

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. 16412
LLC FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 21, 2019

Santa Fe, New Mexico

BEFORE: KATHLEEN MURPHY, CHIEF EXAMINER
 TERRY WARNELL, TECHNICAL EXAMINER
 WILLIAM V. JONES, TECHNICAL EXAMINER
 SUSAN SITA, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Kathleen Murphy, Chief Examiner; Terry Warnell and William V. Jones, Technical Examiners; and Susan Sita, Legal Examiner, on Thursday, March 21, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
 New Mexico CCR #20
 Paul Baca Professional Court Reporters
 500 4th Street, Northwest, Suite 105
 Albuquerque, New Mexico 87102
 (505) 843-9241

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APPEARANCES

FOR APPLICANT MARATHON OIL PERMIAN, LLC:

DEANA M. BENNETT, ESQ.
LANCE HOUGH, ESQ.
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.
500 4th Street, Northwest, Suite 1000
Albuquerque, New Mexico 87102
(505) 848-1800
deanab@modrall.com

FOR INTERESTED PARTY MRC PERMIAN:

MICHAEL H. FELDEWERT, ESQ.
HOLLAND & HART, LLP
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
mfeldewert@hollandhart.com

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1 (10:23 a.m.)

2 EXAMINER MURPHY: The next case on the
3 docket is 16412, Marathon Oil for compulsory pooling.

4 Call for appearances.

5 MS. BENNETT: Good morning. Deana Bennett
6 on behalf of Marathon Oil.

7 This is Lance Hough from our firm, Modrall
8 Sperling.

9 MR. FELDEWERT: May it please the
10 Examiners, Michael Feldewert, with the Santa Fe office
11 of Holland & Hart, appearing on behalf of MRC Permian.
12 And I do not have any witnesses here today and do not
13 oppose this case being heard by affidavit.

14 MS. BENNETT: Good morning. Again, my name
15 is Deana Bennett on behalf of Marathon, and we're here
16 today to present Case Number 16412. And I will be
17 presenting this case by affidavit. And so I have handed
18 you a packet that has three affidavits in it that I'll
19 be walking through briefly with you.

20 The first affidavit is the affidavit of
21 Marathon's landman, Chase Rice -- I'm sorry -- Travis
22 Prewett, and Mr. Prewett has been qualified as an expert
23 and has testified before the Division before.

24 The next exhibit is Exhibit 2, which is the
25 affidavit of Matt Baker. Matt Baker is Marathon's

1 geologist, and he has testified before the Division as
2 well.

3 And then the final affidavit is the
4 Affidavit of Notice prepared by myself and my firm, and
5 I'll touch on that affidavit as the time is appropriate.

6 So starting with Exhibit Number 1, which is
7 Mr. Travis Prewett's affidavit, he is a landman for
8 Marathon, as I mentioned. In this case Marathon seeks
9 an order from the Division pooling all uncommitted
10 mineral interest owners within the Wolfcamp Formation.
11 And the spacing unit underlies the north half of
12 Sections 7 and 8, Township 24 South, Range 27 East, and
13 this unit will be dedicated to four wells: the Atreides
14 7 WXY Fed Com 2H; Atreides 7 WA Fed Com 4H; Atreides 7
15 WXY Fed Com 5H; and the Atreides 7 WA Fed Com 8H.

16 Now, you may see -- or you've heard me say
17 that the well names have changed slightly since we filed
18 this amended application -- or filed our amended
19 application, to add the word "com." And that's a BLM
20 requirement. So that's the only thing that changed
21 since we filed the amended application.

22 But that brings me to one of the things I
23 wanted to talk about with you-all today, which is the
24 fact that Marathon did file an amended application.
25 Originally, Marathon had filed two applications. And

1 those were filed back in August 2018. The first case
2 was Case Number 16411, and that sought a Bone Spring.
3 That was an application for a Bone Spring well. And
4 then the other application was 16412, and that included
5 three Wolfcamp wells.

6 Well, Marathon decided to eliminate the
7 Bone Spring well and change it to a Wolfcamp well. So
8 Marathon requested that Case 16411, which is was the
9 Bone Spring well case, be dismissed. And that case was
10 dismissed by the Division on January 28th. And then
11 we -- by we, I mean Marathon -- consolidated all of its
12 wells into Case Number 16412 and changed that one Bone
13 Spring well to a Wolfcamp well. So Case Number 16412
14 was amended to include the original -- it includes the
15 original three Wolfcamp wells and a new Wolfcamp well.

16 And when the application was amended,
17 Marathon actually sent out new proposal letters to the
18 working interest owners. That was done in November,
19 November 29th, 2018. So the working interest owners had
20 notice of the amended well proposal and the AFEs in
21 November -- the end of November 2018.

22 Then I filed the amended applications on
23 December 20th, 2018, and I sent out notice to all of the
24 parties that we knew of. And by we, again, I mean
25 Marathon, knew of on December 20th, 2018. So all of the

1 parties to this case that Marathon was aware of had
2 notice of the amended application well before today.

3 And at the end of December, early January,
4 it came to light that Matador had an interest in this
5 spacing unit, that Matador was a working interest.
6 Marathon's title report established -- or originally
7 concluded that Matador's interests had expired, but it
8 came to light that Matador's interests were still valid.
9 And so at that point, Matador reached out to Marathon
10 and asked Marathon to continue the case to allow Matador
11 and Marathon to negotiate about this case.

12 And Matador and Marathon continued to
13 negotiate. In fact, Marathon's landman sent Matador a
14 copy of the proposal letter by email, which Matador
15 agreed to email service of the proposal letter and I
16 believe the JOA as well. And so Mr. Prewett and the
17 landman for Matador have engaged in numerous
18 conversations both via phone and email since it came to
19 light that Matador has an interest. And Marathon has
20 continued this case twice to allow those negotiations to
21 continue.

22 And at this point, the negotiations are --
23 I wouldn't say at a standstill, but the parties have not
24 been able to reach an agreement, which is why we're here
25 today.

1 Matador is the only working interest owner
2 that Marathon seeks to pool. If you look at Tab A --
3 oh, shoot. I'll have to supplement the information
4 about Marathon's and Matador's percentages of ownership.
5 It didn't make it into the packet. I apologize for
6 that. Marathon 87.5 percent of the ownership interest,
7 and Matador has 12.5 percent, subject to check. That's
8 my memory. But there are no other working interest
9 owners or unleased mineral interest owners. So Matador
10 is the only working interest owner that Marathon seeks
11 to pool.

12 EXAMINER JONES: Will that be submitted as
13 Exhibit 1A, supplemental? Is that correct?

14 MS. BENNETT: Yes. Yes, it will. I
15 apologize that I left that out of the materials today.

16 But Exhibit A does include the lease tract
17 map with the federal acreage.

18 Exhibit B are the C-102s for the proposed
19 wells. And these are all Purple Sage; Wolfcamp Gas
20 Pool. So these -- the C-102s have the correct well
21 name, which includes the "Fed Com" designation that the
22 BLM requires. So the C-102s all have the correct well
23 names.

24 Exhibit C is the proposal letter that I
25 mentioned to you that was sent out on November 29th

1 after the amended application -- or after Marathon
2 determined to drill four Wolfcamp instead of three
3 Wolfcamp and a Bone Spring.

4 And Exhibit D are the AFEs that correspond
5 to those four wells. So the interest owners -- at that
6 time there were three unleased -- Marathon believed
7 there were three unleased mineral interest owners. They
8 all received a copy of it. But when it came to light
9 that it was actually Matador's interest, then the same
10 information was transmitted to Matador.

11 Unless there are any questions about the --

12 Well, I would also just point out that
13 Mr. Prewett testifies in his affidavit that there are no
14 overriding royalty interest owners. There is no
15 ownership difference between the Wolfcamp and the Bone
16 Spring. There are no depth severances in the Wolfcamp
17 Formation. The producing intervals for the wells will
18 be orthodox and will comply with the Division setback
19 rules. He testifies that the estimated costs of the
20 wells that are set forth in the AFEs are fair and
21 reasonable and are comparable to the costs of other
22 wells of similar depths and lengths drilled in this area
23 of New Mexico.

24 Marathon also requests overhead and
25 administrative rates of 8,000 a month for drilling a

1 well and 800 a month for a producing well. And
2 Mr. Prewett again testifies that these rates are fair
3 and comparable. And Marathon requests that these rates
4 be adjusted periodically as provided by the COPAS
5 accounting procedure. And Marathon requests the maximum
6 cost plus 200 percent risk charge be assessed against
7 nonconsenting working interest owners. And Marathon
8 requests that it be designated operator of the wells and
9 that it be allowed a period of one year between when the
10 wells are drilled and when the first well is completed
11 under the order.

12 It's his opinion that the granting of this
13 application is in the interest of conservation and the
14 prevention of waste.

15 Are there any questions I can answer about
16 the landman's materials?

17 EXAMINER JONES: He doesn't put a date that
18 he started talking to Matador in his affidavit, but he
19 does repeat what you said, that he did propose to
20 Matador.

21 MS. BENNETT: I want to say it was -- when
22 Matador first contacted Marathon, I want to say it was
23 right around the beginning of the year, in early January
24 2019, but I have some email correspondence that he
25 forwarded to me for my review and that he provided the

1 proposal -- he being Travis Prewett, the landman,
2 provided the proposal to Matador on January 21st, 2019.
3 And then there is another conversation on February 1st,
4 2019.

5 EXAMINER JONES: That's an email that you
6 got?

7 MS. BENNETT: Yes. Uh-huh.

8 EXAMINER JONES: Can you -- you're going to
9 submit something else later, so can you include that in
10 your --

11 MS. BENNETT: Sure.

12 EXAMINER MURPHY: Mr. Feldewert, do you
13 have any questions.

14 MR. FELDEWERT: I do not. No. I don't
15 have anybody to question.

16 EXAMINER WARNELL: I have a question.

17 Ms. Bennett, looking at the C-102s, it
18 seems as though all four wells will be drilled off the
19 same pad. Do you know?

20 MS. BENNETT: I believe that's right. Let
21 me double-check my notes here.

22 I think that's right, but I can
23 double-check that for you.

24 EXAMINER WARNELL: All right. Thank you.

25 EXAMINER MURPHY: When was this first

1 heard?

2 MS. BENNETT: It was never originally heard
3 actually because we continued the case -- the cases, one
4 to allow us to amend the application, and, two, at
5 Matador's request.

6 EXAMINER MURPHY: When was it first -- it
7 was scheduled once?

8 MS. BENNETT: We originally filed the
9 application in August 2018. And I don't have the exact
10 dates that we filed, but the hearing would have either
11 been in September or October originally.

12 EXAMINER MURPHY: And then it was continued
13 again?

14 MS. BENNETT: Uh-huh. It's been continued,
15 I think, three times, once to allow us to amend the
16 application and twice at Matador's request.

17 EXAMINER JONES: Did we issue an order on
18 16411?

19 MS. BENNETT: You did. You issued Order
20 Number R-20347 dismissing Case Number --

21 EXAMINER JONES: Oh, dismissed.

22 MS. BENNETT: Uh-huh.

23 EXAMINER JONES: Okay. Thanks.

24 EXAMINER MURPHY: They don't have API
25 numbers?

1 MS. BENNETT: Not yet.

2 EXAMINER JONES: But it appears they're the
3 Purple Sage.

4 MS. BENNETT: They are. Uh-huh. Yes.

5 And the C-102s have the pool code, 98220,
6 and identifies the pool as the Purple Sage; Wolfcamp
7 gas.

8 EXAMINER MURPHY: Are there any other
9 questions?

10 MS. BENNETT: Sorry. I have a couple more
11 exhibits to go through, Exhibit Number 2, which is the
12 affidavit of Matt Baker, the geologist, which we can go
13 through quite quickly actually.

14 He has the same three exhibits that you're
15 accustomed to seeing in these cases, which is the
16 structure map, a cross section and then a gross
17 isochore -- gross interval isochore. And on his
18 exhibits, you can see the project area is outlined by a
19 dashed black box, and the four wells are identified by a
20 blue line. And based on his analysis of the area, he
21 concludes that there are no impediments to horizontal
22 wells in this location. There is no faulting or
23 pinch-outs. His conclusion is, as he states in his
24 affidavit, that the horizontal spacing unit is justified
25 from a geologic standpoint. There are no structural

1 impediments or faulting that would interfere with
2 horizontal development, and each quarter-quarter section
3 in the unit will contribute more or less equally to
4 production. He also discusses the preferred well
5 orientation in this area and notes that it's either
6 north-south or east-west. So he says that both well
7 orientations should produce similar results.

8 The final affidavit is my Affidavit of
9 Notice, and it includes the names and addresses of the
10 parties to whom we sent notice, my law firm. That's the
11 first sheet. The second sheet with the blue header is
12 the status of those mailings, and then the final pages
13 of my affidavit are an Affidavit of Publication where we
14 published. And that was done in December of 2018 in
15 anticipation of the earlier hearing dates that we had
16 scheduled in January, but then, as I mentioned, when we
17 received the communications from Matador, we continued
18 the cases -- this case at Matador's request.

19 Any questions?

20 EXAMINER MURPHY: Any questions?

21 EXAMINER WARNELL: No questions.

22 MS. BENNETT: Seeing no questions, I'd like
23 to request the admission of Exhibit 1 with its
24 attachments; Exhibit 2 with its attachments; and Exhibit
25 3 with its attachments.

1 EXAMINER MURPHY: The exhibits are --

2 MR. FELDEWERT: No objection.

3 EXAMINER JONES: Exhibits 1, 2 and 3 are
4 admitted.

5 EXAMINER MURPHY: Exhibits 1, 2 and 3 are
6 admitted.

7 (Marathon Oil Permian, LLC Exhibit Numbers
8 1 through 3 are offered and admitted into
9 evidence.)

10 MS. BENNETT: Thank you.

11 I'd ask this case be taken under advisement
12 at this time.

13 EXAMINER MURPHY: It will be taken under
14 advisement.

15 MS. BENNETT: Thank you.

16 (Case Number 16412 concludes, 10:41 a.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 7th day of April 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