

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 COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

CASE NO. 22500

REPORTER'S TRANSCRIPT OF VIRTUAL PROCEEDINGS
EXAMINER HEARING
MARCH 3, 2022
SANTA FE, NEW MEXICO

This matter came on for virtual hearing before
the New Mexico Oil Conservation Division, HEARING OFFICER
WILLIAM BRANCARD and TECHNICAL EXAMINER DEAN McCLURE on
Thursday, March 3, 2022, through the Webex Platform.

Reported by: Irene Delgado, NMCCR 253
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A P P E A R A N C E S

For Matador Production:

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For David Petroleum Corporation,
Kay R. McMillain Survivors Trust,
James Coe Schlicher and
Christine Schlicher Johnson:

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For South Fifth Energy:

STEWART CARTER

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1 HEARING EXAMINER BRANCARD: Item 31, Case 22500.
2 Where are we on this? Matador Production Company.

3 MR. RANKIN: Good morning, Mr. Examiner, Adam
4 Rankin with the Santa Fe office of Holland & Hart appearing
5 on behalf of the applicant in this case, Matador Production
6 Company.

7 HEARING EXAMINER BRANCARD: We had an entry of
8 appearance here from -- a bunch of entries, I will just call
9 it, David Petroleum Corporation.

10 MS. HARDY: Yes, Mr. Examiner, Dana Hardy with
11 Hinkle Shanor on behalf of David Petroleum Corporation and
12 Kay R. McMillain Survivors Trust, James Coe Schlicher and
13 Christine Schlicher Johnson. Thank you. I butchered those
14 names.

15 HEARING EXAMINER BRANCARD: You have to get the
16 client's names right, Ms. Hardy. All right. And I have an
17 entry of appearance for South Fifth Energy LLC.

18 MR. CARTER: Yes, sir. This is Stewart Carter.
19 I'm the majority share of that LLC.

20 HEARING EXAMINER BRANCARD: Okay. Thank you, so
21 I believe that we were headed towards a status conference,
22 but because we had an objection from David Petroleum, et al,
23 but that objection was dropped. Are there any other
24 objections to this case going forward today? Ms. Hardy?

25 MS. HARDY: No objection, Mr. Examiner.

1 HEARING EXAMINER BRANCARD: Mr. Carter?

2 MR. CARTER: Yes. I just wanted to say -- and
3 nothing I say will change things, I don't think, is, one, I
4 had a problem with the -- the lease terms offered by
5 Matador, and I will probably take the non or com -- pooling
6 and the quickness of this is even being offered to me.

7 I -- I need to add, say that I had an aneurysm
8 28 years ago, so I might -- my speech is not up to par, and
9 I'm sorry. I apologize now.

10 HEARING EXAMINER BRANCARD: That's fine,
11 Mr. Carter, we can hear you loud and clear.

12 MR. CARTER: With which this is all in place, I
13 first got a call from MR Permian's landman on the 4th
14 (inaudible) and did any back -- didn't get any mail for
15 until the 8 -- the 18th of January.

16 And I had two certified letters from the Matador,
17 one is the application for administrative approval, which is
18 that was good. And the other one was the, the model form
19 operating agreement that he was asking me to sign because I
20 hadn't, I hadn't got a lease, I guess, and I, I still
21 haven't got a lease.

22 I have talked with Nicholas Weeks, and I've got
23 nice things to say about him, but the -- their landman, I
24 don't -- I have trouble with. And then on the 19th of
25 January, got a letter from Holland & Hart, certified again,

1 and that was for the application of Matador Production
2 Company for --

3 (Connection disrupted.)

4 HEARING EXAMINER BRANCARD: Mr. Carter, we are
5 losing your contact. Your video is not available anymore.
6 If you turn off your video, maybe that would help you.

7 MR. CARTER: Okay.

8 HEARING EXAMINER BRANCARD: It says you have low
9 bandwidth.

10 MR. CARTER: That will help.

11 HEARING EXAMINER BRANCARD: That helps a little
12 better, yes.

13 MR. CARTER: And you don't have to look at me
14 anyway, so that's even better. And I guess I'm just old
15 fashioned, more or less, that Matador needs to do this in a
16 timely manner and not make people feel that they have to be
17 run over.

18 And I will -- and on the lease forms terms that
19 I don't like is that they offered a one-fourth or one-fifth
20 royalty, and my family hasn't been letting leases go since
21 at least 1971 when my father started doing it at one-fourth
22 royalty.

23 And I guess I will just -- like I said, I
24 probably won't get anything, but I am going to be pooled
25 because I don't take what they just offered of the

1 one-fifth, and that's about it. And I thank you for your
2 indulgence of me. Thank you.

3 HEARING EXAMINER BRANCARD: Thank you,
4 Mr. Carter. I guess the question is, do you have any
5 objection to this case going forward today?

6 MR. CARTER: I don't know what's next when you
7 say going forward today, probably not. For one, I don't
8 know.

9 HEARING EXAMINER BRANCARD: I need to ask Matador
10 if they are prepared to go forward today, is the next
11 question.

12 MR. RANKIN: Mr. Examiner -- thank you very much
13 Mr. Carter -- Mr. Examiner, Mr. Carter has just recited
14 Matador has been in discussions with Mr. Carter for some
15 time going back into 2021 and for the last --

16 MR. CARTER: No --

17 MR. RANKIN: I'm sorry, I'm speaking about the
18 initial contact from the broker with the offer to lease. I
19 understand that the discussions have been limited in time to
20 January. What I, I think what is at issue here is the
21 inability to come to terms or agreement which is the, you
22 know, express purpose of the compulsory pooling statute
23 which is designed to allow operators who intend to drill and
24 proceed to do so when, when they are unable to come to
25 voluntary agreement with the owners of interests in the

1 proposed spacing unit.

2 So Matador is willing to continue to talk and
3 will continue to talk with Mr. Stewart to try to reach
4 agreement. We would like to reach a lease term with him and
5 will do so following this hearing. Matador is now prepared
6 to go forward with the presentation of the case today and
7 will continue to engage Mr. Carter in discussions.

8 HEARING EXAMINER BRANCARD: Thank you.
9 Mr. Carter, if it's okay, I think we will start the
10 presentation with Matador.

11 MR. CARTER: That would be okay, thank you.

12 HEARING EXAMINER BRANCARD: Thank you.

13 MR. RANKIN: Mr. Examiner, we have filed on
14 Tuesday a copy of the exhibits that were prepared by Matador
15 in this case.

16 Exhibit A is a copy of the compulsory pooling
17 checklist which outlines the target interval and proposed
18 spacing unit and the acreage that would be dedicated to this
19 vertical well which is subject to special pool rules in the
20 Humble City Strawn South Pool, Pool Code 33500.

21 Under those pool rules well locations are limited
22 to within 150 feet of the center of quarter-quarter
23 sections. In this case the proposed well that Matador is
24 seeking to drill will be in a non-standard location. The
25 location of the proposed spacing unit is in the S/2 of the

1 NE/4 of Section 14, Township 17 South, Range 37 East, in Lea
2 County, New Mexico.

3 The proposed well that will be dedicated to the
4 spacing unit initially is the Monika 14-17-S-37E Number 1
5 well, with a surface location in Unit G of Section 14. As I
6 said, it would be a vertical well.

7 Exhibit B is the application filed in this case
8 seeking compulsory pooling for the proposed well spacing
9 unit.

10 Exhibit C is the affidavit of Mr. Nicholas Weeks.
11 He outlines the location of the well and spacing unit, and
12 attached to his affidavit is a copy of the C-102 for the
13 proposed well identifying the locations of the well and
14 indicating that the bottom hole location will be in a
15 non-standard location.

16 Exhibit C-2 is a copy of the interests that --
17 outline of the interests that Matador seeks to pool. In
18 this case, Mr. Examiner, Matador has reached agreement with
19 David Petroleum Corporation and has leased that interest, so
20 we will no longer seek to pool David Petroleum Corporation.

21 And Mr. Examiner, I will submit an amended
22 exhibit reflecting that David Petroleum is no longer on the
23 list of owners that are being pooled.

24 Exhibit C-3 is a copy of the well proposal
25 letters, a sample the well proposal letter that went out to

1 each of the owners of an interest reflecting that Matador
2 has sought to reach agreement with those parties,
3 identifying the participating or -- and separately by
4 attempting to lease their interest. C-3 also includes a
5 copy of the well costs that were estimated for the drilling
6 of the well.

7 C-4 is a copy of the summary of the chronology of
8 contacts that Matador has with each of the parties that they
9 are seeking to pool in this case.

10 Exhibit D is a copy of the affidavit prepared by
11 my office reflecting that we have provided notice of the
12 application and of the hearing in this case to each of the
13 parties identified to us by Matador who are being pooled.
14 Exhibit E -- and that includes a copy of the postal report
15 reflecting that each of the notice letters with application
16 was sent by certified mail to those parties.

17 Exhibit E is a copy of the affidavit of
18 publication showing that the notice of this application and
19 hearing was published in the Carlsbad Current Argus on
20 January 1, 2022, and that each of the parties were
21 identified by name in the publication.

22 With that, Mr. Examiner, because this is a
23 vertical well there is no geology exhibits here because we
24 are not defining tracts or spacing units.

25 With that, Mr. Examiner, we would move admission

1 of Exhibits A through E with their attachments into the
2 record.

3 HEARING EXAMINER BRANCARD: Thank you. Ms.
4 Hardy, any questions?

5 MS. HARDY: No questions, and no objection.
6 Thank you.

7 HEARING EXAMINER BRANCARD: Thank you.
8 Mr. Carter, any questions?

9 MR. CARTER: No, sir. Thank you.

10 HEARING EXAMINER BRANCARD: Mr. McClure?

11 TECHNICAL EXAMINER McCLURE: Yeah, I guess my
12 first question is, considering the location, the bottom hole
13 location of this well, is there a reason that we're -- that
14 they are requesting to pool the S/2 of the NE rather than
15 say the W/2 of the NE, Mr. Rankin?

16 MR. RANKIN: Well, I think -- I don't know the
17 exact reason. I think that with the pool rules you can
18 create 80 acre tracts. I do believe that part of the reason
19 for the location of the bottom hole is that in this acreage
20 there are, I don't know, domes or bubbles of, of prospective
21 areas and they are seeking to target those with the bottom
22 hole.

23 So other than that, I don't know that there was a
24 specific reason for the orientation of the spacing unit in
25 this case.

1 TECHNICAL EXAMINER McCLURE: So you are
2 speculating -- so your thought process is that the
3 production is going to be occurring from the S/2 of the NE/4
4 then. Is that essentially what your thoughts are then?

5 MR. RANKIN: I don't know if I can answer that
6 question. I would have to refer, you know, check with the
7 client, but I do understand they are targeting the bottom
8 hole, you know, that they have to target the mounds or
9 locations that have higher, you know, likely production,
10 which is why they are targeting this location.

11 TECHNICAL EXAMINER McCLURE: Oh, yes, of course.
12 And I mean, just idle speculation, we are making things and
13 there is probably surface reasons for the surface location
14 there instead of having a vertical well right above where
15 their proposed bottom hole is. That's neither here nor
16 there, I guess.

17 My question, I guess, was just -- I'm not quite
18 sure the reasoning for the S/2 versus the W/2, and then
19 without that geological exhibits, I guess I'm not sure what
20 the thought process that went into that is.

21 I think we may want to have some sort of
22 submittal there, Mr. Brancard, for the geological there.

23 HEARING EXAMINER BRANCARD: I see your point, Mr.
24 McClure. Your bottom hole is way non-standard for this
25 unit.

1 TECHNICAL EXAMINER McCLURE: The special pool
2 rules puts you at the center, it's not like 330 setback or
3 something like that, but --

4 MR. RANKIN: It is --

5 TECHNICAL EXAMINER McCLURE: Go ahead.

6 MR. RANKIN: It is true it is non-standard, so
7 Matador separately filed for approval of a non-standard
8 location giving notice to the owners in this tract that are
9 encroached upon.

10 You know, under the rules, it's a vertical
11 spacing unit comprised of 80 acres, and so there is no --
12 you know, for that reason there is no need to demonstrate
13 that the target interval is continuous across multiple
14 tracts of spacing units. So generally speaking, the
15 practice has never been to prepare geological testimony or
16 exhibits for vertical well spacing units.

17 If you want to understand more about why the
18 location is where it is for the bottom hole, I can
19 definitely inquire, and if you would like a supplemental
20 affidavit or something along those lines, we can certainly
21 do that, but here it's just a standard 80 acre spacing unit
22 with a bottom hole location that is non-standard given the
23 targeted location.

24 And, otherwise, the company has submitted an NSL
25 for approval of that location giving notice to the parties

1 that would be encroached upon.

2 TECHNICAL EXAMINER McCLURE: Regarding an NSL, it
3 has been submitted; is that correct?

4 MR. RANKIN: Yes, it has.

5 TECHNICAL EXAMINER McCLURE: Has, to your
6 knowledge, has there been any protest to that NSL?

7 MR. RANKIN: Not to my knowledge, Mr. Examiner,
8 and I'm -- I do not believe it's been approved, yet, but
9 I --

10 TECHNICAL EXAMINER McCLURE: Do you know how long
11 ago it was submitted? Beyond the 20 days I guess is what
12 I'm curious about.

13 MR. RANKIN: Yes, well beyond the 20 days.

14 TECHNICAL EXAMINER McCLURE: Okay.

15 MR. RANKIN: The -- one moment -- the notice of
16 publication, the affidavit for publication for the NSL was
17 published on January 20. One moment and I will pull up my
18 -- I should be able to get you the date of the application
19 itself. Mr. Examiner, it was submitted for approval on the
20 10th of January.

21 TECHNICAL EXAMINER McCLURE: I'm sorry, what was
22 that? I apologize, I missed that.

23 MR. RANKIN: The application for the non-standard
24 location was submitted for approval by the Division on
25 January 10.

1 TECHNICAL EXAMINER McCLURE: Have you received
2 any communication from the Division regarding that NSL
3 application?

4 MR. RANKIN: I have not, and I do not believe
5 that Matador has either. In this case, Matador submitted
6 the application directly, so if there was a protest, I
7 believe the Division would have contacted Matador directly.
8 I'm being told by Matador that they have not been notified
9 of any protests as of this date.

10 TECHNICAL EXAMINER McCLURE: Okay. I guess the
11 only other question I had, I didn't see any application, so
12 I'm assuming not, so is there any depth severance associated
13 with this application?

14 MR. RANKIN: No.

15 TECHNICAL EXAMINER McCLURE: The pooling
16 application?

17 MR. RANKIN: No depth severance in this spacing
18 unit.

19 TECHNICAL EXAMINER McCLURE: Okay. I'm just
20 thinking about the geo, Mr. Brancard. Maybe we should
21 discuss and maybe get back to them if we do want additional
22 submittals on this. I don't know if you are in agreement --
23 if that's what your thought would be as well?

24 HEARING EXAMINER BRANCARD: Well, I can't say
25 that we have had, at least in my experience, brief

1 experience here, a lot of vertical well pooling cases. So
2 to say that there is a normal practice of not submitting
3 geologic evidence by affidavit seems a bit of a stretch
4 because we don't have much of a normal practice here with
5 vertical wells.

6 MR. RANKIN: Well, there used to be, Mr.
7 Examiner. And the reason for submitting geological
8 testimony and evidence for horizontal wells is because you
9 are comprising your spacing unit in multiple tracts across
10 different owners.

11 In this situation where you have a standard 80
12 acre spacing unit, you are not combining tracts, and you've
13 got one simple, one tract divided by an ownership, so there
14 is no need to demonstrate that the geology and target
15 intervals are consistent across each of the tracts and that
16 they will contribute more or less equally, which is the
17 reason for the geologic testimony in the horizontal cases.

18 HEARING EXAMINER BRANCARD: I think we have a
19 standard form affidavit that includes geologic information.
20 And we sometimes get horizontal, even if it's just one
21 tract, down to the Wolfcamp.

22 So, yes, it's puzzling to me when I look at the
23 C-102 because it looks like if you had gone N/S rather than
24 E/W, your location would be standard, not non-standard.

25 MR. RANKIN: That is true. And I guess there may

1 be reasons, ownership reasons or other reasons that the
2 operator may have decided to orient by creating a S/2
3 spacing unit. I can't at this time tell you the reasons,
4 but if it's something that Division requires, then we can
5 provide that supplemental information.

6 HEARING EXAMINER BRANCARD: So Mr. Rankin, this
7 is a directional well; correct?

8 MR. RANKIN: I will have to confer with the
9 rules. I believe the deviation may, may result in it being
10 defined as a directional well versus a vertical well based
11 on the extent of its deviation, but I don't know

12 HEARING EXAMINER BRANCARD: It's at least 1000
13 feet away from the bottom hole on the surface.

14 TECHNICAL EXAMINER McCLURE: I was going to say,
15 I think the definition might be greater than five percent,
16 if I'm remembering off the top of my head. And if I
17 remember I think the directional survey has like a 30
18 percent deviation in the center before it goes back to
19 vertical. If I recall, I'm not looking at it right now, but
20 I believe it would be considered directional by our
21 definition.

22 HEARING EXAMINER BRANCARD: So, Mr. McClure, what
23 would you like to see?

24 TECHNICAL EXAMINER McCLURE: I guess I kind of
25 hesitate on saying on the spot exactly what I would like to

1 see him submit. I'm almost wondering if we should discuss
2 and get with them later for additional submittals.

3 HEARING EXAMINER BRANCARD: You want to continue
4 this case or just take it under advisement?

5 TECHNICAL EXAMINER McCLURE: Considering there is
6 no authority that's involved, I'm wondering if we should
7 continue it.

8 HEARING EXAMINER BRANCARD: Okay. And it might
9 be useful --

10 MR. CARTER: May I?

11 HEARING EXAMINER BRANCARD: -- to consult with
12 our folks who are working on the non-standard location
13 issue.

14 TECHNICAL EXAMINER McCLURE: Could be.

15 HEARING EXAMINER BRANCARD: There is an
16 overlapping question here. I'm sorry there was a question?
17 Was that Mr. Carter?

18 MR. CARTER: Yes. This is Stewart Carter. After
19 talking with Nicholas Weeks during my conversations, I asked
20 him why there's such a difference between top well location
21 and bottom. And, if this will help, apparently there was a
22 pivot, an irrigation pivot that was screwing things up, so
23 they had to move the top well location to take care of that.
24 If that will help. Do you know what I mean?

25 HEARING EXAMINER BRANCARD: Exactly. Thank you.

1 I mean, we were speculating thinking there was some problem
2 on the surface and you have identified it, so thank you.

3 All right. Mr. McClure, I don't know if this is
4 going to take very long for us to figure out if we have
5 issues or want information, so I'm not looking at a very
6 long continuance here. What are your thoughts?

7 TECHNICAL EXAMINER McCLURE: I wouldn't think it
8 would have to be continued very long. I would think we
9 should be able to rapidly come to a conclusion on it, I
10 would surely think.

11 MR. RANKIN: I guess, Mr. Examiner, I might speak
12 up here a little bit. I'm a little confused because I think
13 the operator should be permitted to decide how to best
14 orient their spacing units, number one. Number two, it's a
15 standard spacing unit, and number three, they followed the
16 rules with respect to identifying the non-standard location.
17 They followed the rules by applying for administrative
18 approval.

19 So I'm not really -- I'm happy to engage in and
20 provide whatever the Division feels is necessary and
21 appropriate to approve the spacing unit and pooling, but I'm
22 a little confused by the, you know, the line of questioning
23 I guess around it. But I'm happy to proceed however the
24 Division wants.

25 HEARING EXAMINER BRANCARD: Well, Mr. Rankin, you

1 got us scratching our heads by coming in with a vertical
2 well.

3 MR. RANKIN: I'm also being told, and I haven't
4 confirmed this, but I understand that even if we went N/S
5 here, Mr. McClure, if we went to a W/2 of the NE/4, that
6 that location still would be non-standard because of the
7 extreme requirements to be in center local location within
8 150 feet.

9 So it doesn't seem to matter one way or the other
10 how you orient the spacing unit, you are still going to have
11 an NSL. And again, the reason for the bottom hole location
12 is because the company is seeking to identify -- I believe
13 it identified domes or pockets of prospective intervals.

14 TECHNICAL EXAMINER McCLURE: And see, I suppose
15 where my concern kind of comes in is just to make sure that
16 the production is being allocated to the correct ownership,
17 and if it would seem that the correct ownership would be the
18 W/2 would be more accurate than the S/2 -- you see what I'm
19 saying? But as far as what are any additional submittals
20 that we may require would be -- I'm not quite certain what
21 our thoughts are on the NSL and what additional we may need,
22 thence the reason for going back and discussing before we
23 just set something out right now, I guess.

24 HEARING EXAMINER BRANCARD: Mr. McClure, do you
25 think we need until the first hearing in April or are you

1 okay with two weeks?

2 TECHNICAL EXAMINER McCLURE: I think two weeks
3 would be good.

4 HEARING EXAMINER BRANCARD: All right. So we are
5 going to continue this case until March 17. Since we are
6 continuing it, Mr. Rankin, you do not need to file a
7 continuance, we will just put it on the docket. And
8 hopefully if the Division has questions, they will let you
9 and your client know as soon as possible.

10 MR. RANKIN: I would appreciate that, especially
11 if there is something they would like to be submitted that
12 way we can get it submitted in a timely manner.

13 HEARING EXAMINER BRANCARD: Thank you. All
14 right, Case 22500 is continued to March 17. Thank you,
15 everyone.

16 MS. HARDY: Thank you.

17 MR. RANKIN: Thank you.

18 (Continued.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico Certified Court Reporter, CCR 253, do hereby certify that I reported the foregoing virtual proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings to the best of my ability.

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.

I FURTHER CERTIFY that the Virtual Proceeding was of extremely poor to good quality.

Dated this 3rd day of March 2022.

/s/ Irene Delgado

Irene Delgado, NMCCR 253
License Expires: 12-31-22