

**STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION**

**Meeting Minutes
Regular Meeting
September 6, 2016
Porter Hall
Wendell Chino Building
1220 S. St. Francis Drive
Santa Fe, New Mexico 87505**

MEMBERS PRESENT:

| | |
|-----------------|---|
| David Catanach | Chair, Oil Conservation Division |
| Robert Balch | Designee, Energy, Minerals and Natural Resources Department |
| Patrick Padilla | Designee, New Mexico State Land Commissioner |

OTHERS PRESENT:

Bill Brancard, Counsel for the Commission
Cheryl Bada, Counsel for the Commission

The meeting was called to order by Chair Catanach at 9:00 a.m.

Item 1. Roll Call.

Roll was taken; a quorum was present.

Item 2. Approval of Agenda.

Action: Commissioner Padilla moved adoption of the agenda. Commissioner Balch seconded the motion. The motion passed unanimously.

Item 3. Approval of minutes of August 25, 2016 meeting.

Action: Commissioner Balch moved to approve the minutes. Commissioner Padilla seconded the motion. The motion passed unanimously.

Item 4. Final action may be taken in Case No. 15528, Application of DCP Midstream, LP for authorization to inject acid gas into the Zia AGI #2D Well, Section 19, Township 19 South, Range 32 East, NMPM, Lea County, New Mexico.

Action: Chair Catanach announced that this case was heard by the Commission at its August 25, 2016 meeting and a decision was reached and unanimously approved by the Commissioners at that time. Commissioner Padilla moved to approve and adopt the final order in this case. Commissioner Balch seconded the motion. The motion passed unanimously and Order No. R-14207 was adopted and signed by all Commissioners.

Item 5. De Novo Case 15363, Application of Matador Production Company for a non-standard oil spacing and proration unit and compulsory pooling, Lea County, New Mexico.

Action: Appearances were made by Jim Bruce in association with Dana Arnold for Matador Production Company (Matador), Gene Gallegos for Jalapeno Corporation (Jalapeno), David Brooks for the Oil Conservation Division (OCD or the Division), and Michael Feldewert for the New Mexico Oil and Gas Association (NMOGA). A discussion was held on the Motion to Strike Notices of Intervention, or Alternatively, for Recusal, filed by Jalapeno. Mr. Gallegos said that Jalapeno is seeking to strike the interventions filed by OCD and NMOGA because neither intervenor has an interest in the merits of this case. He stated that arguments were heard by the Commission on August 25, 2016, on Jalapeno's Motion to Dismiss challenging the Commission's jurisdiction to consider Matador's application and the automatic assessing of a 200% risk penalty. He said the Commission issued its decision denying the Motion to Dismiss, and this hearing is strictly on the merits of the subject case. Mr. Brooks rested on the findings he filed in his Response to the Motion to Strike. Mr. Feldewert said that Commission rules and Statute 70-2-23 state that any person having any interest in the subject matter of a hearing has a right to be heard. He said this application is not limited to this particular hearing but involves a challenge to pooling practices for horizontal wells that OCD permits. He asked that the Commission deny the Motion to Strike. Mr. Gallegos responded that the references Mr. Feldewert made pertained to rulemaking procedures and this case relates only to the right of Matador to pool the interests in this particular case. Mr. Bruce pointed out that the risk charge is also at stake in this hearing and NMOGA has a substantial interest in what happens at this hearing.

After a motion by Commissioner Balch and a second to the motion by Commissioner Padilla, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1 H to deliberate on the Motion. After a motion by Commissioner Padilla and a second to the motion by Commissioner Balch, the Commission voted unanimously to go back into open session. Chair Catanach stated that the Motion to Strike Notices of Intervention, or Alternatively, for Recusal filed by Jalapeno was the only matter discussed during the closed session. Counsel Brancard explained the Commission's ruling citing Statute 70-2-13 concerning rulemaking and adjudicatory laws and said that OCD was allowed to intervene at the last hearing, so its intervention will be allowed at this hearing. If the Division wishes to participate in the hearing, then the Commission will rule on the relevance. Regarding the intervention by NMOGA and the issue on standing in this particular case, the Commission has a problem with the timing of NMOGA's intervention and ruled that NMOGA does not have standing in the merits of this case. Therefore, its intervention will not be allowed. Commissioner Balch made a motion to adopt the ruling, Commissioner Padilla seconded the motion, and the motion passed unanimously.

Mr. Bruce made an opening statement listing the issues to be decided at this hearing and outlining the presentation of his case. Mr. Gallegos made an opening statement addressing the issues and outlining the presentation of his case.

Matador's first witness was Van Singleton, Executive Vice President of Land with Matador in Frisco, Texas. He explained that Matador wants to drill an Upper Wolfcamp well and described its surface and bottomhole

locations. He identified the interest owners who require notification in this case and who should be compulsorily pooled. He described the types of leases involved, some of which require continuous development. He discussed the proposal letter sent to the interest owners and stated that Matador reached voluntary agreement with some interest owners. He summarized the communication between Matador and Jalapeno. He stated that Jalapeno would not sign the JOA because of the risk charge – 100%/300%. He discussed the amounts to be charged for the drilling of the subject well. Mr. Gallegos, Chair Catanach, Commissioner Padilla, and Counsel Brancard cross-examined the witness, and he was excused.

The hearing recessed for lunch and reconvened at 1:30 p.m. Mr. Singleton was recalled to answer questions raised by the Commission about the JOA. He said proposals were modified for horizontal wells. He presented Matador's and Jalapeno's net interest figures. Chair Catanach and Commissioner Padilla cross-examined the witness, and he was excused.

Matador's next witness was Dr. Edmund Frost, Chief Geologist with Matador in Dallas, Texas. He gave the cumulative production of vertical wells in the area. He said that all of the Wolfcamp producers are vertical wells. He said Matador will test the unconventional shale targets with the proposed well. He discussed the geologic parameters he used to understand the geology in the area and discussed horizontal development in the area. He discussed porosity and permeability. He said that Upper Wolfcamp wells drilled in the area are not predictive of what to expect in this well. He stated that the closest analog well would be approximately 45 miles away. He said he could find no evidence of any major faults in the formation. Mr. Gallegos, Mr. Brooks, Commissioner Padilla, Chair Catanach, and Commissioner Balch cross-examined the witness, and he was excused.

Matador's next witness was Aaron Byrd, Senior Staff Reservoir Engineer with Matador in Dallas. He explained what has happened to decrease the drilling costs shown in the original AFE to the costs shown in the current AFE. He said reasonable well costs include drilling and completion costs and provide for contingency costs which are used for minor problems. He said an operator must install an equipping facility before drilling the well and, therefore, it is a necessary cost. He described the procedures for equipping a well. He presented a typical drilling and completion plan for a Wolfcamp well. He explained the reason for using four strings of intermediate casing in the proposed horizontal well. He provided the costs of drilling a pilot hole. He discussed operational risks encountered in drilling a horizontal well. He said that Matador has not drilled and completed a horizontal well in the Upper Wolfcamp formation in this area. Mr. Gallegos, Mr. Brooks, Commissioner Padilla, Chair Catanach, and Commissioner Balch cross-examined the witness, and he was excused.

A discussion was held on how long the Commission could be available on September 7 to hear the remainder of this case. Chair Catanach suggested that the hearing begin at 8:00 a.m. and continue until 2:30 p.m. when Commissioner Balch would have to leave. The meeting was recessed at 5:30 p.m.

The meeting was reconvened at 8:30 a.m. on September 7, 2016.

Matador's witness was Bradley Robinson, Senior Vice President of Reservoir Engineering with Matador in Dallas. He described the reservoir differences between the Wolfcamp and Bone Spring formations. He said the Bone Spring is more of a conventional target by most operators. He discussed key reservoir risk factors. He said Matador does not have any permeability data from the Upper Wolfcamp. He listed the key risks to look at when drilling and explained how to estimate the possibility of success. He stated that the risks and costs of drilling the subject well justify a 200% risk penalty. He said Matador cannot efficiently drain the reserves in the subject well by drilling four vertical wells. At this time Mr. Bruce asked that the Commission incorporate the Division hearing into this case. Counsel Brancard cautioned the Commission that the witnesses in this hearing should be the primary source for the Commission's decision in this case. The record and the exhibits from the Division's hearing were incorporated. Mr. Gallegos, Chair Catanach, Commissioner Padilla, and Commissioner Balch cross-examined the witness, and he was excused.

Jalapeno's first witness was Harvey E. Yates, Jr., Owner of an oil and gas exploration business in Albuquerque, New Mexico. He explained his general experience in the oil and gas business in New Mexico. He said he declined to participate in the subject well because the AFE was very high. He said he asked Matador to redo the AFE with current figures. He explained his problem with the 100%/300% risk penalty. He said the cost of drilling has gone up and the risk has come down. He said the 200% rule does not represent actual risk. He stated that he had calculated that a well would have to produce one million barrels of oil in order for a non-consent to come back in. He said if the operating agreement had changed the risk charge to 100%/150%, he would have signed the JOA. He explained the "Stogner Method" of assigning risk using geology risks, reservoir risks, and operations risks. He explained that contingency fees are supposed to take care of additional costs. He discussed correlative rights and stated his belief that a 200% risk penalty means a loss of correlative rights to non-consent interest owners. Mr. Bruce, Commissioner Padilla, Chair Catanach, and Counsel Brancard cross-examined the witness, and he was excused.

A discussion was held to determine the next meeting date for the continuation of this hearing. It was decided that the case would be continued to October 17 but could be changed to October 6 if all parties were available.

Item 6. Next meeting: October 6, 2016

Item 7. Adjournment

The meeting was recessed at 12:50 p.m.

DAVID R. CATANACH, Chair