

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 KAISER-FRANCIS OIL COMPANY FOR A NONSTANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.	CASE NOs. 16137, 16138, 16139, 16140
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Consolidated with

APPLICATION OF KAISER-FRANCIS OIL COMPANY FOR A NONSTANDARD GAS SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.	CASE NO. 16141
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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 17, 2018

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
MICHAEL McMILLAN, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, Michael McMillan, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, May 17, 2018, 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
Albuquerque, New Mexico 87102

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APPEARANCES

FOR APPLICANT KAISER-FRANCIS OIL COMPANY:

JAMES G. BRUCE, ESQ.
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

FOR INTERESTED PARTY MATADOR RESOURCES COMPANY:

JULIA BROGGI, ESQ.
HOLLAND & HART, LLP
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421

1	INDEX	
2		PAGE
3	Case Numbers 16137, 16138, 16139, 16140 and 16141 Called	4
4		
5	Kaiser-Francis Oil Company's Case-in-Chief:	
6	Witnesses:	
7	Michael D. Maxey:	
8	Direct Examination by Mr. Bruce	5
	Cross-Examination by Examiner Dawson	21
9	Cross-Examination by Examiner Brooks	22
	Recross Examination by Examiner Dawson	28
10	Recross Examination by Examiner Brooks	28
	Cross-Examination by Examiner McMillan	29
11		
	Lee Lindman:	
12		
	Direct Examination by Mr. Bruce	31
13	Cross-Examination by Examiner Dawson	38
14	Proceedings Conclude	40
15	Certificate of Court Reporter	41
16		
17		
18		
19	EXHIBITS OFFERED AND ADMITTED	
20	Kaiser-Francis Oil Company Exhibit Numbers 1 through 14	21
21		
	Kaiser-Francis Oil Company Exhibit Numbers 15 through 17	37
22		
23		
24		
25		

1 (9:20 a.m.)

2 EXAMINER DAWSON: Now, we will move on to
3 Case Number 16137, which is an application of
4 Kaiser-Francis Oil Company for a nonstandard oil spacing
5 and proration unit and compulsory pooling, Eddy County,
6 New Mexico.

7 Call for appearances, please.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 Santa Fe representing the Applicant. I have two
10 witnesses.

11 EXAMINER DAWSON: Okay. Mr. Bruce, are
12 these cases -- are these going to be consolidated?

13 MR. BRUCE: Yeah. I'd ask that Cases
14 16137, 138, 139, 140 and 141 be consolidated for
15 hearing.

16 EXAMINER DAWSON: Okay.

17 EXAMINER BROOKS: How about we take a break
18 before we start?

19 EXAMINER DAWSON: We will take a ten-minute
20 break, and we'll start at approximately 9:30.

21 (Recess, 9:20 a.m. to 9:42 a.m.)

22 EXAMINER DAWSON: At this time we'll go
23 back on the record, and we will continue with these five
24 cases, application of Kaiser-Francis Oil Company for a
25 nonstandard oil proration unit and compulsory pooling.

1 They all involve Kaiser-Francis, the same language
2 there, and it's Case Numbers 16137, 16138, 16139, 16140
3 and 16141.

4 MS. BROGGI: I just need to enter an
5 appearance. Julia Broggi, with Holland & Hart, on
6 behalf of Matador Resources Company.

7 MR. BRUCE: And I have two witnesses,
8 Mr. Examiner, if they could be sworn.

9 EXAMINER DAWSON: Okay. Can your witnesses
10 stand and be sworn in?

11 (Mr. Maxey and Mr. Lindman sworn.)

12 EXAMINER DAWSON: Julia, do you have any
13 witnesses?

14 MS. BROGGI: No witnesses.

15 EXAMINER DAWSON: Go ahead, Mr. Bruce. You
16 may call your first witness.

17 MICHAEL D. MAXEY,
18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your full name for the
23 record?

24 A. Michael Maxey.

25 Q. Where do you reside?

1 A. Tulsa, Oklahoma.

2 **Q. Who do you work for?**

3 A. Kaiser-Francis.

4 **Q. What is your job there?**

5 A. Petroleum landman.

6 **Q. Have you testified before the Division before?**

7 A. I have.

8 **Q. And were your credentials as a petroleum**
9 **landman accepted as a matter of record?**

10 A. They were.

11 **Q. And are you familiar with the land matters**
12 **involved in these applications?**

13 A. I am.

14 MR. BRUCE: Mr. Examiner, I tender
15 Mr. Maxey as an expert petroleum landman.

16 EXAMINER DAWSON: Any objection?

17 MS. BROGGI: No objection.

18 EXAMINER DAWSON: Mr. Maxey will be
19 accepted as a petroleum landman at this time.

20 **Q. (BY MR. BRUCE) Mr. Maxey, could you identify**
21 **Exhibit 1 and describe the 320 acres of land we're here**
22 **for today?**

23 A. Yes, sir. The southeast quarter of Section 20,
24 24 South, 28 East and the southwest quarter of Section
25 21, 24 South, 28 east in Eddy County, New Mexico.

1 Q. Now, in this 320 acres, you're planning to
2 drill Wolfcamp wells, correct?

3 A. We are.

4 Q. And these are in the Purple Sage; Wolfcamp Gas
5 Pool on 320 acres?

6 A. Correct.

7 Q. There is a little red line drawn through the
8 center of those two quarter sections. Are you also
9 planning on drilling in each the north half of that
10 acreage and the south half of that acreage Brushy Canyon
11 and 3rd Bone Spring wells?

12 A. We are.

13 Q. Now, this is in the town of Loving. Is title
14 pretty messy there?

15 A. Yes, sir.

16 Q. Approximately how many people are you seeking
17 to pool at this hearing?

18 A. A little over 600, sir.

19 Q. Before we begin, can you go into -- how long
20 has Kaiser-Francis been looking to develop this area,
21 this acreage?

22 A. A little over two years.

23 Q. So a lot of title work has gone into it, hasn't
24 it?

25 A. It has.

1 Q. A lot?

2 A. Yes, sir.

3 Q. Tell us what Kaiser-Francis did either on its
4 own or through agents to determine title to locate the
5 interest owners and to try to get them to sign leases.
6 We're dealing mainly, for the most part, with unleased
7 mineral interests; are we not?

8 A. That is correct.

9 Q. And we're dealing with Loving town lots. What
10 is the general size of these lots that you're seeking to
11 force pool?

12 A. Around .172 acres, for the most part, is the
13 normal lot size for each lot. And the town -- and
14 unfortunately for us, when the town was platted, the
15 minerals were not reserved, so each town lot -- probably
16 unbeknownst to the owners of those lots, the minerals
17 passed when the town was originally platted.

18 Q. So when you're looking at these .17-acre lots,
19 there might be a number of mineral owners in each -- in
20 each tract?

21 A. That is correct. The .172-acre tracts reflect
22 the assessed lot size of the lots in the townsite. The
23 streets and alleys were not originally reserved, and
24 we're waiting on our final drilling title opinion to
25 assure us that those rights could possibly extend to the

1 center of the streets in each alley, for case law in the
2 state of New Mexico.

3 Q. And that would increase the size of the lots a
4 little bit?

5 A. It would. The presentation that we'll have in
6 other exhibits anticipates that that will be really --
7 will be the opinion of the Examiner for our title
8 opinion.

9 Q. Okay. Now, when you started looking at this
10 two years ago, you examined -- this is all fee land, is
11 this not, for the most part?

12 A. It is.

13 Q. And so you checked the county records -- County
14 Clerk's records, probate records, et cetera?

15 A. We did.

16 Q. Did you send people out, landmen out, to knock
17 on the doors of the interest owners out there?

18 A. We did. Although not all the owners in the
19 town lots actually live in the town of Loving, the
20 majority of them did. We were on-site probably 90 to
21 120 days setting up town hall meetings and trying to
22 educate the owners of these town lots really what was
23 going on, that the minerals had passed, so forth and so
24 on, and tried to obtain oil-and-gas leases at that time
25 from as many people as we could. Some were -- there's

1 no actual mail service in regard to the homes in those
2 town lots. They either have a P.O. box elsewhere or --
3 I don't really know how they get mail, to be honest with
4 you, but each person that we could find some type of
5 mailing address for, we attempted to contact. And then
6 we went door to door, almost like a salesman would,
7 trying to knock on doors, find out what was going on.

8 **Q. Did you ask family members for relatives --**
9 **information on their relatives?**

10 A. We did in connection with that. A lot of these
11 town lots, the owners didn't even know they owned in
12 this. And so there were probates and so forth that were
13 filed that didn't even include those town lots that we'd
14 been working on, affidavits of heirship and so forth
15 like that with the owners to try and put them in a title
16 position before we could obtain the oil-and-gas lease.
17 Some would answer their doors; some wouldn't. It was an
18 arduous process.

19 **Q. And a lot these interest owners have now fled**
20 **the premises and live in other towns and cities?**

21 A. They do.

22 **Q. And did you -- in trying to find those people,**
23 **did you check these telephone databases and other email**
24 **databases to try to determine the location of these**
25 **parties?**

1 A. We did.

2 Q. Let's go through the next few exhibits
3 relatively quickly.

4 A. Yes, sir.

5 Q. At the top of each of the next five exhibits,
6 for instance, the "Loving Townsite 2021 LBC #1H," that's
7 a Lower Brushy Canyon well?

8 A. It is.

9 Q. And the next one is the 3BS #1H. That's a 3rd
10 Bone Spring well?

11 A. This would be in connection with the
12 northern lateral. Yes, sir.

13 Q. Okay. So the north half -- north
14 half-southeast quarter of 20 and the north
15 half-northwest quarter of 21?

16 A. North half --

17 Q. Of the southwest quarter?

18 A. Correct. Yes, sir.

19 Q. And the interest ownership is the same in the
20 Bone Spring and the Wolfcamp, correct?

21 A. Correct.

22 Q. So in this one, even though there are separate
23 sheets, if you go through this, all of the ownership on
24 Exhibits 2 and 3 is identical?

25 A. Correct.

1 Q. And then Exhibits 4 and 5 for the LBC #2H, the
2 Lower Brushy Canyon 2H and the 3rd Bone Spring 2H, those
3 are in the south half of this 320 acres?

4 A. That is correct.

5 Q. And, again, the ownership in the Bone Spring
6 and the Delaware is identical?

7 A. That is correct.

8 Q. And finally, we've got Exhibit 6, which is the
9 total ownership in this 320-acre area?

10 A. That is correct.

11 Q. And these are for the Wolfcamp wells?

12 A. Correct.

13 Q. And each of these sets forth the parties
14 decimal interest in the wells?

15 A. They are in the unit. Yes, sir.

16 Q. Okay. Now, except for -- let's go in -- one of
17 the parties notified as to the southern portion of this
18 320 acres is the Lovington [sic] Municipal School
19 District. Are you dismissing them from this?

20 A. We are.

21 Q. And then there is a Matador entity in the
22 northern part of the well unit. What is the status of
23 the relations -- of the ownership of Matador vis-à-vis
24 Kaiser-Francis?

25 A. We are in the process of finalizing a trade

1 agreement with Matador where we would acquire this
2 interest in a swap for interest outside this area.

3 **Q. And you are pretty close to reaching an**
4 **agreement, I gather?**

5 A. We are.

6 **Q. And at such time, will you notify the Division**
7 **that the Matador entity is no longer being subject to**
8 **pooling?**

9 A. Yes.

10 **Q. You were talking about 600 people here that you**
11 **were able to take leases from originally?**

12 A. Correct.

13 **Q. Since the well proposal and the pooling notices**
14 **have gone out, have you been contacted by quite a number**
15 **of people seeking to sign oil-and-gas leases?**

16 A. I have. I've learned a great lesson, that
17 somebody else's number besides mine will be the one
18 called the next time we pool this many people
19 (laughter).

20 **Q. Yeah.**

21 **And are you sending leases to these people**
22 **hoping they will lease their --**

23 A. We are very interested in taking oil-and-gas
24 leases from anyone that we're able to negotiate with.
25 Yes, sir.

1 Q. And will you continue to do so past the date of
2 this hearing?

3 A. Yes.

4 Q. A lot of these people didn't react until they
5 got my letters, apparently?

6 A. That is correct.

7 Q. I wonder why (laughter)?

8 Let's go into -- first of all, what is
9 Exhibit 7?

10 A. That is the original letter that went out to
11 all of the unleased mineral owners back in 2016 that we
12 mailed out in front of our town hall meetings that we
13 did in 2016.

14 Q. And this is just one of the letters. They went
15 out to everyone -- everyone on Exhibit 6 other than --
16 other than the Matador entity?

17 A. Correct.

18 Q. And at this point, other than the two parties
19 you mentioned, you do seek to force pool everyone who is
20 listed on Exhibit 6?

21 A. Yes.

22 Q. And if they lease their interests, will you so
23 notify the OCD so they are not subject to the pooling
24 order?

25 A. I will.

1 Q. And over the last couple of years, have you
2 continued to contact people not only with letters but
3 via phone calls or having your brokers go out and try to
4 lease those parties?

5 A. Yes. When we -- from 2016 to date, we went
6 back in and updated our records. And any changes to
7 those from our initial mail-out in 2016, we've contacted
8 those owners as well by phone. There has been a 1-800
9 number through our broker that is continuing to be open
10 and available for anyone to call, and we have been
11 reactive to those calls.

12 Q. And then in April, did you send out formal
13 well-proposal letters in case somebody wanted to join in
14 the well?

15 A. Yes.

16 Q. And are those marked as Exhibits 8, 9 and 10?

17 A. They are.

18 Q. Now, does Exhibit 8 contain the Brushy Canyon
19 and the Bone Spring well-proposal letters for the north
20 half of the 320 acres?

21 A. They do.

22 Q. And, again, these two letters would have gone
23 out to the same group of people?

24 A. Correct.

25 Q. Similarly for Exhibit 9, are those the Brushy

1 Canyon and Bone Spring proposal letters for the south
2 half of this 320 acres?

3 A. They are.

4 Q. And finally, Exhibit 10 is for everybody in
5 that 320 acres for the Wolfcamp?

6 A. Correct. Yes, sir.

7 Q. In your opinion, has Kaiser-Francis made a
8 good-faith effort to locate all of the mineral interest
9 owners in this 320 acres?

10 A. We have.

11 Q. And in your opinion, have you made a good-faith
12 effort to -- of the locatable interest owners, have you
13 made a good-faith effort to obtain a voluntary joinder
14 of these interest owners in the wells?

15 A. We have.

16 Q. Now, referring to Exhibit 8, the second page of
17 your proposal letter is the -- are the AFEs for the
18 Lower Brushy Canyon and the Bone Spring -- 3rd Bone
19 Spring wells. What are the approximate completed well
20 costs of these two types of wells?

21 A. Yes. For the Lower Brushy Canyon in the north
22 lateral, completed well costs, \$5,595,078, and for the
23 3rd Bone Spring, completed well costs, \$6,596,938.

24 Q. And similar costs apply to the Brushy Canyon
25 and the 3rd Bone Spring wells in the south half of this

1 **320 acres; is that correct?**

2 A. Those AFEs do match. Yes.

3 **Q. And what are the estimated Wolfcamp well costs?**

4 **Now, the geologist will explain this more, but you're**
5 **proposing four Wolfcamp wells; is that correct?**

6 A. Correct.

7 I'd like to step back in regard to Exhibit
8 9, if I could, please.

9 **Q. Sure.**

10 A. The completed well cost is slightly different
11 for the southern laterals. In regard to the Lower
12 Brushy Canyon wells for the southern lateral,
13 \$5,557,192, completed costs. For the 3rd Bone Spring
14 well, 6,596,938.

15 **Q. And Kaiser-Francis is going to be testing two**
16 **separate zones in the Wolfcamp; is that correct?**

17 A. That is correct.

18 **Q. And what are the approximate completed well**
19 **costs for the two different types of Wolfcamp wells?**

20 A. For the Loving Townsite 2021 WA 1H Wolfcamp
21 well, completed cost, 7,603,112. For the WA 2H,
22 7,579,220.

23 **Q. And those are the Upper Wolfcamp wells?**

24 A. That is correct.

25 For the WC 1H Wolfcamp well, 7,789,930, and

1 for the WC 2H, 7,750,984.

2 Q. And are the costs of the Brushy Canyon, Bone
3 Spring and Wolfcamp wells reasonable and in line with
4 the costs of other similar wells drilled in this area of
5 southeast New Mexico?

6 A. They are.

7 Q. And do you have a recommendation for the
8 amounts that Kaiser-Francis should be paid for
9 administrative and overhead rates?

10 A. I do. \$8,000 per month for drilling well and
11 800 per month for producing.

12 Q. And are these amounts fair and reasonable and
13 in line with the costs charged by other operators in
14 this area for wells of this type?

15 A. They are.

16 Q. Do you request that these overhead rates be
17 adjusted periodically as provided by the COPAS
18 accounting procedure?

19 A. Yes, sir.

20 Q. If the party goes nonconsent, do you request
21 that the maximum plus 200 risk charge be assessed
22 against that person?

23 A. Yes, sir.

24 Q. And were the parties being pooled notified of
25 these hearings, of these applications?

1 A. Yes.

2 MR. BRUCE: And, Mr. Examiner, Exhibit 11
3 is my notice letter with the notice list attached for
4 the Brushy Canyon and Bone Spring wells in the northern
5 portion of this 320 acres. Exhibit 12 is notice letter
6 for the Brushy Canyon and Bone Spring wells for the
7 southern 160-acre well units. And Exhibit 13 is my
8 notice letter for all of the Wolfcamp 320-acre interest
9 owners.

10 As I indicated prior to the hearing, we're
11 still getting in green cards and everything else, and I
12 just had sent in a publication notice as against the X
13 number of persons who did not receive green cards. So
14 at the end of this, I'd ask that the matter be continued
15 two weeks to get all the green cards to you, as well as
16 the Affidavit of Publication.

17 Q. **(BY MR. BRUCE) And finally, Mr. Maxey, does**
18 **Exhibit 14 list the offset operators to all of the wells**
19 **in these proposed well units?**

20 A. It does.

21 MR. BRUCE: And, Mr. Examiner, I did mail
22 the notice, I will submit, to the offsets. And I'm
23 waiting for one green card back, but I will submit that
24 at the next hearing. I mean -- yeah. I'm still waiting
25 to get one green card back, although there were four

1 persons who were notified.

2 THE WITNESS: Mr. Bruce, one other thing
3 I'd like to just introduce into the record as promised.
4 In regard to Exhibit 11, you will note, in alphabetical
5 order, that one of the respondents in regard to it, as
6 well as Exhibit 13, is Mewbourne Oil Company. There
7 were some calls in regard to legal descriptions on the
8 oil-and-gas lease that Mewbourne took in an odd area of
9 the corner that we felt like fell into our well-path
10 area. Mewbourne and our title attorney are working on
11 those legal descriptions now. Mewbourne does not claim
12 an interest in our well paths. And I informed them that
13 we were going to leave them as part of this pooling for
14 today. Once we can get that title problem resolved, if,
15 in fact, we can determine that they do not have an
16 interest in the well paths for Exhibits 11 or 13, we
17 will dismiss them at a later date.

18 Q. (BY MR. BRUCE) Okay.

19 A. Thank you.

20 Q. Were Exhibits 1 through 14 either prepared by
21 you or compiled from company business records?

22 A. Yes.

23 Q. In your opinion, is the granting of these
24 applications in the interest of conservation and the
25 prevention of waste?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I'd move the
3 admission of Exhibits 1 through 14.

4 EXAMINER DAWSON: Any objection?

5 MS. BROGGI: No objection.

6 EXAMINER DAWSON: Exhibits 1 through 14
7 will be admitted to the record at this time.

8 (Kaiser-Francis Oil Company Exhibit Number
9 1 through 14 are offered and admitted into
10 evidence.)

11 MR. BRUCE: I have no further questions of
12 the witness.

13 EXAMINER DAWSON: Okay. Do you have any
14 questions?

15 MS. BROGGI: No questions from Matador.

16 EXAMINER DAWSON: Michael?

17 EXAMINER McMILLAN: Go ahead.

18 CROSS-EXAMINATION

19 BY EXAMINER DAWSON:

20 **Q. So they're working on a title opinion?**

21 A. Yes, sir.

22 **Q. How long?**

23 A. We've been working on that with our examiners
24 now for about six-plus months, and we're about two or
25 three weeks from being done.

1 We use the -- Mewbourne drilled some wells
2 on the eastern side of the townsite about a year or so
3 ago, and because that particular law firm was familiar
4 with how the town lots were used, we chose to use that
5 firm to do our opinion as well. And I hope they'll take
6 my work in as other opinions come in. It's been quite
7 an arduous process for them. So -- but they anticipate
8 being done in the next 30 days probably as far as that's
9 concerned.

10 **Q. Are there any near-term leases that you're**
11 **coming up against expiration dates on?**

12 A. No, sir.

13 **Q. Okay.**

14 A. The only real last -- besides myself are
15 Matador and Marathon, and they have sufficient term on
16 their leases, as do I.

17 **Q. Are there any depth severances?**

18 A. No, sir.

19 **Q. That's all the questions I have.**

20 EXAMINER DAWSON: David?

21 CROSS-EXAMINATION

22 BY EXAMINER BROOKS:

23 **Q. This looks pretty messy.**

24 A. Yes, sir.

25 **Q. I didn't follow it all, but there are a lot of**

1 **unleased mineral owners, right?**

2 A. There are.

3 **Q. Now, are there other working interest owners**
4 **that have working interests in these proposed units?**

5 A. Not other than the ones mentioned, Matador and
6 Marathon.

7 **Q. Yeah.**

8 And you're planning to do a trade with
9 **Matador, and Marathon doesn't claim any interest --**

10 A. Mewbourne did not.

11 **Q. Mewbourne.**

12 A. Mewbourne did not.

13 Marathon has a very small interest in
14 there, and we do not know whether they're going to be a
15 joiner or not.

16 **Q. There are not any other owners of the leased**
17 **mineral interests that you're aware of?**

18 A. That is correct.

19 **Q. Okay. All these people with these unleashed**
20 **mineral interests, have you -- the ones that you have**
21 **been able to communicate with, have you made offers of**
22 **leases?**

23 A. Yes. I've been quite informative in regard to
24 that just because these -- for the most part, they're
25 very unfamiliar with what's going on. I've taken the

1 time, in the calls that I have taken, to explain to them
2 the difference between the pooling process and what they
3 might be able to retain versus a lease. We're offering
4 a little bit better royalty, obviously, on our leases to
5 maybe get them on the pooling. And I've been very clear
6 with them, no matter what they do, that they will always
7 get their 1/8 royalty if they chose to be pooled --

8 **Q. Yes.**

9 A. -- from the beginning and tried to explain to
10 them as best I can that at the end of the recoupment
11 penalty period that they become a full working interest
12 owner in the wells.

13 **Q. What royalties -- what royalty have you been**
14 **offering?**

15 A. 15 percent.

16 **Q. Okay. That's not an extremely magnificent one,**
17 **but we don't make judgments on that.**

18 A. And I will tell you in regard to that, just the
19 cost involved in identifying these interests --

20 **Q. And the cost involved in administering them**
21 **when you get the leases in your system, too, I'm sure.**

22 A. Yes, sir.

23 So we took that into account some. And I
24 think that, from an industry perspective, we did a lot
25 of heavy lifting in regard to giving the town itself the

1 opportunity to have a well drilled underneath them,
2 because I haven't had a lot of competition in regard to
3 other people coming out there wanting to try to figure
4 out -- it took us almost -- probably a year-plus just to
5 even get the abstracts built to be able to get started
6 on title here.

7 Q. Right.

8 A. But we're excited about it. So is the town of
9 Loving. So --

10 Q. Well, I'm embarrassed about this because I
11 did -- I spent a large part of the year 2015 doing a
12 title opinion on a unit up in Aztec -- in Farmington --

13 A. Yes.

14 Q. -- where it had been subdivided without --
15 without reservation of the minerals.

16 A. Right.

17 Q. And I think it took me about seven or eight
18 months to do that opinion. But I do not remember what
19 the considerations were that went into the opinion that
20 you talked about the streets.

21 A. Right.

22 Q. And I do remember those were complicated, and I
23 also remember, because I was doing some title work in
24 Colorado at the same time, that the law is different in
25 New Mexico than Colorado, but I don't really remember

1 what it is in either state at this point or what the
2 considerations are (laughter).

3 But I assume that whatever -- what
4 municipal corporation or entity owns any public interest
5 that might exist --

6 A. It would be the Village of Loving.

7 Q. Okay. So there is a -- there is an
8 incorporated municipal entity, right?

9 A. There is. And we've taken oil-and-gas leases
10 from the Village of Loving in regard to those interests.

11 Q. This one I did in -- I remember another
12 particular wrinkle in this one I did up in Farmington,
13 that there was an early period of time when there were
14 dedicated rights-of-way to San Juan County, and then
15 there was a later period of time when they would have
16 gone into the City of Farmington. But like I say, the
17 details are very cloudy in my mind. And I left all the
18 records with Mr. Dugan's office so nobody can ask me a
19 question about it (laughter).

20 Okay. The Oil Conservation Division has
21 received some communications from some people named
22 Battiste, B-A-T-T-I-S-T-E.

23 A. Okay.

24 Q. And they related to Kaiser-Francis, but they
25 didn't have a legal description from which I could

1 identify what they were talking about. However, because
2 of the nature of this situation, I suspect they're in
3 this title somewhere.

4 A. I would expect as well. Yes, sir.

5 Q. You don't recall the name?

6 A. I did bring my computer. We could pull it up.

7 Q. Well, it has a better memory, I assume, than
8 you do.

9 A. Yes, it does.

10 Q. Computers generally do.

11 A. Yes.

12 Q. Well, the Battistes claimed in their letter
13 that they had not been offered an opportunity to lease
14 their interest. And I did not know whether they, in
15 fact, owned an unleased interest or -- and whether they
16 were telling the truth about not having been offered, so
17 I wrote them back and said, Well, assuming, without
18 deciding that you have an interest that is subject to
19 lease, I would suggest you contact Kaiser-Francis and
20 request an offer. I did not tell them that we have, in
21 some orders, required such an order. But I would
22 appreciate you checking into this matter for me.

23 MR. BRUCE: Mr. Examiner, I was contacted
24 by five or six members of the Battiste family, and I
25 forwarded Mr. Maxey's contact info to them, as well as I

1 was contacted by probably 30 other interest owners.

2 EXAMINER BROOKS: Well, fortunately, the
3 other 29 have not contacted the OCD (laughter).

4 THE WITNESS: Again, just to be clear, it's
5 been difficult to reach everyone. Our interest level is
6 to lease anyone that is willing to lease to us.

7 EXAMINER BROOKS: Well, of course, and I
8 understand you have to lease to everyone on the same
9 terms because otherwise the word would get around.

10 THE WITNESS: Correct. You are correct.
11 We've tried to be very transparent in regards to that.

12 RECROSS EXAMINATION

13 BY EXAMINER DAWSON:

14 **Q. So you have worked out an agreement with the**
15 **City of Loving?**

16 A. We have. There was one tract -- and they were
17 named in our pooling today because there was one tract
18 that was missed by us. We've been in contact with the
19 mayor, and we're in the process of getting that lease
20 executed now. We will be dismissing them later once
21 that is in.

22 RECROSS EXAMINATION

23 BY EXAMINER BROOKS:

24 **Q. So we have jurisdiction to pool whatever**
25 **interest they have in case the title examiner concludes**

1 that they have some dedicated interest?

2 A. That's my understanding. Yes, sir.

3 Q. Yeah. Okay. I think that's all. That's all
4 the damage I can do.

5 CROSS-EXAMINATION

6 BY EXAMINER McMILLAN:

7 Q. Did you notify everyone in the mineral interest
8 estate in the southwest quarter of 20 and everyone in
9 the mineral interest estate in the southwest quarter of
10 21 because these would be part of the nonstandard
11 spacing unit?

12 MR. BRUCE: Mr. Examiner, I notified only
13 the operators.

14 EXAMINER McMILLAN: Okay. But then it goes
15 back to 4.12.(A)(3) that says you must notify everyone
16 in the mineral interest estate.

17 MR. BRUCE: Yes, although the east half of
18 21 is subject to existing Mewbourne wells.

19 EXAMINER McMILLAN: Right. But that
20 issue's got to be resolved.

21 MR. BRUCE: And I will write to you and to
22 the Chairman again on that issue.

23 EXAMINER BROOKS: Okay. Yeah. I am not
24 going to argue with that.

25 MR. BRUCE: Southwest of 20 -- actually,

1 the west half of 20, Marathon has three or four
2 Wolfcamp -- well, they have Bone Spring and Wolfcamp
3 wells dedicated in that acreage.

4 EXAMINER McMILLAN: But then the question
5 is really the Wolfcamp.

6 MR. BRUCE: Yeah. I have drafted a form
7 letter.

8 EXAMINER McMILLAN: Actually, I have a
9 question for you. I thought, for the Mewbourne case,
10 BNSF didn't have claim title to theirs, right, or am I
11 wrong?

12 MR. BRUCE: I think they had conflicting
13 title data as to whether BNSF owned an interest, so we
14 gave them notice just to be safe.

15 EXAMINER McMILLAN: Okay. And then the
16 next question I have is: What are the pool numbers --
17 pool code numbers? We know the Wolfcamp.

18 MR. BRUCE: I will get those for you. I
19 don't know what they are off the top of my head.

20 EXAMINER DAWSON: Thanks, Mr. Maxey.

21 THE WITNESS: You're welcome. Thank you.

22 EXAMINER DAWSON: Mr. Bruce, you can call
23 your second witness.

24 EXAMINER McMILLAN: Can you qualify for the
25 record if it's Matador Production Company?

1 MS. BROGGI: Matador Resources Company.

2 EXAMINER McMILLAN: I didn't know if they
3 have --

4 MR. BRUCE: I don't think Matador
5 Production Company owns a working interest.

6 EXAMINER McMILLAN: So it's Matador
7 Resources?

8 MS. BROGGI: Resource Company.

9 EXAMINER McMILLAN: I just want to make
10 sure we're clear for the record.

11 LEE LINDMAN,
12 after having been previously sworn under oath, was
13 questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q. Would you please state your name for the
17 record?

18 A. Lee Lindman.

19 Q. And who do you work for and in what capacity?

20 A. Kaiser-Francis Oil Company as a geologist.

21 Q. Have you previously testified before the
22 Division?

23 A. I have.

24 Q. And were your credentials as an expert
25 petroleum geologist accepted as a matter of record?

1 A. They were.

2 **Q. And are you familiar with the Delaware, Bone**
3 **Spring and Wolfcamp geology applicable to these cases?**

4 A. I am.

5 MR. BRUCE: Mr. Examiner, I tender
6 Mr. Lindman as an expert petroleum geologist.

7 EXAMINER DAWSON: Any objections?

8 MS. BROGGI: No objection.

9 EXAMINER DAWSON: Mr. Lindman will be
10 admitted as an expert petroleum geologist at this time.

11 **Q. (BY MR. BRUCE) Mr. Lindman, could you -- let's**
12 **start with the Bone Spring -- excuse me -- with the**
13 **Brushy Canyon. Can you identify Exhibit 15 and run**
14 **through those exhibits?**

15 A. Exhibit 15 is a structure map -- subsea
16 structure map on the top of the 1st Bone Spring Lime
17 marking the base of the Delaware. Also on this map, I
18 have our project area, which is the 320 acres previously
19 described, with kind of a schematic showing the surface
20 and the bottom-hole locations above the north and the
21 south lateral. All of the northern laterals will be the
22 1H wells. The southern laterals will be the 2H wells.
23 Additionally on this, there is a cross-section
24 representation from A to A prime.

25 **Q. And the second page of this exhibit?**

1 A. The second page is a gross isopach map of the
2 Lower Brushy Canyon showing that there is a relatively
3 uniform thickness over the project area.

4 **Q. And let's move on to the cross section?**

5 A. The cross section is the cross section marked
6 "A to A prime." It's a three-well cross section hung on
7 the 1st Bone Spring Lime, which also depicts the top of
8 the Lower Brushy Canyon, and our proposed landing of
9 both the Loving Townsite 2021 LBC 1H and the LBC 2H.

10 **Q. Is the Lower Brushy Canyon target zone present**
11 **across the entire well unit for the 1H and 2H?**

12 A. It is.

13 **Q. In your opinion, will each quarter-quarter**
14 **section in the well unit contribute more or less equally**
15 **to production?**

16 A. Yes.

17 **Q. Let's move on to the Bone Spring, Exhibit 16.**
18 **Would you discuss that?**

19 A. This is a subsea structure map on the top of
20 the Wolfcamp Formation marking the base of the 3rd Bone
21 Spring. Additionally, you have, again, a project area
22 in the red-dashed box and kind of a schematic
23 representation of the surface-hole and bottom-hole
24 locations within our project area.

25 I'll also note that there are highlighted

1 wells that are permitted, 3rd Bone Spring wells,
2 primarily to the -- to the west and one 3rd Bone Spring
3 producer in Section 17. Also, there is a cross section,
4 B to B prime, indicated on this map.

5 **Q. And what is the next page of this exhibit?**

6 A. The next page is a gross isopach of the entire
7 3rd Bone Spring Sand showing that it has a very uniform
8 thickness.

9 **Q. And finally, the cross section.**

10 A. The cross section is hung on the top of the
11 Wolfcamp and shows that in between the Marathon Cronos
12 Fee and the Nordstrand, Kimbley, there is a very uniform
13 thickness of the 3rd Bone Spring. It also depicts our
14 landing zone of both the Loving Townsite 2021 3BS #1H
15 and the 3BS #2H.

16 **Q. And in your opinion, will each quarter-quarter**
17 **section in each of the two Bone Spring well units**
18 **contribute more or less equally to production?**

19 A. They will.

20 **Q. And as to the Lower Brushy Canyon, the Bone**
21 **Spring and the Wolfcamp, is there any faulting or any**
22 **such feature which would impair the drilling of these**
23 **wells?**

24 A. Does not appear to be.

25 **Q. And finally, let's move on to the Wolfcamp**

1 **geology, Exhibit 17.**

2 A. Exhibit 17 is a structure map on the base of
3 the Wolfcamp Y Sand. It's a subsea structure map.
4 Again, at this time, although not highlighted, but the
5 red box -- the yellow box is our project area, and the
6 same surface- and bottom-hole locations should have been
7 indicated on there. I apologize for that. It also
8 shows the same cross section fee to B prime that was on
9 the previous Wolfcamp exhibit.

10 **Q. And the next page?**

11 A. The next page is an isopach map of the X-Y
12 Sand, which is from the top of the Wolfcamp to the base
13 of the Y Sand, showing that it's a very uniform
14 thickness across our project area.

15 **Q. And the cross section, B, B prime?**

16 A. B, B prime is hung on the base of the Wolfcamp
17 Y Sand -- excuse me. It's hung on the top of the
18 Wolfcamp -- the bottom marker is the base of the
19 Wolfcamp A Y Sand, and it also shows our lateral landing
20 position of the Loving Townsite 2021 WA #1H and the 2021
21 WA #2H.

22 **Q. And in your opinion, will each quarter section**
23 **in the well unit contribute more or less equally to**
24 **production?**

25 A. Yes.

1 **Q. Moving on to the next page, to the deeper**
2 **Wolfcamp zones.**

3 A. This is a structure map on the base of the
4 Wolfcamp C -- or what I'm calling the Wolfcamp C, which
5 is a hot, shaley interval towards the base. This,
6 again, shows our 320-acre project area, again with the
7 surface- and bottom-hole locations indicated. Also, it
8 highlights the Wolfcamp C permits in the area and the
9 cross section, B, B prime again.

10 **Q. And what does the isopach map show?**

11 A. The isopach map shows it will be a relatively
12 uniform thickness throughout our project area, about 250
13 feet thick gross.

14 **Q. And then the cross section?**

15 A. The cross section is hung on the base of the --
16 what I'm calling the Wolfcamp C. It just shows that
17 there is fairly uniform thickness. Again, in between
18 the Marathon Cronos Fee and Nordstrand Engineering
19 Kimbley well, additionally it has our landing zone for
20 the Loving Townsite 2021 WC #1H and the WC #2H.

21 **Q. What's the vertical difference between the A**
22 **wells and the C wells?**

23 A. 1,600 feet, approximately. They're very far
24 apart.

25 **Q. And as to the C wells, will each quarter**

1 section contribute more or less equally to production of
2 the wells?

3 A. Yes.

4 Q. Were Exhibits 15, 16 and 17 prepared by you or
5 under your supervision?

6 A. They were.

7 Q. And in your opinion, is the granting of these
8 applications in the interest of conservation and the
9 prevention of waste?

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I'd move the
12 admission of Exhibits 15, 16 and 17.

13 EXAMINER DAWSON: Any objection?

14 MS. BROGGI: No objection.

15 EXAMINER DAWSON: At this time Exhibits 15,
16 16 and 17 will be admitted to the record.

17 (Kaiser-Francis Oil Company Exhibit Numbers
18 15 through 17 are offered and admitted
19 into evidence.)

20 MR. BRUCE: I have no further questions.

21 EXAMINER DAWSON: Any questions?

22 MS. BROGGI: No questions.

23 EXAMINER DAWSON: Michael?

24 EXAMINER McMILLAN: No.

25 EXAMINER BROOKS: No questions.

1 CROSS-EXAMINATION

2 BY EXAMINER DAWSON:

3 Q. I just have a question on your maps.

4 A. Sure.

5 Q. When I'm looking at them, I see these numbers
6 on there, on the wells, that say "11," "12," "13." What
7 do those depict?

8 A. That's kind of an indication of the surveys on
9 the -- on the laterals. So it has no -- I mean, it's
10 just a survey point to survey point to survey point as
11 landing.

12 Q. Oh, okay.

13 A. It gets kind of confusing. I need to take them
14 off.

15 Q. So you don't think that drilling east-west
16 versus north-south is going to be much difference?

17 A. No.

18 Q. In any of those zones?

19 A. No. It hasn't seemed to be any difference in
20 the Wolfcamp. There is not enough control in the 3rd
21 Bone Spring. But it's so close to the Wolfcamp that I
22 can't imagine the structural picture would be any
23 different, and I see absolutely no difference in the
24 Lower Brushy Canyon throughout the county.

25 Q. Those wells on your cross section on Exhibit

1 **17, on the stratigraphic cross section, B to B prime --**

2 A. Yes.

3 **Q. -- are those vertical wells?**

4 A. They are.

5 **Q. Okay. Are those still producing?**

6 A. I don't recall if the Cronos Fee is. I believe
7 if the Kimbley is, it is -- it is producing from the
8 Delaware, and it's limping along.

9 **Q. All right. That's all the questions I have.**
10 **Thank you.**

11 EXAMINER McMILLAN: You'll get the pool
12 codes?

13 MR. BRUCE: I will.

14 Nothing further in the matter and ask that
15 it be continued for two weeks, all five matters.

16 EXAMINER DAWSON: Okay. All five cases,
17 16137 to 16141, which are applications of Kaiser-Francis
18 Oil Company for a nonstandard oil spacing and proration
19 unit and compulsory pooling, Eddy County, New Mexico,
20 will be continued for notice purposes until May 31st.
21 That concludes the hearing for those cases.

22 Thank you.

23 THE WITNESS: Thank you.

24 (Case Numbers 16137 through 16141 conclude,
25 10:27 a.m.)

1 EXAMINER DAWSON: We'll take a break for
2 five minutes.

3 (Recess, 10:27 a.m. to 10:37 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 DATED THIS 19th day of June 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
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