

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:

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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

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