

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 MARATHON OIL PERMIAN, CASE NO. 16381  
LLC FOR COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 19, 2019

Santa Fe, New Mexico

BEFORE: KATHLEEN MURPHY, CHIEF EXAMINER  
PHILLIP GOETZE, TECHNICAL EXAMINER  
DANA Z. DAVID, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Kathleen Murphy, Chief Examiner; Phillip Goetze, Technical Examiner; and Dana Z. David, Legal Examiner, on Thursday, September 19, 2019, 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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# APPEARANCES

FOR APPLICANT MARATHON OIL PERMIAN, LLC:

DEANA M. BENNETT, ESQ.  
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1 (4:16 p.m.)

2 EXAMINER MURPHY: Let's hear Case 16381.

3 It's an application of Marathon Oil Permian, LLC for  
4 compulsory pooling, Eddy County.

5 Call for appearances.

6 MS. BENNETT: Good afternoon.

7 Deana Bennett, Modrall, Sperling, on behalf  
8 of Marathon Permian Oil Permian, LLC.

9 EXAMINER MURPHY: Any other appearances?

10 Call for witnesses.

11 MS. BENNETT: At this time I don't have any  
12 witnesses, and I intend to put this case on by  
13 affidavit.

14 I would note -- just to give you a bit of  
15 background about this case and why it shows as contested  
16 on the docket is because originally Tap Rock and  
17 Marathon had filed competing applications for this area,  
18 and Tap Rock and Marathon subsequently worked that out.  
19 And Tap Rock has dismissed its competing applications  
20 and is not present today. So it's not contested.

21 EXAMINER MURPHY: Great. Please proceed.

22 MS. BENNETT: Thank you.

23 In the materials in front of you -- also  
24 just to give you a bit of background -- I'm sorry --  
25 Marathon originally filed these applications last year,

1 August 2018, approximately. And as I mentioned, there  
2 were these competing proposals, and that's why it's  
3 taken so long to get to hearing. And so some of the  
4 materials that you'll be seeing are materials, like our  
5 notice letter and our Affidavit of Publication, date  
6 back to the August 2018 time period, as well as the  
7 proposal letters, or earlier than that. But the reason  
8 for the delay is the competing proposals that were  
9 eventually worked out.

10 So in the materials before you, I have two  
11 affidavits. I have the affidavit of the landman behind  
12 Tab A and the affidavit of the geologist behind Tab B.  
13 I'll move to admit all of the exhibits at the end of my  
14 presentation.

15 Mr. Ryan Gyllenband is the -- I'm sorry.  
16 Clayton W. Rule is the landman for this case.  
17 Mr. Rule is a land supervisor for Marathon Oil Permian,  
18 LLC, but he has never testified before the Division. I  
19 have attached a copy of his resume as Exhibit 1. It's  
20 behind Tab 1.

21 And you'll see from his resume that he  
22 received a Bachelor of Business Administration from  
23 Baylor and a Master of Business Administration from the  
24 University of Texas, Dallas. He's worked as a landman  
25 or land supervisor since 2006, and he's been working at

1 Marathon since 2010.

2 He has been certified as a professional  
3 landman by the American Association of Professional  
4 Landmen, and he's a Certified Professional Lease and  
5 Title Analyst by the National Association of Lease and  
6 Title Analysts.

7 His area of responsibility at Marathon  
8 includes the area of Eddy County in New Mexico. He is  
9 familiar with the application Marathon filed in this  
10 case, and he is familiar with the status of the lands  
11 that are the subject of this application.

12 So at this time, I'd like to tender  
13 Mr. Rule as an expert petroleum landman for this case.

14 EXAMINER MURPHY: So qualified.

15 MS. BENNETT: Thank you.

16 Exhibit 2 behind Tab 2 is the application  
17 that Marathon submitted back in 2018. This is a  
18 1,280-acre spacing unit that Marathon is seeking. It  
19 covers Sections 7 and 8. So Exhibit 2 is the  
20 application. And in the application, we identify the  
21 names of the wells that Marathon is seeking to create or  
22 drill. And you'll see when we get to the C-102s, the  
23 well names are slightly different, and Marathon asks  
24 that the well names in the C-102s be the well names that  
25 appear on the order.

1                   And I'll actually be preparing an Exhibit A  
2   for this case, as well as the Mead cases to submit with  
3   the exhibits when we submit those.

4                   In the application Marathon states that it  
5   seeks to pool all uncommitted working interest owners.

6                   So behind Tab 3 are the C-102s, and these  
7   wells are all Wolfcamp; Purple Sage wells. And by all  
8   these wells, I mean eight wells that are proposed. And  
9   they're Purple Sage; Wolfcamp wells. And Mr. Rule  
10   testifies that these wells will comply with the  
11   Division's setback rules and the Purple Sage; Wolfcamp  
12   order. The C-102 also identifies the pool code, which  
13   is 98220.

14                  Behind Tab 4 is a lease tract map. This  
15   lease tract map shows the status of the leases for both  
16   Sections 7 and 8. And you can see on the right-hand  
17   side that Mr. Rule has broken out the federal acres and  
18   the fee acres. And the proposed unit boundary is in  
19   dark blue. So each of the different colors represents a  
20   different blue [sic].

21                  Page 29 [sic] is a summary of interests --  
22   or begins the summary of interests. And this is the  
23   committed working interest owner, which is Marathon, the  
24   uncommitted working interest owners, which consists of  
25   Mewbourne, Warwick-Ares, David M. Madden, the Trustee of

1 the Robert H. St. John Family Trust, Grinch LLC, DeAnne  
2 Shepard, Island Resources, and Texas Independent  
3 Exploration, Inc.

4 The next page, which is --

5 I'm sorry. When I said page 29, I meant  
6 page 20. Sorry about that.

7 The next page, which is page 21, is the  
8 overriding royalty interest owners that Marathon seeks  
9 to pool and the amount of their interests.

10 Page 5 is a summary of contacts identifying  
11 the steps that Marathon took to obtain voluntary  
12 joinder.

13 EXAMINER GOETZE: Exhibit 5, page 23?

14 MS. BENNETT: Yes.

15 EXAMINER GOETZE: Okay. Thank you.

16 MS. BENNETT: And it outlines here, which  
17 we'll see in a minute, that Marathon sent proposal  
18 letters on July 12th, 2018 and then a revised -- or a  
19 clarification letter on August 3rd, 2018. And according  
20 to Marathon's records, all of the proposal letters were  
21 received by the parties to whom they were sent. So all  
22 of the addresses that Marathon had were good addresses.  
23 No letters were returned. Marathon then sent a joint  
24 operating agreement at a later date to the working  
25 interest owners as well. And then it goes through the

1 other steps, including notice letters and publications  
2 that I did at my office.

3 Mr. Gyllenband testified -- I'm sorry.

4 Mr. Rule testifies that there are no depth severances  
5 within the Wolfcamp Formation. He also testifies that  
6 he conducted, in his opinion, a diligent search of  
7 public records in the county where the wells are located  
8 and conducted phone directory and computer searches to  
9 locate contact information for the parties entitled to  
10 notice. And he mailed all parties well proposals and an  
11 AFE, which we will see. And by parties, I mean working  
12 interest holders.

13 I just wanted to point out that when we  
14 look at the notice affidavit and the notice information,  
15 there does not appear to be notice that was given to  
16 Mewbourne, even though Marathon is seeking to pool  
17 Mewbourne, and that's because there was a change in  
18 title between the time that these -- this application  
19 was filed and today. And so Marathon sent a proposal  
20 letter to Magnum Hunter, which is Mewbourne's  
21 predecessor in interest. And Marathon sent that letter  
22 to Magnum Hunter -- and this is, again, the proposal  
23 letter -- based on the title reports that Marathon had  
24 at the time.

25 Marathon also sent a proposal letter to



1     Cimarex, and Cimarex had acquired Magnum Hunter back in  
2     2005. Then Magnum Hunter changed its name to Blue Ridge  
3     Mountain Resources in 2017. And I say all this because  
4     when you look at our notice affidavit and our notice  
5     parties, Modrall, Sperling sent notice of this hearing  
6     to Cimarex and Blue Ridge Mountain Resources, which are  
7     both Magnum Hunter entities, and it is from Magnum  
8     Hunter that Mewbourne obtained its interest.

9                     Exhibit 6 is an example of the proposal  
10    letter that was sent to the working interest owners.  
11    And as with all of Marathon's proposal letters, it  
12    contains separate elections for each well, and it also  
13    contains the approximate TVD, the surface-hole location  
14    and the bottom-hole location.

15                    Page 26 is that clarification letter I  
16    mentioned a minute ago identifying some clarifications  
17    with respect to the original AFEs that were sent.

18                    Exhibit 7 contains the authorizations for  
19    expenditures for the wells. And Mr. Rule testifies that  
20    in his opinion, the estimated cost of the wells set  
21    forth in Exhibit 7 is fair and reasonable and comparable  
22    to the cost of other wells drilled to this length and  
23    depth in this area of New Mexico. In this case Marathon  
24    is requesting overhead and administrative rates of 8,000  
25    per month for drilling the well and 800 a month for a

1 producing well. In Mr. Rule's opinion, these rates are  
2 fair and comparable to the rates charged by other  
3 operators of this type in this area of southeastern New  
4 Mexico. Marathon requests that these rates be adjusted  
5 periodically as provided for in the COPAS accounting  
6 procedure and that the maximum cost plus 200 percent  
7 risk charge be assessed against nonconsenting working  
8 interest owners. Marathon requests that it be named the  
9 operator of the well -- wells.

10 Marathon requests that it be allowed a  
11 period of one year between when the wells are drilled  
12 and when the first well is completed in the order. The  
13 parties that Marathon is seeking to pool were notified  
14 of this hearing, and Marathon requests that overriding  
15 royalty interest be pooled.

16 Exhibit 8 is the Affidavit of Notice. Page  
17 60 is the certified mail transaction list, and it shows  
18 to whom notice was sent and the status of the mailing.  
19 Pages 61, 62, 63 and 64 are just address lists that we  
20 take to the post office to get stamped when we send out  
21 the certified letters. Some of the mailings were  
22 returned and pages 65 and 66 show that proof of  
23 publication was done.

24 Mr. Rule testifies that the attachments to  
25 this affidavit were prepared by him or compiled from

1 company business records or were prepared at his  
2 direction, and the information contained herein is  
3 complete and accurate to the best of his belief. And he  
4 testifies that the granting of this application is in  
5 the interest of conservation and the prevention of  
6 waste.

7 Before I move on to the geology exhibits,  
8 does anyone have any questions about the landman  
9 exhibits?

10 EXAMINER GOETZE: No questions.

11 EXAMINER MURPHY: No questions.

12 EXAMINER DAVID: Ms. Bennett, I was looking  
13 through it. I don't see a copy of a notice letter with  
14 a hearing date in here.

15 MS. BENNETT: I don't typically provide  
16 those. I'm happy to supplement those if I need to, but  
17 I haven't provided those generally in the past -- well,  
18 in fact, never. But if you'd like me to start including  
19 those, I'm certainly happy to.

20 EXAMINER DAVID: Well, most people do, and  
21 it would just be nice to know that -- you know, that  
22 somebody got -- that they actually were notified of the  
23 hearing date. So I guess -- I mean, I guess it's up to  
24 the hearing examiners, but most people provide them, a  
25 copy of that notice letter. I'm not going to make the

1 decision. I'll just bring it to your attention.

2 MS. BENNETT: I would say that my affidavit  
3 does attest to the fact that I did provide a notice  
4 letter with the hearing date identified in the letter,  
5 but if I do need to supplement with an actual copy of  
6 the notice letter and do that on a going-forward basis,  
7 I'm happy to do that. Whatever is the pleasure of the  
8 Division and will make it easier on a going-forward  
9 basis.

10 EXAMINER GOETZE: Well, everyone is looking  
11 over at me, so I'm full of pleasure. Seeing how this  
12 one has been carried over through several iterations, in  
13 the feature, let's just go ahead and do it. At this  
14 time we will take -- because of the extensive  
15 notification that has been done, we'll stand for this  
16 case to have that. Okay?

17 MS. BENNETT: Thank you.

18 EXAMINER DAVID: I have no objection to  
19 that course of action.

20 EXAMINER GOETZE: Very well.

21 MS. BENNETT: Great. Thank you.

22 So if there are no other questions about  
23 the land exhibits, I'll then turn to Tab B, which is the  
24 geology exhibits.

25 The first exhibit is the affidavit of

1 Mr. Thomas Lockwood who has previously testified before  
2 the Division both in person and by affidavit. And he is  
3 a geologist for Marathon, and he has personal  
4 acknowledge of the matters stated herein. If I need to,  
5 I'm happy to tender him as an expert in petroleum  
6 geology, but he has been qualified in geology by the  
7 Division.

8 So I'll move on.

9 Exhibit 9 is a locator map showing the  
10 approximate location of the Crossbow Unit vis-à-vis the  
11 Capitan Reef.

12 Exhibit 10 is a wellbore schematic. And as  
13 I mentioned, there are eight wells, so this kind of  
14 gives you a gun-barrel view of the wells in space as  
15 they're proposed to be located.

16 Exhibit 11 is a structure map on the top of  
17 the Wolfcamp. The proposed project area is identified  
18 by the black-dashed line, and the proposed wells are  
19 identified by red-and-purplish-blue lines. Red wells  
20 indicate the WA wells, which are Wolfcamp A, and the  
21 purple lines indicate the WXY wells, which are Wolfcamp  
22 Y Sand.

23 Exhibit 11 shows that the structure dips to  
24 the east.

25 Exhibit 12 identifies three wells in the

1 vicinity of the proposed wells shown by a line of cross  
2 section running from A to A prime.

3               Exhibit 13 is a stratigraphic cross section  
4 hung on the top of the Wolfcamp. And if you turn to  
5 page 75, there is an 11-by-17 AFE -- I'm sorry --  
6 stratigraphic cross section for your review. In  
7 Mr. Lockwood's opinion, the well logs on the cross  
8 section give a representative sample of the Wolfcamp  
9 Formation in this area. The target zone is identified  
10 by the words "Producing Zone." And the shaded area is  
11 across the cross section, along with the red arrow, so  
12 you can see that Wolfcamp Y Sand and Wolfcamp A.

13               In his opinion, the Wolfcamp Y Sand  
14 thickness is relatively consistent from west to east.  
15 The Wolfcamp A thickness increases by approximately 50  
16 feet from west to east, and the gross interval thickness  
17 thickens slightly from west to east. And that's all  
18 contained on that exhibit as well.

19               Exhibit 14 is a gross interval isochore  
20 Wolfcamp to Wolfcamp B, and, again, you can see the  
21 proposed wells and the laterals there. He states that  
22 the formation is relatively uniform across the proposed  
23 well unit.

24               Mr. Lockwood concludes from his study that  
25 the horizontal spacing unit is justified from a geologic

1     standpoint. There are no structural impediments or  
2     faulting that will interfere with horizontal  
3     development. He also testifies that each quarter  
4     section in the unit will contribute more or less equally  
5     to production.

6                 Exhibit 15 provides an overview of the  
7     stress orientation in the area. This is taken from the  
8     Snee and Zoback 2018 paper. He testifies the preferred  
9     well orientation for this unit is east-west, as it  
10    operates -- or as it allows Marathon to operate two-mile  
11    laterals. But that's -- and that's the preferred  
12    orientation from a development perspective, not  
13    necessarily from a geologic perspective because he  
14    states that production is expected to be the same  
15    regardless of the stress of wellbore orientation.

16                He states that Exhibits 9 through 15 were  
17    prepared by him or under his supervision or compiled  
18    from company business records, and he concludes that the  
19    granting of Marathon's application is in the interest of  
20    conservation and the prevention of waste.

21                At this time I'd like to move to have  
22    Exhibit A and its attachments and Exhibit B and its  
23    attachments admitted into the record in Case Number  
24    16381.

25                EXAMINER MURPHY: Exhibits A and B are

1 admitted.

2 (Matador Production Company Exhibits A and  
3 B and Attachments 1 through 15 are offered  
4 and admitted into evidence.)

5 MS. BENNETT: Thank you.

6 And if anyone has any questions about the  
7 geology exhibits, I'm happy to do my best to --

8 EXAMINER GOETZE: We don't ask the lawyers  
9 about geology. So it is enough information for us to  
10 make an evaluation. I don't see any deficiencies.

11 EXAMINER MURPHY: I have no questions.

12 Mr. David?

13 EXAMINER DAVID: No. I'm fine. Thank you.

14 MS. BENNETT: Thank you.

15 At this time I request that Case Number  
16 16381 be taken under advisement.

17 EXAMINER MURPHY: 16381 will be taken under  
18 advisement.

19 (Case Number 16381 concludes, 4:35 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 9th day of October 2019.

21

22

23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2019  
Paul Baca Professional Court Reporters

25