

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:

7       APPLICATION OF MATADOR PRODUCTION                               CASE NO. 15525  
8       COMPANY FOR A NONSTANDARD SPACING  
9       AND PRORATION UNIT AND COMPULSORY  
10       POOLING, LEA COUNTY, NEW MEXICO.

11                               REPORTER'S TRANSCRIPT OF PROCEEDINGS  
12                               EXAMINER HEARING  
13                               August 4, 2016  
14                               Santa Fe, New Mexico

15       BEFORE:   WILLIAM V. JONES, CHIEF EXAMINER  
16                       DAVID K. BROOKS, LEGAL EXAMINER

17                       This matter came on for hearing before the  
18       New Mexico Oil Conservation Division, William V. Jones,  
19       Chief Examiner, and David K. Brooks, Legal Examiner, on  
20       Thursday, August 4, 2016, at the New Mexico Energy,  
21       Minerals and Natural Resources Department, Wendell Chino  
22       Building, 1220 South St. Francis Drive, Porter Hall,  
23       Room 102, Santa Fe, New Mexico.

24       REPORTED BY:   Mary C. Hankins, CCR, RPR  
25                               New Mexico CCR #20  
                             Paul Baca Professional Court Reporters  
                             500 4th Street, Northwest, Suite 105  
                             Albuquerque, New Mexico 87102  
                             (505) 843-9241

## 1 APPEARANCES

2 FOR APPLICANT MATADOR PRODUCTION COMPANY:

3 JORDAN L. KESSLER, ESQ.  
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1 (10:29 a.m.)

2 EXAMINER JONES: Case Number 15525,  
3 application of Matador Production Company for a  
4 nonstandard spacing and proration unit and pooling, Lea  
5 County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Jordan Kessler, from the  
8 Santa Fe office of Holland & Hart, on behalf of the  
9 Applicant.

10 EXAMINER JONES: Any other appearances?

11 MS. KESSLER: I have two witnesses today,  
12 Mr. Examiner.

13 EXAMINER JONES: Both witnesses will be  
14 sworn by the court reporter.

15 (Jeff Lierly and James A. Jewett sworn.)

16 JEFF LIERLY,  
17 after having been first duly sworn under oath, was  
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MS. KESSLER:

21 Q. Please state your name for the record and tell  
22 the Examiners by whom you're employed and in what  
23 capacity.

24 A. My name is Jeff Lierly. I'm a landman for  
25 Matador Resources.

1 Q. Were your credentials as a petroleum landman  
2 previously accepted and made a matter of record today?

3 A. Yes, they were.

4 Q. Are you familiar with the application filed in  
5 this case?

6 A. Yes, I am.

7 Q. Are you familiar with the status of the lands  
8 in the subject area?

9 A. Yes, I am.

10 MS. KESSLER: And, once again, I'd tender  
11 Mr. Lierly as an expert in petroleum land matters.

12 EXAMINER JONES: He is so qualified.

13 Q. (BY MS. KESSLER) Mr. Lierly, please turn to  
14 Exhibit 1, and identify this exhibit and explain what  
15 Matador seeks under this application.

16 A. This is the C-102 plat for the Eland 32-18S-33E  
17 RN State Com 124H well. We are seeking to establish or  
18 create a 160-acre nonstandard spacing unit comprised of  
19 the east half-east half of Section 32, Township 18  
20 South, range 33 East, Lea County, New Mexico. We are  
21 seeking to pool all the uncommitted working interest  
22 owners in the Bone Spring Formation.

23 Q. And will the spacing unit be dedicated to the  
24 Eland 32, 18 South, 33 East RN State Com 124H well?

25 A. Yes, it will.

1 Q. Has the Division designated a pool for this --

2 A. It's in the Corbin-Bone Spring South Pool.

3 Q. Is the pool code listed on the C-102?

4 A. Yes, 13160.

5 Q. Do the Division statewide setbacks apply for  
6 this pool?

7 A. Yes. It will be legal in all --

8 Q. An orthodox location?

9 A. Correct.

10 Q. If you would turn to Exhibit 2 and identify  
11 this exhibit.

12 A. This is an ownership table that depicts the  
13 committed working interest owners being approximately  
14 99.5 percent and the uncommitted working interest  
15 owners. Listed in the table below is Rohoel, Inc.,  
16 Sybil Blackman Carney, and Dr. Robert B. Cahan and his  
17 wife and their respective interest that we're seeking to  
18 pool.

19 Q. So the interests you seek to pool are listed  
20 here under the blue column?

21 A. Correct.

22 Q. You're seeking to pool less than .5 percent?

23 A. That's correct.

24 Q. Is Exhibit 3 a Midland map of the subject area?

25 A. Yes. This is a Midland map. It shows our

1 proposed 160-acre project area for the Eland 124H well.  
2 And if you look closely, you can see two state leases,  
3 one that makes up the north half and one that makes up  
4 the south half.

5 Q. Is Exhibit 4 a copy of the well proposal  
6 letters that you sent to each of the interest owners  
7 whom you seek to pool?

8 A. Yes, it is.

9 Q. Did the letter include an AFE?

10 A. It did.

11 Q. Are the costs reflected on this AFE consistent  
12 with what other operators in the area have charged for  
13 similar wells?

14 A. Yes, I believe so.

15 Q. And have you estimated the overhead and  
16 administrative rates while drilling and producing this  
17 well?

18 A. Yes. We're requesting 7,000 while drilling and  
19 700 while producing.

20 Q. Are those costs similar to what other operators  
21 are charging in the area for similar wells?

22 A. Yes, they are.

23 Q. Do you ask that the administrative and overhead  
24 costs be incorporated into any order resulting from  
25 this --

1           A.     Yes, we do.

2           Q.     And do you request it be adjusted with the  
3 appropriate accounting procedures?

4           A.     Yes, we do.

5           Q.     With respect to any uncommitted interest  
6 owners, do you request the Division impose a 200 percent  
7 risk penalty?

8           A.     Yes, we do.

9           Q.     In addition to sending your well proposal  
10 letters, what other efforts did you undertake to  
11 reach --

12          A.     We've had numerous phone calls with each party,  
13 email correspondence, additional written correspondence,  
14 so we've been in communication with all parties. We've  
15 been dealing with one or two of them, I think, since  
16 October or November of last year. So there's been  
17 extensive efforts to try to reach a deal, and I do think  
18 we're very close with all parties.

19          Q.     Did you also publish notice of this hearing?

20          A.     Yes, we did.

21          Q.     Let me back up. Is Exhibit 5 an affidavit  
22 providing notice of this hearing to all of the parties  
23 whom you seek to pool and the offset operators or  
24 lessees reported [sic] in the 40-acre tracts surrounding  
25 the proposed --

1 A. Yes.

2 Q. And is Exhibit 6 an affidavit of publication?

3 A. Yes, it is.

4 Q. And did you publish notice because you had not  
5 received the green card back of notice of this hearing  
6 for Sybil Blackman Carney?

7 A. At the time. But, again, through sending  
8 proposals to numerous addresses and -- we have spoken to  
9 her husband, and, again, I think we're in the process of  
10 reaching an agreement. So we have been in communication  
11 with them. But at the time, correct, we hadn't.

12 Q. Did you prepare Exhibits 1 through 4?

13 A. Yes.

14 MS. KESSLER: Mr. Examiner, I move  
15 admission of Exhibits 1 through 6.

16 EXAMINER JONES: Exhibits 1 through 6 are  
17 admitted.

18 (Matador Production Co. Exhibit Numbers 1  
19 through 6 are offered and admitted into  
20 evidence.)

21 EXAMINER JONES: I don't have any  
22 questions.

23 CROSS-EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. You didn't say anything about a prior order.



1 Why is this a re-opened case?

2 MS. KESSLER: Mr. Examiner, I think that  
3 was a mistake on behalf of my assistant.

4 EXAMINER BROOKS: Okay. So this one is not  
5 a re-opened case?

6 MS. KESSLER: This is not.

7 EXAMINER BROOKS: Thank you.

8 EXAMINER JONES: Okay. Thank you very  
9 much.

10 JAMES A. JEWETT,  
11 after having been previously sworn under oath, was  
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MS. KESSLER:

15 Q. Please state your name for the record and tell  
16 the Examiners by whom you're employed and in what  
17 capacity.

18 A. James Andrew Jewett [phonetic]. I'm employed  
19 by Matador Resources as a senior staff geologist.

20 Q. And have you previously testified before the  
21 Division?

22 A. Yes, I have.

23 Q. Were your credentials as a petroleum geologist  
24 accepted and made a matter of record?

25 A. Yes, they were.

1 Q. Are you familiar with the application filed in  
2 this case?

3 A. Yes, ma'am.

4 Q. Have you conducted a geologic study of the  
5 lands in the subject area?

6 A. Yes, I have.

7 MS. KESSLER: Mr. Examiners, I would tender  
8 Mr. Jewett as an expert witness in petroleum geology.

9 EXAMINER JONES: He is qualified as an  
10 expert in petroleum geology.

11 Q. (BY MS. KESSLER) Please turn to Exhibit 7.

12 A. Okay.

13 Q. And identify this exhibit and walk us through  
14 it.

15 A. Exhibit 7 is just a simple locator map to show  
16 where the Eland 124 project area sits in Lea County, New  
17 Mexico. It's a blowup of that.

18 Q. Identifies the acreage and the proposed  
19 lateral, correct?

20 A. Yes. Yes, it does.

21 Q. If you could turn to Exhibit 8, what is this  
22 exhibit?

23 A. Exhibit 8 is a structure map -- subsea  
24 structure map on top of the 2nd Bone Spring Sand  
25 package. This map also identifies the project area that

1 you will see in the green box, outlined with the red --  
2 with the red outline. It shows our surface and  
3 bottom-hole location. The purple attributes on this map  
4 shows the data points used to make this map, and it also  
5 shows that we have a -- it's gently dipping. The 2nd  
6 Bone Spring is gently dipping to the southeast.  
7 And this -- the line of cross section is -- is -- will  
8 be a future exhibit.

9 Q. Based on the structure in this section, have  
10 you identified any geologic impediments to drilling a  
11 horizontal well?

12 A. No. There do not appear to be.

13 Q. If you could turn to Exhibit 9 and identify  
14 this exhibit for the Examiners.

15 A. Okay. Exhibit 9 is a structural cross section  
16 that cuts across our -- our proposed unit, and it shows  
17 the 2nd Bone Spring Sand package and that it's fairly  
18 uniform across the area. It also shows our target area.  
19 That should be fairly uniform across our target  
20 interval. The bold red line shows our lateral -- our  
21 proposed lateral where we are going through the target  
22 area that we have. And when I look at the cross  
23 section, I think it -- it shows the sands should be  
24 fairly contiguous through here.

25 Q. Is Exhibit 10 a gross isopach map of this area?

1           A.    Yes, it is.

2           Q.    Can you please walk us through this exhibit?

3           A.    Yes.  This is basically a gross isopach of the  
4   2nd Bone Spring sand package that we have, and it shows  
5   that in our -- across our 124H working area, that we  
6   should have close to 700 feet of sand uniform across --  
7   across the area.  The blue attributes on this map are  
8   also the data points used to make the map.

9           Q.    What conclusions have you drawn based on your  
10  geologic study of this area?

11          A.    I concluded that there should be no geologic  
12  impediments to drilling a horizontal well, that all  
13  quarter-quarter sections should be productive in this  
14  area and drilling a horizontal through this area should  
15  reduce waste by drilling unnecessary wells and be --  
16  produce a greater EUR than drilling several other wells.

17          Q.    Is Exhibit 11 a construction diagram of the  
18  wellbore showing that the first and last perf points  
19  will be an unorthodox location?

20          A.    Yes, it is.

21          Q.    In your opinion, will granting Matador's  
22  application be in the best interest of conservation, for  
23  the prevention of waste and the protection of  
24  correlative rights?

25          A.    Yes, I do [sic].

1 Q. And did you prepare Exhibits 7 through 11?

2 A. Yes, I did.

3 MS. KESSLER: Mr. Examiner, I move  
4 admission of Exhibits 7 through 11.

5 EXAMINER JONES: Exhibits 7 through 11 are  
6 admitted.

7 (Matador Production Co. Exhibit Numbers 7  
8 through 11 are offered and admitted into  
9 evidence.)

10 CROSS-EXAMINATION

11 BY EXAMINER JONES:

12 Q. This section on Exhibit 10, the isopach --

13 A. Yes.

14 Q. -- what's -- what's going on with that oil up  
15 in the -- or that thinning --

16 A. That one thin area gets -- we just have a  
17 little bit of section missing there. It looks like  
18 there is a sand that is missing on that. So it -- it's  
19 just -- like I say, it gets down just below -- the data  
20 points aren't put on here, but it's just below 500 feet.  
21 So we've seen about 150 -- well, if you look at some of  
22 the surrounding wells, about a 100-foot thin. And we  
23 see some of that also carrying over to the east. That's  
24 not on this map.

25 Q. Okay. So -- so those sands are a bit

1     discontiguous?

2           A.     They're -- some of these sands can be  
3     discontiguous.  When you look at the cross section on  
4     Exhibit -- what is this?

5                   MS. KESSLER:  9.

6                   THE WITNESS:  On Exhibit 9, we -- this very  
7     bottom sand appears to be missing in that well that's  
8     above the 3rd Bone Spring.

9           Q.     (BY EXAMINER JONES) Okay.  Admiring all those  
10    data points you've got.  Is that Morrow wells that were  
11    drilled?

12          A.     Most of them are Morrow wells.

13          Q.     You've got lots of logs out there?

14          A.     Yes, sir.

15          Q.     Would this have been cased off through the  
16    Morrow?

17          A.     Yes, it would have been.

18          Q.     Your open-hole logs pulled up through this,  
19    would this have been -- would this have been a gamma ray  
20    and a neutron log?

21          A.     No.  Most of the logs are open-hole logs --

22          Q.     Okay.

23          A.     -- When they did this.  The casing typically  
24    was set around 4,500 feet, and then they drilled down to  
25    the Morrow.  So they had open-hole logs through that and

1       then cased it off. I understood your question.

2           Q.     Okay. They're probably pretty careful about  
3       their drilling fluids if they were drilling the Morrow,  
4       then, weren't they?

5           A.     Yes, sir.

6                    When they drill through some of this,  
7       though, they try to blow through it pretty quick to get  
8       to the Morrow, so they condition the mud better towards  
9       the Morrow.

10          Q.     Okay. But it would be some washouts and --

11          A.     Yes, sir. Yes, sir.

12          Q.     Well, 3rd Bone Spring, are you going to drill  
13       any more in the spacing unit?

14          A.     It's the 2nd Bone Spring.

15          Q.     2nd. I'm sorry.

16          A.     2nd Bone Spring.

17                   We -- we have some potential other targets  
18       that we would like to do a little more work on, but this  
19       is our main target in the 2nd Bone Spring Sand package.

20          Q.     Okay. Okay. Thank you very much.

21                   EXAMINER JONES: Mr. Brooks?

22                   EXAMINER BROOKS: No questions.

23                   EXAMINER JONES: Okay. Thank you.

24                   We'll take Case 15525 under advisement.

25                   We'll take a five-minute break here.

1 (Case Number 15525 concludes, 10:44 a.m.)

2 (Recess 10:44 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

21

22 MARY C. HANKINS, CCR, RPR  
23 Certified Court Reporter  
24 New Mexico CCR No. 20  
25 Date of CCR Expiration: 12/31/2016  
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