

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. 16464

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.

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1 APPEARANCES

2 FOR APPLICANT MATADOR PRODUCTION COMPANY:

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1 (10:09 a.m.)

2 EXAMINER JONES: Call Case Number 16464,
3 application of Matador Production Company for a
4 nonstandard spacing and proration unit and compulsory
5 pooling in Eddy County, New Mexico.

6 Call for appearances.

7 MS. BROGGI: Good morning. Julia Broggi on
8 behalf of the Applicant, Matador Production Company, and
9 we have two witnesses.

10 EXAMINER JONES: Any other appearances?
11 Will the witnesses please stand?

12 Okay. Can we reflect that the witnesses
13 have both been sworn and qualified.

14 Is that kosher, Mr. Brooks?

15 EXAMINER BROOKS: Sounds good to me. I
16 mean, that's the way things have been done here for a
17 long time.

18 EXAMINER JONES: It must be a complicated
19 case because Ms. Hartsfield is coming up here.

20 MS. HARTSFIELD: I hope not.

21 EXAMINER BROOKS: I think in court the
22 etiquette usually is that you swear the witnesses
23 separately in each case, but it's much less often that
24 you have the same witness in cases -- same witnesses in
25 cases that are set on the same day in court proceedings

1 than it is here.

2 SARA HARTSFIELD,

3 after having been previously sworn under oath, was
4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MS. BROGGI:

7 **Q. Ms. Hartsfield, will you turn to Exhibit 1 and**
8 **reference the exhibit and tell the examiners what**
9 **Matador is seeking with this application?**

10 A. Sure. Exhibit 1 is a Midland Map showing the
11 proposed horizontal spacing unit. Matador is seeking to
12 form an approximately 320-acre proration unit comprised
13 of fee and state land. We seek to pool the uncommitted
14 interest owners in the Bone Spring Formation.

15 **Q. And are you seeking to dedicate the spacing**
16 **unit to the proposed David Edelstein State Com #123H**
17 **well?**

18 A. Yes, that's correct.

19 **Q. Has Matador filed a Form C-102 for the proposed**
20 **well?**

21 A. Yes, we have.

22 **Q. And is that what is included here as Exhibit**
23 **Number 2?**

24 A. Yes. Exhibit 2 is our approved APD from the
25 State. It is for the David Edelstein State Com #123H.

1 The API number is 30-015-45225. This will be in the
2 Willow Lake; Bone Spring, West Pool. The pool code is
3 96415.

4 Q. And is that pool subject to the Division
5 statewide setbacks?

6 A. Yes, it is. And you can see that the C-102
7 identifies the spacing unit, and our last take point
8 will be a 100-foot setback.

9 Q. Are there any depth severances in the Bone
10 Spring?

11 A. No, there are not.

12 Q. Why don't we turn to Matador Exhibit Number 3?

13 A. Okay.

14 Q. Does this show the ownership interest in the
15 unit?

16 A. Yes.

17 Q. And what kind of interest is Matador seeking to
18 pool in this case?

19 A. In this case Matador is only seeking to pool
20 unleased mineral interests that is made up of .894362
21 percent.

22 Q. And did Matador offer to lease to these
23 unleased mineral interest owners?

24 A. Yes, we did.

25 Q. And actually let me back up here. On that

1 **Exhibit 3, can you explain for the examiners what's**
2 **going on with the claims owned by Joe H. Beeman?**

3 A. Sure. So the possible claimants to the mineral
4 interests owned by Joe H. Beeman -- if you turn to the
5 second page of that exhibit, you'll see a list of
6 possible claimants. Joe H. Beeman had a number of
7 overconveyances throughout that time, and it is unclear
8 who actually owns this interest. There are several
9 title requirements that will need to be fulfilled before
10 interest could actually vest in any one of these people,
11 so we will hold that interest in suspense until such
12 time that it gets cleared up.

13 **Q. And to all of the -- all of these unleased**
14 **mineral interest owners, including the ones you**
15 **identified as potential owners, was a well-proposal**
16 **letter and offer to lease sent to them?**

17 A. Yes.

18 **Q. And is an example of those letters attached as**
19 **Matador Exhibit 4?**

20 A. Yes, it is. This is the participation proposal
21 with an offer to lease that we sent, along with the AFE
22 to each unleased mineral owner, even all of the possible
23 claimants to the Joe H. Beeman estate. We sent this on
24 June 7th, 2018, and it outlined our development plans
25 for the area.

1 Q. And is the AFE you that referenced also
2 included as part of Exhibit 4?

3 A. Yes.

4 Q. And are the costs reflected consistent with
5 what operators have incurred for drilling similar
6 horizontal wells in the area?

7 A. Yes, I believe so.

8 Q. Has Matador made an estimate of overhead and
9 administrative costs while drilling and producing?

10 A. Yes.

11 Q. And what are those?

12 A. 7,000 while drilling and 700 while producing,
13 which is consistent with the existing JOA we have in
14 place.

15 Q. And does Matador ask that these administrative
16 and overhead costs be incorporated into any order
17 resulting from this hearing?

18 A. Yes.

19 Q. And to be clear, Matador is not seeking to pool
20 these working interest owners?

21 A. No. The only other working interest owner is a
22 party to the JOA.

23 Q. And how about any overriding royalty interest
24 owners?

25 A. We have the authority to pool the overrides.

1 Q. Ms. Hartsfield, were there any unlocatable
2 interests?

3 A. Yes. I'll explain a little bit. The possible
4 claimants to the Joe H. Beeman mineral interest, many of
5 those came back undeliverable. We've sent to multiple
6 addresses and used Internet searches and Eddy County
7 record searches and continue to work with the people we
8 can find and continue to try to find the ones that were
9 unlocatable.

10 Q. And in your opinion, has Matador made a
11 good-faith effort to locate those unlocatable interests?

12 A. Yes.

13 Q. Will you tell the examiner what efforts you've
14 made to reach an agreement with the parties that Matador
15 is seeking to pool in this case?

16 A. The unleased mineral interest owners, we have
17 sent them offer letters and, we feel, competitive lease
18 forms.

19 Q. And in your opinion, has Matador made a
20 good-faith effort to reach an agreement with those
21 parties?

22 A. Yes.

23 Q. And if, after this hearing, you reach an
24 agreement with any of the parties that Matador is
25 seeking to pool, will you let the Division know?

1 A. Yes.

2 Q. Will you please turn to Exhibit Number 5?

3 A. Okay.

4 Q. Is this an affidavit with my office -- from my
5 office -- from myself, actually, showing that notice was
6 provided -- notice of this hearing was provided to all
7 the parties that Matador is seeking to pool?

8 A. Yes.

9 Q. And if you will turn to Exhibit Number 6, is
10 this a copy of the notice published regarding the
11 hearing and identifying all parties by name?

12 A. Yes.

13 Q. And those include the potential owners under
14 Joe H. Beeman?

15 A. That's correct.

16 Q. And were Exhibits 1 through 6 either prepared
17 by you or compiled under your direction?

18 A. Yes, they were.

19 MS. BROGGI: Mr. Examiner, at this time I
20 would move for the admission of Matador Exhibits 1
21 through 6.

22 EXAMINER JONES: Exhibits 1 through 6 are
23 admitted.

24 (Matador Production Company Exhibit Numbers
25 1 through 6 are offered and admitted into

1 evidence.)

2 MS. BROGGI: And I no further questions of
3 this witness.

4 EXAMINER BROOKS: No questions.

5 CROSS-EXAMINATION

6 BY EXAMINER JONES:

7 Q. It looks like this could be tied up for years.
8 Because what are you telling these people? That they
9 possibly own an interest or --

10 A. Correct. Yes. The ones that have called back,
11 we've sent them a copy of the title requirements that we
12 have received from our outside title attorneys and asked
13 that they meet those requirements, and then we can
14 recognize their interest. So --

15 Q. Okay. I was going to ask that.

16 EXAMINER JONES: So what -- what would you
17 accept as proof that they own?

18 EXAMINER BROOKS: Whatever the title
19 attorney required, I presume.

20 THE WITNESS: That's correct.

21 CROSS-EXAMINATION

22 BY EXAMINER BROOKS:

23 Q. And I would assume also -- and tell me if
24 I'm -- tell me if I'm correct -- if one of these
25 claimants signed a lease and -- to you, you would not

1 pay them any money. You would hold their share of the
2 bonus, depending on the settlement, in suspense --

3 A. That's correct.

4 Q. -- until they complied with the title
5 requirements --

6 A. That's correct.

7 Q. -- or got a -- a -- what do they call it in
8 New Mexico -- quiet title judgment?

9 A. Yes, that's correct.

10 Q. With my Texas experience, I want to say
11 trespass to try title, but that's not what you do here.

12 EXAMINER JONES: So it is complicated.

13 (Laughter.)

14 CONTINUED CROSS-EXAMINATION

15 BY EXAMINER JONES:

16 Q. So the State Land Office only owns the
17 northwest of the southwest of Section 11?

18 A. Yes. There is a 40-acre tract that is state,
19 and the rest is fee.

20 Q. And so somehow that portion was included in a
21 lease. And so how did -- how did Matador obtain
22 interest in this area?

23 A. The 40-acre state piece is owned by COG
24 Operating, and they've signed an all-depths operating
25 agreement with us.

1 Q. Okay. So COG -- COG actually holds the lease
2 in title --

3 A. Yes.

4 Q. -- I mean the record title?

5 A. Yes.

6 Q. Okay.

7 A. We have a contractual interest through the
8 operating agreement.

9 Q. Contractual interest. Okay.

10 Okay. So what -- what -- which one of
11 these fee tracts has got all the potential owners?

12 A. So it's in Section 12. It's -- it actually is
13 the west half of that southwest quarter.

14 Q. Okay.

15 EXAMINER JONES: Mr. Brooks, do you have
16 anything else?

17 EXAMINER BROOKS: I have no further
18 questions.

19 Q. (BY EXAMINER JONES) So when are you going to
20 spud this one?

21 A. This one, we have further out, possibly Q3 of
22 2019. So --

23 Q. Okay. Thanks. Thanks for coming today.

24 A. Thank you.

25

1 CLARK COLLIER,

2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MS. BROGGI:

6 Q. Mr. Collier, what formation is Matador
7 targeting with the proposed well?

8 A. The Bone Spring Formation.

9 Q. And if you'll turn to Matador Exhibit Number 7,
10 can you identify this for the examiners?

11 A. This is the locator map with the outline of the
12 Delaware Basin in New Mexico, and we've highlighted the
13 two-mile project area for the David Edelstein #123H in
14 Sections 11 and 12 of 24 South, 27 East in Eddy County.

15 Q. And let's turn to Matador Exhibit Number 8, and
16 can you identify this for the examiners?

17 A. So this is a structure map on the top of the
18 Bone Spring, and we have our control points identified
19 again on this map with the dots. We also have some
20 offset Bone Spring producers with the orange dots. The
21 contour intervals are 50 feet, dipping -- the formation
22 is dipping from west to east of 1 to 2 degrees, on
23 average. And we also have a cross section identified
24 from A to A prime here through four different wells.

25 Q. And the wells that you've selected for A to A

1 **prime, do you consider those representative of the area?**

2 A. That's correct, yes.

3 **Q. Also, did you reach a conclusion about whether**
4 **the structure is consistent across the proposed**
5 **wellbore?**

6 A. Whether the -- the formation is consistent
7 across the wellbore?

8 **Q. Yes.**

9 A. Yes, it is. And in addition to that, we've
10 drilled a number of wells in this area. We've drilled
11 one directly in the Wolfcamp underneath this project
12 area. So although that's in a deeper formation, we do
13 have a pretty good idea of the structure down there.

14 **Q. Did you anticipate any faulting, pinchouts or**
15 **other geologic hazards to horizontal drilling?**

16 A. No.

17 **Q. Please turn to Matador Exhibit Number 9, and**
18 **can you identify this?**

19 A. So this is the cross section identified on the
20 previous map. So we've got those four wells. So you
21 can see that we're going to be going updip from -- in
22 this case, backwards across the cross section from A
23 prime to A. So we'll land in the 2nd Bone Spring Sand
24 in the middle of the Bone Spring Formation and drill
25 updip across the project area.

1 Q. And do the logs demonstrate that the target
2 interval is consistent in thickness across the proposed
3 spacing unit?

4 A. They do.

5 Q. And that last exhibit, Matador Exhibit Number
6 10, will you identify that for the examiners?

7 A. So this is the well schematic, and this is
8 identifying the end of the section for Section 12 and
9 Section 11 and identifying that we will adhere to the
10 100-foot setbacks.

11 Q. And, Mr. Collier, in your opinion, can the area
12 be efficiently and economically be developed by
13 horizontal wells?

14 A. Yes.

15 Q. And in your opinion, will each quarter-quarter
16 section be productive and contribute more or less
17 equally?

18 A. Yes.

19 Q. And in your opinion, would the granting of
20 Matador's application in this case be in the best
21 interest of conservation, the prevention of waste and
22 the protection of correlative rights?

23 A. Yes, it will.

24 Q. And were Exhibits 7 through 10 either prepared
25 by you or compiled under your direction and supervision?

1 A. They were.

2 MS. BROGGI: Mr. Examiner, I'd move into
3 admission Matador Exhibits 7 through 10.

4 EXAMINER JONES: Exhibits 7 through 10 are
5 admitted.

6 (Matador Production Company Exhibit Numbers
7 7 through 10 are offered and admitted into
8 evidence.)

9 CROSS-EXAMINATION

10 BY EXAMINER JONES:

11 Q. So it's about 200-feet-thick sand again?

12 A. That's correct.

13 Q. And it looks like it's bounded really well so
14 your frac job could be pretty effective.

15 A. Right.

16 Q. Looks to me like.

17 A. There is a good carbonate unit above and below,
18 so I think you're right about that.

19 Q. You still look at those carbonate units as --
20 as being decent barriers to at least propagation for the
21 frac?

22 A. They would have a substantially different
23 mechanical response to the frac, and we do view those as
24 barriers.

25 Q. Do the completions people show you the results

1 of the frac jobs and give you an idea how well they
2 went?

3 A. So we have all -- you know, we have all the
4 data from the frac in terms of what they monitor from
5 the surface, so you can see the pressure changes and the
6 rates and how the fluid -- you know, what fluids they're
7 pumping down over time. But, you know, unless we get
8 microseismic over the area, you're not going to really
9 see much more than just the data you can measure from
10 the surface.

11 Q. Okay. Are you expecting any water production
12 here, or about how much water cut -- or oil cut, I
13 should say?

14 A. We will definitely produce some water. The
15 exact cut, I'm not sure. It's going to be on the range
16 of 2 to 3 to 1 on more water than oil.

17 Q. Is there any faulting going on here?

18 A. Nothing substantial.

19 Q. Okay.

20 A. Uh-huh.

21 Q. So you're not tagging the frac with any
22 chemical tracers or anything like that?

23 A. That's something we do sometimes, and we
24 haven't discussed it for this project. But if it's
25 something that the team thinks will add value, we

1 will -- we will do it.

2 Q. Okay.

3 A. Uh-huh.

4 Q. Okay. Thanks.

5 A. Thank you.

6 CROSS-EXAMINATION

7 BY EXAMINER BROOKS:

8 Q. -- I have some very broad questions --

9 A. Great.

10 Q. -- about this map exhibit. I guess it's 7.
11 It's behind Tab 7.

12 A. Great.

13 Q. This is a locator map. It shows where the
14 proposed well is, but I'm not sure -- I don't know much
15 geology, only what I've learned here, so I need to -- I
16 want to hear generally mostly in this room but not
17 necessarily limited to that -- (laughter) -- because I
18 don't think I've learned anything yet today.

19 (Laughter.)

20 THE WITNESS: Okay.

21 Q. (BY EXAMINER BROOKS) You show the Capitan
22 Aquifer on here.

23 A. That's right.

24 Q. Does that have any significance in terms of
25 being a limit to the area that's being developed in the

1 **Bone Spring and the Wolfcamp that we're hearing so much**
2 **about these days in New Mexico?**

3 A. So are you asking if you can develop the Bone
4 Spring underneath the Capitan Aquifer?

5 Q. Well, is it -- yeah. Where is it considered
6 prospective? Is it -- the Capitan barrier or Abo Reef,
7 shown on here, are they considered limits to the
8 developed or prospective area of the Bone Spring and the
9 Wolfcamp?

10 A. No. So -- so the Abo -- the Abo Reef outline,
11 that furthest outline, that's -- that's probably the
12 outline of the -- probably the Bone Spring Sand limit
13 there, that's going to be the shelf edge for the Bone
14 Spring. And the Capitan-aged rock, that's going to be
15 something younger. So you have a prograding reef.

16 Q. Yeah.

17 A. And that Goat Seep margin there is --

18 Q. So it's going to be above the Bone Spring?

19 A. Right. It's going to be above the Bone Spring
20 because they're younger strata.

21 Q. The Bone Spring continues under the Capitan?

22 A. The Bone Spring continues under the Capitan all
23 the way back to probably that Abo Reef margin, is pretty
24 close to where you'd expect to see your last Bone Spring
25 sands.

1 Q. Okay. Now, the Bone Spring has been generally
2 developed by vertical wells before the recent interests
3 started, right?

4 A. That's correct.

5 Q. And does that apply all the way up to the
6 neighborhood of the Abo Reef going north?

7 A. There are quite a few -- actually, Matador has
8 some interests in some old vertical Bone Spring
9 production, some of the old HEYCO fields, the Young Deep
10 and the Young North fields. Those are up there pretty
11 close to that Abo Reef margin, and they used to drill
12 through and complete the 2nd Bone Spring and 1st Bone
13 Spring. They also produced vertically out of some of
14 the carbonates up there.

15 Q. But the present interest has not gone that far
16 north, has it?

17 A. The present interest horizontally? Is that
18 your question?

19 Q. Yes.

20 A. There are a number of horizontal wells up that
21 far north.

22 Q. They tend to thin out as you get --

23 A. Sure. Sure.

24 Q. -- further north, right?

25 A. The formation changes quite a bit. When you

1 get that far north, it'll become a little bit more
2 channelized perhaps.

3 Q. And does the Bone Spring pinch out as you
4 approach the Abo Reef? Is that what you told me?

5 A. Eventually, it will pinch out somewhere along
6 the Abo Reef margin.

7 Q. Thank you. I appreciate the education.

8 A. Yes, sir. Thank you.

9 MS. BROGGI: And, Mr. Examiner, just to
10 make the record real clear, I just want to state that
11 either before or at the very beginning, you did accept
12 Ms. Hartsfield as an expert in petroleum land matters
13 and Mr. Collier as an expert in petroleum geology.

14 EXAMINER JONES: Yes. They are both
15 qualified as experts in difficult situations, experts.

16 MS. BROGGI: If you have no further
17 questions, we would ask that Case Number 16464 be taken
18 under advisement.

19 EXAMINER JONES: Case Number 16464 is taken
20 under advisement.

21 Let's take a five-minute break, and I'll
22 get Phil Goetze.

23 (Case Number 16464 concludes, 10:31 a.m.)

24 (Recess, 10:31 a.m. to 10:52 a.m.)

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