

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. 15784

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 31, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and Gabriel Wade, Legal Examiner, on Thursday, August 31, 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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INDEX

PAGE

Case Number 15784 Called	3
Matador Production Company's Case-in-Chief:	
Witnesses:	
Chris Carleton:	
Direct Examination by Ms. Kessler	3
Cross-Examination by Examiner Jones	7
Andrew Parker:	
Direct Examination by Ms. Kessler	8
Proceedings Conclude	12
Certificate of Court Reporter	13

EXHIBITS OFFERED AND ADMITTED

Matador Production Company Exhibit Numbers 1 through 6	7
Matador Production Company Exhibit Numbers 7 through 11	11

1 (1:48 p.m.)

2 EXAMINER JONES: Call Case Number 15784,
3 application of Matador Production Company for a
4 nonstandard spacing and proration unit and compulsory
5 pooling in Eddy County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Jordan Kessler from Holland &
8 Hart for the Applicant.

9 EXAMINER JONES: Any other appearances?
10 Same witnesses or a different group?

11 MS. KESSLER: Same two witnesses, but I
12 think they've been previously sworn in and qualified.

13 EXAMINER JONES: Let the record show that
14 they were previously sworn in and qualified.

15 CHRIS CARLETON,
16 after having been previously 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. Chris Carleton, as a senior landman for Matador
24 Resources Company.

25 **Q. Were you previously qualified as a petroleum --**

1 **expert petroleum landman?**

2 A. Yes.

3 MS. KESSLER: Mr. Examiner, I tender
4 Mr. Carleton once again as an expert in petroleum land
5 matters.

6 EXAMINER JONES: So qualified.

7 **Q. (BY MS. KESSLER) Mr. Carleton, let's turn to**
8 **Exhibit 1, and please explain what Matador seeks under**
9 **this application?**

10 A. Exhibit 1 is a Midland Map. It shows the north
11 half of the north half of Section 10, Township 24 South,
12 Range 28 East, and Matador seeks to commit all
13 uncommitted interests in the north half of the north
14 half in the Bone Spring Formation.

15 **Q. And you seek to create a nonstandard 160-acre**
16 **spacing unit, correct?**

17 A. Correct.

18 **Q. Is Exhibit 2 a C-102 for the Guitar 10-24S-28E**
19 **RB #121H well?**

20 A. Yes.

21 It shows a surface location in Section 11.
22 We did this because of the Pecos River surface, other
23 surface hindrances in Section 10, and it shows the well
24 with standard 330 offsets in the nonstandard 160-acre
25 unit. It's in the Malaga; Bone Spring Pool.

1 Q. Again, it's in the north half-north half of
2 Section 10, correct?

3 A. Correct.

4 Q. Does Exhibit 3 identify the interest owners in
5 the proposed spacing units?

6 A. Yes.

7 Matador currently has 81 percent working
8 interest, and we're seeking to pool ConocoPhillips
9 Company. They are a working interest owner. They have
10 4.39 percent. They have elected to go nonconsent in the
11 well and have sent back an AFE indicating as such. And
12 we have not had them signed up -- gotten them signed up
13 on an operating agreement.

14 Q. So they intend to be compulsory pooled?

15 A. They intend to be compulsory pooled.

16 Q. Is Exhibit 4 a well-proposal letter that you
17 sent to Conoco?

18 A. Yes. And it includes an AFE showing the
19 estimated costs for the Guitar 121H well at 5.7 million.

20 Q. You sent this back on July 19th, correct?

21 A. Correct.

22 Q. Are the costs on the AFE consistent with what
23 other operators in the area are charging for similar
24 wells?

25 A. Yes.

1 Q. What overhead and administrative costs are you
2 requesting?

3 A. We request 7,000 per month while drilling and
4 700 per month while producing.

5 Q. Is that a similar cost to what other operators
6 in the area charge for similar wells?

7 A. Yes.

8 Q. Do you ask that the cost be incorporated into
9 any order resulting from this hearing?

10 A. Yes.

11 Q. And that the cost be adjusted in accordance
12 with the appropriate accounting procedures?

13 A. Yes.

14 Q. For ConocoPhillips, do you request that the
15 Division impose a 200 percent risk penalty?

16 A. Yes.

17 Q. Did you identify the offset operators or
18 leasees of record in the 40-acre tract surrounding the
19 proposed nonstandard spacing unit?

20 A. Yes.

21 Q. And were they provided notice of this hearing?

22 A. Yes.

23 Q. Is Exhibit 4 --

24 A. 5.

25 Q. -- 5 an affidavit prepared by my office with

1 **attached letters providing notice of this hearing to the**
2 **parties that you seek to pool and to offsets?**

3 A. Yes.

4 **Q. And Exhibit 6 is a copy of the Notice of**
5 **Publication directed to Conoco, correct?**

6 A. Yes.

7 **Q. Were Exhibits 1 through 4 prepared by you or**
8 **compiled under your direction and supervision?**

9 A. Yes.

10 MS. KESSLER: Mr. Examiner, I move
11 admission of Exhibits 1 through 6.

12 EXAMINER JONES: Exhibits 1 through 6 are
13 admitted.

14 (Matador Production Company Exhibit Numbers
15 1 through 6 are offered and admitted into
16 evidence.)

17 CROSS-EXAMINATION

18 BY EXAMINER JONES:

19 **Q. So are there separately owned tracts?**

20 A. Yeah. Section 10 is --

21 **Q. All fee?**

22 A. -- it is all fee, and it's pretty chopped up,
23 especially in the south half of the north half, not as
24 much in the north half of the north half. But there are
25 still quite a few number of tracts, probably 15 or 16

1 tracts in the north half.

2 Q. 15 or 16.

3 And ConocoPhillips, where do they own?

4 A. I don't have the exact quarter-quarter
5 memorized, but --

6 Q. It's just one quarter-quarter?

7 A. It's broken down more than that, but yeah, it's
8 just one description. They only own in one tract.

9 Q. Oh, one tract.

10 A. Yeah. But it's smaller than a quarter-quarter.

11 Q. Oh, wow. Okay.

12 Okay. How did Matador get interested in
13 that?

14 A. Just through a series of acquisitions, some
15 directly -- but mostly acquisitions.

16 Q. Okay. Thanks a lot.

17 A. Thank you.

18 ANDREW PARKER,

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

21 DIRECT EXAMINATION

22 BY MS. KESSLER:

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

1 A. Andrew Parker, Matador Resources, and I'm a
2 senior geologist.

3 **Q. And were your qualifications as an expert in**
4 **petroleum geology previously accepted and made matter of**
5 **record?**

6 A. Yes.

7 MS. KESSLER: Mr. Examiner, I'd tender
8 this witness as an expert in petroleum geology.

9 EXAMINER JONES: He is so qualified.

10 **Q. (BY MS. KESSLER) Would you please turn to**
11 **Exhibit 7 and identify this exhibit for the Examiners?**

12 A. This is a location map of the Northern Delaware
13 Basin and showing our project area within Eddy County
14 highlighted by the yellow box.

15 **Q. And Exhibit 8 is a structure map of the Bone**
16 **Spring in this area, correct?**

17 A. Yes.

18 **Q. Can you please walk us through this exhibit?**

19 A. As she [sic] said, top of Bone Spring Formation
20 and 50-foot contour intervals showing the general -- the
21 general low dip to the east, from west to east. You can
22 see the project area highlighted in yellow with the
23 surface hole and proposed lateral of the Guitar 121, as
24 well as the cross-section reference line from A to A
25 prime, which is used in the following exhibit.

1 Q. And is there anything about this structure in
2 this section that leads you to believe there are any
3 geologic hazards?

4 A. No.

5 Q. Exhibit 9 corresponds to your line of section
6 on Exhibit 8; is that correct?

7 A. Yes.

8 Q. Can you please walk us through this exhibit?

9 A. This is a stratigraphic cross section from A to
10 A prime, which is roughly from west to east, going
11 through the area of interest, showing the proposed
12 lateral of the Guitar 121 and where it will land in the
13 lower portion of the 2nd Bone Spring Sand.

14 Q. Do you see any major thickening or thinning of
15 the formation in the proposed spacing units.

16 A. No.

17 Q. Do you believe that's fairly continuous across
18 the acreage?

19 A. Yes.

20 Q. Is Exhibit 10 a gross isopach map of the area?

21 A. Yes.

22 Q. Can you please walk us through this exhibit?

23 A. It's a gross isopach of the entire Bone Spring
24 Formation with 25-foot contour intervals showing there
25 is relatively minor changes within the area, but over

1 the area of interest within the project area and along
2 the lateral, it's a fairly continuous thickness.

3 Q. What conclusions have you drawn based on your
4 study of this area?

5 A. Horizontal drilling in this area is the best
6 way to develop the 2nd Bone Spring Sand here. We
7 believe that all quarters along this lateral will
8 produce -- produce the same and that there are no
9 hazards in this area.

10 Q. And Exhibit 11 is a wellbore diagram showing
11 that this well will be no closer than 330 feet of the
12 outer boundary of the spacing units, correct?

13 A. That's correct.

14 Q. So it will be orthodox under the pool rules?

15 A. Yes.

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

18 A. Yes.

19 MS. KESSLER: Mr. Examiner, I move
20 admission of Exhibits 7 through 11.

21 EXAMINER JONES: Exhibits 7 through 11 are
22 admitted.

23 (Matador Production Company Exhibit Numbers
24 7 through 11 are offered and admitted into
25 evidence.)

1 EXAMINER JONES: I'm sorry. I don't have
2 any more questions.

3 MS. KESSLER: That's how I feel, too.

4 EXAMINER JONES: Thank you.

5 THE WITNESS: Thank you very much.

6 MS. KESSLER: I'd ask, Mr. Examiner, this
7 case be taken under advisement.

8 EXAMINER JONES: Case 15784 is taken under
9 advisement.

10 (Case Number 15784 concludes, 1:59 p.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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