

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. 15787

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 31, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief 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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1 (8:44 a.m.)

2 EXAMINER JONES: At this time let's call
3 Case Number 15787, which is application of Matador
4 Production Company for a nonstandard spacing and
5 proration unit and compulsory pooling, Lea County, New
6 Mexico.

7 Call for appearances in that case.

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

11 MR. HALL: Scott Hall, Montgomery &
12 Andrews, Santa Fe, on behalf of Advance Energy Partners,
13 LLC. No witnesses.

14 MS. KESSLER: Two witnesses today,
15 Mr. Examiner, and they've been previously sworn in.

16 EXAMINER JONES: Let the record show the
17 witnesses have been sworn.

18 CARRIE HAHN,
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.**

24 A. My name is Cassie Hahn. I work for Matador
25 Resources Company as an associate landman.

1 Q. Have you previously testified before the
2 Division?

3 A. Yes.

4 Q. And were your credentials as a petroleum
5 landman accepted and made a matter of record?

6 A. Yes.

7 MS. KESSLER: Mr. Examiner, I would ask
8 that Ms. Hahn once again be qualified as a petroleum
9 landman.

10 MR. HALL: No objection.

11 EXAMINER JONES: She is so qualified.

12 Q. (BY MS. KESSLER) Ms. Hahn, let's turn to
13 Exhibit 1, and please explain what Matador seeks for the
14 204H well application?

15 A. We seek to pool uncommitted interest owners in
16 the nonstandard spacing unit, approximately 160 acres.

17 Q. And you seek to pool uncommitted interest
18 owners in the Wolfcamp Formation?

19 A. Yes.

20 Q. And, once again, two federal leases, correct?

21 A. Yes.

22 Q. Is Exhibit 2 the C-102 for the Verna Rae Fed
23 Com #204H well?

24 A. Yes.

25 Q. What is the spacing unit for this well?

1 A. It's 160 acres in the east half-east half of
2 Section 6, 20 South, 34 East.

3 Q. Again, Lea County, correct?

4 A. Correct.

5 Q. What is the pool for the Wolfcamp in this area?

6 A. It is the Tonto; Wolfcamp.

7 Q. And is that pool subject to Division statewide
8 rules for oil wells?

9 A. Yes.

10 Q. So 40-acre spacing and 330-foot setbacks,
11 correct?

12 A. Yes.

13 Q. Will the completed interval comply with the
14 330-foot setbacks?

15 A. Yes.

16 Q. Does Exhibit 3 identify the interest owners in
17 the spacing unit?

18 A. Yes, it does.

19 Q. And this is identical ownership as the Bone
20 Spring Formation, correct?

21 A. Correct.

22 Q. And this shows the total interest in the
23 spacing unit and the owners that you seek to pool?

24 A. Yes.

25 Q. Are these all uncommitted working interest

1 owners?

2 A. They are.

3 Q. Is Exhibit 4 a copy of the well-proposal letter
4 that you sent to the uncommitted interest owners?

5 A. Yes, it is.

6 Q. And, again, this is just a sample, but you did
7 send a copy to each of the uncommitted interest owners?

8 A. Correct. Yes.

9 Q. On what date was this letter sent?

10 A. It was sent on April 6th, 2017.

11 Q. And it included an AFE?

12 A. Yes. And that's dated March 30th, 2017.

13 Q. Are the costs on the AFE consistent what other
14 operators in the area charge for similar wells?

15 A. Yes.

16 Q. And has Matador estimated overhead and
17 administrative costs for drilling and producing the 204H
18 well?

19 A. Yes.

20 Q. What are those?

21 A. They are 7,000 for drilling and 700 for
22 production.

23 Q. Are those in line with what other operators in
24 the area charge for similar wells?

25 A. Yes.

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

3 A. Yes.

4 Q. And that they be adjusted periodically in
5 accordance with the COPAS accounting procedures?

6 A. Yes.

7 Q. For uncommitted working interest owners, do you
8 request that the Division impose a 200 percent risk
9 penalty?

10 A. Yes.

11 Q. Is Exhibit 5 a summary of communications
12 between Matador and the uncommitted interest owners?

13 A. Yes, it is.

14 Q. Can you review this for us, please?

15 A. Sure.

16 We sent the proposals in April. We have
17 sent a variety of deal structures to all interest
18 owners.

19 Q. So you've had contact with all the uncommitted
20 working interest owners, correct?

21 A. Yes.

22 Q. And, once again, can you briefly discuss your
23 interaction with Advance?

24 A. Sure.

25 Advance had purchased Devon Energy's

1 interest. We started talking back and forth with them,
2 submitting proposals, JOAs, com agreements, and
3 currently we are working on finalizing a JOA.

4 Q. You were able to locate all of the working
5 interest owners?

6 A. Yes.

7 Q. In your opinion, have you made a good-faith
8 effort to reach an agreement with all of the uncommitted
9 interests?

10 A. Yes, we have.

11 Q. Did you also identify, for the 204H well, the
12 40-acre offsets in the Wolfcamp?

13 A. Yes, we did.

14 Q. Is Exhibit 6 an affidavit prepared by my office
15 with attached letters notifying the parties to be pooled
16 and the 40-acre offsets of this hearing?

17 A. Yes.

18 Q. And Exhibit 7 is a Notice of Publication; is
19 that correct?

20 A. Correct.

21 Q. Were Exhibits 1 through 5 prepared by you or
22 compiled under your direction and supervision?

23 A. Yes, they were.

24 MS. KESSLER: Mr. Examiner, I'd move
25 admission of Exhibits 1 through 7.

1 MR. HALL: No objection.

2 EXAMINER JONES: Exhibits 1 through 7 are
3 admitted.

4 (Matador Production Company Exhibit Numbers
5 1 through 7 are offered and admitted into
6 evidence.)

7 EXAMINER JONES: Any questions?

8 MR. HALL: No questions.

9 CROSS-EXAMINATION

10 BY EXAMINER JONES:

11 Q. So this is similar to the previous two, just a
12 different pool?

13 A. Just a different pool, correct.

14 Q. But it is east half-east half?

15 A. East half-east half, yes, sir.

16 Q. Okay. But no well proposed in the west
17 half-east half for the Wolfcamp?

18 A. No, not for the Wolfcamp.

19 Q. You're going to wait and do it later maybe?

20 A. Yes.

21 Q. Will the JOA include the whole west -- east
22 half?

23 A. The JOA -- yes, sir.

24 Q. So you're trying to get the com, the JOA and
25 the well all approved by Advance and all the other

1 **owners, too?**

2 A. Yes.

3 **Q. And Advance is the majority owner?**

4 A. Yes, with a little over 44 percent.

5 **Q. How did Matador obtain an interest in this**
6 **area?**

7 A. We have just, through time, gotten interests
8 from just a chain of title down from the federal lease.

9 **Q. So you purchased --**

10 A. It's been assigned to us.

11 **Q. Assigned?**

12 A. Uh-huh.

13 **Q. Okay. How much does Matador have right now?**

14 A. We have exactly 25 percent right now.

15 **Q. 25 percent?**

16 A. We are still working on deals as well.

17 **Q. Okay. The well location, it's right next to**
18 **the other two wells; is that correct?**

19 A. So the well location for this one was actually
20 on the same pad. We have a three-pad batch, and we'll
21 be drilling those together.

22 **Q. Is it in the R-111-P area?**

23 A. It is. The surface hole is right outside that.
24 So that's why we don't need to do a development plan,
25 and we don't have to have any waivers or anything.

1 Q. Okay. Okay. Yeah. I know the district -- so
2 it's all going to be standard location?

3 A. Yes.

4 Q. Okay. The location -- well location, you don't
5 think will change?

6 A. No.

7 Q. It's pretty much --

8 A. I hope not. Yes. We've already had our
9 on-site inspection, and it's approved by the BLM on the
10 surface. So we're just waiting on an APD.

11 Q. And Paul Kautz approved the pool name?

12 A. Yes.

13 Q. Okay. That's the Tonto.

14 No special pool rules?

15 A. No, not that I'm aware of.

16 Q. Okay. Okay. Thank you very much.

17 A. Thank you.

18 JAMES A. "ANDY" JUETT,
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.

24 A. James Andrew Juett.

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

1 A. Matador Resources as a senior staff geologist.

2 MS. KESSLER: Mr. Examiner, I would once
3 again ask that Mr. Juett be qualified as an expert in
4 petroleum geology.

5 MR. HALL: No objection.

6 EXAMINER JONES: He is so qualified.

7 **Q. (BY MS. KESSLER) Mr. Juett, can you please**
8 **identify Exhibit 8 for us?**

9 A. Yes.

10 Exhibit 8 is a locator map to show where
11 our project is in Lea County, New Mexico. And the
12 proration unit that we are seeking to pool is outlined
13 in the red rectangles with the green fill. The
14 surface-hole location is the blue square, and the
15 bottom-hole location is the red circle. And, again,
16 this shows the potash outline that we are just outside
17 of.

18 **Q. Exhibit 9 is a structure map of the Wolfcamp in**
19 **the subject area?**

20 A. Yes, it is.

21 **Q. Walk us through this exhibit, please.**

22 A. Okay. Again, the structure shows that the
23 Wolfcamp Formation dips gently to the southeast -- or
24 west -- excuse me -- and that we should not have any
25 geologic hazards to drilling a horizontal well in this

1 area. Also, it shows -- the horizontal wells that are
2 producing are outlined in the colors. And one thing to
3 note is that there is not a Wolfcamp well on this map.

4 Q. Do you know the location of the closest
5 Wolfcamp well?

6 A. It's about five miles to the northeast.

7 Q. Did you prepare a cross section of the logs to
8 determine the relative thickness of the Wolfcamp in this
9 area?

10 A. Yes, I did.

11 Q. And you have an A to A prime section line on
12 here. Does that correspond with Exhibit 10?

13 A. That's correct.

14 Q. Can you please review Exhibit 10?

15 A. Exhibit 10 is a stratigraphic cross section
16 that's hung on the Wolfcamp Formation. And it basically
17 shows that the Wolfcamp is fairly uniform across the
18 proration unit, and we don't expect any geologic hazards
19 to drill this well. And it also shows the approximate
20 landing location for our lateral.

21 Q. Have you identified any major thickening or
22 thinning of the formation bases on these logs?

23 A. No, I have not.

24 Q. Is Exhibit 11 a gross thickness isopach of this
25 area?

1 A. Yes, it is.

2 **Q. What does this show us?**

3 A. Again, across the proration unit, we can expect
4 the formation to be fairly uniform, but the thicknesses
5 will be anywhere from about 1,300 feet thick to 1,325
6 feet thick across the proration unit.

7 **Q. What conclusions have you drawn on your --**

8 A. The Wolfcamp is fairly uniform across the
9 proration unit and that all quarter-quarter sections
10 should be productive and drilling a horizontal well will
11 be the most economic way to produce the reserves.

12 **Q. Is Exhibit 12 the wellbore diagram showing that**
13 **the first and last take points will be no closer than**
14 **330 feet to the outer boundary of the spacing units?**

15 A. Yes, it is.

16 **Q. In your opinion, will granting Matador's**
17 **application be in the best interest of conservation, for**
18 **the prevention of waste and the protection of**
19 **correlative rights?**

20 A. Yes.

21 **Q. Were Exhibits 8 through 12 prepared by you or**
22 **compiled under your direction and supervision?**

23 A. Yes, they were.

24 MS. KESSLER: Mr. Examiner, I'd move
25 admission of Exhibits 8 through 12.

1 MR. HALL: No objection.

2 EXAMINER JONES: Exhibits 8, 9, 10, 11 and
3 12 are admitted.

4 (Matador Production Company Exhibit Numbers
5 8 through 12 are offered and admitted into
6 evidence.)

7 EXAMINER JONES: Any questions for the
8 geologist?

9 MR. HALL: No questions.

10 CROSS-EXAMINATION

11 BY EXAMINER JONES:

12 Q. Why did you pick the east half-east half and
13 not the west half-east half?

14 A. Just to get started on one side. We'll work
15 our way across as we go.

16 Q. Were the control logs that you -- or control
17 points you used the same as on the last two cases?

18 A. Yes.

19 Q. Where are those on the map?

20 A. What you'll see on the map is on the -- the
21 structure map?

22 Q. Yeah, I guess structure map.

23 A. Exhibit 9?

24 Q. 9.

25 A. Exhibit 9 is the structure map. This has all

1 the wells that have been drilled in the area. The
2 control points for the Wolfcamp -- you can see the red
3 gas symbols on here --

4 Q. Okay.

5 A. -- those are Morrow tests. Almost every one of
6 those are Morrow tests. So those would have penetrated
7 the Wolfcamp Formation.

8 Q. Okay. And they have decent logs through the
9 Bone Spring and the --

10 A. Yes, sir.

11 Q. -- and Upper --

12 A. Yes, sir. Most of them were drilled in the
13 '70s to '80-ish range, and so they had some decent logs.

14 Q. Is the Morrow any good out here?

15 A. Some of these wells are very good Morrow wells.
16 Unfortunately, it's gassy.

17 Q. Tends to be that way, I guess.

18 Okay. Now, the Upper Wolfcamp -- is there
19 a name for this Upper Wolfcamp? You said 1,300 feet
20 gross thickness?

21 A. Yes, sir.

22 Q. Do you have a vernacular that you use for that?

23 A. This particular interval that we're going to
24 drill, I believe Matador called it the Y sands.

25 Q. You're calling it the Y sands?

1 A. Yes, sir.

2 Q. Does Paul Kautz have a name for it, or
3 everybody's got their own name?

4 A. I think each company has their own names. And
5 some of us use some of the same naming conventions, but
6 every company can call them something different.

7 Q. And why this Upper Wolfcamp rather than deeper
8 in the Wolfcamp? Because it's Lea County, and it's oil
9 in the Upper Wolfcamp; is that correct?

10 A. It's Lea County, and this is an area that we've
11 been wanting to test, and this is the location we chose
12 to test it.

13 Q. Okay. Thanks very much.

14 A. You're welcome.

15 EXAMINER JONES: That'll be all in these
16 cases?

17 MS. KESSLER: (Indicating.)

18 EXAMINER JONES: Case Number 15787 is taken
19 under advisement.

20 (Case Number 15787 concludes, 8:59 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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