

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION

4 IN THE MATTER OF THE HEARING CALLED
5 BY THE OIL CONSERVATION DIVISION FOR
6 THE PURPOSE OF CONSIDERING:

COPY

7 APPLICATION OF MATADOR PRODUCTION
8 COMPANY TO RE-OPEN CASE NUMBER
9 14932 TO POOL THE INTERESTS OF
10 ADDITIONAL MINERAL OWNERS UNDER
11 THE TERMS OF COMPULSORY POOLING
12 ORDER R-13666, EDDY COUNTY,
13 NEW MEXICO.

CASE NO. 14932
(Re-opened)

14 REPORTER'S TRANSCRIPT OF PROCEEDINGS

15 EXAMINER HEARING

16 October 27, 2016

17 Santa Fe, New Mexico

18 BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
19 DAVID K. BROOKS, LEGAL EXAMINER

20 This matter came on for hearing before the
21 New Mexico Oil Conservation Division, William V. Jones,
22 Chief Examiner, and David K. Brooks, Legal Examiner, on
23 Thursday, October 27, 2016, at the New Mexico Energy,
24 Minerals and Natural Resources Department, Wendell Chino
25 Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

26 REPORTED BY: Mary C. Hankins, CCR, RPR
27 New Mexico CCR #20
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APPEARANCES

FOR APPLICANT MATADOR PRODUCTION COMPANY:

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1 (10:55 a.m.)

2 EXAMINER JONES: Call Case Number 14932,
3 re-opened, application of Matador Production Company to
4 re-open Case Number 14932 to pool the interests of
5 additional mineral owners under the terms of Compulsory
6 Pooling Order Number R-13666, Eddy County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Mr. Examiners, Jordan Kessler
9 on behalf of Matador Production Company.

10 MR. PADILLA: Mr. Examiners, Ernest L.
11 Padilla for B K Royalties, LLC. I have no witnesses,
12 and I will not ask any questions because the exhibit
13 that is being introduced here today solves our problem.

14 EXAMINER JONES: Okay. Thank you,
15 Mr. Padilla.

16 MR. PADILLA: Thank you.

17 EXAMINER JONES: Any other appearances?

18 MS. KESSLER: One witness today,
19 Mr. Examiner.

20 EXAMINER JONES: Will the witness please
21 stand?

22 And will the court reporter swear the
23 witness.

24 CHRIS CARLETON,

25 after having been first duly 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. Chris Carleton, by Matador Resources Company as
8 a landman.

9 Q. Have you previously testified before the
10 Division?

11 A. Yes.

12 Q. Were your credentials as a petroleum landman
13 accepted and made a matter of record?

14 A. Yes.

15 Q. Are you familiar with the application that's
16 been filed in this case?

17 A. Yes.

18 Q. Are you familiar with the status of the lands
19 in the subject area?

20 A. Yes.

21 MS. KESSLER: Mr. Examiners, I tender
22 Mr. Carleton as an expert in petroleum land matters.

23 EXAMINER JONES: He is so qualified.

24 Q. (BY MS. KESSLER) Mr. Carleton, if you could
25 turn to Exhibit 1, is this Order R-13666?

1 A. Yes.

2 Q. This is the pooling order that was entered by
3 the Division in November of 2012; is that correct?

4 A. That is correct.

5 Q. Does it create a 320-acre spacing unit in the
6 north half of Section 14, Township 24 South, Range 28
7 East in Eddy County?

8 A. That is correct, for the Marra Number 1 well,
9 API 30-015-23752, re-entered in the Wolfcamp -- South
10 Culebra Bluff-Wolfcamp Gas Pool.

11 Q. Did this order also pool the uncommitted
12 interest owners known at the time in the Wolfcamp
13 Formation?

14 A. Yes.

15 Q. And the order appointed a guardian operator as
16 the operating entity; is that correct?

17 A. Yes.

18 Q. In preparing to drill an infill well in this
19 area, did Matador identify additional uncommitted
20 mineral interest owners?

21 A. Yes, we did.

22 Q. And is that the reason you're here before the
23 Division today?

24 A. Yes.

25 Q. Do you request that the Division bring the

1 additional parties under existing Order R-13666?

2 A. Yes.

3 Q. Is Exhibit 2 a change-of-operator form for
4 Guardian Operating Corporation to Matador Production
5 Company?

6 A. Yes. This is change-of-operator form that puts
7 Matador Production Company as the operator of the Marra
8 well.

9 Q. So Matador is the successor operator?

10 A. That is correct.

11 Q. Is Exhibit 3 a summary of the parties in the
12 north half of Section 13?

13 A. Yes. This shows we're seeking to add an
14 additional 4 percent. Under Order Number R-13666, these
15 are all unleased mineral owners.

16 Q. And this exhibit also reflects that Matador has
17 an 80 percent -- an 81 percent working interest in this
18 spacing unit?

19 A. That's correct.

20 Q. What is the status of the Barnes' interest?

21 A. The Barnes' interest is currently unleased.
22 We're working through a title issue that has to do with
23 a tax sale with B K Royalties. Matador owns a majority
24 interest under -- in a lease that B K Royalty is the
25 lessor, and in the event the title shows the minerals

1 are in B K, we will honor that lease and B K Royalties
2 will not be subject to the order.

3 Q. And at this point, Matador is waiting on
4 documentation to show whether or not Barnes or B K owns
5 that interest?

6 A. That is correct.

7 Q. Is Exhibit 4 a letter agreement between Matador
8 and B K Royalties indicating that if B K is credited
9 with the interest, that B K will not be subject to the
10 pooling agreement?

11 A. Yes.

12 Q. And Matador will honor the existing lease in
13 the event that B K is credited with the --

14 A. That's correct.

15 Q. It also indicates that both companies are
16 working to determine the ownership of this lease,
17 correct?

18 A. Yes.

19 Q. Did you propose the infill wells to all of
20 the -- infill wells to all of the parties listed on
21 Exhibit 3?

22 A. Yes, we did. Exhibit 5 is a copy of the
23 proposal sent out July 6th and July 7th of 2016. These
24 were sent to all the unleased parties, as well the
25 parties that were originally pool under the order.

1 Q. Let me step back. I think it's Exhibit 4 that
2 you're looking at, correct? I'm sorry. Exhibit 5. And
3 this is a well-proposal letter and offer to lease,
4 correct?

5 A. That is correct.

6 Q. On what date were each of these letters sent?

7 A. July 6th and 7th of 2016.

8 Q. Are you seeking a 200 percent risk penalty for
9 the uncommitted interest owners for the infill well?

10 A. Yes.

11 Q. In addition to sending these letters, what
12 other efforts did you make to reach voluntary agreement
13 with the parties in the order?

14 A. Once getting title information in June, we've
15 had a team of leasing agents out in Carlsbad trying to
16 locate and lease these unleased mineral owners. And
17 we've gotten several leases back, but some people have
18 been either unlocatable or unwilling to lease.

19 Q. Is Exhibit 6 an affidavit with attached letters
20 from my office sending notice to the parties whom you
21 seek to pool -- add to the pooling order?

22 A. Yes.

23 Q. And did you also publish notice of this
24 hearing?

25 A. Yes.

1 Q. Is that because some of the parties were
2 unlocatable?

3 A. That's correct. And that's indicated on
4 Exhibit 7.

5 Q. Are you now asking the Division to bring the
6 uncommitted interest owners not subject to the pooling
7 order under the terms of the existing Order R-13666?

8 A. Yes.

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

11 A. Yes.

12 MS. KESSLER: Mr. Examiners, I move
13 admission of Exhibits 1 through 7, which include two
14 notice affidavits.

15 EXAMINER JONES: Exhibits 1 through 7 are
16 admitted.

17 (Matador Production Company Exhibit Numbers
18 1 through 7 are offered and admitted into
19 evidence.)

20 MR. PADILLA: No objection.

21 EXAMINER JONES: Okay.

22 CROSS-EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. Exhibit 3 has the title "Summary of Interests."
25 Do you distinguish anyone between those people who were

1 noticed in the original proceeding and those who were
2 not?

3 A. The list of all the mineral owners on here are
4 just folks that we're seeking to add. We did not list
5 the folks that were under the original order on this
6 exhibit. We should have them lumped into that .69
7 percent.

8 Q. Okay. So there are pooled parties under the
9 original order in this case that were -- when Case 14932
10 was originally subject to an order -- no. Let's see.
11 That was this first order, Order Number R-13666.

12 A. Yes, sir.

13 Q. Now, there were pooled parties, then, that were
14 pooled under Order Number R-13666 that have -- who --
15 who are now in the status of pooled parties?

16 A. That's correct.

17 Q. Okay. They have not -- the previously pooled
18 parties are not all committed?

19 A. That's right. They are still -- we also made
20 efforts to lease them again, but a lot of them -- the
21 reason that they were pooled in the first place was that
22 they were unlocatable, so they are still uncommitted.

23 Q. Okay. So there are some that were located and
24 some that were not?

25 A. That's right. And those parties that were

1 originally pooled are still subject to R-13666.

2 Q. And the originally pooled parties, did they --
3 the ones that were located, did they all go nonconsent?

4 A. We tried to get them under a lease. I think we
5 leased a few of them, but a lot of them, yes, they're
6 nonconsent.

7 Q. Okay. So it's going to be necessary in this
8 case to distinguish between the people who were pooled
9 in the original order and the people who were pooled in
10 the subsequent order because the ones who were pooled
11 original order have -- had their opportunity to consent,
12 right?

13 A. In the Marra well? That's correct.

14 Q. Yeah.

15 Now, is there more than one well involved
16 in this proceeding?

17 A. No, sir.

18 Q. Okay. So this is not an infill. This is --
19 this is the well that was originally the occasion for
20 the pooling of this unit, right?

21 A. Yes, sir.

22 Q. Okay. And the well's been drilled?

23 A. And completed.

24 Q. Okay. And has it produced?

25 A. Yes, sir.

1 Q. So there is an issue with existing production?

2 A. Yeah. It'll have to be retroactive for these
3 people's royalties.

4 Q. Yeah. So they would -- well, yeah, for their
5 royalty interest. The well has not paid out.

6 A. That's correct.

7 Q. So it would only be the one-eighth royalty --
8 the deemed one-eighth royalty for the nonconsented
9 parties. Nobody can -- none of the people that were
10 pooled went -- are in the status of participating
11 parties under the original order, right?

12 A. Yes, sir.

13 Q. They're all either unlocated or nonconsent?

14 A. Yes, sir.

15 Q. Okay. Why was the -- why would -- did all
16 these other parties surface? Was that because you got a
17 title opinion that identified other interests?

18 A. Yeah. We recently acquired the leasehold in
19 here and just got the operatorship, the wellbore last
20 week. So the previous operator relied on a 1980s title
21 opinion that we brought -- that he brought forward, and
22 we ran title for sovereignty. So there was a little bit
23 more in-depth research that surfaced a lot of these
24 folks. This is located in the city of Malaga, and there
25 are a lot of town lots and complicated title with tax

1 sales and --

2 Q. Yeah. Those are always -- I worked one up in
3 Farmington -- it took me about seven months -- a couple
4 years ago, a brief excursion into private practice.

5 Now, these people identified in Exhibit 3,
6 do they -- is the supposition that they actually do own
7 these mineral interests, or are they just possible
8 acquaintances?

9 A. Our title opinion shows that they own the
10 interest.

11 Q. Okay. Now, what's the issue about this tax
12 sale that has come up in these cases?

13 A. Uh-huh. So I don't know as much about it --
14 from what I've read in our title opinion, in New Mexico,
15 tax sales -- when minerals and surface are severed, the
16 minerals have to be assessed separately than the surface
17 for everything to pass in the tax sale.

18 Q. Yes. There are some cases that I'm not sure
19 exactly what they hold, but I know that issue has been
20 addressed in several --

21 Well, are you serving -- did you serve all
22 of the people who would have had title if the tax sale
23 is invalid?

24 A. Yes.

25 Q. Are they listed on this Exhibit 3?

1 A. Yes.

2 Q. Okay. So they're listed as though they own
3 that interest?

4 A. That's right. And if it turns out that the
5 minerals were assessed and B K Royalty is the successor
6 title, then we will honor their oil and gas lease.

7 Q. B K Royalty owns the entire interest under the
8 tax deed -- divided from the tax deed?

9 A. Right now we just show it as surface, but we're
10 trying to get a copy from the State of the tax suit, and
11 that'll show if the minerals were assessed separately
12 and if they have title to the minerals.

13 Q. Matador has an existing lease from B K?

14 A. Yes. We -- the lease was originally taken by
15 Manzano, but we are the subsequent owner.

16 Q. Okay. Very good. I think that explains all --
17 all the questions, so far as I know them.

18 CROSS-EXAMINATION

19 BY EXAMINER JONES:

20 Q. How many people were involved in this -- how
21 many owners were involved in this?

22 A. Several hundred. Not quite as many as we had
23 in the Ann Com Unit in Section 15, but still several
24 hundred owners. There is probably in between 150 and
25 200.

1 Q. Scattered all over?

2 A. Yes, sir, California, all over the United
3 States.

4 Q. So this is just for the Morrow Well #1, which
5 was the subject of the original order. Thanks very
6 much.

7 A. Thank you.

8 MS. KESSLER: Mr. Examiners, I'd ask this
9 case be taken under advisement.

10 EXAMINER JONES: Okay. Case Number 14932,
11 re-opened, will be taken under advisement.

12 (Case Number 14932 concludes, 11:10 a.m.)
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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, Certified Court Reporter, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this case.

Mary C. Hankins

MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2016
Paul Baca Professional Court Reporters