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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. 15476

APPLICATION of MATADOR PRODUCTION COMPANY  
FOR COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

THURSDAY, JULY 7, 2016

SANTA FE, NEW MEXICO

This matter came on for hearing before the  
New Mexico Oil Conservation Division, Michael McMillan,  
Examiner, and David Brooks, Legal Examiner, on Thursday,  
July 7, 2016 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 Therese Macfarlane  
New Mexico CCR 122  
PAUL BACA COURT REPORTERS  
500 Fourth Street NW, Suite 105  
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR THE APPLICANT: Jordan Lee Kessler, Esq.  
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I N D E X

CASE NUMBER 15476 CALLED

APPLICANT CASE-IN-CHIEF

WITNESS:	PAGE
CHRIS CARLETON	
EXAMINATION BY MS. KESSLER:	5
EXAMINATION BY EXAMINER McMILLAN:	12
EXAMINATION BY EXAMINER BROOKS:	13

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2	EXHIBIT		ADMITTED
3	APPLICANT		
4	APPLICANT MATADOR PRODUCTION COMPANY	EXHIBIT 1	12
5	APPLICANT MATADOR PRODUCTION COMPANY	EXHIBIT 2	12
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1 (Time noted: 8:24 a.m.)

2 EXAMINER McMILLAN: Okay. I would now like to  
3 call Case No. 15476 Application of Matador Production  
4 Company for compulsory pooling, Eddy County, New Mexico.  
5 Call for appearances.

6 MS. KESSLER: Mr. Examiner, Jordan Kessler of  
7 the Santa Fe office of Holland & Hart on behalf of the  
8 Applicant.

9 EXAMINER McMILLAN: Any other appearances?

10 (Note: No response.)

11 MR. CARLETON: Chris Carleton, landman.

12 MS. KESSLER: I have two witnesses today.

13 EXAMINER McMILLAN: If the two witnesses would  
14 stand and be sworn.

15 MS. KESSLER: I'm sorry. One witness.

16 (Note: Whereupon the presenting witness  
17 was duly sworn.)

18 MS. KESSLER: Mr. Examiner, if I may, I would  
19 like to give a brief opening statement in this case.

20 EXAMINER McMILLAN: Please proceed.

21 MS. KESSLER: If we could turn to Exhibit 3,  
22 what you will see here is an Order from the Oil  
23 Conservation Division, Order No. R-13667, which was  
24 ordered had back in December of 2012. This Order formed a  
25 spacing unit that was a 320-acre spacing unit comprising

1 of the north half of Section 10. Under Order 13667 the  
2 320-acre spacing unit was for gas and was in the Wolfcamp  
3 Formation. It was dedicated to a vertical well, which is  
4 the Guitar 10 Well No. 1. The well was completed.

5 Matador is now drilling or has now drilled the infill  
6 well, which is the well that is subject of this hearing.

7 And in preparing to drill for that infill  
8 well, Matador discovered additional mineral owners,  
9 through title work, who are not subject to Order 13667.  
10 So now we are here to today to supplement the parties  
11 under the existing Order for the 320-acre gas unit, which  
12 is comprised of the north half of Section 10.

13 And with that, I'll proceed with my  
14 witness.

15 CHRIS CARLETON,

16 having been duly sworn, testified as follows:

17 EXAMINATION

18 BY MS. KESSLER:

19 Q. Could you please state your name for the record  
20 and tell the examiners by whom you are employed and in  
21 what capacity.

22 A. Chris Carleton, employed by MRC Energy Company,  
23 the parent company for Matador Production Company.

24 Q. Have you previously testified before the  
25 Division?

1 A. Yes.

2 Q. Were your credentials as a petroleum landman  
3 accepted and made a matter of record?

4 A. Yes.

5 Q. Are you familiar with the Application that has  
6 been filed in this case?

7 A. Yes.

8 Q. Are you familiar with the status of the land in  
9 the subject area?

10 A. Yes.

11 MS. KESSLER: I tender Mr. Carleton as an expert  
12 in petroleum land matters.

13 EXAMINER McMILLAN: So qualified.

14 Q. (BY MS. KESSLER) Mr. Carleton, please turn to  
15 Exhibit 1 and identify this exhibit and explain what  
16 Matador seeks under this Application.

17 A. This is a C-102 for the Guitar 10, 24S 28E RB  
18 No. 202H well. We are seeking to supplement Order No.  
19 R-13667 and form the north -- with the north half spacing  
20 unit comprised of 320 acres, and pool the uncommitted  
21 interests.

22 Q. So you seek to supplement that Order to pool  
23 additional mineral interests in the Wolfcamp formation  
24 that were recently identified; is that correct?

25 A. That's correct, yes.

1 Q. Does the Division designate a pool for this  
2 well?

3 A. Yes.

4 Q. Is that the Culebra Bluff-Wolfcamp South Pool?

5 A. That's correct.

6 Q. And is the pool code for that 75750?

7 A. Yes.

8 Q. And that's a gas well, correct?

9 A. Yes.

10 Q. And is this a gas well?

11 A. Yes.

12 Q. What is the character of these lands?

13 A. These are fee lands.

14 Q. And the well has been drilled, correct?

15 A. That's correct.

16 Q. Do the first and last perf points comply with  
17 the Division's 660-foot gas setback requirement?

18 A. No, they do not. We have received a  
19 non-standard location.

20 Q. Is that NSL Order 7180?

21 A. Yes.

22 Q. Is Exhibit 2 a Midland map showing us the  
23 subject area?

24 A. Yes. It shows the north half of 10 as fee  
25 lands.

1 Q. Turning to Exhibit 3, this Order states that a  
2 320-acre gas spacing and proration unit was formed,  
3 previously formed in the north half of Section 10.  
4 Correct?

5 A. That's correct. It's dedicated to the Guitar 10  
6 Well API 30-015-23099 appointing Guardian Operating Corp.  
7 as the operator.

8 Q. And this pooled the uncommitted interest owners  
9 in the Wolfcamp that were known at the time?

10 A. That's correct.

11 Q. You mentioned that Guardian Operating  
12 Corporation was appointed as the operator. Is Matador the  
13 successor operator to Guardian Operating Corporation?

14 A. That's correct. And that's shown on Exhibit 4.

15 Q. And that is a Change of Operator form that has  
16 been filed with the Division?

17 A. That's correct.

18 Q. Was the initial vertical well, the Guitar 10  
19 Well No. 1 successfully drilled?

20 A. Yes.

21 Q. And was the Guitar 202H well the infill well for  
22 that spacing unit?

23 A. That's correct.

24 Q. Or one of the infill wells.

25 In the process of preparing to drill the

1 Guitar 202H, did you discover additional mineral owners  
2 who were not subject to the R-13667?

3 A. Yes. Those are shown on Exhibit 5 with the  
4 interests that were pooled under the original Order.  
5 There's approximately 4.5 percent pooled under the  
6 original Order and we are seeking to pool another .184268  
7 percent.

8 Q. What is Matador's percentage in this well?

9 A. Matador currently has 70.93 percent.

10 Q. Did all of the interest owners that were pooled  
11 subject to Order R-13667 receive a Well Proposal Letter?

12 A. Yes.

13 Q. And is Exhibit 6 a list that includes only the  
14 uncommitted interest owners who have not been pooled yet?

15 A. Yes.

16 Q. And these are the parties that you seek to add  
17 to Order R-13667?

18 A. Yes.

19 Q. Does Exhibit 7 include copies of the Well  
20 Proposal Letters that you sent to the interest owners for  
21 the Guitar 202H well that you seek add to the preliminary  
22 Order?

23 A. Yes. These were sent out April 1, 2016, and  
24 they include an AFE for the Guitar 10 24 South, 28 East  
25 RB, No. 202H well.

1 Q. Are the costs reflected on this AFE consistent  
2 with other operators drilling similar horizontal wells in  
3 the area?

4 A. Yes.

5 Q. Do you also seek to supplement the Order to  
6 include the Department of Transportation?

7 A. That's correct. And their Well Proposal is  
8 shown on Exhibit 8, sent out November 13, 2015, and  
9 includes the same AFE.

10 Q. What additional efforts have you undertaken to  
11 reach agreement with these additional parties?

12 A. We've sent out leases, made phone calls, sent  
13 emails. We've been successful with a number of the  
14 parties to get leases but either weren't able to contact  
15 these folks or unable to reach an agreement.

16 Q. Okay. Did Order R-13667 set forth overhead and  
17 administrative costs for drilling and completion?

18 A. Yes, they were set at 7,000 per month while  
19 drilling and 700 while producing.

20 Q. And you are not requesting any changes to that,  
21 correct?

22 A. That's correct, no changes.

23 Q. Did the Order also set forth a 200 percent risk  
24 penalty for uncommitted interest owners?

25 A. Yes.

1 Q. And you are not requesting a change to that  
2 either?

3 A. That's correct.

4 Q. Was it necessary to provide notice to offsets  
5 for this well?

6 A. No.

7 Q. And is that because it's a standard 320-acre gas  
8 spacing unit?

9 A. That's correct.

10 Q. Did you publish Notice?

11 A. Yes.

12 Q. Is that included as Exhibit 9?

13 A. Yes. Exhibit 9 is an Affidavit of Publication.

14 Q. Is that because several of the additional  
15 parties whom you speak to pool were unlocatable?

16 A. Yes. We are still waiting for green cards on a  
17 few of the folks, and published Notice just in case.

18 Q. Okay. And is Exhibit 10 an affidavit prepared  
19 by my office confirming that the attached letters sent by  
20 Jim Bruce were in fact sent and provided Notice of this  
21 hearing to the parties to be pooled?

22 A. Yes.

23 Q. Were Exhibits 1 through 8 prepared by you or  
24 compiled under your direction and supervision?

25 A. Yes.

1 MS. KESSLER: Mr. Examiner, I would move to  
2 admit Exhibits 1 through 10.

3 EXAMINER McMILLAN: Okay. Exhibits 1 through 10  
4 may now be accepted as part of the record.

5 MS. KESSLER: And that concludes my examination.

6 EXAMINER McMILLAN: Okay.

7 EXAMINATION

8 BY EXAMINER McMILLAN:

9 Q. Were the penetration point and the final  
10 penetration point on NSL 7180, correct?

11 MS. KESSLER: That would be something I believe  
12 that we would need to verify.

13 A. Yeah. Exhibit 1 is as-drilled, so it actually  
14 shows the perf points that we hit. So we didn't go  
15 exactly on what we -- we didn't drill it exactly how we  
16 had it on the NSL, but we're within the -- we didn't go  
17 closer than 330 on any point.

18 Q. So you were -- that's noncentered.

19 A. That's right.

20 EXAMINER McMILLAN: I mean, that's not the right  
21 word.

22 MS. KESSLER: More orthodox.

23 EXAMINER McMILLAN: Okay. More orthodox.

24 Wow, put me in my place. Okay. That's fine.

25 Q. Are there any depth severances?

1           A.    There area between the Bone Spring and the  
2    Wolfcamp.

3           Q.    But in --

4           A.    In the Wolfcamp there are no depth severances.

5           Q.    Okay.  I'm just curious on Exhibit 3.

6                        So the RSC didn't compulsory pool the state  
7    highway?

8           A.    No.  He didn't discover them in his title  
9    search.

10                   EXAMINER McMILLAN:  Oh, okay.  Because they are  
11    notorious for being compulsory pooled.

12                    Okay.  Go ahead.

13                               EXAMINATION

14    BY EXAMINER BROOKS:

15           Q.    Given that this -- well, this plat is for the  
16    new well, right?  This Exhibit 1.

17           A.    That's right.  It is not for the Guitar 10 No. 1  
18    that was originally pooled, it's for the Guitar 202H, the  
19    infill well.

20           Q.    But the two are in the same spacing unit, right?

21           A.    Yes.

22           Q.    So do you understand that this is going to be an  
23    Order that is going to be -- necessarily going to be an  
24    Order that's going to be retroactive to the date of the  
25    first production of the first well?

1 A. Yes.

2 Q. And because it's been recently drilled and gas  
3 prices being what they are, I assume it probably has not  
4 paid out yet.

5 A. That's correct.

6 Q. So it's merely an accounting -- merely an  
7 accounting matter to adjust these interests. There's no  
8 money going to actually change hands.

9 A. Uhm, since they are unleased mineral owners, I  
10 think we would have to pay the royalties.

11 Q. Yeah, you would have. Oh, that's right. The  
12 Rule 1-8 royalty, of course you would have to pay back to  
13 the date of first production.

14 A. That's correct.

15 Q. And you understand that that's going to be one  
16 of the consequences of the granting of this Application?

17 A. Yes.

18 Q. Okay. And you also understand that the -- well,  
19 what we've done in the past, we've not directed you back  
20 to that statute that's exactly how we handle it when we  
21 pool on a well that has been already drilled, but what we  
22 do is we typically have allowed the people that are  
23 brought in to get a new election.

24 A. And we'll send those out.

25 Q. Okay. So they can -- even though the well has

1 already been drilled, they can decide whether they want  
2 to --

3 A. The proportionate share of costs.

4 Q. And get revenues from the first production, or  
5 whether they want to go nonconsent and wait until the 200  
6 percent -- pay-out plus 200 percent.

7 Okay. Very good.

8 EXAMINER McMILLAN: I have no further questions  
9 and Case No. 15476 shall be taken under advisement.

10 (Time noted: 8:35 a.m.)

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1 STATE OF NEW MEXICO )  
2 : SS  
3 COUNTY OF TAOS )

4  
5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico  
7 Reporter CCR No. 122, DO HEREBY CERTIFY that on Thursday,  
8 July 7, 2015, the proceedings in the above-captioned  
9 matter were taken before me; that I did report in  
10 stenographic shorthand the proceedings set forth herein,  
11 and the foregoing pages are a true and correct  
12 transcription to the best of my ability and control.

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

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19  
20 \_\_\_\_\_  
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