

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 CASE NO. 16343
COMPANY FOR APPROVAL OF THE EXPANSION
OF THE NORTHEAST KEMNITZ UNIT, LEA
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 9, 2018

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
 LEONARD LOWE, TECHNICAL EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, Leonard Lowe, Technical Examiner, and
David K. Brooks, Legal Examiner, on Thursday, August 9,
2018, 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 C. Hankins, CCR, RPR
 New Mexico CCR #20
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1 APPEARANCES

2 FOR APPLICANT MATADOR PRODUCTION COMPANY:

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1 (2:19 p.m.)

2 EXAMINER DAWSON: We will go back now to
3 Case Number 16343, correct.

4 MS. KESSLER: Yes.

5 EXAMINER DAWSON: 16343 is an application
6 of Matador Production Company for approval of the
7 expansion of the Northeast Kemnitz Unit, Lea County, New
8 Mexico.

9 Please call for appearances.

10 MS. KESSLER: Mr. Examiner, Jordan Kessler
11 from Holland & Hart.

12 EXAMINER DAWSON: Any other appearances in
13 this case?

14 Seeing none, your witnesses are ready to be
15 sworn in?

16 MS. KESSLER: That's correct.

17 EXAMINER DAWSON: They may please be sworn
18 in by the court reporter.

19 (Mr. Weeks and Mr. Juett sworn.)

20 EXAMINER DAWSON: When you're ready,
21 Ms. Kessler.

22 NICHOLAS WEEKS,
23 after having been first duly sworn under oath, was
24 questioned and testified as follows:

25

1 DIRECT EXAMINATION

2 BY MS. KESSLER:

3 Q. Please state your name for the record and tell
4 the examiners by whom you're employed and in what
5 capacity.

6 A. My name is Nicholas Weeks. I work for Matador
7 Resources Company as a landman.

8 Q. Have you previously testified before the Oil
9 Conservation Division?

10 A. I have.

11 Q. And were your credentials as an expert in
12 petroleum land matters accepted and made a matter of
13 record?

14 A. They were.

15 Q. Are you familiar with the application filed in
16 this case?

17 A. I am.

18 Q. And are you familiar with the status of the
19 lands in the subject area?

20 A. Yes, I am.

21 MS. KESSLER: Mr. Examiners, I would tender
22 Mr. Weeks as an expert in petroleum land matters.

23 EXAMINER DAWSON: Mr. Weeks will be
24 admitted to the record as an expert in petroleum land
25 matters at this time.

1 **Q. (BY MS. KESSLER) Mr. Weeks, please turn to what**
2 **I have marked as Exhibit 1 and explain what Matador**
3 **seeks under this application.**

4 A. Matador is seeking to expand its Northeast
5 Kemnitz Unit, which is marked in blue ion that map, to
6 include the area marked in red.

7 **Q. Okay. And how much acreage are you requesting**
8 **to add?**

9 A. Approximately 1,760 state mineral acres that
10 are currently under lease.

11 **Q. It's all state acreage?**

12 A. It is all state acreage.

13 **Q. And the application that was submitted to the**
14 **Division includes a description of these lands?**

15 A. That's correct. It contains the legal
16 description.

17 **Q. Why was this boundary selected?**

18 A. We selected this boundary because it
19 encompassed Matador-operated leases, as well as we felt
20 that expanding it to about 5,000 acres was going to be
21 more likely to receive State Land Office approval.

22 **Q. Does the unit cover all depths?**

23 A. The unit does cover all depths.

24 **Q. How long has the existing unit been in place?**

25 A. I remember it was established in 1976.

1 Q. If I turn to Exhibit 2, is this a copy of the
2 order that originally approved the unit?

3 A. Yes, it is.

4 Q. Order R-5232, correct?

5 A. That is correct.

6 Q. Have all of the working interest owners agreed
7 to this expansion?

8 A. They have not as of yet.

9 Q. Are you continuing to work with them to receive
10 their approval?

11 A. We are. We've received approximately 90
12 percent approval at this point in time.

13 Q. Okay. If I turn to Exhibit 3, is this a letter
14 that you sent to the working interest owners?

15 A. Yes, it is.

16 Q. What was attached to this letter?

17 A. Attached to this letter was a ratification and
18 joinder of the Northeast Kemnitz Unit expansion, a plat
19 of the Northeast Kemnitz Unit and the expansion area.
20 We also included an updated Exhibit B, which is an
21 ownership breakdown covering both the current unit area,
22 as well as the explanation area, a copy of the State
23 Land Office preliminary approval. We also included a
24 copy of the northeast unit -- or the Northeast Kemnitz
25 Unit agreement and a copy of the expansion unit

1 operating agreement.

2 Q. It looks like the ratification is the third
3 page, page 3, and then behind Tab A is the updated
4 schedule of ownership.

5 A. That is correct. This is the updated Exhibit
6 B.

7 Q. And is Tab B a copy of the original unit
8 agreement?

9 A. Yes, it is.

10 Q. And the original unit agreement will apply to
11 the unit. Is that still correct?

12 A. That is correct.

13 Q. Have you visited with the State Land Office
14 about this expansion?

15 A. A couple of times.

16 Q. Is Exhibit 4 an addendum to the unit agreement
17 that would govern relations between Matador and the
18 State Land Office?

19 A. Yes, ma'am.

20 Q. And this outlines certain obligations between
21 Matador and the State Land Office, correct?

22 A. It does. Matador and the State Land Office
23 agreed that Matador would drill three obligation wells
24 at certain times, and if Matador did not meet that
25 requirement, that the expansion area would contract back

1 down to exclude any leases that had not had a new well
2 drilled on them.

3 Q. Is Exhibit 5 a copy of the preliminary approval
4 letter from the State Land Office?

5 A. Yes, it is.

6 Q. Has Matador already drilled one of the initial
7 obligation wells?

8 A. We have. It is drilled, and it's uncompleted
9 at this point in time. It's the Northeast Kemnitz 233H.

10 Q. Did Matador provide notice of this hearing to
11 the working interest owners, certain offset owners and
12 the State Land Office, who is the royalty owner?

13 A. We did.

14 Q. Is Exhibit 6 a copy of the affidavit prepared
15 by my office with attached letters providing
16 verification of that notice?

17 A. Yes, it is.

18 Q. And is Exhibit 7 an Affidavit of Publication
19 providing constructive notice?

20 A. Yes.

21 Q. Were Exhibits 1 through 7 compiled by --
22 prepared by you or compiled under your supervision and
23 direction?

24 A. Yes.

25 MS. KESSLER: Mr. Examiners, I'd move

1 admission of Exhibits 1 through 7 at this time.

2 EXAMINER DAWSON: Exhibits 1 through 7 will
3 be admitted to the record at this time.

4 (Matador Production Company Exhibit Numbers
5 1 through 7 are offered and admitted into
6 evidence.)

7 MS. KESSLER: And I'll pass the witness.

8 EXAMINER DAWSON: Okay. Mr. Lowe, do you
9 have any questions?

10 EXAMINER LOWE: No questions. Thank you.

11 EXAMINER BROOKS: No questions.

12 CROSS-EXAMINATION

13 BY EXAMINER DAWSON:

14 **Q. Do you have verification that these were**
15 **delivered? Again, this is kind of a new company doing**
16 **this, the notice for you guys.**

17 MS. KESSLER: I'm looking at --

18 EXAMINER DAWSON: It might be in the very
19 back.

20 MS. KESSLER: Yeah, it is. I was trying to
21 count pages. It's kind of tough. I'd be happy to walk
22 up and show you.

23 EXAMINER DAWSON: I see where you're
24 looking. It's like the back three pages of Exhibit 6.

25 MS. KESSLER: Yeah. Yeah.

1 EXAMINER DAWSON: I just wanted to verify
2 that.

3 MS. KESSLER: It looks like there's a
4 different one on each one of these, which is strange.

5 Q. (BY EXAMINER DAWSON) So you plan to fully
6 develop this unit, correct?

7 A. That's correct.

8 Q. And there is a contractual clause within the
9 unit agreement? It's one of the older unit agreements,
10 but it will contract?

11 A. The unit agreement does not contain a
12 contraction provision.

13 Q. It doesn't?

14 A. The expansion area would contract.

15 Q. Oh, okay. Just the expanded area?

16 A. That's correct.

17 Q. And you did have an Affidavit of Publication
18 for the newspaper?

19 A. Yes, sir.

20 Q. The "Hobbs News-Sun"?

21 A. Yes, sir.

22 Q. Okay.

23 EXAMINER DAWSON: Do you have any
24 questions, David?

25 EXAMINER BROOKS: No questions.

1 EXAMINER DAWSON: Okay. That's all the
2 questions I have. Thank you very much.

3 THE WITNESS: Thank you.

4 MS. KESSLER: We'll call our next witeness.

5 JAMES ANDREW "ANDY" JUETT,
6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MS. KESSLER:

10 Q. Can you please state your name for the record
11 and tell the examiners by whom you're employed and in
12 what capacity?

13 A. My name is James Andrew Juett, and I'm employed
14 by Matador Resources as a senior staff geologist.

15 Q. Have you previously testified before the
16 Division?

17 A. Yes, I have.

18 Q. Were your credentials as an expert in petroleum
19 geology accepted and made a matter of record?

20 A. Yes, they were.

21 Q. Are you familiar with the application that's
22 been filed in his case?

23 A. Yes, I am.

24 Q. And have you conducted a geologic study of the
25 lands that are the subject of this application?

1 A. Yes, I have.

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

4 EXAMINER DAWSON: Mr. Juett will be
5 admitted as an expert petroleum geologist at this time.

6 **Q. (BY MS. KESSLER) Let's turn to Exhibit 8,**
7 **Mr. Juett, and please identify this exhibit for us.**

8 A. Exhibit 8 is just -- it's a simple locator map
9 that shows our Northeast Kemnitz Unit, the original
10 unit, outlined in red and where it sits in Lea County,
11 New Mexico. And then it also has -- the black outline
12 is the acreage that we intend to -- would like to add to
13 the unit.

14 **Q. Is Exhibit 9 a structure map drawn on top of**
15 **the Strawn?**

16 A. Yes, it is.

17 **Q. Can you please walk us through this exhibit?**

18 A. Yes. This -- again, it's a subsea structure
19 map on top of the Strawn Formation. The blue attributes
20 are the wells that have the control that we used to make
21 this map. Again, it shows the red outline as the
22 existing Northeast Kemnitz Unit. The black outline is
23 the acreage that we would like to add to the unit.

24 And you will also see on here our first
25 obligation well that we drilled. The surface and

1 bottom-hole locations is the blue line in the Northeast
2 Kemnitz 233 well, the location of that. There is also a
3 green line of cross section labeled "A, A prime" that
4 will be in the next exhibit.

5 What this structure map shows is that the
6 acreage that we would like to include in this unit
7 should -- doesn't have any faulting and shouldn't have
8 any geologic impediments to drilling horizontal wells,
9 and it should be of similar geology to the acreage
10 already in the unit.

11 **Q. What do you see with respect to dip across the**
12 **section -- across the proposed expansion?**

13 A. It's a fairly gentle dip, and we are basically
14 dipping northeast in here as we go. So -- but it --
15 like I say, it's a very gentle dip through here.

16 **Q. Let's turn to Exhibit 10. Is this a cross**
17 **section over the expansion area?**

18 A. Yes, it is.

19 **Q. Can you please walk us through this exhibit?**

20 A. Okay. This exhibit is a stratigraphic cross
21 section that was hung on the top of the Strawn
22 Formation. It shows the -- these four wells I chose
23 because they were some of the better log suites through
24 here and actually have -- covered the entire section
25 from the Wolfcamp to the Strawn through here. This

1 cross section shows that through the expansion unit and
2 the existing unit, that the geology doesn't have any
3 major significant changes. We don't see any faulting or
4 significant pinch-outs across the area.

5 **Q. At what depth is the initial obligation well**
6 **drilled -- or was the initial obligation well drilled?**

7 A. Our Northeast Kemnitz 233H well was drilled at
8 approximately 11,550 feet TVD. And on this cross
9 section, where that interval falls, if you will note the
10 second well from the left -- you see the big red washout
11 there? We are about 250 feet below that washout, is
12 where we landed our well.

13 **Q. And what pool was this well placed in?**

14 A. This well was placed in the Townshend; Permo
15 Upper Penn Pool.

16 **Q. And in your opinion, does the target exist**
17 **across the expanded interval?**

18 A. Yes, it does.

19 **Q. And what are other potential targets?**

20 A. We have a potential target a few hundred feet
21 above us. There are some targets that up in the more
22 carbonate sections, higher up in the section that we've
23 seen, so there are potentially three -- there are two to
24 three additional zones across the unit that could be
25 developed.

1 Q. In your opinion, are there any faults or
2 pinch-outs or geologic hazards that will prevent the
3 additional acreage from being efficiently and
4 effectively developed under a unit agreement?

5 A. No, there is not.

6 Q. And in your opinion, is it reasonable to
7 include the expanded area as part of the unit
8 development operations?

9 A. Yes, it is.

10 Q. In your opinion, will the approval of this
11 application be in the best interest of conservation, for
12 the prevention of waste and the protection of
13 correlative rights?

14 A. Yes, it will.

15 Q. And finally, were Exhibits 8 through 10
16 prepared by you or compiled under your direction and
17 supervision?

18 A. Yes, they were.

19 MS. KESSLER: Mr. Examiner, I'd move
20 admission of Exhibits 8 through 10.

21 EXAMINER DAWSON: Exhibits 8 through 10
22 will be admitted to the record at this time.

23 (Matador Production Company Exhibit Numbers
24 8 through 10 are offered and admitted into
25 evidence.)

1 MS. KESSLER: I will pass the witness.

2 EXAMINER DAWSON: Mr. Lowe?

3 EXAMINER LOWE: No questions.

4 EXAMINER BROOKS: No questions.

5 CROSS-EXAMINATION

6 BY EXAMINER DAWSON:

7 Q. I just have a couple of questions. On your
8 Exhibit 9 --

9 A. Yes, sir.

10 Q. -- that -- there is a white quarter section
11 down there in Section -- is that 28?

12 A. Yes, sir.

13 Q. That's fee land there?

14 A. I don't know if that's fee or not. That's just
15 not our leasehold. That is operated by -- I believe
16 Cimarex operates that quarter section. So that's why
17 it's yellow. I think -- well, I can't say whether it's
18 state or fee. So I don't know.

19 MS. KESSLER: Mr. Examiner, I believe the
20 testimony was that all of the expansion area is state
21 acreage.

22 EXAMINER DAWSON: Okay. But there is some
23 fee acres in there?

24 MS. KESSLER: Fee surface, Mr. Examiner,
25 but all state minerals in the expansion area.

1 Q. (BY EXAMINER DAWSON) Okay. I'm looking at
2 the -- yeah. I'm looking at the recapitulation, and it
3 shows no fee acres in there.

4 A. Yeah.

5 Q. And you feel that north-south is the preferred
6 direction or south-north in the area?

7 A. Yes, we do. We actually -- in our first
8 obligation well, we were able to get some FMI data that
9 showed that north-south is probably more preferred than
10 east-west at this point. It's not -- north-south is
11 probably not the -- it is the more optimum direction as
12 far as north-south, east-west goes.

13 Q. And that well is drilled and completed -- I
14 mean drilled and uncompleted?

15 A. Yes, sir.

16 Q. You set pipe on it?

17 A. We have set casing to TD, and we are waiting on
18 some lab data. We took about 180 feet of whole core
19 through the section, and we are having some tests done
20 to help us optimize our fracture stimulation plan.

21 Q. So after you drill that well, you'll probably
22 drill your subsequent wells and perforate them in the
23 same fashion, or will you do another core study on the
24 subsequent wells, you think?

25 A. We may not take additional cores out here.

1 **Q. Okay.**

2 A. We have gained quite a bit of data on the
3 formation through here. But we will -- the second well
4 is going to go off of the same pad. It's just going to
5 go to the south of here. So it'll be another
6 north-south oriented, but it will go from north to south
7 instead of south to north.

8 **Q. Do you have any plans to twin wells in the**
9 **future, like zipper frac them? Do you guys do that?**

10 A. When we get in full development mode, we would
11 batch drill wells because that is another advantage of
12 expanding the unit. It gives us several more locations
13 where we can drill multiple wells off of pads and take
14 advantage of the zipper fracs and lessen the footprint
15 on the surface as well.

16 **Q. Okay. Did the -- when you met with the land**
17 **office, did they ask those kind of questions of you or**
18 **not?**

19 A. I was in the first meeting with the land
20 office. I wasn't in the second meeting. But we
21 talked -- a lot of our presentation to the land office
22 the first time was about surface disturbance and
23 conservation of energies as far as pipelines and things.
24 So yes, we did talk to them about those surface issues.
25 Yeah.

1 Q. All right. That's all the questions I have.

2 Thank you, Mr. Juett.

3 A. Thank you.

4 EXAMINER DAWSON: Thanks, Jordan.

5 MS. KESSLER: I'd just ask that this case
6 be taken under advisement.

7 EXAMINER DAWSON: Okay. At this time Case
8 Number 16343 will be taken under advisement.

9 Thank you. Have a great day.

10 (Case Number 16343 concludes, 2:37 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 DATED THIS 16th day of August 2018.
21

22
23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
25 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters