

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:

ORIGINAL

APPLICATION OF MRC PERMIAN COMPANY
FOR APPROVAL OF A NONSTANDARD OIL
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

CASE NO. 15243

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 18, 2014

Santa Fe, New Mexico

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BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, December 18, 2014, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
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APPEARANCES

FOR APPLICANT MRC PERMIAN COMPANY (MATADOR RESOURCES COMPANY):

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1 (8:28 a.m.)

2 EXAMINER GOETZE: Next, Case 15243,
3 application of MRC Permian Company for approval of a
4 nonstandard oil spacing and proration unit and
5 compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant. I'm appearing in
9 association with Dana Arnold who is in-house counsel for
10 MRC Permian, and I have two witnesses.

11 EXAMINER GOETZE: Will the witnesses please
12 stand, identify yourself to the court reporter and be
13 sworn in?

14 MR. FILBERT: I'm Jonathan Filbert, Dallas,
15 Texas, senior staff landman, Matador Resources.

16 MR. WILLIAMSON: Jeron Williamson, senior
17 staff reservoir engineer, Matador Resources Company.

18 (Mr. Filbert and Mr. Williamson sworn.)

19 EXAMINER GOETZE: Proceed, Mr. Bruce.

20 JONATHAN FILBERT,
21 after having been previously sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Filbert, where do you reside?

1 A. Dallas, Texas.

2 Q. Who do you work for and in what capacity?

3 A. Matador Resources Company, senior staff
4 landman.

5 Q. And what is the relationship between Matador
6 Resources Company and MRC Permian Company?

7 A. MRC Permian is a subsidiary of Matador
8 Resources Company. It's our Permian arm of the parent
9 company.

10 Q. Okay. And does MRC own working interests in
11 this well unit?

12 A. Yes, sir.

13 Q. Have you previously testified before the
14 Division?

15 A. Yes.

16 Q. And were your credentials as an expert
17 petroleum landman accepted as a matter of record?

18 A. Yes.

19 Q. And does your area of responsibility at MRC
20 include this portion of southwest New Mexico?

21 A. Yes.

22 Q. And are you familiar with the land matters in
23 this case?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I'd tender

1 Mr. Filbert as an expert petroleum landman.

2 EXAMINER GOETZE: He is so qualified.

3 Q. (BY MR. BRUCE) Mr. Filbert, would you identify
4 Exhibit 1 for the Examiners and describe what MRC seeks
5 in this case?

6 A. Exhibit 1 is a Midland Map Company plat which
7 shows Township 19 South, Range 34 East. Matador is
8 seeking an order approving a nonstandard well unit
9 comprised of the east half-east half of Section 16 and
10 pooling for the Bone Spring Formation under this
11 nonstandard unit.

12 Q. Could you turn to page 2 of Exhibit 1, identify
13 the well that you're proposing to drill? And what are
14 the footages, at least for the beginning of the
15 producing interval to the end of the producing interval?

16 A. The well is the Cimarron State 16-19 South-34
17 East RN, and it's the #134H well. It's a horizontal
18 well with a surface-hole location 250 feet from the
19 north line, 330 feet from the east line. And the end
20 producing interval is 330 feet from the south line and
21 380 feet from the east line, Section 16. And the well
22 location is orthodox.

23 MR. BRUCE: Mr. Examiner, I believe this
24 well is in the Quail Ridge-Bone Spring pool.

25 EXAMINER GOETZE: Do you have confirmation

1 from district on that?

2 MR. BRUCE: They have not filed the APD yet
3 because they do not own in every quarter-quarter
4 section.

5 EXAMINER GOETZE: Very good. Thank you.

6 Q. (BY MR. BRUCE) And, Mr. Filbert, what is the
7 working interest ownership in the well unit that you
8 seek to pool?

9 A. Matador owns the lease in the north half of
10 Section 16. Amtex Energy owns the lease in the south
11 half of Section 16. Therefore, it's a 50/50 breakdown
12 in the well unit between MRC and Amtex, and we are
13 seeking to only pool Amtex.

14 Q. And what is Exhibit -- I lost my copy, but what
15 is Exhibit 2?

16 A. Exhibit 2 is our well-proposal letter to Amtex
17 Energy.

18 Q. And have you had any other contacts with Amtex?

19 EXAMINER GOETZE: Whoa, whoa. One moment,
20 sir. You're not the only one who doesn't have Exhibit
21 2.

22 MR. BRUCE: I know I copied it. It's here
23 somewhere.

24 EXAMINER GOETZE: I'm sure it's on the copy
25 machine.

1 MR. BRUCE: Well, Mr. Examiner, we can run
2 through this, and I'm sure Mr. Filbert has an extra copy
3 in his file, and we can make a copy for you.

4 EXAMINER GOETZE: Very good. Proceed.

5 MR. BRUCE: We can leave the record open
6 until --

7 EXAMINER GOETZE: Very good.

8 Q. (BY MR. BRUCE) Have you had any other contacts
9 with Amtex other than the proposal letter?

10 A. Yes. We have been in contact with Amtex.

11 Q. And what have they said, if anything?

12 A. We are working with them diligently to work for
13 a voluntary joinder. At this point one has not been
14 reached.

15 Q. In your opinion, has MRC made a good-faith
16 effort to obtain the voluntary joinder of Amtex in the
17 wells?

18 A. Yes, sir.

19 Q. Would you identify Exhibit 3 and discuss the
20 cost of the proposed well?

21 A. Exhibit 3 is an AFE for the well with an
22 estimated well cost of \$8.3 million.

23 Q. And are these costs in line with the cost of
24 other wells -- horizontal wells drilled to this depth in
25 this area of Lea County?

1 A. Yes, sir.

2 Q. Who do you request be appointed operator of the
3 well?

4 A. Matador Production Company.

5 Q. Do you have a recommendation for the amounts
6 which MRC should be paid for its administrative and
7 supervision expenses?

8 A. Yes, sir. We request \$7,000 a month while
9 drilling and \$700 a month while producing the well.

10 Q. And are these amounts equivalent to those
11 amounts charged by MRC and other operators in this area
12 for wells of this depth?

13 A. Yes, sir.

14 Q. Do you request that the rates be adjusted
15 periodically as provided by the COPAS accounting
16 procedure?

17 A. Yes.

18 Q. And does MRC request the cost plus 200 percent
19 risk charge if Amtex goes nonconsent in the well?

20 A. Yes.

21 Q. Was Amtex notified of this hearing?

22 A. Yes. And that's indicated on Exhibit 4, the
23 Affidavit of Notice.

24 Q. And they did receive actual notice; did they
25 not?

1 A. Yes, sir.

2 Q. And what is Exhibit 5?

3 A. Exhibit 5 lists the offset operators that were
4 notified of the nonstandard unit.

5 Q. And is this reflected in Exhibit 6?

6 A. Yes, sir, it is.

7 MR. BRUCE: And, Mr. Examiner, all of the
8 offsets did receive actual notice.

9 Q. (BY MR. BRUCE) Mr. Filbert, if Amtex does reach
10 agreement with MRC, will you notify the Division so that
11 they are not subject to a pooling order?

12 A. Yes, sir. Absolutely.

13 Q. And were Exhibits 1 through 6 either prepared
14 by you or under your supervision or compiled from
15 company business records?

16 A. Yes, sir.

17 Q. And in your opinion, is the granting of this
18 application in the interest of conservation and the
19 prevention of waste?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I'd move the
22 admission of Exhibits 1 through 6, less Exhibit 2, when
23 we get that to you. I'll request that.

24 EXAMINER GOETZE: Exhibits 1, 3 through 6
25 are so entered.

1 (MRC Permian Company Exhibit Numbers 1 and
2 3 through 6 were offered and admitted into
3 evidence.)

4 MR. BRUCE: And I have no further questions
5 of the witness.

6 EXAMINER GOETZE: Counselor?

7 EXAMINER WADE: No questions.

8 CROSS-EXAMINATION

9 BY EXAMINER GOETZE:

10 Q. Which -- which part of the Bone Spring are you
11 targeting?

12 A. 3rd Bone Spring.

13 Q. So you have no plans for upper carbonates or
14 sands at this point, or is this just purely going to be
15 base? I mean, have we already decided that this is the
16 target; we're not going to do any other type of
17 investigation?

18 A. Further down the road, I think we would drill
19 Upper Bone Spring, but I think the target interval right
20 now is the 3rd Bone Spring.

21 Q. And when is the last time we talked with Amtex?

22 A. As of yesterday.

23 Q. And your feelings as to what problems can be
24 resolved by Amtex, and you folks feel that you can reach
25 this without a compulsory pooling, or is this the final?

1 A. We hope to.

2 Q. All right.

3 EXAMINER GOETZE: I have no further
4 questions for this witness.

5 You have no further additions to the case?

6 MR. BRUCE: No, sir.

7 EXAMINER GOETZE: Then Case 15243 is taken
8 under advisement.

9 MR. BRUCE: Wait a minute, Mr. Examiner.

10 EXAMINER GOETZE: What?

11 MR. BRUCE: We do have a technical witness.

12 EXAMINER GOETZE: What did you do that for?

13 MR. BRUCE: For the nonstandard unit.

14 EXAMINER GOETZE: Oh. Let's go back to
15 Case 15243, the second witness.

16 Proceed.

17 JERON R. WILLIAMSON,

18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name and city of
23 residence for the record?

24 A. My name is Jeron Williamson, and I reside in
25 Sachse, Dallas County, Texas.

1 Q. And who do you work for and in what capacity?

2 A. I'm employed by Matador Resources Company as a
3 senior staff reservoir engineer.

4 Q. Have you previously testified before the
5 Division?

6 A. No.

7 Q. Could you summarize your educational and
8 employment background for the Examiners?

9 A. I received a bachelor of science degree in
10 petroleum engineering from Texas A & M University in
11 1996 and a master's of business administration in 2002
12 from Robert Morris University in Pittsburgh,
13 Pennsylvania.

14 I worked as a petroleum engineer for
15 Schlumberger Data & Consulting Services, formerly S.A.
16 Holditch & Associates, for 13-plus years, and was
17 employed by Talisman Energy for four years as a senior
18 reservoir engineer, and most recently hired by Matador
19 Resources Company as a senior staff reservoir engineer
20 in the summer of 2014.

21 Q. And does your area of responsibility at
22 Matador, or MRC, include this area of southeast New
23 Mexico?

24 A. Yes.

25 Q. And are you familiar with the technical matters

1 involved in the drilling of the proposed well?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I'd tender
4 Mr. Williamson as an expert reservoir engineer.

5 EXAMINER GOETZE: He's so qualified.

6 Q. (BY MR. BRUCE) Could you first refer to Exhibit
7 7 and explain its contents for the Examiners?

8 A. Exhibit 7 is a 3rd Bone Spring structure map
9 showing the Matador acreage in yellow and the proposed
10 unit in the east half of the east half of Section 16.
11 The structure map shows a fairly benign structure of the
12 3rd Bone Spring top, very shallow relief slightly
13 dipping to the south.

14 Q. Is structure really important in the drilling
15 of this well?

16 A. In this case structure is not going to be a
17 factor.

18 Q. Now, I noticed you outlined the well unit, and
19 you've also put a couple of other wells in there. Is it
20 Matador's intent to eventually drill additional
21 north-south Bone Spring wells in this section?

22 A. Yes.

23 Q. Could you identify Exhibit 8 for the Examiners?

24 A. Exhibit 8 is a 3rd Bone Spring cross section.

25 Q. And while we're at it, if you could identify

1 Exhibit 9 briefly. Does Exhibit 9 show the line of
2 cross section that's on Exhibit 10?

3 A. That's correct.

4 Q. With that, why don't you discuss the cross
5 section and the --

6 A. So the red portion shown on the cross section
7 is the 3rd Bone Spring target. The 3rd Bone Spring is
8 continuous across this area. The cross section, as you
9 will notice on Exhibit 9, starts with the Matador
10 Pipeline 16 State #1 well just to the west of the
11 proposed location and cuts across easterly to the COG
12 Aircobra 12 State #2H pilot well, and then in a
13 southerly direction down to the COG Hawg Federal #1, the
14 Legacy Lea Federal Unit #18 and the Three Eagle State 2
15 State #6H, illustrating that the 3rd Bone Spring is a
16 continuous formation in this area.

17 Q. And apparently some of these -- there are some
18 fairly successful vertical Bone Spring wells in this
19 area?

20 A. Yes.

21 Q. So does that indicate to you that the zone out
22 here should be fairly productive?

23 A. Yes.

24 Q. Could you briefly identify Exhibit 9 for the
25 Examiners?

1 A. So as previously mentioned, Exhibit 9 is the --
2 not only the map of the wells that we're utilizing in
3 the cross section for Exhibit 8, but it is also a bubble
4 map of cumulative oil production from existing
5 north-south as well as a few east-west wells landed in
6 the 3rd Bone Spring.

7 Q. Now, in looking at this -- and we'll get to
8 this in a minute -- there are both stand-up and lay-down
9 Bone Spring wells in this area?

10 A. Yes.

11 Q. First and foremost, does this indicate to you
12 that each -- from Exhibits 8 and 9, that each
13 quarter-quarter section in the well unit will contribute
14 more or less equally to production?

15 A. Yes.

16 Q. And let's talk a little more about the
17 productivity of the wells, if you could identify Exhibit
18 10 for the Examiners.

19 A. Exhibit 10 is a, if you will, zoomed-out
20 version of Exhibit 9. It shows -- it's a bubble map of
21 cumulative oil production for all of the horizontal
22 wells landed in the 3rd Bone Spring.

23 Q. And how does this relate to you when you want
24 to form either stand-up or lay-down wells? Does this
25 map indicate to you that the productivity seems to be

1 better when they are stand-up wells?

2 A. That is correct. That is our observation. It
3 looks -- you know, initially when horizontal wells were
4 being drilled in this area in the 2009, 2010, 2011 time
5 fame, they were predominantly east-west. You'll notice,
6 for the most part, the bubbles depicting the cumulative
7 oil production in those cases are smaller, and those
8 illustrated on the wells drills in a north-south
9 direction. And over time, the preference seems to be,
10 and production is bearing it out, that north-south is
11 the way to drill these wells.

12 Q. And one well that -- not only on your cross
13 section but in the COG Aircobra 12 State #2 and it's
14 also on your productivity -- or your bubble map -- when
15 approximately was that well drilled?

16 A. Correct. So Section 12, the Aircobra, was
17 drilled in mid-2011, and just since then has -- the
18 cumulative oil production has been over 200,000 barrels.

19 Q. So this indicates to you -- I mean, that well
20 is pretty close to the well you're drilling?

21 A. Yes.

22 Q. So, again, this supports the stand-up drilling
23 plan that MRC has devised for Section 16?

24 A. Yes.

25 Q. And then finally, just briefly, what is Exhibit

1 11?

2 A. Exhibit 11 is the directional plan for the
3 subject well.

4 Q. And I think Mr. Filbert said it, but the
5 beginning and the end of the producing interval will be
6 orthodox?

7 A. Yes.

8 Q. And what type -- how many completion stages
9 does MRC plan to use in this well?

10 A. We will frack this well with 18 -- 18 stages --
11 18 frack stages.

12 Q. Were Exhibits 7 through 10 either prepared by
13 you or under your supervision?

14 A. Yes.

15 Q. And was Exhibit 11 simply compiled from company
16 business records?

17 A. Yes.

18 Q. And in your opinion, is the granting of this
19 application in the interest of conservation and the
20 prevention of waste?

21 A. Yes.

22 MR. BRUCE: Mr. Examiners, I'd move the
23 admission of Exhibits 7 through 11.

24 EXAMINER GOETZE: Exhibits 7 through 11 are
25 so entered.

1 (MRC Permian Company Exhibit Numbers 7
2 through 11 were offered and admitted into
3 evidence.)

4 MR. BRUCE: I have no further questions of
5 the witness.

6 EXAMINER GOETZE: Counsel?

7 EXAMINER WADE: Nothing.

8 CROSS-EXAMINATION

9 BY EXAMINER GOETZE:

10 Q. Sorry to have shortchanged you on appearances.

11 Just a few questions. Are you aware of any
12 geologic impediments in this area which may cause
13 problems with completion of this well?

14 A. No.

15 Q. And we are suggesting that we're going to have
16 equal contribution from all four proration 40-acre units
17 to the production of the well?

18 A. Yes.

19 Q. We also see here in Exhibit 9 that you folks
20 seem to be on the edge of what seems to be 3rd Bone
21 Spring production or a good target, or is this just we
22 haven't -- this area of the basin really hasn't been
23 filled in?

24 A. That's correct. So we're in the process of
25 delineating our acreage. And, admittedly, we are on the

1 western edge of existing development, but we do -- we do
2 anticipate that the geology in the area will lend itself
3 to productive wells outside of the area that's currently
4 developed.

5 Q. So the eastern location is probably the most
6 ideal at this point?

7 A. That's correct.

8 Q. And are there any plans -- I'll ask you this
9 question: Are there any plans to look at the 1st and
10 2nd in this area?

11 A. Yes. I believe that we will look very heavily
12 at developing additional horizons in this area.

13 Q. Very good.

14 EXAMINER GOETZE: I don't have any other
15 questions for this witness.

16 MR. BRUCE: I don't have any other
17 questions.

18 EXAMINER GOETZE: Are you sure we don't
19 have anyone we missed?

20 MR. BRUCE: Well, I don't think so.

21 EXAMINER GOETZE: Very good.

22 Thank you very much, sir.

23 Case 15243 is taken under advisement.

24 (Case Number 15243 concludes, 8:50 a.m.)

25

1 (9:28 a.m.)

2 EXAMINER GOETZE: Okay, folks. Let's go
3 back on the record.

4 Mr. Bruce, you think you have something to
5 add?

6 MR. BRUCE: Yes, Mr. Examiner, if we could
7 re-open Case 15243, and the missing Exhibit 2, the
8 well-proposal letter from MRC to Amtex, that is the
9 letter (indicating). And we'd ask that that be admitted
10 into evidence and that the case be taken under
11 advisement. And if you need Mr. Filbert, he is still
12 here, and he can confirm that.

13 EXAMINER GOETZE: With all the anxiety of
14 getting it here, I'm sure it is the right letter.

15 We will enter Exhibit 2, the certified
16 letter to Amtex Energy, and Case 15243 is taken under
17 advisement.

18 (MRC Permian Company Exhibit Number 2 was
19 offered and admitted into evidence.)

20 (Case Number 15253 concludes, 9:29 a.m.)

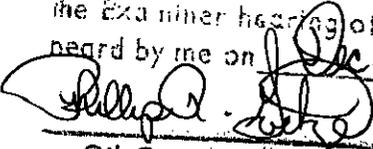
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15243
heard by me on Dec. 18, 2014.

Phillip A. Goetze, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19



20

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2015

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