

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. 15796
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

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
 New Mexico CCR #20
 Paul Baca Professional Court Reporters
 500 4th Street, Northwest, Suite 105
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1 APPEARANCES

2 FOR APPLICANT MATADOR PRODUCTION COMPANY:

3 JORDAN L. KESSLER, ESQ.
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 6

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25

1 (1:36 p.m.)

2 EXAMINER JONES: Call Case Number 15796,
3 application of Matador Production Company for compulsory
4 pooling in Eddy County, New Mexico.

5 Call for appearances.

6 MS. KESSLER: Mr. Examiners, Jordan
7 Kessler, from the Santa Fe office of Holland & Hart, on
8 behalf of the Applicant.

9 EXAMINER JONES: Any other appearances?

10 MS. KESSLER: Same two witnesses.

11 EXAMINER JONES: Let the record show the
12 witnesses have been sworn.

13 EXAMINER WADE: And qualified.

14 EXAMINER JONES: And qualified.

15 CARRIE HAHN,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. KESSLER:

20 **Q. Can you please state your name, by whom you're**
21 **employed and in what capacity?**

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

24 MS. KESSLER: Mr. Examiner, I'd request
25 that she be admitted as an expert petroleum landman.

1 EXAMINER JONES: She is qualified as an
2 expert in petroleum land matters.

3 Q. (BY MS. KESSLER) Ms. Hahn, can you turn to
4 Exhibit 1 and tell the Examiners what this is?

5 A. This is the entire pool, entire north half,
6 greater acres of uncommitted working interest.

7 Q. And that would be in the north half of
8 Section 2 [sic], uncommitted interest owners in the
9 Wolfcamp Formation?

10 A. In the north half of Section 32.

11 Q. And this is one federal lease, correct?

12 A. Yes. Correct.

13 Q. Is Exhibit 2 the C-102 for the Pennzoil 32 Fed
14 #201H well?

15 A. Yes.

16 Q. And, again, this is the -- the spacing is
17 comprised of the north half of Section 32, Township 20
18 South, 29 East, Eddy County?

19 A. Correct.

20 Q. What pool is in the Wolfcamp in this area?

21 A. This is the Burton Flat; Wolfcamp, East (Gas).

22 Q. Is that pool subject to Division statewide
23 setbacks for gas wells?

24 A. Yes.

25 Q. So 660-acre setbacks and 320-acre spacing?

1 A. Yes.

2 Q. Will Matador be applying administratively for
3 an unorthodox location in this well?

4 A. Yes.

5 Q. So the setback for the completed interval will
6 be approximately 330 feet?

7 A. Correct. Yes.

8 Q. Is Exhibit 3 a summary of the interests in the
9 spacing units?

10 A. It is.

11 Q. And this shows that the only company that
12 Matador seeks to pool is Marathon Oil Corporation,
13 correct.

14 A. Yes. Correct.

15 Q. Are they an uncommitted working interest owner?

16 A. They are.

17 Q. Is Exhibit 4 a copy of the well-proposal
18 letters that you sent to the interest owners at the time
19 of the well proposal?

20 A. Yes.

21 Q. And these were sent on May 1st, 2017?

22 A. That's correct.

23 Q. Did it include an AFE?

24 A. It did.

25 Q. That's the last page of Exhibit 4, correct?

1 A. Correct.

2 Q. And these interests were acquired by Marathon?

3 A. That's correct.

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

6 A. They are.

7 Q. And what overhead and administrative costs has
8 Matador estimated?

9 A. We estimated 7,000 for drilling and 700 a month
10 for production.

11 Q. Are those similar to what other operators from
12 the area charge for similar wells?

13 A. Yes.

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

16 A. Yes, we do.

17 Q. And do you ask that they be periodically
18 adjusted in accordance with the COPAS accounting
19 procedures?

20 A. Yes, we do.

21 Q. For the uncommitted working interest owners, do
22 you request that the Division impose a 200 percent risk
23 penalty?

24 A. Yes.

25 Q. Exhibit 5 reflects email correspondence between

1 **Matador and Marathon, correct?**

2 A. Correct.

3 **Q. Approximately how long have you been**
4 **negotiating with Marathon?**

5 A. Since early June.

6 **Q. And they're aware of these well-proposal**
7 **letters, and you're working on an agreement, correct?**

8 A. Yes. Correct.

9 **Q. And you've had lengthy communication with them?**

10 A. Correct. Yes.

11 **Q. In your opinion, have you made a good-faith**
12 **effort to reach an agreement with Marathon?**

13 A. Yes, we have.

14 **Q. Is Exhibit 6 an affidavit with attached letters**
15 **providing notice of this hearing to Marathon?**

16 A. Yes.

17 **Q. And out of an abundance of caution, did you**
18 **also publish notice in Eddy County, which is included as**
19 **Exhibit 7?**

20 A. Yes, we did.

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 EXAMINER JONES: Exhibits 1 through 7 are
2 admitted.

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

6 CROSS-EXAMINATION

7 BY EXAMINER JONES:

8 Q. The same parties involved?

9 A. Yes, sir, and the same term assignments.

10 Q. Term assignments --

11 A. Yes, sir.

12 Q. -- still a separate --

13 A. It depends. We can make the term assignment
14 say all depths, or we can make them separate. It
15 depends on what Marathon would like to do.

16 Q. Okay. Okay. And this is on the edge of the
17 potash; is that correct?

18 A. This one is, yes, that we are outside of the
19 R-111-P.

20 Q. Okay. I don't have any more questions.

21 EXAMINER WADE: No questions.

22 EXAMINER JONES: Thank you.

23 THE WITNESS: Thank you very much.

24 JAMES A. "ANDY" JUETT,

25 after having been previously sworn under oath, was

1 questioned and testified as follows:

2 DIRECT EXAMINATION

3 BY MS. KESSLER:

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

7 A. James Andrew Juett. I'm employed by Matador
8 Resources as a senior staff geologist.

9 MS. KESSLER: Mr. Examiners, once again I'd
10 tender Mr. Juett as an expert petroleum geologist.

11 EXAMINER JONES: He is so qualified.

12 **Q. (BY MS. KESSLER) Would you please turn to**
13 **Exhibit 9 -- no -- Exhibit 8 and identify this exhibit?**

14 A. Yes. This is a locator map showing our project
15 area in Eddy County, New Mexico. It has our proration
16 unit outlined in red, filled in with the green circle.
17 Again, the surface-hole location is the blue square, and
18 the bottom hole is the blue circle. And the -- just to
19 the -- on the little inset map, you can see the potash
20 outline is just to the east of us there, about a mile
21 and a quarter mile to the east of us there.

22 **Q. Exhibit 9 is a structure map of the Wolfcamp**
23 **for this area?**

24 A. Yes, it is.

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

1 A. This shows us that the Wolfcamp structure dips
2 gently to the southeast and that we don't expect to have
3 any geologic hazards in drilling this well. There
4 shouldn't be any faulting or pinch-outs in this area and
5 that we expect it to be fairly uniform across the
6 project area.

7 **Q. What is the closest producing Wolfcamp well?**

8 A. We have two wells that produce -- they're
9 2-and-a-half to 3 miles away. They're just off this map
10 to the northwest, and they are -- OXY, I believe, is the
11 operator in those wells. They were re-entries in 2008
12 of a couple of Morrow wells, and they were short
13 laterals. They kicked off in a Wolfcamp carbonate
14 that's at the top of the Wolfcamp that we don't have in
15 this area. But they're just off this map. But that
16 carbonate's flow -- debris flow is not in our particular
17 project area here. And they're half-mile laterals.

18 **Q. But you were able to obtain logs covering the**
19 **Wolfcamp for the cross-section exhibit; is that correct?**

20 A. Yes. That is correct.

21 And the control for this -- again, the data
22 is a little sparser in this area, but the red gas well
23 symbols are old Morrow wells that penetrated the entire
24 Wolfcamp section.

25 **Q. You used three wells for the cross-section**

1 **exhibit?**

2 A. Yes, I did.

3 **Q. Are those wells representative of the Wolfcamp**
4 **in this area?**

5 A. Yes, they are.

6 **Q. Would you please review Exhibit 10 for us?**

7 A. Exhibit 10 is a stratigraphic cross section
8 that is hung on the top of the Wolfcamp, and it shows
9 the base of the Wolfcamp by the top of the Strawn, and
10 it shows that the interval is fairly uniform through
11 here. Thicknesses aren't changing much, and we
12 shouldn't expect many geologic hazards drilling this
13 well. It also shows the lateral interval that we are
14 looking to produce.

15 **Q. Would you please walk us through Exhibit 11?**

16 A. Exhibit 11 is a gross thickness isopach of the
17 Wolfcamp interval. And, again, this isopach shows that
18 the Strawn gross thickness -- or the Wolfcamp gross
19 thickness is fairly uniform across the area and doesn't
20 change much, and we, again, don't expect any geologic
21 hazards in this area.

22 **Q. And, again, this reflects that there aren't any**
23 **Wolfcamp wells in the immediate area?**

24 A. That's correct. Yes.

25 **Q. And what conclusions have you drawn based on**

1 **your study of this area?**

2 A. That the drilling of these wells should be the
3 most economic way to produce the reserves, that all
4 quarter-quarter sections should be productive, and we
5 don't expect any geologic hazards in the area.

6 Q. Exhibit 12 is wellbore diagram showing that the
7 completed interval will be no closer than 330 feet from
8 the outer boundary of the spacing units?

9 A. Yes. That's correct.

10 Q. It's unorthodox under the pool rules; is that
11 correct?

12 A. Yes. Uh-huh.

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

17 A. Yes, it will.

18 Q. Were Exhibits 8 through 12 prepared by you or
19 compiled under your direction and supervision?

20 A. Yes, they were.

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

23 EXAMINER JONES: Exhibits 8 through 12 are
24 admitted.

25 (Matador Production Company Exhibit Numbers

1 8 through 12 are offered and admitted into
2 evidence.)

3 CROSS-EXAMINATION

4 BY EXAMINER JONES:

5 Q. So this was an application just for compulsory
6 pooling?

7 MS. KESSLER: Correct.

8 Q. (BY EXAMINER JONES) And that Strawn is
9 pretty -- looks like easy to see, but was there were any
10 Penn in this area?

11 A. There is a little Upper Penn, yes, sir, and
12 it's about 100 -- on this cross section, it's about 100
13 feet thick, and it sits on the top of the Strawn.

14 Q. Okay. That really thinned out there.

15 A. Uh-huh.

16 Q. Is that Strawn any good?

17 A. It does produce in some areas, more
18 conventionally. So where they find porosity, it does
19 produce.

20 Q. So this is pretty risky because it's
21 2-and-a-half, 3 miles away. The well that you were
22 talking about, the half-mile well, is that in pretty
23 much -- was it shot in the same zone you're going to
24 drill in?

25 A. No, sir. It is in the upper portion of the

1 Wolfcamp. It is a pretty good, thick --

2 **Q. You said carbonate?**

3 A. It's a carbonate that's in the -- it's about
4 150 feet below the top of the Wolfcamp, is where that
5 carbonate comes in.

6 **Q. Okay. Good luck with your well.**

7 A. All right. Thank you.

8 EXAMINER JONES: Okay. Thank you very
9 much.

10 Case Number 15796 is taken under
11 advisement.

12 I guess everything will be fine there
13 unless they change the pool name, which would change
14 everything. Hopefully that won't happen.

15 (Case Number 15796 concludes, 1:48 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

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