

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. 16463
COMPANY FOR COMPULSORY POOLING, LEA
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 18, 2018

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, October 18, 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
 Paul Baca Professional Court Reporters
 500 4th Street, Northwest, Suite 105
 Albuquerque, New Mexico 87102
 (505) 843-9241

1 APPEARANCES

2 FOR APPLICANT MATADOR PRODUCTION COMPANY:

3 JORDAN L. KESSLER, ESQ.
 4 HOLLAND & HART, LLP
 5 110 North Guadalupe, Suite 1
 6 Santa Fe, New Mexico 87501
 7 (505) 988-4421
 8 jlkessler@hollandhart.com

8 INDEX

9		PAGE
10	Case Number 16463 Called	3
11	Matador Production Company's Case-in-Chief:	
12	Witnesses:	
13	Chris Carleton:	
14	Direct Examination by Ms. Kessler	4
15	Cross-Examination by Examiner Jones	10, 12
16	Redirect Examination by Ms. Kessler	12
17	Clark Collier:	
18	Direct Examination by Ms. Kessler	14
19	Cross-Examination by Examiner Jones	17
20	Proceedings Conclude	19
21	Certificate of Court Reporter	20
22	EXHIBITS OFFERED AND ADMITTED	
23	Matador Production Company Exhibit	
24	Numbers 1 through 6	10
25	Matador Production Company Exhibit	
	Numbers 7 through 10	17

1 (9:51 a.m.)

2 EXAMINER JONES: Call Case Number 16463,
3 application of Matador Production Company for compulsory
4 pooling, Lea County, New Mexico.

5 Call for appearances.

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

9 EXAMINER JONES: Any other appearances in
10 Case Number 16463?

11 Will the witnesses please stand?

12 MS. KESSLER: And they have been previously
13 sworn in -- one has been.

14 EXAMINER JONES: Except for one. He's been
15 sworn so many times that --

16 (Laughter.)

17 (Mr. Carleton sworn, and Mr. Collier
18 previously sworn.)

19 EXAMINER BROOKS: My understanding of the
20 way things work around here is if you get sworn on a
21 particular day, you tell the truth for the rest of that
22 day, and then you have to be sworn again because you
23 might lie the next day.

24

25

1 CHRIS CARLETON,
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. Chris Carleton. I'm employed by Matador
10 Resources as a senior landman.

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

13 A. Yes.

14 Q. And have your credentials as an expert in
15 petroleum land matters been accepted and made a matter
16 of record?

17 A. Yes.

18 Q. Are you familiar with the application filed in
19 this case?

20 A. Yes.

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

23 A. Yes.

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

1 EXAMINER JONES: He is so qualified.

2 MS. KESSLER: Thank you.

3 Q. (BY MS. KESSLER) Would you turn to Exhibit 1
4 and explain what Matador seeks under this application?

5 A. Exhibit 1 is a Midland Map showing the east
6 half of the west half of Section 23, Township 24 South,
7 Range 34 east. Highlighted is all fee lands, and we
8 seek to pool all uncommitted interests to the Brad
9 Lummis Com #112H.

10 Q. That would be in the Bone Spring Formation; is
11 that correct?

12 A. That is correct.

13 Q. Let's look at Exhibit 2. Is this a draft C-102
14 for the Brad Lummis Fed Com #112H well?

15 A. Yes. It shows a 160-acre proration unit with
16 the surface hole in OCD Unit Letter C and the bottom
17 hole in OCD Unit Letter N.

18 Q. This is a 160-acre horizontal spacing unit,
19 correct?

20 A. Correct.

21 Q. I notice that there is not a pool listed on
22 this C-102. Has Matador had conversations with Paul
23 Kautz about the proposed pool?

24 A. Yes, we have. And he said that right now it's
25 a wildcat Bone Spring, and once we filed the

1 application, he would assign a pool to it.

2 Q. And we'll update the Division with a pool and
3 pool code once that's been assigned?

4 A. That's correct.

5 Q. In any event, will this be an oil pool?

6 A. Yes.

7 Q. So there will be 40-acre spacing?

8 A. Correct.

9 Q. Will the completed interval for the 112H well
10 comply with Division statewide setback requirements?

11 A. Yes. And right now we have them at -- the heel
12 and toe at 330, but we plan to amend that to 100 feet.

13 Q. So you'll submit a sundry form to the Division?

14 A. We'll -- yes.

15 Q. Is Exhibit 3 an ownership breakdown of the
16 interests in this section?

17 A. Yes. It shows Matador with 73 percent,
18 voluntary joinder, 25 percent, and we're pooling about
19 1.6 percent of unleased mineral owners.

20 Q. All unleased mineral interest owners; is that
21 correct?

22 A. That's correct.

23 Q. And on the second page of this exhibit, is
24 there an overriding royalty interest owner shown?

25 A. Yes.

1 Q. Do you also seek to pool this overriding
2 royalty interest owner?

3 A. Yes.

4 Q. Is Exhibit 4 a sample of the proposal to
5 participate and offer to lease that you sent to
6 uncommitted -- unleased mineral interest owners?

7 A. Yes. This is a letter dated August 16th, 2018,
8 sent to the uncommitted interests with an offer to lease
9 or participate in the Brad Lummis Fed Com -- or Brad
10 Lummis Fed Com 112H. There is a typo on there. There
11 is no Fed acreage on here.

12 Q. Is this consistent with what other operators
13 have incurred for wells in this area?

14 A. Yes. This letter also included the attached
15 AFE, dated June 20th, 2018, for 8,139,000, and the costs
16 are in line with other operators in the area.

17 Q. What is Matador asking for administrative and
18 overhead costs?

19 A. 7,000 while drilling and 700 while operating.

20 Q. And that's similar to what other operators
21 charge in this area?

22 A. Yes.

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

25 A. Yes.

1 Q. And that they be periodically adjusted in
2 accordance with the COPAS accounting procedures?

3 A. Yes.

4 Q. For the uncommitted interest owners, do you
5 request the Division impose a 200 percent risk penalty
6 as to the working interest portion of their ownership?

7 A. Yes.

8 Q. What efforts have you undertaken to reach an
9 agreement with the parties that you seek to pool?

10 A. We've sent out lease offers and called and sent
11 additional letters to them to try and work a deal, but
12 the ones that we've been able to locate have been
13 unresponsive.

14 Q. And, in fact, some of those unleased mineral
15 interest owners are unlocatable; is that correct?

16 A. That's correct.

17 Q. Would that be Gwen Bullard, Marvin Eugene
18 Goodson, Jo Ann Lewallen, Linda Sue Madden and Lloyd
19 Trammell?

20 A. Yes.

21 Q. Have you published as to all of those
22 unlocatable parties?

23 A. Yes.

24 Q. Can you please describe the efforts that you've
25 undertaken to find them?

1 A. We've done county records searches, online
2 searches and sent letters to multiple addresses.

3 Q. In your opinion, have you made a diligent
4 effort to locate a good address for each of these
5 parties?

6 A. Yes.

7 Q. And in your opinion, have you made a good-faith
8 effort to reach agreement with the parties that you seek
9 to pool?

10 A. Yes.

11 Q. Is Exhibit 5 an affidavit prepared by my office
12 with attached letter providing notice of this hearing to
13 the parties that you seek to pool?

14 A. Yes.

15 Q. And Exhibit 6 is an Affidavit of Publication
16 directed to parties that you seek to pool; is that
17 correct?

18 A. Yes.

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

21 A. Yes.

22 MS. KESSLER: Mr. Examiners, I'd move
23 admission of Exhibits 1 through 6.

24 EXAMINER JONES: Exhibits 1 through 6 are
25 admitted.

1 (Matador Production Company Exhibit Numbers
2 1 through 6 are offered and admitted into
3 evidence.)

4 EXAMINER JONES: So the newspaper notice
5 was published September 29th.

6 Mr. Brooks?

7 EXAMINER BROOKS: I have no questions.

8 CROSS-EXAMINATION

9 BY EXAMINER JONES:

10 Q. Is Brad Lummis another one of the CEOs?

11 A. Right, long-term shareholder, friend. Yes,
12 sir.

13 Q. Long-time shareholder, friend.

14 EXAMINER BROOKS: I've heard that name
15 somewhere, but I don't know where.

16 THE WITNESS: Yeah. I think Brad Lummis is
17 investment banking. I'm not entirely sure.

18 Q. (BY EXAMINER JONES) So the AFE has been into
19 the Feds for a while to get approved?

20 A. Yeah. I'm sorry. This is all fee land. That
21 was a typo on our name on the letter, but it's all fee
22 land. This will be a state permit with the OCD, just a
23 regular.

24 Q. Yeah. Our thing came out that it's fee,
25 surface and federal minerals, but we frequently have

1 **problems with our land ownership information if it's not**
2 **usually State Land Office stuff.**

3 A. That's correct.

4 **Q. So it's all fee?**

5 A. Yeah. The southwest quarter of the southwest
6 quarter is federal, but in this proration unit,
7 everything is fee.

8 **Q. Okay.**

9 MS. KESSLER: Spacing unit.

10 THE WITNESS: Spacing unit. Excuse me.

11 **Q. (BY EXAMINER JONES) Okay. Okay. So you're**
12 **going to go 100 feet, though, basically?**

13 A. On the heel and the toe.

14 **Q. Heel and toe.**

15 **And so a bunch of people were unlocatable?**

16 A. Well, a very small amount, I would say,
17 overall.

18 **Q. Very small interest amount?**

19 A. Yeah.

20 **Q. But several names cropped up. They all took**
21 **off to California or somewhere. They're hard to find.**

22 MS. KESSLER: Mr. Examiner, if I could ask
23 one follow-up question.

24 EXAMINER JONES: Sure.

25

1 REDIRECT EXAMINATION

2 BY MS. KESSLER:

3 Q. Mr. Carleton, when will this well be spud?

4 A. We're planning on spudding very first part of
5 January.

6 Q. Are you requesting an order before that time?

7 A. Yes, ma'am.

8 EXAMINER JONES: You're welcome again.
9 Okay.

10 CONTINUED CROSS-EXAMINATION

11 BY EXAMINER JONES:

12 Q. Okay. You don't have -- but you're going to
13 ask the Feds to give you the APD -- or the permit to
14 drill pretty quickly?

15 A. Yeah, from the -- from the OCD.

16 Q. Oh, it's not federal. It's not federal.

17 That's good if we correct our land
18 ownership grid. We did have a way to do that at one
19 time, but I'm not sure --

20 EXAMINER BROOKS: Well, we used to be able
21 to pull up federal plats. Have we lost that capability?

22 EXAMINER JONES: No. No. But I was just
23 lazy and used our system, so I'm sure I could pull up
24 the federal system.

25 EXAMINER BROOKS: Of course, we all know --

1 those of us who are trained as title attorneys, we all
2 know the ultimate authority is the patent on record in
3 the state office of the BLM.

4 THE WITNESS: Right, and the county
5 records.

6 EXAMINER BROOKS: The county records
7 sometimes -- some people have told me that you have to
8 be careful about that because the county clerk sometimes
9 failed to copy mineral reservation on the patent, so you
10 need to check the official copy with the BLM. I don't
11 know how often that happens.

12 Q. (BY EXAMINER JONES) And you don't have any idea
13 of these -- almost everybody is unlocatable, although
14 the interests are very low. So you wouldn't know if
15 they're out there trying to get signed by somebody else,
16 I guess. If that happens, that happens?

17 A. That's right.

18 Q. Okay. It won't be covered by the pooling.

19 Thanks very much.

20 MS. KESSLER: We'll call our next witness.

21 CLARK COLLIER,
22 after having been previously sworn under oath, was
23 questioned and testified as follows:
24
25

1 DIRECT EXAMINATION

2 BY MS. KESSLER:

3 Q. Please state your name for the record.

4 A. Clark Collier.

5 Q. By whom are you employed and in what capacity?

6 A. Matador Resources as a geologist.

7 Q. Were your credentials as an expert petroleum
8 geologist accepted this morning as a matter of record
9 with the Oil Conservation Division?

10 A. Yes.

11 MS. KESSLER: Mr. Examiners, I'd once again
12 tender Mr. Collier as an expert in petroleum geology.

13 EXAMINER JONES: So qualified.

14 Q. (BY MS. KESSLER) Let's turn to Exhibit 7,
15 please, and identify this exhibit.

16 A. So this exhibit -- excuse me -- is a locator
17 map again of the Northern Delaware Basin in New Mexico,
18 and we have our Brad Lummis #112H identified there, in
19 Lea County, New Mexico.

20 Q. And is Exhibit 8 your structure map of the Bone
21 Spring in the area?

22 A. Yes. This is a structure on the top of the
23 Bone Spring Formation, and we're drilling this slightly
24 updip, although that's a little bit oblique to dip. And
25 we've got all our control points here again identified

1 with the little red dots this time, and you can see the
2 subsea values indicated there. We also have some offset
3 Bone Spring producers identified in the area with the
4 orange dots and a cross section from A to A prime
5 through the three wells there identified on the map.

6 **Q. What do you see with respect to structure in**
7 **this section?**

8 A. So we'll be drilling slightly -- I'm sorry. I
9 said updip. We're going slightly downdip from the --
10 yeah, that's right. Slightly downdip across this --
11 this formation -- or across this project area.

12 **Q. And there are no major structural impediments**
13 **or geologic hazards to --**

14 A. No, none that we expect.

15 **Q. Let's look at Exhibit 9. Is this your**
16 **cross-section exhibit?**

17 A. This is the cross section. You can see this is
18 a structural cross section, so you can see we'll be
19 drilling slightly downdip overall. That last well is a
20 little bit further away than the other one, so a little
21 bit of an exaggeration there on the dip. But we've
22 identified the top of the Bone Spring and the base of
23 the Bone Spring, and also that sand target that we're
24 going to be going after is the 1st Bone Spring Sand
25 here. And it's pretty much uniform thickness across the

1 project area.

2 Q. No major thickening or thinning across the
3 proposed landing interval?

4 A. That's right.

5 Q. What conclusions have you drawn based on your
6 study in this area?

7 A. So this is going to be -- developing this
8 horizontally is in the best interest of conservation of
9 oil and gas, and we expect no major impediments, that
10 every quarter-quarter will produce more or less equally.

11 Q. And is Exhibit 10 a construction diagram
12 showing that the first and last take points will be no
13 closer than 100 feet to the outer boundary of the
14 spacing unit?

15 A. That's correct.

16 Q. And in your opinion, will granting Matador's
17 application be in the best interest of conservation, for
18 the prevention of waste and the protection of
19 correlative rights?

20 A. Yes.

21 Q. Are Exhibits 7 through 10 prepared by you or
22 compiled under your direction and supervision?

23 A. They were.

24 MS. KESSLER: Mr. Examiners, I would move
25 admission of Exhibits 7 through 10.

1 EXAMINER JONES: Exhibits 7 through 10 are
2 admitted.

3 (Matador Production Company Exhibit Numbers
4 7 through 10 are offered and admitted.
5 into evidence.)

6 CROSS-EXAMINATION

7 BY EXAMINER JONES:

8 Q. So this is the upper portion of the 2nd Bone
9 Spring?

10 A. No, sir. This is actually the 1st Bone Spring
11 Sand.

12 Q. Okay. So you're going to put it in the upper
13 portion, it looks like. Is that because there is better
14 porosity up there?

15 A. In the upper portion of the 1st Bone Spring?
16 Is that what you're asking?

17 Q. Yeah.

18 A. That's what we've targeted on other wells in
19 the area, so --

20 Q. Is this a coarsening upward type target where
21 you --

22 A. You know, it probably has some coarsening
23 upward sequences in there, but there may be the lower
24 resolution of the -- of the log here, so you probably
25 have some turbidite flows and that kind of -- you'd see

1 some variation in grain size in there, but it would be
2 very subtle.

3 Q. Is this close to the polyhalite target that is
4 being talked about now, or do you know about that?

5 A. I'm -- yeah. I'm not familiar, so --

6 Q. Okay. But it looks like -- it looks like the
7 sands do change a little bit from well to well here, but
8 you'll be able to track it with your gamma ray and
9 hopefully --

10 A. Sure. We've got -- we have -- again, we have
11 seismic licensed over this -- over this project area, so
12 we'll use that. We'll use MWD gamma ray. We also have
13 a full-time, 24-hour -- we call it our max com group.
14 They're a geosteering and engineer group that monitors
15 every survey for these wells 24 hours a day, 365 days a
16 year. So we're on top of it. I think we'll do a good
17 job here.

18 Q. So you guys could possibly start sending us the
19 digital posterial [sic; phonetic] survey information --

20 A. Is that not something we send you right now?

21 Q. Right now we get PDFs, but we're trying to work
22 with our I.T. people to -- to figure out how exactly to
23 get it in here.

24 A. We're certainly willing to help you any way we
25 can, so I'll discuss it with our team.

1 Q. Okay. Thank you. Okay. Good luck on your
2 well.

3 A. Thank you.

4 MS. KESSLER: Mr. Examiner, I would ask
5 that this case be taken under advisement, and we will
6 update the Division with pool and pool code when we
7 receive it.

8 EXAMINER JONES: Okay. Case Number 16463
9 is taken under advisement.

10 (Case Number 16463 concludes, 10:08 a.m.)

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

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 DATED THIS 29th day of October 2018.

21

22

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

25