

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:) CASE NO. 12,852
)
APPLICATION OF MATADOR E&P COMPANY)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

May 30th, 2002

Santa Fe, New Mexico

12 JUN 13 AM 7:54
OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, May 30th, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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May 30th, 2002
 Examiner Hearing
 CASE NO. 12,852

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<u>JAY BEAVERS</u> (Landman)	
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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

ALSO PRESENT:

MICHAEL E. STOGNER
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

WILL JONES
Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 10:53 a.m.:

3
4
5 MR. BROOKS: Okay, at this time we'll call Case
6 Number 12,852, Application of Matador E&P Company for
7 compulsory pooling, Lea County, New Mexico.

8 Call for appearances.

9 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
10 the Santa Fe law firm of Kellahin and Kellahin, appearing
11 on behalf of the Applicant, and I have one witness to be
12 sworn.

13 MR. BROOKS: Okay, will the witness please
14 identify himself?

15 MR. BEAVERS: My name is Jay Beavers.

16 (Thereupon, the witness was sworn.)

17 MR. KELLAHIN: Mr. Brooks, we have this kind of
18 case on occasion. This is a pooling of royalty and
19 overrides because the underlying leases did not have
20 pooling clauses. These are very old leases. And Mr.
21 Beavers is here to explain this case and the next case.

22 There are some similarities to them, but they
23 involve different parties, different wells, but they do
24 each have the common denominator of dealing with leases
25 where there's no pooling provision. So we don't need that

1 portion of the pooling order that has anything to do with
2 risk factor penalties and elections and all that kind of
3 thing.

4 MR. BROOKS: All the working interest is
5 voluntarily pooled?

6 MR. KELLAHIN: That's right, we control all the
7 working interests.

8 One of the wells has been drilled; the first one
9 we're talking about, this Laughlin Number 6, in fact, has
10 been drilled before Matador realized that they were in an
11 area of old leases that did not have pooling clauses.

12 The formation that requires the consolidation is
13 the Monument-Tubb Pool, which is on 80-acre oil spacing.
14 The other formations that were involved were 40-acre pools,
15 and because this is an 80-acre pool it involved multiple
16 leases in each adjoining 40.

17 We would like to make the pooling of the royalty
18 and overrides effective as of the date of first production.
19 We do have the agreement of the working interest owners and
20 some of the royalty owners so that the accounting starts
21 from date of first production, and we would like the
22 opportunity to do that with the remaining people that have
23 not responded to our request for consolidation.

24 So that's what the next two cases are about.

25 MR. BROOKS: Okay.

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JAY BEAVERS,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Beavers, for the record, sir, would you please state your name and occupation?

A. My name is Jay Beavers. I'm a consulting landman for Matador E&P Company.

Q. Where do you reside, sir?

A. Near Sanger, Texas.

Q. On prior occasions have you testified before the Oil Conservation Division?

A. No, I have not.

Q. Summarize for us your education and your employment experience as a landman.

A. I got a bachelor of environmental design from Texas A&M University in 1977. For the past 25 years I've been employed as a petroleum landman, continuously for independent oil and gas exploration companies.

Q. And you have made yourself familiar with the properties involved in Lea County, New Mexico, that are the subject of this Application?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Beavers as an expert

1 witness.

2 MR. BROOKS: He is so qualified.

3 Q. (By Mr. Kellahin) Mr. Beavers, let's orient
4 ourselves as to your spacing unit and the well. If you'll
5 turn to Exhibit 1, identify for us what we're looking at.

6 MR. BROOKS: Okay, do you have copies --

7 MR. KELLAHIN: I'm sorry, I apologize, I'll get
8 them to you.

9 THE WITNESS: Exhibit 1 is our lease map and
10 well-locator map. The green is our proposed pooling area.
11 Tract 1 is the southwest northwest quarter. Tract 2 is the
12 southeast northwest quarter, Section 4, Township 20 South,
13 Range 37 East, Lea County, New Mexico.

14 The Laughlin Number 6 well has been drilled at an
15 orthodox location, being 1820 feet from the west line, 2310
16 feet from the north line.

17 Q. (By Mr. Kellahin) When we look at the bottom of
18 this display, have you described the leases involved in
19 Tract 1 and Tract 2?

20 A. Yes, I have. There is one lease dated July 3rd,
21 1928, covering 100 percent of the mineral interest in Tract
22 1, and there is one lease dated July 12th, 1928, covering
23 100 percent of the mineral interest in Tract 2.

24 Q. Do either of these leases have provisions that
25 would allow you to consolidate the two leases into a single

1 spacing unit consisting of the tract you're proposing for
2 dedication?

3 A. They do not. However, there are some amendments
4 to one or both of these leases for the gas only. These
5 amendments were taken way back, I think, in the 1930s or
6 1940s.

7 Q. The purpose of the pooling Application would be
8 to consolidate on an 80-acre spacing these leases for
9 production from the Monument-Tubb Pool?

10 A. That's correct.

11 Q. Let's turn to Exhibit Number 2. What is
12 indicated in Exhibit Number 2?

13 A. We've got the Application, the notice of the
14 hearing and a list of all of the royalty and overriding
15 royalty interest owners that we sent this application and
16 notice to.

17 Q. All right. Turn to Exhibit Number 3. Let's go
18 through the various spreadsheets so Mr. Brooks can see how
19 these interests are apportioned back to the individual
20 interest owners. Do you have all the working interest
21 owners committed to the spacing unit?

22 A. Yes, we do.

23 Q. Are there other interest owners, other than
24 Matador?

25 A. Working interests?

1 Q. Yes, sir.

2 A. Texaco and Occidental.

3 Q. Okay. So you've covered your working interest
4 ownership; you now have to include your royalties and
5 overrides?

6 A. That's correct.

7 Q. Describe for us Exhibit Number 3.

8 A. Okay, this is our summary. Starting at the top,
9 our drillsite tract, which is Tract 2, the southeast
10 northwest quarter, we have 1/8 royalty lease. We mailed
11 out 58 pooling agreements to the royalty owners. 43 of
12 these have been signed and returned. There are 15 that are
13 still outstanding.

14 Q. And we later on have a list of each of the
15 parties and their addresses as to each of the categories,
16 so Mr. Brooks can find the parties that are still
17 outstanding?

18 A. Yes, that's correct.

19 Q. What have you done with the other 40-acre tract?

20 A. The non-drillsite tract, we mailed out 46 pooling
21 agreements. 33 of these have been signed and returned.
22 There are 13 outstanding.

23 Q. And the last entry, what does this represent?

24 A. We also sent out pooling agreements to the
25 working interest owners. I'm not sure that this was really

1 necessary, because we have joint operating agreements
2 executed by all parties where we set up a contract area
3 covering the 80 acres.

4 Q. But you're not intending to pool any of the
5 working interest owners by this Application?

6 A. That's correct.

7 Q. Let's turn to Exhibit Number 4. Identify and
8 describe this for us.

9 A. This is a sample of the letter that was sent to
10 the royalty owners and overriding royalty interest owners.
11 It's dated March 19th. I think it was actually mailed on
12 March 20th.

13 Q. What's Exhibit 5?

14 A. Exhibit 5 is the pooling agreement that was
15 attached to the letter that we just looked at that was
16 Exhibit Number 4.

17 Q. Exhibit Number 6 has got multiple pages.
18 Describe for us what Exhibit 6 is.

19 A. Okay, the first three pages is a list of the
20 parties that were mailed pooling agreements covering --
21 these are the Tract 1, the non-drillsite tract royalty
22 owners and overriding royalty interest owners that were
23 mailed the pooling agreements.

24 Q. The last page represents what?

25 A. This is a list of the parties that have not

1 signed and returned executed pooling agreements.

2 Q. Do you have a similar list for Tract Number 2?

3 A. Yes, I do.

4 Q. Let's turn to Exhibit 7. Describe for us what's
5 contained in Exhibit 7.

6 A. Okay, the first three pages -- This is Tract 2,
7 the drillsite tract?

8 Q. Yes, sir.

9 A. Pooling agreements were mailed to each party
10 that's listed on these first three pages. The last page is
11 a list of the parties that have not signed and returned
12 executed pooling agreements.

13 Q. Have you received any objections from any of
14 these parties?

15 A. We have not.

16 Q. What is the current status of the well?

17 A. The well is producing from the Tubb formation.

18 Q. What's your date of first production?

19 A. The well was completed January 25th of 2002, and
20 we may have -- when we were testing the well, we may have
21 had some production beginning January 20th of 2002.

22 Q. Summarize for us the facts that occurred
23 concerning the drilling of the well and the discovering of
24 the fact that your leases did not contain pooling clauses.

25 A. Okay, that's a simple question but I've got a

1 complex answer, so if you'll bear with me for about five
2 minutes. In anticipation of this question last night I
3 wrote out so that I won't forget anything, so I'd just like
4 to read it.

5 In the past two years, Matador has drilled nine
6 wells in Section 4 and four wells in Section 5. To the
7 best of my knowledge, all of these wells were permitted as
8 Drinkard tests. The Skaggs-Drinkard is the primary
9 objective and the Monument-Tubb is the secondary objective.
10 The Blinebry, Paddock and Glorieta are bailout zones. The
11 Monument-Tubb is our only objective that requires 80-acre
12 spacing.

13 All of the leases in this area had been held by
14 shallow production for the past 60 or 70 years. Prior to
15 drilling a well, Matador secures the drilling rights on 80
16 acres in the form of a farmout or term assignment from the
17 current leasehold interest owners.

18 In the case of the Laughlin Number 6 well, Texaco
19 assigned 50-percent interest in the drillsite tract to
20 Matador, effective August 24th, 2000, and Occidental
21 assigned 50-percent interest in the non-drillsite tract to
22 Matador, effective July 31st, 2001.

23 Matador entered into a joint operating agreement
24 with Occidental effective July 31, 2001, and with Texaco
25 effective September 26th, 2001, whereby Matador was

1 designated as operator of the 80-acre contract area, which
2 is comprised of the south half, northwest quarter. Matador
3 has 50-percent interest, and Texaco and Occidental have 25-
4 percent interest each in the contract area.

5 Our drilling title opinion covering the contract
6 area is dated April 3rd, 2001. Our drilling title opinions
7 do not address royalty and overriding royalty ownership.
8 We normally order a Division order title opinion after the
9 well is completed, which sets out the royalty and
10 overriding royalty ownership. Our drilling title opinion
11 did not require that we amend the leases for pooling.

12 The Laughlin Number 6 well was permitted as a
13 6900-foot Drinkard test. Drilling operations commenced on
14 December 28th, 2001. We usually drill through the Drinkard
15 and tag the Abo, unless we encounter a reason to stop
16 drilling prior to reaching the Abo.

17 The Laughlin Number 6 well was drilled to a total
18 depth of 6800 feet. Total depth was reached on January
19 8th, 2002. The well was plugged back to 6758 feet and
20 completed on January 25th, 2002, as a Monument-Tubb well
21 producing from intervals between 6526 feet and 6600 feet.

22 As of May 1, 2002, the Laughlin Number 6 well has
23 produced 3360 barrels of oil and almost 22 million cubic
24 feet of gas. The average rate is currently 22 barrels of
25 oil per day, 102 MCF of gas per day and 17 barrels of water

1 per day.

2 I first discovered that we may have a pooling
3 problem in early March when I was reading a title opinion
4 for a well that we had proposed in the north half of the
5 northeast quarter of Section 4. This title opinion
6 mentioned that the leases did not contain pooling
7 provisions and that the leases should be amended to allow
8 pooling.

9 At that point, I went back through our files and
10 checked all of our leases for every well that we have
11 drilled in this area. This is when I discovered that the
12 leases covering Tracts 1 and 2 did not contain pooling
13 language. These leases were taken in 1928 and were amended
14 to provide for gas pooling.

15 I immediately sought legal advice and asked our
16 attorney to make the Division order title opinion his
17 highest priority. Our Division order title opinion is
18 dated March 18, 2002.

19 On March 19th, 2002, and March 20th, we mailed
20 out pooling agreements to 107 royalty and overriding
21 royalty interest owners. As of today, 78 pooling
22 agreements have been signed and returned. The pooling
23 agreements effectively pool the royalty and overriding
24 royalty interest as of the first date of production of the
25 Laughlin Number 6 well. We are requesting that the

1 objectives in that well?

2 A. Yes, sir. We'll drill it the same way. It will
3 be permitted as a Drinkard test. And we have it on our rig
4 schedule to be drilled, I believe, in July or August.

5 Q. You said the completion date on the Laughlin well
6 was 1-25 of '02. When was the date of first production, if
7 you have that information?

8 A. Officially, it's probably January 25th. Now,
9 when they were testing the well it may have produced some
10 prior to that.

11 MR. BROOKS: Okay. Well, I believe that is all
12 the questions that I have. Thank you.

13 THE WITNESS: Thank you.

14 MR. KELLAHIN: Stay there, Jay. We'll do the
15 next one here in a second.

16 (Thereupon, these proceedings were concluded at
17 11:12 a.m.)

18 * * *

19
20 I do hereby certify that the foregoing is
21 a correct and true transcript of the proceedings in
22 the Examiners' hearing of Case No. 12852,
23 heard by me on May 30, 2002
24 David K. Beatty Examiner
25 Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 1st, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002