

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, EDDY COUNTY, NEW MEXICO. CASE NO. 15744

Consolidated with

APPLICATION OF MATADOR PRODUCTION COMPANY FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15745

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 20, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, July 20, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT MATADOR PRODUCTION COMPANY:

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EXHIBITS OFFERED AND ADMITTED

Matador Production Company Exhibit Numbers 1 through 9	11
Matador Production Company Exhibit Numbers 10 through 15	(Attached to Record) --

1 (9:31 a.m.)

2 EXAMINER JONES: Let's go back on the
3 record and call Cases 15744 and 15745. Both of these
4 are application of Matador Production Company for a
5 nonstandard spacing and proration unit and compulsory
6 pooling in Eddy County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Jordan Kessler, from the
9 Santa Fe office of Holland & Hart, on behalf of the
10 Applicant.

11 EXAMINER JONES: Any other appearances in
12 these two cases?

13 MS. KESSLER: Two witnesses today.

14 (Mr. Pryor and Mr. Juett sworn.)

15 SAM PRYOR,
16 after having been duly sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. KESSLER:

20 **Q. Please state your name for the record and tell**
21 **the Examiners by whom you're employed and in what**
22 **capacity.**

23 A. My name is Sam Pryor. I'm employed by Matador
24 as a senior staff landman.

25 **Q. Have you previously testified before the**

1 **Division?**

2 A. I have not.

3 **Q. Can you please outline your educational**
4 **background?**

5 A. I graduated from the University of Tulsa in
6 December of 2010.

7 **Q. And what has your work history been since that**
8 **time?**

9 A. Since that time, I've worked for Matador. This
10 is my seventh year, including three years in the Permian
11 Basin.

12 **Q. Let me take a step back. While you were at**
13 **Tulsa, did you study energy management?**

14 A. That's correct.

15 **Q. That is what your degree is in?**

16 A. That is correct.

17 **Q. And you've been with Matador for the past seven**
18 **years?**

19 A. Yes, ma'am.

20 **Q. During that time, have some of your experiences**
21 **included the Permian Basin?**

22 A. That is correct.

23 **Q. For approximately how long?**

24 A. About three years.

25 **Q. Are you a member of any professional**

1 organizations.

2 A. I'm a member of the AAPL and DAPL.

3 Q. Are you familiar from the applications filed in
4 these consolidated cases?

5 A. Yes, ma'am.

6 Q. Are you familiar with the status of the lands
7 in the subject area?

8 A. Yes, ma'am.

9 MS. KESSLER: Mr. Examiners, I would tender
10 Mr. Pryor as an expert in petroleum land matters.

11 EXAMINER JONES: He is so qualified.

12 Q. (BY MS. KESSLER) Please turn to Exhibit 1 and
13 explain what Matador seeks under these two applications?

14 A. Matador seeks to pool two nonstandard 160 units
15 in the west half-west half of Section 21 and the east
16 half-west half of Section 21 for the Bone Spring
17 Formation.

18 Q. Do you seek to pool all of the uncommitted
19 interest owners in the Bone Spring Formation?

20 A. That is correct.

21 Q. Are both spacing units comprised of federal
22 acreage?

23 A. They are.

24 Q. Looking at Exhibit 1, it looks like it's all
25 one federal lease; is that correct?

1 A. That is correct.

2 **Q. Is Exhibit 2 the filed C-102 for the Cueva De**
3 **Oro Fed #131H well?**

4 A. It is.

5 **Q. Can you please identify the spacing unit for**
6 **that well?**

7 A. Yes, ma'am.

8 So for the Cueva De Oro Fed 131, we're
9 looking at a west half-west half 160-acre spacing unit
10 for the Bone Spring. This application is under the pool
11 Getty Bone Spring Pool, Number 27470.

12 **Q. Is that pool subject to Division statewide**
13 **setbacks for oil pools?**

14 A. Yes, ma'am.

15 **Q. And will the completed interval for each of the**
16 **wells comply with the 330-foot setbacks?**

17 A. Yes, ma'am.

18 **Q. Is Exhibit 3 the filed C-102 for the Cueva 132H**
19 **well?**

20 A. Yes, ma'am.

21 **Q. And what spacing unit will this be?**

22 A. This spacing unit will cover the east half of
23 the west half, being in the same Getty Bone Spring Pool,
24 Number 27470, approximately 160 acres.

25 **Q. That's the same pool and same pool rules,**

1 correct?

2 A. Yes, ma'am.

3 Q. Does Exhibit 4 identify the interest owners in
4 the nonstandard spacing unit for both the 131H and the
5 132H well?

6 A. It does.

7 Q. The ownership is the same for both of the
8 wells?

9 A. Yes, ma'am.

10 Q. Does this exhibit show the total interest and
11 also the amount of interest that you seek to compulsory
12 pool?

13 A. It does.

14 Q. And it looks like you're seeking to pool a
15 little less than 2 percent; is that correct?

16 A. That is correct.

17 Q. Are these uncommitted working interest owners?

18 A. These are uncommitted working interest owners,
19 including unlocatable working interest owners.

20 Q. Is Exhibit Number 5 a sample of the well
21 proposal letter and the attached AFE that you sent to
22 the uncommitted interest owners for the Cueva 131H well?

23 A. It is.

24 Q. And a similar letter was sent to all the
25 uncommitted interest owners, correct?

1 A. Yes, ma'am.

2 Q. What date was that letter sent?

3 A. This letter was sent on April 7th, 2017.

4 Q. Did it include an AFE?

5 A. It did.

6 Q. Is Exhibit 6 a sample of the well-proposal
7 letter and AFE sent to the uncommitted interest owners
8 for the 132H well?

9 A. It is.

10 Q. And, again, a similar letter was sent to the
11 uncommitted working interest owners, correct?

12 A. Yes, ma'am.

13 Q. This was also sent on April 7th?

14 A. It was.

15 Q. And it also included an AFE?

16 A. It did.

17 Q. For each of the AFEs, are the costs consistent
18 with what other operators charge for drilling other
19 similar horizontal wells in the area?

20 A. They are.

21 Q. Have you estimated overhead and administrative
22 costs for drilling and producing each of the wells?

23 A. Yes, ma'am. We are requesting 7,000 a month
24 while drilling and 700 a month while producing.

25 Q. Are those costs similar to what other operators

1 charge for similar wells in the area?

2 A. Yes, ma'am.

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

5 A. I do.

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

8 A. Yes, ma'am.

9 Q. For uncommitted interest owners, do you
10 request -- for each of the wells, do you request the
11 Division impose a 200 percent risk penalty?

12 A. I do.

13 Q. In addition to sending well-proposal letters,
14 what additional efforts did you undertake to reach
15 agreement with the parties that were locatable?

16 A. For the parties that were locatable, we sent
17 the initial well proposal and followed up with both
18 phone conversations and to -- and have been negotiating
19 for several months with these parties -- with some of
20 the parties listed on the exhibit. On many of these
21 parties, we have reached agreement and are waiting for
22 all of the executed documents to return, and at such
23 point, we'll remove them from the hearing list.

24 Q. You'll notify the Division?

25 A. Yes, ma'am.

1 **Q. You mentioned some of the working interest**
2 **owners were unlocatable. Can you please discuss what**
3 **efforts you undertook to locate those parties?**

4 A. Yes, ma'am.

5 We sent our initial well proposals to the
6 address of record per the county records, per our run
7 sheets and title opinions. And to the extent that we
8 received undeliverable -- we received the well proposal
9 returned undeliverable, we did Internet searches -- we
10 conducted Internet searches for additional addresses, as
11 well as telephone direct researches for other contact
12 information.

13 **Q. In your opinion, did you make a good-faith**
14 **effort to reach an agreement with each of the parties**
15 **that you seek to pool?**

16 A. Yes, ma'am.

17 **Q. And in your opinion, did you conduct a diligent**
18 **search for the parties who are unlocatable?**

19 A. Yes, ma'am.

20 **Q. Did Matador also publish notice for this**
21 **hearing?**

22 A. Yes, ma'am.

23 **Q. Are Exhibits 7 and 8 notices of publication in**
24 **Eddy County directed to the interest owners who are**
25 **unlocatable?**

1 A. They are.

2 Q. Did you also identify the offset operators or
3 lessees of record in the 40-acre tract surrounding the
4 proposed nonstandard spacing units?

5 A. We did.

6 Q. And is Exhibit 9 an affidavit prepared by my
7 office with attached letters providing notice of this
8 hearing to the parties you seek to pool, as well as the
9 offset operators or lessees of record?

10 A. It is.

11 Q. For both wells, correct?

12 A. For both wells, yes, ma'am.

13 Q. Were Exhibits 1 through 6 prepared by you or
14 compiled under your direction and supervision?

15 A. Yes, ma'am.

16 MS. KESSLER: Mr. Examiners, I'd move
17 admission of Exhibits 1 through 9, including my three
18 affidavits.

19 EXAMINER JONES: Exhibits 1 through 9 are
20 admitted.

21 (Matador Production Company Exhibit Numbers
22 1 through 9 are offered and admitted into
23 evidence.)

24 EXAMINER JONES: Mr. Brooks?

25 EXAMINER BROOKS: I'm okay. Thank you.

CROSS-EXAMINATION

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BY EXAMINER BROOKS:

Q. You have return receipts from all the people you located; is that correct?

A. Yes, sir.

Q. And which exhibit is that in?

MS. KESSLER: That's part of Exhibit 9, Mr. Examiner.

EXAMINER BROOKS: Okay. Yeah, I see.

Q. (BY EXAMINER BROOKS) And there are several here where you have certified mail receipts, but you do not have return receipts. Those would be the unlocatables.

A. Yes, sir.

Q. And you published as to all those, right?

A. Yes, sir.

Q. Okay. I noticed, just glancing through your publication affidavit, there are a number of estates listed with unknown heirs. Now, were those unknown heirs -- do you have unprobated estates that you know who some of the heirs are, or you think you know who the heirs are?

A. We believe we have -- we believe we have all the parties probated to their current owner.

Q. Okay. So you published -- you sent certified-mail notices to the heirs you know about?

1 A. Yes, sir.

2 Q. And the heirs -- and the unknown heirs -- the
3 publication to the unknown heirs is precautionary?

4 A. Yes, sir.

5 Q. Okay. I think that's all I have, except I'm
6 really curious to know what Cueva means. I should know
7 that.

8 A. Cueva De Oro, Cave of Gold.

9 Q. Is what?

10 A. I believe it means Cave of Gold.

11 Q. Cave of Gold. That's what I thought it meant.
12 And I really should ask the geologist about that
13 (laughter).

14 EXAMINER JONES: Yeah.

15 EXAMINER BROOKS: Thank you.

16 CROSS-EXAMINATION

17 BY EXAMINER JONES:

18 Q. Is the location set in stone now because there
19 is a federal APD, and I don't see an API number for it?

20 A. Correct. So the API has been submitted. It
21 was submitted in early 2017. It has not been approved
22 yet. It's routing for review.

23 Q. So has anyone gone out to the surface and
24 finalized the site for the well?

25 A. Yes, sir. We conducted an on-site with the

1 BLM. Everything was cleared there. So I think we're --
2 I don't expect changes.

3 EXAMINER BROOKS: Well, perhaps it's being
4 technical about it, but the location is not set in stone
5 until the well is drilled.

6 (Laughter.)

7 THE WITNESS: There is so much truth to
8 that.

9 EXAMINER JONES: Set in stone about ten
10 years from now.

11 Okay. I don't have any more questions.
12 Thank you.

13 THE WITNESS: Thank you.

14 JAMES ANDREW "ANDY" JUETT,
15 after having been previously sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MS. KESSLER:

19 Q. Please state your name for the record.

20 A. James Andrew Juett.

21 Q. Who do you work for and in what capacity?

22 A. Matador, and I work as a senior staff
23 geologist.

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

1 A. Yes, I have.

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

4 A. Yes, they were.

5 **Q. Are you familiar with the cases filed by**
6 **Matador in these consolidated cases?**

7 A. Yes, I am.

8 **Q. Have you conducted a geologic study of the Bone**
9 **Spring in the subject area?**

10 A. Yes, I have.

11 **Q. Mr. Juett, if you would please turn to Exhibit**
12 **10 and identify it for the Examiners.**

13 A. Exhibit 10 is just a simple locator map showing
14 where our project sits in Eddy County, New Mexico, and
15 it also shows the two proration units for the Cueva De
16 Oro 131 and 132H wells.

17 And I would like to, if I can, amend this
18 exhibit. I just noticed that they have the same label,
19 "131." But the well on the right-hand side of the map
20 and most eastern well would be our 132 well.

21 EXAMINER JONES: Thank you.

22 THE WITNESS: And it also show the surface
23 and bottom-hole locations where those wells are located.

24 **Q. (BY MS. KESSLER) And is Exhibit 11 a structure**
25 **map of the Bone Spring in this area?**

1 A. Yes, it is. It is a subsea structure map on
2 the top of the 3rd Bone Spring. This well shows that
3 the structure is dipping gently to the southeast in this
4 area. We don't see any faults or geologic impediments
5 to drilling this well. It also shows the line of cross
6 section that was used to -- for the next exhibit. We
7 also are showing on here the producing zones on the
8 horizontal wells with the red and orange attributes.

9 **Q. And the red wells are 3rd Bone Spring wells; is**
10 **that correct?**

11 A. Yes, they are.

12 **Q. What is Exhibit 12?**

13 A. Exhibit 12 is a stratigraphic cross section
14 that goes across the project area. It's hung on the top
15 of the Wolfcamp. And what we see here is that the base
16 of the 3rd Spring Sand is fairly uniform across the
17 project area and that we don't expect any thickness
18 changes or any geologic impediments to drilling this
19 well.

20 **Q. And you've called out your lateral interval on**
21 **the second log, it looks like; is that correct?**

22 A. Yes, ma'am.

23 **Q. And that'll be the same interval for both**
24 **wells?**

25 A. Yes, it will.

1 **Q. Is Exhibit 13 a gross isopach of the area?**

2 A. Yes, it is.

3 **Q. Would you please walk us through this exhibit?**

4 A. Okay. This exhibit basically shows that we
5 don't expect any wild thickness changes in the 3rd Bone
6 Spring, as we go through this, that we should be fairly
7 uniform across the project area.

8 **Q. What conclusions have you come to based on your
9 geologic study on this area?**

10 A. We don't expect to have any geologic
11 impediments to drilling a horizontal well in this area.
12 All quarter-quarter sections should produce
13 proportionately equal across the project area and that
14 the drilling of a horizontal well would be the most
15 efficient way to produce the 3rd Bone Spring Sand in
16 this area.

17 **Q. Are Exhibits 14 and 15 wellbore diagrams
18 showing that the completed interval for each of the
19 wells will be orthodox under the pool rules for this
20 area?**

21 A. Yes, they are.

22 **Q. And do you believe that granting Matador's
23 application will be in the best interest of
24 conservation, for the prevention of waste and for the
25 protection of correlative rights?**

9:48 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.

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MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters

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