

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, LLC FOR (1) to the
Extent Necessary Approval of a
Non-Standard Spacing Unit, and (2)
Compulsory Pooling,
Eddy County, New Mexico

Case No. 22384

REPORTER'S TRANSCRIPT OF PROCEEDINGS

THURSDAY, JANUARY 6, 2022

EXAMINER HEARING

This matter came on for hearing before the New Mexico Oil Conservation Division, William Brancard, Esq. Hearing Examiner, John Garcia Technical Examiner, on Thursday, January 6, 2022, via Webex Virtual Conferencing Platform hosted by the New Mexico Energy, Minerals and Natural Resources Department

Reported by: Mary Therese Macfarlane
New Mexico CCR #122
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A P P E A R A N C E S.

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1 (Time noted 9:34 a.m.)

2 EXAMINER BRANCARD: With that I will call Case
3 22384, Marathon Oil Permian, LLC.

4 Ms. Bennett, are you there? Are you muted?

5 MS. BENNETT: Good morning, Mr. Examiner. Deana
6 Bennett on behalf of Marathon Oil Permian, LLC.

7 EXAMINER BRANCARD: Thank you. Let's figure out
8 what's going on here.

9 We've got entries of appearance from MRC
10 Permian?

11 MR. RANKIN: May it please the Court -- uh, may
12 it please the Court? Mr. Examiner, Adam Rankin appearing
13 on behalf of MRC Permian in these cases, with the law firm
14 of Holland & Hart, the Santa Fe office. Mr. Examiner, we
15 do not object to these cases proceeding by affidavit.

16 EXAMINER BRANCARD: Thank you. S.K. Warren
17 Resources.

18 MS. SHAHEEN: Mr. Examiner, Sharon Shaheen of
19 Montgomery & Andrews on behalf of S.K. Warren Resources.
20 Mr. Warren does not object to these cases going forward by
21 affidavit.

22 EXAMINER BRANCARD: Okay. Thank you.

23 Any other interested persons for Case
24 22384.

25 Hearing none, Ms. Bennett you may proceed.

1 MS. BENNETT: Thank you very much. I submitted
2 exhibits for this case on Tuesday. And I submitted an
3 initial packet, but upon reviewing the initial packet I
4 realized I made a couple of typographical errors so I
5 immediately submitted an amended exhibit packet, and it
6 has in red on the cover page "Amended Exhibits".

7 And I also included right after the cover
8 page a Notice of Amended Exhibits, requesting that these
9 exhibits be the operative set of exhibits and identifying
10 the errors that I made in the original exhibit packet.

11 And so I'm hopeful that what you have
12 before you now is the amended exhibit packet for Case No.
13 22384.

14 EXAMINER BRANCARD: I do see both of those in
15 our file.

16 Mr. Garcia, do you have both of those?

17 EXAMINER GARCIA: I do.

18 EXAMINER BRANCARD: Thank you.

19 Please proceed, then.

20 MS. BENNETT: Thank you.

21 So in the amended exhibit packet, I have
22 included as Tab A the Compulsory Pooling Checklist, and I
23 did want to point out the information that we've included
24 in the Additional Information box of the Compulsory
25 Pooling Checklist, which is at this very last page of the

1 checklist, and in that Additional Information Special
2 Provision stipulation section, I have indicated that
3 Marathon and MRC Permian and Marathon and Foran Oil have
4 come to an agreement in this case, and that Marathon has
5 agreed that MRC Permian's uncommitted interests are not
6 pooled under this Order, nor are Foran Oil LP's interests
7 being pooled under the Order.

8 So I included that in the Special
9 Provisions portion of the Compulsory Pooling Checklist so
10 that it's clear in the record what special provision is
11 Marathon is requesting be included in the Order.

12 The next set of materials in the exhibit
13 are the Self-Affirmed Declaration of Chase Rice. Mr. Rice
14 is a landman from Arizona and he's previously testified
15 before the Division and his credentials have been accepted
16 as a matter of record.

17 In his Declaration he goes through the
18 usual testimony or statements, including that Marathon
19 seeks to be designated as operator of the well; Marathon
20 seeks \$7500 and \$750 as overhead and administrative costs;
21 and Marathon is requesting that the standard risk penalty
22 be assessed.

23 Behind Mr. Rice's affidavit -- or excuse
24 me, his declaration, are the usual suite of exhibits,
25 including the C-102s; the lease tract maps; and the

1 interests, the owners of interest in the well -- I'm
2 sorry, in the unit; and a list of the overriding royalty
3 interest owners.

4 And behind that set of materials is the
5 list of the parties that Marathon seeks to pool.

6 We've also included a sample of the
7 Proposal Letter, as well as the AFEs, and Mr. Rice
8 testifies that the costs for drilling and completing the
9 wells are in line with similar costs of other wells of
10 this length and depth in New Mexico.

11 In this case Marathon is proposing a
12 480-acre spacing unit in the Purple Sage Wolfcamp, and the
13 reason its 480 is because the quarter section is excluded
14 from the spacing unit. And Mr. Rice testifies in his
15 Declaration, or states in his Declaration that that will
16 not result in any stranding of acreage because that
17 quarter section is already dedicated to a unit that's
18 operated by MRC Permian. And that's as the "Anne Com."
19 wells and unit.

20 And Mr. Rice testifies to that in paragraph
21 14 of his Declaration.

22 Behind his Declaration there's also the
23 Notice Affidavit prepared by our firm, and it shows that
24 Notice of the Hearing was timely mailed and that
25 publication was timely.

1 Then behind Mr. Rice's declaration is the
2 declaration of Mr. Matt Baker. Mr. Baker is a geologist
3 with Marathon and he's previously testified before the
4 Division and his credentials have been accepted as a
5 matter of record.

6 And his geology study includes the usual
7 suite of geology exhibits, including a Structure Map,
8 Cross Reference Locator Map, the Cross Section and
9 Isopach, as well as an expert of from the Snee, Zoback
10 paper for providing the justification for the orientation
11 of the wells in this area. And in his Declaration Mr.
12 Baker states that he concludes that the horizontal spacing
13 unit is justified, that there are no structural
14 impediments or faulting, and that each quarter section of
15 the unit will contribute more or less equally to
16 production.

17 With that let me check my notes.

18 And with that I would ask that the exhibits
19 in Case No. -- the amended exhibits in Case No. 22384 be
20 admitted into the record and this case be taken under
21 advisement.

22 Thank you.

23 EXAMINER BRANCARD: Thank you.

24 Ms. Shaheen, any questions.

25 MS. SHAHEEN: Not from S.K. Warren. Thank you.

1 EXAMINER Brancard: Mr. Rankin.

2 MR. RANKIN: No questions, Mr. Hearing Examiner.

3 I would just note we appreciate
4 clarification of the status of my client's interests in
5 the filings. So nothing further.

6 EXAMINER BRANCARD: Thank you.

7 Mr. Garcia.

8 EXAMINER GARCIA: I guess I'm just curious on
9 the wording on the application "to the extent necessary"
10 approval of a nonstandard spacing unit.

11 I guess the "to the extent necessary" stood
12 out to me.

13 MS. BENNETT: Yes. Thank you.

14 There is at least anecdotal discussion or
15 there's some on the ground, I guess, thinking that a
16 nonstandard unit in the -- I'm sorry the Purple Sage
17 Wolfcamp can be a 480-acre unit so long as it's a 360
18 building block and then you build on the 360 going forward
19 so that the minimum is met.

20 That's what I have heard just in
21 conversations with other people. But, you know, there is
22 the rule that Purple Sage Wolfcamp Orders seem to
23 contemplate 360 building blocks only, so to the extent
24 that 360 building blocks are the requirement for Purple
25 Sage Wolfcamp for each building block, then this would

1 require a nonstandard unit approval.

2 And we did notify MRC Permian, which is the
3 party that would be excluded from the unit, the operator
4 of the quarter section that would be excluded in the event
5 that a nonstandard approval was required.

6 EXAMINER GARCIA: Thank you.

7 EXAMINER BRANCARD: Okay. Just to clarify the
8 record, you were referring to a 360 unit. I think it
9 should actually be a 320-acre unit.

10 MS. BENNETT: Yes. Sorry. 320.

11 EXAMINER BRANCARD: I guess we will research
12 whether approval of a nonstandard spacing unit is
13 necessary here in terms of the Wolfcamp Pool rules.

14 MS. BENNETT: Yes. And just for the Division's
15 information, I was a bit confused by, or I found some
16 ambiguity in 19.15.16.15C(1)D, which says that a
17 horizontal spacing unit shall contain at least the minimum
18 acreage required by the Special Pool Orders for a spacing
19 unit; and if that's the rule that applies, then this would
20 not be nonstandard.

21 Wow, that was a lot of negatives.

22 This would be standard because this unit
23 would include at least the minimum acreage required by the
24 Purple Sage Wolfcamp Pool Order.

25 So that's where I think some of my

1 ambiguity comes from, is harmonizing C(1)D with B(2). And
2 B(2) seems to suggest that if the pool has more than 40
3 acres then you go with just what the pool rule says. But
4 I can't really harmonize C(1)D and B(2) because they both
5 seems to contemplate pools that aren't 40-acre building
6 blocks.

7 EXAMINER BRANCARD: Right. It's a very good
8 point. We'll try to twist that one around, see which way
9 it comes out.

10 But thank you for providing testimony about
11 what could potentially be considered stranded acreage,
12 which it appears it's not, it's already part of an
13 existing spacing unit for laydown wells (inaudible) your
14 standup wells. So any other questions, Mr. Garcia?

15 EXAMINER GARCIA: No further questions.

16 EXAMINER BRANCARD: Thank you. Any other
17 interested persons in Case 22384?

18 Hearing none, the exhibits will be admitted
19 into the record and Case 22384 will be taken under
20 advisement. We will look at the provisions you provided
21 for not pooling MRC Permian, and we will look at the issue
22 of a nonstandard spacing unit, as you state, if necessary.

23 MS. BENNETT: Thank you very much.

24 MR. BRANCARD: Thank you.

25 (Time noted 9:48 a.m.)

1 STATE OF NEW MEXICO)

2 : ss

3 COUNTY OF TAOS)

4

5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico Reporter
7 CCR No. 122, DO HEREBY CERTIFY that on Thursday,
8 January 6, 2022, the proceedings in the above-captioned
9 matter were taken before me; that I did report in
10 stenographic shorthand the proceedings set forth herein,
11 and the foregoing pages are a true and correct
12 transcription to the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by
14 nor related to nor contracted with (unless excepted by the
15 rules) any of the parties or attorneys in this case, and
16 that I have no interest whatsoever in the final
17 disposition of this case in any court.

18

/s/ Mary MacFarlane

19

MARY THERESE MACFARLANE, CCR
NM Certified Court Reporter No. 122
License Expires: 12/31/2022

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