

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

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

APPLICATION OF MATADOR PRODUCTION COMPANY FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO. CASE NO. 15721

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 22, 2017

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, June 22, 2017, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

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APPEARANCES

FOR APPLICANT MATADOR PRODUCTION COMPANY:

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1 (8:20 a.m.)

2 EXAMINER McMILLAN: Okay. At this time we
3 will start hearing the docket. At this time David
4 Brooks shall be the attorney representing the OCD.

5 I would like to call Case Number 15721,
6 application of Matador Production Company for a
7 nonstandard spacing and proration unit and compulsory
8 pooling, Lea County, New Mexico.

9 Call for appearances.

10 MS. KESSLER: Mr. Examiner, Jordan Kessler,
11 from the Santa Fe office of Holland & Hart, on behalf of
12 the Applicant.

13 EXAMINER McMILLAN: Any other appearances?
14 Please proceed.

15 MS. KESSLER: Two witnesses today,
16 Mr. Examiner.

17 EXAMINER McMILLAN: If the witnesses would
18 please stand up and be sworn in at this time.

19 (Mr. Filbert and Mr. Juett sworn.)

20 MS. KESSLER: May I proceed?

21 EXAMINER McMILLAN: Yes, please.

22 JONATHAN FILBERT,
23 after having been first duly sworn under oath, was
24 questioned and testified as follows:

25

1 DIRECT EXAMINATION

2 BY MS. KESSLER:

3 Q. Please state your name for the record and tell
4 the Examiners by whom you're employed and in what
5 capacity.

6 A. My name is Jonathan Filbert. I work for
7 Matador Resources Company, and I'm a general land
8 manager.

9 Q. Have you previously testified before the
10 Division?

11 A. I have.

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

14 A. They were, yes.

15 Q. Are you familiar with the application filed in
16 this case?

17 A. Yes, I am.

18 Q. Are you familiar with the status of the lands
19 in the subject area?

20 A. Yes, I am.

21 MS. KESSLER: Mr. Examiner, I would tender
22 Mr. Filbert as an expert in petroleum land matters.

23 EXAMINER McMILLAN: For the record, Matador
24 Resources is affiliated with Matador Productions; is
25 that right?

1 THE WITNESS: Yes, sir.

2 EXAMINER McMILLAN: Okay. So qualified.

3 Q. (BY MS. KESSLER) Mr. Filbert, if you'll turn to
4 Exhibit 1 and please explain what Matador seeks under
5 this application.

6 A. Matador seeks to form a 160-acre nonstandard
7 unit. It's comprising of the east half of the west
8 half. All the -- the unit will be dedicated to the
9 Airstrip 31-18 South-35 East RN State Com Number 132H,
10 and we seek to commit all the uncommitted working
11 interest owners.

12 Q. That would be 160-acre nonstandard spacing and
13 proration unit that you're seeking to form; is that
14 correct?

15 A. That's correct.

16 Q. And you seek to pool the uncommitted interest
17 owners in the Bone Spring Formation?

18 A. In the Bone Spring Formation, yes.

19 Q. What is Exhibit 2?

20 A. Exhibit 2 is a plat showing the proration unit,
21 which is the east half of the west half, which is in
22 Section 31, Township 18 South, 35 East, Lea County, New
23 Mexico.

24 Q. And it's the filed C-102 for the Airstrip 132H
25 well; is that correct?

1 A. That's correct.

2 Q. Does the Division designate a pool for this
3 area?

4 A. Yes. It's the Airstrip; Bone Spring Pool.

5 Q. Pool Code 960?

6 A. Yes, 960.

7 Q. Is the pool subject to Division statewide rules
8 for oil wells?

9 A. Yes, it is.

10 Q. So there will be 330-foot setbacks?

11 A. That's correct.

12 Q. Will the well comply with those setback
13 requirements?

14 A. Yes, it will.

15 Q. What is -- is Exhibit 3 an ownership breakdown
16 of the interests within the spacing and proration unit?

17 A. Yes, it is. It shows Matador, you know, with
18 90.6 percent interest. We've reached voluntary joinder
19 with 9.34 percent interest. Also, Jalapeno is part of
20 this voluntary joinder, so they will not be subject to
21 any pooling. We are seeking to pool .05 percent
22 interest for the proration unit.

23 Q. You're seeking to pool the interest ownership?

24 A. Yes, that's correct, the working interest.

25 Q. And they're identified on this exhibit?

1 A. That's correct.

2 Q. And you mentioned that you recently reached a
3 voluntary agreement with Jalapeno?

4 A. That's correct.

5 Q. So they're not subject to any pooling order
6 resulting from this hearing?

7 A. That's correct.

8 Q. Is Exhibit 4 a sample of the well-proposal
9 letter and AFE that you sent to the uncommitted working
10 interest owners?

11 A. That's correct.

12 Q. And a similar letter was sent to all of the
13 interest owners; is that correct?

14 A. That's correct.

15 Q. What date was this letter sent?

16 A. March 8th, 2017.

17 Q. And did it include an AFE?

18 A. It did.

19 Q. Are the costs on the AFE consistent with what
20 other operators in the area charge for similar wells?

21 A. Yes, it is.

22 Q. Has Matador estimated overhead and
23 administrative costs for drilling and producing?

24 A. Yes. It's 7,000 while drilling, 700 while
25 producing.

1 Q. Are those costs in line with what other
2 operators in the area charge for similar wells?

3 A. Yes.

4 Q. Do you ask that those costs be incorporated
5 into any order resulting from this hearing?

6 A. Yes.

7 Q. Do you ask that the costs be adjusted in
8 accordance with COPAS accounting procedures?

9 A. Yes.

10 Q. For any of the uncommitted working interest
11 owners, do you request the Division impose a 200 percent
12 risk penalty?

13 A. Yes.

14 Q. I understand that the parties that you're
15 seeking to pool are unlocatable; is that correct?

16 A. That's correct.

17 Q. What efforts did you undertake to try to locate
18 them?

19 A. We searched the county records, searched
20 Internet searches, database searches, looked up multiple
21 addresses and phone numbers for them, and we were unable
22 to get in contact with them.

23 Q. And I understand you were in contact with some
24 of the family members?

25 A. Yes. It was an heir, but it wasn't actually

1 the principal of the estate. So --

2 Q. In your opinion, did you make a good-faith and
3 diligent effort to locate and reach an agreement with
4 each of the parties that you seek to pool?

5 A. Yes, we did.

6 Q. Did Matador publish notice directed to the
7 parties that you seek to pool for those whom you could
8 not locate an address?

9 A. Yes, we did.

10 Q. And is that included as Exhibit 5?

11 A. Yes, it is.

12 Q. Is Exhibit 6 an affidavit prepared by my office
13 with attached letters providing notice of this hearing
14 to the parties that you seek to pool and also offset
15 operators or lessees of record?

16 A. Yes, it is.

17 Q. Were Exhibits 1 through 4 prepared by you or
18 compiled under your direction and supervision?

19 A. Yes, they were.

20 MS. KESSLER: Mr. Examiners, I'd move
21 admission of Exhibits 1 through 6.

22 EXAMINER McMILLAN: Exhibits 1 through 6
23 may now be accepted as part of the record.

24 (Matador Resources Company Exhibit Numbers
25 1 through 6 are offered and admitted into

1 evidence.)

2 CROSS-EXAMINATION

3 BY EXAMINER McMILLAN:

4 Q. What's the API number?

5 A. I don't believe I have that on me right now.

6 MS. KESSLER: Mr. Examiner, the geologist
7 will be able to provide that.

8 EXAMINER McMILLAN: Okay. That's fine.

9 Q. (BY EXAMINER McMILLAN) Any depth severances?

10 A. No.

11 Q. And it's 160-acre?

12 A. Yes, sir.

13 Q. No more questions.

14 EXAMINER BROOKS: I have no questions
15 either.

16 EXAMINER McMILLAN: Thank you.

17 THE WITNESS: Thank you.

18 MS. KESSLER: I'll call my next witness.

19 EXAMINER McMILLAN: Yes. Please proceed.

20 JAMES ANDREW "ANDY" JUETT,
21 after having been previously sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MS. KESSLER:

25 Q. Please state your name for the record and tell

1 the Examiners by whom you're employed and in what
2 capacity.

3 A. My name is James Andrew Juett. I'm employed by
4 Matador Resources Company, and I'm a senior staff
5 geologist.

6 Q. Have you previously testified before the
7 Division?

8 A. Yes, I have.

9 Q. Were your credentials as a petroleum geologist
10 accepted and made a matter of record?

11 A. Yes, they were.

12 Q. Are you familiar with the application filed by
13 Matador in this case?

14 A. Yes, I am.

15 Q. And have you conducted a geologic study of the
16 Bone Spring in the subject area?

17 A. Yes, I have.

18 MS. KESSLER: Mr. Examiners, I would tender
19 Mr. Juett as an expert in petroleum geology.

20 EXAMINER McMILLAN: So qualified.

21 Q. (BY MS. KESSLER) Mr. Juett, do you know the API
22 number for this well?

23 A. Yes, I do. It is 30-025-43816.

24 Q. Could you please turn to what's been marked as
25 Exhibit 7 and identify this exhibit for the Examiners?

1 A. Yes. This exhibit is a simple locator map
2 showing where the project area is -- sits in Lea County,
3 New Mexico. It also shows the proration unit outlined
4 in red and filled in green. It has a surface location
5 with a blue square and the bottom-hole location with a
6 red circle.

7 **Q. Is Exhibit 8 a structure map of the area?**

8 A. Yes, it is.

9 **Q. What does this exhibit tell us?**

10 A. This structure map has several things. One, to
11 start off with, it shows the horizontal wells and what
12 formations that they produce in and around the project
13 area. It also shows that the 3rd Bone Spring Sand dips
14 fairly gently to the south and that there doesn't appear
15 to be any geologic hazards in drilling a north-south in
16 this location.

17 **Q. Does this also have an A to A prime line on it?**

18 A. Yes. That is the line of cross section --
19 four-well cross section that will be the next exhibit,
20 where it goes from north to south.

21 **Q. You said you used four wells for that exhibit?**

22 A. Yes, ma'am.

23 **Q. Do you consider those wells representative of**
24 **the Bone Spring wells in the area?**

25 A. Yes, I do.

1 **Q. Please turn to Exhibit 9 and identify this**
2 **exhibit.**

3 A. All right. Exhibit 9 is the cross section that
4 we just discussed. It is the four-well cross section, A
5 being on the northern end of the cross section and A
6 prime being on the southern end of the cross section,
7 the stratigraphic cross section that was hung on the top
8 of the Wolfcamp Formation to -- and it shows that the
9 3rd Bone Spring is relatively uniform across the project
10 area. The one well does thicken a bit. The second well
11 in the cross section does show a little thickness change
12 as we head to the north, but that well is actually kind
13 of northwest of our location. And it shows the lateral,
14 the zone that we intend -- where we intend to land the
15 lateral in the basal 3rd Bone Spring, and that basal 3rd
16 Bone Spring is fairly uniform across the section.

17 **Q. Please identify Exhibit 10.**

18 A. Exhibit 10 is a gross thickness isopach of the
19 3rd Bone Spring Sand, and that is the thickness from the
20 top of the 3rd Bone Spring to the top of the Wolfcamp.
21 And it shows that we should have anywhere from 225 to
22 260 to 70 foot of gross thickness of sand. I've also
23 indicated the 3rd Bone Spring wells on this map that
24 produce out of this sand, so it appears that all
25 quarter-quarter sections should be productive in this

1 location.

2 Q. Based on your geologic study of this area, have
3 you identified any faults or pinch-outs or other
4 geologic hazards that would prevent you from drilling a
5 horizontal well?

6 A. No. There are none apparent with the well
7 control that we have, and nothing really jumped out.

8 Q. Do you expect each quarter-quarter section to
9 be productive and contribute, more or less, equally to
10 production from the well?

11 A. Yes, I do.

12 Q. And do you believe that horizontal drilling is
13 the most economic and efficient method of developing
14 this area?

15 A. Yes, I do.

16 Q. Would you please identify Exhibit 11?

17 A. Exhibit 11 is a construction diagram that
18 shows -- for lack of a better word, a cartoon that shows
19 the surface location and where we plan to complete the
20 wells. It shows that there will not be a perforation
21 closer than 330 feet to the north or south lease line.

22 Q. So the well location will be orthodox, pursuant
23 to the Division rules?

24 A. Yes.

25 Q. In your opinion, will granting Matador's

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

4 A. Yes, ma'am.

5 Q. Were Exhibits 7 through 11 prepared by you or
6 compiled under your direction and supervision?

7 A. Yes, they were.

8 MS. KESSLER: Mr. Examiner, I'd move
9 admission of Exhibits 7 through 11.

10 EXAMINER McMILLAN: Exhibits 7 through 11
11 may now be accepted as part of the record.

12 (Matador Resources Company Exhibit Numbers
13 7 through 11 are offered and admitted into
14 evidence.)

15 CROSS-EXAMINATION

16 BY EXAMINER McMILLAN:

17 Q. The request I've got is -- I'm looking at
18 Exhibit 10. Is there any difference in north-south
19 versus east-west wells?

20 A. We don't seem to -- there doesn't appear to be
21 any difference in direction. And one of the reasons
22 is -- if you look at the locator map, you kind of see
23 where we're located in the Basin. We've combined the
24 north and south orientation with an east-west
25 orientation on the north here (indicating). And where

1 we are in here, it doesn't appear to be a preferred
2 orientation of the well (indicating).

3 **Q. Which are better wells, 2nd or 3rd Bone Spring?**

4 A. There are good wells and bad wells in this
5 area. It's a mix. And some of it -- when we look at
6 completion results, that may explain some of the better
7 wells in a lot of these wells. They were drilled
8 earlier on and have a smaller stimulation.

9 EXAMINER BROOKS: Did you say it was a mix
10 or it was a mess?

11 (Laughter.)

12 MS. KESSLER: I heard "mix."

13 THE WITNESS: I'll leave it up to you
14 (laughter).

15 EXAMINER McMILLAN: Actually, I have a
16 question for the landman, but I have no further
17 questions.

18 THE WITNESS: Okay. Thank you.

19 JONATHAN FILBERT,
20 after having been previously sworn under oath, was
21 recalled and questioned and testified as follows:

22 CROSS-EXAMINATION

23 BY EXAMINER McMILLAN:

24 **Q. This is kind of strange, but my question goes**
25 **to Exhibit Number 9. Okay? If you look at your target**

1 interval, it's just about -- almost at the Wolfcamp. So
2 there are no depth severances from the Bone Spring to
3 the Wolfcamp there?

4 A. That's correct.

5 Q. Okay. That was my question. Thanks.

6 EXAMINER McMILLAN: With that in mind, Case
7 Number 15721 shall be taken under advisement.

8 MS. KESSLER: Thank you.

9 (Case Number 15721 concludes, 8:36 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
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