Page 1 1 STATE OF NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT 2 OIL CONSERVATION COMMISSION 3 IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION FOR 4 THE PURPOSE OF CONSIDERING: 5 APPLICATION OF MATADOR PRODUCTION CASE NO. 15363 COMPANY FOR A NONSTANDARD OIL SPACING (De Novo) 6 AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO. 7 REPORTER'S TRANSCRIPT OF PROCEEDINGS 8 9 COMMISSION HEARING 10 September 7, 2016 11 Santa Fe, New Mexico 12 13 14 BEFORE: DAVID R. CATANACH, CHAIRMAN PATRICK PADILLA, COMMISSIONER 15 DR. ROBERT S. BALCH, COMMISSIONER BILL BRANCARD, ESQ. 16 CHERYL BADA, ESO. 17 18 This matter came on for hearing before the New Mexico Oil Conservation Commission on Tuesday, September 6, 2016, at the New Mexico Energy, Minerals 19 and Natural Resources Department, Wendell Chino 20 Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico. 21 22 REPORTED BY: Mary C. Hankins, CCR, RPR New Mexico CCR #20 23 Paul Baca Professional Court Reporters 500 4th Street, Northwest, Suite 105 24 Albuquerque, New Mexico 87102 (505) 843-9241 25

Page 2	Page 4
1       APPEARANCES         2       FOR APPLICANT MATADOR PRODUCTION COMPANY:         3       JAMES G. BRUCE, ESQ.         Post Office Box 1056         4       Santa Fe, New Mexico 87504         (505) 982-2043         5       jamesbruc@aol.com         and         6       DANA ARNOLD, ESQ.         MATADOR RESOURCES COMPANY         7       Office of General Counsel         0ne Lincoln Centre         8       5400 LBJ Freeway, Suite 1500         Dallas, Texas 75240         9       (972) 371-5284         darnold@matadorresources.com         10         11       FOR PROTESTANT JALAPENO CORPORATION:         12       J.E. "GENE" GALLEGOS, ESQ.         GALLEGOS LAW FIRM, P.C.         13       460 St. Michael's Drive, Building 300         Santa Fe, New Mexico 87505         14       (505) 983-6686         jeg@gallegoslawfirm.net         15         16       FOR INTERVENOR THE NEW MEXICO OIL CONSERVATION DIVISION:         17       DAVID K. BROOKS, ESQ.         18       STATE OF NEW MEXICO OIL CONSERVATION DIVISION         19       1220 South St. Francis Drive         19       1220 South St. Franc	1       EXHIBITS OFFERED AND ADMITTED         2       PAGE         3       Matador Production Company Exhibit         Numbers 17 through 25       29         4       5         5       Jalapeno Corporation Exhibit Number 8 (Revised)       106         6       7         8       9         10       11         12       13         14       15         16       17         18       19         20       21         23       24         25
Page 3         1       INDEX         2       PAGE         3       Matador Production Company's Case-in-Chief (Cont'd):         4       Witnesses:         5       Bradley M. Robinson:         6       Direct Examination by Mr. Bruce       5         6       Cross-Examination by Mr. Bruce       53         7       Redirect Examination by Chairman Catanach       55         8       Cross-Examination by Commissioner Padilla       58         9       Jalapeno Corporation's Case-in-Chief:       Witnesses:         10       Jalapeno Corporation's Case-in-Chief:       Witnesses:         12       Harvey E. Yates:       13         13       Direct Examination by Mr. Gallegos       69         14       Cross-Examination by Mr. Bruce       106         14       Cross-Examination by Mr. Bruce       148         16       Recross Examination by Mr. Bruce       148         16       Recross Examination by Chairman Catanach       143         17       Recess       152         18       Recross Examination by Mr. Bruce       148         16       Recross Examination by Chairman Catanach       148         18       Recess       153	Page 5         1       (8:30 a.m.)         2       CHAIRMAN CATANACH: Good morning. I'll         3       call the Commission meeting to order this morning. This         4       is a continuation of Case Number 15363, and I believe         5       Mr. Bruce is still has one more witness at this         6       point.         7       Mr. Bruce.         8       MR. BRUCE: That is correct, sir.         9       CHAIRMAN CATANACH: So you may proceed at         10       this time.         11       BRADLEY M. ROBINSON,         12       after having been previously sworn under oath, was         13       questioned and testified as follows:         14       DIRECT EXAMINATION         15       BY MR. BRUCE:         16       Q. Would you please state your name for the         17       record?         18       A. Bradley Robinson.         19       Q. Who do you work for and in what capacity?         20       A. I work for Matador Resources Company as the         21       senior vice president of reservoir engineering and chief         22       technology officer.         23       Q. And what are your responsibilities with Matador         24       in that capacity?

# 2 (Pages 2 to 5)

	Page 6		Page 8
1	my main responsibilities is to determine the amount, a	1	including the proposed spacing unit for the Airstrip
2	value of the company's reserves. I also work with our	2	well in and around Section 31?
3	geology staff looking at new prospects, evaluating the	3	A. Yes, I have.
4	economics of drilling exploration wells. I look at	4	MR. BRUCE: Mr. Chairman, I'd tender the
5	acquisition opportunities. We rarely sell anything, but	5	witness as an expert in petroleum engineering matters.
6	if we do sell anything, I try to assign a value to that.	6	CHAIRMAN CATANACH: Any objection?
7	So I get involved in A and B prospects.	7	MR. GALLEGOS: No objection.
8	And, in general, I also work with our	8	CHAIRMAN CATANACH: He is so qualified.
9	completions team to optimize the lateral lengths, the	9	Q. (BY MR. BRUCE) You were here through the
10	spacing of our horizontal wells or vertical wells and	10	testimony of Matador's witnesses yesterday; were you
11	also the completion. I get involved in the design of	11	not?
12	the hydraulic fracture treatments.	12	A. Yes.
13	Q. Could you describe your educational and	13	Q. And they spoke about the differences some of
14	employment background, please?	14	them anyway between a Wolfcamp well and a Bone Spring
15	A. Sure. I graduated in 1977 from Texas A & M	15	well. Can you describe the reservoir differences
16	University with a bachelor of science degree in	16	between the two?
17	petroleum engineering. I also earned my master's degree	17	A. Sure.
18	in petroleum engineering from A & M in 1986.	18	I thought Dr. Frost did a great job
19	After graduation, I worked a couple of	19	explaining some of the mineralogical differences,
20	years for Marathon Oil Company in Midland as a	20	geological, stratigraphic differences, the geochemical
21	production engineer and was later promoted to reservoir	21	differences. It was brought up that one of the main
22	engineer in the district office there.	22	differences between the Wolfcamp and the Bone Spring is
23	In late 1979, I went to work for one of my	23 24	that in most areas of the Basin, the Wolfcamp is
24 25	old professors, Dr. Steven Holditch. He was starting a	24	geopressured, unlike the Bone Spring, which is really
25	consulting company called S.A. Holditch & Associates.	25	normally pressured in almost all areas of the Basin.
	Page 7		Page 9
1	So I moved back to College Station, and I worked for	1	We're not 100 percent sure that's the case
2	S.A. Holditch & Associates until 1997 when Schlumberger	2	in the northern part of the Basin where the proposed
3	bought our company. I worked for Schlumberger for six	3	well is being drilled. We suspect it is. We have some
4	years as a technology advisor.	4	information that showed us or told us that the lower
5	And then in 2003, I went to work for	5	Wolfcamp was geopressured in this area, but we're not
6	Matador Resources as the vice president of engineering.	6	sure about the upper Wolfcamp.
7	I was later promoted to my current title of senior vice	7	You know, the lower the Wolfcamp in
8	president of reservoir engineering and chief technology	8	general, while there are some conventional reservoirs
9	officer.	9	that have been drilled, is is more of an
10	Q. Did Holditch & Associates specialize in	10	unconventional type reservoir with organic-rich shales
11	analyzing unconventional reservoirs?	11	and low permeability within it.
12	A. Yes. Yeah. That was sort of our niche, was	12	Most of the Bone Spring is more of a
13	the analysis, the completion, fracture stimulation of	13	conventional type reservoirs, especially in the sand
14 15	unconventional reservoirs.	14 15	intervals. There are some tight intervals, and there
15 16	Q. And have you previously testified before the Oil Conservation Division?	15	are some organic-rich intervals within the Bone Spring, especially in the carbonate sections. But it's
10	A. I have.	17	generally looked at as more of a conventional target by
18	<ul> <li>A. Thave.</li> <li>Q. And were your credentials as an expert</li> </ul>	18	operators, while the Wolfcamp is more of an
19	petroleum engineer accepted as a matter of record?	19	unconventional.
20	A. They were.	20	Q. In this area, is the Wolfcamp heterogeneous?
21	Q. And are you familiar with the application filed	21	A. Very. Very. I've never heard it pronounced
22	by Matador in this case with respect to the reservoir	22	like that. I say heterogenous, but I'm from Texas so
23	engineering matters?	23	but I like your pronunciation. It's very good.
	A. I am.	24	Q. And when you talk heterogeneous, is that
24			
24 25	Q. And have you conducted a study of the area,	25	vertical or lateral?

3 (Pages 6 to 9)

<ul> <li>A. Both, really. It's highly laminated. They're very heterogeneous vertically and, as is the case with most uncoverticinal resources. The lateral variation is protocol.</li> <li>are significant, wide variations is protocol.</li> <li>generationity, cognic corners and to forth.</li> <li>G. Talking about the distance to similar upper Wolfcamp wells, just looking at upper Wolfcamp wells, issue tooking at upper Wolfcamp here. So Lr forst and his geoschice team and in the asso pointed out that there were protobely about a dozen dy-hold wells as opposed to just wells that dozen dy-hold wells and think he also pointed out that there were protobely about a dozen dy-hold wells in this area, looking at come of the lower Wolfcamp wells and though the also pointed out that there were protobely about a dozen dy-hold wells in this area, looking at come of the lower Wolfcamp wells and though the also pointed out that there were protobely about a dozen dy-hold wells in this area, looking at come of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp wells and though there was a poleme of the lower Wolfcamp to the pole about the statistical well wells. If there was a nother of Wolfcamp wells and though the south the wells in the association into the spin dawn into the upper Wolfcamp wells and the statistical well. We doll the south wells in the association wells. The tornet the south wells in the association into the upper Wolfcamp wells and the south the opplate and the right dawn.</li> <li>A. New, first of all, do you consider Matador's proposed well and the organical well. W</li></ul>		Page 10		Page 12
2         wery heterogeneous vertically and, as is the case with most uncoverinding resourchs, the lateral variation are significant, wide variations in porceity, permeshilly, organic context and so forth.         2         good vertical Wolfcamp producers in this area; is that concret?           3         A. In your opinion, is it proper to compare Bone Spring results to Wolfcamp wells and about the distance to similar upper         A. There are a couple, yes.         A. A few. And I think Dr. Frost testified six, source and other mainly looking at tuper Wolfcamp wells, but tooking at tuper Wolfcamp Wolfcamp wells, suit tooking at tuper Wolfcamp here, sources in the upper Wolfcamp in the source Wolfcamp here, sources in the upper Wolfcamp in the source wolf.         A. There are a couple, yes.           1         We had about the distance to similar upper well tooking at tuper Wolfcamp here, sources in the upper Wolfcamp here, sources in the upper Wolfcamp in the source wolf.         A. There are a couple, yes.         C. So divided by 40, comes out to that success rate?           1         We had soon - we had quite a bit of success in the upper Wolfcamp here. So D. Frost and his geoceiners term and in this area, looking at some of the data we had gathered drilling some of the lower Wolfcamp wells and that well there was a polential there. So we diacided to go ahead and put together an AFE.         C. Could you discuss that well a little more?           2         A. The's correct.         1         The weas that showed that wes an organically rich source crock. We dilled that well, had significant to worker wells with the with a significant. Source crock. We atile that well and so good the data soupout the with this so read for houle upper Wolfcamp. <th>1</th> <th>A. Both, really. It's highly laminated. They're</th> <th>1</th> <th>Q. And when you look at Exhibit 8, there are some</th>	1	A. Both, really. It's highly laminated. They're	1	Q. And when you look at Exhibit 8, there are some
<ul> <li>most unconventional reservoirs, the lateral variation         are significant, wide variations in proceeds         primedbilly, orgenic content and so forth.         <ul> <li>G. Tabling about the distance to similar upper             Wolfcamp wells, just looking the dusting movel, just looking to upper Wolfcamp wells, just looking to upper Wolfcamp here. So Levis and the source dusting mainly in our acreage dust wells             were and quit to primers so that dust             in Lowing Country, so we wanted to look at the upper             Wolfcamp mere. So Levis and the source dusting fraining the sources in the upper             Wolfcamp mere. So Levis and the source dusting fraining in the size looking at now mere dust and put together an AFE:</li> <li>C. Ackey, Let me see if L can find the right             werticat wells, which was mentioned. It looked like in that one             defunct proprimisers state looking for dust             defunct proprime shifts or look at the upper             Wolfcamp,             d. Okay, Let me see if L can find the right             werticat well?             A. Thesis correct.             A. Thesis correct d.             A. Thesis correct d.</li></ul></li></ul>	2			
<ul> <li>are significant, wide variations in processly,</li> <li>perneability, organic content and so forth.</li> <li><b>0.</b> In your opinion, is it proper to compare Bone Spring results to Wolfcamp wells, just to Kolfearn well results?</li> <li>A. Nat at all, n.</li> <li><b>0.</b> Tatking about the distance to similar upper Wolfcamp wells, just to kohing at upper Wolfcamp wells, just cohing at upper Wolfcamp, wells, just coupled wells, as was</li> <li>mentioned earlier, mainly looking at the lover Wolfcamp, We had detied a couple of wells as was</li> <li>we had detied a couple of wells, as was</li> <li>We had detied a couple of wells, as was</li> <li>We had seen - we had quite ab to f</li> <li>success in the upper Wolfcamp wells, just cohing at upper Wolfcamp, wells, we wanted to look at the upper</li> <li>Wolfcamp here. So Dr. Frost and his geoscience team and signme of the dates whad</li> <li>in this area, looking at come of the date we had</li> <li>gathered dilling some of the kower Wolfcamp, wells and the weithed what</li> <li>the Preckand 22H, which was mentioned. It haves produbly about a dozen dy-hole drills in this area, looking at some of the date we had</li> <li>gathered drilling some of the kower wolf at look at we had</li> <li>gathered drilling some of the kower wolf at look at we had</li> <li>the well have and and not together an AFE.</li> <li>Worldamp,</li> <li>Q. Okay. Let me see H1 can find the right estibution, Mr. Robinson.</li> <li>There was in the statices, looking at an experient?</li> <li>A. Okay. It may the statistical success of explored that was an organically, ich was an organically in the state short, we had its well at well at the apper thank on the states. We had that well was at ough, wery high fricature gradents. The lower Wolfcamp, well in the well have e</li></ul>	3		3	
<ul> <li>permeability, coganic content and so forth.</li> <li>Q. In your opinion, is it proper to compare Bone Spring results to Wolfcamp well is proper to compare Bone Spring results to Wolfcamp well is proper to compare Bone Spring results to Wolfcamp well is proper to compare Bone Spring results to Wolfcamp wells, just tooking at upper Wolfcamp wells.</li> <li>A. Not at all, no.</li> <li>J. Taking about the distance to similar upper Wolfcamp wells, just tooking at upper Wolfcamp wells.</li> <li>A. We had defined a couple of wells, as was mentioned earlier, mainly looking at the lower Wolfcamp.</li> <li>We had seen - we had quite a to df success in the upper Wolfcamp in the southern part of Eddy County and certainged earlier, mainly looking at the lower Wolfcamp.</li> <li>We had seen - we had quite a to df success in the upper Wolfcamp in the southern part of Eddy County and certaingeness started looking to data and a thought there was a potential there. So we decided to gg ahead and put togather an AFE.</li> <li>We had acquired this acreage in the HEYCO memoger, which was mentioned. It looked kills in the area hat showed that it was an organically rich source rock. We dilled the variable is that upper Wolfcamp.</li> <li>We had acquired this acreage in the HEYCO memoger, which was mentioned. It look at like it had one of the better opportunities to test the upper Wolfcamp, so we went ahead and changed the application from drilling in the area number of Wolfcamp.</li> <li>Wolfcamp.</li> <li>Wolfcamp.</li> <li>Wolfcamp.</li> <li>We had socure this acreage in the HEYCO memoger, which was mentioned. It looked this it had one of the better opportunities to test the upper Wolfcamp, so we went ahead and changed the application from drilling in the area number of Wolfcamp.</li> <li>Wolfcamp.</li> <li>Wolfcamp.</li> <li>Wolfcamp.</li> <li>Wolfcamp ber had big bescience tear and struct there starts in wildcat wells?</li> <li>A. Ohay. It me sestift</li></ul>	4		4	A. There are a couple, yes.
	5		5	
<ul> <li>Spring results to Wolfcamp well results?</li> <li>A. Nat at al. no.</li> <li>C. Talking about the distance to similar upper</li> <li>Wolfcamp wells, just tooking at upper Wolfcamp wells,</li> <li>how did you narrow down your study to this area?</li> <li>A. We had dilled a couple of wells, as was</li> <li>mentioned aedriler, mainly looking at the tourer Wolfcamp in the southern part of</li> <li>Eddy Courty and cetained ook in the southern part of</li> <li>Eddy Courty and cetained ook in the southern part of</li> <li>Eddy Courty and cetained looking to took at the upper</li> <li>Wolfcamp here. So Dr. Frost and his geoscience team and</li> <li>some of the reservoir engineers started looking to data</li> <li>and some of the lower Wolfcamp wells and put together an AFE.</li> <li>Could you discuss that well a little more?</li> <li>A. Yes,</li> <li>Could you discuss that well a little more?</li> <li>A. Sure. It was a well we dilled to evaluate.</li> </ul>	6		6	
<ul> <li>G. Taiking about the distance to similar upper Woltcamp wells, just looking at upper Woltcamp wells, how did you narrow down your study to this area?</li> <li>A. We had dilled a couple of wells, as was mentioned earlier, mainly looking at the lower Woltcamp.</li> <li>We had sen - we had quite ab in d</li> <li>Eddy County and certainly in our acreage down in Texas, in Looing County, and certainly in our acreage down in Texas, in Looing County and certainly in our acreage down in Texas, in Looing County and certainly in our acreage down in Texas, in this area, looking at some of the data we had at hought there was a potential there. So we decided to gathered drilling some of the lower Woltcamp wells and thooking there was a potential there. So we decided to gathered drilling some of the lower Woltcamp wells and thooking there was a potential there. So we decided to go ahead and put together an AFE.</li> <li>We had acquired this acreage in the HEVCO merger, which was mentioned. It looked like it had one of the better opportunities to est the upper Woltcamp.</li> <li>C. Kay. Let me see if I can find the right exhibit Ar. Robinson.</li> <li>There was the testimony by Dr. Frost yesterday – Exhibit 8, if you can turn to Exhibit 8, please – that there are a number of Woltcamp – vertical Woltcamp tests in this area, correct?</li> <li>A. On, yes. There's bean multipes studies.</li> <li>A. On, yes. There's bean multipes studies.</li> <li>Doking back in history at the statistical success of expoloration wells, and 1 tho ithis (Ta wells) estimates.</li> <li>There was the testimony by Cr. Frost yesterday – Exhibit 8, if you can turn to Exhibit 8, in the vertical well to dill both vertically and hotizontally, but we got it done.</li> <li>A. On, yes. There's bean multipes studies.</li> <li>A. On, yes.</li></ul>	7		7	
<ul> <li>Wolfcamp wells, just looking at upper Wolfcamp wells, how did you narrow down your study to this area?</li> <li>A. We had dilled a couple of wells, as was mentioned earlier, mainly looking at the lower Wolfcamp.</li> <li>We had seen - we had quite a bit of success in the upper Wolfcamp in the southen part of success in the upper Wolfcamp in the southen part of success in the upper Wolfcamp in the southen part of success in the upper Wolfcamp in the southen part of success in the upper Wolfcamp in the southen part of success in the upper Wolfcamp in the southen part of sources in the upper Wolfcamp wells and the together an AFE.</li> <li>A. That's correct.</li> <li>A. Then's your could refer to Exhibit 19, you metioned the Pickard 2H well in Section 20 of - what is that 18-34?</li> <li>C. So divided by 40, comes out to that success rate?</li> <li>A. Pretly much, yes.</li> <li>A. That's correct.</li> <li>A. That's correct.</li> <li>A. Then's you could refore to Exhibit 19, you metioned the Pickard 2H well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Could you discuss that well in Section 20 of - what is that 18-34?</li> <li>C. Can you well sead and charged the application from of the better opportunities to test the up</li></ul>	8	A. Not at all, no.	8	A. I think there are roughly 40-some-odd wells
11       how did you narrow down your study to this area?       11       rate?         12       A. We had drilled a couple of wells, as was       11       rate?         13       mentioned earlier, mainly looking at the lower Wolfcamp.       0. And we're talking economic wells as opposed to         14       We actually drilled one lower Wolfcamp point he southern part of       12       A. Prety much, yes.         14       We had seen we had quite a bit of       12       A. That's correct.         15       Eddy County and certainly in our acreage down in Texas,       16       A. I think he also pointed out that there         16       Wolf amp here. So Dr. Frost and his geoscience team and       17       area, to, so it's not a given that even that they're         17       gathered drilling some of the reservoir engineers stated looking at some of the area tome of the also pointed out that there       18       area, to, so it's not a given that even that they're         12       gathered drilling some of the data we had       11       area, to, so it's not a given that even that they're         13       gathered drilling some of the older Wolfcamp here. So we decided to       20       Chent Pickard 2H, well in Section 20 of - what         14       The reservoir regimmenties to test the upper Wolfcamp,       2       A. Yes.         14       We had acquired this acreage in the HEYCO       The bet charo	9	Q. Talking about the distance to similar upper	9	that was produced out of the Wolfcamp.
12       A. We had clilled a couple of wells, as was       12       A. Pretty much, yes.         13       mentioned earlier, mainly looking at the lower Wolfcamp.       13       C. And we're taking accoomic wells as opposed to         14       the Pickard #2H, which was mentioned yesterday.       14       A. That's correct.       A. That's correct.         16       We had seen - we had quite a bit of       15       A. That's correct.         16       Eddy Courty and certainly in our acreage down in Texas,       16       A. That's correct.         17       Wolfcamp here. So Dr. Frost and his geoscience team and       20       30 its not a given that even that they're         20       wolfcamp here. So Dr. Frost and his geoscience team and       21       area, too, so it's not a given that even that they're         21       gathered dilling some of the lower Wolfcamp,       20       C. Could you discuss that well a little more?         22       go ahead and put together an AFE.       22       A. Yes.         22       Q. Could you discuss that well a little more?       A. Sure. It was a well we drilled to evaluate.         23       go ahead and put together an AFE.       23       A. Yes.         24       We had acquired this acreage in the HEYCO       1       t's called the Wolfcamp D or the lower Wolfcamp.         3       westatel ado don gut togethe	10	Wolfcamp wells, just looking at upper Wolfcamp wells,	10	Q. So divided by 40, comes out to that success
13       mentioned earlier, mainly looking at the lower Wolfcamp.       13       14         14       We actually dilled one lower Wolfcamp horizontal well,       14         15       the Pickard #2H, which wass mentioned eyesterday.       14         16       Eddy County and certainly in our acreage down in Texas,       15         16       Eddy County and certainly in our acreage down in Texas,       16         17       some of the reservoir engineers started looking or data       area, too, so it's not a given that even that they're         20       G. Then if you could refer to Exhibit 19, you         21       mentioned duriling some of the data we had         22       gathered drilling some of the data we had         23       gathered drilling some of the lower Wolfcamp wells and         24       Me had acquired this acreage in the HEYCO         25       go ahead and put together an AFE.         26       A. Okay. Let me see if I can find the right         27       Wolfcamp.         28       A. That's correct.         30       yesterday – Exhibit 8, if you can turn to Exhibit 8,         31       the well well in the is a cera, correct?         42       A. Make re tabilits and think is a conducted over the         31       the cera that there are a number of Wolfcamp -	11	how did you narrow down your study to this area?	11	rate?
14       We actually drilled one lower Wolfcamp horizontal well, the Pickard #2H, which was mentioned yesterday.       just wells that produced some oil?         15       We had seen — we had quite a bit of success in the upper Wolfcamp in the southern part of Eddy County and cartainly in our acreage down in Texas, in Loving County, so we wanted to look at the upper Wolfcamp here. So Dr. Frost and his geoscience team and some of the reservoir engineers started looking for data in this area, looking at some of the data we had gathered drilling some of the lower Wolfcamp wells and though there was a potential there. So we decide to go ahead and put together an AFE. <ul> <li>Page 11</li> <li>We had acquired this acreage in the HEYCO go ahead and put together an AFE.</li> </ul> The area that showed well a little more? <ul> <li>A. Yes.</li> <li>We had acquired this acreage in the HEYCO go ahead and put together an AFE.</li> </ul> His called the Wolfcamp D or the lower Wolfcamp, so we went shead and changed the application from drilling in the 3rd Bone Spring down into the upper Wolfcamp.              It is called the Wolfcamp D or the lower Wolfcamp, We had gathered some data and a couple of other wells in the vertical well. We did not got all of the data         9       There was the testimony by Dr. Frost yesterday = Exhibit 8, if you can turn to Exhibit 8, please – that there are a number of Wolfcamp – vertical Wolfcamp tests in this area, correct?              Hat is the is to got use is the data souph well to fish those out. So it twes a tough well to bling britte. We dat to fish those out. So it was a regarding the success rate in wildeat well?         9	12	A. We had drilled a couple of wells, as was	12	A. Pretty much, yes.
15       the Pickard 22H, which was mentioned yesterday.       15       A. That's correct.         16       We had seen - we had quite a bit of       16       A. That's correct.         17       success in the upper Wolfcarmp in the southern part of       16       Eddy County and certainly in our acreage down in Texas,         18       Eddy County and certainly in our acreage down in Texas,       16       A. That's correct.         19       gathered filling some of the tosen wheth ad the application from       16       Then if you could refer to Exhibit 19, you         21       some of the tosen Wolfcarmp in the HEYCO       A. That's correct.       C. Could you discuss that well a little more?         22       A. Sure. It was a well we drilled to evaluate.       22         10       We had acquired this acreage in the HEYCO       A. Sure. It was a well we drilled to evaluate.         11       We had acquired this acreage in the HEYCO       11       It's called the Wolfcarp P. We had issues or gancially rich         20       O. Okay. Let me see if I can find the right       exhibit, Mr. Robinson.       11       Page 13         11       There was the testimony by Dr. Frost       yesterday – Exhibit 8, if you can turn to Exhibit 8, please – that there are an anuber of Wolfcarp - the sam aticle in the 30 adoe upt, very       16       high fracture gradients. The lower Wolfcarp wile a few         10	13	mentioned earlier, mainly looking at the lower Wolfcamp.	13	Q. And we're talking economic wells as opposed to
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18       Eddy County and certainly in our acreage down in Texas, in Loving County, so we wanted to look at the upper       18       area, too, so it's not a given that even that they're         19       Wolfcamp here. So Dr. Frost and this geoscience team and some of the reservoir engineers started looking for data in this area, looking at some of the data we had       18       area, too, so it's not a given that even that they're         21       gathered drilling some of the lower Wolfcamp wells and thought there was a potential there. So we decided to go ahead and put together an AFE.       0. Could you discuss that well a little more?         25       A. Yes.         1       We had acquired this acreage in the HEYCO merger, which was mentioned. It looked like it had one of the beter opportunities to test the upper Wolfcamp, so we went ahead and changed the application from       1       It's called the Wolfcamp D or the lower Wolfcamp.         7       Q. Okay. Let me see if I can find the right exhibit, Mr. Robinson.       1       It's called the Wolfcamp D or the lower Wolfcamp D polems drilling it. I think this is one of Mr. Byrd's         10       please - that there are a number of Wolfcamp p - vertical Wolfcamp tests in this area, correct?       1       It's called the well the well to low at wells and that well hoet to be abe as to uph wells and that well hoet to be abe as to upping into the wells in the vertical well well at well well well wells to upping uptile at the area that showed that it was a norganically inch source rock. We drilled that well well wells to the area that showed that the data         7       A. That's	16	We had seen we had quite a bit of	16	•
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25       go ahead and put together an AFE.       25       A. Sure. It was a well we drilled to evaluate.         Page 11       Page 11       Page 13         1       We had acquired this acreage in the HEYCO merger, which was mentioned. It looked like it had one of the better opportunities to test the upper Wolfcamp, so we went ahead and changed the application from drilling in the 3rd Bone Spring down into the upper Wolfcamp.       It's called the Wolfcamp D or the lower Wolfcamp.       Page 13         7       Q. Okay. Let me see if I can find the right exhibit, Mr. Robinson.       In the vertical well. We did not get all of the data that we'd hoped to get because of problems with the wellbore. The bar line tools got stuck. We got a key seat in the wire lines. We had to fish those out. So it was a tough well to drill both vertically and horizontally, but we got it done.         11       A. That's correct.       13         12       A. That's correct.       13         13       A. That's correct.       13         14       Q. Now, first of all, do you consider Matador's proposed well a wildcat well?       14         15       fairly ductal as opposed to being brittle. We discussed that a little bit. We had trouble pumping gnute a few of the frac stages, even pumping into the formation. So there's really no guarantee that what we're doing out hat a little bit. We had trouble pumping gnut he formation. So there's really no guarantee that what we're doing out hat a little bit. We haw there doing out hat a little bit. We haw the obe able to successfully drill it or complete it.         14 <th></th> <th></th> <th></th> <th></th>				
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# 4 (Pages 10 to 13)

1	Page 14		Page 16
	identify the main reservoir risk factors.	1	is a normal pressure. So there is a pressure seal
2	What we show here and there are many of	2	there. And we're not sure if there is a pressure seal
3	them, but these are the key reservoir factors risk	3	between the lower and upper Wolfcamp in this area.
4	factors that we hone in on, permeability greater than	4	Q. And the other witnesses had similar the
5	100 nanodarcies. You know, it seems funny saying that.	5	other technical witnesses had similar charts for their
6	Five years ago we were talking millidarcies or	6	risk assessment. Is this how it's normally done at
7	microdarcies, but today we're talking about nanodarcies.	7	Matador?
8	But we've got to have at least 100 nanodarcies in order	8	A. This is our normal approach, yes. We try to
9	to get sufficient flow in these reservoirs to make	9	look at things on a relative scale between low, medium
10	economic wells.	10	and high in terms of our risk assessment, and then we
11	Net thickness of at least 100 feet. We	11	look at the overall risk in each of the major
12	want to make sure we have sufficient oil and gas in	12	categories.
13	place to justify drilling the horizontal wells. Of	13	Q. And what do you estimate the reservoir risk
14	course, we have to have a good oil saturation, which	14	being in this well?
15	means water has to be less than 45 percent. And that	15	A. We're right at about 50 percent chance of
16	can vary depending on where you are. I've seen	16	success on the reservoir.
17	water-free production with water saturations as high as	17	We know the thickness based on logs in the
18	60 percent, but in most of these unconventional	18	area. We've done some preliminary petrophysical work
19	reservoirs, you want it to be down in the 40s or lower.	19	that suggests the water saturation may be low, but we
20	Formation pressure is one of the keys to	20	really don't have the mineralogical information,
21	having enough energy in these unconventional reservoirs	21	cementation factors, saturation exponents. All the
22	to drive the oil or gas out of these nano-size	22	things that go into conventional log analysis, we don't
23	fore-throws [phonetic].	23	have a lot of that data, so we're making assumptions on
24	And lateral continuity. You want to be	24	those things based on what we know from other wells down
25	able to predict reasonably well that the formation is	25	in southern Eddy County and in Loving County. But in
	Page 15		Page 17
1	going to be continuous over some distances. We know	1	this area, we're still kind of assuming some of those
2	there are significant variations, but you hope that the	2	values.
3	changes aren't significant enough to affect the overall	3	But we think water saturation's going to be
4	productivity of the well.	4	in the 40s, so we've got a moderate amount of risk on
5	Q. In looking at permeability, you put the risk as	5	that, though.
6	high. Is that due to lack of data in the upper	6	Same thing with lateral continuity. We
7	Wolfcamp?	7	have a data point at the north end of the wellbore
8	A. Yes. We really don't have any permeability	8	trajectory. We have one at the south end, but we don't
9	data from the Wolfcamp. I believe it was testified to	9	have anything in between. So while geologically we
10	that we've got a pretty good handle on the porosity, and	10	believe that to be fairly continuous, we really don't
11	there are some theoretical correlations to convert	11	know. So we've assigned a moderate amount of risk to
12	porosity to permeability. There are some logs that	12	that.
13	could be run to estimate the permeability. But those	13	Q. Now, in your exhibit, you say the well
14	are, again, theoretical calculations. We have no	14	classifies as contingent resources and not reserves.
15	measurement of permeability whatsoever in the upper	15	What is the difference between those two terms?
16	Wolfcamp.	16	A. So the contingent resources are the
17	Q. And does the same apply to the pressure	17	classification of resources by the Petroleum Resource
18	gradient that you're looking for?	18	Management System, which was adopted by the Society of
19	A. That's correct, unknown here.	19	Petroleum Engineers and the Society of Professional
20	We know that the lower Wolfcamp is	20	Evaluation Engineers as to that rating, and also the
	geopressured with about a .7 psi per foot gradient, but	21	AAPG, to define specific categories of reserves. That
21	that's 1,000 feet deeper. And those pressure gradients	22	resource system was accepted by the Securities and
22			
22 23	can change as you go up vertically. We know in Eddy	23	Exchange Commission as guidelines for public companies
22		23 24 25	Exchange Commission as guidelines for public companies to estimate or to categorize their reserves. So in this particular case, a Wolfcamp well

# 5 (Pages 14 to 17)

	Page 18		Page 20
1	in this area would fall in the contingent category	1	prospect.
2	because it has less than a 10 percent chance of	2	Q. Now, you've seen Matador's exhibits, correct?
3	probability that we will produce commercial quantities	3	A. That's correct.
4	of oil and gas.	4	Q. And is it fair to say that what they're doing
5	Q. And is the Petroleum Resources Management	5	is adding risk rather than multiplying?
6	System submitted as Exhibit 22?	6	A. Matador's?
7	A. Yes, it is.	7	Q. Not Matador's. Jalapeno.
8	Q. And if you could, Mr. Robinson, could you turn	8	A. Oh. Jalapenos?
9	to page 7? And, again, just briefly talk about the	9	Q. Yeah.
10	reserves resources differentiation.	10	A. It appears they were adding the risk factors
11	A. Sure. This shows sort of pictorially what I	11	together, which is incorrect.
12	was talking about. Only wells or reserves that have at	12	Q. And is multiplying risk the way it's normally
13	least a 90 percent chance of commercial production can	13	done?
14	be classified as reserves, either proved developed or	14	A. Yes. That's the industry standard, that you
15	proved undeveloped by the Securities and Exchange	15	multiply the risks together because your exploration
16	Commission.	16	risk for a prospect is no better than the most risky
17	Anything less than that, particularly as	17	category. For example, if you had a 100 percent chance
18	you get down to the 10 percent or less probability of	18	of success to drill a well and you had a 100 percent
19	success, those have to be classified as contingent	19	chance of hitting your geologic target, but you only had
20	resources, and that basically just means there's only	20	a 25 percent chance of there being oil and gas present
21	about a 10 percent chance of commercial success here.	21	in commercial quantities, then if you would use their
22	Q. So Matador would view this well as a risky	22	method, you would add 100 plus 100 plus 25. You'd have
23	proposition?	23	a 225 percent chance of success.
24	A. Yes, we do.	24	In reality, you only have a 25 percent
25	Q. And other people who are familiar with publicly	25	chance of success. You have to multiply those together,
	Page 19		
1	held companies in the SEC would also view this well as a	1	Page 21
1 2	held companies in the SEC would also view this well as a risky proposition?	1	because your prospect is only as good as the most risky
2	risky proposition?		because your prospect is only as good as the most risky component of that prospect.
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# 6 (Pages 18 to 21)

	Page 22	Page 24
1	A. Right. In general, when we look at a prospect,	1 drill that, but we've assigned a 75 percent chance of
2	we ask ourselves several questions. Number one, does it	<sup>2</sup> success to that. And then the reservoir chance of
3	have suitable rock quality at the peak oil window? I	<sup>3</sup> success, which we talked a little bit earlier, was
4	think Dr. Frost addressed this very well yesterday. We	4 around 50 percent.
5	look at thermal maturity. We look at the total organic	5 When you multiply all those together, you
6	content. We look at, you know, the thickness, porosity.	6 get a little over 9 percent cumulative chance of
7	We need to know that oil generation within the source	7 success, which, as I mentioned a little earlier when we
8	rock is at that peak thermal maturity to get oil. If	8 were talking about contingent resources, you've got to
9	we're looking for gas, we go for more thermally mature	<sup>9</sup> be at least over 10 percent chance of success to be able
10	rock, but in this particular case, we're looking for the	<sup>10</sup> to get out of that contingent resources category. So
11	peak oil window.	11 that's where we came up with that. But the probability
12	At this depth and this cost of the	<sup>12</sup> of success here is around 9 or 10 percent, which fits in
13	\$6-and-a-half million that was mentioned, we need an EUR	13 really nicely you know, pretty much in agreement with
14	of at least 400,000 barrels to make this economic. We	<sup>14</sup> the historical exploration success of the entire
15	hope to get to that level. Based on our analysis, we	15 industry.
16	think we can get there. We think it can be more than	16 Q. And with the SEC regulations?
17	that. But at this point, we don't know permeability.	17 A. Yes. Oh, yes. This fits all the SEC
18	We really don't know saturation in terms of calculating	18 guidelines.
19 20	the oil in place. So we're not sure we can get to the	19 Q. Now, can the success calculation be subjective,
20	400,000. But all the other properties, with some of the	<ul> <li>20 or is it subjective?</li> <li>21 A. It is subjective. Sure.</li> </ul>
21	assumptions we've had to make, puts us in this category,	
23	and this is what we're looking for. And the last thing, of course, as Mr. Byrd	22 We have team meetings to discuss and to get 23 opinions from various experts within our company. We
24	said, drilling and completing the well on budget or	<ul> <li>often go outside the company to get opinions from</li> </ul>
25	under, ideally. We'd love to come under, but we think,	<ul> <li>consultants, from service companies who have experience</li> </ul>
-		
	Page 23	Page 25
		1 490 20
1	on this first well, particularly, we're probably going	<sup>1</sup> in the area. We look at the success the drilling
1 2	-	-
	on this first well, particularly, we're probably going	1 in the area. We look at the success the drilling
2	on this first well, particularly, we're probably going to see some things we didn't expect.	<ol> <li>in the area. We look at the success the drilling</li> <li>success, the number of dry holes drilled. As I</li> </ol>
2 3	on this first well, particularly, we're probably going to see some things we didn't expect. I know Mr. Byrd he's expecting	<ul> <li>in the area. We look at the success the drilling</li> <li>success, the number of dry holes drilled. As I</li> <li>mentioned, we had identified at least 12 dry holes in</li> </ul>
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# 7 (Pages 22 to 25)

Page 26		Page 28
wells are substantially higher than what we're used to	1	might in drilling an offshore well or drilling overseas.
drilling in the vertical world, so the risk and the cost	2	You do take on the riskier type wells when you have a
definitely justify the risk charge of 200 percent.	3	large upside to it.
Q. And can you turn to Exhibit 25? Do you think	4	Q. So if this well is successful, it will prove up
that this well fits in within the vast majority of the	5	other upper Wolfcamp acreage in the area?
cases that justify 200 percent risk charge?	6	A. Oh, yes. It's going to prove up a lot of
A. Yes.	7	acreage in the area.
Q. Do you think there is a specific reason to	8	Q. Not just Matador's?
provide a lesser charge?	9	A. Not just Matador. There are a lot of companies
A. No.	10	that are going to benefit from having this well
Q. Now, you've been in the industry for a while.	11	successful.
Has the risk diminished since vertical well days?	12	Q. Including Jalapeno's acreage?
A. Is that another way of saying I'm old?	13	A. Including Jalapeno. It's going to make them
Q. But not as old as me.	14	very rich.
A. No. The risks of drilling exploration wells,	15	Q. And even if they even if they do not
we talked about them. There have been numerous studies	16	participate in this well, they will benefit?
done that show, historically, is around low to mid-teens	17	A. Yes, definitely.
in terms of the percentage of success. That's that's	18	Q. What waste would occur if Matador was only
still about the same as it is or has been historically.	19	allowed to drill vertical wells on the 40-acre well
The price of playing in these	20	unit, as Jalapeno has suggested?
unconventional resource plays, though, has gone up.	21	A. We would leave a substantial amount of oil and
Horizontal wells, the cost are, you know, many millions	22	gas in the reservoir. We would not be able to
of dollars. We do everything we can to keep those costs	23	efficiently drain the oil and gas reserves from this
down.	24	well with vertical wells or even short even short
Everywhere we drill, we get a little bit	25	laterals, for that matter. There would be significant
Page 27		Page 29
•	1	waste.
	2	Q. Were Exhibits 21 through 25 prepared by you or
	3	compiled under your direction and control?
-	4	A. Yes, they were.
	5	Q. In your opinion, is the granting of Matador's
	6	application in the best interest of conservation and the
	7	prevention of waste?
	8	A. Yes.
	9	Q. And will it protect the interest owners'
	10	correlative rights?
		A. Yes, it will.
	12	MR. BRUCE: Mr. Chairman, I'd move the
0	13	admission of Matador Exhibits 21 through 25.
	14	CHAIRMAN CATANACH: Any objection?
	15	MR. GALLEGOS: No objection.
	16	CHAIRMAN CATANACH: Exhibits 21 through 25
	17	will be admitted.
	18	(Matador Exhibit Numbers 21 through 25 are
-	19	offered and admitted into evidence.)
	20	MR. BRUCE: And I have one final request
	21	before I turn over the witness. I would request that
recognize and everybody for that matter there's a	22	the record for the Division be incorporated into the
tremendous amount of potential in the upper Wolfcamp	23	
tremendous amount of potential in the upper Wolfcamp here, very, very large amount of potential. And we're	23	record in this proceeding. MR. GALLEGOS: I have no objection. As a
	<ul> <li>definitely justify the risk charge of 200 percent.</li> <li>And can you turn to Exhibit 25? Do you think that this well fits in within the vast majority of the cases that justify 200 percent risk charge?</li> <li>A. Yes.</li> <li>Do you think there is a specific reason to provice a lesser charge?</li> <li>A. No.</li> <li>A. Now, you've been in the industry for a while.</li> <li>Has the risk diminished since vertical well days?</li> <li>A. Is that another way of saying I'm old?</li> <li>But not as old as me.</li> <li>No. The risks of drilling exploration wells, we taked about them. There have been numerous studies done that show, historically, is around low to mid-teens in terms of the percentage of success. That's that's still about the same as it is or has been historically. The price of playing in these</li> <li>unconventional resource plays, though, has gone up. Horizontal wells, the cost are, you know, many millions of dollars. We do everything we can to keep those costs down.</li> <li>Everywhere we drill, we get a little bit</li> </ul> Page 27 Smarter. I think there were some exhibits shown yesterday that showed our costs are decreasing. A lot of that is because of lower service cost, but it also is drilling faster, drilling smarter, optimizing our completions, our fracture treatments. We typically will go in, on some of the early wells, and overdesign the fracture treatments that we pump just to make sure we properly stimulate the reservoirs, and then we can optimize those completions as we drill additional wells. Overdesign is probably not the right word. We tend to make sure we properly stimulate the right fracture treatment? Did we pump enough proppant? So we make sure we don't have that as one of the issues in the event the well chear't produce as we expected it to. O. You stated this is a risky well. It is a risk target fracture treatment? Did we pump enough proppant? So we make sure we don't have that as one of the issues in the event the well deen't produce as we	definitely justify the risk charge of 200 percent.3Q. And can you turn to Exhibit 25? Do you think that this well fits in within the vast majority of the cases that justify 200 percent risk charge?6A. Yes.7Q. Do you think there is a specific reason to provide a lesser charge?7A. No.10Q. Now, you've been in the industry for a while.11Has the risk diminished since vertical well days?12A. No.10Q. But not as old as me.14A. No. The risks of drilling exploration wells, 

# 8 (Pages 26 to 29)

	Page 30	Page 32
1	the transcript. It doesn't include the exhibits, but	1 CROSS-EXAMINATION
2	it's a transcript of the testimony for the Division, and	2 BY MR. GALLEGOS:
3	I definitely I join in that request.	<sup>3</sup> Q. Mr. Robinson, believe it or not, my attention
4	CHAIRMAN CATANACH: Okay. The record in	4 wandered a little bit from your testimony, so I'm going
5	Case Number 15363 from the Division level will be	5 to have to ask some clarification.
6	incorporated into this case.	6 Did you testify that if the EUR on a well
7	MR. BRUCE: And I pass the witness.	<ul> <li>7 was 250,000 barrels, that that would not result in</li> </ul>
8	MR. BRANCARD: Mr. Chairman, I would just	<ul> <li><sup>8</sup> payout, and so you would not approve drilling a well</li> </ul>
9	sort of caution you-all in using that record. Those are	<ul> <li>9 with that kind of expectation?</li> </ul>
10	not witnesses that you have cross-examined. Witnesses	10 A. I did not say that.
11	may have said different things at different times in the	11 Q. What what was the testimony about there
12	hearing below and the hearing here. I think it's	<ul> <li>wouldn't be payout; you wouldn't approve drilling as far</li> </ul>
13	useful.	13 as the projected EUR?
14		14 A. The number was 200,000, not 250
15	I think it might have saved a lot time if	
15	you had stipulated that in the beginning. We may	15Q. All right. That's why I was trying to clarify.16200,000.
10	wouldn't have had to have witnesses testify, if this	
18	became a record review hearing.	
18	So I just sort of caution you that really	
20	what the people testifying before you today and the	19200,000, I should tell management, Don't drill that20well?
20	other exhibits should be the primary source for this	20 well? 21 A. That's correct.
	hearing; otherwise we're just on a record-review process	
22 23	here.	
	MR. GALLEGOS: Well, Mr. Chairman, I have	<ul> <li>A. That's correct, at this cost.</li> <li>Q. At the cost of what? The \$6.4 million AFE?</li> </ul>
24	to differ because I think you have to judge credibility,	
25	and I think the transcript below is going to reflect	25 A. That's correct.
	Page 31	Page 33
1	definite conflicts between what has been expressed even	1 Q. And how many EURs would you have to expect the
2	by the same witnesses before the Division and what's	2 well to produce in order for you to recommend to
3	being expressed here. And it's very valuable in that	<sup>3</sup> management that it would be drilled?
4	respect. So we think our Exhibit 19 would provide that	4 A. I would recommend at least 300,000 barrels
5	information. But if Mr. Bruce and I'd join in	5 be be required or be needed before we could justify
6	that wants to include the exhibits before the	6 drilling the well at this cost.
7	Division, I think that entire record should be	7 Q. At this cost?
8	considered.	8 A. Yes, sir.
9	MR. BRUCE: And, Mr. Chairman, I disagree	9 Q. Now, we have seen some indication that lower
10	with Mr. Gallegos' characterization, but yes, I meant to	10 well costs are being experienced. Have you given any
11	include the exhibits. Plus, there was a motion hearing	11 attention as to whether or not, in view of what's
12	transcript regarding the issues that were discussed last	12 happened in the market and service company charges and
13	week, more or less the same, and I would like that I	13 so forth, whether the 6.4 AFE would deserve some
14	think it was from September 5 of last year. I would	14 reduction?
15	like that in the record, too.	15 A. For this well or for future wells?
16	MR. BRANCARD: It's fine to make it part of	16 Q. For this well.
17	the record. It's just what weight you give it, is the	17 A. I think the 6.4 is reasonable for this well
18	point I'm trying to make.	18 given the operational challenges that were described by
19	CHAIRMAN CATANACH: All right. The	<sup>19</sup> Mr. Byrd yesterday. Based on the days expected and the
20	Commissioners are well aware of the issues involved in	<sup>20</sup> completion that we expect, I believe the 6.4 is
21	that, so we'll incorporate the exhibits in the original	21 reasonable. I approve
22	case and the motion the record of the motion of the	22 Q. With that well cost and with 300,000 being what
23	proceeding, also.	23 you would say to pay out threshold to Matador, then what
24	MR. BRUCE: Thank you.	<sup>24</sup> would be the amount of EURs for the well in order for
25		25 nonconsent owners subjected to a 100 percent 200
1		1

# 9 (Pages 30 to 33)

	Page 34	Page 36
1	percent penalty?	1 A. Yes.
2	A. At what working interest or what revenue	2 Q. And how many what's the EUR on that well?
3	interest? I can't answer that without getting some more	3 A. That's confidential information. Our company's
4	information on what the interests are of that	4 policy is not to release reserves on individual wells.
5	nonparticipating	5 Q. Well, how much has it made? That's public
6	Q. Whether they're 1 percent or 5 percent, I'm	6 information. How much has it cumed to date in oil and
7	just asking what you're going to achieve or you	7 in gas?
8	expect to achieve payout at 300,000 barrels. Now you	8 A. It's produced about 35- to 40,000 barrels of
9	have some nonconsent owners. They're going to be	<sup>9</sup> oil and probably around 40 million cubic feet of gas.
10	subjected to a 200 percent penalty. What is the well	10 Q. So without revealing company reserves, is this
11	going to have to produce for them to ever back-in and	11 well seen by you to have the sufficient EUR to justify
12	ever receive any revenue?	12 drilling it?
13	A. At what oil price?	13 A. Based on what we expected at the time or what
14	Q. The oil price that you're using for your	14 we know today?
15	300,000 that you say will be payout for Matador, same	15 Q. Based on what you expected at the time when you
16	assumptions, all the same assumptions.	<sup>16</sup> made the decision.
17	A. Okay. So there's it's probably not likely,	17 A. We had expected the well, at the time, would
18	at 300,000 barrels, that a company that chose not to	<sup>18</sup> produce sufficient quantities of oil and gas to pay out
19	participate would back in because we, as operator, would	19 that well.
20	likely only get our money back, like, maybe one times	20 Q. So at least 300,000 barrels?
21	payout, plus a little bit more. So there's not a	A. At least 300,000 barrels, yes.
22	likelihood at a higher risk charge that a	22 Q. All right. Now, in that regard so it was a
23	nonparticipating owner would be able to back in.	23 wildcat well?
24	Q. So would the well have to make a million	24 A. Yes.
25	barrels of oil before the parties subjected to 200	25 Q. And with a 10 percent or less likelihood of
	Page 35	Page 37
1	percent penalty back-in, be able to receive any	<sup>1</sup> success that you calculate for this Airstrip well
2	compensation?	
		<sup>2</sup> that's a wildcat well, in your opinion?
3	-	<ul> <li>that's a wildcat well, in your opinion?</li> <li>A, Yes,</li> </ul>
	A. No. I don't think it would have to be that	
3	-	<ul> <li>A. Yes.</li> <li>Q. And if the calculations were such that the</li> </ul>
3 4	A. No. I don't think it would have to be that much. I haven't made that calculation, but that seems	<ul> <li>A. Yes.</li> <li>Q. And if the calculations were such that the</li> </ul>
3 4 5	<ul> <li>A. No. I don't think it would have to be that much. I haven't made that calculation, but that seems like an exorbitant amount to me.</li> <li>Q. 900,000</li> </ul>	<ul> <li>A. Yes.</li> <li>Q. And if the calculations were such that the</li> <li>likelihood of success and Matador's criteria is 25, is</li> </ul>
3 4 5 6	A. No. I don't think it would have to be that much. I haven't made that calculation, but that seems like an exorbitant amount to me.	<ul> <li>A. Yes.</li> <li>Q. And if the calculations were such that the</li> <li>likelihood of success and Matador's criteria is 25, is</li> <li>that a wildcat well?</li> </ul>
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#### 10 (Pages 34 to 37)

2       categories that are possible or probable. So that       2       What has that produced?         3       would that would be in a higher category that's not       3       A. How much has it produced?         4       considered as risky as a rank wildcat, for example,       3       A. How much has it produced?         5       which would be probably a less than 10 percent chance of       5       A. I think thas that produced?         7       So, you know, I have to look I can't       8       about 75,000 barrels of oil and maybe a half ab of         9       located, how many surrounding wells are producing from       9       gas, somewhere in that range. And I'm happy to g         9       the same formation, I can't just generalize and say this       1       remember off the top of my head.         12       Q. If Matador's technical personnel project that a       1       1         13       well is going to have a EUR of 400,000 barrels, would       A. The second Rustler Breaks well'         14       you consider that as a probably successful well and not       a wildcat well?       Q. Was that a wildcat well?         16       A. No. I would still consider it a wildcat. Just       7       New such as the first well in the area.         17       because we calculate or forecast that a well might       1       7       Mat thas' the deag	a. So that2What has that produced?gory that's not3A. How much has it produced?or example,4Q. Yes.0 percent chance of5A. I think that well has produced I didn't- I can't7A. I think that well has produced I didn't- I can't7about other areas. But, you know, I think it's madeabout other areas. But, you know, I think it's madeabout 75,000 barrels of oil and maybe a half a bcf ofgas, somewhere in that range. And I'm happy to getthose exact numbers for you, but that's roughly what Iilize and say this10those exact numbers for you, but that's roughly what I11remember off the top of my head.12Q. What was the second Rustler Breaks well?13A. The second Rustler Breaks well was the Tiger14well, I believe.15Q. Was that a wildcat well?16A. Yes, it was, because we had targeted the17Wolfcamp x-y, which was a completely different zone.
3       would that would be in a higher category that's not       3       A. How much has it produced?         4       considered as risky as a rank wildcat, for example,       4       Q. Yes.         5       wich would be probably a less than 10 percent chance of       5       4       1 think that well has produced?         6       without knowing more information about where the well's       1       6       about other areas. But, you know, I think it's made         7       So, you know, I have to look - I can't       7       about other areas. But, you know, I think it's made         6       without knowing more information about where the well's       1       about other areas. But, you know, I think it's made         9       located, how many surrounding wells are producing from       9       gas, somewhere in that range. And I'm happy tog         10       the same formation, I can't just generalize and say this       1       A. The socond Rustler Breaks well's         11       is a rank wildcat and this isn't.       12       A. Matador's technical personnel project that         13       well is going to have a EUR of 400,000 barrels, would       A. The socond Rustler Breaks well's         16       A. No.       No.       Wolfcamp x-y, which was a completely different zo         17       because we calculate or forecast that a well might       A. That's was because we had	gory that's not3A. How much has it produced?or example,4 <b>Q. Yes.</b> o percent chance of5A. I think that well has produced I didn't- I can't7about other areas. But, you know, I think it's made- I can't7about other areas. But, you know, I think it's made- I can't7about other areas. But, you know, I think it's made- I can't7gas, somewhere in that range. And I'm happy to getut where the well's8about 75,000 barrels of oil and maybe a half a bcf ofgas, somewhere in that range. And I'm happy to get10those exact numbers for you, but that's roughly what I11remember off the top of my head.12 <b>Q. What was the second Rustler Breaks well?</b> 13A. The second Rustler Breaks well was the Tigerwell, I believe.15Q. Was that a wildcat well?dcat. Just16a well might17Wolfcamp x-y, which was a completely different zone.
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9       located, how many surrounding wells are producing from       9       gas, somewhere in that range. And I'm happy to g         10       the same formation, I can't just generalize and say this       is a rank wildcat and this isn't.       10         12       Q. If Matador's technical personnel project that a       11       11       11         13       well is going to have a EUR of 400,000 barrels, would       11       11       11       12         14       you consider that as a probably successful well and not       11       11       11       12       Q. What was the second Rustler Breaks well       12         16       A. No. I would still consider it a wildcat. Just       16       A. Yes, it was, because we had targeted the         17       because we calculate or forecast that a well might       17       That was the first well in the area.         18       produce 400,000 barrels, we don't know that to be the       18       A. Yes, it was, because we had targeted the         19       case until we dill it and produce it for a while. The       19       A. No.       10         21       that well's not going to pay out. You may recall       21       A. No.       21       A. No.         22       Mr. Byrd taking about that well took him over 100 days       22       A. That's not correct.       23         2	are producing from lize and say this9gas, somewhere in that range. And I'm happy to get those exact numbers for you, but that's roughly what I remember off the top of my head.nel project that a 100 barrels, would12Q. What was the second Rustler Breaks well?100 barrels, would eccessful well and not13A. The second Rustler Breaks well was the Tiger well, I believe.15Q. Was that a wildcat well?16A. Yes, it was, because we had targeted the Wolfcamp x-y, which was a completely different zone.
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11       is a rank wildcat and this isn't.       11       remember off the top of my head.         12       Q. If Matador's technical personnel project that a       11       remember off the top of my head.         13       well is going to have a EUR of 400,000 barrels, would       12       Q. What was the second Rustler Breaks well was the Tig         14       you consider that as a probably successful well and not       13       A. The second Rustler Breaks well was the Tig         15       a wildcat well?       A. No. I would still consider it a wildeat. Just       16       A. Yes, it was, because we had targeted the         16       A. No. I would still and produce it for a while. The       17       Motoce 400,000 barrels, we don't know that to be the         19       case until we drill it and produce it for a while. The       18       Q. And that's what you're targeting here; are         20       Pickard 2H is a great example of that. I can tell you       11       A. No.         21       Mr. Byrd taking about that well took him over 100 days       21       A. No.         23       to drill. I'm not going to tell you how much that cost,       22       Q. What do you call the upper Wolfcamp?         24       Mr. Byrd taking about that well mode the 400,000 barrels, it       25       Q. What do you call the upper Wolfcamp A. It's         25       A. Matador has done a number of Wolfcamp W	11remember off the top of my head.12Q. What was the second Rustler Breaks well?100 barrels, would1313A. The second Rustler Breaks well was the Tiger14well, I believe.15Q. Was that a wildcat well?16A. Yes, it was, because we had targeted the17Wolfcamp x-y, which was a completely different zone.
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18       produce 400,000 barrels, we don't know that to be the       18       That was the first well in the area.         19       case until we drill it and produce it for a while. The       19       Q. And that's what you're targeting here; are         20       Pickard 2H is a great example of that. I can tell you       20       not?         21       that well's not going to pay out. You may recall       21       A. No.         22       Mr. Byrd taking about that well took him over 100 days       23       to drill. I'm not going to tell you how much that cost,       23         24       but it was substantially more than the AFE. It'll never       24       A. That's not correct.         25       pay out. Even if it had made the 400,000 barrels, it       25       Q. What do you call the upper Wolfcamp?         1       wouldn't pay out. So the risk associated with drilling       1       A. This - we're calling it the Wolfcamp A. It's         2       these wells is pretty high.       2       4       but it was such first Rustler Breaks well?         3       Q. Matador has done a number of Wolfcamp wells in       3       4       what we believe to be source rock associated with the upper Wolfcamp. As Dr. Frost testified yesterday, the vay sands are not present at the proposed location, so this is not an x-y test. It is a resistive porous interval in the upper Wolfcamp. We call it the fat         4       What was the first Rustl	
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22       Mr. Byrd taking about that well took him over 100 days       22       Q. I thought this was designated an A-XY-zor well. Is that incorrect?         23       to drill. I'm not going to tell you how much that cost,       23         24       but it was substantially more than the AFE. It'll never       24         25       pay out. Even if it had made the 400,000 barrels, it       24         26       Page 39       24         1       wouldn't pay out. So the risk associated with drilling       1         2       these wells is pretty high.       1         3       Q. Matador has done a number of Wolfcamp wells in       1         4       what's called the Rustler Breaks play; is that correct?       3         5       A. Yes.       5         6       Q. What was the first Rustler Breaks well?       6         7       A. It was our Rustler Breaks #1 well.       7         8       Q. Was that a wildcat?       8         9       A. Yes, it was.       9         10       Q. And what has the result been?       10         11       A. The results of that well were very encouraging.       12         12       We have since identified better landing zones for the       12	
23       to drill. I'm not going to tell you how much that cost,         24       but it was substantially more than the AFE. It'll never         25       pay out. Even if it had made the 400,000 barrels, it         Page 39         1       wouldn't pay out. So the risk associated with drilling         2       these wells is pretty high.         3       Q. Matador has done a number of Wolfcamp wells in         4       what's called the Rustler Breaks play; is that correct?         5       A. Yes.         6       Q. What was the first Rustler Breaks well?         7       A. It was our Rustler Breaks #1 well.         8       Q. Was that a wildcat?         9       A. Yes, it was.         10       Q. And what has the result been?         11       A. The results of that well were very encouraging.         12       We have since identified better landing zones for the	
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3       Q. Matador has done a number of Wolfcamp wells in       3       what we believe to be source rock associated with the         4       what's called the Rustler Breaks play; is that correct?       4       upper Wolfcamp. As Dr. Frost testified yesterday, the         5       A. Yes.       5       x-y sands are not present at the proposed location, so         6       Q. What was the first Rustler Breaks well?       6       this is not an x-y test. It is a resistive porous         7       A. It was our Rustler Breaks #1 well.       7       interval in the upper Wolfcamp. We call it the fat         8       Q. Was that a wildcat?       8       because of the bulging resistivity that's associated         9       A. Yes, it was.       9       with the log characteristics. That's not a technical         10       Q. And what has the result been?       10       term. That's something we use around the office. But         11       A. The results of that well were very encouraging.       11       it's not an x-y.         12       We have since identified better landing zones for the       12       Q. How did the Tiger well do? Is it a commercial	
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12       We have since identified better landing zones for the       12       Q. How did the Tiger well do? Is it a commercial	
13 Wolfcamp B in that area, and subsequent wells have been 13 success?	
14 much better. But we were very encouraged by that early 14 A. A huge commercial success, yes.	
15   result. That well may or may not pay out, so it remains   15   Q. And it was a wildcat?	ut sout remains 1 15 <b>O And it was a wildcat?</b>
	ful. 16 A. Yes.
	16       A. Yes.         irom the       17       Q. How many barrels of oil has it made?
	ful.16A. Yes.from the17Q. How many barrels of oil has it made?Don't say18A. Again, I don't have that number off the top of
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25pay out, it was worth drilling that well.25Q. But your expectations are that it will exceed	ful.16A. Yes.from the17 <b>Q. How many barrels of oil has it made?</b> Don't say18A. Again, I don't have that number off the top ofNort say18A. Again, I don't have that number off the top ofubstantial amount20But it's been our best well to date or one of theNolfcamp. We're21best wells.t's huge. That's22 <b>Q. Well over 400,000?</b> at well. So we23A. Not not so far. Cumulative, it hasn't madeit doesn't24that much, no.

# 11 (Pages 38 to 41)

1	Page 42		Page 44
1	that? Is that a fact?	1	like that in this area.
2	A. Expectations are, yes, that it will exceed	2	Q. That goes up into 18 South and 19 South, for
3	that.	3	example?
4	Q. Were there owners nonconsent owners subject	4	A. Yes.
5	to a 200 percent risk penalty in that well?	5	Q. Are some of the wells when it says Wolfcamp,
6	A. I don't know. I don't believe so. I think	6	are any of these wells Bone Spring wells on Exhibit 19?
7	Matador has a 100 percent of that, but I can check and	7	A. No.
8	let you know that.	8	Q. Is the Bone I'm sorry. Were you finished?
9	Q. So you use the term "commercial success," and I	9	A. No. Yeah, I was finished.
10	had some notes because I wasn't too clear on that. You	10	Q. Is the Bone Spring geopressured, high pressured
11	use that phrase in connection, I believe, as far as SEC	11	like the Wolfcamp?
12	reserve reporting. Is that your testimony?	12	A. No. I've never seen it. That's not to say it
13	A. Yes.	13	might not be somewhere, but I've never seen a Bone
14	Q. And so the definition of commercially	14	Spring that has geopressure.
15	successful is what, Mr. Robinson?	15	Q. So we would know that in drilling the
16	A. That the well will generate a rate of return of	16	Pickard, I think you said that provided a lot of
17	at least 10 percent for nonoperating wells and that the	17	educational information for Matador going forward?
18	well will generate a positive rate of return for	18	A. Yes.
19	operated wells. It can be .1 percent rate of return.	19	Q. So since it's a lower Wolfcamp, we would know
20	As long as it makes \$1.00 more than it cost, then it's a	20	that it penetrated the Wolfcamp A?
21	commercial success for operated wells.	21	A. That's correct.
22	Q. And the assumptions that you're presently using	22	Q. So you have a full suite of logs on the
23	for the price in the \$6.4 million AFE, if the	23	Wolfcamp A in a well about five files from the Airstrip
24	expectation of this well of EUR of 400,000 barrels is	24	well?
25	realized, is it a commercially successful well?	25	A. No. Unfortunately, because of the hole
		-	
	Page 43		Page 45
1	•	1	•
1 2	A. We would expect it to be, yes.	1	problems that we had, we were not able to run a full
	<ul><li>A. We would expect it to be, yes.</li><li>Q. When I look at your Exhibit 15, I see the</li></ul>		problems that we had, we were not able to run a full suite of logs. We got part of the data throughout most
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## 12 (Pages 42 to 45)

	Page 46		Page 48
1	Q. What did you learn? Not about the Pickard	1	there that are going to be very good wells for us. So
2	lower, but what did you learn about the Pickard upper?	2	you don't have to drill a pilot hole to have a success
3	A. I don't remember for sure that we analyzed the	3	test.
4	cuttings. I'm guessing we did, but I don't know the	4	We made the decision, as a management team,
5	results of that analysis.	5	to go ahead and drill the well instead of drilling the
6	Q. What other good way would there be to be able	6	pilot hole and spending the money for the data, and I
7	to know the permeability? Let's say you did get the	7	was part of that decision and agreed with it. Although
8	cuttings. You got that. Anything else that would help	8	I would have liked to have seen a pilot hole, I didn't
9	you?	9	think it was absolutely necessary.
10	A. Well, certainly actual rotary sidewall cores or	10	Q. You mentioned that Matador has done two pilot
11	whole core that we had planned for that well would give	11	holes in, I think you said, exploring the lower
12	us an estimate on the permeability. There are logging	12	Wolfcamp?
13	tools, particularly the magnetic resonance type tools,	13	A. That's correct.
14	that give you a good indication of permeability and	14	Q. Where are those wells, general area? Can you
15	free-fluid saturations. So we had planned those types	15	tell us?
16	of tools, again, to rear-end that well. We just didn't	16	A. They're roughly 10 to 15 miles southeast of the
17	get a chance to get that information.	17	current location.
18	Q. Have you sought other log information from	18	Q. In drilling those pilot holes, no attention was
19	wells that were drilled by EOG or anybody else who has	19	given to the upper Wolfcamp, which would have been
20	penetrated the Wolfcamp upper Wolfcamp?	20	penetrated in order to completes those pilot holes?
21	A. Oh, yes. We've bought every log we can get our	21	A. We did gather some data in the upper Wolfcamp
22	hands on from public logging services. It was mentioned	22	there. I believe Mr. Frost or Dr. Frost testified
23	yesterday that we have invested in joining the Delaware	23	that the thermal maturity of those rocks were in
24	Basin Core Lab Consortium to get our hands on as much	24	question at those locations. So we did have some data,
	log and core information as we can. And so we've spent	25	but it didn't meet our criteria. So we did gather
25			but it diant meet our cittena. So we did gather
25			
	Page 47	1	Page 49
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# 13 (Pages 46 to 49)

	Page 50	Page 52
1	A. No. I would say, in general, our approach will	1 Tiger wells and the Janie?
2	be very similar to the to the approach we took in	<sup>2</sup> A. Yes.
3	drilling those wells. Now, as Mr. Byrd has testified,	<sup>3</sup> Q. Well, what I what I was trying to understand
4	we've learned a lot about the Basin in the area. We do	4 as far as your risk approach let's just say that your
5	have some vertical wells and one horizontal in this area	5 Airstrip well, west half-west half, Section 31, does
б	of Lea County, so our drilling department has obviously	6 turn out to be a 400,000 barrel well, good results like
7	learned quite a bit.	7 the Tiger well. Now you're going to drill the second
8	There have been significant bit advances	8 well in Section 31. You're going to do you're going
9	for accelerating our drilling times. We've learned and	<sup>9</sup> to have the same risk profile, the same risk quantity
10	optimized our casing designs. We've pumped several	10 that you show on Exhibit 21?
11	you know, many dozens of hydraulic fracture treatments,	11 A. No. I would expect it to be different.
12	so we've tweaked our fracture designs and our	12 Q. Okay. You would expect the risk to have been
13	completions. So it won't be exactly the same, but it'll	13 reduced substantially; would you not?
14	be approached in very much the same manner.	14 A. I wouldn't qualify that as a substantial
15	Q. Are any of the Rustler Breaks wells in the same	<sup>15</sup> reduction in risk. I would agree that the risk would be
16	section?	16 less.
17	A. Yes. We have multiple wells in the same	17 Q. My recollection is that you did not attend the
18	section.	18 Division hearing in this case, did you, Mr. Robinson?
19	Q. All right. Have you some of the Rustler	19 A. No, I did not.
20	Breaks wells, are they four Wolfcamp wells in a section?	20 Q. Have you had an opportunity to read the
21	A. We haven't drilled four in a section, no.	transcript or otherwise know the testimony of Mr. Juett
22	Q. What's the situation as far as multiple	22 and Mr. Byrd?
23	Wolfcamp wells in the same section? Where does that	A. I haven't read all of it. I've read parts of
24	occur?	<sup>24</sup> it, but I haven't read all of it.
25	MR. BRUCE: Object, Mr. Examiner or,	<b>Q.</b> Did you find anything in their testimony that
	Page 51	Page 53
1	Mr. Chairman. I mean, what is the relevance of having	1 you read with which you disagreed?
2	four wells if you're drilling one well here?	2 A. No.
3	MR. GALLEGOS: We're getting there.	<sup>3</sup> Q. Thank you. Those are all my questions.
4	CHAIRMAN CATANACH: Go ahead. You can	4 By the way, you forgot. You've also
5	answer.	5 testified before this Commission before.
6	THE WITNESS: In terms of what Matador has	6 A. Yeah, I know (laughter).
7	drilled or other operators?	7 Q. You were just asked about the Division, but
8	Q. (BY MR. GALLEGOS) Yes, sir. Well, let's start	8 A. Yeah. No. I've testified before both, yes.
9	with what Matador's drilled.	9 MR. BRUCE: Just a few follow-up questions.
10	A. Matador has only drilled up to two wells in a	10 REDIRECT EXAMINATION
11	given section, that I can recall.	11 BY MR. BRUCE:
12	Q. What are the examples of those?	12 Q. Mr. Robinson, the Pickard well that you
13	A. We have drilled two wells on the Tiger section.	discuss, that shows how risky it is, doesn't it, to
14	We've drilled two wells in our Janie Conner, although I	14 drill a well out here?
15	think we may have drilled a third well in the northern	15 A. Yes. That's a very good example of the risk
16	part of the Janie Conner section, which I'm happy to	<sup>16</sup> associated with drilling wells in this area.
17	find out. I don't recall off the top of my head. We've	17 Q. You hope to get 400,000 ultimate recovery, but
18	drilled two wells in our section. But I'll caution you	18 just because it's a wildcat well doesn't mean it'll be a
19	that even though there are two wells there, they're	<sup>19</sup> failure absolute failure; is that correct?
20	different horizons. One would be in the x-y sand, and	A. That's correct. And that was my point on the
21	one would be down in the lower middle Wolfcamp B, is	<sup>21</sup> Pickard 2H. We learned a substantial amount from
22	what we call it. So they're not necessarily at the	drilling that well. It's not going to pay out. But
23	same or in the same reservoir. They're in different	<sup>23</sup> it's a risk we were willing to take, and we learned a
24	reservoirs.	<sup>24</sup> substantial amount from that well.
25	Q. Okay. And that's true on all of those the	25 Q. If you were able to get a full log suite and

# 14 (Pages 50 to 53)

	Page 54		Page 56
1	core, does that give you an absolute certainty of future	1	least about in this well?
2	well performance?	2	A. That and permeability. We don't know if it's
3	A. No, it doesn't. It would take it was	3	going to meet our threshold for permeability. That's a
4	pointed out yesterday that those tools only have a very	4	big unknown and the reason for the high-risk profile.
5	limited radius of investigation, usually a few feet. So	5	Q. And there is no data that you can use to try
6	there's no guarantee that just because you see oil	6	and quantify that permeability at this point?
7	saturation and permeability and porosity at the wellbore	7	A. No.
8	that it's going to be 500 feet away.	8	Q. Let me ask you: What has your experience been
9	Q. Do you even know how a well will perform	9	with other Wolfcamp wells in regards to drainage areas?
10	without drilling it? Can you ever know that?	10	Have you is there a correlation I mean, have you
11	A. No, I can't. We run models. We make	11	correlated that in some of your other wells?
12	predictions based on what information we have, but you	12	A. We have tried to calculate that based on the
13	never know until you actually drill and complete it.	13	performance of our other wells. It's sort of like the
14	Q. And if a subsequent well is drilled in Section	14	discussion we had earlier on EURs and estimating the
15	31, there are the same risk categories that you'd look	15	reserves. You have to have pretty significant
16	at, correct?	16	production history in terms, you know, of maybe a year
17	A. Yes, very much the same risk categories.	17	or more before you can get a good estimate of the radius
18	Q. There may be fewer uncertainties in a well, but	18	of drainage or the drainage area. A lot of the
19	there is still risk?	19	early-time production is just flush production from
20	A. Yes. Every well we drill out there has risk.	20	around the hydraulic fractures and around the wellbore
21	Q. And that would by its very nature, since	21	that really that transient hasn't moved out far
22	this is only one well unit, if you drill another	22	enough to find the boundaries of the drainage area.
23	whatever well you have in Section 31, that would be a	23	That can be years before we know. But we do modeling.
24	separate well proposal to whoever the interest owners	24	We make those calculations on a regular basis in an
25	are, and if you can't get agreement, we're back here in	25	effort to estimate the drainage area.
	Page 55		Page 57
1	Page 55 the same process?	1	Page 57 What we're seeing, essentially, so far is
1 2	-	1 2	•
	the same process?	1	What we're seeing, essentially, so far is
2	the same process? A. That's true.	2	What we're seeing, essentially, so far is the drainage area or the extent of the drainage area is
2 3	the same process? A. That's true. Q. Thank you.	2 3	What we're seeing, essentially, so far is the drainage area or the extent of the drainage area is essentially the length of your hydraulic fractures that
2 3 4	the same process? A. That's true. Q. Thank you. MR. BRUCE: That's all I have,	2 3 4	What we're seeing, essentially, so far is the drainage area or the extent of the drainage area is essentially the length of your hydraulic fractures that extend away from the wellbore. We haven't seen much
2 3 4 5	the same process? A. That's true. <b>Q. Thank you.</b> MR. BRUCE: That's all I have, Mr. Chairman.	2 3 4 5	What we're seeing, essentially, so far is the drainage area or the extent of the drainage area is essentially the length of your hydraulic fractures that extend away from the wellbore. We haven't seen much drainage out past those hydraulic fractures that we're
2 3 4 5 6	the same process? A. That's true. <b>Q. Thank you.</b> MR. BRUCE: That's all I have, Mr. Chairman. CROSS-EXAMINATION	2 3 4 5 6	What we're seeing, essentially, so far is the drainage area or the extent of the drainage area is essentially the length of your hydraulic fractures that extend away from the wellbore. We haven't seen much drainage out past those hydraulic fractures that we're creating down there.
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# 15 (Pages 54 to 57)

	Page 58		Page 60
1	roughly 660 feet apart. We did see and we often see	1	you've got a couple hundred million years to wait. You
2	fluid communication in offset wells. So we did see some	2	know, it's feeding a lot of reservoirs up the hole, but,
3	of the fracture stages grow from microseismic data over	3	you know, over the 20-year life of the well, it's not
4	to the offset well. That just meant some of the early	4	doing us a lot of good. But we did prove that it was
5	fluid that we pumped in reached that offset. And then	5	source rock, that it was capable of generating
6	the proppant, of course, comes in later behind that and	6	hydrocarbons, and those hydrocarbons could migrate to
7	effectively props open the hydraulic fracture. We can't	7	other reservoirs. And we're in the process of
8	get a good idea on the propped fracture half length from	8	identifying those.
9	the microseismic. We can only get the created length	9	You know, the other wells we drilled in
10	with the fluids that we pump in.	10	Rustler Breaks and down in Loving County all had these
11	Q. Do you have an opinion as to how many wells it	11	risk profiles, particularly Rustler Breaks. Loving
12	would ultimately take to develop fully develop this	12	County was not at the same level. There were 40 or 50
13	section in this	13	wells that had been drilled in the 3rd Bone Spring that
14	A. I don't have yet. Again, that's so dependent	14	had dripped into and completed in the x-y sand, so we
15	on the permeability and how much you can drain. I won't	15	had a better handle on that. So I would say that risk
16	really have a good handle on that until I can better map	16	profile was probably not as severe as this. But Rustler
17	the permeability in this area.	17	Breaks
18	Q. Okay. That's all I have.	18	Q. That's the Wolf area, right?
19	COMMISSIONER PADILLA: Just a couple for	19	A. That's the Wolf rea, right, in Loving County.
20	you, Mr. Robinson.	20	Rustler Breaks, that was the first x-y well
21	THE WITNESS: Sure.	21	we've drilled there. It was the first anybody had ever
22	COMMISSIONER PADILLA: Thank you.	22	drilled. But it was the same target that we had proved
23	CROSS-EXAMINATION	23	down in Loving. We had drilled Loving County first. So
24	BY COMMISSIONER PADILLA:	24	our geologist mapped those x-y sands up into the Rustler
25	Q. Looking at Matador's Exhibit 24, you testified	25	Breaks area and then identified them, so that gave us
	Page 59		Page 61
1	earlier that the percentage probability of success was	1	enough confidence to drill the Tiger, which is the first
2	similar to industry standard and seemingly, I guess,	2	
		2	x-y well, and it's a great well.
3	similar to the percentage bases Matador's experienced	3	x-y well, and it's a great well. Q. Going back to the frac rate, as Chairman
3 4			
	similar to the percentage bases Matador's experienced	3	Q. Going back to the frac rate, as Chairman
4	similar to the percentage bases Matador's experienced elsewhere in this area. Can you give us some kind of	3 4	Q. Going back to the frac rate, as Chairman Catanach touched on, what zone have you seen in the
4 5	similar to the percentage bases Matador's experienced elsewhere in this area. Can you give us some kind of ballpark indicator what those might have been for, say,	3 4 5	Q. Going back to the frac rate, as Chairman Catanach touched on, what zone have you seen in the 350-foot propped radius in
4 5 6	similar to the percentage bases Matador's experienced elsewhere in this area. Can you give us some kind of ballpark indicator what those might have been for, say, the Pickard 2H or similar wells?	3 4 5 6	<ul> <li>Q. Going back to the frac rate, as Chairman</li> <li>Catanach touched on, what zone have you seen in the</li> <li>350-foot propped radius in</li> <li>A. Both the Wolfcamp, middle Wolfcamp B and the</li> </ul>
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#### 16 (Pages 58 to 61)

on the same order of magnitude, 300 feet. I think in

# PAUL BACA PROFESSIONAL COURT REPORTERS 500 FOURTH STREET NW - SUITE 105, ALBUQUERQUE, NM 87102

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migrate out over geologic time, great source rock if

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	Page 62		Page 64
1	one well we've seen up to 500 feet of propped fracture	1	cost. Now, a month from now, something may be less.
2	half lengths. So we have some experience in the 2nd	2	And typically we'll tell our partners, if we have
3	Bone Spring in this area.	3	partners in well, Hey, we just negotiated a lower
4	But, of course, the Bone Spring is	4	wireline cost for setting plugs and perforating, and
5	completely different. It's bounded on two sides by good	5	we're going to save, you know, \$5,000 per stage on this
6	strong limestone barriers, so you don't have as much	6	well. That's great. We try to be as transparent as we
7	fracture or height growth, which is always an issue in	7	can. But, yeah, I mean, it's a continual process.
8	the Wolfcamp. We're seeing 300 to 400 feet of fracture	8	Q. So it's pretty safe to say that the May 2016
9	height growth in these wells, particularly from the	9	AFE, in Exhibit 8A, is probably not the final AFE?
10	microseismic tests that we did down in Loving County.	10	A. I'm betting we'll do better than that. But I
11	And, of course, the taller that fracture is, the less	11	do agree with Mr. Byrd, that I think the 28 days is
12	fracture length you get. So that's that's kind of	12	probably a reasonable number.
13	why we're seeing that 300 or so fracture half lengths.	13	There's it hasn't been brought up. In
14	Q. Does Matador design most of their fracs	14	this area of the Basin, there is quite bit more chert
15	in-house or use third-party design groups?	15	layers. We've encountered pretty nasty chert layers
16	A. We design all our fracture treatments in-house.	16	that just eat our bits up. I mean, we've taken Aaron
17	We do depend and rely on the service companies'	17	will tell you that, you know, there have been some
18	expertise and experience, particularly in certain areas,	18	layers that have eaten up two or three bits.
19	so we're constantly talking to them, having meetings	19	So it's a tougher place to drill, no doubt
20	where we go over fracture treatment designs, looking at	20	about it. But we're also we have a great drilling
21	what other people are doing in the area, and we try to	21	department who are involved heavily in bit research, so
22	benefit from other people's experience.	22	we're trying new bits. We're working with service
23	Q. Thank you. That's all I have.	23	companies to design new bits that we think can handle
24		24	these tough chert and the real abrasive rocks that we
25		25	encounter.
	Page 63		Page 65
1	CROSS-EXAMINATION		
2		1	Q. So the Pickard State #2H wildcat, lower
4	BY COMMISSIONER BALCH:	1 2	Q. So the Pickard State #2H wildcat, lower Wolfcamp, so you're talking about five miles away from
3	BY COMMISSIONER BALCH: Q. So now we're also looking at the record from		
		2	Wolfcamp, so you're talking about five miles away from
3	Q. So now we're also looking at the record from	2 3	Wolfcamp, so you're talking about five miles away from the Airstrip proposed site at that point. And you have
3 4	Q. So now we're also looking at the record from the previous hearing about a year ago. Has Matador, in	2 3 4	Wolfcamp, so you're talking about five miles away from the Airstrip proposed site at that point. And you have well problems, so you didn't get all the information you
3 4 5	Q. So now we're also looking at the record from the previous hearing about a year ago. Has Matador, in that interim time period, continued to study this	2 3 4 5	Wolfcamp, so you're talking about five miles away from the Airstrip proposed site at that point. And you have well problems, so you didn't get all the information you would have liked. But was there any indication of
3 4 5 6	Q. So now we're also looking at the record from the previous hearing about a year ago. Has Matador, in that interim time period, continued to study this proposed well?	2 3 4 5 6	Wolfcamp, so you're talking about five miles away from the Airstrip proposed site at that point. And you have well problems, so you didn't get all the information you would have liked. But was there any indication of overpressure in the upper Wolfcamp?
3 4 5 6 7	<ul> <li>Q. So now we're also looking at the record from the previous hearing about a year ago. Has Matador, in that interim time period, continued to study this proposed well?</li> <li>A. Yes. Yes, we have.</li> </ul>	2 3 4 5 6 7	Wolfcamp, so you're talking about five miles away from the Airstrip proposed site at that point. And you have well problems, so you didn't get all the information you would have liked. But was there any indication of overpressure in the upper Wolfcamp? A. We didn't see any, no, only in the lower
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# 17 (Pages 62 to 65)

	Page 66		Page 68
1	maturity was one of the higher-risk categories	1	lease shape than they are orientation of the stresses.
2	A. Yes.	2	Q. So you're not trying to tackle natural
3	Q for the Airstrip well?	3	fractures?
4	A. Yes.	4	A. No.
5	Q. Five miles is a lot closer than 50 miles away,	5	Q. Thank you.
6	those other analogs?	6	A. Uh-huh.
7	A. It is. You're getting close to similar	7	CHAIRMAN CATANACH: Anything further of
8	environment, deposition. So yeah, you certainly feel	8	this witness?
9	better about it as you get closer and closer.	9	MR. BRUCE: (Indicating.)
10	Q. But you're pretty much upslope and into the	10	CHAIRMAN CATANACH: This witness may be
11	thicker Wolfcamp section at Pritchard sorry	11	excused.
12	Pickard than you are at the Airstrip?	12	Let's take a break.
13	A. Yes.	13	We'll let you set up.
14	Q. So it still could be apples and apples?	14	(Recess 10:09 a.m. to 10:24 a.m.)
15	A. Still could be, yes.	15	CHAIRMAN CATANACH: Call the hearing back
16	Q. How about any natural fractures? Do you	16	to record.
17	encounter any natural fractures in your Wolfcamp wells?	17	At this time I'll turn it over to
18	A. We have seen some in the lower part of the	18	Mr. Gallegos.
19	Wolfcamp. Again, we don't really have any good	19	MR. GALLEGOS: Thank you, Mr. Chairman. We
20	information on the upper Wolfcamp. I'm hoping we have	20	call Harvey E. Yates, Jr.
21	some. And in some of our modeling we have modeled	21	HARVEY E. YATES, JR.,
22	cases where, you know, you have you have natural	22	after having been previously sworn under oath, was
23	fractures. And then in the case where you don't have	23	questioned and testified as follows:
24	natural fractures, obviously those are going to enhance	24	
25	the productivity of the well. But we haven't really	25	
	Page 67		Page 69
1	seen any in the upper, but that's, again, more a	1	DIRECT EXAMINATION
2	question of lack of data. We have seen some natural	2	BY MR. GALLEGOS:
3	fractures in some of the more brittle members of the	3	Q. Mr. Yates, you've been sworn previously?
4	lower Wolfcamp.		
		4	A. Yes, sir.
5	Q. Do you have any sense of orientation on those?	4	<ul><li>A. Yes, sir.</li><li>Q. Would you state your name, please?</li></ul>
5 6	<ul><li>Q. Do you have any sense of orientation on those?</li><li>A. No. We didn't orient the core. And we do have</li></ul>		
		5	Q. Would you state your name, please?
6	A. No. We didn't orient the core. And we do have	5 6	<ul><li>Q. Would you state your name, please?</li><li>A. Harvey E. Yates, Jr.</li></ul>
6 7	A. No. We didn't orient the core. And we do have one FMI from our Ranger 12 well, and I believe but	5 6 7	<ul><li>Q. Would you state your name, please?</li><li>A. Harvey E. Yates, Jr.</li><li>Q. Where do you live?</li></ul>
6 7 8	A. No. We didn't orient the core. And we do have one FMI from our Ranger 12 well, and I believe but that's right up against the shelf, so even though we got	5 6 7 8	<ul> <li>Q. Would you state your name, please?</li> <li>A. Harvey E. Yates, Jr.</li> <li>Q. Where do you live?</li> <li>A. Albuquerque, New Mexico.</li> </ul>
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#### 18 (Pages 66 to 69)

	Page 70		Page 72
1	oil and gas business in New Mexico?	1	Mound, in the Raton Basin, three in the Tularosa Basin,
2	A. You mean what have I done in the business?	2	so forth. So that's my love, in a sense, to do that
3	Q. Yes. Yes.	3	sort of exploration.
4	A. Yes. Well, I'm a small operator. I do I've	4	But much of what we do and we've
5	done geology. I have done the engineering work, the	5	explored in Chaves County, a lot wells San Andres
б	land work, virtually all phases, all parts of it. I've	6	wells' drilling. But we are also a nonoperator, as I
7	done accounting work.	7	stated before, in Texas and New Mexico, Delaware Basin.
8	Q. Do you have a college education?	8	Q. In regard to this particular area where this
9	A. I do. I went, like many of these gentlemen	9	Airstrip well is proposed, what is Jalapeno's acreage
10	here, to the University of Texas and graduated from	10	situation?
11	there. I went to the University of Texas specifically	11	A. It's very interesting. Actually, on the west
12	because of the geology department. I took a large	12	half of the west half of Section 31, we hold no
13	number of geology courses but decided I ultimately	13	leaseholdings. We have a contractual interest because
14	wanted to go to law school, and so in later years	14	of an earlier operating agreement. In the whole area,
15	switched to a pre-law program, graduated with a history	15	they show us as having 2.9 I forget what it was
16	degree.	16	2.6. We actually have something like a 5 percent
17	Q. From the University of Texas or	17	interest.
18	A. Yes.	18	Q. And is that that 5 percent, is that
19	Q. And what have you done in the business in other	19	recognized in some of the communications with Matador?
20	states?	20	A. Melissa Randle stated the correct figure, from
21	A. I have operated, over the years, in Texas, but	21	what we can tell, in her letter to me. I don't have an
22	I have participated in wells in Wyoming, Colorado,	22	exhibit number but the letter of April 28th.
23	Texas, New Mexico.	23	Q. Let's see. I think that's look at the
24	Q. And when you say you have participated, could	24	Matador exhibits.
25	you give the Commission some information on your	25	A. I don't have those here
		1	
	Page 71		Page 73
	Page 71	1	-
1	participation where you were not the operator, but you	1	Q. It was on the
2	participation where you were not the operator, but you agreed to participate in wells that were being proposed	2	<ul><li>Q. It was on the</li><li>A unless these are Matador (indicating).</li></ul>
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2 3 4	participation where you were not the operator, but you agreed to participate in wells that were being proposed and drilled by other companies? A. I don't know how many wells I have participated	2 3 4	<ul> <li>Q. It was on the</li> <li>A unless these are Matador (indicating).</li> <li>Q. No, no. The Matador exhibits. MR. GALLEGOS: Mr. Bruce, there was a set</li> </ul>
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# 19 (Pages 70 to 73)

	Page 74	Page 76
1	following options covering your 5.097063 percent working	<sup>1</sup> opinion expert witness in that category.
2	interest"	<sup>2</sup> MR. BRUCE: No objection.
3	Q. What information do you have regarding	3 CHAIRMAN CATANACH: Mr. Yates is so
4	Matador's acreage in this particular area? I asked that	4 qualified.
5	in particular because of the testimony that their	5 Q. (BY MR. GALLEGOS) What do you understand
6	acreage positions supported drilling a wildcat with a 10	6 Matador's seeking to have approved in this proceeding?
7	percent chance of success.	7 A. I understand that they seek to force pool the
8	A. I'm looking at Jalapeno's exhibits. Matador	8 west half of the west half of Section 31 and under
9	what page is this? Page 40.	<sup>9</sup> circumstances where they would receive the money back
10	Q. This is the Matador presentation?	10 for drilling plus a 200 percent penalty.
11	A. Yes. It's Matador's presentation.	11 Q. Okay. Now, you stated just shortly previously
12	Q. And that's Exhibit 18 of the Jalapeno exhibits?	12 that you've participated in a number of wells to be
13	A. It's Exhibit 18, and it's page 40 on that.	drilled by other companies. Is that a fact?
14	Q. Okay. And what does that what information	14 A. Yes.
15	does that provide concerning acreage position?	<sup>15</sup> Q. Why have you declined to participate in this
16	A. Well, the red on this exhibit, as I understand	<sup>16</sup> well?
17	it, is Matador acreage.	A. Well, at that time, there were several reasons,
18	Q. Can you point the Commission to the location of	18 and I laid those out in my response to Melissa, in my
19	the Airstrip well, if we're looking at this exhibit?	19 letter of April 28th. But to summarize, we felt the AFE
20	A. Yes. If you look in the northeast part, the	20 was very high. We had earlier, HEYCO had proposed a
21	upper and far to your right, the second township to the	21 Bone Spring well in the same location. We had signed
22	left, you see Section 31 there.	the AFE for that. We had consented to that. We did not
23	Q. And there is a little red square?	23 consent to HEYCO's proposed operating agreement for the
24	A. There is a red square showing the Airstrip	24 reason that it had 100-300 percent nonconsent
25	acreage.	25 provisions.
	Page 75	Page 77
1	Q. All right. And then what does this show you	1 Matador added, if I remember correctly, it
2	concerning Matador's	
2 3	concerning Matador's A. Well, it's very interesting. They have talked	2 was a 9 \$9.1 million AFE. The price went up. But in
	A. Well, it's very interesting. They have talked	<ul> <li>was a 9 \$9.1 million AFE. The price went up. But in</li> <li>the meantime, oil prices were dropping. And because we</li> </ul>
3	A. Well, it's very interesting. They have talked about this being a rank wildcat. I'm in the business of	<ul> <li>was a 9 \$9.1 million AFE. The price went up. But in</li> <li>the meantime, oil prices were dropping. And because we</li> </ul>
3 4	A. Well, it's very interesting. They have talked	<ul> <li>was a 9 \$9.1 million AFE. The price went up. But in</li> <li>the meantime, oil prices were dropping. And because we</li> <li>deal with service companies, we knew the cost of</li> <li>drilling was going down, and we knew these related</li> </ul>
3 4 5	A. Well, it's very interesting. They have talked about this being a rank wildcat. I'm in the business of drilling I've been in the business of drilling wells that have 10 percent or less chance, like drilling in	<ul> <li>was a 9 \$9.1 million AFE. The price went up. But in</li> <li>the meantime, oil prices were dropping. And because we</li> <li>deal with service companies, we knew the cost of</li> <li>drilling was going down, and we knew these related</li> </ul>
3 4 5 6	A. Well, it's very interesting. They have talked about this being a rank wildcat. I'm in the business of drilling I've been in the business of drilling wells that have 10 percent or less chance, like drilling in the Tularosa Basin, like drilling at Vaughan and so	<ul> <li>was a 9 \$9.1 million AFE. The price went up. But in</li> <li>the meantime, oil prices were dropping. And because we</li> <li>deal with service companies, we knew the cost of</li> <li>drilling was going down, and we knew these related</li> <li>service costs were going down. So we thought Matador's</li> </ul>
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3 4 5 6 7 8	A. Well, it's very interesting. They have talked about this being a rank wildcat. I'm in the business of drilling I've been in the business of drilling wells that have 10 percent or less chance, like drilling in the Tularosa Basin, like drilling at Vaughan and so forth. And at least one of my requirements has been, if	<ul> <li>was a 9 \$9.1 million AFE. The price went up. But in</li> <li>the meantime, oil prices were dropping. And because we</li> <li>deal with service companies, we knew the cost of</li> <li>drilling was going down, and we knew these related</li> <li>service costs were going down. So we thought Matador's</li> <li>AFE was far too high, and we asked them to redo the AFE</li> <li>with current figures.</li> </ul>
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## 20 (Pages 74 to 77)

#### Page 78

Page	80

	Page 78		Page 80
1	for the fact that 100-300 does not include the	1	and 73 cents, depending on royalties, burdens and so
2	equipment, an issue which I'm going to set aside right	2	forth. That counts as severance. So say a well costs
3	here, or it doesn't it doesn't allow you to triple up	3	9.1 million, in this case. If you take the present
4	on the equipment charges. But we calculated that we	4	price of oil, \$45 it wasn't that price at that point.
5	would have to come back in if we either nonconsented	5	It's somewhat different. It had been down to 38 in the
6	under an operating agreement or were force pooled, that	6	interim. But let's take \$45. You divide the dollars.
7	the well would have to produce over a million barrels	7	For every barrel that comes in, you end up getting 31,
8	for us to come back in. And there's the crux of the	8	\$32, if it's \$45 oil, after all of this. So you take
9	problem.	9	that figure and divide it into the AFE cost, 9.1, and
10	What's happened in the industry, as I	10	multiply it by three, and you come up with something
11	express in this letter, is that in 2003, this Commission	11	like 8 million I'm sorry. You come up with something
12	established the well-risk rule that has an automatic 200	12	like 800,000 barrels, but you do not have operating
13	percent, thrust the burden on the protestant, and then	13	costs in there. You plug in operating costs, too, and
14	came up with what I understand is the Stogner method.	14	that'll take you over the million dollar figure I
15	That was done during the vertical well era.	15	mean million barrel figure.
16	But by 2008, horizontal wells were being	16	Q. Did you make similar calculations with a \$6.4
17	drilled. And by the date of this letter, 2015, we had	17	million well cost?
18	participated in a number of them. We saw that a number	18	A. Yes, we have. And some of that information's
19	of those wells were paying out in a few months. We knew	19	going to be presented after us I mean after me.
20	that the risk had dramatically changed. What had	20	Q. Let me draw your attention to Exhibit 5E in the
21	happened is the price, the cost of drilling, had gone	21	Matador book. Is that an August 26th, 2015 letter to
22	up. The risk had plummeted.	22	you from Van Singleton, Vice President of Land with
23	When I drill a rank wildcat well, I not	23	Matador?
24	only have to have 10,000 acres around it, I've got or	24	A. Yes, it is. Uh-huh.
25	thereabouts, I've got to have in that 10 percent	25	Q. And in particular at that point, were you
	Page 79		Page 81
1	chance, if it does come in, I've got to feel that I have	1	concentrating, in your negotiations, on this 100-300
2	the capacity to pay for ten more of those wells that has		
3		2	risk penalty provision? Was that a primary issue?
5	the potential of creating the revenue to pay for ten	2	
4	the potential of creating the revenue to pay for ten more like it, if it's a 10 percent chance.		risk penalty provision? Was that a primary issue?
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# 21 (Pages 78 to 81)

	Page 82		Page 84
1	A. You mean I'm not	1	JOA and it covers the entire section, and it continues
2	Q. Was it Matador's position that it was not	2	with 100-300
3	willing to give	3	A. That's right? So you're essentially unless
4	A. Yes. Matador's position, as I have understood	4	you're going to participate in those wells, you're
5	it and I've talked to several people associated with	5	essentially giving away that interest. Unless you
6	Matador is that they're not going to give on the	6	feel now, at that point we had a \$9.1 million AFE.
7	100-300.	7	Unless you feel that those wells are going to produce
8	Q. And was the proposition to Jalapeno, from	8	more than a million barrels, you're essentially giving
9	Matador, not only 100-300 for the first well, but it	9	away your interest.
10	would be necessary for Jalapeno to sign a JOA that would	10	Q. If Matador had said, All right, we're flexible,
11	have the same	11	your 100-150 percent is an acceptable risk penalty,
12	A. Subsequent wells.	12	would you have participated, and we wouldn't be here?
13	Q for subsequent wells?	13	A. I don't know whether we would have
14	A. Consequently, in my estimation, if you're	14	participated. But what I say in my letters to them is,
15	signing a JOA with that, under these circumstances, that	15	We will sign the operating agreement. We may or may not
16	what you might as well be doing is just giving them the	16	participate, depending on the price of oil at the time,
17	title to that zone in your property.	17	but you'll be able to go on and drill. And we may
18	And I'll say at this point that one of the	18	but that JOA would cover all horizons. It would cover
19	things that we have done is examined the results of all	19	the Bone Spring as well. And so the next time you might
20	horizontal wells in the four townships this is what	20	propose a Bone Spring, we might participate in it.
21	we did in the Commission I mean in the	21	Q. Why do you not believe that a 200 percent
22	Division horizontal results in the four townships	22	penalty, the so-called 100-300, is not appropriate for
23	surrounding the Airstrip: One dry hole, one well lost,	23	these horizontal Bone Spring and Wolfcamp wells in the
24	all other producers. And the vast majority of the wells	24	Permian Basin.
25	pay up. Risk has changed, and that is not recognized in	25	A. We've done analysis, which we did in
	Page 83		Page 85
1	this 200 percent rule, nor in the antiquated 100-300	1	preparation for two things. First off, we do this kind
2	percent JOA term.	2	of work this analysis work in order to determine
3	Q. In your opinion, is it appropriate to continue	3	whether or not we need to participate in wells. But as
4	a 100-300 percent risk penalty for a second, third and	4	we approached the force pooling hearing at the
5	fourth well in the same section?	5	Commission, we analyzed all the wells in the four
6	A. No, absolutely not.	6	townships surrounding, and here's what we found: That
7	I'm buying into the notion that proximity	7	somewhere between 1 percent of the time and 9 percent of
8	counts, so do not think I'm testifying otherwise. A	8	the time, depending on prices prices and depending on
9	mile a well 20 miles away proximity is a big	9	AFE costs, costs of operation, so forth, but only in
10	issue. On the other hand, I can point out circumstance	10	that number of percentage of times will the person who
11	after circumstances, like in the last the OCD gave,	11	has been force pooled under circumstances of 200 percent
12	in their filings here, a list of all the wells that have	12	come back in.
13	been force pooled in the last year, in 2016. You can go	13	And so most of the time, these people who
14	through those wells and see that a number of those wells	14	have agreed to that are unaware of what they're doing,
15	were offset wells. So if proximity counts on the one	15	and they're giving away their acreage their acreage.
16	hand in this Matador case where they're 20 miles away,	16	It is absolutely unfair.
17	why doesn't proximity count if you're drilling an offset	17	While that is going on, you see that most
18	to a producing well in the same zone? Why do you apply	18	wells pay out. We came up with and, again, it
19	200 percent there?	19	depends on the prices you're talking about, but we came
20	Well, the flexibility in the JOA is not	20	up with something like 31 percent of the wells paying
1	there, as they're laid out right now. They should be	21	out I mean pardon me 71 percent of the wells
21	. ,		paying out, in our analysis. That has changed based on
21 22	changed, in my opinion. The orientation of the	22	paying out, in our analysis. That has changed based on
	changed, in my opinion. The orientation of the regulations related to risk penalty ought to also be	22 23	
22	regulations related to risk penalty ought to also be		prices and cost and so forth. And so what you find is
22 23		23	

#### 22 (Pages 82 to 85)

	Page 86		Page 88
1	the point where the 200 percent penalty pays out.	1	what I heard was correct, and so we asked for the
2	And I point out that since we were at the	2	production of a rough draft of the testimony. That's
3	Commission when we were at the Commission, I believe	3	what this is about.
4	84 wells had been drilled horizontal wells in those	4	But essentially the testimony was that, as
5	townships. Since then, there have been additional	5	I understand it, as I read the material, that you have a
6	wells, and now it's 104, I believe, wells drilled in the	6	75 percent chance of having a well that will break
7	township. Prices have been low. Operators are	7	event, pay out.
8	continuing to drill. And why are they doing that?	8	Q. (BY MR. GALLEGOS) Do you have an opinion about
9	Because they're making money.	9	the quantity of risk that would be associated?
10	In the rank wildcat era circumstance,	10	A. Well, very interestingly, that is more or less
11	vertical well era, we had to have six times we had to	11	what we came up with throughout the four townships,
12	think that we were going to have six times or more money	12	examining all the wells. We came up with perhaps
13	coming out of a well than we put in.	13	that would mean 75 percent of the wells are going to pay
14	In this era, that's not the circumstance	14	out. 25 percent would not. Those 25 percent, a number
15	because the risk has dropped. It's much closer to a	15	of them would come close to pay out, but you wouldn't
16	manufacturing operation.	16	quite get there. And we came up with a little more, in
17	Now, that said, I appreciate the fact that	17	this surrounding area, in those four townships, maybe a
18	this well is 20 miles from the nearest producer. But I	18	30 percent chance that the wells wouldn't pay out that
19	do not think, however, that Matador would be drilling	19	we examined. So it's very close.
20	this well with the paucity of leases around if the 10	20	Q. And you are you are doing business in Texas?
21	percent actually represented what they feel in terms of	21	A. Yes.
22	risk.	22	Q. And are you participating in wells in Loving
23	Q. And did you hear testimony today by Mr. Frost,	23	County, Texas just across the state line?
24	the geologist, that would indicate a different	24	A. No, I'm not. Our wells of participation is in
25	percentage than the	25	the with EOG and Eagle Ford.
	Page 87		Page 89
	-		-
1	A. No. In fact his testimony yesterday, right?	1	Q. Eagle Ford.
2	Commissioner Balch was talking to	2	Q. Eagle Ford. What what what is the situation
2 3	Commissioner Balch was talking to Mr. Frost, the geologist. And I think many people	2 3	Q. Eagle Ford. What what what is the situation regarding force pooling and risk penalties when you do
2 3 4	Commissioner Balch was talking to Mr. Frost, the geologist. And I think many people didn't hear that, but it's absolutely maybe the most	2 3 4	Q. Eagle Ford. What what what is the situation regarding force pooling and risk penalties when you do business in that state.
2 3 4 5	Commissioner Balch was talking to Mr. Frost, the geologist. And I think many people didn't hear that, but it's absolutely maybe the most significant part of the testimony that I have heard in	2 3 4 5	<ul> <li>Q. Eagle Ford.</li> <li>What what what is the situation regarding force pooling and risk penalties when you do business in that state.</li> <li>A. Well, in 2009, there was a case, a Barnett</li> </ul>
2 3 4 5 6	Commissioner Balch was talking to Mr. Frost, the geologist. And I think many people didn't hear that, but it's absolutely maybe the most significant part of the testimony that I have heard in these two days. And it was a discussion related to what	2 3 4 5 6	<ul> <li>Q. Eagle Ford.</li> <li>What what what is the situation regarding force pooling and risk penalties when you do business in that state.</li> <li>A. Well, in 2009, there was a case, a Barnett shale case, where the Commission was asked to force</li> </ul>
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# 23 (Pages 86 to 89)

1       largest producing state and see what they do there? Has       1         2       drilling diminished over there?       2         3       Also, there's been testimony that we need       3         4       to look and see what is customary. Well, why isn't what       4         5       Texas does part of the balance in terms of what is       5         6       customary?       6         7       CHAIRMAN CATANACH: Hang on a second.       7         8       (Consultation off the record.)       8         9       CHAIRMAN CATANACH: I think we'll let him       9         10       THE WITNESS: If I could?       11         11       THE WITNESS: If I could?       11         12 <b>Q.</b> (BY MR. GALLEGOS) Yes. Yes, just do that.       12         13       Complete this testimony regarding the Texas situation.       13         14       A. When I went to look at Texas, I was attempting       14         15       to ascertain an answer to this question: What is risk?       15         16       What's the risk?       16         17       If you look at the law in the state of New       17         18       Mexico, this is what is said related to imposition of       18         19       penalty. At 70-2-17 and	half the wells did. So the Texas Railroad Commission awarded a 50 percent not a 200 percent but a 50 percent penalty. And so the operator would get back the cost of drilling. And this is 75 percent leases, I believe, not 80 percent. But the operator would get back cost of drilling, plus 50 percent, and then the party would come back in. In other words, they did not go through a convoluted I'm going to go into the Stogner approach here. But what they did was have they looked at it as economic risk. Do you have a payout? Do you not have payout? And that's why when I heard Mr. Frost's testimony, it was so significant. Because as I understand it, he testified that they had a 75 percent chance of payout in this well, and thus a 25 percent chance of not of not having payout in the well. Well, let me talk a little bit Q. Mr. Yates, let me ask you a question. We've had a presentation here by Matador in which they've addressed support for the risk penalty, speaking to geologic risk, reservoir risk, operational risk, those three factors. Let me ask, first of all, do you know of anything in the rules of the Commission or the Division
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24     "But which shall include the reasonable charge for     24	anything in the rules of the Commission or the Division
<sup>25</sup> supervision and may include a charge" "and may <sup>25</sup>	that say that's the standard, that's the measure that
	for arriving at risk penalty?
Page 91	Page 93
1 include a charge for risk involved in the drilling of 1	A. No. Except that in 2003, a number of major
2 such well which charge shall not exceed 200 percent of 2	operators in the state Mr. Bruce represented three of
<sup>3</sup> the nonconsenting owner," and so forth. "Owner share of <sup>3</sup>	them two of them at that point, in the 2003 hearing.
4 the cost of the drilling and completing the well."	Mr. Stogner was on the stand, and he testified about
5 Well, if you look at this closely, "may include a charge 5	what the Commission had been doing, and he broke risk
6 for the risk of drilling such well." Does that mean	down into three parts.
7 that the question is, in the statute, drilling the well 7	Now, Matador suggested that we weren't
8 down and that's it, that you do not take into account 8	doing risk analysis correctly because we're not
9 economic risk? Do you get the well down or not? Is 9	multiplying. What we did was follow Stogner because
10 that the risk they're talking about? Well, you know and 10	that's the only thing that we could find from the
11 I know that that's not the approach the Commission has 11	Commission and I'd be pleased if you'd point out some
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	alternative that deals with risk. I do not think that
13     So I went to look to see what Texas did     13	the Stogner method is particularly rationale for a
14 because they have much the same issue. And in Texas, 14	variety of reasons, but it is what we had.
15 they as I started to say a minute ago, in 2009, they 15	So when we went to the Division, we
<sup>16</sup> were asked to force pool. They gave they awarded the <sup>16</sup>	followed the Stogner method. The Stogner method
17 cost of drilling the well. In other words, the operator 17	categorized geology. They separated geology from
18     could get that back. And then you can find cases where     18       10     10     10	reservoir, which has been convoluted in Matador's
19     they in addition, they awarded 10 percent.     19	approach here. And I know why, because often we said
20     But in 2014, they changed. What they did,     20	we talk about, in the oil industry, Well, what's the
21 they were presented with a Barnett shale circumstance, 21	geologic risk? And we mix them. But Stogner separated
22 where an operator wanted to force pool the people 22	them out. In Stogner's approach, the only question for
23     around. They came in with the economic data for a     23       24     1     1	geologic risk was is the horizon there?
24 five-mile radius. And what they showed is that 24	So in the Division, we showed that the
<sup>25</sup> approximately half the wells never reached payout and <sup>25</sup>	Wolfcamp had been penetrated in the four townships 300

# 24 (Pages 90 to 93)

		1	
	Page 94		Page 96
1	times. So there is no question that the Wolfcamp's	1	and they have lost circulation lost circulation, the
2	there. So zero possibility zero risk on whether the	2	company experiences that, in the next AFE, they're going
3	Wolfcamp is there in this in this area. And that's	3	to up the AFE to cover those contingencies. What I'm
4	why the Commission reduced the penalty in their award,	4	not sure everyone heard in Mr. Byrd's response was that
5	by the portion that Stogner had allocated to each of the	5	in this AFE they had raised it because it was it was
6	three parties, 66 percent. That's why that's why	6	a way it wasn't in an area where they had drilled.
7	they reduced it.	7	They raised the contingency. Well, why did they do
8	Now, in reservoir risk, he threw in all of	8	that? To cover some of these risks.
9	the stuff having to do with will the rock produce. Do	9	But in any case, all this discussion about
10	you have porosity there, thermal maturity? All those	10	operational risk, I mean, yes, Stogner put it in there,
11	things were in that next 66 percent.	11	but really nobody's arguing. They should get all their
12	I particularly enjoyed Mr. Frost's	12	money back from whatever from our proportional of the
13	testimony. I learned from it. I appreciate that there	13	shared production for whatever cost to drill the well
14	are questions there because of the lack of proximity.	14	and complete it.
15	But there's not a geologic risk based on the way Stogner	15	Q. Let me ask you, Mr. Yates, to go to our Exhibit
16	analyzed it, which is the only guidance that I have seen	16	8. Would you identify that?
17	from the Commission. I may be wrong. I'd appreciate it	17	A. Yes. I believe this is what we presented
18	if you'd point it out to me.	18	before the Division; is that correct?
19	Then there is operational risk. Now, we	19	Q. No. No.
20	presented those four townships and showed that among	20	A. Revised oh, 6.5.
21	all 84 wells, that there had been one dry hole, and it	21	Q. No. This is this is your analysis of
22	was a Delaware well drilled because we looked at all	22	Matador's analysis and the factors that they gave their
23	horizontal wells one Delaware well produced on the	23	25 percent
24	edge of the four townships, dry hole, only horizontal	24	A. I'm not on the right page here. You say it's
25	dry hole, and that there had been one well lost. It	25	Exhibit 8?
	Page 95		Page 97
1	-	1	-
1 2	happens to have been drilled by Matador. One well lost.	1 2	Q. Exhibit 8 in the Jalapeno exhibits.
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# 25 (Pages 94 to 97)

	Page 98		Page 100
1	Q. What is the P, the capital P? Like you've got	1	talking about? I mean, you could talk about several
2	P-G	2	things.
3	A. Probability of success. These are probability	3	For instance, under the statute, if you
4	of success.	4	look at the statute, it could be risk of getting the
5	Q. And was that 25 percent	5	well down or not. Does it produce? That's irrelevant.
6	A. 25 percent.	6	Risk of getting the well down. Or you could jump way
7	Q the number that Matador placed on it?	7	ahead and say, Well, what we're going to do is the
8	A. Right.	8	real risk is does the operator get 12 percent or 15
9	So I multiplied that. Now, Stogner broke	9	percent return on investment? That's the risk we're
10	200 percent down into three parts, 66 percent each. And	10	talking about. I don't think so.
11	so what I'm doing is taking probability of success times	11	Texas method is: Do you get your money
12	what he allocated for it, 66 percent, and ending up with	12	back or not? If you put your risk, in putting money
13	1.65. I've done the same with reservoir based on what	13	down on the table, is are you going to get it back? And
14	they said. There's 50 percent of the reservoir, so you	14	that's what the Texas method is.
15	end up with .33.	15	Q. Mr. Yates, are you familiar with the concept of
16	Q. When you say "they said," just for the record,	16	correlative rights?
17	Matador's presentation before the Commission?	17	A. Yes.
18	A. Matador, yes. And they say there is a 75	18	Q. What do you what do you what is your
19	percent chance of success in the reservoir I mean	19	understanding of that phrase in this oil and gas
20	pardon me in operational. And I multiply that times	20	business?
21	66. So they're saying, in earlier testimony, We don't	21	A. Well, correlative rights essentially means
22 23	know what we're doing because you should multiply	22	that Mr. Bruce asked this. You're jumping ahead of
23	figures together and so forth and risk and so forth. I	23 24	Mr. Bruce. He loves to ask this question. It means the
24	grant that ordinarily when we do risk analysis, we	24	opportunity afforded, so far as it's practical to do so,
23	don't I don't agree with the figures they've	25	to each owner in a pool to produce without waste his
	Page 99		Page 101
1	allocated, but our job has been because this is the	1	just and equitable share of oil and gas or both in the
2	guidance we have to impose them in this Stogner method.	1	
		2	pool.
3	Well, in that case, you end up with .99 chance of	2	pool. Q. From your from your from your addressing
3 4		1	•
	Well, in that case, you end up with .99 chance of	3	Q. From your from your from your addressing
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4 5	Well, in that case, you end up with .99 chance of success, so you deduct that from 200 percent. And what are you left with? You're left with 101 percent	3 4 5	Q. From your from your from your addressing this entire risk situation, what is your opinion for the Commission as to the impact in correlative rights of a
4 5 6	Well, in that case, you end up with .99 chance of success, so you deduct that from 200 percent. And what are you left with? You're left with 101 percent chance 101 percent risk penalty in that circumstance.	3 4 5 6	Q. From your from your from your addressing this entire risk situation, what is your opinion for the Commission as to the impact in correlative rights of a 200 percent risk penalty versus, let's say, a 50 percent
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# 26 (Pages 98 to 101)

1	Page 102		Page 104
	A. Yes.	1	JOA?
2	Q. What does that mean?	2	A. Yes, it is. Uh-huh.
3	A. It means to get a rig out there, prepare the	3	Q. And at the bottom of page 5, does the agreement
4	location and drill the well to the total depth you hope	4	speak to where 100 percent, not the 300 percent, would
5	to reach.	5	be applicable?
6	Q. Would you say that's the accepted meaning given	6	A. Yes. Do you want me to read that or
7	to that term?	7	Q. Yes. I think that would be helpful for the
8	A. Yes, I think so. I mean, it involves also such	8	record.
9	things as running surface casing and running whatever	9	A. And this has to do with a nonconsent penalty.
10	pipe needs to be run in order to get down to total	10	"100 percent of each Non-Consenting Party's share of the
11	depth. But it generally does not mean production	11	cost of any newly acquired surface equipment beyond the
12	running production casing.	12	wellhead connections (including, but not limited to,
13	Q. Is there an industry-accepted meaning for	13	stock tanks, separators, treaters, pumping equipment and
14	completion?	14	piping) plus 100 percent of each Non-Consenting Party's
15	A. Yes. Once you do that, what I've talked about,	15	share of the cost of operation of the well commencing
16	you would analyze the hole or take the information you	16	with first production and continuing until each such
17	get from the rock, from the electric logs and so forth	17	Non-Consenting Party's relinquished share shall revert
18	and from what you see, in some cases, coming out the	18	to it under the provisions of this Article, it being
19	borehole, whether you get oil or gas coming out, and	19	agreed that each Non-Consenting Party's shares of costs
20 21	make a decision to complete, and you run pipe in, perforate the pipe and stimulate it, and that's	20 21	and equipment will be that interest which would have
22	completion.	22	been chargeable to each Non-Consenting Party had it
23	Q. Okay. Stimulate means by hydraulic fracturing	23	participated in the well from the beginning of the operation."
24	and	24	Q. Now, it was pointed out, Mr. Yates, that in the
25	A. Or acidizing.	25	300 percent penalty, there is reference to and it
	Page 103		Page 105
1	Q. Now, is there a third phase?	1	appears on page 6 of this document reference to the
2	A. Equipping. Equipping the well. Putting	2	wellhead connection. Can you help as to what that is
3	equipment on it.		
	- 1F	3	referred to in the industry?
4	Q. All right.	3 4	<b>referred to in the industry?</b> A. Well, wellhead connection is a connection to
5	<ul><li>Q. All right.</li><li>A. I'd like to point something else out because of</li></ul>	4 5	A. Well, wellhead connection is a connection to the pipe down the hole, tubing and casing and so forth,
5 6	<ul><li>Q. All right.</li><li>A. I'd like to point something else out because of the testimony related to the fact that horizontal</li></ul>	4 5 6	A. Well, wellhead connection is a connection to the pipe down the hole, tubing and casing and so forth, and tying it into the
5 6 7	<b>Q. All right.</b> A. I'd like to point something else out because of the testimony related to the fact that horizontal drilling has changed. Actually, the Commission the	4 5 6 7	<ul> <li>A. Well, wellhead connection is a connection to the pipe down the hole, tubing and casing and so forth, and tying it into the</li> <li>Q. On this point, please refer to Exhibit 16A in</li> </ul>
5 6 7 8	<b>Q.</b> All right. A. I'd like to point something else out because of the testimony related to the fact that horizontal drilling has changed. Actually, the Commission the Commission imposed what we called the Pit Rule several	4 5 6 7 8	<ul> <li>A. Well, wellhead connection is a connection to the pipe down the hole, tubing and casing and so forth, and tying it into the</li> <li>Q. On this point, please refer to Exhibit 16A in the Matador exhibit book. It should be the AFE.</li> </ul>
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# 27 (Pages 102 to 105)

	Page 106		Page 108
1	Q. Is there any justification for placing a 300	1	THE WITNESS: Pages 12 and 13.
2	percent penalty on surface equipment?	2	MR. BRUCE: Also page 11.
3	A. Not in my opinion.	3	Q. (BY MR. BRUCE) Now, first I want to ask you,
4	Q. I think, other than our Exhibit 8, every	4	you mentioned the Texas Railroad Commission. Do you
5	exhibit I refer to has already been admitted, so I	5	have any order numbers or any type of reference to those
6	yes.	6	cases?
7	MR. GALLEGOS: I move the admission of	7	A. If you'll look at Oil and Gas Docket Number
8	Exhibit 8 and pass the witness.	8	09 I'll be glad to give you a copy of this if you
9	CHAIRMAN CATANACH: Exhibit 8 will be	9	would like.
10	admitted.	10	Q. Thank you.
11	(Jalapeno Corp. Exhibit Number 8, revised,	11	A. 09-0284751, which is a final order, and it's
12	is offered and admitted into evidence.)	12	application of Vantage Fort Worth Energy, LLC pursuant
13	CROSS-EXAMINATION	13	to the Mineral Interest Pooling Act for the formation of
14	BY MR. BRUCE:	14	a pooled unit for the Rosedale North 7H MIPA unit, Well
15	Q. Now, Mr. Yates, you mentioned Dr. Frost's 75	15	Number 7H Newark East Barnett Shale Field, Tarrant
16	percent comment. Isn't that really a 75 percent chance	16	County, Texas. That's one.
17	the well would make some oil?	17	Also look at Railroad Commission of Texas
18	A. No. No. It was my memory it was 75 percent	18	Hearing Division, Oil and Gas Docket Number 09-288329,
19	of payout chance of payout.	19	which covers the same matter. And on page 7, it
20	THE WITNESS: And if you'll move to allow	20	addresses risk penalty, and I'll be glad to go into that
21	the admission of the document here that she (indicating)	21	with you.
22	says ought not to be admitted, we can examine that in	22	Q. I just wanted references.
23	detail.	23	Let's go to your exhibits. Just go to your
24	MR. BRUCE: I would simply caution the	24	Exhibit 1 for a second. Mr. Gallegos said all of these
25	Commissioners to look at the transcript, because I	25	documents are part of the record.
	Page 107		Page 109
1	looked at that, too, and I think there is a big	1	A. That is a letter from Harvey E. Yates Company.
2	difference between what Mr. Yates recalls and what I	2	Q. Correct. Yeah, their original well proposal.
3	recall.	3	This was a Bone Spring proposal?
4	THE WITNESS: Can we read it?	4	A. Correct. Uh-huh.
5	MR. BRUCE: No. I'll let the Commissioners	5	Q. And they also proposed a section-wide JOA; did
6	read it.	6	they not?
7	MR. GALLEGOS: But maybe we should make an	7	A. They did. Uh-huh.
8	exhibit because I think it is appropriate for the	8	Q. And their AFE for a Bone Spring well
9	MR. BRUCE: No. I would rather not. I	9	A. 7.3 million.
10	object. Like she said, it's not certified.	10	Q. So now Matador is proposing a deeper well, a
11	MR. GALLEGOS: All right. Well, then once	11	more complicated well, and it's a lower AFE?
12	it's in final and certified, can that be made an	12	A. Yeah, because prices come down. I congratulate
13	exhibit?	13	them for doing that. I wish they had presented that
14	CHAIRMAN CATANACH: It's part of the	14	during the Division hearing.
15	record.	15	Q. And in looking at and this goes into the
16	MR. GALLEGOS: Yeah. It'll be part of the	16	risk involved, you testified what the Railroad
17	record anyway.	17	Commission did in those cases is look at all wells in
17		18	the Barnett shale.
18	CHAIRMAN CATANACH: Do you know does it		
	CHAIRMAN CATANACH: Do you know does it have a page number?	19	A. Within a five-mile radius, and these were gas
18		19 20	A. Within a five-mile radius, and these were gas wells. And what they look to see is what portion of
18 19	have a page number?	1	
18 19 20	have a page number? MR. BRUCE: That may not be a page number,	20	wells. And what they look to see is what portion of
18 19 20 21	have a page number? MR. BRUCE: That may not be a page number, but it's Dr. Balch's cross exam about it looks to be	20 21	wells. And what they look to see is what portion of those wells would pay out and what portion wouldn't, and
18 19 20 21 22	have a page number? MR. BRUCE: That may not be a page number, but it's Dr. Balch's cross exam about it looks to be about ten pages into his examination of Dr. Frost.	20 21 22	wells. And what they look to see is what portion of those wells would pay out and what portion wouldn't, and that was the key issue.
18 19 20 21 22 23	have a page number? MR. BRUCE: That may not be a page number, but it's Dr. Balch's cross exam about it looks to be about ten pages into his examination of Dr. Frost. MS. ARNOLD: Page 11, line 10.	20 21 22 23	wells. And what they look to see is what portion of those wells would pay out and what portion wouldn't, and that was the key issue. Q. And how many upper Wolfcamp wells are there

# 28 (Pages 106 to 109)

	Page 110	Page 112
1	A. There are none.	1 well?
2	Matador I'll supplement that. Matador,	A. Yes. I think there is a chance. There is a
3	in its statements to us, suggested the Wolfcamp would be	<sup>3</sup> chance of losing it, and it's about 1 out of 104 that it
4	better than the Bone Spring, and so we looked at all the	4 won't get down, based on what I've seen. And there is a
5	Bone Spring wells to analyze them.	5 chance there is a chance it won't pay out. And based
6	Q. And there are differences between Bone Spring	6 on the earlier testimony I've heard, it is about 25
7	and Wolfcamp wells?	7 percent, meaning it would get much of its money back but
8	A. Yes, sir.	8 not all of it. And I would grant to you that that
9	Q. There's depth, deeper formation?	<sup>9</sup> figure, 25 percent, is it could be 30 percent chance
10	A. Slightly deeper.	10 it won't get its money back.
11	Q. Usually higher pressures?	11 Q. And you said, Well, why is anybody drilling
12	A. Usually higher pressure. I have some	12 currently? But you do have such things as lease
13	experience with the Wolfcamp.	13 expiration dates?
14	Q. And oftentimes the need for extra casing	14 A. That's right. But do you spend \$6.5 million
15	string?	15 for that purpose, or do you solve that problem some
16	A. Yes.	16 other way?
17	Q. Looking at Matador Exhibit 5C, which is your	17 Q. Well, what if you have to spend \$6.4 million to
18	I believe it's your letter or Jalapeno's letter. I	18 re-acquire the leases down the road?
19	don't mean to	19 A. Well, that's an issue. Is there a lease
20	A. To Melissa, right?	20 expiration problem here?
21	Q. And then maybe I'm on the wrong excuse me.	21 Q. I think Mr. Singleton – not lease 22 expiration – well. I think Mr. Singleton testified that
22 23	5D. 5D, as in dog. I'm sorry.	<ul> <li>expiration well, I think Mr. Singleton testified that</li> <li>there not in this well unit, but there were also term</li> </ul>
23	<ul><li>A. My letter to Van Singleton.</li><li>Q. That is correct, dated August 17, 2015.</li></ul>	<ul> <li>assignments. Term assignments are generally short term,</li> </ul>
24	A. Uh-huh.	25 aren't they?
23	A. Official.	
	Page 111	Page 113
1	Q. And you had been in discussions with them for	1 A. Matador reached a deal with Yates Energy, who
2	quite some time?	2 was in this litigation
3	A. With Van?	<sup>3</sup> Q. Correct.
4	Q. With both HEYCO and then Matador?	4 A related to getting a term assignment. I'm
5	A. Yes. Yes, with Matador, generically [sic].	5 not sure if we're going to talk about it, I would ask
6	Q. Correct. Correct.	6 that Matador produce that term assignment so we can take
7	And the first bullet point there, you ask	7 a look at it. But it may run out. I would urge my
8	for a 100/150 percent penalty, but you still said you	<sup>8</sup> brother to extend it if necessary.
9	were nonconsent in the drilling of the well?	9 Q. But the aim of a well isn't simply to reach
10	A. That's correct.	10 payout, is it? Your company and Matador and everyone
11	Q. Why?	11 else wants to make money.
12	A. Well, because of oil lower oil prices at	12 A. No. But what is risk? That's the issue. The
13	that point and because we have other alternatives for	13 aim when I go drill a well that has a 10 percent
14	putting our money. We're a small company. We have	14 chance, it is to it is make six times the cost of
15	other alternatives that we thought were	<ul> <li>that well or ten times. That's the aim.</li> <li>Q. And but each company is different?</li> </ul>
16	Q. Less risky?	
17	<ul> <li>A which are more likely to produce more money.</li> <li>A. Loss risky?</li> </ul>	
18 19	Q. Less risky?	18Q. Your original Exhibit 8 in the booklet urges a19risk charge of 30 percent?
20	A. That's your word (laughter). What does risk mean, Mr. Bruce?	20 A. Because that's your Exhibit 8 here?
20	Q. Fortunately, I don't have to answer questions.	21 Q. Your your original Exhibit 8.
21	(Laughter.)	A. Yes, we got that. Zero geologic now, all of
23	A. I'm looking for the answer to that question.	this is based on Stogner's method. Zero geologic
23	Q. Assuming Matador drills this well, is there a	24 because the horizon is there. No question about that.
	Q. Assuming Matador drills this well, is there a chance it won't receive all of its money back on the	<ul> <li>because the horizon is there. No question about that.</li> <li>Operational risk, 1 percent, because you're looking at</li> </ul>

# 29 (Pages 110 to 113)

	Page 114		Page 116
1	one well lost out of 84. And reservoir risk what we	1 Q. Okay. Well, I will represent to you to ju	ust
2	did to analyze reservoir in the division below was look	<sup>2</sup> assume that the pooling order covers the en	tire
3	at all the horizontal wells drilled and the chance that	<sup>3</sup> Wolfcamp.	
4	those wells would not pay out, and we came up with about	4 A. Okay.	
5	29 percent, which is very close to Mr. Frost's figure.	5 Q. Do you know that under the regulation	ns, the
6	Q. Would you participate at a 30 percent risk	6 operator can then propose additional wells in	n the
7	charge?	7 Wolfcamp or whatever formation is force poo	oled, but that
8	A. I'm sorry. I'm not understanding.	8 you get an election each time? So you're no	t losing
9	Q. If the risk charge was 30 percent, would	<sup>9</sup> your interest. You're losing your revenue int	erest in
10	Jalapeno participate in the well?	10 the first well if you go nonconsent, correct?	
11	A. The chance the risk charge up and down is	11 A. Uh-huh. Yes, in that horizon. I'm not	
12	not going to determine whether we participate in the	12 frankly, I'm not sure whether the way the order	s are
13	well. We're going to look at our other where we put	13 written cover the whole that you've lost every	/thing
14	other assets and what we think this is as compared	14 within the Wolfcamp or only within the area. A	nd I
15	the ultimate results of this as compared to our other	don't know if they know what they're going to fr	rac and
16	drilling.	<sup>16</sup> what they're not going to frac, you know. I don	't know.
17	Q. In any event, the current AFE for the Wolfcamp	Q. As I said, just assume you're qualifie	
18	well is less than the original Bone Spring AFE?	18 an expert.	
19	A. Yeah. It's a remarkable reduction. It's about	19 <b>A. Okay</b> .	
20	\$2-and-a-half million less than Matador's original AFE,	20 Q. Assume the pooling order covers the	entire
21	which was 9.1, which under a 200 percent risk penalty	21 Wolfcamp	
22	means you have to recapture \$7 million-something less.	22 A. Okay.	
23	So it's a remarkable difference.	23 Q and I will represent to you that the	
24	Q. And that's a good thing?	regulations of the OCD provide for additional	wells to
25	A. It's good thing. It's a great thing.	<sup>25</sup> be proposed by the operator.	
	Page 115		Page 117
1	Q. And if you did participate in this well, then	1 A. Under the pooling order?	
2	there would be no risk charge, no nonconsent penalty?	2 <b>Q.</b> Under the pooling order and under	the
3	A. That's right. But what I offered what I	<sup>3</sup> regulations.	
4	said to Melissa is, If we participate, we're not going	4 A. Okay.	
5	to sign this operating agreement. Signing an operating	5 Q. You would have an opportunity to p	participate in
6	agreement that has 100-300 percent, in this horizontal	6 those additional wells in the Wolfcamp with	-
7	era, is tantamount to giving those zones away if you're	7 unit; would you not?	
8	not going to participate.	8 A. Is that a statement or	
9	Q. And you still have a well-by-well election.	9 Q. Would you not, or do you not know	?
10	The other witnesses Matador's witnesses testified	10 A. Based on what you tell me, yes.	•
11	that there are multiple Bone Spring I mean Wolfcamp	11 Q. So you could come in risk risk fre	e not
12	zone?	12 risk free, risk charge free in subsequent w	
13	A. Uh-huh. You mean multiple pay potential up and	13 A. What I don't know, Mr. Bruce, is whet	
14	down the Bone Spring.	14 earlier costs costs of the earlier well would	
15	Q. Well, multiple zones within the Wolfcamp.	<sup>15</sup> counted against the subsequent well. She's	
16	A. The Wolfcamp, right. Uh-huh.	<ul> <li>shaking her head no.</li> </ul>	(
17	Q. And if they propose another well, you would	17 <b>Q.</b> And in this well, Matador has made	deals with
18	have an opportunity to come in risk free in that well.	18 most of the parties in here, so there's only	
19	Let's say they propose and they drill this one and	19 interest three interest owners left, esser	
1	they propose a lower Wolfcamp well. You'd able to	20 correct?	,
20		A. Well, you're telling me that. I mean	
20 21	participate		
21	participate A. I'll not sure about that, Mr. Bruce, because	· · · · · · · · · · · · · · · · · · ·	rties?
	A. I'll not sure about that, Mr. Bruce, because	22 Q. So they've negotiated with other pa	rties?
21 22 23	A. I'll not sure about that, Mr. Bruce, because I'm not sure whether a Commission's forced pooling order	22Q. So they've negotiated with other pa23A. They have.	
21 22	A. I'll not sure about that, Mr. Bruce, because	22 Q. So they've negotiated with other pa	

# 30 (Pages 114 to 117)

	Page 118		Page 120
1	A. Okay. Good.	1	discussion.
2	Q. Well, you've looked at their exhibits. You've	2	Q. And under a term assignment, you would not be
3	heard the testimony here, haven't you?	3	responsible for any well costs?
4	A. That other parties are participating?	4	A. That's correct.
5	Q. Yes.	5	Do you want me to tell you the hang-up on
6	A. I've heard there are some parties they	6	the term assignment? The only condition I had that
7	haven't haven't been able to reach and some parties	7	caused a hang-up was if the acreage comes out of the
8	are participating and some aren't and that they have got	8	term assignment in other words, Matador doesn't earn
9	term assignments from some.	9	it I don't want it to be subject to a 100-300 percent
10	Q. I'm just looking at this. Matador shows you as	10	provision.
11	owning 2.75 percent, plus or minus, interest in this	11	Q. Okay. I've come to understand you don't like
12	proposed well unit. What would be your cost to	12	the 100 percent/300 percent?
13	participate in the drilling of the well?	13	A. It's a taking. Have you ever heard that word?
14	A. Well, that particular figure is in error. We	14	Q. Well, it's provided by statute, isn't it? It's
15	have about a 5 percent I've given to Matador here	15	allowed by statute, a valid New Mexico statute.
16	where the problems are, and so we have about 5 percent.	16	A. The Commission may impose that penalty, but if
17	So multiply 5 percent times 6.5 million.	17	you look at the constitution and you have a question as
18	Q. Okay. But whatever the number is, there will	18	to whether that amounts to a taking in current
19	have to be a Division order title opinion for payment?	19	circumstances.
20	A. Sure. Right.	20	Q. And this pooling is strictly limited to the
21	Q. And I believe Mr. Singleton testified that they	21	west half-west half of Section 31?
22	do have title opinions on interest?	22	A. That's my understanding.
23	A. I know they've been working on title opinion,	23	Q. So it doesn't affect your other interests in
24	and I know that it's a difficult title area.	24	the I think your interests are in the south half
25	Q. In Exhibit your Exhibit 2, when you're	25	through a JOA; is that correct?
	Page 119		Page 121
1	talking about you're discussing with this is what,	1	A. We have interests in both the north half and
2	shortly after HEYCO became part of Matador, I believe?	2	contractual. That's what was missed.
3	A. Correct. Uh-huh.	3	Q. Contractual. Yeah. That's what I mean.
4	Q. And you're talking about the well costs.	4	A. In the south half as well.
5	Aren't all the wells contained in this comparison Bone	5	Q. Okay. And so your interests other interests
6	Spring wells?	6	are unaffected by this pooling?
7	A. Yes. Uh-huh.	7	A. That's correct.
8	But, Mr. Bruce, our point that we made	8	Q. And in the rest of the section?
9	related to the AFE problem were proven by the lower AFE	9	A. That's correct.
10	that Matador came up with, \$2-and-a-half million less.	10	Q. And this pooling is limited only to the
11	I don't know where you're going, but	11	Wolfcamp, so a Bone Spring well is proposed, or wells,
12	Q. And there were a number of options that were	12	you have the right to participate in those?
13	discussed by you and by Matador regarding participation	13	A. That's correct.
14	in this well?	14	Q. And this pooling is totally does not affect
15	A. Yes.	15	the Bone Spring Formation?
16	Q. And wasn't one of them was, you know, sell	16	A. That's my understanding. There was a question
17	down your interest slightly and participate with a	17	about that initially in Matador's initial application,
18	smaller interest?	18	but my understanding is it will not affect it.
19	A. I don't remember I don't remember that. We	19	Q. And you have the right to as an interest
20	talked about their trading property in Chaves County	20	owner, to propose the drilling of wells in this section?
21	Q. Sure.	21	A. Yes. Well, under an operating agreement. And
22	A to us for our interest under the well site	22	there is an operating you have the right to propose
23	here.	23	wells, and under the rules of the Commission where there
24	Q. And was there a term assignment discussion?	24	is not an operating agreement, we could go stake a well.
25	A. Yes. I believe there was a term assignment	25	So if that's what you're asking

# 31 (Pages 118 to 121)

	Page 122		Page 124
1	Q. Sure. And if you think you can produce your	1	costs, correct?
2	fair share of oil and gas, you can do that?	2	A. Oh, I see. Would you point
3	A. Uh-huh.	3	Q. Look down lower, right-hand corner of the first
4	Q. Have you drilled and operated any horizontal	4	page on the AFE, tanks, pipeline, electricity, pumping
5	wells?	5	units.
б	A. No. We've participated in more than 75 percent	6	A. Are you looking on the far, right-hand side?
7	of them.	7	Where are you looking?
8	MR. GALLEGOS: Did you mean percent or	8	Those tangible lease and battery equipment
9	wells?	9	go into the total total completion cost of the well,
10	THE WITNESS: Wells. I'm sorry. I'm hung	10	as I see it now. Are you pointing out something else?
11	up on 75 percent success risk success.	11	Q. Yeah. It's part of the completed cost of the
12	Q. (BY MR. BRUCE) Mr. Yates, is another witness	12	well?
13	going to discuss Exhibits 5, 6, 7, et cetera, or are	13	A. Sure. Of course.
14	these yours?	14	Q. Okay.
15	A. I think there are witnesses that are going to	15	MR. BRUCE: Mr. Gallegos, were you going to
16	discuss all of those.	16	introduce Jalapeno Exhibit 3?
17	Q. In particular, 5 and 6?	17	MR. GALLEGOS: Let me see what that is.
18	MR. GALLEGOS: Yes. 5 and 6 will be	18	Probably not. If we do, it would be with
19	Mr. Gaddis.	19	MJ, not Mr. Yates. Mr. Yates was not present at that
20	Q. (BY MR. BRUCE) Going to Matador Exhibit 5A,	20 21	meeting or Harvey Yates was not.
21	just looking at the HEYCO AFE, Mr. Yates		MR. BRUCE: Just a second, Mr. Yates. I
22 23	A. Okay. I'm sorry. I had the wrong book. 5A?	22 23	believe I'm almost through.
23	Q. Yes. And the AFE submitted by HEYCO – A. All right.	24	Q. (BY MR. BRUCE) Do you at this point or has Jalapeno thought about proposing drilling wells in
25	Q. – to Jalapeno. First of all, there are 10	25	Section 31?
23		23	
	Page 123		Page 125
1	percent contingency costs on separate items; are there	1	A. No. No, we haven't. Our forte is shallower
2	not?	2	zones in terms of operator, and if we found a shallow
3	A. I bet there are.	3	zone that would save save a lease, if they have that,
4	Q. So that amounts to a substantial amount of	4	we would be glad to talk about that.
5	money?	5	Q. You said one final question. You said you
6	A. Uh-huh.	6	participated in 70 or 75 horizontal wells?
7	Q. Just like on Matador's AFE?	7	A. What I said was more than 75 wells, about half
8	A. I think the price of the equipment was influx,	8	of them in Texas and half in New Mexico.
9	as I testified before, during that period of time.	9	Q. Have you signed JOAs with 300 percent
10	Q. But the battery, et cetera still comes up to	10	nonconsent penalties?
11	about 321,000 in this AFE?	11	A. You mean ever?
12	A. Okay.	12	Q. (Indicating.)
13	Q. And you agreed to that?	13	A. Of course, I have, in the vertical well era.
14	A. Uh-huh.	14	And what's happening is all these AFEs that were signed
15 16	Q. You were going to participate in that well?	15	in the vertical well era, the world has changed. The
16 17	A. Right. I wasn't going to pay a risk penalty on	16 17	world changed starting, in New Mexico, in 2008. So
18	<ul> <li>that. Are you suggesting that we've ever</li> <li>Q. Well, if you're participating in the well by</li> </ul>	18	we're confronting confronted I have also, I believe, as explained in these documents, likely signed
19	it's a simple fact that you're not paying any risk	19	an AFE for a spacing unit with those risks where we were
20	penalty on anything.	20	going to participate in the well.
21	A. Well, that's right. But I'm not sure what	21	Q. Have you signed a JOA for a horizontal well
22	you're asking me in pointing out that we signed an AFE	22	unit?
		23	A. Yeah, in that circumstance I just explained.
23	that has equipment charges in it is nev aways have		
23 24	that has equipment charges in it. They always have equipment charges. So I'm not sure what your point is.	1	
23 24 25	equipment charges. So I'm not sure what your point is. Q. Well, it's included as part of the initial well	24 25	<ul> <li>Q. Okay. There's been</li> <li>A. Limited to that. Other operators have received</li> </ul>

# 32 (Pages 122 to 125)

	Page 126	Page 128
1	the same stuff from me that Matador has. The risk has	1 Q. I'm going to use the ballpark numbers 2.9 and 5
2	changed. We're not going to sign an operating agreement	2 percent regarding Jalapeno's interest.
3	covering a zillion acres, but we may in this spacing	<sup>3</sup> A. Oh, okay.
4	unit if it's limited to the spacing unit and we're going	4 Q. Some of the testimony yesterday and this may
5	to participate. Best of my memory, that's	5 be a question for a later Jalapeno witness. My
6	Q. And you wouldn't budge off the 50 percent	6 understanding was that 5 percent was Jalapeno's in the
7	penalty?	7 section at large, and the 2.9 related to this particular
8	A. I might, yeah. I mean, I was surprised. I	8 well. Would that be
9	thought the Division would likely come back because	9 A. No. That's not that's not my understanding.
10	of the risk and things, come back with a 66 percent	10 My understanding is we would have 5 percent interest and
11	penalty rather than 133 percent. And I could understand	11 that what I think happened is that there are
12	that in regard to the remoteness of the well.	12 assignments that are blanket assignments covering
13	Q. Now, there's been a lot of questions,	13 thousands of acres that we have received, and we haven't
14	especially from Mr. Gallegos, about doing a pilot hole	14 received say it's an assignment of a federal lease.
15	in this well.	<sup>15</sup> We haven't, in many cases, received assignment of
16	A. Uh-huh.	<sup>16</sup> specific federal leases under that blanket assignment.
17	Q. But if that was done, since you're not going to	17 Some of those leases we haven't received are now
18	participate, you wouldn't share in the cost of drilling	18 Matador's responsibility. They were, earlier, HEYCO's
19	that?	<sup>19</sup> responsibility. And I think one of those has been
20	A. It depends on how they propose it.	<sup>20</sup> overlooked, is, I think, the discrepancy. I may be in
21	Q. And that would substantiate	21 error. I mean, our land department is pretty certain
22	A. Do not assume that. It depends. If they go	<sup>22</sup> it's 5 percent interest.
23	back and say, We want to drill a pilot hole in order to	23 Q. Okay. Slow-downs with the BLM of those federa
24	confirm this and so forth, we might. It depends. Are	<sup>24</sup> leases.
25	they willing to do it under an operating agreement that	A. Pardon me?
	Page 127	Page 129
1	Page 127 has reasonable nonconsent provisions? We might	Page 129 1 Q. Slow-downs at the BLM of those federal leases.
12	Page 127 has reasonable nonconsent provisions? We might participate in that pilot hole.	
	has reasonable nonconsent provisions? We might	1         Q. Slow-downs at the BLM of those federal leases.
2	has reasonable nonconsent provisions? We might participate in that pilot hole.	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics
2 3	has reasonable nonconsent provisions? We might participate in that pilot hole. Q. Might?	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.
2 3 4	has reasonable nonconsent provisions? We might participate in that pilot hole. <b>Q. Might?</b> A. Yes. How could	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.
2 3 4 5	has reasonable nonconsent provisions? We might participate in that pilot hole. <b>Q. Might?</b> A. Yes. How could <b>Q. And that would substantially add to the cost of</b>	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.         5       Q. Given your history in the business in
2 3 4 5 6	<ul> <li>has reasonable nonconsent provisions? We might participate in that pilot hole.</li> <li>Q. Might?</li> <li>A. Yes. How could</li> <li>Q. And that would substantially add to the cost of the well?</li> </ul>	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.         5       Q. Given your history in the business in         6       New Mexico, can you talk a little bit about the
2 3 4 5 6 7	<ul> <li>has reasonable nonconsent provisions? We might participate in that pilot hole.</li> <li>Q. Might?</li> <li>A. Yes. How could</li> <li>Q. And that would substantially add to the cost of the well?</li> <li>A. Might save you a lot of money, too. That's the</li> </ul>	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.         5       Q. Given your history in the business in         6       New Mexico, can you talk a little bit about the         7       economics of that 200 percent and the payout under
2 3 4 5 6 7 8	<ul> <li>has reasonable nonconsent provisions? We might participate in that pilot hole.</li> <li>Q. Might?</li> <li>A. Yes. How could</li> <li>Q. And that would substantially add to the cost of the well?</li> <li>A. Might save you a lot of money, too. That's the question.</li> <li>Q. But there are a lot of costs upfront?</li> <li>A. There are costs upfront.</li> </ul>	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.         5       Q. Given your history in the business in         6       New Mexico, can you talk a little bit about the         7       economics of that 200 percent and the payout under         8       vertical scenario?
2 3 4 5 6 7 8 9	<ul> <li>has reasonable nonconsent provisions? We might participate in that pilot hole.</li> <li>Q. Might?</li> <li>A. Yes. How could</li> <li>Q. And that would substantially add to the cost of the well?</li> <li>A. Might save you a lot of money, too. That's the question.</li> <li>Q. But there are a lot of costs upfront?</li> </ul>	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.         5       Q. Given your history in the business in         6       New Mexico, can you talk a little bit about the         7       economics of that 200 percent and the payout under         8       vertical scenario?         9       A. Yes. Under a vertical scenario, you can have
2 3 4 5 6 7 8 9 10	<ul> <li>has reasonable nonconsent provisions? We might participate in that pilot hole.</li> <li>Q. Might?</li> <li>A. Yes. How could</li> <li>Q. And that would substantially add to the cost of the well?</li> <li>A. Might save you a lot of money, too. That's the question.</li> <li>Q. But there are a lot of costs upfront?</li> <li>A. There are costs upfront.</li> </ul>	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.         5       Q. Given your history in the business in         6       New Mexico, can you talk a little bit about the         7       economics of that 200 percent and the payout under         8       vertical scenario?         9       A. Yes. Under a vertical scenario, you can have         10       much lower cost of wells, say a million-dollar well,
2 3 4 5 6 7 8 9 10 11	<ul> <li>has reasonable nonconsent provisions? We might participate in that pilot hole.</li> <li>Q. Might?</li> <li>A. Yes. How could</li> <li>Q. And that would substantially add to the cost of the well?</li> <li>A. Might save you a lot of money, too. That's the question.</li> <li>Q. But there are a lot of costs upfront?</li> <li>A. There are costs upfront.</li> <li>Q. Okay. And for a year and a half now, you have</li> </ul>	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.         5       Q. Given your history in the business in         6       New Mexico, can you talk a little bit about the         7       economics of that 200 percent and the payout under         8       vertical scenario?         9       A. Yes. Under a vertical scenario, you can have         10       much lower cost of wells, say a million-dollar well,         11       800,000. I've been drilling San Andres wells for a
2 3 4 5 6 7 8 9 10 11 12	<ul> <li>has reasonable nonconsent provisions? We might participate in that pilot hole.</li> <li>Q. Might?</li> <li>A. Yes. How could</li> <li>Q. And that would substantially add to the cost of the well?</li> <li>A. Might save you a lot of money, too. That's the question.</li> <li>Q. But there are a lot of costs upfront?</li> <li>A. There are costs upfront.</li> <li>Q. Okay. And for a year and a half now, you have been unhappy with the well costs. Is that a fair thing</li> </ul>	1       Q. Slow-downs at the BLM of those federal leases.         2       You talked quite a bit about the economics         3       of payout under 200 percent on the wells.         4       A. Right.         5       Q. Given your history in the business in         6       New Mexico, can you talk a little bit about the         7       economics of that 200 percent and the payout under         8       vertical scenario?         9       A. Yes. Under a vertical scenario, you can have         10       much lower cost of wells, say a million-dollar well,         11       800,000. I've been drilling San Andres wells for a         12       quarter of a million dollars, for instance. And those
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# 33 (Pages 126 to 129)

	Page 130		Page 132
1	these.	1 pro	perty, and I would advocate for the burden you
2	But on the other hand, you have a lower	2 kno	w how much you've learned today from Matador's
3	risk I mean, the Commission this 200 percent rule	<sup>3</sup> ma	gnificent representatives here who who and I'm
4	is would make it appear that there are dead bodies	4 not	being cynical. Mr. Frost did a great job. They're
5	all over those four townships. There is one dry hole	5 hav	ing to put on the burden of proof. They're having
6	and one well lost among the horizontal wells. We're not	б to -	- it's very educational for the Commissioners, in my
7	talking about the vertical wells. Vertical wells, there	7 esti	mation. And I think that's what out to happen. I
8	are a number of dry holes.	<sup>8</sup> thin	k you can make a more rationale decision that way.
9	But the 200 percent risk was created in the	9	But you have to answer one question first.
10	vertical well era, 2003, and things changed, and the	10 Wh	en you say risk, what are you talking about? Are you
11	rules need to change to take that into account.		ing about getting the hole down, or are you talking
12	What's happening is the operator gets 200		ut getting them back 12 percent on their money, or
13	percent penalty. The forced pooling never comes back		you talking about breaking even? And that's or
14	in, but the operator, after he gets his risk back he		you talking about a Stogner method, which in my view
15	has about a 25, 30 percent chance of reaching payout,		rational, where you're separating it into the
16	from what I've seen then manufactures money. And by		ous various parts. And I can go through that
17	the time it gets to the 200 percent, there is nothing		i you.
18	left. Are you understanding what I'm	18	But we came in here using the Stogner
19	Q. So in your opinion, for horizontal development,		hod because we understand that to be the Commission
20	what would be an appropriate risk penalty?		roach because in the 2003 well rule or risk rule,
21	A. I'm sorry?		gner testified and laid out his approach, and it
22	Q. In your opinion, for a horizontal development,		med to be the one accepted by the Commission. I
23	what's an appropriate risk penalty?		lerstand no one here on the Commission here today was
24	A. Well, when we analyze the Bone Spring, they		hat Commission then.
25	said this isn't a Bone Spring, obviously. But Bone	25 0	Q. Thank you.
	Page 131		Page 133
1	Spring, it looked to us like a risk penalty of 29 or 30	-	
		1	COMMISSIONER BALCH: I actually have no
2			COMMISSIONER BALCH: I actually have no stions for you today. Thank you.
2 3	percent that you had about that chance of not getting payout. Now, they said this is this is not in that		
	percent that you had about that chance of not getting	<sup>2</sup> que	stions for you today. Thank you.
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3 4	percent that you had about that chance of not getting payout. Now, they said this is this is not in that zone. It's a Wolfcamp zone. I understand that. And it's remote, so the risk penalty ought to be higher.	2 que 3 4 5 BY	stions for you today. Thank you. THE WITNESS: Thank you. CROSS-EXAMINATION
3 4 5	percent that you had about that chance of not getting payout. Now, they said this is this is not in that zone. It's a Wolfcamp zone. I understand that. And	2 que 3 4 5 BY 6 <b>G</b>	stions for you today. Thank you. THE WITNESS: Thank you. CROSS-EXAMINATION CHAIRMAN CATANACH:
3 4 5 6	percent that you had about that chance of not getting payout. Now, they said this is this is not in that zone. It's a Wolfcamp zone. I understand that. And it's remote, so the risk penalty ought to be higher. But they also said that it's going to be better than the	2 que 3 4 5 BY 6 C 7 the	stions for you today. Thank you. THE WITNESS: Thank you. CROSS-EXAMINATION CHAIRMAN CATANACH: 2. I just want to go over the analysis you did on
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3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	percent that you had about that chance of not getting payout. Now, they said this is this is not in that zone. It's a Wolfcamp zone. I understand that. And it's remote, so the risk penalty ought to be higher. But they also said that it's going to be better than the Bone Spring. That's why we went in and analyzed, for the Division, all the Bone Spring wells in the four townships, and we've had an engineer go analyze, run EURs on all those wells. Now, you and I both know that there are variables. We used Matador's new AFE recently to analyze them. Earlier, we were using an AFE cost based on what we had participated in, and the number AFEs we assumed that the AFE on the number of wells that we had participated was what other people were paying, so we used that. And we used current prices then, and we used the operating cost that we were familiar with. Whether you can spread that, you know, throughout the Basin, I don't know. But those are the things that we did.	2     que       3     4       5     BY       6     G       7     the       8     to g       9     well       10     A       11     ther       12     hole       13     tool       14     so y       15     mos       16     Wo       17     18       20     drill       21     poir       22     fairl       23     G	stions for you today. Thank you. THE WITNESS: Thank you. CROSS-EXAMINATION CHAIRMAN CATANACH: <b>1 just want to go over the analysis you did on</b> <b>Bone Spring and the four-township area. I just want</b> <b>tet those results again. You said there are how many</b> <b>Is?</b> A. In the Division in the Division hearing, te were, I believe, 84 wells, one of which was a dry <b>a</b> and one of which was a well that was lost. Now, we ce every horizontal well in those four townships, and you've had a few Delaware wells, very, very few, styl Bone Spring wells. I think there was perhaps one If camp that wasn't in this particular horizon. Since that time, there have been additional s drilled, and now I believe there are 104 wells in se four townships. And so those wells have been ed in the last two years, the additional and I thed out that those wells have been drilled in a y low price low-oil-price environment.

34 (Pages 130 to 133)

	Page 134	Page 136
1	Q. And some of these were different horizons,	1 a vast area. I have refused to sign JOAs in this
2	either Bone Spring or Delaware?	<sup>2</sup> horizontal well era that cover a vast area. And I have
3	A. Right.	<sup>3</sup> often they send a JOA. I'll send a letter back
4	Q. But they're all horizontal wells?	4 saying, Your nonconsent penalties do not reflect today's
5	A. Right.	5 risk in this drilling. So we'll sign the AFE but not
6	Q. And you did a you determined that how many	6 sign the JOA and go on and participate in the well. I
7	had reached payout? Is that what you were trying to	7 think I've done that with Yates Petroleum, Matador,
8	figure out?	8 maybe Devon. I don't know whether I've done it with
9	A. Yes. Yeah. We were we were attempting	<sup>9</sup> COG. In other cases, we have said, We'll sign an AFE
10	to and, in fact, in the Division, we suggested that	<sup>10</sup> with those nonconsent provisions, but it has to cover
11	the Division needs to be doing this in order to really	11 only the spacing unit, and we're going to participate in
12	determine what the risk is in areas. But all of the	12 that.
13	information that we got came from the Division, Division	13As I said, my view is that if you sign that
14	records.	14 JOA and you think you're not going to be able to
15	So we would take production we had to	<sup>15</sup> participate, then what you're doing is signing title
16	assume some things. For instance, the AFE cost, we had	<sup>16</sup> over to them.
17	to assume. Well, where do we get that? We got that	17 Q. Mr. Yates, what's been your experience with
18	from our experience drilling with Devon, COG, et cetera,	18 trying to negotiate with other companies to get that
19	et cetera, what the AFEs were. We had to assume a price	19 penalty reduced?
20	of oil. And so in that in that attempt to understand	A. It's been very, very difficult. First off,
21	what was going on, we used the Base [phonetic] case from	<sup>21</sup> most of them have a very great stake in that
22	Bank of Oklahoma for determining pricing out. And we	22 consider consider this: That in order to be able to
23	took the what decline curves did we use? Well, we	drill, a company like Matador or COG or whoever has to
24	took the 20 oldest wells in those four townships and	24 go buy leases. And some of those leases are very, very
25	applied those to and so we came up with an average	<sup>25</sup> expensive. But if they can send a lawyer in here and
	Page 135	Page 137
1	-	
1 2	decline curve and applied it to all of those 100	1 get an automatic 200 percent, that's the cheapest lease
	-	<ol> <li>get an automatic 200 percent, that's the cheapest lease</li> <li>they've bought. Depending on the size on the</li> </ol>
2	decline curve and applied it to all of those 100 those 82 producing wells, because two are producing, and	<ol> <li>get an automatic 200 percent, that's the cheapest lease</li> <li>they've bought. Depending on the size on the</li> </ol>
2 3	decline curve and applied it to all of those 100 those 82 producing wells, because two are producing, and then subsequently applied that updated it and applied	<ol> <li>get an automatic 200 percent, that's the cheapest lease</li> <li>they've bought. Depending on the size on the</li> <li>lawyer's cost and the size, cheapest lease they've</li> </ol>
2 3 4	decline curve and applied it to all of those 100 those 82 producing wells, because two are producing, and then subsequently applied that updated it and applied it to the 102 producing wells.	<ol> <li>get an automatic 200 percent, that's the cheapest lease</li> <li>they've bought. Depending on the size on the</li> <li>lawyer's cost and the size, cheapest lease they've</li> <li>bought. They go drill it, they take everything out of</li> </ol>
2 3 4 5	decline curve and applied it to all of those 100 those 82 producing wells, because two are producing, and then subsequently applied that updated it and applied it to the 102 producing wells. Later, we asked an engineering firm to come	<ul> <li>get an automatic 200 percent, that's the cheapest lease</li> <li>they've bought. Depending on the size on the</li> <li>lawyer's cost and the size, cheapest lease they've</li> <li>bought. They go drill it, they take everything out of</li> <li>it, and there will be nothing left at 200 percent. And</li> </ul>
2 3 4 5 6	decline curve and applied it to all of those 100 those 82 producing wells, because two are producing, and then subsequently applied that updated it and applied it to the 102 producing wells. Later, we asked an engineering firm to come in and do run the EURs on all of those wells, and	<ul> <li>get an automatic 200 percent, that's the cheapest lease</li> <li>they've bought. Depending on the size on the</li> <li>lawyer's cost and the size, cheapest lease they've</li> <li>bought. They go drill it, they take everything out of</li> <li>it, and there will be nothing left at 200 percent. And</li> <li>that is one of the reasons, I believe, that lease prices</li> </ul>
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	<ul> <li>decline curve and applied it to all of those 100 those 82 producing wells, because two are producing, and then subsequently applied that updated it and applied it to the 102 producing wells.</li> <li>Later, we asked an engineering firm to come in and do run the EURs on all of those wells, and you'll hear that this afternoon. But the variables are the things I mention. Operating cost is something I didn't mention, but it's a big deal. What kind of operating cost do you have?</li> <li>But our results in the early period were that, based on this stuff, you had about 29 percent of the wells that were not reaching payout. That didn't mean we didn't make a lot of oil, but they didn't reach payout, and the rest would pay out. And so that comported with our own experience in investing in these wells as opposed to investing in vertical wells, that the risk had dropped. The cost had gone up; the risk would drop.</li> <li>Q. So you have signed JOAs with companies for horizontal wells? You've participated in the drilling of those wells?</li> </ul>	1       get an automatic 200 percent, that's the cheapest lease         2       they've bought. Depending on the size on the         3       lawyer's cost and the size, cheapest lease they've         4       bought. They go drill it, they take everything out of         5       it, and there will be nothing left at 200 percent. And         6       that is one of the reasons, I believe, that lease prices         7       in Texas have buoyed up.         8       You have operators coming out of Texas into         9       New Mexico because of the lease prices over there where         10       you do not have the penalty that we've talked about, but         11       they can come in here and drill their way into leases         12       they can go buy.         13       Q. So, I guess, have you had any success with any         operators to reducing the risk penalty?         14       operators to reducing the risk penalty?         15       A. I've had I've had success in them agreeing         16       to go out and drill where we just or agreeing to         17       reduce the size the area covered by the operating         18       agreement. And yes, I have. I think I think in one         19       case I got a 100 and 150.         20       But they're moving. I mean, these
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# 35 (Pages 134 to 137)

Page 138		Page 140
period like that now, where the risk has dropped, things	1	had been laid out, where you're taking an automatic
have changed.	2	one problem with Stogner method is he took 200 percent
One of the things going on here, if you	3	and reduced it from that. It wasn't taking figuring
they look at what this Commission is doing. And they	4	out what risk is and starting at zero and building up to
look at that, and if you don't sign this joint operating	5	the point where you actually had risk. It was take 200
agreement, we're going to go force pool you and you'll	6	percent and reduce it. That was part of his method.
end up in the same place because of the 200 percent.	7	That has been used all the time by the Division and, as
Touchdown negotiated.	8	far as I can tell, by the Commission.
Q. Just one more question. There's been a lot of	9	We looked at all the wells that
talk about the Stogner method, the Stogner hearing.	10	Mr. Brooks Mr. Brooks gave one of the exhibits
What was that hearing in context? Was that a rule	11	from the Division was a list of wells that had been
change?		force pooled in 2016. His purpose in putting that into
A. It was in context I can give you copies of		the record was to show that there was precedent for
		pooling.
-		The other thing it showed is the Commission
a 200 percent where people and reduce it from that.		always applies 200 percent, and it also showed that
		and there was only one cases where it didn't apply that
		rule, and the Commission in that case denied the forced
		pooling because they were drilling into a federal unit,
		but every other time, whether it was an offsetting well
		to a producer or whether it was miles away. So that's
		the Stogner method as I understand it.
		Q. Okay.
-		
the risk penalty, and so forth. And that was where	25	
Page 139		Page 141
Mr. Stogner testified and it was in the Fruitland	1	CROSS-EXAMINATION
I always use 165, I think, he said, or something he had	2	BY MR. BRANCARD:
come to. That was that proceeding, and it came out	3	Q. This is all fine, but at the end of the day,
I've always called it Rule 35, which is not the	4	the Commission has to make a decision. Okay? And if
New Mexico administrative rule, but it's the one where	5	the Commission agrees to pooling this unit, it's going
they said 200 percent is to be awarded in well costs.	6	to have to assign a risk charge. What is Jalapeno's
And it defines well costs to include surface agreement.	7	proposal for a risk charge in this unit?
That was that proceeding.	8	A. Well, our proposal what I think is, if you
THE WITNESS: In that same proceeding,	9	look at the Bone Spring area, the risk, and analyze
Stogner talked about the Fruitland coal era area in	10	that, it's about 30 percent.
the northwest, and he said this was an example he	11	On the other hand, this is not a Bone
gave for his the geologic what he meant by	12	Spring. And they have come in and testified this is
geologic. There have been people in here and they	13	it is something in the nature of a wildcat well, using
testified that the Fruitland coal is there every time.	14	Stogner's method for the Stogner's method, I think,
So he reduced from 200 percent to 156 percent risk	15	you would come up with something like a 66 percent. And
penalty or something like that as a consequence.	16	to me, because of the remoteness of it, it seems to
Q. (BY CHAIRMAN CATANACH) Right. I remember it	17	be that would seem to be fair.
was 156 percent of the Fruitland coal, and to some	18	Q. 66 percent risk charge?
extent, I was involved in that, also.	19	A. Right.
Do you know that if the Stogner method has	20	Q. Okay. Are you going to have another witness
	21	who is going to go into detail how you got to that
been applied in any subsequent compulsory pooling cases?		
I mean, that didn't establish a precedent of any kind,	22	number, or is this it?
I mean, that didn't establish a precedent of any kind, did it?	22 23	MR. GALLEGOS: No.
I mean, that didn't establish a precedent of any kind,	22	
	<text><text><text><text><text><text><text></text></text></text></text></text></text></text>	have changed. 2 One of the things going on here, if you they look at what this Commission is doing. And they look at that, and if you don't sign this joint operating agreement, we're going to go force pool you and you'll end up in the same place because of the 200 percent. 7 Touchdown negotiated. 8 <b>0.</b> Just one more question. There's been a lot of talk about the Stogner method, the Stogner hearing. What was that hearing in context? Was that a rule change? 12 A. It was in context I can give you copies of it, if you want, here. But in regard to the 2003 risk charge, where the Commission decided to automatically do a 200 percent where people and reduce it from that. It's the 200 this is where we ended up in this 2 this automated [sic] automatic pilot, 200 percent. It was his testimony MR. GALLEGOS: Mr. Chairman, if you'd like, if I can that was the proceeding in which there was an industry group, and the basic message was, Oh, it cost us extra money every hearing, and it's quicker and more convenient if we don't have to bring a witness on the risk penalty, and so forth. And that was where <b>Page 139</b> Mr. Stogner testified and it was in the Fruitland I always use 165, I think, he said, or something he had come to. That was that proceeding, and it came out Ye always called it Rule 35, which is not the New Mexico administrative rule, but it's the one where they said 200 percent is to be awarded in well costs. And it defines well costs to include surface agreement. That was that proceeding. THE WITNESS: In that same proceeding, Stogner talked about the Fruitland coal era area in 10 the northwest, and he said this was an example he gave for his the geologic what he meant by geologic. There have been people in here and they testified that the Fruitland coal is there every time. So he reduced from 200 percent to 156 percent risk penalty or something like that as a consequence. <b>10</b> . (BY CHAIRMAN CATANACH) Right. I remember it was 156

# 36 (Pages 138 to 141)

	Page 142	Page 144
1	your original Exhibit 8?	1 Q. Okay. So you have focused on the risk of a
2	A. Yes, the Bone Spring. I think that a that a	<sup>2</sup> failure to pay out when an operator drills a well. Let
3	fair charge for drilling in an area where you have	<sup>3</sup> me just talk about what I'm seeing as another kind of
4	offsetting wells like around in that four township,	4 risk that's going on here.
5	if we were drilling a Bone Spring well, that is what I	5 We can look at your Exhibit 1, the
6	think a fair risk charge would be.	6 attachment of this, just for the numbers here. This
7	MR. BRANCARD: Just to clarify, Mr.	7 represents a \$7.3 million well charge. Jalapeno has
8	Gallegos, you submitted a revised Exhibit 8, but did you	8 about 5 percent, 372,000. They're asking for you to
9	want to keep the original Exhibit 8?	<sup>9</sup> participate. Okay?
10	MR. GALLEGOS: No. It was supposed to	10 A. Uh-huh.
11	replace the Exhibit 8 the prior Exhibit 8.	11 Q. If you say, We're not going to participate,
12	THE WITNESS: I don't know what that's	<sup>12</sup> right, that means that the operator, whoever it is, now
13	prior.	13 has to come up with that \$372,000 that you're not
14	MR. BRANCARD: That's the 30 percent.	14 paying, right?
15	THE WITNESS: Yeah.	15 A. Uh-huh.
16	So what I'm saying is let's assume	16 Q. So now they're adding they're increasing
17	Matador what Matador said is not right, that	17 their risk by putting up money that you should have been
18	originally, they said that Bone Spring Wolfcamp would	18 putting out to produce your oil?
19	be better than Bone Spring. They're guessing about that	19 A. Well, they're getting back that cost, the
20	to some extent. This is remote. I give them that. So	20 300-and-some-odd-thousand.
21	I would impose a risk penalty greater than I would for	21 Q. If the well pays out?
22	this to be a Bone Spring	A. If the well pays out, that's right.
23	Q. (BY MR. BRANCARD) I know you want to talk about	23 Q. If the well doesn't pay out, you haven't lost a
24	risk, so let's talk about risk. You're talking about	24 penny?
25	when you're talking about risk, as I understand it,	25 A. That's correct.
	Page 143	Page 145
1	you're talking about the risk of a failure to pay out at	1 Q. You've taken on zero risk?
2	a well?	<sup>2</sup> A. That's correct.
3	A. That's right. That is what I think.	<sup>3</sup> Q. You've allocated all your risk to the operator?
4	Q. And that is the sole basis for determining a	4 A. That's correct.
5	risk charge under the statute?	5 Q. So, essentially, you're a free rider in that
6		
	A. In my no. No. I'm not sure of that. The	6 case?
7	A. In my no. No. I'm not sure of that. The Commission hasn't applied that. The Commission has	6       case?         7       MR. GALLEGOS: As soon as the well is
7 8		
	Commission hasn't applied that. The Commission has	7 MR. GALLEGOS: As soon as the well is
8	Commission hasn't applied that. The Commission has applied the Stogner rule. And my view is that that	<ul> <li>7 MR. GALLEGOS: As soon as the well is</li> <li>8 producing</li> </ul>
8 9	Commission hasn't applied that. The Commission has applied the Stogner rule. And my view is that that approach is the rationale basis because it allows you to	<ul> <li>7 MR. GALLEGOS: As soon as the well is</li> <li>8 producing</li> <li>9 MR. BRANCARD: I'm sorry. I'm asking the</li> </ul>
8 9 10	Commission hasn't applied that. The Commission has applied the Stogner rule. And my view is that that approach is the rationale basis because it allows you to take into account the cost, the price of oil and gas and	<ul> <li>7 MR. GALLEGOS: As soon as the well is</li> <li>8 producing</li> <li>9 MR. BRANCARD: I'm sorry. I'm asking the</li> <li>10 witness a question.</li> </ul>
8 9 10 11	Commission hasn't applied that. The Commission has applied the Stogner rule. And my view is that that approach is the rationale basis because it allows you to take into account the cost, the price of oil and gas and so forth.	<ul> <li>7 MR. GALLEGOS: As soon as the well is</li> <li>8 producing</li> <li>9 MR. BRANCARD: I'm sorry. I'm asking the</li> <li>10 witness a question.</li> <li>11 MR. GALLEGOS: the revenue from that 5</li> </ul>
8 9 10 11 12	Commission hasn't applied that. The Commission has applied the Stogner rule. And my view is that that approach is the rationale basis because it allows you to take into account the cost, the price of oil and gas and so forth. Let me find the Stogner deal. Just a	<ul> <li>7 MR. GALLEGOS: As soon as the well is</li> <li>producing</li> <li>9 MR. BRANCARD: I'm sorry. I'm asking the</li> <li>witness a question.</li> <li>11 MR. GALLEGOS: the revenue from that 5</li> <li>12 percent goes to</li> </ul>
8 9 10 11 12 13	Commission hasn't applied that. The Commission has applied the Stogner rule. And my view is that that approach is the rationale basis because it allows you to take into account the cost, the price of oil and gas and so forth. Let me find the Stogner deal. Just a minute here.	<ul> <li>7 MR. GALLEGOS: As soon as the well is</li> <li>8 producing</li> <li>9 MR. BRANCARD: I'm sorry. I'm asking the</li> <li>10 witness a question.</li> <li>11 MR. GALLEGOS: the revenue from that 5</li> <li>12 percent goes to</li> <li>13 MR. BRANCARD: Mr. Gallegos, I'm not</li> </ul>
8 9 10 11 12 13 14	Commission hasn't applied that. The Commission has applied the Stogner rule. And my view is that that approach is the rationale basis because it allows you to take into account the cost, the price of oil and gas and so forth. Let me find the Stogner deal. Just a minute here. Q. And I understand, based on, I believe, one of	<ul> <li>7 MR. GALLEGOS: As soon as the well is</li> <li>producing</li> <li>9 MR. BRANCARD: I'm sorry. I'm asking the</li> <li>witness a question.</li> <li>11 MR. GALLEGOS: the revenue from that 5</li> <li>12 percent goes to</li> <li>13 MR. BRANCARD: Mr. Gallegos, I'm not</li> <li>14 questioning you. Okay? I'm questioning the witness.</li> </ul>
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8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24	Commission hasn't applied that. The Commission has applied the Stogner rule. And my view is that that approach is the rationale basis because it allows you to take into account the cost, the price of oil and gas and so forth. Let me find the Stogner deal. Just a minute here. <b>Q.</b> And I understand, based on, I believe, one of the orders referenced in the motion hearing, the Stogner testimony was part of the rulemaking procedure that replaced the Stogner method with the 200 percent default; is that correct? A. Well, my understanding is not that. It's that Stogner was applying 200 percent and reducing from that, which is essentially what the Commission has done since then. It's hung on the 200 percent. The producers came up and said, We're always in here having to prove why it ought not to be 200 percent, and we don't like to come	<ul> <li>MR. GALLEGOS: As soon as the well is</li> <li>producing</li> <li>MR. BRANCARD: I'm sorry. I'm asking the</li> <li>witness a question.</li> <li>MR. GALLEGOS: the revenue from that 5</li> <li>percent goes to</li> <li>MR. BRANCARD: Mr. Gallegos, I'm not</li> <li>questioning you. Okay? I'm questioning the witness.</li> <li>Q. (BY MR. BRANCARD) So you're taking zero risk if</li> <li>you have nonconsent?</li> <li>A. The 30 percent in that circumstance is</li> <li>representative of the chances of not paying out. So in</li> <li>that circumstance, you have and you would bear the</li> <li>nonparticipant would bear that penalty, the 30 percent</li> <li>penalty. And so the operator would get back all of his</li> <li>money for what he put out to drill that proportionate</li> <li>part, the 300-some-odd-thousand. On top of that, he</li> <li>would be awarded for the risk he took, which was 30</li> </ul>

# 37 (Pages 142 to 145)

1         reverted for that.         1         RECROSS EXAMINATION           2         0. But only if it pays out?         3         A. Wail, that's right.         0. Cutckity, maybe this will answer the question.           4         0. In the meanwhile, like you said, you may have a         5         5         Cutckity, maybe this will answer the question.           5         botter us for your money?         A. Wail, that's correct.         That's correct.         A. Yes.           6         and here set of your money?         A. Yes.         Coasy. Weil, then I think -           7         A. Wail, that's correct.         Mark set on the start of the 10,000 acres around here         A. Yes.           9         and here you would need in that. You can start we would be         Softwarmet.         A. Yes.           9         and here you would need in that. You can start we would be         Softwarmet.         A. Yes.           9         and here you would need in that. You can start we would be         The start and that's the start and and any more.           9         and here you would need in the start.         The start and here as on presented, that the           9         Pacifies question that. There are problems.         BY MR. GALLEGOS:         M. Coase was presented, that the           9         Pace 149         Thank you.         A. If there is a method and her that ar		Page 146	P	age 148
a         A. Well, this's right.         3         C. Guickly, maybe this will answer the question.           a         D. In the meanwhile, like you said, you may have a better use for your money?         A. Wall, that's corned. That's always the case.         But we're talked about that study other than you?           a         A. Wall, that's corned. That's always the case.         A. Yes.         C. Guickly, maybe this will answer the question.           besins, as Ive said, where we might force pool 40         A. Yes.         A. Yes.           and he's successful, then he guy who         A. Yes.         A. Yes.           and he's force pooling. And that's an example         M. B. BRUCE: If that's the case, I don't need to ask anymore.           as the you would need unitization force pooling. So to speak, and we don't have that. There are problems.         BY CHAIRMAN CATANACH:           But this circumstances where he would be the read of the 30 percent, which is listly to pay out, gives that are that case.         BY CHAIRMAN CATANACH:           But this circumstances where he would be the read of the 30 percent, which is listly to pay out, gives that are that case was presented, that the fourt the marged a 20 percent.           But this circumstances what the that the set was presented, that the fourt the marged a 20 percent.         Full that case.           But the circumstances was presented, that the set wase that the that case was presented, that the set was pr	1	rewarded for that.	1 RECROSS EXAMINATION	
4         0. In the meanwhile, like you said, you may have a         5         But we've talked about this study. Is someone else           5         botter use for your monop?         A. Well, that's correct. That's always the case.         7         C. Okay. Well, that's dou't this study. Its every of the tait study other than you?           7         A. Well, that's correct. That's always the case.         7         C. Okay. Well, then the study that we't don?           8         basins, as live said, where we might force pool 40         C. Okay. Well, then the study that we'e don?           9         out he's benefited from that, You can't solve every         O. Yes.           9         out his study that we'e don?           9         problem by this force pooling, and thet's an example           10         A. Yes.           11         A. Yes.           12         problem by this force pooling, and thet's an example           13         Betthis circumstances where he voluit be           14         Q. Thank you.           15         Delive that after that case wars as presented, that the           16         That's all litis study the's the case.           17         Fuiltand coal well started to be charged a 200 percent.           18         A. Fork.           19         MR. GALLEGOS:           10         A. I do	2	Q. But only if it pays out?	2 BY MR. BRUCE:	
Setter use for your money?         going to talk about that study other than you?           A. Well, that's correct. That's always the case.         A. Well, that's correct. That's always the case.           Ite determine the control of the short of the correct of the short of the correct.         A. Yes.           Ite determine the control of the short of the correct.         A. Yes.           Ite determine the control of the short of the correct.         A. Yes.           Ite determine the control of the short of the correct.         M. RECCE:           Ite determine the control of the short of the correct.         M. RECCE:           Ite determine the control of the short of the short of the correct.         M. Second the short of the correct.           Ite determine the control of the short o	3	A. Well, that's right.	<sup>3</sup> Q. Quickly, maybe this will answer the que	stion.
6       A. Well, that's correct. That's always the case.       7       A. Yes.         7       Two drilled wells in the rank wildcat       7       O. Okay. Well, then I think         8       basins, as Ive said, where we might force pool 40       acres, and if we're successful, then the guy who       7       O. Okay. Well, then I think         10       and he's benefited from that. You can't solve every       10       A. Yes.         11       and he's benefited from that. You can't solve every       10       A. Yes.         12       problem by this force pooling, and that's an example       10       A. Yes.         13       Buth is circurshaces where he would be       10       A. Yes.         14       goves him reward for having taken the risk.       10       A. Yes.         15       Buth is circurshace where he would be       10       A. Iden't operate up in that area. I don't know.         15       Trip just toking attherest, J just wart -       20       A. I don't operate up in that area. I don't know.         16       Freezeta for the well being the 1504.22 acres, west       10       A. I don't operate up in that area. I don't know.         17       Freithances tailing about the, itherest, a lawas the', it was the'       20       A. I don't operate up in that area. I don't know.         18       A. Fres. But is action as a procee	4	Q. In the meanwhile, like you said, you may have a	4 But we've talked about this study. Is someone	else
1       1       0       Okay. Well, then I think –         8       basins, as Ive said, where we might force pool 40       a. You mean the study that welve done?         9       0. Okay. Well, then I think –         10       nonconsented owns part of the 10,000 acres around here         11       more base benefied from that, You carris solve every       MR. BRUCE: If that's the case, I don't         12       problem by this force pooling. And that's an example       MR. BRUCE: If that's the case, I don't         13       where you would need a unitization force pooling, so to       BY MR. GALLEGOS:         14       Provided for the 30 percent, which is likely to pay out,       Provided for the 30 percent here is a there are problems.         14       Provided for the 30 percent, which is likely to pay out,       Provided for the 30 percent.         15       Delive that after that case was presented, that the fike.         16       Delive that after that case.       I don't hown, that were tail started to be charged a 200 percent.         17       That's we for the well being the 1504.22 acres, west       A. I for the solve as projec scores, is there an attachment to it?         16       Delive that after inde case.       Page 149         17       A. Right.       A. If there is a method other than just the and was then thrown.         17       Delive that after inde case. <td< th=""><th>5</th><th>better use for your money?</th><th>5 going to talk about that study other than you?</th><th></th></td<>	5	better use for your money?	5 going to talk about that study other than you?	
<ul> <li>basins, as live said, where we might force pool 40</li> <li>arces, and if were successful, then the guy who</li> <li>nonconsented owns part of the 10,000 acres around here</li> <li>and he's benefited from that. Tore are problems.</li> <li>but this circurstances where he would be</li> <li>frewarded for the 30 percent, which is likely to pay out,</li> <li>gives that a rest or the 30 percent, which is likely to pay out,</li> <li>gives that a rest or the 30 percent, which is likely to pay out,</li> <li>gives that a rest or the 30 percent, which is likely to pay out,</li> <li>gives that a feer that case was presented, that the</li> <li>Truitiant coal well started to be charged a 200 percent risk penalty. That's my recollection on it, and I think</li> <li>that's decase, I'm on sure that</li> <li>gives that if heres, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>Padilla's question about the interest, I just wart -</li> <li>A. For the Bone Spring yes.</li> <li>A. For the Bone Spring yes.</li> <li>A. For the Bone Spring yes.</li> <li>A. I so the parties listed. I don't see the working interests of the various parties?</li> <li>A. Hight. I see the schedule.</li> <li>A. You more yas page, Mr. Yates.</li> <li>A. You sub staid. Thore was the parties listed.</li> <li>A. Tes this findinating).</li> <li< th=""><th>6</th><th>A. Well, that's correct. That's always the case.</th><th>6 A. Yes.</th><th></th></li<></ul>	6	A. Well, that's correct. That's always the case.	6 A. Yes.	
9       acres, and if were successful, then the guy who       9       Q. Yes.         10       nonconsented owns part of the 10,000 acres around here       10       A. Yes.         11       more be benefited from that. You carrie solve every       11       meed to ask anymore.         12       where you would nead a unitization force pooling, and that's an example       11       meed to ask anymore.         12       where you would nead a unitization force pooling, so to       12       meed to ask anymore.         13       where you would nead a unitization force pooling, so to       13       RECOSS EXAMINATION         14       BY CHAIRMAN CATANACH:       Q. Just one comment. On the Stogner case, I       14         14       BY CHAIRMAN CATANACH:       16       believe that after that case was presented, that the         15       Data to comment. On the Stogner case, I       16       believe that after that case was presented, that the         16       Mater would be       17       Trisk ponsity. That's merses, I and think       17         17       Problem by this creaced to having taken the risk.       17       17       18       11       A. I don't operate up in that area. I don't know.         12       NE Specific TEXAMINATION       12       11       A. I don't operate up in that area. I don't know.         12 </th <th>7</th> <th>I've drilled wells in the rank wildcat</th> <th></th> <th></th>	7	I've drilled wells in the rank wildcat		
10       nonconsented owns part of the 10,000 acres around here and help by this force pooling. And that's an example where you would need a unitization force pooling, so that's an example where you would need a unitization force pooling, so that's an example they speak, and we don't have that. There are problems.       10       A. Yes.         13       Where you would need a unitization force pooling, so that we that 's correst.       13       RECROSE SCMINATION         14       speak, and we don't having taken the risk.       16       Fuel Correst of having taken the risk.         15       But this circumstances where he would be travarded for the 30 percent, which is likely to pay out, where you would need a unitization force pooling. And the risk.       16         16       Thank you.       17       Furtilata coale well started to be charged a 200 percent risk penaly. That's my recollection on it, and I think that's correct.         12       REDIRECT EXMINATION       20       0. So if that's the case, I mot sure that         21       Padila's question about the interest. Just want -       21       11       A. I don't operate up in that area. I don't know.         22       Page 147       Page 149       23       Stogner's method can be used as a precedent - a precedent - a precedent - a full may be one part is method was then thrown out by that case.         23       A. For the Bone Spring. Yes.       A. I don't necall there beare and allow parts the case	8	basins, as I've said, where we might force pool 40	<sup>8</sup> A. You mean the study that we've done?	
11       and he's benefited from that. You can't solve every problem by this force pooling. And that's an example to problem by this force pooling. And that's an example to ask anymore.       11       MR. BRUCE: If that's the case, I don't need to ask anymore.         12       meeded a unitization force pooling.       11       MR. BRUCE: If that's the case, I don't need to ask anymore.         13       where you would need a unitization force pooling.       11       MR. BRUCE: If that's the case, I don't need to ask anymore.         14       speak, and we don't have that. There are problems.       11       MR. BRUCE: If that's the case, I don't need to ask anymore.         15       But this circumstances where he would be gives him a reward for having taken the risk.       11       NR CALLEGOS:         16       rewarded for the 30 percent, which is likely to pay out, gives him a reward for having taken the risk.       11       A. I don't operate up in that area. I don't know.         17       Padell's question abut the interest, i just want -       12       A. I don't operate up in that area. I don't know.         18       MR. GALLEGOS:       24       Q. Just quickly, if you look at Exhibit 5A in the stopper case, Im not sure that stopper company.       25         19       project area for the well being the 1504.22 acres, west       1       A. If there is a method other than just the automatic imposition of risk, what we're taking about, i would appreciate being guideot to hak. It haven't found. <td< th=""><th>9</th><th>acres, and if we're successful, then the guy who</th><th>9 <b>Q. Yes.</b></th><th></th></td<>	9	acres, and if we're successful, then the guy who	9 <b>Q. Yes.</b>	
12       problem by this force pooling. And that's an example       12       need to ask anymore.         13       where you would need a unilization force pooling, so to       13       RECROSS EXAMINATION         14       speak, and we don't have that. There are problems       14       RECROSS EXAMINATION         15       But this circumstances where he would be       15       0. Just one comment. On the Stogner case, I         15       Brown of the 30 percent, which is likely to pay out,       16       believe that after that case was presented, that the         16       Trains question about the interest, I just wan the       16       believe that after that case, im not sure that         17       Padillas question about the interest, I just wan the       20       A. I don't operate up in that area. I don't know.         18       Matador book, was this a proposal for the Airstrip       23       Stogner's method can be used as a precedent - a         19       project area for the well being the 1504.22 acres, west       A. If there is a method other than just the         14       A. For the Bone Spring, yes.       A. If there as any kind of detailed examination         19       A. Yes. But just taiking about that, that was       10       A. And having been here 25 years prior to my         16       Interests of the various parties?       11       A. If there as anymore.       11     <	10	nonconsented owns part of the 10,000 acres around here		
Production         Proceedings of the transmission force pooling, so to speak, and we don't have that. There are problems.         Proceedings of the transmission force pooling, so to speak and we don't have that. There are problems.           Image: State of the	11	and he's benefited from that. You can't solve every	-	
14       speak, and we don't have that. There are problems.         14       speak, and we don't have that. There are problems.         15       But this circumstances where he would be         16       reward of this 30 percent, which is likely to pay out,         17       gives him a reward for having taken the risk.         19       MR. GALLEGOS: Mr. Chairman, I know we're         19       MR. GALLEGOS: Mr. Chairman, I know we're         19       Padilla's question about the interest, I just wan -         20       REDIRECT EXAMINATION         21       Padilla's question about the interest, I just wan -         22       A. Dust quickly, if you look at Exhibit SA in the         23       A. For the Bone Spring, yes.         4       Q. Just quickly, if you look at Exhibit SA in the         24       D. Just quickly, if you look at Exhibit SA in the         25       Watador book, was this a proposal for the Airstrip         26       A. For the Bone Spring, yes.         3       A. For the Bone Spring, yes.         4       Q. Yes. But just taking about that, that was         5       the attachment to it?         7       Q. Okay. if you turn the page over, is there an         8       attachment to it?         9       A. Ise the parites listed. I don't see t				
15       But this circumstances where he would be rewarded for the 30 percent, which is likely to pay out, gives him a reward for having taken the risk.       15       C. Just one comment. On the Stogner case, I believe that after that case was presented, that the Fruitland coal well started to be charged a 200 percent risk penalty. That's my recollection on it, and I think that's correct.         10       MR. GALLEGOS:       16         21       Padilla's question about the interest, I just want Padilla's question about the interest, I just want REDIRECT EXAMINATION       22       A. I don't operate up in that area. I don't know.         22       REDIRECT EXAMINATION       22       C. Just quickly, if you look at Exhibit 5A in the Matador book, was this a proposal for the Airstrip       23       Stogner's method can be used as a precedent - a precedent-setting nature if his method was then thrown out by that case.         2       Page 147       Page 149         1       project area for the well being the 1504.22 acres, west half-west half, in Section 31?       A. If there is a method other than just the automatic imposition of 200 percent, I mean, a definition of risk, what we're taiking about, I would appreciate being guided to that. I haven't found it.         7       Q. Okay. If you turn the page over, is there an attachment to it?       A. If there is a method other than just the automatic imposition of 200 percent, and the basis was even though the Fruitland coal was there, it might not necessarily pan out very time. So, therefore, the penalty was increased back up.         10       Q. And does the attachment show				
Participation       Participation       Participation         16       rewarded for the 30 percent, which is likely to pay out, gives him a reward for having taken the risk.       16       believe that after that case was presented, that the Participation about the interest.         18       Q. Thank you.       18       believe that after that case was presented, that the Participation about the interest.         19       MR. GALLEGOS:       A. I don't operated up in that area.       10 of that's the case, i'm not sure that         20       REDIRECT EXAMINATION       20       A. I don't operated up in that area.       10 of that's the case, i'm not sure that         21       Padilla's question about the interest.       just was that after that case was presented, that the       11         22       REDIRECT EXAMINATION       22       A. I don't operated up in that area.       10 of that's the case, i'm not sure that         23       BY MR. GALLEGOS:       A. I don't operate up in that area.       10 of that's the case, i'm not sure that         24       Q. Just quickly, if you look at Exhibit 5A in the       23       Stogner's method can be used as a precedent - a         25       Matador book, was this a proposal for the Airstrip       24       A. If there is a method other than just the         2       half-west half, in Section 31?       A. If there is a method other than just he       automatic imposition of 20 percent, I				
17       gives him a reward for having taken the risk.         18       Q. Thank you.         19       MR. GALLEGOS: Mr. Chairman, I know we're         10       risk penalty. Tha's my recollection on it, and I think         18       Q. Thank you.         19       MR. GALLEGOS: Mr. Chairman, I know we're         11       Padilla's question about the interest, I just want         12       REDRECT EXAMINATION         23       BY MR. GALLEGOS:         24       Q. Just quickly, if you look at Exhibit 5A in the         25       Matador book, was this a proposal for the Airstrip         26       A. If there is a method other than just the         27       A. For the Bone Spring, yes.         28       Landar beore Spring, yes.         29       A. Right.         29       A. Right.         20       O. Kay. If you turn the page over, is there an         21       interests of the various parties?         21       I uro the very last page, Mr. Yates.         21       A. I see the parties listed. I don't see the         22       A. I see the parties listed. I don't see the         24       A. Chay. Okay.         25       Matacharbox obay. Hyou turn the page over, is there an         36       A				
18       Q. Thank you.       18       MR. GALLEGOS:       18       risk penalty. That's my recollection on it, and I think that's correct.         20       trying log edit out of here, but apropos Commissioner       19       1       10       10         21       Padilla's question about the interest, I just want       2       REDIRECT EXAMINATION       20       So if that's the case, I'm not sure that         23       BY MR. GALLEGOS:       20       So if that's the case, I'm not sure that         24       Q. Just quickly, if you look at Exhibit 5A in the       24       So if that's the case, I'm not sure that         25       Matador book, was this a proposal for the Airstrip       24       So if that's the case, I'm not sure that         26       Page 147       Page 149       The project area for the well being the 1504.22 acres, west       1       A. If there is a method other than just the         25       automatic imposition of 200 percent, I mean, a       definition of risk, what we're talking about, I would       appreciate being guided to that. I haven't found it.         3       A. For the Bone Spring, yes.       1       A. If there is a method call that' thawat       4         4       Q. Yes. Un-huh.       1       4       appreciate being guided to that. I haven't found it.       4         7       Q. Okay. If you turn the page over, is there			<b>-</b>	
19       MR. GALLEGOS: Mr. Chairman, I know we're         20       trying to get out of here, but apropos Commissioner         21       Padilla's question about the interest, I just want         22       REDIRECT EXAMINATION         23       BY MR. GALLEGOS:         24       Q. Just quickly, if you look at Exhibit 5A in the         25       Matador book, was this a proposal for the Airstrip         26       Page 147         27       Page 147         28       Page 147         29       A. If there is a method other than just the automatic imposition of 200 percent, I mean, a         29       A. If there is a method other than just the automatic imposition of 200 percent, I mean, a         20       Okay. If you turn the page over, is there an         21       A. Right.         20       A. Yes. Un-huh.         21       A. I see the parties listed. I don't see the         22       A. I see the parties specifically.         32       A. Ves. Un-huh.         33       A. Fits the is (indicating).         44       Chay. Okay.         34       Turn to the very last page, Mr. Yates.         35       A. See the parties listed. I don't see the         34       Othis this (indicating).         35		•	······································	-
20       trying to get out of here, but apropos Commissioner         21       Padila's question about the interest, 1 just want         22       REDIRECT EXAMINATION         23       BY MR, GALLEGOS:         24       Q. Just quickly, if you look at Exhibit 5A in the         25       Matador book, was this a proposal for the Airstrip         26       A. Idon't operate up in that area. I don't know.         27       REDIRECT EXAMINATION         28       Q. Just quickly, if you look at Exhibit 5A in the         29       Matador book, was this a proposal for the Airstrip         20       No for the Bone Spring, yes.         20       A. For the Bone Spring, yes.         21       Q. And having been here 25 years prior to my latest term, 1 don't necall it ever being an issue         21       A. Gottue attachment to it?         22       A. Ise the parties listed. I don't see the         23       BRUCE: Mr. Chairman, I believe you're right. It do go up to 200 percent, and the basis was even though the Fruitland coal was there, it might not not every time. So, therefore, the penalty.         23       A. Okay. Okay.         24       A. It's the schedule.         25       A. Okay. Okay.         26       A. It's the schedule.         27       A. Yes, I do see it. <t< th=""><th></th><th>-</th><th></th><th>l think</th></t<>		-		l think
21       Padilla's question about the interest, i just wart         22       REDIRECT EXAMINATION         23       BY MR, GALLEGOS:         4       Q. Just quickly, if you look at Exhibit 5A in the         25       Matador book, was this a proposal for the Airstrip         7       Page 147         8       Page 147         9       A. For the Bone Spring, yes.         4       Q. Yes. But just taking about that, that was         5       the - that's the land area involved, the west half?         6       A. Right.         7       Q. Okay. If you turn the page over, is there an         attachment to it?       A. Ise the paties listed. I don't see the         9       A. Yes. Uh-huh.         10       Q. Turn to the very last page, Mr. Yates.         14       Q. Turn to the very last page, Mr. Yates.         15       A. Okay. Okay.         16       Q. Krs this (indicating).         17       A. Sight. I see the schedule.         19       A. Yes. Uh-huh.         10       C. Mark does it show for Jalapeno's         11       interests specifically.         12       A. Right. I see the schedule.         19       A. Ves. I. do see it.         10       C. Krs				
22       REDIRECT EXAMINATION       22       Q. So if that's the case, I'm not sure that         23       BYMR, GALLEGOS:       24       Q. Just quickly, if you look at Exhibit 5A in the         24       Q. Just quickly, if you look at Exhibit 5A in the       24       precedent-setting nature if his method was then thrown         25       Matador book, was this a proposal for the Airstrip       24       Page 147       Page 147         1       project area for the well being the 1504.22 acres, west       1       A. For the Bone Spring, yes.       1       A. If there is a method other than just the         3       A. For the Bone Spring, yes.       1       A. Right.       2       3         4       Q. Yes. But just talking about that, that was       4       automatic imposition of 200 percent, 1 would       appreciate being guided to that. I haven't found it.         5       the - that's the land area involved, the west half?       Q. And having been here 25 years prior to my       Iatest term, I don't recall it ever being an issue         6       A. Right.       1       M. BruCE: Mr. Chairman, I believe you're         7       A. Set ub-huh.       10       A. Uh-huh.       11         11       Interests of the various parties?       12       A. Is be the attachment show the working       13         13       working interests specific			· · · · · · · · · · · · · · · · · · ·	•
23       BY MR. GALLEGOS:         24       Q. Just quickly, if you look at Exhibit 5A in the         25       Matador book, was this a proposal for the Airstrip         26       Page 147         27       Page 147         28       Page 147         29       Page 147         20       Page 147         21       project area for the well being the 1504.22 acres, west         23       A. For the Bone Spring, yes.         3       A. For the Bone Spring, yes.         4       Q. Yes. But just talking about that, that was         5       the - that's the land area involved, the west half?         6       A. Right.         7       Q. Okay. If you turn the page over, is there an         8       attachment to it?         9       A. Yes. Un-huh.         10       Q. And does the attachment show the working interests of the various parties?         11       A. Isee the parties listed. I don't see the socking interests specifically.         14       Q. Turn to the very last page, Mr. Yates.         15       A. Okay. Okay.         16       Q. It's the schedule.         17       A. Yes, I do see it.         18       Q. Kay. What does it show for Jalapeno's         118				
24       Q. Just quickly, if you look at Exhibit 5A in the       24       precedent-setting nature if his method was then thrown out by that case.         25       Matador book, was this a proposal for the Airstrip       25       precedent-setting nature if his method was then thrown out by that case.         1       project area for the well being the 1504.22 acres, west       1       A. If there is a method other than just the         2       half-west half, in Section 31?       2       automatic imposition of 200 percent, I mean, a         3       A. For the Bone Spring, yes.       3       definition of risk, what we're talking about, I would         4       Q. Yes. But just talking about that, that was       4       appreciate being guided to that. I haven't found it.         5       the - that's the land area involved, the west half?       5       Use and the attachment is the end attachment to it?         8       attachment to it?       8       time I recall there was any kind of detailed examination of the risk penalty.         10       Q. And does the attachment show the working       M. B. B. UCCE: Mr. Chairman, I believe you're right. It did go up to 200 percent, and the basis was even though the Fruitland coal. Mas there, it might not necessarily pan out every time. So, therefore, the penalty was increased back up.         11       interests of the vary last page, Mr. Yates.       16         13       Working interests specifically.       17				-
25       Matador book, was this a proposal for the Airstrip       25       out by that case.         Page 147         A for the well being the 1504.22 acres, west         1         A for the Bone Spring, yes.         3         A For the Bone Spring, yes.         4         A for the Sin Spruthal Coal. That's the only         time treacist into for the various parties?         A.				
Page 147       Page 147         1       project area for the well being the 1504.22 acres, west       1       A. If there is a method other than just the         2       half-west half, in Section 31?       2       automatic imposition of 200 percent, 1 mean, a         3       A. For the Bone Spring, yes.       3       definition of risk, what we're talking about, 1 would         4       Q. Yes. But just talking about that, that was       4       appreciate being guided to that. 1 haven't found it.         5       the - that's the land area involved, the west half?       5       Q. And having been here 25 years prior to my         6       A. Right.       6       A. Making about, 1 would       appreciate being guided to that. 1 haven't found it.         7       Q. Okay. If you turn the page over, is there an       7       except in the Basin Fruitland coal. That's the only         8       attachment to it?       9       of the risk penalty.       A. Uh-huh.         9       A. A does the attachment show the working       10       A. Uh-huh.       11         11       interests of the various parties?       11       MR. BRUCE: Mr. Chairman, I believe you're       right. It did go up to 200 percent, and the basis was         12       A. Ise the parties listed. I don't see the       12       right. It did go up to 200 percent, and the basis was			······································	en thrown
1       project area for the well being the 1504.22 acres, west       1       A. If there is a method other than just the automatic imposition of 200 percent, I mean, a         3       A. For the Bone Spring, yes.       3       definition of risk, what we're talking about, I would appreciate being guided to that. I haven't found it.         4       Q. Yes. But just talking about that, that was       4       appreciate being guided to that. I haven't found it.         5       the that's the land area involved, the west half?       6       A. Right.       7         6       A. Right.       0. Okay. If you turn the page over, is there an attachment to it?       7       0. And hoors the attachment show the working         1       attachment to it?       8       time I recall there was any kind of detailed examination of the risk penalty.         1       Q. And boes the attachment show the working       10       A. Uh-huh.         11       interests of the various parties?       11       M. BRUCE: Mr. Chairman, I believe you're right. It did go up to 200 percent, and the basis was even though the Fuiltand coal was there, it might not necessarily pan out every time. So, therefore, the penalty was increased back up.         12       A. Okay. Okay.       16       CHAIRMAN CATANACH: Okay.         14       Q. Turn to the very last page, Mr. Yates.       14       percentages do relate to the entire 634 acres, which is on the first page of that. <td< th=""><th>20</th><th>Matauor book, was this a proposal for the Airstrip</th><th>2.5 Out by that case.</th><th></th></td<>	20	Matauor book, was this a proposal for the Airstrip	2.5 Out by that case.	
2half-west half, in Section 31?2automatic imposition of 200 percent, I mean, a3A. For the Bone Spring, yes.3definition of risk, what we're talking about, I would4Q. Yes. But just talking about that, that was4appreciate being guided to that. I haven't found it.5the that's the land area involved, the west half?6A. Right.6A. Right.7Q. Okay. If you turn the page over, is there an78attachment to it?6A. Yes. Un-huh.9A. Yes. Un-huh.7Werking interests of the various parties?10Q. And does the attachment show the working10A. Uh-huh.11interests of the various parties?11MR. BRUCE: Mr. Chairman, I believe you're12A. I see the parties listed. I don't see the12right. I t did go up to 200 percent, and the basis was13working interests specifically.14R. BRUCE: Mr. Chairman, I believe you're14Q. Turn to the very last page, Mr. Yates.14necessarily pan out every time. So, therefore, the15A. Okay. Okay.16CHAIRMAN CATANACH: Okay.16Q. It's the schedule.17COMMISSIONER PADILLA: I have one point18Q. It's the schedule.19Mr. Gallegos just said. Those working interests20Q. Okay. What does it show for Jalapeno's20percentages do relate to the entire 634 acres, which is19A. Right. I see the schedule.19Mr. Gallegos: just said. Those working interests21intere		Page 147	Pa	age 149
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<sup>25</sup> MR. GALLEGOS: Apparently, yeah.	7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	<ul> <li>A. Right.</li> <li>Q. Okay. If you turn the page over, is there an attachment to it?</li> <li>A. Yes. Uh-huh.</li> <li>Q. And does the attachment show the working interests of the various parties?</li> <li>A. I see the parties listed. I don't see the working interests specifically.</li> <li>Q. Turn to the very last page, Mr. Yates.</li> <li>A. Okay. Okay.</li> <li>Q. It's this (indicating).</li> <li>A. Yes, I do see it.</li> <li>Q. It's the schedule.</li> <li>A. Right. I see the schedule.</li> <li>Q. Okay. What does it show for Jalapeno's interest?</li> <li>A. It's 5 percent, 5.097063.</li> <li>Q. That's all I was just trying to</li> </ul>	6       latest term, I don't recall it ever being an issue         7       except in the Basin Fruitland coal. That's the         8       time I recall there was any kind of detailed exc         9       of the risk penalty.         10       A. Uh-huh.         11       MR. BRUCE: Mr. Chairman, I believe y         12       right. It did go up to 200 percent, and the basis y         13       even though the Fruitland coal was there, it might         14       necessarily pan out every time. So, therefore, the         15       penalty was increased back up.         16       CHAIRMAN CATANACH: Okay.         17       COMMISSIONER PADILLA: I have or         18       just for the Commissioners with regard to what         19       Mr. Gallegos just said. Those working interests         20       percentages do relate to the entire 634 acres, with         21       on the first page of that.         22       MR. GALLEGOS: Well         23       COMMISSIONER PADILLA: So it's the	e my e only amination you're was nt not ne ne point hich is
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# 38 (Pages 146 to 149)

1         COMMISSIONER PADILLA: What about the 13th, 15 witherses?           3         MR_ BRUCE: No. Mr. Gallegos - Therent consulted with stimulation to table lanch. Just the timing, it doesn't lock like weigring tog dt dono today.         MR_ CalLEGOS: I'm not. I'm out of town. CHAIRMAN CATANACH: Doesn't lock like it, ono.           4         MR_ BRUCE: And probably, with the next two witnesses: weiter and going to get through the next two witnesses: weiter and going to get through the next two iteration within the next oup of the record.)         MR_ CalLEGOS: I'm not. I'm out of town. CHAIRMAN CATANACH: Doesn't lock like it, iteration weiter and going to get through the next two witnesses: weiter and going to get through the next two iteration within the next oup of weeks for just a continuance of this hearing.         COMMISSIONER PADILLA: I'm open the 20th. 21st and 22nd-sh. (Discussion of the record.)           13         MR_ BRUCE: Mail, I'man, if there is a discussion of the record.)         COMMISSIONER PADILLA: I'm open the 20th. 21st and 22nd-sh. (Discussion of the record.)           26         MR_ GALLEGOS: I'm out of town almost all 21 of next week or maybe the following week. week - this Friday, or the week after. COMMISSIONER PADILLA: Friday, the 9th, yeah.         COMMISSIONER PADILLA: Yes, Friday morning. (MR_ BRUCE: Yes, And MK, Singlion can bearing.         1 strate OF NEW MEXICO 20         STATE OF NEW MEXICO 20           23         COMMISSIONER PADILLA: Friday, the 9th, yeah.         1 mR_ BRUCE: Yes, And MK, Singlion can strate oppring proceedings in strates oppring proceedings in strates oppring proceedings in strates oppring proceedings in strates oppring proceadings in strates oppring proceedings in strates o	1	Page 150		Page 152
1     this witness?     1		CHAIRMAN CATANACH: Anything further of	1	COMMISSIONER PADILLA: What about the 13th,
4         Mr. Gallegos - I haven't consulted with         Friday.         Friday.           5         him, but ifs 1230, and I presume the Commissioners are going to get done today.         MR. GALLEGOS: I'm not. I'm out of town.           7         ILike were going to get done today.         MR. GALLEGOS: I'm not. I'm out of town.           7         ILike were going to get done today.         MR. GALLEGOS: I'm not. I'm out of town.           7         MR. BRUCE: And probably, with the next two         MR. BRUCE: Maint Matadori is sevilable next           10         COMMISSIONER PADILLA: I'm on there not week week or within the next couple of weeks for just a         I'm - and this is if you can't get out of that, well           11         CHAIRMAN CATANACH: I am not here next week         I'm - and this is if you can't get out of that, well           12         COMMISSIONER PADILLA: I'm ord town almost all         I'm change it back to the fine meass until we resume this           13         COMMISSIONER BALCH: This Friday, all the         20           14         COMMISSIONER PADILLA: Yes, Friday morning.         I'm change it ack to the access until we researme this           14         COMMISSIONER PADILLA: Yes, Friday morning.         I'm change it ack to the head ord accurately reflects           15         Commissioners are available?         Commissioners are available?         I'm cass and that the forcogoing pages are at the and towe nowe alty meads	2		2	14th of September?
s         Im. but if's 12.30, and i presume the Commissioners are ging to take lunch. Just the timing, it doesn't look like we're ging to get done today.         MR. GALLEGOS: In nacl. Im. aud of town.           iii         CHAIRMAN CATANACH: Doesn't look like it, no.         MR. GALLEGOS: In fact. I'm leaving tomorrow.           iii         CHAIRMAN CATANACH: Doesn't look like it, no.         MR. GALLEGOS: In fact. I'm leaving tomorrow.           iii         MR. BRUCE: And probably with the next two witnessee.         What about the week of September 19th? COMMISSIONER BALCH: I'm not really available next tomorrow.           iii         MR. BRUCE: Well, Imean, if there is a nearing next week I think Matador is available next week within the next couple of weeks for just a continuance of this hearing.         Im. CALLEGOS: In not. I'm out of two the addition is available next the sing stage of the record.)           iii         MR. BRUCE: Well, Imean, if there is a nearing.         Immon there next continuance of this hearing.         Immon there next the sing stage of the record.)           iii         MR. BRUCE: Maybe Friday or earlier next week - MR. BRUCE: Maybe Friday or earlier next week - MR. BRUCE: Yeah (aughter).         CHAIRMAN CATANACH: All right. I guess with that, we stand in recess until we resume this hearing.           iii         COMMISSIONER BALCH: Two of us have prior - COMMISSIONER BALCH: Two of us have prior - CHAIRMAN CATANACH: Abad one?           iii         MR. BRUCE: Yeah (aughter). CHAIRMAN CATANACH: Abad one?           iiiiii         CERTIFICATE OF COURT REPORTER I weat	3	MR. BRUCE: No.	3	MS. ARNOLD: No. You're not available on
6       going to take lunch. Just the timing, it doesn't look       6       CHAIRMAN CATANACH: Friday.         7       B       CHAIRMAN CATANACH: Doesn't look like it,       7       MR. BRUCE: And probably, with the next two         8       OCHAIRMAN CATANACH: Doesn't look like it,       7       MR. BRUCE: And probably, with the next two         10       MR. BRUCE: Mell, Imean, if there is a       14       COMMISSIONER BALCH: I'm not neally         11       MR. BRUCE: Well, Imean, if there is a       14       COMMISSIONER BALCH: I'm not really         12       continuance of this hearing.       CHAIRMAN CATANACH: All the moment, for the         13       Continuance of this hearing.       CHAIRMAN CATANACH: All the moment, for the         14       MR. BRUCE: Maybe Friday or areadiable next       16         15       Week - this Friday or the week aftar.       16         16       Week - this Friday or the week aftar.       16         17       COMMISSIONER PADILLA: Friday, the 9th,       24         18       COMMISSIONER PADILLA: Friday, the 9th,       24         19       COMMISSIONER PADILLA: Friday, the 9th,       24         14       COMMISSIONER PADILLA: Friday, the 9th,       24         15       COMMISSIONER PADILLA: Friday, the 9th,       24         16       COMMISSIONER	4	Mr. Gallegos I haven't consulted with	4	Friday.
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11       witnesses we're not going to get through the next two       11       21st and 22n/sih.         12       witnesses.       COMMISSIONER BALCH: Tim not really         13       (Discussion of the record.)       13         14       MR. BRUCE: Weil, Imean, if there is a         15       thearing next week1 think Matado is available next       14         16       week or within the next couple of weeks for just a       15         17       continuance of this hearing.       16         18       CHAIRMAN CATANACH: I am not here next week       18         19       at all.       MR. GALLEGOS: I'm out of town almost all       10         20       MR. BRUCE: Maybe Friday or earlier next       24       CAMRMAN CATANACH: All right. I guess         24       COMMISSIONER BALCH: This Friday, all the       24       CAMRMAN CATANACH: All right. I guess         24       COMMISSIONER PADILLA: Friday, the 9th,       24       24         25       COMMISSIONER PADILLA: Yes, Friday morning.       1       STATE OF NEW MEXICO         26       COMMISSIONER PADILLA: Yes, Friday morning.       1       STATE OF NEW MEXICO         26       COMMISSIONER PADILLA: Yes, Friday morning.       1       STATE OF NEW MEXICO         27       COMMISSIONER PADILLA: Yes, Friday morning.	9	no.	9	What about the week of September 19th?
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Participant Construction         Participant Construction         Participant Construction           14         MR, BRUCE: Well, Imean, if there is a         14         Charman Construction           15         hearing next week - 1 think Matador is available next         15         CHARMAN CATANACH: At the moment, for the transmitter or well is the construction of this is fly ou can't get out of that, well           16         week or within the next couple of weeks for just a         16         Charman AnACH: At the moment, for the transmitter or well           17         continuance of this hearing.         17         Charman AnACH: At the moment, for the transmitter or well           18         and ITh.         17         Charman AnACH: At the moment, for the transmitter or or softward in the record i	12		12	COMMISSIONER BALCH: I'm not really
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1       COMMISSIONER PADILLA: Friday, the 9th,       1       STATE OF NEW MEXICO         2       yeah.       2       COMMISSIONER PADILLA: Yes, Friday morning.       3         4       COMMISSIONER PADILLA: Yes, Friday morning.       4       CERTIFICATE OF COURT REPORTER         6       (Consultation off the record.)       7       COMMISSIONER BALCH: Two of us have       7         7       COMMISSIONER BALCH: Two of us have       7       and Registered Professional Reporter, do hereby certify         8       prior -       9       CHAIRMAN CATANACH: Did you file a       10         10       de novo?       11       MR. BRUCE: Yeah (laughter).       11         12       CHAIRMAN CATANACH: A bad one?       13       I FURTHER CERTIFY that the Reporter's         13       MR. BRUCE: Yeas. And Mr. Singleton can       15       He exhibits, if any, offered by the respective parties.         14       confirm this, but there are expiring term assignments,       15       FURTHER CERTIFY that the Reporter's         16       couple of months to recongregate or even, I suppose       18       attorwys in this case.         17       You know, I would guess we would need       10       MAR YC. HANKINS, CCR, RPR         18       another half day, Mr. Gallegos?       20         19       MR.				
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5       What about your afternoon?       I, MARY C. HANKINS, Certified Court         6       (Consultation off the record.)       Reporter, New Mexico Certified Court Reporter, do hereby certify         7       COMMISSIONER BALCH: Two of us have       Reporter, New Mexico Certified Court Reporter, do hereby certify         8       prior       9       CHAIRMAN CATANACH: Did you file a       10         10       de novo?       11       MR. BRUCE: Yeah (laughter).       12       CHAIRMAN CATANACH: A bad one?       13         13       MR. BRUCE: Yes. And Mr. Singleton can       14       confirm this, but there are expiring term assignments,       15       et cetera that need to be dealt with, so we can't wait a       17       You know, I would guess we would need       19       I FURTHER CERTIFY that I am neither         17       You know, I would guess?       10       MR. BRUCE: And I did file a de novo,       10       MARY C. HANKINS, CCR, RPR         24       MR. BRUCE: It's the Caza Petroleum, Legacy       24       MARY C. HANKINS, CCR, RPR       12/31/2016	_	MR. BRUCE: Are available?		
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# 39 (Pages 150 to 153)