

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 CASE NO. 15749
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

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
 New Mexico CCR #20
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1 APPEARANCES

2 FOR APPLICANT MATADOR PRODUCTION COMPANY:

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1 (10:06 a.m.)

2 EXAMINER JONES: Call Case Number 15749,
3 application of Matador Production Company for compulsory
4 pooling, Eddy County, New Mexico.

5 Call for appearances.

6 MS. KESSLER: Mr. Examiner, Jordan Kessler,
7 from Holland & Hart, on behalf of the Applicant.

8 EXAMINER JONES: Any other appearances?

9 MS. KESSLER: Same two witnesses.

10 EXAMINER JONES: Okay. Let the record show
11 the witnesses have been sworn previously.

12 EXAMINER BROOKS: Both have been sworn in
13 prior cases?

14 MS. KESSLER: Yes.

15 EXAMINER BROOKS: Okay. Yeah.

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

19 DIRECT EXAMINATION

20 BY MS. KESSLER:

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

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

1 **Q. Have you previously testified before the**
2 **Division as a petroleum landman?**

3 A. Yes, ma'am.

4 MS. KESSLER: Mr. Examiners, I would ask
5 that Mr. Pryor's credentials as an expert petroleum
6 landman be accepted also in this case.

7 EXAMINER JONES: He is so qualified.

8 **Q. (BY MS. KESSLER) Please turn to Exhibit 1 and**
9 **tell the Examiners what Matador seeks under this**
10 **application.**

11 A. Matador seeks to pool a spacing unit of
12 approximately 120 acres comprising of the south half of
13 Section 19, 20 South, 29 East as to the Wolfcamp
14 Formation.

15 **Q. You said 120 acres. Did you actually mean**
16 **about 311 acres?**

17 A. Yes, ma'am. I meant to say 320 (laughter) --
18 311.

19 **Q. 311?**

20 A. Yes, ma'am.

21 **Q. And we're in the south half of Section 19; is**
22 **that correct?**

23 A. Yes, ma'am.

24 **Q. Two federal leases here?**

25 A. Yes, ma'am.

1 Q. Is Exhibit 2 the C-102 for the Stebbins 19 Fed
2 Com #203H well?

3 A. It is.

4 Q. Please identify the spacing units.

5 A. The spacing unit is comprised of the south half
6 of Section 19.

7 Q. That would be 20 South, Range 29 East in Eddy
8 County?

9 A. Yes, ma'am.

10 Q. Does the Division designate a pool for this
11 area?

12 A. It did, being the Burton Flat-Wolfcamp, East
13 Gas Pool, Pool Number 73480.

14 Q. Is this pool subject to Division statewide
15 rules for gas wells?

16 A. Yes, ma'am.

17 Q. So 660-foot setbacks apply; is that correct?

18 A. Yes, ma'am.

19 Q. Now, is Matador going to file an administrative
20 application requesting 330-foot setbacks?

21 A. Yes, ma'am.

22 Q. But they have not filed that application yet?

23 A. No, ma'am.

24 Q. Is Exhibit 3 an ownership breakdown of the
25 owners in the spacing units?

1 A. It is.

2 Q. And this is based on a 320-acre spacing unit;
3 is that correct?

4 A. That's correct.

5 Q. Will Matador supplement this Exhibit 3 with a
6 revised ownership breakdown based on a 311-acre spacing
7 unit --

8 A. Yes, ma'am.

9 Q. -- in approximately two weeks?

10 A. Yes, ma'am.

11 Q. Does this show the parties that Matador seeks
12 to pool?

13 A. It does.

14 Q. And it looks like you're seeking to pool
15 approximately 16.27 percent; is that correct?

16 A. That's correct.

17 Q. Are these all uncommitted working interest
18 owners?

19 A. They are.

20 Q. Is Exhibit 4 a sample of the well-proposal
21 letter and the AFE that you sent to all of the
22 uncommitted working interest owners?

23 A. It is.

24 Q. You sent a similar letter to all of the working
25 interest owners, correct?

1 A. Yes, ma'am.

2 Q. You sent that on April 20th, 2017?

3 A. That's correct.

4 Q. And does it include an AFE?

5 A. It did.

6 Q. Are the costs on the AFE consistent with what
7 other operators in the area charge for drilling similar
8 horizontal wells?

9 A. Yes, ma'am.

10 Q. Have you estimated overhead and administrative
11 costs for drilling and producing this well?

12 A. We have. We are requesting 7,000 a month while
13 drilling and 700 a month while producing.

14 Q. Are those costs in line with what other
15 operators charge for similar wells?

16 A. Yes, ma'am.

17 Q. Do you ask that the administrative and overhead
18 costs be incorporated into any order resulting from this
19 hearing?

20 A. I do.

21 Q. Do you ask that the costs be adjusted in
22 accordance with the appropriate accounting procedures?

23 A. I do.

24 Q. For uncommitted interest owners, do you
25 request -- uncommitted working interest owners, do you

1 request that the Division impose a 200 percent risk
2 penalty?

3 A. I do.

4 Q. And some of these parties here are unlocatable;
5 is that correct?

6 A. That is correct.

7 Q. Are these the same leases that we discussed in
8 our prior hearing?

9 A. Yes, ma'am.

10 Q. Can you please review what efforts you
11 undertook to locate the unlocatable parties?

12 A. For the unlocatable parties, we sent initial
13 well proposals using the address from the county
14 records. In addition, we conducted Internet searches
15 and phone directory searches to look for other contact
16 information. To the extent that these parties were part
17 of the same family, we reached out to the family owners
18 we could get in touch with to get additional contact
19 information.

20 Q. In your opinion, did you conduct a diligent
21 search for the unlocatable parties?

22 A. Yes, ma'am.

23 Q. What efforts did you undertake to reach an
24 agreement with the parties that you could locate?

25 A. For the parties we could locate, we've been

1 negotiating with these parties since the well proposals
2 came out. Some of these parties we have come to
3 agreement with and are waiting on the executed documents
4 to come to our office.

5 Q. And you'll notify the Division if you reach
6 agreement with those parties?

7 A. Yes, ma'am.

8 Q. Did Matador publish notice directed to the
9 parties for whom you could not locate a good address?

10 A. Yes, ma'am.

11 Q. That's included as Exhibit 5?

12 A. Yes, ma'am.

13 Q. And is Exhibit 6 an affidavit from my office,
14 with an attached letter providing notice of this hearing
15 to the parties that you seek to pool?

16 A. Yes, ma'am.

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

19 A. Yes, ma'am.

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

22 EXAMINER JONES: Exhibits 1 through 6 are
23 admitted.

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

1 evidence.)

2 CROSS-EXAMINATION

3 BY EXAMINER JONES:

4 Q. So one spacing unit, the same -- same one that
5 you were talking -- same lands you were talking about
6 before --

7 A. Yes, sir.

8 Q. -- in the last case -- last two cases, which
9 were cases -- I should say which ones, 15747 and 15748.

10 The Burton Flat used to be a prorated gas,
11 I thought. But it's not -- it was unprorated, is that
12 correct, in years past?

13 MS. KESSLER: I don't know that. I do know
14 it was showing 660-foot setbacks.

15 EXAMINER JONES: Okay. That's the
16 pertinent thing. But it's 320 spacing.

17 MS. KESSLER: Yes.

18 EXAMINER JONES: You've got a 311-acre
19 spacing -- spacing unit here.

20 And these COPASes, you're pretty constant
21 all among those. Are they going to be part of the
22 Compulsory Pooling Committee discussion?

23 MS. KESSLER: Not so far, but we're always
24 open to suggestions.

25 EXAMINER JONES: Okay. Mr. Brooks?

1 CROSS-EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. These uncommitted working interest owners, do
4 they own -- well, first of all, is this fee acreage?

5 A. There is no fee acreage. It's two federal
6 leases.

7 Q. Okay. So these people own an undivided
8 interest in the leases?

9 A. As to their lease, yes, sir.

10 Q. Yeah.

11 And in negotiating with them -- I think
12 that I missed -- my mind wandered. I may have missed
13 something. In negotiating with them, did you offer --
14 in the prior case, you said you own -- structures?

15 A. Yes, sir.

16 Q. You offered compensation for their interest
17 that did not require them to participate?

18 A. Yes, sir.

19 Q. And that is the way you summarily do that in
20 your proceedings, correct?

21 A. Yes, sir.

22 Q. Thank you.

23 You published notice to all those you were
24 unable to locate?

25 A. Yes, sir.

1 **Q. And that is exhibit whichever. 6?**

2 MS. KESSLER: I'm sorry. 5.

3 EXAMINER BROOKS: Exhibit 5 is the
4 publication?

5 MS. KESSLER: 5.

6 EXAMINER JONES: Thank you. That's all I
7 have.

8 THE WITNESS: Thank you, sir.

9 EXAMINER JONES: Thank you, Mr. Pryor.

10 JAMES ANDREW "ANDY" JUETT,
11 after having been previously sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MS. KESSLER:

15 **Q. Please state your name for the record and tell**
16 **the Examiners by whom you're employed and in what**
17 **capacity.**

18 A. My name is James Andrew Juett. I'm employed by
19 Matador as a senior staff geologist.

20 **Q. Have you previously testified before the**
21 **Division as a petroleum geologist?**

22 A. Yes, I have.

23 MS. KESSLER: Mr. Examiners, I'd ask that
24 Mr. Juett's credentials as an expert in petroleum
25 geology be accepted.

1 EXAMINER JONES: He is so qualified.

2 Q. (BY MS. KESSLER) Would you please identify
3 Exhibit 7?

4 A. Exhibit 7 is just a simple locator map showing
5 the locations of our Stebbins 19 203 well with the
6 proration unit. It also shows the surface and
7 bottom-hole locations that we plan to drill.

8 Q. Is Exhibit 8 a structure map of the Wolfcamp in
9 this area?

10 A. Yes, it is. It is a structure on the top of
11 the Wolfcamp. And this shows us, again, that the
12 formation dips gently to the southeast, that there
13 doesn't appear to be any structural or impediments --
14 geologic impediments to drilling this well. It also
15 shows the line of cross section, A to A prime, which is
16 a little unorthodox. I included the fourth well because
17 there are two Wolfcamp producers, older Wolfcamp wells,
18 that went horizontal in the Wolfcamp in this area, and
19 it does show the formations that -- of the horizontals,
20 what zones they produce out of.

21 Q. And the purple attributes show the Wolfcamp
22 producers?

23 A. Yes. Yes, they do.

24 Q. Is Exhibit 9 your four-well cross section?

25 A. Yes, it is.

1 **Q. Would you please walk us through this?**

2 A. This cross section, again, is a stratigraphic
3 cross section that is hung on the top of the Wolfcamp.
4 So the Wolfcamp is the dam [sic]. At the base of the
5 Wolfcamp is the Strawn at the bottom. It shows the
6 interval that we intend to land our 203H well in.

7 And then if you will look at the far left
8 cross section -- of the cross section well A, you'll see
9 at about 250 feet below the cross section -- below the
10 datum line of the Wolfcamp, there is a carbonate zone
11 there, and that's the zone that those two short laterals
12 were drilled in. Those two wells were originally
13 drilled in 1974 by City Service and then gone and -- and
14 in 2006, OXY drilled the two laterals -- the two short
15 laterals. They probably had an effective length of
16 about 24-, 2,500 feet in that carbonate zone. That's
17 not the same interval we're intending to drill. We're
18 going for sands, Wolfcamp sands. And also this shows
19 the sandy interval that we're looking at is fairly
20 uniform across the area.

21 **Q. Is Exhibit 10 your gross isopach map for the**
22 **Wolfcamp in this area?**

23 A. Yes, it is. This isopach basically shows there
24 is not any wild thickness changes in the overall gross
25 Wolfcamp section as we go across the project area.

1 Q. What conclusions have you drawn from your study
2 of is this area?

3 A. Concluded that there should not be any geologic
4 impediments to drilling horizontal Wolfcamp in this area
5 and that all quarter-quarter sections should be similar
6 and productive, and that the drilling of the horizontal
7 well is probably the most economic way to develop the
8 Wolfcamp.

9 Q. And is Exhibit 11 a wellbore diagram showing
10 that under the Burton Flat pool rules, you will be
11 unorthodox because you will be approximately 330 feet
12 from the line?

13 A. Yes, it does.

14 Q. And Matador will be seeking an NSL via
15 administrative application; is that correct?

16 A. Yes, we will.

17 Q. And in your opinion, would granting this
18 application be in the best interest of conservation, for
19 the prevention of waste and the protection of
20 correlative rights?

21 A. Yes, they will.

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

24 A. Yes, they were.

25 MS. KESSLER: Mr. Examiners, I'd move

1 admission of Exhibits 7 through 11.

2 EXAMINER JONES: Exhibits 7 through 11 are
3 admitted.

4 (Matador Production Company Exhibit Numbers
5 7 through 11 are offered and admitted into
6 evidence.)

7 CROSS-EXAMINATION

8 BY EXAMINER JONES:

9 Q. This carbonate versus the sand issue, is
10 that -- I haven't heard much talk about the carbonate in
11 the Wolfcamp. How does it compare?

12 A. Well, these zones -- it's really interesting.
13 When you look, they're -- like I say, they're short
14 laterals, but that carbonate, it's a fairly local
15 carbonate that shows up. So we see carbonates coming
16 and going through the Wolfcamp, and a lot times they're
17 tight; sometimes they have a little porosity in them.
18 But those did show to have some porosity, and that's why
19 they went horizontal in those wells.

20 Q. Are these always dolomites?

21 A. They have some -- yes. There are some
22 dolomites. Sometimes they're limey as well, more limey
23 dolomites.

24 Q. But not anhydrite?

25 A. No. No, not anhydrite.

1 **Q. And how do those wells perform, those --**

2 A. The two Wolfcamp wells, we have an EUR
3 equivalent on one of about 250,000 barrels and one
4 closer to -- I think it's 298, is what we have, EUR
5 equivalent. And the GOR for those wells, in the state
6 records, when they did their testing, was 778.

7 **Q. What would be the -- GOR, do you think,**
8 **equivalent?**

9 A. Oh, boy.

10 **Q. About one-to-one, maybe?**

11 A. Yeah, probably close to that.

12 **Q. What are you expecting in your wells as far as**
13 **the GOR and the API gravity?**

14 A. API gravity, I think we're going to be in the
15 low 40s in this, and we're expecting GORs probably
16 anywhere from 1,000 to 1,500 fc -- the actual standard
17 cubic foot per, whatever, SCF [sic].

18 **Q. So it's low GOR but reasonably high API**
19 **gravity?**

20 A. Yes. Uh-huh.

21 **Q. And higher pressure than the Bone Spring?**

22 A. Well, these wells should be slightly higher.

23 **Q. Slightly.**

24 A. Yeah. We don't expect to see that much
25 pressure in this area, pressure change, from the 3rd

1 Bone Spring.

2 Q. Do you put your intermediate at the top of the
3 Delaware, or do you put it down through the Bone Spring?

4 A. We put it about -- it'll be in the Delaware.

5 Q. So you don't case off the Bone Spring?

6 A. Not for these wells, we won't.

7 Q. Okay. Thanks very much.

8 A. You're welcome.

9 EXAMINER BROOKS: No questions.

10 MS. KESSLER: Mr. Examiner, I would ask for
11 a two-week continuance to supplement Exhibit 3.

12 EXAMINER JONES: Exhibit 3?

13 EXAMINER BROOKS: 3 is the list of the
14 uncommitted working interest owners, correct?

15 MS. KESSLER: And their proportionate
16 ownership.

17 EXAMINER BROOKS: But it is not anticipated
18 any changes in the names?

19 MS. KESSLER: Just the percentages.

20 EXAMINER BROOKS: Okay. Thank you.

21 EXAMINER JONES: Case 15749 is continued --
22 has been heard but continued to August the 3rd.

23 Let's take a five-minute break and then go
24 to Mr. Bruce.

25 (Case Number 15749 concludes, 10:23 a.m.)

(Recess, 10:23 a.m. to 10:40 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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