

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. 20055,
LLC FOR A SPACING UNIT AND COMPULSORY	20056,
POOLING, LEA COUNTY, NEW MEXICO.	20057

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 15, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, November 15, 2018, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Third Floor Meeting Room, Santa Fe, New Mexico.

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APPEARANCES

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1	INDEX	
2		PAGE
3	Case Numbers 20055, 20056 and 20057 Called	4
4	Marathon Oil Permian, LLC's Case-in-Chief:	
5	Witnesses:	
6	Travis H. Prewett:	
7	Direct Examination by Ms. Bradfute	5
8	Cross-Examination by Ms. Kessler	23
9	Cross-Examination by Examiner Brooks	25
10	Cross-Examination by Examiner McMillan	26
11	Ethan Perry:	
12	Direct Examination by Ms. Bradfute	27
13	Cross-Examination by Examiner McMillan	35
14	Proceedings Conclude	37
15	Certificate of Court Reporter	38
16	EXHIBITS OFFERED AND ADMITTED	
17	Marathon Oil Permian, LLC Exhibit	
18	Numbers 1 through 11	23
19	Marathon Oil Permian, LLC Exhibit	
20	Numbers 12 through 18	35
21		
22		
23		
24		
25		

1 (1:26 p.m.)

2 EXAMINER McMILLAN: I'd like to call this
3 hearing back to order.

4 We're calling Cases Number -- we're going
5 to do 20057, application of Marathon Oil Permian, LLC
6 for a spacing unit and compulsory pooling, Lea County,
7 New Mexico.

8 And this will be combined with 55 and 56?

9 MS. BRADFUTE: That is correct.

10 EXAMINER McMILLAN: 20055 and 20056, which
11 is application of Marathon Oil Permian, LLC for a
12 standard spacing and compulsory pooling, Lea County, New
13 Mexico.

14 Call for appearances.

15 MS. BRADFUTE: Mr. Examiner, Jennifer
16 Bradfute, with the Modrall Sperling Law Firm, on behalf
17 of the Applicant.

18 EXAMINER McMILLAN: Any other appearances?

19 MS. KESSLER: Mr. Examiner, Jordan Kessler,
20 on behalf of ConocoPhillips Company.

21 MS. BRADFUTE: And, Mr. Examiner, I have
22 two witnesses that are here today.

23 EXAMINER McMILLAN: If the witnesses would
24 please stand up and be sworn in at this time.

25 Thank you.

1 (Mr. Prewett and Mr. Perry sworn.)

2 MS. BRADFUTE: I'd like to call my first
3 witness.

4 EXAMINER McMILLAN: Please proceed.

5 TRAVIS H. PREWETT,
6 after having been first duly sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MS. BRADFUTE:

10 Q. Could you please state your name for the
11 record?

12 A. Travis Prewett.

13 Q. And, Mr. Prewett, who do you work for?

14 A. Marathon Oil.

15 Q. And what is your position at Marathon?

16 A. I'm a land professional.

17 Q. And what are your responsibilities as a land
18 professional?

19 A. I manage our brokers in the field that are
20 running title and due diligence. I confirm our working
21 interests, revenue interests and overriding royalty
22 interests for all the owners in our wells, and I
23 negotiate JOAs and oversee acquisitions.

24 Q. And have you previously testified before the
25 Division?

1 A. No.

2 **Q. Could you please briefly explain your**
3 **educational background?**

4 A. I graduated from Texas Tech with an energy
5 commerce degree in 2007, and I've had about 11 years of
6 experience since then as a landman. After school, I was
7 five years' experience hopping around Texas as an
8 independent landman. And then I started working for
9 Marathon Oil in 2012 and joined the Bakken asset and
10 went up to North Dakota for five years and came back to
11 Texas. I've been working in the Permian since about
12 May.

13 **Q. And do you hold any certifications?**

14 A. I do. I have a CPL with the AAPL.

15 **Q. Okay. Great.**

16 And does your area of responsibility at
17 Marathon include the area of Lea County in southeastern
18 New Mexico?

19 A. Yes, ma'am.

20 **Q. And are you familiar with the applications that**
21 **have been filed by Marathon in Cases 20055 and 20056 and**
22 **20057?**

23 A. I am.

24 **Q. And are you familiar with the status of the**
25 **lands which are the subject matter of these**

1 **applications?**

2 A. Yes, I am.

3 MS. BRADFUTE: I'd like to tender
4 Mr. Prewett as an expert witness in land matters.

5 MS. KESSLER: No objection.

6 EXAMINER McMILLAN: So qualified.

7 **Q. (BY MS. BRADFUTE) Could you please turn to**
8 **what's been marked as Tab 1 in the exhibit packet in**
9 **front of you? Does this document consist of the**
10 **application in Case Number 20055?**

11 A. Yes, ma'am.

12 **Q. Could you please explain what Marathon is**
13 **seeking in this application?**

14 A. We are seeking to pool all the uncommitted
15 mineral interests in the Bone Spring horizontal spacing
16 unit underlying the west half-west half of Sections 15
17 and 22 in Township 22 South, Range 32 East, Lea County,
18 New Mexico.

19 **Q. And the spacing unit requested in this**
20 **application is just a standard horizontal spacing unit,**
21 **correct?**

22 A. Yes, ma'am.

23 **Q. And it will be for the development of the**
24 **Frizzle Fry Federal 22-32-15 TB 1H well?**

25 A. Yes, ma'am.

1 Q. And in this application, is Marathon also
2 asking that there be a one-year period between the time
3 when this well is drilled and when completions are
4 conducted?

5 A. Yes, that's correct.

6 Q. Okay. Thank you.

7 Could you please turn to Tab 2 in the
8 packet in front of you? Does Tab 2 contain the
9 application in Case Number 20056?

10 A. Yes, ma'am.

11 Q. Could you please briefly explain what Marathon
12 is seeking in this application?

13 A. We are seeking to pool all the uncommitted
14 mineral interests within the Bone Spring horizontal
15 spacing unit underlying the east half of the west half
16 of Sections 15 and 22, Township 22 South, Range 32 East
17 in Lea County, New Mexico.

18 Q. And similarly in this application, does it
19 pertain to a standard horizontal spacing unit?

20 A. Yes.

21 Q. And is Marathon seeking the one-year period to
22 perform completion operations for this well?

23 A. Yes, ma'am.

24 Q. And does this application pertain to the
25 Frizzle Fry Federal 22-32-15 TB 5H well?

1 A. Yes, ma'am.

2 Q. Could you please turn to Tab 3? Does Exhibit
3 Number 3 consist of the application in Case 20057?

4 A. Yes.

5 Q. And similarly does this application relate to a
6 standard horizontal spacing unit?

7 A. Yes.

8 Q. And is Marathon seeking additional time to
9 complete these wells consistent with the other two
10 applications?

11 A. Yes, ma'am.

12 Q. Could you please explain to the hearing
13 examiner what Marathon is seeking in this application?

14 A. We are looking to pool all the uncommitted
15 mineral interests within the Wolfcamp horizontal spacing
16 unit underlying the west half of Sections 15 and 22 in
17 Township 22 South, Range 32 East, Lea County, New
18 Mexico.

19 Q. Okay. And there are two wells that this
20 application pertains to, correct?

21 A. Yes, ma'am.

22 Q. Could you identify what those wells are?

23 A. Yes, ma'am. It's the Frizzle Fry Federal
24 22-32-15 WXY 7H well and the Frizzle Fry Federal
25 22-32-15 WA 2H well.

1 Q. Okay. And does Marathon plan to pad drill all
2 of these wells within these applications?

3 A. Yes, ma'am.

4 Q. Could you please turn to Exhibit Number 4?
5 Does Exhibit Number 4 contain all of the C-102 forms
6 that have been preliminarily prepared for these wells?

7 A. Yes, ma'am.

8 Q. And these forms have not yet been submitted to
9 the district office, correct?

10 A. That is correct.

11 Q. Okay. I'd like to look at the first page. Is
12 this the C-102 form for the 1H well?

13 A. Yes, ma'am.

14 Q. And does this C-102 form identify a first take
15 point and a last take point for the well?

16 A. Yes, it does. The first take point was 100
17 feet from the north line -- north line of Section 15 and
18 330 feet from the west line of Section 15. The last
19 take point is 100 feet from the south line of Section 22
20 and 330 feet from the west line of Section 22.

21 Q. Okay. And does this C-102 identify a pool that
22 the well will develop?

23 A. It does. It is the Red Tank; Bone Spring.

24 Q. And is there a pool code for that pool as well?

25 A. 51683.

1 Q. Okay. And again, that was 51683?

2 A. Yes, ma'am.

3 Q. Okay. Could you please turn to the second page
4 of this exhibit? Does this second page contain the
5 C-102 form for the 2H well?

6 A. Yes, ma'am.

7 Q. And this is an Upper Wolfcamp well, correct?

8 A. Yes.

9 Q. And does this C-102 form identify a wildcat
10 pool that's been created by the district office?

11 A. Yes, it does.

12 Q. And is the pool code also identified in this
13 C-102?

14 A. Yes, ma'am.

15 Q. Could you please state what the pool code is?

16 A. 98123.

17 Q. Okay. And does this C-102 form identify the
18 first and last take points for this well?

19 A. Yes, it does. The first take point is 100 feet
20 from the north line of Section 15 and 660 feet from the
21 west line of Section 15. And the last take point is 100
22 feet from the south line of Section 22 and 660 feet from
23 the west line of Section 22.

24 Q. Okay. And this will be an oil well, correct?

25 (Examiner Brooks enters the room, 1:33

1 p.m.)

2 A. Yes, ma'am.

3 Q. If you could please turn to the next page of
4 this exhibit.

5 EXAMINER McMILLAN: This is David Brooks.
6 He's the attorney.

7 MS. BRADFUTE: Thank you.

8 Q. (BY MS. BRADFUTE) Does this document consist of
9 the C-102 form for the 5H well?

10 A. Yes.

11 Q. And is there a pool code identified for this
12 well?

13 A. 51683.

14 Q. And this is, again, the Red Tank; Bone Spring
15 Pool, correct?

16 A. Yes, ma'am.

17 Q. Could you please identify the first and last
18 take points for this well?

19 A. The first take point is 100 feet from the north
20 line of Section 15, 1,982 feet from the west line of
21 Section 15. The last take point is 100 feet from the
22 south line of Section 22 and 1,983 feet from the west
23 line of Section 22.

24 Q. And I want to look at the last page of this
25 exhibit. Is this document the C-102 form for the 7H

1 **well?**

2 A. Yes.

3 **Q. And this is a Wolfcamp well, correct?**

4 EXAMINER BROOKS: Which exhibit are you
5 looking at?

6 MS. BRADFUTE: We are on the last page of
7 Exhibit 4.

8 EXAMINER BROOKS: Okay.

9 **Q. (BY MS. BRADFUTE) And is this the C-102 form**
10 **for the 7H well?**

11 A. Yes, ma'am.

12 **Q. And this is a Wolfcamp well, correct?**

13 A. Yes, ma'am.

14 **Q. And it's in the Upper Wolfcamp zone?**

15 A. Yes, ma'am.

16 **Q. And you stated that the pool code for the Upper**
17 **Wolfcamp well was 98123, correct?**

18 A. Yes, ma'am.

19 **Q. And this is a wildcat pool that's been created**
20 **by the district office?**

21 A. Yes.

22 **Q. And I want to take a moment and kind of focus**
23 **on this particular C-102. Could you briefly explain**
24 **where this well is located in relation to the spacing**
25 **unit that's being proposed?**

1 A. We're drilling this in the middle, down the
2 center of the spacing unit.

3 Q. Okay. And why has Marathon decided to drill
4 this well down the center of this proposed spacing unit?

5 A. This is in relation to our full plan of
6 development. We found this to be the most efficient way
7 to develop this acreage.

8 Q. Okay. And is Marathon using -- relying on the
9 new horizontal well rule that was enacted by the
10 Division -- by the Commission?

11 A. Yes, that's correct.

12 Q. And that's the basis for forming the 640-acre
13 spacing unit, correct?

14 A. Yes, ma'am.

15 Q. And will the first and last take points for
16 this well comply with the Division setback requirements?

17 A. That is correct.

18 Q. Okay. If you could please turn to Exhibit
19 Number 5, could you please explain what's contained in
20 Exhibit Number 5?

21 A. Yes. This is the lease tract maps. What we're
22 looking at here is the map for our 1H Frizzle Fry
23 Federal 22-32-15 TB 1H, and it's depicting -- the unit
24 that we're pooling there is the west half-west half,
25 showing the four tracts of land that had some differing

1 ownerships in them.

2 **Q. And does this proposed spacing unit consist of**
3 **four different leases, or are there fewer leases?**

4 A. There's fewer. There are only two leases.

5 **Q. Okay. But over the years, ownership has been**
6 **divided a little differently in those two leases so that**
7 **you have four different ownership tracts?**

8 A. Yes, ma'am.

9 **Q. Okay. And could you please turn to the next**
10 **page of this exhibit and explain this document?**

11 A. This is the tract map for the Frizzle Fry
12 Federal 22-32-15 TBU 5H depicting the east half of the
13 west half unit that we're going to be pooling our
14 interest in.

15 **Q. And does this proposed spacing unit also**
16 **consist of two different federal leases?**

17 A. It does.

18 **Q. And you've identified four different tracts**
19 **because there are four different sets of ownership?**

20 A. Yes, ma'am.

21 **Q. And could you please turn to the next page of**
22 **this exhibit and explain what it consists of?**

23 A. This is also a lease tract map for the Frizzle
24 Fry Federal 22-32-15 WXY 7H and the Frizzle Fry Federal
25 22-32-15 WA 2H wells, and it's going to be the west half

1 of Sections 15 and 22.

2 Q. Okay. And could you please turn to the last
3 page of this exhibit and explain what that information
4 is?

5 A. These are --

6 Q. Or the next page. I apologize. There is a
7 chart after this. The next page of this exhibit.

8 EXAMINER BROOKS: You're on what exhibit
9 number?

10 MS. BRADFUTE: Exhibit 5, and it should be
11 the "Summary of Interests" page. I apologize. That was
12 a poor description.

13 THE WITNESS: So this is the Summary of
14 Interests, and it's showing all of our working interest
15 owners in these units and the two working interest
16 owners that have signed JOAs. And there is actually a
17 third that signed a JOA yesterday and sent it in. So
18 Mary Hudson Ard will be moved up to the committed
19 working interests.

20 Q. (BY MS. BRADFUTE) Okay. And so other than Mary
21 Hudson Ard, the entities listed under "Uncommitted
22 Working Interest" are the working interest owners that
23 Marathon is seeking to pool?

24 A. Yes, ma'am.

25 Q. Okay. And there are no unleased mineral

1 interests?

2 A. No, ma'am.

3 Q. Okay. And these interest owners are the same
4 in all three of the proposed spacing units?

5 A. That is correct.

6 Q. And is Marathon also seeking to pool overriding
7 royalty interest owners?

8 A. Yes, ma'am.

9 Q. And have you provided the overriding royalty
10 interest owners with notice of these applications?

11 A. We have.

12 Q. If you could turn to the next pages within this
13 exhibit, do these pages contain charts which list who is
14 a working interest and who is an overriding royalty
15 interest owner?

16 A. Yes, ma'am.

17 Q. And so these are the overriding royalty
18 interest owners that Marathon is seeking to pool,
19 correct?

20 A. Yes. Yes, they are.

21 Q. Okay. Could you please summarize for the
22 examiner what efforts Marathon has made to obtain
23 voluntary joinder of interests within the proposed
24 spacing units?

25 A. Yes. So we have searched the county courthouse

1 for the current record holders and use those addresses
2 to mail out notices, and also we've used LexisNexis and
3 other means to contact each of these folks. We have
4 successfully talked to every one of our working interest
5 owners. We've gotten ahold of all of them. And there
6 have been a few overriding royalty interest owners that
7 we have not been able to locate, but, you know, we are
8 still diligently working to locate those folks.

9 Q. In your opinion, has Marathon made a good-faith
10 effort to obtain voluntary joinder in the wells?

11 A. Yes, ma'am.

12 Q. And in your opinion, has Marathon exercised
13 reasonable diligence to find accurate contact
14 information for the parties it's seeking to pool?

15 A. Yes, ma'am.

16 Q. Are there any depth severances in the proposed
17 spacing units?

18 A. No.

19 Q. Okay. Could you please turn to what's been
20 marked as Exhibit 6 and explain what this document is?

21 A. That was a -- this is a well-proposal letter
22 that was sent out. We sent one of these out to each one
23 of our interest owners, and this was dated May 21st,
24 2018. It lists every one of these wells that we've
25 proposed, and it gives an election for each one of them

1 on the third page.

2 Q. Okay. So parties can opt to elect in any one
3 of the particular wells?

4 A. That is correct.

5 Q. Okay. And along with this well-proposal
6 letter, did Marathon also send out AFEs for each of the
7 wells it's proposing?

8 A. Yes, ma'am.

9 Q. Could you please turn to Exhibit Number 7?
10 Does Exhibit Number 7 contain the AFE for the 1H well?

11 A. Yes, ma'am.

12 Q. And could you please explain to the hearing
13 examiner what the costs are for drilling, completing and
14 equipping this well?

15 A. Yes. The drilling cost was \$3,379,995. The
16 completion costs were \$6,437,370. Grand total with
17 everything was \$10,777,100.

18 Q. Okay. And were the estimated costs similar for
19 the other wells that Marathon is proposing?

20 A. Yes.

21 Q. Okay. And are the AFEs for those wells
22 contained in Exhibits 8, 9 and 10?

23 A. Yes, they are.

24 MS. BRADFUTE: Mr. Examiner, I'd prefer to
25 just give that summary instead of going through the

1 costs for each one, unless you would like us to go
2 through the costs for each one. It's whatever is easier
3 for you.

4 EXAMINER McMILLAN: I don't see the point.

5 EXAMINER BROOKS: I don't either.

6 MS. BRADFUTE: Okay. Thank you.

7 Q. (BY MS. BRADFUTE) Are the costs that have been
8 estimated for these wells in line with the costs to
9 drill other wells to these lengths and these depths
10 within this area of New Mexico?

11 A. Yes, ma'am.

12 Q. What amounts does Marathon recommend should be
13 paid for supervision and administrative expenses?

14 A. \$8,000 for drilling -- \$8,000 a month for
15 drilling and \$800 per month for production.

16 Q. Okay. And these are two-mile-long laterals,
17 correct?

18 A. Yes, ma'am.

19 Q. Okay. And are those amounts equivalent to
20 those normally charged by Marathon and other
21 operators --

22 A. Yes, ma'am.

23 Q. -- in this area for horizontal wells drilled to
24 these lengths and these depths?

25 A. Yes, ma'am.

1 Q. And in your opinion, who should be appointed as
2 the operator of the well?

3 A. Marathon Oil Permian, LLC.

4 Q. Are you requesting that the amounts paid for
5 supervision and administrative expenses be adjusted
6 periodically as provided for under the COPAS accounting
7 procedure?

8 A. Yes, ma'am.

9 Q. And does Marathon request the maximum cost,
10 plus 200 percent risk charge if any pooled working
11 interest owner fails to pay its share of costs for
12 drilling, completing or equipping the wells?

13 A. Yes, ma'am.

14 Q. Were the parties who you are seeking to pool
15 notified of this hearing?

16 A. Yes.

17 Q. Could you please turn to Exhibit 11? Does
18 Exhibit 11 contain an affidavit prepared by Marathon's
19 attorney confirming that notice was provided via
20 certified mail?

21 A. It does.

22 Q. And attached to this affidavit, is there proof
23 of mailing? And about five pages in, there should be a
24 chart with a blue header confirming which mailings were
25 delivered by affected parties?

1 A. It does.

2 Q. Okay. And in addition to notifying overriding
3 royalties and working interest owners, did Marathon also
4 proceed cautiously and go ahead and notify offsets as
5 well?

6 A. That's correct.

7 Q. Okay. There were some mailings that were
8 returned, correct?

9 A. Yes.

10 Q. Did Marathon also publish notice and list all
11 the parties by name in a newspaper of general
12 circulation in Lea County?

13 A. Yes. Yes, we did.

14 Q. And is that Affidavit of Publication included
15 as the last page of this exhibit?

16 A. It is.

17 Q. Mr. Prewett, in your opinion, is the granting
18 of these applications in the interest of waste -- or in
19 the interest of conservation and the prevention of
20 waste?

21 (Laughter.)

22 MS. BRADFUTE: Excuse me (laughter).

23 THE WITNESS: Yes, it is.

24 EXAMINER BROOKS: I'm going to tell Deana
25 that you said that.

1 MS. BRADFUTE: You should. You should.
2 She started it all.

3 Q. (BY MS. BRADFUTE) Were Exhibits 1 through 11
4 prepared by you or compiled under your supervision and
5 direction or from company business records?

6 A. Yes, they were.

7 MS. BRADFUTE: I'd like to tender Exhibits
8 1 through 11 into the record.

9 MS. KESSLER: No objection.

10 EXAMINER McMILLAN: Exhibits 1 through 11
11 may now be accepted as part of the record.

12 (Marathon Oil Permian, LLC Exhibit Numbers
13 1 through 11 are offered and admitted into
14 evidence.)

15 MS. BRADFUTE: And that concludes my
16 questions.

17 MS. KESSLER: I have a couple of questions.

18 CROSS-EXAMINATION

19 BY MS. KESSLER:

20 Q. I'm looking at Exhibit 5.

21 A. Yes, ma'am.

22 Q. Does ConocoPhillips own a working interest or
23 an overriding royalty interest in this section -- or in
24 this spacing unit?

25 A. No. We ran our initial title search, and we

1 did have ConocoPhillips in there. But then we have
2 since gotten a title opinion back showing that that
3 interest had been conveyed out.

4 Q. Okay. And have you communicated that to
5 ConocoPhillips?

6 A. No, ma'am. We have not.

7 Q. Okay. Are you aware that they did receive a
8 letter saying that they were a party to be pooled
9 subject to this proceeding?

10 A. Yes. Yes.

11 MS. BRADFUTE: And just a correction. I
12 think they were notified as an offset owner, and I think
13 the letter says to "affected parties."

14 THE WITNESS: That is true. They are an
15 offset owner.

16 Q. (BY MS. KESSLER) okay. I believe it did say
17 that there were two parties to be pooled, so they are
18 under the impression they are a party to be pooled. So
19 perhaps that can be communicated to ConocoPhillips.

20 A. Absolutely.

21 Q. Thank you. That's all I have.

22 EXAMINER BROOKS: Well, I came in late, but
23 I want to look at Exhibit 4. And I first want to
24 congratulate whoever prepared them because these are a
25 lot easier to read than most of the ones we get.

1 MS. BRADFUTE: Yes.

2 CROSS-EXAMINATION

3 BY EXAMINER BROOKS:

4 A. But the Red Tank; Bone Spring Pool is spaced on
5 40s?

6 MS. BRADFUTE: Yes.

7 Q. (BY EXAMINER BROOKS) Now, what about the
8 WCO15GO8S2333182C [sic] --

9 MS. BRADFUTE: It is also based on 40s.
10 It's an oil pool wildcat.

11 EXAMINER BROOKS: Okay. Well, that's
12 understandable in connection with the -- the #5H well --
13 no, wait.

14 MS. BRADFUTE: The 7H well?

15 EXAMINER BROOKS: Yeah. It works for the
16 #7H well because you're drilling that well through the
17 middle?

18 MS. BRADFUTE: Uh-huh.

19 EXAMINER BROOKS: So you've got proximity
20 tracts. I assume you're probably not going to drill
21 right on the centerline, although I can't tell. Let's
22 see. 274 feet and then another 100 feet.

23 MS. BRADFUTE: They're about 10 feet, 11
24 feet off, I think, something like that.

25 EXAMINER BROOKS: Okay. So you've

1 got -- those are -- you've got four -- you've got
2 eight -- eight tracts in your -- eight 40s in your
3 spacing unit, plus eight proximity tracts.

4 MS. BRADFUTE: That's correct.

5 EXAMINER BROOKS: Okay. But the problem --
6 I don't see how that solves the problem for the #2H.

7 MS. BRADFUTE: So the #2H is proposed
8 second. Neither of these have been submitted yet, but
9 it would be an infill well within that the spacing unit.

10 EXAMINER BROOKS: Oh, okay. So it would be
11 considered an infill well?

12 MS. BRADFUTE: Yes.

13 EXAMINER BROOKS: Now, somebody has put on
14 here, "No allowable will be assigned to this completion
15 until there's been" -- "until" -- oh, "all interests
16 have been consolidated or a nonstandard spacing unit has
17 been approved." And you're in the process of
18 consolidating all the interests right now?

19 MS. BRADFUTE: Yes, that's correct.

20 EXAMINER BROOKS: Okay. I guess that's the
21 only questions I have. You're notifying all the
22 overrides, so I don't have an override question.

23 CROSS-EXAMINATION

24 BY EXAMINER McMILLAN:

25 Q. So going back to, essentially, the 7H, you're

1 using the proximity tract rule, right?

2 A. Yes.

3 Q. And just to clarify, this is the most efficient
4 way to develop the acreage, is the reason you're
5 drilling along the quarter-quarter line?

6 A. That's correct.

7 Q. And will the completed interval for the 7H and
8 2H be orthodox?

9 A. Yes.

10 Q. And so the 7H is the well that defines the
11 spacing unit, right?

12 MS. BRADFUTE: That's correct.

13 EXAMINER McMILLAN: I don't have anything
14 else.

15 MS. BRADFUTE: Okay. Thank you.

16 THE WITNESS: Thank you.

17 MS. BRADFUTE: And I will call my next
18 witness.

19 EXAMINER McMILLAN: Please proceed.

20 ETHAN PERRY,

21 after having been previously sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MS. BRADFUTE:

25 Q. Could you please state your name for the

1 record?

2 A. Ethan Perry.

3 Q. And, Mr. Perry, who do you work for?

4 A. Marathon Oil.

5 Q. And what is your position at Marathon?

6 A. I'm a geologist.

7 Q. And have you previously testified before the
8 Division?

9 A. Yes, I have.

10 Q. And were your credentials accepted and made
11 part of the record?

12 A. Yes, they were.

13 Q. Are you familiar with the applications that
14 have been filed by Marathon in this matter?

15 A. Yes, I am.

16 Q. And are you familiar with the status of the
17 lands which are the subject matter of these
18 applications?

19 A. Yes, I am.

20 Q. Are you familiar with the drilling plans for
21 these wells?

22 A. Yes.

23 Q. And have you conducted a geologic study of the
24 area embracing the proposed spacing units for the wells?

25 A. Yes, I have.

1 MS. BRADFUTE: I'd like to tender
2 Mr. Perry as an expert witness in geology matters.

3 MS. KESSLER: No objection.

4 EXAMINER McMILLAN: So qualified.

5 Q. (BY MS. BRADFUTE) Mr. Perry, would you please
6 identify what the targeted intervals are for the wells?

7 A. The subject wells will target the 3rd Bone
8 Formation, as well as the Upper Wolfcamp Formation.

9 Q. Okay. And could you please turn to what's been
10 marked as Exhibit 12, and could you please identify what
11 this document is?

12 A. This is a structure map made on the top of the
13 Wolfcamp. The top of the Wolfcamp is a regional marker
14 that sits below the 3rd Bone Spring Formation. You have
15 the acreage for Marathon in yellow. And you have the
16 project area with the black-dashed box, and the subject
17 wells are shown with the red sticks. The data points
18 are presented on the map -- the structure map. And
19 there is a three-well cross section, which I'll show in
20 the next exhibit, illustrated with the red-dashed line.
21 There are no industry horizontal tests to the 3rd Bone
22 in the immediately adjacent sections, but there are
23 recent OXY and Centennial tests within three or four
24 miles.

25 Q. And when you put together this structure map,

1 **did you notice anything structurally that's going to**
2 **interfere with the contribution of this acreage to the**
3 **proposed wells?**

4 A. No, ma'am. The structural dip is generally
5 from west down -- down from west to east.

6 Q. Okay. And did you also prepare a cross section
7 of logs?

8 A. Yes, I did.

9 Q. And is that cross section contained in Exhibit
10 Number 13?

11 A. Yes, ma'am.

12 Q. Are the wells that you selected for this cross
13 section representative of the 3rd Bone Spring Sand?

14 A. Yes, they are.

15 Q. And could you please explain this exhibit?

16 A. This is a stratigraphic cross section hung on
17 the Wolfcamp marker. The producing zone is highlighted
18 with the green, and the proposed approximate target
19 intervals for the 5H and the 1H wells are shown with the
20 red -- the red arrows. For reference, the log tracks
21 are from left to right, the gamma ray, the depth,
22 resistivity, then porosity and caliper on the rightmost
23 tract.

24 Q. And what does this tell you about the target
25 zones for each of the wells?

1 A. The gross interval thickens a little bit to the
2 right of the cross section, but in general, across the
3 producing -- across the project area, the gross interval
4 is expected to be relatively consistent.

5 **Q. Could you please turn to Exhibit Number 14, and**
6 **could you please identify what this document is?**

7 A. That is a gross interval isochore for the 3rd
8 Bone Spring Formation. Again, Marathon's acreage is
9 shown in yellow. The contour intervals are 25 feet.
10 The project area is shown in the black-dashed box. The
11 subject wells are with the red sticks. This gross
12 interval isochore map shows a slight thinning of the 3rd
13 Bone to the northeast and to the south and a thickening
14 to the west and to the east, but across the project area
15 itself, it's interpreted to be relatively consistent
16 between 350 and 375 foot thick.

17 **Q. And what conclusions have you drawn from your**
18 **geologic study of the Bone Spring Formation in this**
19 **area?**

20 A. Based on the available data, we anticipate the
21 gross interval thickness of the target interval to be
22 relatively consistent across the project area.

23 **Q. Okay. And, again, you found no structural**
24 **impediments to horizontal development?**

25 A. No, ma'am.

1 Q. In your opinion, will each quarter-quarter
2 section be productive in the Bone Spring Formation?

3 A. Yes, ma'am.

4 Q. And will each quarter-quarter section
5 contribute approximately equally to the production from
6 the Bone Spring wells?

7 A. Yes, ma'am.

8 Q. Could you please turn to Exhibit 15, and could
9 you please identify what this document is?

10 A. This is the same top Wolfcamp structure map
11 presented here. Again, Marathon's acreage is in yellow,
12 the project area with the black-dashed box, and the
13 subject wellbores shown with the red sticks. The same
14 three-well cross section is shown from A to A prime, and
15 there are no nearby Upper Wolfcamp horizontal --
16 delineation test of this interval.

17 Q. And did you notice anything structurally within
18 the Wolfcamp Formation that would interfere with
19 horizontal development?

20 A. No, ma'am.

21 Q. Could you please turn to Exhibit 16? Is
22 Exhibit 16 a cross section that you prepared?

23 A. Yes, it is.

24 Q. And are the wells that you've included within
25 this cross section representative of the Upper Wolfcamp

1 **Formation in the area?**

2 A. Yes, they are.

3 **Q. Could you please explain this cross section?**

4 A. This is a stratigraphic cross section hung on
5 the top of the Wolfcamp Formation. The producing zone
6 is highlighted with green, and the proposed targeted
7 depths for the subject wells, the 7H and 2H, are shown
8 with the red arrows. In general, the gross interval
9 thickness from the Wolfcamp to the Wolfcamp B marker is
10 relatively consistent across the project area.

11 **Q. And what does this cross section tell you about**
12 **the Upper Wolfcamp zones?**

13 A. Based on the available data, we anticipate the
14 Upper Wolfcamp thickness to be relatively consistent
15 across the project area and that the horizontal wells
16 will contribute proportionately within that zone.

17 **Q. Okay. And could you please turn to Exhibit 17**
18 **and explain what this document is?**

19 A. This is a gross interval isochore for the
20 Wolfcamp to the Wolfcamp B marker. That's the Upper
21 Wolfcamp interval. Again, Marathon's acreage in yellow,
22 project area with the black-dashed box and the subject
23 wellbores in red. The isochore shows a thickening of
24 the gross interval to the east of the project area, but
25 within the project area, we anticipate the gross

1 thickness to be relatively consistent, between 350 and
2 375 feet thick.

3 Q. And in your study of the Upper Wolfcamp, did
4 you find any impediments to horizontal development?

5 A. No, ma'am.

6 Q. In your opinion, will each quarter-quarter
7 section be productive in the Upper Wolfcamp Formation?

8 A. Yes, ma'am.

9 Q. And in your opinion, will each quarter-quarter
10 section contribute approximately equally to the
11 production of each of the Upper Wolfcamp wells?

12 A. Yes.

13 Q. Could you please turn to Exhibit 18, and could
14 you please explain what this document is?

15 A. This is a combination exhibit showing an aerial
16 photograph showing the area around the project area with
17 the proposed wellbores shown with the red sticks and
18 labeled respectively. And the diagram on the right
19 shows a gun-barrel view of the horizontal, of the
20 lateral, as well as the vertical placement of the
21 proposed wellbores within the subject unit.

22 Q. So this document helps identify where all the
23 wells are located in connection with one another?

24 A. Yes, ma'am.

25 Q. In your opinion, will the granting of

1 **Marathon's applications be in the best interest of**
2 **conservation, the prevention of waste and the protection**
3 **of correlative rights?**

4 A. Yes.

5 **Q. Were Exhibits 12 through 18 prepared by you or**
6 **compiled under your direction and supervision?**

7 A. Yes, they were.

8 MS. BRADFUTE: I'd like to tender Exhibits
9 12 through 18.

10 MS. KESSLER: No objection.

11 EXAMINER McMILLAN: Exhibits 12 through 18
12 may now be accepted as part of the record.

13 (Marathon Oil Permian, LLC Exhibit Numbers
14 12 through 18 are offered and admitted into
15 evidence.)

16 MS. BRADFUTE: And that concludes my
17 questions.

18 MS. KESSLER: No questions.

19 CROSS-EXAMINATION

20 BY EXAMINER McMILLAN:

21 **Q. The question I have is based on the cross**
22 **section for the Bone Spring. Is interest identical in**
23 **the mineral interest estate between the Bone Spring and**
24 **Wolfcamp?**

25 A. The landman can answer that.

1 EXAMINER McMILLAN: Is ownership in the
2 mineral estate identical between the Bone Spring and the
3 Wolfcamp?

4 MR. PREWETT: It is.

5 EXAMINER McMILLAN: Okay.

6 And the question I'm getting -- you wanted
7 one year between drilling and completion?

8 MS. BRADFUTE: Yes. Thank you.

9 EXAMINER McMILLAN: And are you willing to
10 provide an affidavit from an engineer who states that
11 all of the different units have been drilled and are
12 capable of producing oil and gas?

13 MS. BRADFUTE: Yes. When would you like us
14 to provide that?

15 EXAMINER McMILLAN: Just when you --

16 MS. BRADFUTE: After drilling?

17 EXAMINER McMILLAN: Yeah, after drilling,
18 because that way the OCD is ensured that you're not
19 sitting on the wells.

20 MS. BRADFUTE: Yes.

21 EXAMINER McMILLAN: That's all we're trying
22 to do.

23 EXAMINER BROOKS: Okay. You would have
24 trouble finding an engineer who would execute an
25 affidavit until all the units have been drilled before

1 drilling.

2 MS. BRADFUTE: That's right.

3 (Laughter.)

4 EXAMINER McMILLAN: We can find somebody.

5 You don't have a problem with that?

6 MS. BRADFUTE: That's fine.

7 EXAMINER BROOKS: I hope you will have
8 trouble finding that.

9 EXAMINER McMILLAN: I don't have anything
10 else.

11 MS. BRADFUTE: Thank you.

12 We would ask these cases be taken under
13 advisement.

14 EXAMINER McMILLAN: Case Numbers 20055,
15 20056 and 20057 shall be taken under advisement.

16 (Case Numbers 20055, 20056 and 20057
17 conclude, 2:00 p.m.)

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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 18th day of December 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