

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. 20169  
LLC FOR COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 16, 2019

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, Leonard Lowe, Chief Examiner; Michael McMillan, Technical Examiner; and David K. Brooks, Legal Examiner, on Thursday, May 16, 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

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1 (10:17 a.m.)

2 EXAMINER LOWE: We will call Case Number  
3 20169, Marathon Oil Permian for compulsory pooling.

4 MS. BENNETT: Thank you.

5 Again, my name is Deana Bennett. I'm here  
6 on behalf of Marathon Oil Permian, LLC, the Applicant in  
7 this case, a companion case to the two cases I just  
8 presented. This case is also being presented by  
9 affidavit. This case also involves a depth severance,  
10 which I'll discuss in a moment.

11 For the Division's convenience, I've  
12 included behind the cover sheet a copy of the amended  
13 application. And when Marathon submitted this amended  
14 application, Marathon had been requesting the Division  
15 to approve a particular allocation formula to deal with  
16 the depth severance, and Marathon has reached an  
17 agreement with the party who is affected by that  
18 ownership difference and is no longer requesting that  
19 the allocation formula be approved. And I am formally  
20 withdrawing any request that the allocation formula be  
21 approved and withdrawing that from the application.

22 EXAMINER BROOKS: Okay. So what are you  
23 requesting in terms of depth severance.

24 MS. BENNETT: Well, nothing in terms of  
25 depth severance for this case.

1                   EXAMINER BROOKS:   Okay.   So you're not  
2   anticipating that the unit be defined by depth, as well  
3   as by spacing unit?

4                   MS. BENNETT:   No.

5                   EXAMINER BROOKS:   Okay.

6                   MS. BENNETT:   No.   This one has no specific  
7   requirement for the order.   You'll note in the Bone  
8   Spring cases that I discussed a moment ago,  
9   Mr. Gyllenband did testify in his affidavit about the  
10   limits that he would request be placed in the order.

11                  EXAMINER BROOKS:   Right.   And, of course,  
12   that's their usual way of doing things.   But if you're  
13   just -- I didn't quite understand what you said about  
14   the title and how they solved that issue.

15                  MS. BENNETT:   The parties have reached an  
16   agreement amongst themselves as to how to solve the  
17   issue.

18                  EXAMINER BROOKS:   Okay.

19                  MS. BENNETT:   And so this isn't an issue  
20   where Marathon is testifying that Marathon won't be  
21   obtaining hydrocarbons from above or below or that there  
22   will be any reduction of hydrocarbons.   Instead,  
23   Marathon's worked out an allocation agreement with  
24   respect to the parties that are affected by the  
25   difference in ownership.

1                   EXAMINER BROOKS: But the parties on both  
2 sides of the depth severance are committed to the wells,  
3 so it's not necessary for us to say in the order that  
4 the parties have agreed.

5                   MS. BENNETT: No. It's not necessary, in  
6 my view. But if it is something that you feel like you  
7 should include or need to include --

8                   EXAMINER McMILLAN: That seems like a  
9 nightmare.

10                  MS. BENNETT: Yeah. And it's not anything  
11 Marathon is requesting be included.

12                  EXAMINER BROOKS: Well, I think it's  
13 probably not necessary, but I was trying to think my way  
14 through it.

15                  MS. BENNETT: Uh-huh.

16                  EXAMINER BROOKS: Thank you.

17                  MS. BENNETT: Sure thing.

18                  So the first exhibit behind Tab 1 is  
19 Mr. Gyllenband's affidavit, and he is an expert  
20 petroleum landman. His credentials have been accepted  
21 by the Division as an expert.

22                  And his application discusses Marathon --  
23 or his affidavit discusses Marathon's application  
24 seeking to pool all uncommitted mineral interests within  
25 a Wolfcamp unit -- spacing unit underlying the west half

1 of Section 18.

2 As with the Bone Spring applications, the  
3 C-102s in this case and the materials other than the  
4 application all reflect the correct well name.

5 Mr. Gyllenband testifies that he has  
6 conducted a diligent search of the public records in the  
7 county where the wells are located, and he conducted  
8 phone directory and computer searches. He emailed the  
9 parties entitled to notice proposal letters with AFEs.  
10 And in his opinion, Marathon has made a good-faith  
11 effort to obtain voluntary joinder of the working  
12 interests in the proposed wells.

13 He's attached a lease tract map outlining  
14 the unit being pooled as Exhibit A, and this shows  
15 the -- Exhibit A shows the tracts and the status of the  
16 lands, fee and federal. And then the second page of  
17 Exhibit A shows the summary of interests, and it has the  
18 interest that Marathon seeks to pool.

19 And I should have mentioned this before,  
20 but for committed working interests, it's both Marathon  
21 Oil Permian and Joel Talley for both the Wolfcamp and  
22 Bone Spring

23 So Mr. Gyllenband testified that ownership  
24 is uniform across the Wolfcamp Formation except for this  
25 five-ish-net-acre interest, which changes working

1 ownership at 100 feet below the top of the Wolfcamp.  
2 And the ownership change was created by a depth-to-lease  
3 clause and an oil and gas lease when the lease expired  
4 as to depths 100 feet below the deepest producing  
5 formation.

6 He's also included the language for this --  
7 from this lease as Exhibit B. And so Exhibit B is the  
8 last five sub-three [sic] states. All developed acreage  
9 includes all depths from the surface down to 100 feet  
10 below the deepest formation producing in paying  
11 quantities at the end of the primary term. And so  
12 that's the language that created this depth severance or  
13 ownership change.

14 EXAMINER BROOKS: So this is different from  
15 the last one?

16 MS. BENNETT: It is. Uh-huh.

17 EXAMINER BROOKS: It's different leases.

18 MS. BENNETT: Different leases. Uh-huh.

19 EXAMINER BROOKS: Okay. It's also in  
20 Section 18, though.

21 MS. BENNETT: Yes. These are all in  
22 Section 18. The Bone Spring are in Section 18 and the  
23 Wolfcamp.

24 EXAMINER BROOKS: And the Wolfcamp.

25 MS. BENNETT: Uh-huh. So the two Bone

1 Spring applications together cover the --

2 EXAMINER BROOKS: Yes. The WXY are both  
3 Wolfcamp.

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

5 EXAMINER BROOKS: I guess that's what WXY  
6 means.

7 MS. BENNETT: Yes. It means Wolfcamp Y  
8 Sand. So these are all Wolfcamp wells.

9 EXAMINER BROOKS: Okay.

10 MS. BENNETT: As I mentioned earlier,  
11 Marathon has reached an agreement with the affected  
12 working interest owners as to allocation with respect to  
13 that 5-acre interest, and Marathon is not requesting  
14 that the Division approve any allocation formula.

15 Exhibit C is the C-102s for these wells,  
16 and these wells will develop the Antelope Ridge;  
17 Wolfcamp Pool. And that's pool code 2220. And as I  
18 mentioned earlier, these C-102s have the correct well  
19 names on them.

20 Mr. Gyllenband testifies that the producing  
21 intervals for the wells will be orthodox and will comply  
22 with the Division setback requirements.

23 Exhibit D is an example of the proposal  
24 letters that were sent to the working interest owners,  
25 and it has -- it's the same Exhibit D that was sent --



1 same exhibit that was sent for the Bone Spring wells.  
2 So it has the TVDs and also separate elections for each  
3 well.

4                   Exhibit E is the Authorization for  
5 Expenditure. And Mr. Gyllenband testifies that the  
6 estimated cost of the wells is fair and reasonable and  
7 is comparable to the cost of other wells of similar  
8 depths and lengths drilled in this area of New Mexico.  
9 Marathon is requesting overhead and administrative rates  
10 of 7,000 per month for drilling and 700 a month while  
11 producing. Mr. Gyllenband's testimony is that these  
12 rates are fair and comparable to the rates charged by  
13 other operators. Marathon requests that these rates be  
14 adjusted periodically as provided in the COPAS  
15 accounting procedure. Marathon requests the maximum  
16 cost plus 200 percent risk charge be assessed against  
17 nonconsenting working owners. Marathon requests that it  
18 be designated operator of the well and that it be  
19 allowed a period of one year between when the wells are  
20 drilled and when the first well is completed under the  
21 order.

22                   Exhibit F an Affidavit of Notice that I  
23 prepared, and it shows the names of the parties to whom  
24 notice -- who are entitled to notice, the status of that  
25 notice and also an Affidavit of Publication showing that

1 notice of this hearing was published on May 1st, 2019.

2 Any questions about Mr. Gyllenband's  
3 affidavit or his exhibits?

4 EXAMINER BROOKS: No. Thank you.

5 EXAMINER McMILLAN: Go ahead.

6 EXAMINER LOWE: Just explain to me. You  
7 just mentioned the naming of the well, XYZ. What was  
8 the reason for that?

9 MS. BENNETT: That -- so Marathon's wells  
10 are -- all of their Wolfcamp wells have a W in them, and  
11 then if it's a Wolfcamp Y, it's called WXY. If it's a  
12 Wolfcamp A, it's called WA. That's just Marathon's  
13 naming protocol. And that hasn't changed from the  
14 application to the C-102s. So that's just the way they  
15 delineate between their Wolfcamp wells.

16 EXAMINER LOWE: Okay. That's all the  
17 questions I have.

18 MS. BENNETT: Thank you.

19 EXAMINER McMILLAN: My question goes back  
20 to -- looks like Exhibit C. The first question is: Is  
21 the Antelope Ridge gas or oil?

22 MS. BENNETT: Oil.

23 EXAMINER McMILLAN: And so -- so are you  
24 making the Ned Pepper 18 WXY Federal Com the well that  
25 defines the spacing unit?

1 MS. BENNETT: The 6H.

2 EXAMINER McMILLAN: Okay. The 6H?

3 MS. BENNETT: Uh-huh.

4 And the 6H is right on the quarter-section  
5 line, so I imagine you-all will be asking to move it 10  
6 feet off the quarter section line.

7 EXAMINER McMILLAN: Yeah.

8 MS. BENNETT: And I don't see that as a  
9 problem. I mean, I'll just need to alert Marathon to  
10 that, but we've had a similar discussion with you  
11 before.

12 EXAMINER McMILLAN: Any unlocatable  
13 interests?

14 MS. BENNETT: No. By unlocatable, you mean  
15 we don't have an address for? The answer is no. And in  
16 any event, we published as to everyone, as a matter of  
17 course.

18 EXAMINER McMILLAN: And what's the status?  
19 Proposed?

20 MS. BENNETT: Proposed.

21 EXAMINER McMILLAN: Okay.

22 MS. BENNETT: Fantastic. Well, if there  
23 aren't any other questions about the landman's  
24 affidavit, I'll move to the geologist's affidavit.

25 EXAMINER LOWE: Okay.

1 MS. BENNETT: His affidavit is behind Tab  
2 Number 2, and, again, this is an affidavit of Mr. Ethan  
3 Perry, who has previously testified before the Division  
4 and has been qualified as an expert petroleum geologist.  
5 Here the exhibits are much more straightforward. There  
6 are no exhibits dealing with a depth severance.

7 Exhibit G is the same structure map that we  
8 saw before, but it's the structure map for the Wolfcamp.  
9 It shows the project area is defined by the black boxes.  
10 The wells here that we're looking at are wells numbered  
11 1, 3 and 5. Those are the Wolfcamp wells, the WXY and  
12 the WA. He states that Exhibit G shows that the  
13 structure dips from the north to the south. Exhibit G  
14 identifies the three wells that he uses for the cross  
15 section with a line running from A to A prime.

16 Exhibit H is the cross section. And it's  
17 hung on the base of the 3rd Bone Spring Sand. And he  
18 testifies that the well logs on the cross section give a  
19 representative sample of the Wolfcamp Formation in the  
20 area. And he notes, as with the prior exhibit, that  
21 that producing zone is highlighted in green. The target  
22 zones, which there are two of here, are identified by a  
23 red arrow. The first red arrow is for the Wolfcamp Y  
24 Sand, which is the WXY wells, and the second arrow is  
25 the WA. He testifies that the zone is -- the target

1     zones are continuous across the proposed unit.

2                     Exhibit I is the gross interval isochore of  
3     the Wolfcamp and the Wolfcamp B. He testifies that the  
4     formation is relatively uniform across the proposed  
5     unit. He testifies overall that his conclusion is that  
6     the horizontal spacing unit is justified from a geologic  
7     standpoint. There are no structural impediments or  
8     faulting that will interfere with horizontal  
9     development, and each quarter-quarter section in the  
10    unit will contribute more or less equally to production.  
11    The preferred well orientation in this area is north to  
12    south, he testifies, because the maximum horizontal  
13    stress is roughly east-west.

14                    His testimony is that the granting of these  
15    applications is in the interest of conservation and the  
16    prevention of waste.

17                    And that concludes my presentation of his  
18    affidavit, and if you-all have any questions, I'm happy  
19    to try to answer them.

20                    EXAMINER LOWE: Mr. Brooks?

21                    EXAMINER BROOKS: No questions.

22                    EXAMINER LOWE: I've got one question. On  
23    your Exhibit H, your -- the top red arrow is for the Y  
24    well?

25                    MS. BENNETT: Uh-huh.

1 EXAMINER LOWE: And then the bottom is the  
2 WA well?

3 MS. BENNETT: That's right. And there are  
4 two WXY wells.

5 EXAMINER LOWE: Okay.

6 That's all I've got.

7 Mr. McMillan?

8 EXAMINER McMILLAN: I don't have any  
9 questions.

10 MR. FELDEWERT: Mr. Examiner, Holland &  
11 Hart entered an appearance for EOG Resources, Inc., and  
12 I just have one question about the relief sought.

13 If I'm understanding the testimony today,  
14 you're not seeking to pool any type of depth severance.  
15 You're pooling the entire west half of Section 18 in the  
16 Wolfcamp, right?

17 MS. BENNETT: That's accurate.

18 MR. FELDEWERT: Okay. Thank you.

19 MS. BENNETT: Thank you.

20 With that, then I would ask that Exhibits 1  
21 and 2, along with their attachments be admitted into the  
22 record for Case Number 20169.

23 EXAMINER LOWE: Okay. All exhibits are  
24 accepted by OCD, and we will take it under advisement.

25 (Marathon Oil Permian, LLC Exhibit Numbers

1                   1 and 2 and A through K are offered and  
2                   admitted into evidence.)

3                   MS. BENNETT: Thank you very much.

4                   EXAMINER LOWE: Thank you.

5                   (Case Number 20169 concludes, 10:32 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 30th day of May 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

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