

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:

ORIGINAL

APPLICATION OF MRC PERMIAN COMPANY
FOR COMPULSORY POOLING AND APPROVAL
OF AN UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

CASE NO. 15245

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 18, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, December 18, 2014, 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
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Albuquerque, New Mexico 87102
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APPEARANCES

FOR APPLICANT MRC PERMIAN COMPANY (MATADOR RESOURCES
COMPANY):

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EXHIBITS OFFERED AND ADMITTED

MRC Permian Company Exhibit Numbers 1 through 8	12
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1 (8:51 a.m.)

2 EXAMINER GOETZE: Next, Case 15245,
3 application of MRC Permian Company for compulsory
4 pooling and approval of an unorthodox gas well location,
5 Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant, in association with
9 Dana Arnold, in-house counsel for MRC Permian.

10 I have two witnesses, one of whom is the
11 engineer that we previously qualified, but I have a new
12 land witness.

13 EXAMINER GOETZE: Identify yourself to the
14 court reporter and be sworn in.

15 MR. CARLTON: Chris Carleton, landman for
16 Matador Resources.

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

19 EXAMINER GOETZE: Before you start,
20 Mr. Bruce, any other appearances in this case?

21 Very well. Mr. Bruce, continue.

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

25

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Carleton, where do you reside?

A. Plano, Texas.

Q. And who do you work for and in what capacity?

A. Matador Resources Company as a landman.

Q. Have you previously testified before the
Division?

A. No.

Q. Can you please summarize your educational and
employment background for the Examiners?

A. I received a bachelor's degree in business
administration from Texas Tech University in 2014 in the
Energy Commerce Program at the business school, which is
their landman program.

I did a summer internship with Matador
Resources Company in 2013 and a winter internship with
Matador Resources Company in 2013/2014, and I've been a
full-time landman in the Permian Basin for Matador
Resources Company since June 2014.

Q. Does your area of responsibility with Matador
include this portion of southeast New Mexico?

A. Yes.

Q. And are you familiar with the land matters
involved in this case?

1 A. Yes.

2 MR. BRUCE: Mr. Examiners, since
3 Mr. Carleton doesn't have, you know, as much experience
4 as Mr. Filbert does, I don't think I'll qualify him as
5 an expert in this hearing concerning the facts of the
6 case.

7 EXAMINER GOETZE: So we're going to have
8 him as a factual witness and not an expert witness?

9 MR. BRUCE: Yes.

10 EXAMINER GOETZE: Then we will so qualify
11 you as a factual witness to provide the information
12 regarding land matters for this case.

13 Q. (BY MR. BRUCE) Would you identify Exhibit 1 for
14 the Examiners, Mr. Carleton?

15 A. Exhibit 1 is an aerial photo which shows
16 Section 12 of Township 23 South, Range 27 East. Matador
17 Resources Company seeks an order pooling all interests
18 in the Wolfcamp Formation and a standard 320-well unit
19 comprised of the south half of Section 12 and approving
20 an unorthodox gas well location.

21 Q. And could you identify Exhibit 2 for the
22 Examiner? Identify the well and give the beginning and
23 end of the producing intervals?

24 A. Exhibit 2 is a C-102 for the well. It is a Tom
25 Walters 12-23 South-27 East RB Well #203H horizontal

1 well. The first producing interval will be unorthodox
2 with a penetration point of 2,262 feet from the south
3 line and 330 feet from the west line. The last
4 perforation point will be 2,263 feet from the south line
5 and 330 feet from the east line of Section 12.

6 Q. And that location is unorthodox because the
7 normal setbacks are 660 feet, correct?

8 A. Correct.

9 Q. And will the technical witness discuss the
10 reasons for the unorthodox location?

11 A. Yes.

12 Q. And what is Exhibit 3, Mr. Carleton?

13 A. Exhibit 3 is a list of all the parties in the
14 well indicating which parties have not yet joined. I
15 believe the one you have at the end there is highlighted
16 in yellow, who have not joined the well. That includes
17 all the parties except Jean C. Place, the second on the
18 list. We seek to pool these parties who are unleased
19 fee mineral owners.

20 Q. What approximately is the total acreage or
21 percentage interest involved in the pooling?

22 A. Approximately 30 percent, give or take.

23 Q. Is this all fee land in this well unit?

24 A. Correct.

25 Q. And I would imagine, besides these people,

1 there are quite a few interest owners -- mineral
2 interest owners in this well unit. And are they leased
3 either by Featherstone or by MRC Permian?

4 A. Correct.

5 Q. What is Exhibit 4?

6 A. Exhibit 4 contains a copy of our proposal
7 letters to the parties who have not yet joined the well.

8 Q. Looking at Exhibit 4, this is a well proposal,
9 and an AFE was contained in this well proposal; was it
10 not?

11 A. Correct.

12 Q. And just in the first one, there's also a lease
13 attached to the -- to the proposal letter. Did you
14 offer to lease their interest?

15 A. Yes, sir.

16 Q. Now, I didn't copy all the rest of the leases
17 to the various parties, but was every party in this
18 package also offered the option to lease?

19 A. Yes.

20 Q. And were the terms of the proposed leases the
21 same, the three years and one-fifth royalty?

22 A. Yes.

23 Q. So they were all offered equal terms in a
24 proposed lease?

25 A. Yes, sir.

1 Q. Are you continuing to negotiate with these
2 parties?

3 A. Yes.

4 Q. And do you hope to reach terms with some of
5 them so that they would not be subject to force pooling?

6 A. Yes.

7 Q. And if you do reach terms with any of these
8 interest owners, will you notify the Division so they
9 are not subject to a forced pooling order?

10 A. Yes.

11 Q. Has MRC made a good-faith effort to obtain the
12 voluntary joinder of all the fee owners in the 320 acres
13 comprising this well unit?

14 A. We have.

15 Q. What is Exhibit 5?

16 A. Exhibit 5 is an AFE for the well.

17 Q. And what is the completed well cost?

18 A. It's an estimated completed well cost of 8.96
19 million.

20 Q. And based on -- have you reviewed other AFEs
21 for other proposed Wolfcamp wells in this area?

22 A. Yes.

23 Q. And is this cost in line with the cost of other
24 wells being proposed by MRC in this area?

25 A. Yes.

1 Q. Who do you request be appointed operator of the
2 well?

3 A. Matador Production Company.

4 Q. And do you have a recommendation of the amounts
5 MRC should be paid for supervision and administrative
6 expenses?

7 A. We request \$7,000 per month while drilling and
8 \$700 per month while producing.

9 Q. And in other -- are those equivalent -- are
10 those rates the same as in the JOA for this well unit?

11 A. Yes.

12 Q. And are those the rates normally charged by MRC
13 for other Wolfcamp wells in this area?

14 A. Yes.

15 Q. Do you request the overhead rates be adjusted
16 periodically as provided by the COPAS accounting
17 procedure?

18 A. Yes.

19 Q. And does MRC request a maximum cost plus 200
20 percent risk charge if any working interest owner goes
21 nonconsent?

22 A. We do.

23 Q. And were the parties being pooled notified of
24 this hearing?

25 A. Yes. And Exhibit 6 is an Affidavit of Notice.

1 MR. BRUCE: Mr. Examiner, at the end of
2 this hearing, I would request that this case be
3 continued because, once again, I have not received back
4 all the green cards, so I can come back on the 8th and
5 show all the -- I have received back about 80 percent of
6 the green cards, but I still do not have them all back.

7 EXAMINER GOETZE: We'll go ahead with the
8 continuance for providing proper notification, but we'll
9 continue on.

10 MR. BRUCE: I want to submit them all at
11 once rather than piecemeal.

12 EXAMINER GOETZE: We appreciate that. We
13 don't like them dribbling in, so one package will be
14 very nice.

15 Q. (BY MR. BRUCE) And what is Exhibit 7,
16 Mr. Carleton?

17 A. Exhibit 7 lists the offset operators or working
18 interest owners to the unorthodox well location.

19 Q. And were those persons notified of the hearing?

20 A. They were.

21 Q. And is that reflected in my Affidavit of Notice
22 marked as Exhibit 8?

23 A. Yes.

24 MR. BRUCE: Once again, Mr. Examiner, I'm
25 waiting on one green card to come back, and so I will

1 submit that, hopefully, at the January 8th hearing. As
2 usual, it's Chevron U.S.A. It takes -- I've had -- I
3 don't know what it is, but it takes two to three weeks
4 to get back a green card from them.

5 Q. (BY MR. BRUCE) Were Exhibits 1 through 8 either
6 prepared by you or under your supervision or compiled
7 from company business records?

8 A. They were.

9 MR. BRUCE: Mr. Examiner, I move the
10 admission of Exhibits 1 through 8, and I will supplement
11 Exhibits 6 through 8 at the next hearing.

12 EXAMINER GOETZE: Exhibits 1 through 8 are
13 so entered.

14 (MRC Permian Company Exhibit Numbers 1
15 through 8 were offered and admitted into
16 evidence.)

17 MR. BRUCE: I have no further questions for
18 this witness.

19 CROSS-EXAMINATION

20 BY EXAMINER GOETZE:

21 Q. So we're stating that what's remaining, 30
22 percent of the acreage, is uncommitted, and 70 percent
23 between Matador and Featherstone is in agreement?

24 A. I suppose the committed interest from Matador
25 is 57.24 percent, and from Featherstone, 12.5 percent.

1 Just by doing the math in my head, I think it's about
2 70, but I wouldn't want to say exactly.

3 Q. You're not here for math, so we'll go with 70
4 percent. Very good.

5 EXAMINER GOETZE: I have questions for your
6 next witness. I have no more questions for this
7 witness.

8 Thank you.

9 THE WITNESS: Thank you.

10 MR. BRUCE: Mr. Examiner, if the record
11 could reflect that the engineer, Mr. Williamson, has
12 previously been sworn and qualified as a witness.

13 EXAMINER GOETZE: Mr. Williamson is still
14 qualified as an expert witness in petroleum engineering.

15 JERON R. WILLIAMSON,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. First, would you identify Exhibit 9 for the
21 Examiners?

22 A. Exhibit 9 is a Wolfcamp structure map.

23 Q. And, again, is the structure pretty flat in
24 this area?

25 A. It is, yes.

1 Q. Is this well being drilled from east to west?

2 A. That is correct.

3 Q. And so the terminus of the well will be
4 slightly updip?

5 A. Correct.

6 Q. And this is in a designated gas pool, is it
7 not, Mr. Williamson?

8 A. Correct.

9 Q. Does MRC hope or anticipate that there will be
10 a lot of liquids produced from this zone?

11 A. That is correct, yes.

12 Q. Could you identify Exhibit 9 for the Examiner
13 and talk about the target zone for the -- the proposed
14 Wolfcamp target zone for the well?

15 A. You mean Exhibit 10?

16 Q. Exhibit 10.

17 A. Exhibit 10 is the cross section in the -- for
18 the immediate area, Section 12. So we've got two wells
19 that we've illustrated across Section 4. There is a
20 well just to the north of the proposed well location
21 noted on Exhibit 10. It has the Meridian Bird Com 1
22 designated by letter A and then a well just to the
23 south, into Section 13, the Meridian BKE #1 well
24 designated with the letter B. And shown on the cross
25 section is the target window outlined in red of the

1 Wolfcamp -- the portion of the Wolfcamp Formation that
2 we will target for this well.

3 Q. Although we're not justifying a nonstandard
4 unit, based on your review of the data in this area,
5 would you expect the Wolfcamp to be continuous across
6 the well unit?

7 A. Yes.

8 Q. Now, in looking at your map, off to the left,
9 you place certain wells in Section 12. Are those all
10 planned and Wolfcamp tests?

11 A. That would be a mix of Wolfcamp and Bone Spring
12 tests [sic].

13 Q. Now, is it MRC's ultimate intent, assuming
14 success with the first well, to drill multiple Wolfcamp
15 wells in this section?

16 A. That is correct.

17 Q. Let's move to your Exhibit 11 and discuss some
18 reasons for the unorthodox location. First of all, by
19 using the unorthodox location at least in the east and
20 west directions, will you maximize the production of the
21 wellbore?

22 A. Not given the current scenario, no.

23 Q. No. But I mean by having it 330 off of each --

24 A. Oh. Off the ends of the laterals?

25 Q. Yes.

1 A. Yes. Yes, that's correct.

2 Q. Okay. Now, tell the Examiners what you mean in
3 Exhibit 11 by current spacing?

4 A. So the current spacing requires that our
5 lateral be 660 feet off the lease edge, which would
6 require us to situate our lateral as shown in this
7 exhibit. And our reservoir modeling exercises on one of
8 our -- one of our own Wolfcamp wells, the Rustler Briggs
9 [phonetic] 12-24-27 RB #204H, indicates that our
10 hydraulic fracture half-lengths are in the neighborhood
11 of 200 to 300 feet, designated in this exhibit as the
12 yellow area.

13 And because the matrix permeability is so
14 low in the Wolfcamp, we don't expect to be able to drain
15 the areas outlined in the green on this exhibit, so we
16 will be leaving behind hydrocarbons should we develop in
17 this scenario.

18 Q. So first of all, if you had the well 660 feet,
19 say, 1,980 feet from the south line of the section or
20 660 feet from the north line of this south-half well
21 unit, you would be leaving reserves in the ground?

22 A. Yes.

23 Q. And, also, because of the drainage only 200 to
24 300 feet from the wellbore, do you believe that you will
25 be adversely affecting offsetting interest owners by

1 having your unorthodox location?

2 A. No.

3 Q. Let's move on to Exhibit 12 and discuss your
4 proposed spacing.

5 A. Exhibit 12 is our proposed spacing illustrated.
6 So instead of developing 660 feet from the unit edge, we
7 would be placing our well 330 feet away, thereby,
8 allowing us to more effectively drain that northern
9 portion of the unit and leaving us room to then drill a
10 second well to the south designated here as the future
11 additional well that would allow us to recover
12 approximately twice the reserves as the previous
13 scenario.

14 Q. Now, the well unit is the south half of Section
15 12, but what you're looking at right here is simply the
16 north half-south half of Section 12?

17 A. That's correct, yes.

18 Q. So marching that down to the south, you could
19 have, in this particular Wolfcamp zone, up to four wells
20 in the south half of Section 12?

21 A. Correct.

22 Q. And in your opinion, will that allow you to
23 recover all reserves and prevent waste?

24 A. Yes.

25 Q. And since the drainage is small, is limited in

1 this reservoir -- again, you mentioned that there would
2 be no adverse effect on offsets, but would MRC have any
3 objection to an offset drilling mirror locations in
4 offset acreage?

5 A. No.

6 Q. And finally, what is Exhibit 13?

7 A. Exhibit 13 is the directional plan for the Tom
8 Walters 203H.

9 Q. And how many completion stages would you
10 anticipate in the Wolfcamp completion?

11 A. 18 frack stages.

12 Q. And in your opinion, is the granting of this
13 application in the interest of conservation and the
14 prevention of waste?

15 A. Yes.

16 Q. Were Exhibits 9 through 12 prepared by you or
17 under your supervision?

18 A. Yes.

19 Q. And was Exhibit 13 compiled from company
20 business records?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I'd move the
23 admission of MRC's Exhibits 9 through 13.

24 EXAMINER GOETZE: Exhibits 9 through 13 are
25 so entered.

1 (MRC Permian Company Exhibit Numbers 9
2 through 13 were offered and admitted into
3 evidence.)

4 MR. BRUCE: And I have no further questions
5 of the witness.

6 EXAMINER GOETZE: Counselor?

7 EXAMINER WADE: No questions.

8 CROSS-EXAMINATION

9 BY EXAMINER GOETZE:

10 Q. What is the basis of determining the
11 hydrocarbon potential for this Wolfcamp target? Is this
12 based on density or just historical in this area, or
13 what are we using as a model?

14 A. Yes. So Exhibit -- the cross-section exhibit,
15 Exhibit 10, illustrates the log characteristics of the
16 formation in this area. So the rightmost tracts of
17 these two cross sections show the neutron porosity,
18 density porosity, indications that we've got at least --
19 the area shaded in red are areas where we have at least
20 10 percent porosity. So we are targeting the highest
21 porosity unit in the section. So we're very hopeful.

22 Q. So you've used a similar model for the other
23 wells in the area?

24 A. Yes. Yes.

25 Q. And east-west seems to be favorable, based upon

1 your experience out here, as far as Wolfcamp
2 completions?

3 A. Yes.

4 Q. Is this the Cass [phonetic] --

5 MR. CARLETON: Yes. This is the Cass Draw
6 [phonetic], all --

7 EXAMINER GOETZE: Would you like to
8 rephrase that for him?

9 (Laughter.)

10 MR. CARLETON: Sorry, Mr. Goetze.

11 Q. (BY EXAMINER GOETZE) So what is the --

12 A. Cass Draw [phonetic].

13 Q. Very good. There is a vertical there that is
14 similar.

15 EXAMINER GOETZE: I have no further
16 questions for this witness.

17 Do you have anything else for this witness?

18 MR. BRUCE: I have no further questions for
19 the witness.

20 EXAMINER GOETZE: Very good. Then Case
21 15245 will be continued to January 8th based on
22 notification.

23 Let's take a ten-minute break, folks, and
24 then we'll come back and start with the next case.

25 I do hereby certify that the foregoing is
(Case Number 15245 concludes, and the proceedings in
the Examiner hearing of Case No. 15245
December 19, 2014

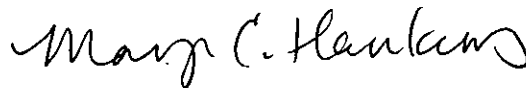
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19
20 

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