

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 PRODUCTION COMPANY FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15747

Consolidated with

APPLICATION OF MATADOR PRODUCTION COMPANY FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15748

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 20, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, July 20, 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

FOR APPLICANT MATADOR PRODUCTION COMPANY:

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1 (9:48 a.m.)

2 EXAMINER JONES: Let's call Case Numbers
3 15747 and 15748. Both of these are application of
4 Matador Production Company for a nonstandard spacing and
5 proration unit and compulsory pooling, Eddy County, New
6 Mexico.

7 Call for appearances.

8 MS. KESSLER: Jordan Kessler from Holland &
9 Hart on behalf of the Applicant.

10 EXAMINER JONES: Any other appearances?

11 MS. KESSLER: I have the same witnesses.

12 EXAMINER JONES: Same witnesses?

13 Let the record show the witnesses have been
14 sworn.

15 SAM PRYOR,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. KESSLER:

20 **Q. Will you please state your name for the record**
21 **and tell the Examiners by whom you're employed and in**
22 **what capacity?**

23 A. My name is Sam Pryor. I am employed by Matador
24 as a senior staff landman.

25 **Q. Have you previously testified before the**

1 **Division?**

2 A. Yes, ma'am.

3 MS. KESSLER: Mr. Examiner, I would ask
4 that Mr. Pryor's qualifications in petroleum land
5 matters be accepted as in the past hearing.

6 EXAMINER JONES: They are anticipated as
7 stated.

8 **Q. (BY MS. KESSLER) Mr. Pryor, if you could turn**
9 **to Exhibit 1 and explain what Matador seeks under these**
10 **two applications.**

11 A. Matador seeks to pool two nonstandard spacing
12 units of approximately 160 acres each, being the north
13 half of the south half of Section 19, 20 South, 29 East,
14 and the south half-south half of the same.

15 **Q. Mr. Pryor, you said 160 acres. It's actually a**
16 **little bit more like 155 acres?**

17 A. Yes, ma'am. There are lots in this section so
18 that number -- that number will not be exactly 160.

19 **Q. For each of the nonstandard units, do you seek**
20 **to pool uncommitted interest owners in the Bone Spring**
21 **Formation?**

22 A. That is correct.

23 **Q. Is Exhibit 2 -- I'm sorry. Are both of these**
24 **spacing units comprised of federal acreages?**

25 A. They are.

1 **Q. And it looks like there are two federal leases;**
2 **is that correct?**

3 A. There are two federal leases, one federal
4 lease, just to be clear, for the south half-south half
5 and two federal leases for the north half-south half.

6 **Q. And Exhibit 2, is this plat for the Stebbins 19**
7 **Fed Com 133H well?**

8 A. It is. And what we're looking at is the same
9 spacing unit for the north half-south half comprising of
10 155.29 acres.

11 **Q. Did the Division designate a pool for this**
12 **area?**

13 A. It did, being the Russell; Bone Spring Pool,
14 Pool Code 52805.

15 **Q. Is this pool subject to Division statewide**
16 **setbacks for oil pools?**

17 A. Yes.

18 **Q. And do the completed intervals for each of**
19 **these wells comply with the 330-foot setbacks?**

20 A. Yes, ma'am.

21 **Q. What is Exhibit 3.**

22 A. Exhibit 3 is the C-102 for the Stebbins 19 134.
23 The spacing unit covers the south half-south half of
24 Section 19, approximately 155.3 acres.

25 **Q. Is this the same pool and same pool rules?**

1 A. Yes, ma'am.

2 Q. Does Exhibit 4 identify the interest owners in
3 the nonstandard spacing unit for the 133H well?

4 A. It does.

5 Q. And this shows the total interest in the
6 proposed spacing unit; is that correct?

7 A. It does.

8 Q. Is this exhibit based on 160 acres?

9 A. It is. Our title opinions are based on 160
10 acres.

11 Q. So the percentages may be slightly different
12 due to lot sizes in the area; is that correct?

13 A. Yes, ma'am.

14 Q. Are you going to submit an updated exhibit and
15 provide a copy to the Division in two weeks of an
16 ownership breakdown based on 155 approximate acres?

17 A. We will.

18 Q. What type of interest owners are you seeking to
19 pool?

20 A. Noncommitted working interest owners.

21 Q. It looks like 27 percent for the 133H well; is
22 that correct?

23 A. That is correct.

24 Q. I'm sorry. The 133H well?

25 A. 133H well, correct.

1 Q. And does Exhibit 5 contain a summary of
2 interests for the 134H well?

3 A. It does.

4 Q. Is this the same situation, where this is based
5 on 160 acres?

6 A. Yes. Yes, ma'am.

7 Q. So you will supplement the record with an
8 ownership exhibit based on 155 approximate acres?

9 A. Yes, ma'am.

10 Q. Again, you seek to pool the uncommitted working
11 interest owners here?

12 A. That is correct.

13 Q. But it looks like you seek to pool about 5-1/2
14 percent for this well; is that correct?

15 A. That is correct.

16 Q. Is Exhibit 6 a sample of the well proposal
17 letter that you sent to all uncommitted working interest
18 owners for the 133H well?

19 A. It is.

20 Q. What date did you send this letter?

21 A. On April 20th, 2017.

22 Q. Did it include an AFE?

23 A. It did.

24 Q. Is Exhibit 7 a sample of the well-proposal
25 letter with AFE sent to the uncommitted interest owners

1 for the 134A well?

2 A. Yes, ma'am.

3 Q. You sent a similar letter to all of the
4 uncommitted interest owners?

5 A. Yes, ma'am.

6 Q. Again, on April 20th?

7 A. Yes, ma'am.

8 Q. And it also included an AFE?

9 A. It did.

10 Q. Are the costs on the AFE consistent with what
11 other operators in the area charge for similar wells?

12 A. They are.

13 Q. Have you estimated overhead and administrative
14 costs for drilling and producing?

15 A. We have. We are requesting 7,000 a month while
16 drilling and 700 a month while producing.

17 Q. Those costs are similar to what other operators
18 in the area charge for similar wells?

19 A. Yes, ma'am.

20 Q. Do you ask that those administrative costs be
21 incorporated into any order resulting from this hearing?

22 A. I do.

23 Q. Do you ask that they be adjusted in accordance
24 with the COPAS accounting procedures?

25 A. I do.

1 **Q. For any working interest owners, do you request**
2 **the Division impose a 200 percent risk penalty?**

3 A. I do.

4 **Q. In addition to sending well-proposal letters,**
5 **what other efforts did you undertake to reach agreement**
6 **with the parties who are locatable?**

7 A. For the parties who are locatable, we've been
8 negotiating with some of these parties -- or all of the
9 parties who have been locatable since the well proposal
10 went out, in particularly, Trigg Oil interests. Trigg
11 is in the process of transferring their interest, and we
12 expect to have agreement with them next week. As far as
13 the other parties, it's been standard negotiations,
14 offering them different deal structures and coming to
15 agreement.

16 **Q. Have you had multiple conversations with all of**
17 **the parties who are locatable?**

18 A. Yes, ma'am.

19 **Q. And some of the parties are unlocatable; is**
20 **that correct?**

21 A. That is correct.

22 **Q. Are these, in fact, some of the same parties we**
23 **discussed in our prior hearing?**

24 A. Yes, ma'am.

25 **Q. Some of the same leases?**

1 A. (Indicating.)

2 **Q. What efforts did you undertake to find**
3 **unlocatable parties?**

4 A. For the unlocatable parties, we proposed our
5 wells via the county -- address in the county records.
6 In addition, we conducted Internet searches and phone
7 searches for other contact information. In addition to
8 that, we were able to contact some of the family members
9 of these unlocatable parties to also acquire other
10 contact information, but we were still not able to
11 contact some of these parties.

12 **Q. In your opinion, did you conduct a diligent**
13 **search to find the unlocatable parties?**

14 A. Yes, ma'am.

15 **Q. And in your opinion, did you make a good-faith**
16 **effort to reach an agreement with all of the parties you**
17 **seek to pool?**

18 A. Yes, ma'am.

19 **Q. Did Matador publish notice of this hearing?**

20 A. Yes, ma'am.

21 **Q. And was notice of the 133H well included as**
22 **Exhibit 8?**

23 A. It is.

24 **Q. And for the 134H, is the notice publication**
25 **included as Exhibit 9?**

1 A. Yes, ma'am.

2 Q. Did you also identify the offset operators or
3 lessees of record for the 40-acre tract surrounding the
4 nonstandard unit?

5 A. We did.

6 Q. Were they included in the notice of this
7 hearing?

8 A. Yes, ma'am.

9 Q. Is Exhibit 10 an affidavit from my office, with
10 attached letters, providing notice of the hearing to the
11 parties you seek to pool and offsets for both wells?

12 A. Yes, ma'am.

13 Q. Were Exhibits 1 through 7 prepared by you or
14 compiled under your direction and supervision?

15 A. Yes, ma'am.

16 MS. KESSLER: Mr. Examiner, I would move
17 admission of Exhibits 1 through 10, which include three
18 affidavits.

19 EXAMINER JONES: Okay. Exhibit Number 4,
20 you're going to submit later; is that correct? You're
21 going to revise it, or are you going to continue for two
22 weeks?

23 MS. KESSLER: We're going to continue for
24 two weeks and offer updated Exhibits 4 and 5.

25 EXAMINER JONES: Oh, 4 and 5. Okay.

1 So we will admit Exhibits 1 through 3 and
2 then Exhibits 6 through 10 at this time.

3 (Matador Production Company Exhibit Numbers
4 1 through 3 and Exhibits 6 through 10 are
5 offered and admitted into evidence.)

6 CROSS-EXAMINATION

7 BY EXAMINER JONES:

8 **Q. Are these nonstandard locations?**

9 A. Yes, sir.

10 MS. KESSLER: Nope.

11 THE WITNESS: No, they're not, in this
12 case. Less than one. No, sir.

13 MS. KESSLER: These are orthodox locations,
14 330 from the pool line --

15 THE WITNESS: Oh.

16 MS. KESSLER: -- nonstandard spacing and
17 proration.

18 THE WITNESS: Sorry. I misunderstood.

19 EXAMINER BROOKS: What?

20 MS. KESSLER: Spacing and proration units
21 for compulsory pooling.

22 EXAMINER BROOKS: Yeah. But they're --
23 they're orthodox locations of that.

24 MS. KESSLER: Correct.

25 **Q. (BY EXAMINER JONES) And you do have API numbers**

1 on these. Hopefully they won't be moved.

2 A. We're not expecting so.

3 Q. And did you say one of them is one federal
4 lease, and the other is two federal leases?

5 A. Yes, sir.

6 So the north half-south half crosses two
7 federal leases, but the south half-south half will not
8 cross the same lease.

9 Q. Okay. I don't have any more questions.

10 CROSS-EXAMINATION

11 BY EXAMINER BROOKS:

12 Q. It looks like the south half-south half is one
13 lease, according to Exhibit 1; is that correct?

14 A. That's correct, sir.

15 Q. And the north half-south half is -- is --
16 crosses two federal leases?

17 A. Yes, sir.

18 Q. But, nevertheless, you have some different
19 ownerships and borders in the south half-south half, is
20 that correct, or is it all the same ownership?

21 A. It will be the same ownership, but given that
22 there is an additional lease, the working interest
23 breakdown will be slightly different between the north
24 half-south half.

25 Q. Between the north half-south half?

1 A. Yes, sir.

2 Q. But there are no divided interests within the
3 south half-south half?

4 A. No, sir.

5 Q. And there are no depth severances within the
6 target formation in either one?

7 A. No, sir.

8 Q. Okay. And the target formation is Bone Spring?

9 A. Yes, sir.

10 Q. Okay. In your table of ownership, you list
11 them as uncommitted working interest owners. Are these
12 people -- since -- since these are -- since this is all
13 federal leases, I assume these people own undivided
14 interest in the leases; is that correct?

15 A. Yes, sir.

16 Q. And have you given notice by certified mail to
17 all the locatable owners listed?

18 A. Yes, sir.

19 Q. And you got return receipts from the ones that
20 you were able to get addresses -- good addresses for?

21 A. Yes, sir.

22 Q. Okay. Now, the ones that you did not find good
23 addresses for are all included in publication notice,
24 correct?

25 A. Yes, sir.

1 **Q. Is there anybody you know of that has an**
2 **interest of any kind in this -- that you know has an**
3 **interest of any kind in either of these units that you**
4 **have not included on this list?**

5 A. No, sir.

6 **Q. Thank you. I think that's all I have.**

7 EXAMINER JONES: Thank you, Mr. Pryor.

8 THE WITNESS: Thank you.

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

12 DIRECT EXAMINATION

13 BY MS. KESSLER:

14 **Q. Can you please state your name for the record?**

15 A. Yes. James Andrew Juett.

16 **Q. Have you previously testified before the**
17 **Division?**

18 A. Yes, I have.

19 **Q. Were your credentials as a petroleum geologist**
20 **accepted and made a matter of record?**

21 A. Yes, they were.

22 MS. KESSLER: Mr. Examiner, I would ask
23 that Mr. Juett's credentials as an expert in petroleum
24 geology be accepted as well.

25 EXAMINER JONES: They are accepted as

1 stated.

2 Q. (BY MS. KESSLER) Mr. Juett, please turn to
3 Exhibit 11 and identify this exhibit for the Examiners.

4 A. Yes.

5 Exhibit 11 is a simple locator map showing
6 our project area in Eddy County, New Mexico, which shows
7 the units that we intend to drill for the Stebbins 19
8 Federal 133 and 134H with surface- and bottom-hole
9 locations.

10 Q. Is Exhibit 12 a structure map of the Bone
11 Spring in this area?

12 A. Yes, it is.

13 Q. What does this map show us?

14 A. This map shows us that the 3rd Bone Spring
15 structure dips gently -- gently dips to the southeast
16 and that we shouldn't expect any geologic impediments to
17 drilling horizontal wells in the east-west direction.

18 Also, this shows the line of cross section
19 that was used to characterize the 3rd Bone Spring across
20 this section, and we also have the producing zones for
21 the horizontal wells in the surrounding area identified
22 by the colored attributes on the map.

23 Q. The A to A prime line corresponds with the
24 three-well cross section in the following exhibit?

25 A. Yes, it does.

1 Q. Do you consider those wells representative of
2 the Bone Spring wells in this area?

3 A. Yes, I do.

4 Q. Is Exhibit 13 the corresponding cross-section
5 exhibit?

6 A. Yes, it is.

7 Q. Will you please walk us through this?

8 A. This is a stratigraphic cross section that is
9 hung on the top of the Wolfcamp. So the Wolfcamp is the
10 dam [sic] for this map. It shows that the sands are
11 fairly uniform across the area. We don't expect any
12 real thickness changes or real pinch-outs as we drill
13 these wells. This also shows the zone where we
14 intend -- approximate area where we intend to land our
15 laterals, and both wells will be landed in about the
16 same interval.

17 Q. Wells -- at the bottom of the 3rd Bone Spring,
18 correct?

19 A. Yes.

20 Q. And is Exhibit 14 a gross isopach map of this
21 area?

22 A. Yes, it is.

23 Q. Can you please walk us through this exhibit?

24 A. Yes.

25 The gross isopach of the 3rd Bone Spring,

1 again, basically shows that it's fairly uniform. It was
2 done on a 50-foot contour interval, and we do not see
3 any major changes in gross thickness across this area.

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

6 A. We concluded that we should have any geologic
7 impediments to drilling the horizontal wells, that all
8 quarter-quarter sections should be productive and that
9 the drilling of horizontal wells should be the most
10 economic way to produce the 3rd Bone Spring in this
11 area.

12 **Q. Are Exhibits 15 and 16 wellbore diagrams on the**
13 **133H and 134H well showing that the completed interval**
14 **will be at an orthodox location, 330 feet from the line?**

15 A. Yes, they are.

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

18 A. Yes, they were.

19 MS. KESSLER: Mr. Examiners, I move
20 admission of Exhibits -- sorry. It's actually 11
21 through 16.

22 EXAMINER JONES: Exhibits 11 through 16 are
23 admitted.

24 (Matador Production Company Exhibit Numbers
25 11 through 16 are offered and admitted into

1 evidence.)

2 CROSS-EXAMINATION

3 BY EXAMINER JONES:

4 Q. Mr. Juett, the porosity -- is that a porosity
5 in your center well of your cross section?

6 A. Yes, it is.

7 Q. So you're shooting for that, I hope.

8 A. Yes. Yes.

9 Q. I'm hoping --

10 A. We want to be above it because there is a
11 porosity zone above, too. There are two porosity zones
12 that we would like to try to connect the two.

13 Q. So you're just hoping your frac job hits both
14 zones?

15 A. Yeah. We're thinking we will get the upper and
16 the lower zone in this.

17 Q. Okay. Well, I hope you are successful.

18 I don't have any more questions.

19 EXAMINER JONES: Mr. Brooks?

20 EXAMINER BROOKS: No questions.

21 THE WITNESS: Thank you.

22 EXAMINER JONES: Thank you.

23 With that being all in these two cases
24 except for submitting in two weeks --

25 MS. KESSLER: I would ask that we continue

1 to submit Exhibits 4 and 5.

2 EXAMINER JONES: Cases 15747 and 15748 are
3 continued to August 3rd.

4 (Case Numbers 15747 and 15748 conclude,
5 10:06 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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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.

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MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
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