

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 A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15899

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 30, 2017

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, November 30, 2017, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

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1 APPEARANCES

2 FOR APPLICANT MATADOR PRODUCTION COMPANY:

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25

1 (9:52 a.m.)

2 EXAMINER JONES: Okay. I believe by
3 agreement we've agreed to jump a couple of the Matador
4 cases; is that correct?

5 We're going to call Case Number 15899,
6 application of Matador Production Company for a
7 nonstandard spacing and proration unit and compulsory
8 pooling, Eddy County, New Mexico.

9 Call for appearances.

10 MS. KESSLER: Mr. Examiner, Jordan Kessler,
11 from the Santa Fe office of Holland & Hart, on behalf of
12 the Applicant. And we have two witnesses today.

13 EXAMINER JONES: Any other appearances?

14 Will the witnesses please stand and the
15 court reporter swear the witnesses?

16 (Mr. Pryor and Mr. Juett sworn.)

17 SAM PRYOR,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MS. KESSLER:

22 **Q. Will you please state your name for the record**
23 **and tell the Examiners by whom you're employed and in**
24 **what capacity?**

25 A. My name is Sam Pryor. I'm employed by Matador

1 as the manager of federal lands.

2 Q. Have you previously testified before the
3 Division?

4 A. I have.

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

7 A. They were.

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

10 A. I am.

11 Q. And are you familiar with the status of the
12 lands in the subject area?

13 A. I am.

14 MS. KESSLER: Mr. Examiners, I tender
15 Mr. Pryor as an expert in petroleum land matters.

16 EXAMINER JONES: So qualified.

17 Q. (BY MS. KESSLER) Mr. Pryor, could you please
18 turn to Exhibit 1 and explain what Matador seeks under
19 this application?

20 A. Matador is seeking to create a nonstandard
21 spacing unit roughly 100- -- or 160-acre nonstandard
22 spacing unit covering the west half of the east half of
23 Section 21 of 20 South, 29 East.

24 Q. And will that spacing unit be dedicated to the
25 Cueva De Oro 123H well?

1 A. It will.

2 Q. Does Matador seek to pool uncommitted interest
3 owners in the Bone Spring Formation?

4 A. I do.

5 Q. Looking at Exhibit 1, it looks like the spacing
6 unit is all one federal lease; is that correct?

7 A. That is correct.

8 Q. Is Exhibit 2 a submitted C-102 for the Cueva De
9 Oro Fed #123H well?

10 A. It is. And, again, as you can see, it covers
11 the west half of the east half of the section.

12 Q. Did the Division designate a pool for this
13 area?

14 A. It did, being the Getty; Bone Spring Pool, Pool
15 Code 27470.

16 Q. Is that pool subject to Division statewide
17 setbacks for oil pools?

18 A. It is.

19 Q. And will the completed interval for this well
20 comply with the 330-foot setbacks?

21 A. It will.

22 Q. Does Exhibit 3 identify the interest owners in
23 the nonstandard spacing units?

24 A. It does.

25 Q. And it looks like Matador seeks to pool a

1 **little less than 2 percent; is that correct?**

2 A. That is correct.

3 **Q. Have you listed the uncommitted working**
4 **interest owners that you seek to pool for this well?**

5 A. I have here under the "Compulsory Pooling
6 Interests."

7 **Q. And they are all working interest owners?**

8 A. That is correct.

9 **Q. Is Exhibit 4 a sample of the well-proposal**
10 **letter that you sent to uncommitted working interest**
11 **owners?**

12 A. It is.

13 **Q. And a similar letter was sent to all of the**
14 **working interest owners, correct?**

15 A. That's correct.

16 **Q. Did it include an AFE?**

17 A. Yes, it did.

18 **Q. And on what date did you send this letter?**

19 A. I sent the letter on June 20th, 2017.

20 **Q. Looking at the AFE, which I believe is the**
21 **third page of this exhibit, are the costs of this AFE**
22 **consistent with what other operators in the area charge**
23 **for similar horizontal wells?**

24 A. They are.

25 **Q. And have you estimated overhead and**

1 **administrative costs for drilling and producing the**
2 **well?**

3 A. We have. We are requesting 7,000 a month while
4 drilling and 700 a month while producing.

5 Q. Is that similar to what other operators in the
6 area charge for similar wells?

7 A. Yes, ma'am.

8 Q. Do you ask those costs be incorporated into any
9 order resulting from this hearing?

10 A. I do.

11 Q. And do you ask that the costs be periodically
12 adjusted in accordance with COPAS accounting procedures?

13 A. I do.

14 Q. For the working interest owners, do you request
15 the Division impose a 200 percent risk penalty?

16 A. I do.

17 Q. And in addition to sending the well-proposal
18 letter and AFE, what other efforts did you undertake to
19 reach an agreement with the parties that you're seeking
20 to pool?

21 A. We pulled the county records -- we've
22 conducted -- pulled county records, searched telephone
23 directories, as well as other online Internet searches
24 for additional addresses and other contact information
25 for these parties.

1 Q. Let's talk about the parties that you were able
2 to locate addresses for. What conversations or efforts
3 have you made to reach an agreement with them?

4 A. The parties that we were able to locate and
5 have communications with, those parties are all under
6 the voluntary joinder. We reached joinder with them.

7 Q. And you have mentioned that some of the parties
8 you were not able to locate an address for. Did you
9 conduct searches of the county records, of telephone
10 directories and also computer searches?

11 A. That's correct.

12 Q. In your opinion, have you conducted a diligent
13 search to locate an address for each of those parties?

14 A. We have.

15 Q. But some of them remain unlocatable?

16 A. That's correct.

17 Q. In your opinion, did you make a good-faith
18 effort to reach an agreement with each of those parties
19 that you seek to pool?

20 A. Yes, ma'am.

21 Q. And you published notice of the hearing,
22 correct?

23 A. We did.

24 Q. Is that included as Exhibit 5?

25 A. Yes, ma'am.

1 Q. And did you also identify the offset operators
2 or lessees of record in the 40-acre tract surrounding
3 the proposed nonstandard unit?

4 A. We did.

5 Q. Were they included in the notice of this
6 hearing?

7 A. Yes, ma'am.

8 Q. Is Exhibit 6 an affidavit prepared by my office
9 with attached letters providing notice of this hearing
10 to the parties that you seek to pool, as well as the
11 offsets?

12 A. Yes, ma'am.

13 Q. Were Exhibits 1 through 4 prepared by you or
14 compiled under your direction and supervision?

15 A. That's correct.

16 MS. KESSLER: Mr. Examiner, I move
17 admission of Exhibits 1 through 6, which includes our
18 affidavits.

19 EXAMINER JONES: Exhibits 1 through 6 are
20 admitted.

21 (Matador Production Company Exhibit Numbers
22 1 through 6 are offered and admitted into
23 evidence.)

24 EXAMINER JONES: Mr. Brooks?

25 EXAMINER BROOKS: She didn't say she passed

1 the witness.

2 MS. KESSLER: I'll pass the witness.

3 EXAMINER BROOKS: Okay. Thank you.

4 CROSS-EXAMINATION

5 BY EXAMINER BROOKS:

6 Q. Exhibit 3 is a list of the owners that you
7 have -- you said uncommitted working interest owners.
8 This would be the same as the list of the people you
9 gave notice to?

10 A. Yes, sir.

11 Q. Now, Ms. Kessler asked you if they were all
12 working interest owners, and I've never been sure
13 whether an unleased mineral interest is a working
14 interest or not. It is under our contemplation, but I
15 think it depends who you talk to.

16 Are any of these unleased mineral
17 interests, or are they all unleased mineral interests,
18 or are they interests in oil and gas leases?

19 A. All of these are interests in oil and gas
20 leases. None of the interests listed below are unleased
21 mineral interests.

22 Q. Are there any unleased mineral interests in
23 this unit?

24 A. No, sir.

25 Q. Okay. So what about the working interest

1 owners? Are there any working interest owners that are
2 not committed to the well?

3 A. Yes, sir. And those -- those interest owners
4 are shown here beginning with EOG and ending with Phoebe
5 J. Welch.

6 Q. Okay. So -- okay. So they're all -- all these
7 people are -- are on gas leasehold interests, but
8 they're all very small, right?

9 A. Yes, sir.

10 Q. Okay. Now, you published notice. Did you -- I
11 assume you also sent notice by certified mail to all
12 these people, right? Are there any you don't have
13 addresses for?

14 A. No, sir. I think we have located addresses for
15 these individuals. Let me take a look (reading).

16 No, sir. We have addresses for these
17 individuals. I think it's been a point of
18 noncommunication.

19 Q. Okay. You sent certified mail. Are there some
20 from whom you did not receive returned receipts?

21 A. No, sir. We sent --

22 Q. You have return receipts for all the people
23 listed on Exhibit 2?

24 A. Yes, sir.

25 MS. KESSLER: Not for Notice of Hearing,

1 Mr. Examiner.

2 EXAMINER BROOKS: Oh, okay. So you don't
3 have Notice of Hearing return receipts.

4 Q. (BY EXAMINER BROOKS) Now, did you -- when you
5 didn't get the receipts back, did you undertake a search
6 for better addresses?

7 A. Yes, sir, we did, using several people
8 locators, either online Web sites or third-party tools
9 to help locate these folks.

10 Q. Are you satisfied you used reasonable diligence
11 to try to find better addresses?

12 A. Yes, sir, I am.

13 Q. And are all those people included on Exhibit 8
14 as the people -- I think it's eight. No. It isn't
15 eight.

16 Which is your publication?

17 MS. KESSLER: Exhibit 5.

18 EXAMINER BROOKS: Exhibit 5.

19 MS. KESSLER: 5.

20 Q. (BY EXAMINER BROOKS) Okay. All the people you
21 did not have addresses for are included in Exhibit 5?

22 A. Yes, sir.

23 Q. Okay. I see you have them listed here. That's
24 very good.

25 EXAMINER BROOKS: Pass the witness.

1 CROSS-EXAMINATION

2 BY EXAMINER JONES:

3 Q. So 15 days ago for the newspaper notice.

4 And it's one federal lease, but just a
5 bunch of working interest owners?

6 A. Yes, sir. And if you recall, there
7 were several of the orders [sic] on this lease, and we
8 were seeking to pool the same working interest owners.

9 Q. So it's a big lease?

10 A. Yes, sir, several -- I believe several thousand
11 acres, but our interest is listed to a handful of
12 sections.

13 Q. Are you proposing -- a JOA and then the well
14 costs, those are two separate -- two proposals you sent
15 out together?

16 A. Yes, sir.

17 Q. So any of these people like signed the JOA but
18 the signed on to the well or vice versa?

19 A. No. All of the partners that we've
20 communicated with have returned both the well proposal
21 and the JOA. It's really just been either in the bin of
22 we've had communication and been able to get
23 cooperation, or we just simply haven't been able to get
24 the return calls. And some of these are family members
25 to working interest partners that we have reached

1 voluntary joinder with. So it's just been a mixed bag.

2 Q. So can you explain to me how it works on this
3 federal lease? Someone holds the lease, right, one
4 person, or are these all assignments?

5 A. This is an aged lease. I want to say -- I want
6 to say back in the '70s. There have been numerous
7 assignments. Yeah. The title is complicated.

8 Q. So I don't know how it works with the Feds. As
9 long as someone pays the -- pays the rentals, the lease
10 is continued, right? Or the assignment, will that
11 expire if someone doesn't pay their assignment?

12 A. As, I would say, kind of a Matador policy,
13 we'll get go ahead and pay the rentals --

14 Q. Okay.

15 A. -- just to make sure that all of the provisions
16 are abided by in the lease.

17 Q. I remember I saw that at the State Land Office.
18 They didn't care who paid the thing.

19 A. They just want to make sure it's taken care of.

20 Q. Yeah.

21 Okay. Thank you very much.

22 A. Thank you.

23 MS. KESSLER: I'll call my next witness.

24 EXAMINER JONES: Okay.

25

1 JAMES ANDREW "ANDY" JUETT,
2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MS. KESSLER:

6 Q. Would you please state your full name for the
7 record and tell the Examiners by whom you're employed
8 and in what capacity?

9 A. My name is James Andrew Juett. I'm employed by
10 Matador as a senior staff geologist.

11 Q. Have you previously testified before the
12 Division?

13 A. Yes, I have.

14 Q. Were your credentials as an expert in petroleum
15 geology accepted and made a matter of record?

16 A. Yes, they were.

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

19 A. Yes, I am.

20 Q. And have you conducted a geologic study of the
21 Bone Spring in the subject area?

22 A. Yes, I have.

23 MS. KESSLER: Mr. Examiners, I would tender
24 Mr. Juett as an expert in petroleum geology.

25 EXAMINER JONES: He is so qualified.

1 **Q. (BY MS. KESSLER) Let's turn to Exhibit 7. And**
2 **can be you please identify this exhibit for the**
3 **Examiners?**

4 A. Exhibit 7 is basically a simple locator map
5 showing where our project is in Eddy County, New Mexico.
6 It also, on this map, has the project area with the
7 green box outlined in red with the surface- and
8 bottom-hole locations, and it shows where we sit next to
9 the potash. You can see the potash outline with the
10 hatched-out outline on the map. It shows where we're
11 located next to that.

12 **Q. Adjacent, correct?**

13 A. Adjacent to that, yes.

14 **Q. Is Exhibit 8 a structure map of the Bone Spring**
15 **in the area?**

16 A. Yes, it is.

17 **Q. Will you walk us through this exhibit?**

18 A. Yes. This is a subsea structure on the top of
19 the 2nd Bone Spring Sand, and this map also shows the
20 horizontal producers and what formations they're
21 producing from. The 2nd Bone Spring are the orange
22 formations, which is the same formation we're pooling
23 today. It also shows a line of cross section that will
24 be in the future exhibit, where that is. This map shows
25 that there shouldn't be any geologic hazards to drilling

1 this well, and it should it fairly contiguous across the
2 project area.

3 **Q. And to clarify, the 2nd Bone Spring is the**
4 **target for the initial well we're discussing today?**

5 A. Yes, it is.

6 **Q. And you have not, based on the structure in**
7 **this section, identified any geologic hazards to**
8 **drilling a horizontal well?**

9 A. No, I have not.

10 **Q. And you have a line of section labeled "A to A**
11 **prime" on this exhibit. Does that correspond to Exhibit**
12 **9?**

13 A. Yes, it does.

14 **Q. Can you please walk us through Exhibit 9?**

15 A. Exhibit 9 is a structural cross section that's
16 hung on the top of the 3rd Bone Spring Carbonate, which
17 is the base of the 2nd Bone Spring Sand. This cross
18 section shows that across the proration unit, the sands
19 are fairly similar, and we don't expect any major
20 changes as we drill across the proration unit. It also
21 shows, in the green lateral, about where we're expecting
22 to land this well. And we should have 350 to 375 feet
23 of sand across the unit, gross sand.

24 **Q. Is Exhibit 10 a gross thickness isopach of the**
25 **area?**

1 A. Yes, it is.

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

3 A. Yes. This shows that across the proration unit
4 or the project area we're looking at that we don't
5 expect any major sand-thickness changes, that we should
6 have anywhere from 375 -- 350 to 375 feet of sand across
7 this project area, and it ought to be contiguous
8 throughout the project area.

9 **Q. It looks very consistent on the mapped area; is**
10 **that correct?**

11 A. Do what?

12 **Q. It looks very consistent on the mapped area?**

13 A. Yes. Yes, it does.

14 **Q. What conclusions have you drawn based on your**
15 **study of this area?**

16 A. Based on the study, I've concluded there should
17 not be any geologic hazards to drilling a horizontal
18 well, that all quarter-quarter sections should be
19 productive in this proration unit and that drilling of
20 the lateral would be the most economic way to develop
21 this acreage.

22 **Q. Okay. And it looks like Exhibit 11 is a**
23 **construction -- wellbore construction diagram showing**
24 **the 123H will be located 330 feet off of the lease line;**
25 **is that correct?**

1 A. That is correct.

2 Q. So it'll be at an orthodox location?

3 A. Yes, it is.

4 Q. In your opinion, will granting Matador's
5 application be in the best interest of conservation, for
6 the prevention of waste and the protection of
7 correlative rights?

8 A. Yes, I do.

9 Q. Were Exhibits 7 through 11 prepared by you or
10 compiled under your direction and supervision?

11 A. Yes, they were.

12 MS. KESSLER: Mr. Examiners, I move
13 admission of Exhibits 7 through 11.

14 EXAMINER JONES: Exhibits 7 through 11
15 admitted.

16 (Matador Production Company Exhibit Numbers
17 7 through 11 are offered and admitted into
18 evidence.)

19 MS. KESSLER: I'll pass the witness.

20 EXAMINER BROOKS: No questions.

21 EXAMINER JONES:

22 CROSS-EXAMINATION

23 BY EXAMINER JONES:

24 Q. So it's standard location, and you're
25 drilling -- you're drilling -- actually, it looks like

1 on your Exhibit 10, you're actually drilling deeper on
2 the toe of the well than the heel?

3 A. It is -- structurally, it's -- this is not
4 meant to be --

5 Q. Oh, not structurally.

6 A. Yeah. It's not meant -- this is basically a
7 cartoon just kind of showing the --

8 Q. Okay. Yeah.

9 A. -- yeah, on the instruction diagram. But with
10 the structure map, we're going to be basically drilling
11 along strike. So we don't expect a lot of change along
12 the lateral.

13 Q. Okay. That would make sense, cross the --
14 cross the dots and dot the Ts.

15 So you've got no API yet; is that correct?

16 A. That is correct.

17 Q. Okay. This being a federal well, do you expect
18 a location to wander a little bit before you spud it?

19 A. I do not. That's probably more of a land
20 issue. But I believe that we have had a federal
21 on-site, and we're just waiting on their approval for
22 this. So I do not expect it to change much.

23 Q. Okay. So the proposal here is probably the way
24 it will be in Exhibit Number 2?

25 A. Yes.

1 Q. And you said 350 feet of gross sand. Is
2 that -- so you're calling it a sand. It's just got some
3 organics in it; is that correct?

4 A. These sands have some very small stringers of
5 organics here. Also, every once in a while, we'll come
6 across some carbonate debris flows that mix in with the
7 sands. For the most part, it's a silky, sandy formation
8 in here.

9 Q. Okay. So you can use a saline sand analysis
10 maybe to tell --

11 A. Uh-huh.

12 Q. -- tell your engineer what you think the
13 reserves are?

14 A. Yes. Well -- well, he tells me (laughter).

15 Q. He tells you?

16 A. He tells me. I give him parameters, and he
17 tells me.

18 Q. Okay. But you tell him what the cutoff for
19 porosity is?

20 A. Yes.

21 Q. What do you use?

22 A. On this cross section on Exhibit 9, the red
23 highlighted interval in the sands is an 8 percent
24 porosity cutoff, and that's a pretty good standard
25 cutoff.

1 **Q. Is that a density?**

2 A. Yes, sir. That is a density cutoff, and
3 that's --

4 **Q. Thanks very much.**

5 A. Thank you.

6 EXAMINER JONES: That's it for this case.

7 MS. KESSLER: (Indicating.)

8 EXAMINER JONES: Case Number 15899 is taken
9 under advisement.

10 (Case Number 15899 concludes, 10:13 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
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