

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION

4 IN THE MATTER OF THE HEARING CALLED
5 BY THE OIL CONSERVATION DIVISION FOR
6 THE PURPOSE OF CONSIDERING:

7 APPLICATION OF MATADOR PRODUCTION COMPANY FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15611

8 APPLICATION OF MATADOR PRODUCTION COMPANY FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15612
9 Consolidated with

10

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 January 5, 2017

14 Santa Fe, New Mexico

15 BEFORE: MICHAEL McMILLAN AND WILLIAM V. JONES, CHIEF
16 EXAMINERS

17 WILLIAM V. JONES, TECHNICAL EXAMINER
18 DAVID K. BROOKS, LEGAL EXAMINER

19 This matter came on for hearing before the
20 New Mexico Oil Conservation Division, Michael McMillan,
21 Chief Examiner, William V. Jones, Technical Examiner,
22 and David K. Brooks, Legal Examiner, on Thursday,
23 January 5, 2017, at the New Mexico Energy, Minerals and
24 Natural Resources Department, Wendell Chino Building,
25 1220 South St. Francis Drive, Porter Hall, Room 102,
Santa Fe, New Mexico.

22

23 REPORTED BY: Mary C. Hankins, CCR, RPR
24 New Mexico CCR #20
25 Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

25

1 APPEARANCES

2 FOR APPLICANT MATADOR PRODUCTION COMPANY:

3 JORDAN L. KESSLER, ESQ.
 HOLLAND & HART
 4 110 North Guadalupe, Suite 1
 Santa Fe, New Mexico 87501
 5 (505) 988-4421
 jlkessler@hollandhart.com
 6

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1 (9:31 a.m.)

2 EXAMINER McMILLAN: Call the hearing back
3 to order.

4 The next case that we shall hear is Case
5 Number -- looks like it's 15611, application of Matador
6 Production Company for a nonstandard spacing and
7 proration unit and compulsory pooling, Eddy County, New
8 Mexico.

9 Call for appearances.

10 MS. KESSLER: Mr. Examiner, Jordan Kessler,
11 from the Santa Fe office of Holland & Hart, on behalf of
12 the Applicant. And we had requested in our pre-hearing
13 statement that Case Number 15611 be consolidated for
14 hearing purposes with Case Number 15612.

15 EXAMINER McMILLAN: Okay. They may be
16 consolidated. So, therefore, at the same time, we're
17 calling Case Number 15612, application of Matador
18 Production Company for a nonstandard spacing and
19 proration unit and compulsory pooling.

20 Please proceed.

21 MS. KESSLER: Two witnesses.

22 EXAMINER McMILLAN: If the witnesses would
23 please stand up and be sworn in at this time.

24 Thank you.

25 (Mr. Lierly and Mr. Juett sworn.)

1 JEFF LIERLY,
2 after having been first duly sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MS. KESSLER:

6 Q. Please state your name for the record and tell
7 the Examiners by whom you're employed and in what
8 capacity.

9 A. Jeff Lierly. I'm a senior landman for Matador
10 Resources Company.

11 Q. Have you previously testified before the
12 Division?

13 A. Yes, I have.

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

16 A. Yes, they were.

17 Q. Are you familiar with the application filed in
18 these consolidated cases?

19 A. Yes, I am.

20 Q. And are you familiar with the status of the
21 lands in the subject area?

22 A. Yes.

23 MS. KESSLER: Mr. Examiners, I would tender
24 Mr. Lierly as an expert in petroleum land matters.

25 EXAMINER McMILLAN: So qualified. Please

1 proceed.

2 Q. (BY MS. KESSLER) Mr. Lierly, please turn to
3 Exhibit 1 and explain what Matador seeks under these
4 applications.

5 A. This is a map of our Stebbins lease in the
6 south half of Section 20, Township 20 South, Range 29
7 East in which we're seeking to establish two 160-acre
8 nonstandard spacing units in the north half-south half,
9 dedicated to our Stebbins 20 Federal #123H well, and the
10 south half-south half for our Stebbins 20 Federal #124H
11 well, which we're seeking to pool all uncommitted
12 working interest owners.

13 Q. And you're seeking to pool the uncommitted
14 interest owners in the Bone Spring Formation; is that
15 correct?

16 A. Yes, that's correct.

17 Q. Are both spacing units comprised of federal
18 acreage?

19 A. Yes. It's the same federal lease and ownership
20 is uniform in both 160-acre spacing units.

21 Q. Is Exhibit 2 a plat for the Stebbins 123H well?

22 A. Yes. This is the C-102 for the Stebbins 20
23 Federal 123H, again in the north half-south half of
24 Section 20.

25 Q. Did the Division initially designate a pool for

1 this area?

2 A. Yes. It was originally in the Avalon-Bone
3 Spring East Pool, but we received an email from Paul
4 Kautz stating that the wells had been reclassified into
5 the wildcat pool.

6 Q. Okay. Is that email from Mr. Kautz included as
7 Exhibit 3?

8 A. Yes, it is.

9 Q. And is the second page of Exhibit 3 a
10 redesignation of the pool?

11 A. Yes, it is. And I see the pool name is the
12 Wolfcamp with a bunch of numbers and letters.

13 Q. Okay. That would be Pool Code 98015, correct?

14 A. Correct.

15 Q. What is Exhibit 4?

16 A. This is the C-102 for our Stebbins 20 Federal
17 124H well. Again, this shows the original pool that we
18 had on it, but as stated on Exhibit 3, it has been
19 reclassified as a wildcat pool.

20 Q. Is the wildcat pool subject to Division
21 statewide setbacks for oil pools?

22 A. Yes.

23 Q. Will each of the two completed intervals for
24 the wells comply with the 330-foot setbacks?

25 A. Yes, they will.

1 Q. Does Exhibit 5 identify the interest owners in
2 the nonstandard spacing unit for the 123H well?

3 A. Yes. Up top, it shows the working interest
4 for -- for MRC Delaware Resources being approximately 73
5 percent. We received voluntary joinder from two parties
6 making up about 21 percent, with the uncommitted working
7 interest owners making up the balance and then the
8 respective working interests outlined below.

9 Q. These are all working interest owners that you
10 seek to pool; is that correct?

11 A. That's correct.

12 Q. Is Exhibit 6 a summary of the interest in the
13 124H well?

14 A. Yes. Same -- same -- same as the prior exhibit
15 because the uniform interest ownership is the same. The
16 interest is the same between the two wells.

17 Q. So, again, these are all uncommitted interest
18 owners that you seek to pool?

19 A. Yes.

20 Q. Is Exhibit 7 a sample of the well-proposal
21 letter and AFE that you sent to the uncommitted interest
22 owners of the 123H well?

23 A. This is our well-proposal letter that we sent
24 to all working interest owners for the Stebbins 20
25 Federal 123H well.

1 Q. And all interest owners have received a
2 well-proposal letter, correct?

3 A. Yes.

4 Q. On what date was the letter sent?

5 A. September 27th, 2016.

6 Q. And they received an AFE, which is included in
7 Exhibit 7, correct?

8 A. Yes, that's correct.

9 Q. Is Exhibit 8 a sample of the well-proposal
10 letter and AFE that you sent to uncommitted interest
11 owners for the 124H well?

12 A. This is the well-proposal letter that we sent
13 to all working interest owners for the Stebbins 20
14 Federal 124H well.

15 Q. And what date was this letter sent?

16 A. September 27th, 2016.

17 Q. And it also included an AFE?

18 A. Yes, that's correct.

19 Q. Are the costs reflected on the AFEs consistent
20 with what operators in the area have incurred for
21 drilling similar wells?

22 A. Yes, they are.

23 Q. And for each of the wells, has Matador
24 estimated overhead and administrative costs for
25 drilling?

1 A. Yes. 7,000 a month while drilling and 700 a
2 month while producing.

3 Q. Are the costs in line with what other operators
4 in the area are charging for similar horizontal wells?

5 A. Yes, they are.

6 Q. Do you ask that overhead and administrative
7 costs be incorporated into any order resulting from this
8 hearing?

9 A. We do.

10 Q. And do you also ask that those costs be
11 adjusted in accordance with COPAS accounting procedures?

12 A. Yes, we do.

13 Q. With respect to uncommitted interest owners,
14 are you requesting that the Division impose a 200
15 percent risk penalty?

16 A. Yes, we are.

17 Q. And in addition to sending well-proposal
18 letters, what other efforts did you make to reach an
19 agreement with the parties?

20 A. We've had numerous phone conversations with the
21 number of working interest parties, spoke with them in
22 person, had email correspondence. I think we're very
23 close to reaching agreements with all parties. But we
24 do intend to spud this well probably within the next
25 three weeks, so we have a short fuse, and we've notified

1 them of that.

2 Q. So you've had contact with all of the parties
3 you seek to pool?

4 A. That's correct.

5 Q. Are Exhibits 9 and 10 notices of publication --
6 Affidavits of Publication in the county in which these
7 wells will be drilled?

8 A. Yes, they are.

9 Q. And Exhibit 11 is an affidavit prepared by my
10 office -- excuse me. Let me back up.

11 Did Matador identify offset operators or
12 lessees of record in the 40-acre tracts surrounding the
13 nonstandard spacing units?

14 A. Yes, we did.

15 Q. Is Exhibit 11 an affidavit prepared by my
16 office with the attached letters providing notice of the
17 hearing today to the parties that you seek to pool and
18 the offset operators and lessees for both the 123H and
19 the 124H wells?

20 A. Yes.

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

23 A. Yes, they were.

24 MS. KESSLER: Mr. Examiners, I'd move
25 admission of Exhibits 1 through 11, which includes --

1 EXAMINER McMILLAN: Exhibits 1 through 11
2 may now be accepted as part of the record.

3 (Matador Production Company Exhibit Numbers
4 1 through 11 are offered and admitted into
5 evidence.)

6 MS. KESSLER: That concludes my
7 examination.

8 CROSS-EXAMINATION

9 BY EXAMINER McMILLAN:

10 Q. Any unlocatable interests?

11 A. No.

12 Q. Any depth severances?

13 A. No. Actually, the owner -- ownership from
14 2,000 -- 200 feet below the surface to the southwest
15 draw is the same. So for our --

16 Q. For compulsory pooling, no depth severances?

17 A. Right.

18 EXAMINER McMILLAN: Go ahead, if you have
19 questions.

20 CROSS-EXAMINATION

21 BY EXAMINER JONES:

22 Q. Yates or EOG Y Resources is going to
23 participate, looks like?

24 A. Well, they're actually still uncommitted
25 working interest owners, but we've had a number of

1 conversations with their land manager. They acquired an
2 interest from the smaller Yates. I think it was Yates
3 Industries. But we're pretty close to reaching an
4 agreement with them.

5 EXAMINER McMILLAN: I need to make a
6 statement of fact that this says "Collin R. McMillan."
7 That was my late father.

8 EXAMINER BROOKS: Apparently it was noticed
9 in this case, so that raises an issue of
10 disqualification for the Examiner.

11 EXAMINER JONES: I can do it.

12 EXAMINER McMILLAN: Okay.

13 EXAMINER BROOKS: Okay. If you can take
14 over the case, that will make it easier.

15 EXAMINER JONES: Let me make sure my name
16 is not in here, too.

17 MS. KESSLER: Mr. Examiners, I would state
18 that I notified him as an offset owner. He's not a
19 party.

20 EXAMINER BROOKS: Anybody required to be
21 noticed is a party by -- by virtue of our rule. I'm not
22 sure that offsets should be required to be noticed in a
23 case like this, but that's a rulemaking question. I'm
24 not the person -- if you can just take over the case,
25 we'll obviate --

1 EXAMINER JONES: I have a history of
2 getting them out in such a hurry.

3 EXAMINER BROOKS: You and me both.

4 EXAMINER JONES: Okay. We don't have any
5 more questions, unless Mr. Brooks does.

6 EXAMINER BROOKS: No. I don't have any
7 questions.

8 JAMES ANDREW "ANDY" JUETT,
9 after having been previously sworn under oath, was
10 questioned and testified as follows:

11 DIRECT EXAMINATION

12 BY MS. KESSLER:

13 Q. Please state your name for the record.

14 A. James Andrew Juett.

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

16 A. Matador Resources Company, and I'm employed as
17 a senior geologist.

18 Q. Have you previously testified before the
19 Division?

20 A. Yes, I have.

21 Q. Were your credentials as a petroleum geologist
22 accepted and made a matter of record?

23 A. Yes, they were.

24 Q. Are you familiar with the applications filed by
25 Matador in these consolidated cases?

1 A. Yes, I am.

2 Q. And have you conducted a geologic study of the
3 Bone Spring in the subject area?

4 A. Yes, I have.

5 MS. KESSLER: Mr. Examiners, I'd tender
6 Mr. Juett as an expert in petroleum geology.

7 EXAMINER JONES: He is so qualified.

8 Q. (BY MS. KESSLER) Would you turn to Exhibit 12
9 and identify this exhibit?

10 A. Exhibit 12 is a location map to show our
11 Stebbins project area and where it sits in Lea and Eddy
12 Counties.

13 Q. What is Exhibit 13?

14 A. Exhibit 13 is a subsea structure map that is on
15 the top of the 2nd Bone Spring Sand in the Stebbins
16 project area. This -- this map shows that the 2nd Bone
17 Spring sands dip gently to the east-southeast and
18 that -- what you'll also see on this map are the two
19 proration units for the 123 and 124H wells.

20 You'll see a lot of cross section that will
21 be in future exhibits. And the existing horizontal 2nd
22 Bone Spring wells are annotated in orange attributes,
23 and the data points used to make this map are in pink.
24 And this also shows that there doesn't appear to be any
25 geologic impediments to drilling the horizontal well in

1 this area.

2 Q. Did you prepare a cross section of logs to
3 determine the relative thickness and porosity of the
4 Bone Spring in this area?

5 A. Yes, I did.

6 Q. Is that included as Exhibit 14?

7 A. Yes, it is.

8 Q. Could you walk us through this exhibit.

9 A. Yes. This is a structural cross section with
10 three wells from north-south, A being north and A prime
11 being south. It shows the 2nd Bone Spring Sand package,
12 which is annotated with the orange attribute or orange
13 line across the well.

14 It shows that -- what's included in this
15 cross section is resistivity logs and porosity logs and
16 then also PE curves on wells that had PE curves. It
17 shows the interval where we intend to drill these
18 laterals, and it shows that the 2nd Bone Spring Sand
19 package is fairly uniform across the proration units
20 that we intend to drill.

21 Q. Is Exhibit 15 a gross isopach map of the area?

22 A. Yes, it is.

23 Q. What does this show us?

24 A. This basically shows us that the -- along the
25 length of the lateral, we don't expect any major

1 thickness changes and that the 2nd Bone Spring should be
2 fairly uniform across the length of the lateral in both
3 of these proration units.

4 Q. What conclusions have you drawn based on your
5 geologic study of this area?

6 A. I conclude that there don't appear to be any
7 geologic impediments to drilling a horizontal well in
8 this location, that all quarter-quarter sections should
9 be productive and contribute to production in these
10 wells and that horizontal drilling should be the most
11 efficient way and prevent drilling of unnecessary
12 vertical wells and create the greatest EUR in this area.

13 Q. Would you identify Exhibits 16 and 17 for the
14 Examiners, please?

15 A. Yes, I will. Exhibits 16 and 17 are basic
16 instruction [sic] diagrams showing that we will not have
17 a take point closer than 330 feet from the leaselines,
18 that we'll have standard locations.

19 And while we're on this exhibit, our
20 previous witness I think inadvertently testified that
21 this is a Wolfcamp-Bone Spring field, not a Wolfcamp --
22 I think wildcat Bone Spring field, not a wildcat
23 Wolfcamp field. I think he inadvertently said we have a
24 wildcat Wolfcamp Formation, but these are Bone Spring
25 Formations. So I just wanted to make sure we noted that

1 for the record.

2 Q. And you can see with that WC in there, it would
3 be wildcat, correct?

4 A. Yes. Yes.

5 EXAMINER JONES: Still the same pool code,
6 98015?

7 MS. KESSLER: Yes. But also in that same
8 is WC-015, Bone Spring Pool Code 98015.

9 EXAMINER JONES: Okay.

10 Q. (BY MS. KESSLER) In your opinion, will granting
11 Matador's application be in the best interest of
12 conservation, the prevention of waste and the protection
13 of correlative rights?

14 A. Yes, it will be.

15 Q. Were Exhibits 12 through 17 prepared by you or
16 compiled under your direction and supervision?

17 A. Yes, they were.

18 MS. KESSLER: Mr. Examiners, I'd move
19 admission of Exhibits 12 through 17.

20 EXAMINER JONES: Exhibits 12 through 17
21 will be admitted.

22 (Matador Production Company Exhibit Numbers
23 12 through 17 are offered and admitted into
24 evidence.)

25

1 CROSS-EXAMINATION

2 BY EXAMINER JONES:

3 Q. I really don't have any questions, but I
4 appreciate you coming up here.

5 How many rigs do you have going nowadays?

6 A. Right now we have four rigs. Four rigs right
7 now.

8 Q. Four?

9 A. Uh-huh.

10 Q. It's going to be a big year?

11 A. We hope. We hope it to be. Hopefully it's
12 getting better.

13 Q. Thank you.

14 A. Thank you.

15 EXAMINER JONES: Okay. With that, we will
16 take cases --

17 Is that all on these two cases?

18 MS. KESSLER: That is, Mr. Examiner. I
19 just, once again, note that this rig -- excuse me.
20 These two wells are on a tight schedule, so we would
21 request an expedited order.

22 EXAMINER JONES: The rig is on its way.
23 Okay.

24 Cases 15611 and 15612 are taken under
25 advisement.

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Thank you very much.
(Case Numbers 15611 and 15612 conclude,
9:55 a.m.)

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