

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. 20467
LLC FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 2, 2019

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, May 2, 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:

LANCE D. HOUGH, ESQ.
DEANA M. BENNETT, ESQ.
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1 (1:05 p.m.)

2 EXAMINER DAWSON: Back on the record, and
3 we're going to go to the next case, which is -- what
4 we're going to do is go ahead and hear these three --
5 yeah, three Marathon cases real quick, hopefully.

6 So the next case is 20467, application of
7 Marathon Oil Permian for compulsory pooling, Eddy
8 County, New Mexico.

9 Please call for appearances.

10 MR. HOUGH: Good afternoon. Lance Hough
11 here with Deana Bennett on behalf of the Applicant,
12 Marathon Oil Permian, LLC.

13 I'll pass these out.

14 EXAMINER DAWSON: Okay. Do you have any
15 witnesses?

16 MR. HOUGH: Yes. I'm sorry. We have the
17 landman here. He'll be testifying. It's Jeff
18 Broussard, who you heard from this morning. And then I
19 will be putting on the geology testimony by affidavit.

20 EXAMINER DAWSON: Okay.

21 Any other appearances?

22 Hearing none, when you're ready.

23 EXAMINER BROOKS: Before we get too
24 comfortable of putting part of the case on by affidavit,
25 if there is any other appearance and if that other

1 person objects, the affidavit is not admissible because
2 you haven't complied with the requirement that it be
3 uncontested.

4 Mr. Feldewert, after wasting a good 45
5 minutes, did not object --

6 (Cell phone ringing.)

7 EXAMINER BROOKS: Let me see if this is the
8 doctor.

9 MR. FELDEWERT: I object to the wasting
10 comment. I don't object to not objecting.

11 (Laughter.)

12 EXAMINER BROOKS: No, this is not the
13 doctor.

14 MS. BENNETT: And to your point,
15 Mr. Brooks, when we get to the next -- which I think
16 you've entered your appearance as well -- we can talk
17 about that again.

18 EXAMINER BROOKS: Okay.

19 MS. BENNETT: But there are no other
20 appearances in this case.

21 EXAMINER BROOKS: Okay. Go ahead.

22 (Cell phone ringing.)

23 (Examiner Brooks exits the room, 1:07 p.m.)

24 MR. HOUGH: So I'll start with the landman.
25 Would you like us to proceed or wait for Mr. Brooks?

1 EXAMINER DAWSON: I think we can proceed.
2 You're going to go through his credentials and stuff. I
3 think that's okay. We can go forward.

4 JEFF BROUSSARD,
5 after having been previously sworn under oath, was
6 questioned and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. HOUGH:

9 Q. So for the record, please state your name.

10 A. My name is Jeff Broussard.

11 Q. And who do you work for and in what capacity?

12 A. I'm a landman for Marathon Oil Company.

13 Q. And what are your responsibilities as a landman
14 for Marathon?

15 A. My responsibilities are general land work
16 related to negotiating lease and assignment terms, as
17 well as well proposals and the negotiations that go
18 along with that.

19 Q. And have you been qualified as an expert in
20 land matters before the Division?

21 A. I have just earlier today.

22 Q. Great.

23 So were your credentials accepted as a
24 matter of record?

25 A. Yes.

1 Q. Does your area of responsibility at Marathon
2 include the area of Eddy County, New Mexico?

3 A. It does.

4 Q. And are you familiar with the application filed
5 by Marathon in this case?

6 A. Yes.

7 Q. And are you familiar with the status of the
8 lands that are subject to this application?

9 A. Yes.

10 MR. HOUGH: At this time I'd like to tender
11 the witness as an expert in land matters.

12 EXAMINER DAWSON: No other parties
13 objecting?

14 Mr. Broussard will be accepted as an expert
15 in land matters at this time.

16 Q. (BY MR. HOUGH) Please turn to Exhibit 1 in this
17 packet and explain what this is for the examiner.

18 A. Exhibit 1 is our application to pool
19 uncommitted interests under the west half of Section 7,
20 Township 23 South, Range 28 Northeast, Eddy County.

21 Q. And that proposes seven wells; is that correct?

22 A. It is.

23 Q. Are there any depth severances in the proposed
24 spacing unit?

25 A. There are not.

1 Q. Let's look at Exhibit 2. Can you explain what
2 that is to the examiner?

3 A. Exhibit 2 contains the seven C-102s for each
4 individual well that shows proposed surface-hole
5 locations, as well as take points and bottom-hole
6 locations.

7 Q. And has the Division identified a pool and pool
8 code for these wells?

9 A. Yes. It is the Purple Sage; Wolfcamp Gas Pool,
10 and the pool code is 98220.

11 Q. Is that pool code governed by a specific order?

12 A. Yes.

13 Q. Will the completed intervals for the wells
14 comply with the setback requirements for the Purple
15 Sage; Wolfcamp Gas Pool?

16 A. Yes.

17 Q. And that's 330-foot setback requirement; is
18 that right?

19 A. It is.

20 Q. Now, if you turn to Exhibit 3 --

21 A. Sure.

22 Q. -- and explain what that exhibit is for the
23 examiner.

24 A. Exhibit 3 contains tract maps. Page 2 is
25 actually a more zoomed-in version of that tract map. It

1 identifies the tracts associated with our proposed
2 spacing unit, and later on in the section, it lists
3 committed and uncommitted and unleased interests in this
4 unit.

5 **Q. Okay. And what type of interests do you seek**
6 **to pool?**

7 A. All uncommitted and unleased.

8 **Q. Okay. Who are those uncommitted?**

9 A. So we have uncommitted working interest holders
10 of OXY U.S.A., as well as Fasken Land & Minerals, and we
11 have the State of New Mexico Department of
12 Transportation as an unleased mineral interest owner.

13 And I would like to point out a mistake on
14 my behalf where I labeled Tracts 2A, 2B and 3B as fee
15 acreage when I believe they should be listed as state
16 acreage, since they are unleased Department of
17 Transportation tracts.

18 **Q. What communication have you had with State of**
19 **New Mexico regarding those tracts?**

20 A. We have sent them our initial well proposals.
21 The letter that we sent to them in particular, you know,
22 directly identified them as an unleased mineral interest
23 owner with proposed terms to lease that interest.
24 Followed that up with phone calls to the department
25 where I was directed to leave a voicemail. They didn't

1 have anybody specifically they directed me to speak
2 with, as well as our applications for this pooling
3 hearing.

4 **Q. Are there any overriding royalty interest**
5 **owners that Marathon is requesting be pooled within the**
6 **proposed spacing unit?**

7 A. Yes.

8 **Q. Now, could you summarize for the examiners the**
9 **efforts Marathon has made to obtain voluntary pooling of**
10 **interests?**

11 A. Yes. So we've hired brokers to determine
12 detailed ownership within the tracts proposed. Based on
13 that ownership, we sent out our initial well proposals
14 detailing each well proposal with a copy of joint
15 operating agreements. And from there, we have tried to
16 follow up via phone or email with parties that didn't
17 contact us themselves.

18 **Q. Is it your opinion Marathon has made a**
19 **good-faith effort to obtain the voluntary joinder in the**
20 **wells?**

21 A. Yes.

22 **Q. Please turn to Exhibit 4. Again, can you**
23 **please explain what that is for the examiners?**

24 A. Exhibit 4 is an example of the well-proposal
25 letter that I was just speaking about. It has all of

1 the wells we had initially proposed, as well as
2 assignment terms and well-by-well elections.

3 Q. Okay. Did you send a proposal to each working
4 interest owner?

5 A. We did.

6 Q. Did the well-proposal letter identify the
7 surface-hole location, bottom-hole location and
8 approximate TVD for each well?

9 A. It did. I will point out that our initial
10 proposed surface-hole location was on the north side of
11 Section 7. Then after discussions with OXY and their
12 surface facilities that they have on the north side of
13 Section 7, we -- in our C-102s, you'll see it, but we
14 moved our proposed surface-hole locations to the south
15 end of that section to help, you know, facilitate their
16 locations.

17 Q. Okay. Do those well-proposal letters include
18 AFEs for each well?

19 A. They do.

20 Q. And did Marathon provide costs for drilling the
21 well and completing costs to the parties it seeks to
22 pool?

23 A. Yup.

24 Q. And are all the proposed wells listed in the
25 well proposal listed in this particular application?

1 A. They are not. The two Bone Spring wells, the
2 Ares 7 SB Fee 6H, as well as the TB Fee 9H are not in
3 this application.

4 **Q. Please turn to Exhibit 5, and explain to the**
5 **examiners what these are.**

6 A. Exhibit 5 are the AFEs that we provided with
7 our well proposals that contain an itemization of well
8 costs for drilling, completion and facilities involved.

9 **Q. Okay. Now, itemization of -- or estimated**
10 **costs for drilling, completing and equipping a well; is**
11 **that right?**

12 A. Yes.

13 **Q. Let's go through each one of these together.**
14 **So what are the costs for the 1H well?**

15 A. For the 1H well, the costs are \$6,935,015.

16 **Q. And what is the cost for the 2H well?**

17 A. The 2H well is \$7,308,868.

18 **Q. The cost of the 3H well?**

19 A. The 3H well is \$6,935,015.

20 **Q. The 4H well?**

21 A. The 4H well is \$7,308,868.

22 **Q. The 5H well?**

23 A. The 5H well is \$6,935,015.

24 **Q. The 7H well?**

25 A. The 7H well is also \$6,935,015.

1 Q. And the 8H well?

2 A. The 8H well is \$7,308,868.

3 Q. Are those costs in line with the costs of other
4 horizontal wells drilled to this length and depth in
5 this area of New Mexico?

6 A. Yes.

7 Q. Who should be appointed operator of the wells?

8 A. I believe Marathon Oil Permian should be
9 appointed operator.

10 Q. Do you have a recommendation for the amounts
11 which Marathon should be paid for supervision and
12 administrative expenses?

13 A. Yes. We are recommending \$7,000 per month
14 while drilling the well and \$700 a month while
15 producing.

16 Q. And are those amounts equivalent to those
17 normally charged by Marathon and other operators in this
18 area for similar wells to this length and depth?

19 A. Yes.

20 Q. Do you request that these rates be adjusted
21 periodically as provided by the COPAS accounting
22 procedure?

23 A. Yes.

24 Q. And does Marathon request the maximum cost plus
25 a 200 percent risk charge if any pooled working interest

1 owner fails to pay its share for the cost of drilling,
2 completing and equipping the wells?

3 A. Yes.

4 Q. Were the parties you are seeking to pool
5 notified of this hearing?

6 A. Yes.

7 Q. Let's turn to Exhibit 6, and this is an
8 Affidavit of Notice prepared by counsel for Marathon
9 that shows the parties who were notified, status of
10 whether they received notice and an Affidavit of
11 Publication in the "Carlsbad Argus" newspaper showing
12 that notice of this hearing was published on April 18th,
13 2019; is that correct?

14 A. Yes, it is.

15 Q. Does Marathon request that it be allowed a
16 period of one year between when the wells are drilled
17 and when the first well is completed under the order?

18 A. Yes.

19 Q. Were Exhibits 1 through 6 prepared by you or
20 under your supervision or compiled from company business
21 records?

22 A. Yes, they were.

23 Q. Is the granting of these applications in the
24 interest of conservation and the prevention of waste?

25 A. Yes, I believe so.

1 MR. HOUGH: At this time I'd like to move
2 to have Exhibits 1 through 6 admitted into the record.

3 EXAMINER DAWSON: At this time Exhibits 1
4 through 6 will be admitted to the record.

5 (Marathon Oil Permian, LLC Exhibit Numbers
6 1 through 6 are offered and admitted into
7 evidence.)

8 MR. HOUGH: With that, no further questions
9 for Mr. Broussard. He can answer any for the examiners.

10 EXAMINER DAWSON: Okay. Mr. Brooks?

11 EXAMINER BROOKS: I'm not going to ask any
12 questions.

13 Thank you.

14 CROSS-EXAMINATION

15 BY EXAMINER DAWSON:

16 Q. I just have a couple questions. On the AFEs, I
17 noticed some of them are like 6,900,000 and others are
18 7,300,400, roughly, different. Is that because those
19 are the deeper wells? Is that what it is?

20 A. Yes, sir. Yes, sir.

21 Q. That's what I figured.

22 A. Upper Wolfcamp versus Lower Wolfcamp.

23 Q. Okay. That's all the questions I have. Thank
24 you, Mr. Broussard.

25 MR. HOUGH: Thank you.

1 Now I will turn to the geologist's
2 affidavit. Under Tab B and marked as Exhibit B, the
3 geologist is Matt Baker. Mr. Baker has previously
4 testified before the Division. And his credentials were
5 accepted as a matter of record, and he was qualified as
6 an expert petroleum geologist.

7 Mr. Baker has provided seven exhibits. So
8 if you'll turn to Exhibit Number 7, this is a structure
9 map. It identifies the project area by a black-dashed
10 box. The proposed horizontal locations are identified
11 by the colored lines, and the proposed wells are
12 numbered one through seven. Mr. Baker testifies that
13 the structure dips to the east.

14 Mr. Baker's next exhibits are divided into
15 two sets. One set is for the Upper Wolfcamp wells, and
16 the other set is for the Lower Wolfcamp wells. And just
17 to orient you on the difference there, that is
18 Marathon's naming protocol for the Upper Wolfcamp wells.
19 They're labeled W, X and Y and then WA, and the Lower
20 Wolfcamp wells are WD.

21 So we'll turn first to the Upper Wolfcamp
22 wells. That's under Exhibit 8. This is a reference map
23 that identifies the three wells that Mr. Baker used to
24 create the cross section. This is in the vicinity of
25 the proposed Upper Wolfcamp wells, WA, WXY. Exhibit 8

1 has a line of cross section running from A to A.

2 Now turning to Exhibit 9, this is a
3 stratigraphic cross section showing the top Wolfcamp
4 datum. This is also for the Wolfcamp wells. You'll see
5 that Mr. Baker also included an inset to the right that
6 shows the same three reference wells.

7 The target zone for the wells are in the
8 Wolfcamp Y Sand and the Wolfcamp A identified by the
9 words "Production Zone," and it's shaded in a slightly
10 green color there across the cross section, and it's
11 marked with two red arrows there. That should be fine
12 to see. It is Mr. Baker's opinion that the well logs on
13 the cross section give a representative sample of the
14 Wolfcamp Formation in the area. And he also testifies
15 the Wolfcamp Y Sand thickness is consistent across given
16 that Wolfcamp A has some thickness variability from
17 north to south.

18 Turning to Exhibit 10 now. This is a gross
19 interval isochore Wolfcamp to Wolfcamp B. Mr. Baker
20 testifies that the formation is relatively uniform
21 across the proposed well unit.

22 Now, turning to the Lower Wolfcamp wells,
23 I'll direct you to Exhibit 11. This is the reference
24 map for the cross section, Lower Wolfcamp wells. It
25 identifies three wells in the vicinity of the proposed

1 Lower Wolfcamp wells, which are the WD wells and has a
2 line of cross section running from A to A.

3 Moving on to Exhibit 12 here. It is a
4 stratigraphic cross section showing the Wolfcamp D2
5 datum also in the Lower Wolfcamp wells. And the target
6 zone for these wells are identified by the words
7 "Production Zone" and the shading across the cross
8 section, along with the two red arrows. It is
9 Mr. Baker's opinion that the well logs on the cross
10 section give a representative sample of the Wolfcamp
11 area. And he also testifies that the Wolfcamp C2
12 interval thickens from north to south and that the
13 Wolfcamp D2 thickness is relatively consistent from
14 across the unit.

15 The last exhibit here is Exhibit 13. It is
16 a gross interval isochore for the Wolfcamp C2 and D2.
17 The formation is relatively uniform across the proposed
18 well unit according to Mr. Baker.

19 So in conclusion, Mr. Baker testifies that
20 the horizontal spacing unit is justified from a
21 geological standpoint and that there are no structural
22 impediments or faulting that will interfere with the
23 horizontal well development. He also notes that the
24 preferred well orientation in this area is either north
25 to south or east to west, and this is because the SHmax

1 is approximately 45 degrees from north within this unit.

2 So he also testifies that Exhibits 7
3 through 13 were prepared by him or under his
4 supervision. So with that, I would move to admit
5 Exhibit B, his affidavit, and Exhibits 7 through 13.

6 EXAMINER DAWSON: Okay. Exhibit B,
7 Mr. Baker's affidavit, and Exhibits 7 through 13 will be
8 admitted to the record at this time.

9 (Marathon Oil Permian, LLC Exhibit B and
10 7 through 13 are offered and admitted into
11 evidence.)

12 MR. HOUGH: Do the examiners have any
13 questions for me?

14 EXAMINER DAWSON: Do you have any
15 questions, David?

16 EXAMINER BROOKS: I have no questions.

17 EXAMINER DAWSON: I have no questions.

18 MR. HOUGH: With that, I'd ask this case be
19 taken under advisement.

20 EXAMINER DAWSON: At this point Case Number
21 20467 will be taken under advisement.

22 Thank you very much.

23 (Case Number 20467 concludes, 1:24 p.m.)

24

25

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 THIS 21st 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
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25