

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 E&P COMPANY)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 12,877

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

June 27th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, June 27th, 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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OIL CONSERVATION DIV

I N D E X

June 27th, 2002
 Examiner Hearing
 CASE NO. 12,877

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APPLICANT'S WITNESS:	
<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:

DAVID R. CATANACH
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 8:54 a.m.:

3 EXAMINER BROOKS: Call Case Number 12,877,
4 Application of Matador E&P Company for compulsory pooling,
5 Lea County, New Mexico.

6 Call for appearances.

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

11 EXAMINER BROOKS: Okay, will the witness identify
12 himself for the record, please?

13 MR. BEAVERS: Jay Beavers.

14 EXAMINER BROOKS: Please swear the witness.

15 (Thereupon, the witness was sworn.)

16 MR. KELLAHIN: Mr. Brooks, Matador's case this
17 morning is similar to one that Mr. Beavers presented to you
18 last month. We are in an 80-acre spacing unit for some of
19 this area, and it requires us in the Tubb formation -- this
20 is the Monument-Tubb -- to consolidate an 80-acre spacing
21 unit.

22 EXAMINER BROOKS: Is this another situation where
23 you're force-pooling royalty only?

24 MR. KELLAHIN: That's right, we have a lease.
25 The 80-acre tract is divided into two 40s. Each 40 is a

1 different title in terms of leases. Neither lease has a
2 pooling clause.

3 Mr. Beavers will testify that the parties are
4 identical except, I think, for an override. But in order
5 to start paying production to the royalty owners from
6 inception, we need to consolidate the leasehold interest,
7 the royalty owners.

8 This well has already been drilled, and its first
9 production date, as I understand it, is March 26th of this
10 year. Very much like the other cases we gave you last year
11 -- I mean last month.

12 EXAMINER BROOKS: Yes, sir. Okay, you may
13 proceed.

14 MR. KELLAHIN: Thank you.

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

18 DIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q. Mr. Beavers, for the record please state your
21 name and occupation.

22 A. Jay Beavers, petroleum landman, Matador E&P
23 Company, Dallas, Texas.

24 Q. On prior occasions have you testified before the
25 Division?

1 A. Yes, I have.

2 Q. And pursuant to your employment with Matador,
3 have you made a study of the ownership involved in the
4 spacing unit?

5 A. Yes, I have.

6 Q. Has it also been your responsibility to
7 consolidate all unconsolidated interest owners into the
8 spacing unit?

9 A. Yes.

10 Q. At this point have you achieved that for all
11 categories of owners?

12 A. No, we have not.

13 MR. KELLAHIN: Okay. We tender Mr. Beavers as an
14 expert petroleum landman.

15 EXAMINER BROOKS: His qualifications are
16 accepted.

17 Q. (By Mr. Kellahin) Mr. Beavers, let's turn to
18 Exhibit Number 1. Identify for us what we're looking at
19 here.

20 A. Okay, this lease map is Section 5, Township 20
21 South, Range 37 East, Lea County, New Mexico. The green
22 indicates an 80-acre unit outline, being the east half of
23 the southeast quarter. Tract Number 2 is our drillsite
24 tract. This is the southeast southeast quarter, 40 acres.
25 The oil and gas lease was taken from David Laughlin and his

1 wife Martha Laughlin on August 20th, 1927.

2 Subsequent to the signing of the lease, Mr. David
3 Laughlin passed away. The lease covering Tract 1 was taken
4 from his heirs on July 12th, 1928. So the royalty owners
5 are identical in Tract 1 as they are in Tract 2.

6 Q. Is there any difference between the overriding
7 royalty owners?

8 A. Matador has a term assignment from Occidental
9 covering the southeast southeast. Occidental reserved an
10 overriding royalty interest which they have given us the
11 authority to pool if the leases provide for pooling or are
12 amended for pooling.

13 Q. Do either of these leases provide for pooling of
14 an 80-acre spacing unit for oil production from the
15 Monument-Tubb Pool?

16 A. No, neither one of them.

17 Q. Let's turn to Exhibit Number 2. What are you
18 summarizing on this display?

19 A. This indicates that we mailed out 58 pooling
20 agreements. We have received 41, have been signed and
21 returned, and there's 17 that we have not received.

22 Q. That accounts for the royalty interest?

23 A. That's the royalty interest. And the overriding
24 royalty interest owner we probably don't need, but as a
25 conservative approach we also sent a pooling agreement to

1 the overriding royalty interest owner.

2 Q. Let's go through the different spreadsheets now
3 that account for the interests. If you'll start with
4 Exhibit Number 3, identify what this is.

5 A. Okay, this is the complete owner name and address
6 list of everybody that we mailed pooling agreements to.

7 Q. At this point, the working interest owners, the
8 paying parties, are all consolidated?

9 A. That is correct.

10 Q. This is a list, then, of the royalty and
11 overrides for the two tracts?

12 A. That's correct.

13 Q. Do you have a list showing the parties that have
14 executed the documents to become voluntarily committed to
15 the spacing unit?

16 A. That's Exhibit Number 4.

17 Q. And have you compiled a list of those parties
18 from whom you have not yet received a signed pooling
19 agreement?

20 A. That's Exhibit Number 5.

21 Q. Okay. Let's look at Exhibit Number 6. What is
22 this?

23 A. This is the letter that was sent out to all the
24 interest owners. Attached to the letter was their Division
25 order and pooling agreement.

1 Q. Okay. Then finally Exhibit Number 8?

2 A. Well, Exhibit Number 7 --

3 Q. Number 7 is what?

4 A. -- is the pooling --

5 Q. -- is the pooling agreement?

6 A. It's a sample of the pooling agreement.

7 Q. Exhibit Number 8?

8 A. Exhibit Number 8 is a copy of the notice of the
9 hearing and the Application that we sent to the people that
10 had not signed and returned their pooling agreements, which
11 is -- we also have their names and addresses on here, as
12 well as their interest, their royalty interest and
13 overriding royalty interest, copies of the green cards, and
14 we had one that was undeliverable.

15 Q. When we go back to Exhibit 5, the date of this
16 tabulation to show the uncommitted interest owners
17 outstanding, what's the date on this Exhibit Number 5?

18 A. I believe that is effective as of June the 19th.

19 Q. All right. So as of June the 19th, these were
20 the outstanding owners?

21 A. That's correct.

22 Q. What is the date of first production from this
23 well?

24 A. March 26th.

25 Q. And it's capable of production out of the

1 Monument-Tubb Pool?

2 A. That's correct. The well was permitted as a
3 Drinkard test and completed in the Monument-Tubb.

4 Q. In order so that all interest owners are paid
5 effective as of the same date, you're requesting that the
6 pooling order be made effective as of the date of first
7 production?

8 A. That is correct.

9 Q. In addition, the ownership company for Matador is
10 different than the operating company?

11 A. That's correct, Matador E&P Company is the actual
12 leasehold interest owner. The operating entity is Matador
13 Operating Company.

14 Q. And Matador Operating Company is the designated
15 operator for the spacing unit and is filing the necessary
16 forms and arranging for the payment of proceeds?

17 A. That's correct.

18 MR. KELLAHIN: That concludes my examination of
19 Mr. Beavers.

20 We move the introduction of his Exhibits, I
21 think, 1 through 8.

22 EXAMINER BROOKS: 1 through 8 are admitted.

23 EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. The Monument-Tubb, I gather, is the only

1 applicable pool that is 80-acre spacing?

2 A. That's my understanding.

3 Q. This is the same situation as those two that were
4 presented last month -- or -- yeah, last month?

5 A. It's identical to one of them to the extent that
6 it's already been drilled and it's producing, yes.

7 Q. Now, does Matador own 100 percent of the working
8 interest?

9 A. No, sir, we do not.

10 Q. But you have voluntarily pooled the entire
11 working interest; is that correct?

12 A. That's correct, we've entered into an operating
13 agreement with Samson.

14 Q. So this pooling, like the ones that were
15 presented on May the 30th, will not require any allocation
16 of expenses?

17 A. That's correct, Samson has the non-drillsite
18 tract, and Samson entered into an operating agreement with
19 us.

20 Q. Very good. I had a couple of questions that came
21 to mind when I was writing those previous orders, and I'm
22 glad you're here to answer them.

23 First of all, because the record was replete with
24 references to the Monument-Tubb being the only pool that
25 was pooled on -- that was on 80-acre spacing, but I didn't

1 find anything that said exactly how you wanted the order
2 configured, so I had assumed it was from the surface to the
3 base of the Monument-Tubb -- to the base of the Tubb for
4 all formations spaced on 80 acres; is that correct?

5 A. Yes, sir, that's how I would suggest you write
6 the order.

7 Q. Okay. And also, in at least one of those --

8 A. Could I --

9 Q. Yes, sir.

10 A. -- speak with him just a second?

11 MR. KELLAHIN: Are there any other pools, other
12 than the Monument-Tubb --

13 EXAMINER BROOKS: You may confer if you wish.

14 (Off the record)

15 MR. KELLAHIN: I think the application in those
16 cases will reflect that the ownership of Matador is below a
17 certain depth.

18 EXAMINER BROOKS: Yeah.

19 MR. KELLAHIN: And Mr. Beavers says it's 3900
20 feet. So for those horizons within that interval, if there
21 ever are others --

22 EXAMINER BROOKS: Yeah.

23 MR. KELLAHIN: -- we would capture those to pool
24 on an 80-acre spacing. The only one we can find is the
25 Monument-Tubb.

1 EXAMINER BROOKS: So the order should read from
2 the depth of 3900 feet below the surface to the base of the
3 Monument-Tubb for all formations or pools within that
4 vertical extent that are spaced on 80 acres?

5 MR. KELLAHIN: That would be correct, Mr. Brooks.

6 EXAMINER BROOKS: Okay.

7 THE WITNESS: Yeah, if you'll look at Exhibit
8 Number 7, which is a copy of the pooling agreement that we
9 sent out to all the royalty owners, the third paragraph
10 that starts with "Now, therefore...as to all formations
11 lying below 3900 feet..."

12 Q. (By Examiner Brooks) Okay. And that would apply
13 to the proceedings that were presented on May 30th as well
14 as this one; is that --

15 A. Well, actually the depths may be different. They
16 would be whatever depths we had in our pooling agreements.

17 EXAMINER BROOKS: Okay, very good. I appreciate
18 your calling that to my attention before the orders have
19 been issued. We can get them corrected.

20 Let's see, there was a reference in the record in
21 one of the two previous cases to the possible drilling of
22 another well in the remaining quarter quarter. Do the pool
23 rules for the Monument-Tubb provide for an infill well? Is
24 that --

25 MR. KELLAHIN: They do by operation of other

1 rules which allow you to -- because oil is prorated --

2 EXAMINER BROOKS: Right.

3 MR. KELLAHIN: -- you can have an optional second
4 well.

5 EXAMINER BROOKS: Okay. And since we don't have
6 to allocate expenses here, there's really no reason why we
7 shouldn't go ahead and put a clause in these orders that if
8 another well is drilled it can be dedicated to this unit;
9 is that --

10 MR. KELLAHIN: I would recommend that happen.

11 EXAMINER BROOKS: Okay, I think that's all my
12 questions.

13 EXAMINER CATANACH: Just one, Mr. Beaver.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Do you know if that's a standard well location
17 for that pool?

18 A. Yes, sir, it is.

19 EXAMINER CATANACH: It is? Okay.

20 EXAMINER BROOKS: Okay, if there is nothing
21 further, Case Number 12,877 will be taken under advisement.

22 MR. KELLAHIN: Thank you.

23 (Thereupon, these proceedings were concluded at
24 9:08 a.m.)

25 I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12877,
* * * heard by me on June 27, 2002

STEVEN T. BRENNER, CCR
(505) 989-9317 Conservation Division

David K. Brooks
Examiner

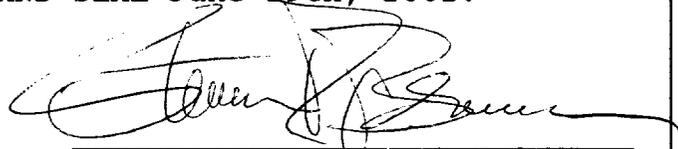
CERTIFICATE OF REPORTER

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 29th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002