

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. 15794

Consolidated with

APPLICATION OF MATADOR PRODUCTION COMPANY FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15795

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 31, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and Gabriel Wade, Legal Examiner, on Thursday, August 31, 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 (1:18 p.m.)

2 EXAMINER JONES: Let's call Case Numbers
3 15794 and 795. But not 796?

4 MS. KESSLER: (Indicating.)

5 EXAMINER JONES: Which both of these are
6 applications of Matador Production Company for a
7 nonstandard spacing and proration unit and compulsory
8 pooling, Eddy County, New Mexico.

9 Call for appearances.

10 MS. KESSLER: Jordan Kessler from Holland &
11 Hart on behalf of the Applicant.

12 EXAMINER JONES: Any other appearances?

13 MS. KESSLER: Two witnesses today who have
14 been previously sworn in.

15 EXAMINER JONES: Let the record show that
16 witnesses have been sworn.

17 Go ahead.

18 MS. KESSLER: Call my first witness.

19 CARRIE HAHN,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MS. KESSLER:

24 **Q. Can you please state your name for the record**
25 **and tell the Examiners by whom you're employed and in**

1 **what capacity?**

2 A. My name is Cassie Hahn. I work for Matador
3 Resources Company as an associate landman.

4 **Q. And have you previously testified before the**
5 **Division?**

6 A. Yes.

7 **Q. Today, in fact, correct?**

8 A. Yes.

9 **Q. And were your credentials as a petroleum**
10 **landman accepted and made a matter of record?**

11 A. Yes.

12 MS. KESSLER: Mr. Examiner, I would ask
13 that Ms. Hahn's credentials as a petroleum landman be
14 admitted.

15 EXAMINER JONES: She's so qualified.

16 **Q. (BY MS. KESSLER) Please turn to Exhibit 1. And**
17 **can you please explain what Matador seeks?**

18 A. Sure. We are seeking to pool uncommitted
19 working interest owners in two separate spacing units.

20 **Q. And those would be two 160-acre nonstandard**
21 **spacing units?**

22 A. Yes.

23 **Q. And do you seek to pool the uncommitted**
24 **interest owners in the Bone Spring Formation?**

25 A. Yes.

1 Q. Looking at Exhibit 1, it looks like it's just
2 one federal lease; is that correct?

3 A. Correct.

4 Q. Is Exhibit 2 the C-102 for the Pennzoil 32 Fed
5 #131H well?

6 A. It is.

7 Q. Has this been filed with the agencies?

8 A. Yes.

9 Q. But not yet approved?

10 A. Not yet approved, correct.

11 Q. What is the pool to this area?

12 A. This is the Getty; Bone Spring Pool.

13 Q. Could you review the spacing for the spacing
14 units?

15 A. It's 160 acres in the north half-north half of
16 Section 32.

17 Q. And that would be Township 20 South, Range 29
18 East in Eddy County?

19 A. Yes.

20 Q. Is the Getty; Bone Spring Pool subject to
21 Division statewide rules?

22 A. Yes.

23 Q. Including 330-foot setbacks?

24 A. Yes.

25 Q. And will the completed interval for the 131H

1 **comply with the statewide rules?**

2 A. Yes, they will.

3 **Q. Looking at Exhibit 3, is this the C-102 for the**
4 **Pennzoil 32 Fed #132H well?**

5 A. Yes.

6 **Q. Could you review this exhibit?**

7 A. Sure. It's 160 acres in the south half of the
8 north half, Section 33, 20 South, 29 East.

9 **Q. And same pool and pool code, correct?**

10 A. Correct.

11 **Q. Will the completed interval for the 132H well**
12 **comply with the Division statewide setbacks?**

13 A. Yes.

14 **Q. Does Exhibit 4 identify the ownership for the**
15 **131H and the 132H wells?**

16 A. Yes.

17 **Q. Is ownership identical between the two spacing**
18 **units?**

19 A. Yes, it is.

20 **Q. And this shows that you just seek to pool**
21 **Marathon Oil Corporation?**

22 A. That's correct.

23 **Q. Are they a working interest owner?**

24 A. They are.

25 **Q. Is Exhibit 5 a well-proposal letter that you**

1 sent -- several well-proposal letters that you sent to
2 the various uncommitted working interest owners; is that
3 correct?

4 A. Correct.

5 Q. And do I understand correctly that these
6 interests were acquired by Marathon?

7 A. They were, yes, after -- after the --

8 Q. After the proposals -- you sent the proposals
9 to the interests of record at the time --

10 A. Correct.

11 Q. -- and then they were acquired by Marathon Oil?

12 A. Yes.

13 Q. When did you send these letters?

14 A. May 1st, 2017.

15 Q. And this is just the one for the 131H. Did
16 that include an AFE?

17 A. It did, yes.

18 Q. That'll probably be the last page of Exhibit 5,
19 correct?

20 A. It is, yes.

21 Q. Turning to Exhibit 6, is this the well-proposal
22 letter that you sent to the uncommitted interest owners
23 for the 132H well?

24 A. Yes, it is.

25 Q. And, once again, it was a variety of working

1 interests that were all acquired by Marathon?

2 A. Correct.

3 Q. So you sent the letter to interest owners of
4 record at the time?

5 A. Yes. That's correct.

6 Q. And is the last page of Exhibit 6 the AFE that
7 corresponds with the 132H well?

8 A. Yes, it is.

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

12 A. Yes, they are.

13 Q. And for each of the wells, has Matador
14 estimated overhead and administrative costs?

15 A. Yes. The costs are 7,000 for drilling and 700
16 for production.

17 Q. Are those similar to what other operators in
18 the area charge for similar wells?

19 A. Yes, they are.

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

22 A. Yes.

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

25 A. Yes.

1 Q. For the uncommitted interest owner, Marathon,
2 do you request that the Division impose a 200 percent
3 risk penalty?

4 A. Yes, we do.

5 Q. And I have included as Exhibit 7 some emails
6 between Matador and Marathon. Can you please review
7 these correspondence?

8 A. Sure. This just goes back to the dialogue
9 between Matador and Marathon. We started off talking
10 about the JOA, and then the land manager there decided a
11 term assignment would be better for them, so we're
12 currently discussing the terms of that.

13 Q. And Matador's been communicating with Marathon
14 since they acquired the -- is that correct?

15 A. Correct.

16 Q. Was that back in June?

17 A. It was May 10th.

18 Q. May 10th.

19 So they've been aware for quite some time
20 of these wells and the proposal letters?

21 A. Yes.

22 Q. And you continue to work on an agreement with
23 them?

24 A. Yes.

25 Q. But you haven't yet signed any agreement?

1 A. Correct.

2 Q. In your opinion, have you made a good-faith
3 effort to reach an agreement with Marathon?

4 A. Yes, we have.

5 Q. And if you reached an agreement with them, will
6 you notify the Division?

7 A. Yes, we will.

8 Q. Did Matador identify the offset operators for
9 lessees of record in the 40-acre tract surrounding each
10 of the proposed nonstandard unit?

11 A. Yes, we did.

12 Q. And were they included in the notice of this
13 hearing?

14 A. Yes.

15 Q. Is Exhibit 8 an affidavit with attached letters
16 from my office providing notice to both the pooled
17 parties and offsets for each of the two cases?

18 A. Yes.

19 Q. And Matador was locatable, correct?

20 A. Marathon?

21 Q. I'm sorry. Marathon --

22 A. I do that, too.

23 Q. -- was locatable?

24 A. Yes, they were.

25 Q. But out of an abundance of caution, you still

1 published notice, which is included in Exhibits 9 and
2 10?

3 A. Correct.

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

6 A. Yes, they were.

7 MS. KESSLER: Mr. Examiner, I'd move
8 admission of Exhibits 1 through 10, which include my
9 three notice affidavits.

10 EXAMINER JONES: So you made three --

11 MS. KESSLER: Well, there is the
12 affidavit --

13 EXAMINER JONES: -- affidavit notices?

14 MS. KESSLER: There are the letters and the
15 affidavit and two Notices of Publication.

16 EXAMINER JONES: Okay. Exhibits 1 through
17 10 are admitted.

18 (Matador Production Company Exhibit Numbers
19 1 through 10 are offered and admitted into
20 evidence.)

21 EXAMINER JONES: So you made one -- the
22 first one is shown to Marathon, and the other one is to
23 Marathon.

24 MS. KESSLER: One is for --

25 EXAMINER JONES: Oh, both wells.

1 MS. KESSLER: Yeah.

2 EXAMINER JONES: Okay. Okay. You've got a
3 combined thing going here.

4 CROSS-EXAMINATION

5 BY EXAMINER JONES:

6 Q. So for a while there, you had a bunch of
7 different people to deal with. Marathon swooped in
8 and --

9 A. Took over.

10 Q. -- somehow was interested enough to absorb
11 these people but not interested enough to participate in
12 the well?

13 A. Right.

14 Q. They just didn't -- you think they might join,
15 though?

16 A. I think we're just going to do a term
17 assignment with them and go that route.

18 Q. Okay. Can you describe -- so it's like a --
19 you'd farm it in?

20 A. So basically what would happen -- and these
21 terms are just -- it's a two-year term assignment. We
22 have two years from today's date to drill a profitable
23 well and --

24 Q. Okay.

25 A. -- so --

1 Q. Okay. And so you'd drill to earn, basically?

2 A. Correct.

3 Q. And at that point, they would back in to the
4 well after -- well, you would earn their interest, and
5 they would retain an override or something like that?

6 A. Right. Right. Yes. Exactly.

7 Q. Okay. And if you didn't do that within two
8 years --

9 A. Then they would get all of the acreage back.

10 Q. Okay. Now, if you get a compulsory pooling, it
11 would keep right on rolling. Well, no. It's got the
12 deadline on it, too.

13 MS. KESSLER: One year.

14 Q. (BY EXAMINER JONES) One year. Used to be a lot
15 shorter, but then we were getting requests for
16 extensions, and so --

17 A. Right. And these permits have actually been
18 submitted to the BLM for about five or six months, so we
19 should have them pretty soon, to begin drilling.

20 Q. When do you want to drill?

21 A. I believe they're on a drill schedule for
22 January.

23 Q. Okay. The location, you think, is going to
24 stay the same?

25 A. Yes, I do. And before you ask -- in case you

1 ask geology, we're actually off lease on this one. Our
2 surface-hole location is off lease because of the
3 cave-karst issues over there.

4 Q. Oh, yeah. I saw that it's off lease. I just
5 forget to ask about that. So it's because the Feds
6 don't want --

7 A. Right. We met with a cave-karst specialist at
8 the BLM, and he went on-site and he preferred it to be
9 moved to the east where we were originally going to put
10 it.

11 Q. So, basically, you're going to have two
12 separate drill pads, one for the Wolfcamp well and --

13 A. We'll have one for each slot. So one for --
14 two for the Wolfcamp, and then for one for -- sorry --
15 two different Bone Spring and one Wolfcamp.

16 Q. Okay. Okay. The AFE is not very expensive
17 compared to -- I guess it's because of the depth is not
18 so bad. Well, it looks pretty deep, 9,000 TVD. But
19 it's one-mile wells, so maybe --

20 A. Right.

21 EXAMINER WADE: I have no questions.

22 EXAMINER JONES: Thank you very much.

23 JAMES A. "ANDY" JUETT,

24 after having been previously sworn under oath, was
25 questioned and testified as follows:

1 EXAMINER JONES: Hello, Mr. Juett.

2 THE WITNESS: Hello, again.

3 DIRECT EXAMINATION

4 BY MS. KESSLER:

5 Q. Please state your name for the record.

6 A. James Andrew Juett.

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

8 A. Matador Resources Company as a senior staff
9 geologist.

10 Q. Have you previously testified before the
11 Division and had your credentials as a petroleum
12 geologist accepted?

13 A. Yes, I have.

14 MS. KESSLER: Mr. Examiners, I once again
15 tender Mr. Juett as an expert petroleum geologist.

16 EXAMINER JONES: He is so qualified.

17 THE WITNESS: Before we get started on our
18 packet here, it says "Lea County, New Mexico." We have
19 a typo. It should say "Eddy County, New Mexico."

20 MS. KESSLER: Someone's going to get in
21 trouble for that.

22 EXAMINER JONES: Yeah. We get in trouble
23 for pulling the staples, but we're glad to have the
24 really nice packets. Once we get past the staples --

25 Q. (BY MS. KESSLER) Could you please turn to

1 **Exhibit 11 and identify this exhibit for the Examiners?**

2 A. Yes. Okay. This is a simple locator map
3 showing the location of our two proposed 3rd Bone Spring
4 wells in Eddy County, New Mexico. It shows the surface
5 locations with the square symbols, and the circles are
6 the bottom-hole locations, and the proration units are
7 red boxes filled with green.

8 **Q. Exhibit 12 is a structure map of the Bone**
9 **Spring in this area?**

10 A. Yes. This is a 3rd Bone Spring subsea
11 structure map.

12 **Q. And it looks like you've labeled the two wells**
13 **in the project area, correct?**

14 A. Yes.

15 **Q. It doesn't look like there are very many other**
16 **Bone Spring wells out here.**

17 A. The only other -- well, there are not many Bone
18 Spring wells. All the horizontals are labeled with
19 attributes. There are couple of Bone Spring and 3rd
20 Bone Spring wells in the area.

21 **Q. And what do you observe with respect to the**
22 **structure in this area?**

23 A. That it's fairly gently dipping to the
24 southeast here. I don't really see any geologic hazards
25 based on the structure map. There shouldn't be any

1 faulting or pinch-outs in the 3rd Bone Spring.

2 **Q. And the wells on A to A prime correspond with**
3 **your next exhibit, correct?**

4 A. That is correct.

5 **Q. Did you use three wells for the cross section**
6 **exhibits and --**

7 A. Yes, I did.

8 **Q. And do you consider them representative of the**
9 **Bone Spring wells in the area?**

10 A. Yes, I do.

11 **Q. What is Exhibit 13?**

12 A. Exhibit 13 is a cross section, A to A prime,
13 and it is a stratigraphic cross section that's hung on
14 the top of the Wolfcamp at the datum point. And it
15 shows that it can be expected to have about 100 to 400
16 feet of gross sand thickness across the area, and that
17 the Bone Spring is fairly uniform across the project
18 area, the sands, and that, again, we shouldn't expect to
19 have many geologic hazards in the drilling of these
20 wells.

21 **Q. And you've called out the landing interval for**
22 **both of the wells, correct?**

23 A. Yes.

24 **Q. That's in the 3rd Bone Spring?**

25 A. Yes.

1 **Q. Exhibit 14 is your gross isopach map of the**
2 **area?**

3 A. Yes, it is.

4 **Q. Could you please walk us through this exhibit?**

5 A. Yes. This is the gross thickness isopach of
6 the 3rd Bone Spring Sand. Basically, it shows the 3rd
7 Bone Spring is fairly uniform, the thickness across the
8 project area, and we don't expect any wild changes in
9 lithologies as we're going through here.

10 **Q. What conclusions have you drawn based on your**
11 **study of this area?**

12 A. That the 3rd Bone Spring across the project
13 area is uniform, that all quarter-quarter sections
14 should be productive, and horizontal drilling would be
15 the most efficient way to develop this acreage.

16 **Q. Are Exhibits 14, 15 and 16 the wellbore**
17 **diagrams showing each of the two proposed intervals will**
18 **be orthodox under the Division statewide rules?**

19 A. Yes, they are.

20 **Q. And in your opinion, will granting Matador's**
21 **applications be in the best interest of conservation,**
22 **the prevention of waste and the protection of**
23 **correlative rights?**

24 A. Yes, I do [sic].

25 **Q. Were Exhibits 11 through 16 prepared by you or**

1 **compiled under your direction and supervision?**

2 A. Yes, they were.

3 MS. KESSLER: Mr. Examiner, I move
4 admission of Exhibits 11 through 16.

5 EXAMINER JONES: 11 through 16 are
6 admitted.

7 (Matador Production Company Exhibit Numbers
8 11 through 16 are offered and admitted into
9 evidence.)

10 CROSS-EXAMINATION

11 BY EXAMINER JONES:

12 **Q. So why the name Pennzoil?**

13 A. I don't know how we came up with that name.
14 We don't get to name them like one of the previous cases
15 (laughter).

16 **Q. Yeah. I thought the geologist always got to**
17 **name?**

18 A. We don't get to name them at Matador, so I
19 don't know.

20 **Q. Pennzoil is the reason I had to transfer to**
21 **Denver back in the old days. I guess nobody remembers**
22 **that. That was a Texaco-Pennzoil lawsuit. Texaco**
23 **flubbed it, and Pennzoil won \$3 billion.**

24 MS. KESSLER: Oh.

25 EXAMINER JONES: But it was because of

1 Getty, and now we have the Getty; Bone Spring Pool.

2 There could be some reason.

3 I don't have any more questions. Thanks
4 very much.

5 THE WITNESS: Thank you.

6 EXAMINER JONES: Okay. We'll take cases
7 15794 and 15795 under advisement.

8 (Case Numbers 15794 and 15795 conclude,
9 1:35 p.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.

20

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
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