

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:

COPY

APPLICATION OF MATADOR PRODUCTION
COMPANY AND MRC PERMIAN COMPANY TO
REQUIRE LANEXCO, INC. TO PLUG AND
ABANDON THE CERRO COM WELL NO. 1
OR, IN THE ALTERNATIVE, TO REMOVE
LANEXCO, INC. AS OPERATOR OF RECORD
OF THE CERRO COM WELL NO. 1, EDDY
COUNTY, NEW MEXICO.

CASE NO. 15772

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 3, 2017

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, August 3, 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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APPEARANCES

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1 (9:02 a.m.)

2 EXAMINER GOETZE: Next, Case 15772,
3 application of Matador Production Company and MRC
4 Permian Company to require Lanexco, Inc. to plug and
5 abandon the Cerro Com Well #1 or, in the alternative, to
6 remove Lanexco, Inc. as operator of record of the Cerro
7 Com Well #1, Eddy County, New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of
10 Santa representing the Applicant. I have two witnesses.

11 MR. PADILLA: Mr. Examiner, Ernest L.
12 Padilla, Santa Fe, New Mexico, for Lanexco, Inc. I have
13 no witnesses.

14 EXAMINER GOETZE: Very nice to see you
15 back, Mr. Padilla.

16 MR. PADILLA: Thank you, sir.

17 MR. BRUCE: Mr. Examiner, my first witness
18 is Mr. Carleton, who has already been sworn in and
19 qualified. I do have one different witness also.

20 EXAMINER GOETZE: Would you stand, identify
21 yourself and be sworn in by the court reporter, please?

22 MR. LANGE: Adam Lange.

23 (Mr. Lange sworn.)

24 CHRIS CARLETON,
25 after having been previously sworn under oath, was

1 Q. And is Matador Production Company registered as
2 an operator with the Division?

3 A. Yes.

4 Q. And is it fully bonded?

5 A. Yes.

6 Q. And is it in good standing?

7 A. Yes.

8 Q. Would you identify Exhibit 1 for the Examiner,
9 please?

10 A. Exhibit 1 is the OCD well file for the Cerro
11 Com #1 well.

12 Q. And have you examined the history of this
13 particular well?

14 A. Yes. And the well files included the
15 production history and shows that the Cerro Com #1 well
16 stopped producing in November of 2011 and was originally
17 spud in 1978.

18 Q. Okay. And where -- take a step back.

19 What is the footage location of the Cerro
20 Com Well No. 1?

21 A. 280 feet from the north line and -- or sorry.
22 2,080 feet from the north line and 760 from the west
23 line.

24 Q. Section 23-27?

25 A. That's correct.

1 Q. Is Matador planning on drilling a well in the
2 north half of Section 11?

3 A. That's correct. We're planning the Michael
4 Collins 11-23S-27E RB #206 well, with the spacing unit
5 in the north half, drilled to the Wolfcamp.

6 Q. Was that well unit and the well itself approved
7 and were interests force pooled into that proposed well?

8 A. The APD has not been approved, but interests
9 have been force pooled into that well.

10 Q. When -- how did Matador learn -- take a step
11 back.

12 The well that Matador -- the Michael
13 Collins 206H well, is that well -- and we'll get into
14 it. Is that in the south half-northwest -- or south
15 half-north half of Section 11?

16 A. That is correct.

17 Q. And does its path -- its proposed path come
18 near the Cerro Com #1?

19 A. That is correct.

20 Q. And are you the landman in charge of -- in
21 charge of the wells in Section 11, the proposed wells --

22 A. I was one of the landmen in charge of the
23 wells. Yes.

24 Q. And in the process of doing that work, is that
25 how you learned of the Cerro well?

1 A. That's correct.

2 Q. And another witness will go into more detail
3 later, but when it did produce, what formations was the
4 well producing from?

5 A. When the Cerro Com did produce, it was
6 producing from the Bone Spring and the Wolfcamp, based
7 on the --

8 Q. And the well unit for Matador, Michael Collins
9 206H well, is the north half, correct?

10 A. That is correct.

11 Q. What was the well unit for the Cerro Com well
12 when it was productive?

13 A. The west half of Section 11, 23-27.

14 Q. According to the well file in the Division's
15 records, when was the authorization to produce and --
16 production from the Cerro well revoked?

17 A. Authorization was revoked January 26th of 2016.

18 Q. And were there any noted violations contained
19 in the well file?

20 A. There is an idle well violation, and the date
21 of that violation was April 17th, 2017.

22 Q. Now, move on to Exhibit 2. Could you discuss
23 the timeline of when the acreage in Section 11 was
24 leased and then when the Cerro Com was drilled?

25 A. Yes. Exhibit 2 shows the timeline. The

1 mineral ownership starts in the 1970s, Husky Oil, and
2 William Blakemore II started taking leases in the west
3 half. And all these leases are shown on the pooling
4 declaration also included in Exhibit 2. These leases
5 went through a series of transactions, and by 2004, the
6 ownership was split 50/50 between Primavera Resources
7 and XTO Energy, Inc.

8 The original leases shown on the DPU
9 expired on their own terms when the Cerro well stopped
10 producing in November of 2011. And between 2013 and
11 2015, Matador, under MRC Permian Company, started
12 acquiring new leases in Section 11, 23 South, 27 East.
13 And in June of 2016, Lanexco acquires Primavera's 50
14 percent leasehold interest in the original leases,
15 which, at that point, were expired.

16 And Matador has lease expirations coming up
17 in November 2017, which adds to the urgency to plug the
18 Cerro Com well.

19 **Q. Because of this expiration, does something need**
20 **to be done fairly quickly with respect to the Cerro Com**
21 **well?**

22 **A. Yes.**

23 **Q. And that -- we have a technical witness coming**
24 **up. But with the well remaining unplugged and it's**
25 **currently operated by another operator, would that**

1 **impair Matador's ability to develop the north half of**
2 **Section 11?**

3 A. Yes.

4 Q. **At this point, to the best of your knowledge,**
5 **in reviewing title, does -- is the working interest in**
6 **that wellbore 50 percent owned by Lanexco and 50 percent**
7 **by XTO?**

8 A. The old leases are owned 50 percent by Lanexco
9 and 50 percent by XTO, but these leases are no longer
10 valid. And based on the production history of the OCD
11 and confirmation opinion of our title attorneys, these
12 are no longer good leases.

13 Q. **Okay. So they have rights to the wellbore**
14 **potentially, but they don't have any mineral or**
15 **leasehold ownership in Section 11?**

16 A. That's correct.

17 Q. **Were you able to acquire any information for**
18 **mineral owners, from lessors of these lands, as to the**
19 **lack of production from the Cerro well?**

20 A. Yes. Exhibit 3 is our affidavit from the
21 mineral owners of the original leases or their
22 successors, state that they have not received royalties
23 and that there has not been production on the Cerro well
24 since 2000- -- November of '11.

25 Q. **How many inactive wells does Lanexco currently**

1 **have? And I refer you to Exhibit 4.**

2 A. Exhibit 4 is an inactive well list, and it
3 shows that 51 inactive wells are operated by Lanexco.
4 And the Cerro Com well is highlighted, with the date of
5 last production as November 2011.

6 **Q. There are 51 total wells listed, correct?**

7 A. 51 total wells.

8 **Q. How many are considered inactive by the**
9 **Division?**

10 A. 45.

11 **Q. And does this -- this is just simply reproduced**
12 **from Division records; is it not?**

13 A. That is correct.

14 **Q. And when does the Division show the last**
15 **production with this well?**

16 A. November 2011.

17 **Q. Was there, in the last couple of years, a**
18 **compliance action by the Division against Lanexco**
19 **regarding its inactive wells?**

20 A. Yes. And this is shown on Exhibit 5.

21 **Q. There was a case and I believe it was**
22 **dismissed, correct?**

23 A. That's right. There is a -- included in the
24 motion for dismissal and a settlement agreement that was
25 reached between the OCD and Lanexco.

1 **Q. Okay. And that's why -- there was a settlement**
2 **agreement, and that's why the enforcement action was**
3 **dismissed?**

4 **A. Yes.**

5 **Q. And the settlement agreement is part of Exhibit**
6 **5; is that correct?**

7 **A. That's correct.**

8 **Q. If you turn to page 5 of the settlement**
9 **agreement, without going into detail, could you just**
10 **discuss what the settlement agreement required Lanexco**
11 **to do?**

12 **A. The settlement agreement required Lanexco to**
13 **file monthly production reports; even if there is no**
14 **production, file a zero monthly production report and**
15 **maintain [sic] that the wells are shut in until the**
16 **authority of transport has been reinstated by the OCD,**
17 **and that Lanexco sell their interest in all the wells it**
18 **operates. And Lanexco -- the owner of Lanexco, the**
19 **previous owner, sold their interest to the current**
20 **owner, the Cleveland brothers. So Lanexco -- the**
21 **interest in Lanexco was sold.**

22 **Q. Have monthly production reports been filed as**
23 **required?**

24 **A. No.**

25 **Q. Based on available records and your knowledge**

1 of the situation in Section 11, has the Cerro well been
2 brought into compliance in New Mexico?

3 A. No.

4 Q. Has Matador had communications with Lanexco
5 regarding this well?

6 A. Yes. We reached out to the owners of
7 Lanexco -- the current owners of Lanexco in preparation
8 to drill the Michael Collins 206, and at that time, they
9 directed us to Ernie Padilla. And Exhibit 6 is a letter
10 from Jim Bruce to Lanexco and cc'ing XTO.

11 Q. Has Matador undertaken efforts to settle this
12 matter with Lanexco so that Matador could become
13 operator of the well and plug and abandon it?

14 A. Yes. We've been working to get a deal to take
15 over operatorship and assume plugging costs, but we have
16 not reached a deal at this time.

17 Q. Okay. And to your knowledge, I have been in
18 touch with Mr. Padilla regarding this situation, haven't
19 I?

20 A. That is correct.

21 Q. What about communications with XTO?

22 A. Exhibit 7 is an email chain with the landman at
23 XTO, Angie Repka, and it also includes a plugging
24 proposal that was sent in March of 2016 by Lanexco to
25 plug the Cerro Com #1 well. And one of the things

1 you'll see in the email chain, on page 2, is asking if
2 XTO plans to plug the well, and XTO responded saying
3 that they do not have any plans to plug the well and
4 Lanexco is responsible for this as operator.

5 Q. Does Exhibit 7 also contain a letter from XTO
6 to the working interest owners of the plugging AFE?

7 A. Yes, sent in March of 2016.

8 Q. To the best of your knowledge, did XTO agree to
9 participate in the plugging of the well at that time?

10 A. Yes. At this time they agreed to participate
11 in the plugging of the well.

12 Q. And, again, the Cerro well has not yet been
13 plugged?

14 A. That's correct. The Cerro well has not yet
15 been plugged.

16 Q. Were Exhibits 1 through 7 either prepared by
17 you or under your supervision or compiled from company
18 business records?

19 A. Yes.

20 Q. And in your opinion, is the granting of
21 Matador's application in the interest of conservation
22 and the prevention of waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I move the
25 admission of Exhibits 1 through 7.

1 EXAMINER GOETZE: Before we proceed, we
2 have another participant arrive?

3 MR. HERRMANN: Mr. Examiner, Keith Herrmann
4 representing the Compliance and Enforcement Bureau of
5 the Oil Conservation Division. I'm entering my
6 appearance in this case. I apologize for the late
7 entry. We do not have any opposition to the proposed
8 order.

9 EXAMINER GOETZE: Very good. Thank you.

10 Mr. Padilla, with regards to the exhibits,
11 do you have any objections?

12 MR. PADILLA: I have no objection.

13 EXAMINER GOETZE: Very good.

14 And you have no objection to the --

15 MR. HERRMANN: No objection.

16 EXAMINER GOETZE: Exhibits 1 through 7 are
17 entered into the record.

18 (Matador Production Company Exhibit Numbers
19 1 through 7 are offered and admitted into
20 evidence.)

21 EXAMINER GOETZE: Mr. Padilla.

22 CROSS-EXAMINATION

23 BY MR. PADILLA:

24 Q. When did you -- I'm sorry. I didn't catch your
25 name.

1 A. Chris Carleton.

2 Q. Chris Carleton.

3 Mr. Carleton, when did you make the offer
4 to Lanexco about buying the well?

5 A. To take over operatorship, this offer was
6 made --

7 THE WITNESS: Jim, would you say --

8 Q. (BY MR. PADILLA) Would Thursday of last week
9 sound about the time you made the offer?

10 A. That sounds roughly about the time.

11 Q. Who made the determination that the leases were
12 no longer valid in the -- owned by Lanexco were no
13 longer valid?

14 A. We worked with our title attorneys, and based
15 on the language in the leases and the lack of production
16 and the information from the mineral owners, Matador,
17 along with the help from our outside title attorneys,
18 determined that those leases were no longer valid.

19 Q. Do you know what -- did you bring the title
20 opinion for introduction in this hearing?

21 A. No, I did not.

22 Q. Do you know what materials your title attorneys
23 examined to determine that the leases were no longer
24 valid?

25 A. They looked at the OCD production history and

1 the leases themselves and the affidavits that we secured
2 from the mineral owners.

3 **Q. Do you know whether those leases are held by**
4 **production through other wells?**

5 A. Almost all of the leases do not contain other
6 lands. They only contain the parts in the west half.
7 And the leases that contain outside lands do not have
8 production on them on the outside --

9 **Q. And they're leases from the same parties, from**
10 **the same mineral interest owners?**

11 A. I'm sorry. Which leases?

12 **Q. Those the leases outside of Section 11 are the**
13 **same mineral owners as the leases underlying the Cerro**
14 **#1 well; is that correct?**

15 A. Yeah. Let me maybe rephrase my answer.

16 There are some leases, which include, on
17 the legal description, lands in the west half of Section
18 11 and lands outside of the spacing unit for the Cerro
19 Com well, and those leases do not have production on the
20 lands that are outside of the spacing unit for the Cerro
21 Com well. Does that answer your question?

22 **Q. Do you know whether these mineral owners made**
23 **demand on Lanexco at any time to cancel or get some kind**
24 **of acknowledgment that the leases are dead?**

25 A. No. I do not know whether or not any of them

1 asked for release from Lanexco.

2 Q. Now, the affidavit that you have, I believe,
3 Exhibit --

4 A. 5. I'm sorry. 4.

5 Q. 4.

6 A. 3.

7 Q. Who obtained that affidavit?

8 A. We worked with our brokers out in the field to
9 obtain those affidavits.

10 Q. Did your sister company obtain those leases
11 from the mineral owners?

12 A. No. Those new leases were acquired by outside
13 companies that we purchased the leases from.

14 Q. Isn't the Oil Conservation Division, by virtue
15 of your Exhibit Number 5, the real party in interest and
16 not Matador in this case?

17 MR. BRUCE: I would object to the extent it
18 calls for a legal conclusion, but --

19 Q. (BY MR. PADILLA) Well, if you know. I'm not
20 asking you for a legal conclusion.

21 Did you at any time confer with the Oil
22 Conservation Division about enforcing this order and the
23 settlement agreement?

24 A. We looked back at prior cases to see if
25 something like that had been done before, and there had

1 been a previous case where an operator had come forward
2 to get a well out of compliance -- or out of
3 noncompliance.

4 **Q. What case was that?**

5 A. I'm not sure of the case number off the top of
6 my head, but I believe it was between BC Operating and
7 Key Operating.

8 **Q. How long ago was that case?**

9 A. It was in the 2000s, maybe two years ago.

10 **Q. A compliance case -- you're saying a compliance**
11 **case actually being issued by the Division in that case?**

12 A. I'm not -- not entirely sure. I know that the
13 result was that BC was able to take over the well.

14 **Q. Your well is proposed in the north half-north**
15 **half of Section 11; is that right?**

16 A. Our well, the Michael Collins 206, is proposed
17 in the south half of the north half of Section 11.

18 **Q. Okay. And where is the Cerro #1 well in**
19 **relation to your half?**

20 A. It's -- the next witness will be speaking a
21 little bit further to this, but if you can look ahead on
22 Exhibit 8, this shows our C-102 for the Michael Collins
23 206H well, and the Cerro Com is also OCD Unit E in the
24 southwest and the northwest.

25 **Q. So are you afraid that you're going to frac**

1 into the Cerro #1 well?

2 A. We have a technical witness that'll be able to
3 speak more on the technical side of things.

4 Q. Okay.

5 MR. PADILLA: I have no further questions.

6 EXAMINER GOETZE: Mr. Brooks?

7 CROSS-EXAMINATION

8 BY EXAMINER BROOKS:

9 Q. Per the -- have you examined the Division's
10 production records of the reports, if any, that have
11 been made by the operator of this -- of the Cerro well?

12 A. Yes. And those are shown on Exhibit 1, I
13 believe.

14 Q. Exhibit 1. Okay.

15 A. Yes.

16 Q. Okay. It does appear from this exhibit,
17 Exhibit 1, that the last reported production from the
18 Cerro well was in -- was for the month of November of
19 2011, if I'm reading this exhibit correctly, and
20 everything from there on appears to be zeros.

21 Okay. Thank you. I don't have any further
22 questions.

23 CROSS-EXAMINATION

24 BY EXAMINER GOETZE:

25 Q. My question will be regarding was there any

1 depth severances of mineral estate here?

2 A. No.

3 Q. Because we have a downhole commingling order
4 still in place here. So we have no issues of
5 overlapping lease and mineral interests from other
6 zones?

7 A. No.

8 Q. Okay. Thank you. I have no further questions.

9 MR. BRUCE: Couple more.

10 First of all, Mr. Examiner, the BC
11 Operating case is Case 15527.

12 REDIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. And, secondly, Mr. Carleton, could you refer to
15 your Exhibit 1, page 4 of Exhibit 1?

16 A. Yes.

17 Q. And in the middle where it says "Financial
18 Assurance," what amount of the bond is now in place for
19 this well?

20 A. Zero dollars.

21 Q. Okay. So it is not properly bonded, is that
22 correct, per the Division rules?

23 A. That is correct.

24 Q. And regarding Mr. Padilla's question about
25 release of the leases, generally a lessor can request a

1 **release of an expired lease from a working interest**
2 **owner; is that correct?**

3 A. That is correct.

4 **Q. Don't many leases require working interest**
5 **owners to release a lease that has expired?**

6 A. Some newer leases require the operator, the
7 working interest owner, to release the lease. Many
8 older leases do not have this requirement.

9 **Q. Okay. But the working interest owners still**
10 **have the right to go ahead and file a release of record?**

11 A. That is correct.

12 **Q. Thank you.**

13 EXAMINER BROOKS: Mr. Bruce, are you going
14 to have a witness who is familiar with the conditions at
15 the site?

16 MR. BRUCE: Yes, our next witness.

17 EXAMINER BROOKS: I'm going to ask my
18 questions to the right person.

19 Thank you.

20 EXAMINER GOETZE: Very good. Then we're
21 done with this witness. Please proceed to your next
22 witness.

23 ADAM LANGE,

24 after having been previously sworn under oath, was
25 questioned and testified as follows:

DIRECT EXAMINATION

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BY MR. BRUCE:

Q. Please state your name and where you reside?

A. Adam Lange. I live in Dallas, Texas.

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

A. Matador Resources Company, senior drilling engineer.

Q. How long have you been employed by Matador?

A. Five years.

Q. Have you previously testified before the Division?

A. No, sir.

Q. Could you walk us through your educational and work history?

A. I received my Bachelor of Science of Engineering in mechanical engineering from Duke University in May of 2012, and since June of 2012, I have worked Matador Resources as a completion or drilling engineer capacity.

Q. Are you a member of any professional organizations?

A. Yes, sir, the Society of Petroleum Engineers and the American Association of Drilling Engineers.

Q. And are you familiar with the application filed by Matador in this case?

1 A. Yes, sir.

2 Q. And are you familiar with the situation of the
3 Cerro Com #1 referenced in this application?

4 A. Yes, sir.

5 MR. BRUCE: Mr. Examiner, I tender
6 Mr. Lange as an expert petroleum engineer.

7 EXAMINER GOETZE: Mr. Herrmann?

8 MR. HERRMANN: No objection.

9 EXAMINER GOETZE: Mr. Padilla?

10 MR. PADILLA: None.

11 EXAMINER GOETZE: So qualified.

12 Q. (BY MR. BRUCE) Mr. Lange, are you the drilling
13 engineer for Matador's proposed Michael Collins 206H
14 well?

15 A. Yes, sir.

16 Q. Is Exhibit 8 the C-102 for this well?

17 A. Yes, sir.

18 Q. Could you just briefly describe the surface
19 location and where the wellbore will follow?

20 A. Yes, sir.

21 On the C-102, you can see this Section 11.
22 The surface-hole location is in the south half of
23 Section 11 and, from there, drilled into the north
24 half -- or the south half of the north half of Section
25 11. It has the first perforation and last perforation

1 point on there, as well as the bottom-hole location of
2 the well. And this well will be drilled from east to
3 west.

4 Q. And is the Cerro Com Well #1 located in the
5 southwest quarter-northwest quarter of Section 11?

6 A. Yes, sir.

7 Q. And just to the north of the planned horizontal
8 lateral?

9 A. Yes, sir.

10 Q. When you were planning the drilling of this
11 well, is that how you became familiar with the Cerro Com
12 well?

13 A. Yes, sir.

14 Q. And is the well currently unplugged?

15 A. Yes, sir. The well is currently unplugged.

16 Q. And how far, roughly, is the surface location
17 of the Cerro Com well from the planned path of the
18 Michael Collins 206H well?

19 A. The surface-hole location is approximately 200
20 feet away from the planned lateral.

21 Q. What is Exhibit 9?

22 A. Exhibit 9 is a directional plan for the Michael
23 Collins #206H well.

24 Q. And is the Cerro Com well noted on this plat?

25 A. Yes, sir. If you look at the middle plot

1 towards the west of the lateral, the blue dot is the
2 Cerro #1 surface hole, and then the line drawn to the
3 south of that surface hole is a possible path -- one of
4 several possible paths of that wellbore based on Top-co
5 style inclinational surveys.

6 Q. Would that bring it -- if -- if -- the
7 worst-case scenario, that wellbore will be 100 feet or
8 less from the planned horizontal in the Michael Collins
9 well?

10 A. Yes, sir.

11 Q. What makes the Cerro Com well a hazard in
12 drilling the Michael Collins well?

13 A. The -- the unplugged nature of the Cerro #1
14 makes it a hazard particularly because there are -- we
15 know there are open perforations in the Wolfcamp and
16 Bone Spring, and in a potential collision scenario, if
17 the wellbore's penetrated, there could be a loss of
18 fluid into one of the open perforations.

19 Q. Is -- is a -- is a well that's not producing
20 but is not plugged and abandoned riskier than having a
21 producer at that location?

22 A. (No response.)

23 Q. If this well was producing, would it be less of
24 a risk than having an unplugged well?

25 A. I would say no. It would be a similar risk.

1 **Q. Okay. Move on to Exhibit 10, which are**
2 **lettered, and I think we're looking at 10A through 10E.**
3 **Are these photographs from the well site of the Cerro**
4 **Com Well #1?**

5 A. Yes, sir.

6 **Q. What does Exhibit 10A represent?**

7 A. 10A is the sign at the entrance to location.
8 From this picture, you can see the sign is faded and
9 difficult to read. Brush is beginning to become
10 overgrown on this sign, and behind the sign, you can see
11 the tank battery, you know, rusted, and there is some
12 brush beginning to overgrow on that as well.

13 **Q. What about Exhibit 10B?**

14 A. 10B is a close-up of the pumping unit that's
15 currently installed over this well. The rubber there is
16 the pumping unit drive belt, which is disconnected and
17 broken. This makes the pumping unit inoperable. You
18 can also see that there is brush and debris around the
19 base of the pumping unit.

20 **Q. What do Exhibits 10C and 10D together show?**

21 A. 10C and 10D show the wellhead. You can see
22 that the wellhead is rusted, and there is some scale on
23 it, and it looks -- looks in fairly poor condition.

24 **Q. Does it appear that any recent work or repairs**
25 **have been done to this well?**

1 A. No recent work is apparent from these pictures.

2 Q. And by the way, when were these pictures taken,
3 approximately?

4 A. March of 2017.

5 Q. And finally, what is Exhibit 10E?

6 A. 10E is the heater treater for this well. This
7 heater treater is rusted and in poor condition.

8 Q. Does it appear that no one has been on site to
9 maintain or produce this well?

10 A. There are no obvious signs that anyone has been
11 on site to maintain this well.

12 Q. And, again, the pump jack is not in working
13 order; is that correct?

14 A. That is correct.

15 Q. In your opinion, is this well capable of
16 producing?

17 A. No, sir.

18 Q. If Matador is appointed operator and is allowed
19 to go ahead and plug and abandon the well, have you
20 prepared a procedure for the abandonment of the well?

21 A. Yes, sir.

22 Q. What is that?

23 A. That is Exhibit 11.

24 Q. Could you go through a few items of this
25 procedure?

1 A. Yes, sir. We have our -- we have our header
2 and some contacts, API number, some basic data of the
3 tubulars and the perforations of this well, followed by
4 a timeline from NMOCD files. Then we have our
5 objective, which is to pull downhole production
6 equipment and plug well. Then it gets into the current
7 perforations and procedures.

8 **Q. The current perforations -- the well file that**
9 **you've reviewed on the OCD's records, is that as**
10 **complete as you would like?**

11 A. No, sir. There is other information that would
12 be very helpful in knowing the current state of this
13 wellbore. That is one thing I'd like to emphasize, is
14 that this procedure is based off the best knowledge we
15 have, but there are some spots missing, and there is not
16 much in there recently. So we don't really have a good
17 idea of what this wellbore looks like.

18 **Q. Does that complicate the plugging and**
19 **abandonment procedure?**

20 A. Yes, sir. That -- that poses, you know, a
21 risk, when you get out there, that the wellbore is not
22 as you believe it was.

23 **Q. So the plugging -- if problems crop up that**
24 **aren't reflected in the current well file, the P&A**
25 **procedure could increase in cost; could it not?**

1 A. Yes, sir. It would be adjusted and could
2 possibly increase in cost.

3 Q. **Would a prudent operator plug and abandon this**
4 **well?**

5 A. Yes, sir.

6 Q. **Does it need to be done so that the Michael**
7 **Collins 206H well can be safely drilled?**

8 A. Yes, sir.

9 Q. **Going on through this, we get to the wellbore**
10 **sketches. Could you briefly discuss those?**

11 A. Yes, sir. On 7 -- page 7 of the procedure is
12 our wellbore diagram derived from the NMOCD filings.
13 This is what we believe the current state of the
14 wellbore to be.

15 If you turn to page 8, this is our -- this
16 is what the wellbore schematic would look like at the
17 end of this procedure, and you have -- you can see the
18 cast-iron bridge plugs and cement plugs on this diagram.

19 Q. **If Matador can re-enter the well and plug and**
20 **abandon per your procedure -- this was -- was this**
21 **prepared with you and your team?**

22 A. Yes, sir.

23 Q. **If Matador's going to plug and abandon, this**
24 **way it will mitigate any potential adverse effects on**
25 **the Michael Collins 206H well?**

1 A. It would mitigate the risk. Yes, sir.

2 Q. Were Exhibits 8 through 12 prepared by you or
3 under your supervision or compiled -- or 11 -- excuse me
4 -- and compiled from company business records?

5 A. Yes, sir.

6 Q. In your opinion, is the granting of this
7 application in the interest of conservation and the
8 prevention of waste?

9 A. Yes, sir.

10 MR. BRUCE: Mr. Examiner, Exhibit 12 is
11 simply my Affidavit of Notice. Both Lanexco, the
12 operator and 50 percent working interest owner, and XTO
13 is the other 50 percent working interest owner, were
14 notified of the application.

15 EXAMINER GOETZE: Thank you.

16 MR. BRUCE: And I would move the admission
17 of Exhibit 8 through 12.

18 EXAMINER GOETZE: Mr. Herrmann?

19 MR. HERRMANN: No objection.

20 EXAMINER GOETZE: Mr. Padilla?

21 MR. PADILLA: None.

22 EXAMINER GOETZE: Exhibits 8 through 12 are
23 so entered.

24 (Matador Production Company Exhibit Numbers
25 8 through 12 are offered and admitted into

1 evidence.)

2 EXAMINER GOETZE: Mr. Herrmann, any cross?

3 MR. HERRMANN: No.

4 EXAMINER GOETZE: Mr. Padilla?

5 MR. PADILLA: I don't have any questions.

6 EXAMINER BROOKS: I think Mr. Bruce covered
7 the matters I would have inquired about, so I don't have
8 any questions at this time.

9 CROSS-EXAMINATION

10 BY EXAMINER GOETZE:

11 Q. And one question in one respect. We have your
12 P&A plan. Have you been in discussion with the Artesia
13 District with regards to --

14 A. No, sir. This is simply a proposed plan. It
15 has not been approved by the Artesia District. You
16 know, we would -- we would do that if we were awarded
17 operatorship.

18 Q. But you haven't gone -- had any discussions as
19 far as any word-of-mouth information on this well that
20 can be obtained through personal contact with people who
21 do the inspections?

22 A. I have not. I do not know if anyone else on
23 the team has.

24 Q. Thank you.

25 EXAMINER GOETZE: I have no further

1 questions for this witness.

2 MR. BRUCE: I have no further questions.

3 EXAMINER GOETZE: And, Mr. Padilla, any
4 statement or comment?

5 CLOSING ARGUMENT

6 MR. PADILLA: The only statement I have is
7 that I think that if the Oil Conservation Division would
8 bring this case by -- of the prior order entered and the
9 settlement compliance agreement, that I think the OCD is
10 the real party and interest and not Matador. Other
11 issues are just simply title issues that may or may
12 not -- or do not affect the Oil Conservation Division in
13 a hearing, which are title issues. But other than that,
14 I do think that -- if it were Mr. Herrmann bringing this
15 case, it would be probably be appropriate.

16 CLOSING ARGUMENT

17 MR. BRUCE: Mr. Examiner, the lessee of
18 the -- actually, virtually of all of Section 11 is
19 Matador or MRC Permian. It needs to drill a well or
20 lose its leases. It is a party in interest and drilling
21 in this area, and in order to safely drill, it needs to
22 have that well plugged and abandoned. This is no
23 criticism of the Division, but if the Division brings
24 this and Matador did not or Lanexco did not timely plug
25 and abandon the well, Matador's going to lose the

1 leases. I think it needs to be the one in control of
2 the plugging and abandonment, unless the Division orders
3 Lanexco to plug that well within a very short time
4 period, as requested in the application.

5 EXAMINER GOETZE: Mr. Herrmann, any
6 addition to the statement by Mr. Bruce or Mr. Padilla?

7 CLOSING REMARKS

8 MR. HERRMANN: Mr. Examiner, I'm not going
9 to opine on the settlement agreement or the jurisdiction
10 that the Division has, but I will state that our
11 position is that it is perfectly within the Division's
12 jurisdiction to note that this well is not compliant
13 with our plugging and abandonment rules, 19.15.25.8
14 NMAC, and also the financial assurance provisions that
15 was presented during testimony.

16 EXAMINER GOETZE: Very well. If that's the
17 case, we will take this one under advisement. Case
18 Number 15772 is taken advisement.

19 And let's take at least ten, according to
20 my attorney, so until 10:00. Come on back, and we'll
21 continue this process.

22 (Case Number 15772 concludes, 9:47 a.m.)

23 (Recess, 9:47 a.m. to 10:04 a.m.)

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

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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: 12/31/2017
Paul Baca Professional Court Reporters

24

25