

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DIVISION
OIL CONSERVATION DIVISION**

**APPLICATIONS OF LEGACY RESERVES OPERATING LP
FOR A HORIZONTAL SPACING UNIT AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

**Case Nos. 22226, 22227,
22228, 22229**

**APPLICATIONS OF MATADOR PRODUCTION COMPANY
FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO**

**Case Nos. 22413, 22414,
22415, 22416**

PRE-HEARING STATEMENT

Jalapeno Corporation (“Jalapeno”) provides this Pre-Hearing Statement as required by Rule 19.15.4.13B NMAC. The issues in the above-referenced cases are related as these are competing applications which have been consolidated.

APPEARANCES-LEGACY APPLICATIONS

APPLICANT

ATTORNEY

Legacy Reserves Operating LP

James P. Parrot
1675 Broadway, Suite 600
Denver, CO 80202
(303) 407-4457
jparrot@bwenergy.com

OPPONENT

ATTORNEY

MRC Permian Company

Michael H. Feldewert
Adam G. Rankin
Julia Broggi
Post Office Box 2208
Santa Fe, New Mexico 87504
(505) 988-4421
(505) 983-6043 Facsimile
mfeldewert@hollandhart.com
agrarkin@hollandhart.com

COG Operating LLC

jbroggi@hollandhart.com

Ocean Munds-Dry
Elizabeth Ryan
ConocoPhillips
1048 Paseo de Peralta
Santa Fe, New Mexico 87501
(505) 780-8000
(505) 428-0485 Facsimile
Ocean.Munds-Dry@conocophillips.com
Beth.Ryan@conocophillips.com

Jalapeno Corporation

J.E. Gallegos
Michael J. Condon
Gallegos Law Firm, P.C.
460 St. Michael's Drive, Bldg. 300
Santa Fe, NM 87505
(505) 983-6686
jeg@gallegoslawfirm.net
mjc@gallegoslawfirm.net

APPEARANCES-MATADOR APPLICATIONS

Applicant

Matador Production Company

James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

Opponent

Jalapeno Corporation

J.E. Gallegos
Michael J. Condon
Gallegos Law Firm, P.C.
460 St. Michael's Drive, Bldg. 300
Santa Fe, NM 87505
(505) 983-6686
jeg@gallegoslawfirm.net
mjc@gallegoslawfirm.net

STATEMENT OF THE CASES

Legacy and Matador have filed competing applications in order to develop the Bone Spring formation in Sections 14 and 23, Township 19 South, Range 33 East, NMPM, Lea County, New Mexico. Each application seeks to create a spacing unit dedicated to one Bone Spring well. Jalapeno owns interests in the affected acreage.

Legacy provided well proposals and AFEs to Jalapeno for each of its proposed wells. Legacy served Jalapeno with notice of its force pooling applications. Legacy and Jalapeno have successfully negotiated an agreement regarding Jalapeno's participation. Legacy has represented that it does not intend to force pool Jalapeno in these cases. Consequently, Jalapeno does not oppose Legacy's application.

Matador has not provided Jalapeno with well proposals or AFEs for its proposed wells. Legacy did not serve Jalapeno with notice of its force pooling applications. In each case, Matador seeks an order "pooling all uncommitted mineral interests," approving the wells proposed, designating Matador as the operator of the unit, approving Matador's charges for the wells, and imposing a 200% non-consent penalty.

JALAPENO'S OBJECTIONS TO MATADOR'S APPLICATIONS

Jalapeno contends the Matador applications should be denied as having any force or effect on Jalapeno for the following reasons:

1. Matador has failed to provide required notice to Jalapeno of Matador's force pooling proceedings. It has failed to provide Jalapeno an opportunity to voluntarily participate. NMSA 1978 § 70-2-17(C) authorizes the Division to approve a force pooling application only where an interest owner has not agreed to pool its interest. The Division lacks the authority under the statute to force pool Jalapeno in these cases.

2. The Division has historically imposed on force pooling applicants an obligation to make a good faith effort to secure voluntary agreement of affected interest owners. Matador has failed to make such a good faith effort.

3. The Bone Spring formation underlying the acreage at issue is a resource play extensively developed by horizontal wells and presents a dependable low risk, highly favorable return on investment. The very fact that two operators have proposed to drill four wells in the affected acreage is a testament to the low-risk to develop the acreage. Under these facts, a 200% non-consent penalty is not warranted.

4. Any force pooling order in this case should make provision for a just and reasonable payment plan for owners like Jalapeno who agree to participate in the drilling of multiple wells. That is, an operator such as Matador should not be entitled to provide AFEs for multiple wells and require immediate payment by Jalapeno of its pro rata share of total costs. Jalapeno asks that any order allow for sequential payment by Jalapeno by (a) requiring that Matador submit AFEs for its wells no sooner than 60 days before the commencement of the drilling of each well and (b) allowing Jalapeno 30 days from receipt of the AFE to make payment.

PROPOSED EVIDENCE

WITNESSES	EST. TIME	EXHIBITS
Emmons Yates (practical oil man/landman)	20 min.	None Anticipated

Mr. Yates is the Vice President of Jalapeno. He has worked for Jalapeno for twelve years in various capacities supporting Jalapeno’s oil and gas operations in the Permian Basin. He is currently in charge of Jalapeno’s field operations, is responsible for analyzing Jalapeno’s drilling and investment opportunities and Jalapeno’s financial planning.

Jalapeno will present evidence through Mr. Yates of the history of the communications between Matador and Jalapeno regarding participation. He will testify to the matters reflected in paragraphs 3 and 4, above and the basis for Jalapeno's objections.

PROCEDURAL ISSUES

If Matador's applications are to be considered, the Division should continue the cases until Matador has provided the required notice to Jalapeno.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By /s/ J.E. Gallegos

J.E. GALLEGOS

MICHAEL J. CONDON

460 St. Michael's Drive, Bldg. 300

Santa Fe, New Mexico 87505

(505) 983-6686

jeg@gallegoslawfirm.net

mjc@gallegoslawfirm.net

Attorneys for Jalapeno

District I
 1625 N. French Dr., Hobbs, NM 88240
 Phone:(575) 393-6161 Fax:(575) 393-0720

District II
 811 S. First St., Artesia, NM 88210
 Phone:(575) 748-1283 Fax:(575) 748-9720

District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 Phone:(505) 334-6178 Fax:(505) 334-6170

District IV
 1220 S. St Francis Dr., Santa Fe, NM 87505
 Phone:(505) 476-3470 Fax:(505) 476-3462

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

QUESTIONS

Action 98742

QUESTIONS

Operator: JALAPENO CORPORATION P.O. Box 1608 Albuquerque, NM 87103	OGRID: 26307
	Action Number: 98742
	Action Type: [HEAR] Prehearing Statement (PREHEARING)

QUESTIONS

Testimony	
<i>Please assist us by provide the following information about your testimony.</i>	
Number of witnesses	Not answered.
Testimony time (in minutes)	Not answered.