

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 MATRIX NEW MEXICO)
HOLDINGS, L.L.C., FOR COMPULSORY)
POOLING, LEA COUNTY, NEW MEXICO)

CASE NOS. 13,419

APPLICATION OF MATRIX NEW MEXICO)
HOLDINGS, L.L.C., FOR COMPULSORY)
POOLING, LEA COUNTY, NEW MEXICO)

and 13,420

(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 17th, 2005

Santa Fe, New Mexico

2005 MAR 3 AM 8 10

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 17th, 2005, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

February 17th, 2005
 Examiner Hearing
 CASE NO. 13,419 and 13,420 (Consolidated)

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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
 110 N. Guadalupe, Suite 1
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:50 a.m.:

3 EXAMINER CATANACH: Call the hearing back to
4 order and call Case 13,419, the Application of Matrix New
5 Mexico Holdings, L.L.C., for compulsory pooling, Lea
6 County, New Mexico.

7 Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart, L.L.P. We represent Matrix New Mexico Holdings,
11 L.L.C., in this matter, and at this time I would request
12 that you also call Case 13,402 [sic]. This is a second
13 compulsory pooling Application by Matrix. We're pooling
14 40-acre spacing units, they're in the same half-section,
15 and the ownership is identical in both.

16 EXAMINER CATANACH: Okay, Mr. Carr, I believe you
17 meant 13,420; is that correct?

18 MR. CARR: Yes, I think so. I don't have a
19 docket, but it is the next case on the docket.

20 EXAMINER CATANACH: I'll call Case 13,420, the
21 Application of Matrix New Mexico Holdings, L.L.C., for
22 compulsory pooling, Lea County, New Mexico.

23 And I will call for additional appearances in
24 13,419 or 13,420 at this time.

25 Okay, Mr. Carr?

1 MR. CARR: At this time we call Fred Bryla.

2 EXAMINER CATANACH: Okay, can I have the witness
3 stand and be sworn in at this time.

4 (Thereupon, the witness was sworn.)

5 FRED C. BRYLA,

6 the witness herein, after having been first duly sworn upon
7 his oath, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. CARR:

10 Q. Will you state your name for the record, please?

11 A. Fred Bryla.

12 Q. Mr. Bryla, where do you reside?

13 A. Houston, Texas.

14 Q. By whom are you employed?

15 A. Matrix New Mexico Holdings.

16 Q. And what is your position with Matrix New Mexico
17 Holdings?

18 A. I'm a vice president.

19 Q. Have you previously testified before the New
20 Mexico Oil Conservation Division?

21 A. Yes, I have.

22 Q. At the time of that testimony, were your
23 credentials as an expert in petroleum engineering accepted
24 and made a matter of record?

25 A. Yes, they were.

1 Q. Are you familiar with each of the Applications
2 filed in these consolidated cases?

3 A. I am.

4 Q. And are you familiar with the status of the land
5 in this subject area?

6 A. Yes, I am.

7 MR. CARR: We tender Mr. Bryla as an expert
8 witness in petroleum engineering.

9 EXAMINER CATANACH: Mr. Bryla is so qualified.

10 Q. (By Mr. Carr) Initially, would you summarize for
11 Mr. Catanach what it is that Matrix New Mexico Holdings
12 seeks in each of these cases?

13 A. In Case Number 13,419 Matrix New Mexico seeks an
14 order pooling all mineral interests from the surface
15 through the base of the Wolfcamp formation in the northeast
16 quarter of the southeast quarter of Section 10 of 13 South,
17 38 East, Lea County, New Mexico, which includes but is not
18 necessarily limited to the Undesignated Bronco-Wolfcamp
19 Pool, said units to be dedicated to Matrix Townsend Well
20 Number 3, to be drilled at a standard oil well location in
21 the northeast quarter of the southeast quarter of said
22 Section 10.

23 Insofar as Case Number 13,420, Matrix seeks an
24 order pooling all mineral interests from the surface
25 through the base of the Wolfcamp formation in the southeast

1 quarter of the northeast quarter of Section 10, 13 South,
2 38 East, Lea County, which includes but is not necessarily
3 limited to the Undesignated Bronco-Wolfcamp Pool, said
4 units to be dedicated to Matrix Townsend Well Number 2, to
5 be drilled at a standard oil well location in the southeast
6 quarter of the northeast quarter of said Section 10.

7 Q. Mr. Bryla, was another 40-acre spacing unit in
8 this section recently pooled by the Division on the
9 Application of Matrix?

10 A. Yes, in Case Number 13,357, and by Order Number
11 R-12,252, the Commission pooled the northeast quarter of
12 the northeast quarter of the same Section 10 for the Matrix
13 Townsend Well Number 1A.

14 Q. And what is the status of that well?

15 A. That well is pending. We are waiting on a
16 drilling rig, which we anticipate in early April.

17 Q. Let's go to what has been marked as Matrix
18 Exhibit Number 1, and I'd ask you to identify for Mr.
19 Catanach what this is.

20 A. Matrix Exhibit Number 1 -- We actually have two
21 sets of Exhibit Number 1's here. Let me see if I can get
22 this organized.

23 Well, Matrix Exhibit Number 1 are plats
24 describing the 40 acres subject to the pooling in each of
25 the relevant cases.

1 Q. And the acreage that was previously pooled is the
2 northeast of the northeast of Section 10?

3 A. That is correct.

4 Q. What is the primary objective in the well? Is it
5 the Wolfcamp, as you indicated?

6 A. It is the Wolfcamp.

7 Q. Let's go to Exhibit Number 2. Would you identify
8 this, please?

9 A. Exhibit Number 2 is a breakdown of the mineral
10 interests in the subject 40-acre spacing units for both the
11 Townsend Number 2 and the Townsend Number 3. As you can
12 see from this exhibit, the interests are identical in both
13 40-acre units. We're dealing with a common lease, being
14 the east half of Section 10. It's a 320-acre lease, and
15 the mineral interests are identical throughout.

16 What is further indicated on this exhibit is that
17 Matrix New Mexico Holdings and Chesapeake have accepted an
18 AFE to drill the subject wells, and the balance of the
19 interests have declined.

20 Q. If we look at the bottom of this exhibit, we have
21 the Estate of Calvin D. Townsend, and his address is
22 unknown?

23 A. That is correct.

24 Q. And Mr. Townsend was also unknown at the time of
25 the hearing last November; is that right?

1 A. Right, exactly. Mr. Townsend passed away some
2 years back in San Francisco, never married, with no
3 children and no will, and so is basically a lost owner.

4 Q. Will Matrix place the share of the proceeds that
5 would be attributed to this interest in escrow, in a bank
6 in the county where the well is located, as required by
7 Division Rules?

8 A. That is correct.

9 Q. Let's go to Exhibit Number 3. Would you identify
10 that and just briefly review for Mr. Catanach the efforts
11 that have been made to put together these two particular
12 spacing units?

13 A. This is a continuation of a project that actually
14 began in 2003, but insofar as these particular 40-acre
15 units are concerned, an effort was made to gain acceptance
16 by all owners.

17 AFEs were sent to all owners of record, and we've
18 received virtually no feedback from the nonconsenting
19 parties. I did get one courtesy phone call from a guy who
20 basically told me that he was not going to participate.

21 Q. Did Chesapeake participate in the first well?

22 A. Yes.

23 Q. And so what we have here is exactly the same
24 ownership position we had the last time we were here?

25 A. That is correct.

1 Q. In your opinion, have you made a good faith
2 effort to put these properties together so you can drill
3 the subject wells in the east half of this section?

4 A. Yes, we have.

5 Q. What is Exhibit 4?

6 A. Exhibit 4 is an AFE to drill the subject wells.

7 Q. And could you review the totals as they're set
8 forth on this exhibit, the dryhole and the completed well
9 cost?

10 A. The dryhole cost is set forth at \$616,250, the
11 completed well cost is set forth at \$994,710.

12 Q. Are these costs in line with what other operators
13 would incur in the area for similar wells and your
14 experience in drilling in this portion of New Mexico?

15 A. Yes, they are.

16 Q. Is Exhibit Number 5 the COPAS accounting form for
17 joint operations for the proposed well?

18 A. Yes, it is.

19 Q. And do the provisions set out in this document
20 provide for the periodic adjustment of overhead and
21 administrative costs?

22 A. Yes, they do.

23 Q. And does Matrix request that the orders that
24 result from this hearing also provide for the periodic
25 adjustment of these costs in accordance with this form?

1 A. Yes, we do.

2 Q. Have you made an estimate of the overhead and
3 administrative costs to be incurred while drilling and also
4 while producing the well if, in fact, it is successful?

5 A. Yes, we have.

6 Q. And what are they?

7 A. The drilling well rate is \$7454 per month,
8 prorated on a monthly basis, and the producing well rate is
9 \$745.40.

10 Q. Are these the same figures that were approved by
11 the Division for the other well in this half section by
12 Order Number R-12,252?

13 A. Yes, they are.

14 Q. Does Matrix request that these figures be
15 incorporated into the order that results from this hearing?

16 A. Yes, we do.

17 Q. Does Matrix also request that in accordance with
18 Division Rules the maximum charge for risk of 200 percent
19 be imposed on each working interest that is not voluntarily
20 committed to the well?

21 A. Yes, we do.

22 Q. And do you request that Matrix Holdings New
23 Mexico, L.L.C. -- Well, let's see, we're actually
24 requesting that Matrix New Mexico Operating Company,
25 L.L.C., be designated operator of the well; is that right?

1 A. That is correct.

2 Q. And what is their relationship to New Mexico
3 Holdings?

4 A. Matrix New Mexico Operating Company is the
5 operating arm of New Mexico Holdings.

6 Q. In your opinion, will the granting of this
7 application and the drilling of the proposed wells be in
8 the best interest of conservation, the prevention of waste
9 and the protection of correlative rights?

10 A. Yes.

11 Q. How soon do you plan to actually spud these
12 wells?

13 A. I would expect in late April.

14 Q. You're going to drill the first one and then move
15 to these locations; is that your plan?

16 A. That is correct.

17 Q. Is Matrix Exhibit Number 6 an affidavit
18 confirming that notice of this hearing has been provided
19 all those interest owners who are subject to this pooling
20 order?

21 A. That is correct.

22 Q. And has notice also been published in a newspaper
23 of general circulation in Lea County, New Mexico?

24 A. Yes.

25 Q. Is a copy of the affidavit of publication

1 included in Exhibit Number 6?

2 A. Yes.

3 Q. Were Matrix Exhibits 1 through 6 either prepared
4 by you or compiled under your direction and supervision?

5 A. Yes, they were.

6 MR. CARR: May it please the Examiner, at this
7 time we would move the admission into evidence of Matrix
8 Exhibits 1 through 6.

9 EXAMINER CATANACH: Exhibits 1 through 6 will be
10 admitted.

11 MR. CARR: And that concludes my direct
12 examination of Mr. Bryla.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Bryla, in the Townsend Well Number 1, the one
16 we've already pooled --

17 A. Uh-huh.

18 Q. -- is it just Matrix and Chesapeake in that well
19 as well?

20 A. Uh-huh.

21 Q. Nobody else has participated or is going to
22 participate?

23 A. There may be some additional participation. We
24 have some negotiations ongoing, but they have not been
25 finalized, but...

1 Q. With some of the existing working interest
2 owners?

3 A. No.

4 Q. Do you know why these parties are reluctant to
5 participate in the wells?

6 A. These parties come to their ownership through an
7 investment in an unrelated series of wells, through
8 Sunlight Exploration Company.

9 And I think for lack of a better word, Sunlight
10 did not fulfill their expectations in the original projects
11 that they signed up for. The companies listed on the
12 exhibit are generally, is my understanding, they're
13 generally individual investors, and the prospect of
14 drilling million-dollar wells is outside the scope of what
15 they signed up for.

16 Q. And Sunlight hasn't expressed any interest in
17 participating either?

18 A. No.

19 Q. Okay. The operating name is Matrix New Mexico
20 Operating, L.L.C.; is that correct?

21 A. Yeah, Matrix New Mexico Operating Company, L.L.C.

22 EXAMINER CATANACH: Company. Okay, I have
23 nothing further.

24 THE WITNESS: Thank you very much.

25 MR. CARR: That concludes our presentation in

1 these cases.

2 EXAMINER CATANACH: There being nothing further,
3 Case 13,419 and 13,420 will be taken under advisement.

4 (Thereupon, these proceedings were concluded at
5 10:03 a.m.)

6 * * *

7
8
9
10 I do hereby certify that the foregoing is
11 a complete record of the proceedings in
12 the Examiner hearing of Case No. 13419, 13420
heard by me on February 17, 2005.

13 David R. Catanch, Examiner
14 Oil Conservation Division
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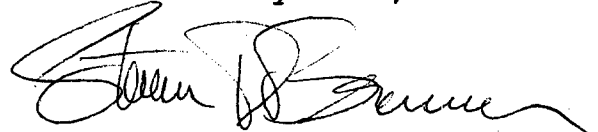
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 19th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006