLAN: Okay.

7 EXAMINATION

8 BY EXAMINER McMILLAN:

9 Q. Were the penetration point and the final
10 penetration point on NSL 7180, correct?

11 MS. KESSLER: That would be something I believe
12 that we would need to verify.

13 A. Yeah. Exhibit 1 is as-drilled, so it actually
14 shows the perf points that we hit. So we didn't go
15 exactly on what we -- we didn't drill it exactly how we
16 had it on the NSL, but we're within the -- we didn't go
17 closer than 330 on any point.

18 Q. So you were -- that's noncentered.

19 A. That's right.

20 EXAMINER McMILLAN: I mean, that's not the right
21 word.

22 MS. KESSLER: More orthodox.

23 EXAMINER McMILLAN: Okay. More orthodox.

24 Wow, put me in my place. Okay. That's fine.

25 Q. Are there any depth severances?

1 A. There area between the Bone Spring and the
2 Wolfcamp.

3 Q. But in --

4 A. In the Wolfcamp there are no depth severances.

5 Q. Okay. I'm just curious on Exhibit 3.

6 So the RSC didn't compulsory pool the state
7 highway?

8 A. No. He didn't discover them in his title
9 search.

10 EXAMINER McMILLAN: Oh, okay. Because they are
11 notorious for being compulsory pooled.

12 Okay. Go ahead.

13 EXAMINATION

14 BY EXAMINER BROOKS:

15 Q. Given that this -- well, this plat is for the
16 new well, right? This Exhibit 1.

17 A. That's right. It is not for the Guitar 10 No. 1
18 that was originally pooled, it's for the Guitar 202H, the
19 infill well.

20 Q. But the two are in the same spacing unit, right?

21 A. Yes.

22 Q. So do you understand that this is going to be an
23 Order that is going to be -- necessarily going to be an
24 Order that's going to be retroactive to the date of the
25 first production of the first well?

1 A. Yes.

2 Q. And because it's been recently drilled and gas
3 prices being what they are, I assume it probably has not
4 paid out yet.

5 A. That's correct.

6 Q. So it's merely an accounting -- merely an
7 accounting matter to adjust these interests. There's no
8 money going to actually change hands.

9 A. Uhm, since they are unleased mineral owners, I
10 think we would have to pay the royalties.

11 Q. Yeah, you would have. Oh, that's right. The
12 Rule 1-8 royalty, of course you would have to pay back to
13 the date of first production.

14 A. That's correct.

15 Q. And you understand that that's going to be one
16 of the consequences of the granting of this Application?

17 A. Yes.

18 Q. Okay. And you also understand that the -- well,
19 what we've done in the past, we've not directed you back
20 to that statute that's exactly how we handle it when we
21 pool on a well that has been already drilled, but what we
22 do is we typically have allowed the people that are
23 brought in to get a new election.

24 A. And we'll send those out.

25 Q. Okay. So they can -- even though the well has

1 already been drilled, they can decide whether they want
2 to --

3 A. The proportionate share of costs.

4 Q. And get revenues from the first production, or
5 whether they want to go nonconsent and wait until the 200
6 percent -- pay-out plus 200 percent.

7 Okay. Very good.

8 EXAMINER McMILLAN: I have no further questions
9 and Case No. 15476 shall be taken under advisement.

10 (Time noted: 8:35 a.m.)
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1 STATE OF NEW MEXICO)
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REPORTER'S CERTIFICATE

I, MARY THERESE MACFARLANE, New Mexico
 Reporter CCR No. 122, DO HEREBY CERTIFY that on Thursday,
 July 7, 2015, the proceedings in the above-captioned
 matter were taken before me; that I did report in
 stenographic shorthand the proceedings set forth herein,
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 transcription to the best of my ability and control.

I FURTHER CERTIFY that I am neither employed by
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