

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

CASE 15372

APPLICATION OF MATADOR PRODUCTION COMPANY
for a NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 12, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

2015 DEC - 2

RECEIVED

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
November 12, 2015, 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: ELLEN H. ALLANIC
NEW MEXICO CCR 100
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Albuquerque, New Mexico 87102

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For the Applicant:

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I N D E X

CASE NUMBER 15372 CALLED

MATADOR PRODUCTION COMPANY
CASE-IN-CHIEF:

WITNESS CHRIS CARLETON

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WITNESS WILLIAM THOMAS ELSENER

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1 (Time noted 9:53 a.m.)

2 EXAMINER JONES: Let's call case No. 15372,
3 Application of Matador Production Company for a
4 Non-Standard Oil Spacing and Proration Unit and
5 Compulsory Pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the applicant. I have two
9 witnesses.

10 EXAMINER JONES: Any other appearances?

11 (No response.)

12 EXAMINER JONES: Will the witnesses please
13 stand and the court reporter swear the witnesses.

14 (WHEREUPON, the presenting witnesses
15 were administered the oath.)

16 MR. BRUCE: The first witness is
17 Mr. Carleton. Let the record reflect that he was
18 previously sworn and qualified.

19 EXAMINER JONES: The record reflects that
20 Mr. Carleton has been previously sworn. He's been sworn
21 twice now.

22 MR. WADE: Sworn and qualified.

23 EXAMINER JONES: And also qualified.

24 MR. BRUCE: As an expert.

25 ---oOo---

1 CHRIS CARLETON

2 having been duly sworn, was examined and testified as
3 follows:

4 *DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Carleton, can you identify Exhibit 1 and
7 explain what Matador seeks in this application.

8 A. Exhibit 1 is a form C-102 for the well. It is
9 the Paul 25-24S-28E, Number 221H, a horizontal well with
10 a surface hole location 359 feet from the north line and
11 217 feet from the west line of section 25.

12 The producing interval will be orthodox with the
13 first penetration point 380 feet from the north line and
14 330 feet from the west line.

15 And the last perforation point, 380 feet from the
16 north line and 330 feet from the east line.

17 Matador wishes to form an oil spacing and
18 proration unit comprised of the north half, north half
19 of Section 25, Township 24 South, Range 28 East, Eddy
20 County, New Mexico in order to drill the horizontal well
21 identified on Exhibit 1.

22 Q. What formation is involved and what is the
23 acreage in the unit?

24 A. 160 acres in the Wolfcamp. Pierce Crossing,
25 Wolfcamp; Pool Code 50373.

1 Q. And referring to Exhibit 2, what is the working
2 interest ownership in the well unit and who do you seek
3 to pool?

4 A. Matador has around 66 percent in the well, and we
5 wish to pool Chi Energy and the Conquistador Council.

6 Q. And what is the character of the lands involved
7 here?

8 A. These are fee lands.

9 Q. And is that reflected on the Midland map, company
10 map submitted as Exhibit 4?

11 A. Yes.

12 Q. And what is Exhibit 5?

13 A. Exhibit 5 contains a copy of our well proposal
14 sent to the working interest owners and unleased
15 minerals.

16 Q. Have you had contacts with the parties you seek
17 to pool other than the proposal wells?

18 A. Yes. And Exhibit 7 is a summary of Matador's
19 communications with the parties. We have reached out to
20 the Conquistador Council as well as Chi Energy.

21 The Conquistador Council have been in active
22 negotiations with the lease, to get them leased up, and
23 are still trying to get a lease with them. And we're in
24 talks with Chi Energy involving a term assignment and
25 hope to finalize that as well.

1 Q. If you come to terms with the working interest
2 owners, will you notify the Division?

3 A. Yes.

4 Q. Let's talk a step back. In your opinion, has
5 Matador made a good faith effort to obtain the voluntary
6 joinder of the interest owners in the well?

7 A. Yes.

8 Q. And heading back to Exhibit 6, would you identify
9 that for the Examiner.

10 A. Exhibit 6 is a copy of the AFE for the well. It
11 has an estimated dry hole cost of 3.9 million and
12 completed well cost of 8.1 million.

13 Q. Are these costs in line with the costs of other
14 wells drilled to this depth in this area of New Mexico?

15 A. Yes.

16 Q. Who do you request be appointed operator of the
17 well?

18 A. Matador Production Company.

19 Q. And do you have a recommendation for the amounts
20 which Matador should be paid for supervision and
21 administrative expenses?

22 A. We ask that 7,000 per month be allowed for a
23 drilling well and 700 per month be allowed for a
24 producing well.

25 Q. And are these amounts equivalent to those

1 normally charged by Matador and other operators in this
2 area for wells of this depth?

3 A. Yes.

4 Q. Do you request that these rates be adjusted
5 periodically as provided by the Copas accounting
6 procedure?

7 A. Yes.

8 Q. Does Matador request the maximum cost plus 200
9 percent risk charge in the event a working interest
10 owner goes nonconsent in a well?

11 A. Yes.

12 Q. And have you identified the offset operators or
13 working interest owners in the 40-acre tracts
14 surrounding the proposed well?

15 A. Yes.

16 Q. And is that listed in Exhibit 8?

17 A. Yes.

18 Q. And were those persons notified of this hearing?

19 A. Yes, they were.

20 Q. Except I believe notice has not been sent to COG
21 at this point?

22 A. Yes, that is correct. Thank you.

23 MR. BRUCE: And, Mr. Examiner, at the end of
24 this hearing, I request that this be continued for three
25 weeks to December 3rd for notice as to COG. They have

1 been notified by e-mail of this application, but
2 certified mail has been sent to them also.

3 Q. And were the parties being pooled notified of
4 this hearing?

5 A. Yes. And that is reflected in Exhibit 9.

6 Q. Exhibit 10.

7 A. Sorry. Thank you. Exhibit 10.

8 Q. And both of the interest owners received actual
9 notice of this hearing?

10 A. That's correct.

11 MR. BRUCE: And there are actually two
12 notice letters as part of the affidavit, Mr. Examiner.

13 Q. In your opinion is the granting of this
14 application in the interest of conservation and the
15 prevention of waste.

16 A. Yes, sir.

17 Q. And will you notify the Division -- excuse me.
18 Were Exhibits 1 through 10 prepared by you or under your
19 supervision or compiled from company business records?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I move the
22 admission of Exhibits 1 through 10.

23 EXAMINER JONES: Exhibit 1 through 10 are
24 admitted.

25 (MATADOR PRODUCTION COMPANY EXHIBITS 1

1 through 10 were offered and admitted.)

2 MR. BRUCE: And I have no further questions
3 of the witness.

4 EXAMINATION BY EXAMINER JONES

5 EXAMINER JONES: So it is all fee lands and
6 the AFE is a bit dated. Isn't it going to be a little
7 bit less now?

8 THE WITNESS: Yes. And the next witness can
9 speak more to that.

10 EXAMINER JONES: Chi Energy, are they still
11 active? I haven't seen much from them lately, it seems
12 like.

13 THE WITNESS: Yeah. We went out to their
14 offices and met with them. Talking to their landman, it
15 looks like most of their acreage is held by production
16 so there's not a lot of stuff.

17 EXAMINER JONES: Now, this term assignment
18 you are looking at, can you -- I am familiar a bit with
19 farm-outs and stuff. But can you explain that a little
20 bit, the way it would work and maybe some percentages?
21 I am not asking you to totally divulge what you are
22 negotiating, but what is the nature of it?

23 THE WITNESS: Actually, what we are working
24 on with Chi is similar to a farm-out where they would
25 have an option to pay out of the well, to back into it.

1 The term assignment could be a little bit
2 more convenient, just because you don't have to do the
3 assignment after the back-in or after the payout of the
4 first well. But we are working through the final terms
5 on that, and we think joinder is in the mix, so we're
6 hoping to get that finalized.

7 EXAMINER JONES: So how would it affect this
8 well versus the next well drilled in the spacing unit?
9 If you drilled another horizontal in this, would that
10 well already be -- would they already be in on that
11 well?

12 THE WITNESS: They would have the option.
13 They wouldn't be carried, but they would have an option.

14 EXAMINER JONES: And the terms for the
15 Conquistador, Boy Scouts of America?

16 THE WITNESS: They sent us their lease form,
17 and we've sent back several red lines. But we haven't
18 got a response on the red lines yet.

19 EXAMINER JONES: Pretty up-to-date terms,
20 though, as far as royalty rates?

21 THE WITNESS: Yes.

22 EXAMINER JONES: How much of a hurry are you
23 on this well? Pretty much of a hurry?

24 THE WITNESS: Yes. We'd like to --

25 EXAMINER JONES: You're supposed to always

1 say "yes."

2 THE WITNESS: The answer is, yes, we want to
3 get out there and develop these minerals as soon as
4 possible.

5 EXAMINER JONES: Okay. Gabe, do you have
6 any questions?

7 MR. WADE: I don't have any questions.

8 THE WITNESS: We also do have an expiration
9 in the first quarter of next year that we want to get
10 out in front of --

11 EXAMINER JONES: Thank you.

12 THE WITNESS: Thank you.

13 EXAMINER JONES: Mr. Bruce.

14 WILLIAM THOMAS ELSENER
15 having been first duly sworn, was examined and testified
16 as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your name for the record.

20 A. My name is William Thomas Elsener.

21 Q. Where do you reside?

22 A. Dallas, Texas.

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

24 A. I am employed by MRC Energy Company, an affiliate
25 of Matador Production Company, as a senior staff

1 engineer and team leader for the Rustler Breaks team.

2 Q. And what are your responsibilities for Matador?

3 A. As a senior staff engineer and team leader, I am
4 responsible for optimization and development of company
5 leasehold in southern Eddy County. This includes
6 leading a multi disciplinary team of engineers,
7 geologists, landmen, et cetera, to develop high quality
8 oil and gas projects for the company.

9 Q. Have you previously testified before the
10 Division?

11 A. No.

12 Q. Could you please describe your educational and
13 employment background for the Examiner.

14 A. I received a bachelor of science in petroleum
15 engineering from Texas A&M University, College Station,
16 Texas, in 2007.

17 I was employed by Encana Oil and Gas U.S.A. for
18 six years, holding a variety of positions, including
19 reservoir engineer for the Barnett Shale, completions
20 engineer for the Barnett Shale, joint engineer for the
21 Degosier Sands and Hanzel Shale, Reservoir engineer for
22 U.S. business development, reservoir engineer for U.S.
23 new ventures, and reservoir engineer for east Texas.

24 I have been employed by MRC Energy Company as
25 senior staff engineer since April 2013. At Matador I

1 held various positions, including reservoir engineer at
2 East Texas and North Louisianan assets, team leader for
3 East Texas and North Louisianan assets, and team leader
4 for South Texas.

5 Q. Do you hold any certifications or belong to any
6 professional associations?

7 A. I am a member of the Society of Petroleum
8 Engineers.

9 Q. Are you familiar with the application filed by
10 Matador in this case?

11 A. Yes.

12 Q. Are you familiar with the APD for the Paul 221H
13 Well?

14 A. Yes.

15 Q. And have you conducted a technical study of the
16 area embraced within the proposed spacing unit for the
17 Paul 221H well?

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, I tender
20 Mr. Elsener as an expert petroleum engineer.

21 EXAMINER JONES: Please spell your last
22 name.

23 THE WITNESS: Elsener, E-l-s-e-n-e-r.

24 EXAMINER JONES: Thanks. He is so
25 qualified.

1 Q. Could you turn to Exhibit 11 and discuss that for
2 the Examiner.

3 A. Yes. Exhibit 11 is a locator map showing the
4 area of interest for this well.

5 Q. And it's just meant to give a general location
6 for the well unit, correct?

7 A. Correct.

8 Q. Would you turn to Exhibit 11 and identify that
9 for the Examiner.

10 A. The project area is in Eddy County approximately
11 12 miles from the border between New Mexico and Texas,
12 in Section 25 of 24 South, 28 East.

13 Q. And the structure map marked as Exhibit 12?

14 A. This exhibit shows the structure map of the top
15 of the Wolfcamp formation and the Pierce Crossing
16 Wolfcamp Pool.

17 The Wolfcamp is dipping slightly to the east at
18 one degree. There are no geologic impediments for
19 drilling this well. The red outline describes the
20 project area. And, again, this well is located in
21 Section 25, 24 South, 28 East.

22 Q. Was a cross section of logs prepared under your
23 direction to determine the relative thickness and
24 porosity of the Wolfcamp formation in this area?

25 A. Yes.

1 Q. And is that reflected in Exhibit 13?

2 A. Yes.

3 Q. Do you consider the wells on Exhibit 13
4 representative of Wolfcamp wells in this area?

5 A. Yes.

6 Q. Could you walk through the contents of
7 Exhibit 13.

8 A. The cross section from A to A Prime shows three
9 wells. On the left or the west is the IMC No. 1 in
10 Section 26. In the middle is the Craft 25 Com No. 1 in
11 Section 25. And on the right is the Ruby 30 State No. 1
12 in Section 30.

13 It illustrates a Wolfcamp thickness of
14 approximately 2,000 feet and porosity of ten percent or
15 more in some areas. The porosity cut-off of ten percent
16 shown in red are on the tracts to the right.

17 The Paul Well will be drilled to test the higher
18 porosity sands in the Upper Wolfcamp as depicted on this
19 cross section. Additionally, the isopach map shows the
20 Wolfcamp formation is continuous, and we expect it to be
21 productive across the entire acreage.

22 Q. And is the isopach submitted as Exhibit 14?

23 A. Yes.

24 Q. And there is relatively uniform thickness across
25 the extent of the proposed well unit; is that correct?

1 A. That's correct.

2 Q. What conclusions have you drawn from Matador's
3 study of this area?

4 A. We believe there will be no impediments to
5 drilling a horizontal well in this area and fully expect
6 each quarter, quarter section to be productive in the
7 Wolfcamp formation.

8 We expect horizontal drilling to be the most
9 efficient method to develop this acreage and it will
10 prevent the joinder of unnecessary wells and result in
11 the greatest EUR.

12 Q. Would you please turn to Exhibit 5 and identify
13 that for the Examiner.

14 A. Exhibit 15 is a completion diagram, depicting the
15 first perforations no closer than 330 feet immediately
16 west or the east of the section line.

17 Q. And so the completed interval will be orthodox
18 under statewide rules; is that correct?

19 A. Yes.

20 Q. The Examiner asked Mr. Carleton about the AFE.
21 Could you briefly discuss that for him.

22 A. Yes, sir.

23 The AFE was drafted in January of 2015. Since
24 then we have seen significant cost reductions. And if
25 and when an order is granted, we would submit a new AFE

1 to represent our most up-to-date expectation of costs.

2 Q. In your opinion, is the granting of Matador's
3 application in the interests of conservation and the
4 prevention of waste?

5 A. Yes.

6 Q. And were Exhibits 11 through 15 prepared by you
7 or under your direction and supervision?

8 A. Yes.

9 MR. BRUCE: I move the admission of Exhibits
10 11 through 15.

11 EXAMINER JONES: Exhibits 11 through 15 are
12 admitted.

13 (MATADOR PRODUCTION COMPANY EXHIBITS 11
14 through 15 were offered and admitted.)

15 MR. BRUCE: And I have no further questions
16 of the witness.

17 EXAMINATION BY EXAMINER JONES

18 EXAMINER JONES: Okay. So east, west versus
19 north, south, can you talk about that?

20 THE WITNESS: We are continuously evaluating
21 that. But at this time, we don't expect it to have any
22 adverse impact.

23 EXAMINER JONES: So this is an oil pool.
24 You are drilling a well for oil in an oil pool. There
25 has been some -- are you prepared to talk about the type

1 of reservoir it is? In other words, is this one of
2 those retrograde gas condensate reservoirs?

3 THE WITNESS: We are continuously studying
4 that. Our expectation is that this well would have an
5 initial GOR of 22,000 and 4,000 (inaudible) per barrel.
6 But we are still studying the properties of the fluid in
7 situ.

8 EXAMINER JONES: If it is retrograde gas
9 condensate, what kind of changes would you make to your
10 plans out here?

11 THE WITNESS: We would, I guess, have to
12 reopen the project size I suppose. Is that --

13 EXAMINER JONES: As far as density of wells?
14 In other words, how many wells -- if it is a normal oil
15 reservoir, you wouldn't worry about density of wells as
16 much, but...

17 THE WITNESS: We are still continuously
18 evaluating the well density in this area.

19 EXAMINER JONES: And this one, will it have
20 a pilot hole?

21 THE WITNESS: No, sir.

22 EXAMINER JONES: You have enough control,
23 you think?

24 THE WITNESS: Absolutely.

25 EXAMINER JONES: And you have to set a

1 casing string across the Bone Spring?

2 THE WITNESS: Yes, sir. For this Wolfcamp
3 well, we will require a fourth casing string in this
4 well, as opposed to a three-string design for the Bone
5 Spring.

6 EXAMINER JONES: It is pretty high pressure
7 in the Wolfcamp?

8 THE WITNESS: We do see some overpressure.

9 EXAMINER JONES: I don't have any more
10 questions.

11 *EXAMINATION BY MR. WADE

12 MR. WADE: The question regarding the AFE
13 confused me a little bit. If the costs go down and you
14 submit a new AFE, you would be submitting those to the
15 OCD and the parties you're seeking to pool?

16 THE WITNESS: I believe we would be sending
17 those to -- the AFE to all parties. But I would have to
18 check with the landmen to --

19 MR. WADE: -- to be able to answer. But,
20 obviously, if you do come to an agreement in the
21 meantime, you would inform the OCD based on these new
22 costs?

23 THE WITNESS: I think yes. I think so.

24 MR. WADE: Mr. Bruce.

25 MR. BRUCE: I was going to say if parties

1 don't join in, we will submit the new AFE to the
2 Division as well.

3 EXAMINER JONES: Okay. And you want to
4 continue this one also to --

5 MR. BRUCE: Yes, to December 3rd.

6 EXAMINER JONES: December 3rd. So thank
7 you, Mr. Elsener.

8 Case 15372 will be continued to December
9 the 3rd.

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(Time noted 10:16 a.m.)

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

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF BERNALILLO)

7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, November
11 12, 2015, the proceedings in the above-captioned matter
12 were taken before me, that I did report in stenographic
13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control.

16
17 I FURTHER CERTIFY that I am neither employed by
18 nor related to nor contracted with (unless excepted by
19 the rules) any of the parties or attorneys in this case,
20 and that I have no interest whatsoever in the final
21 disposition of this case in any court.

22
23
24
25


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NM Certified Court Reporter No. 100
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