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APPEARANCES

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1 (9:52 a.m.)

2 EXAMINER LOWE: We will hear Case 20169,
3 which is Marathon Oil Permian for compulsory pooling,
4 and Case Number 20164, Marathon Oil Permian for
5 compulsory pooling, and 20163 Marathon Oil Permian for
6 compulsory pooling.

7 MS. BENNETT: Thank you.

8 Good morning. Deana Bennett on behalf of
9 the Applicant, Marathon Oil Permian, LLC.

10 MR. FELDEWERT: Mr. Examiner, Michael
11 Feldewert, with the Santa Fe office of Holland & Hart,
12 on behalf of EOG Resources, Inc.

13 We entered an appearance in this matter,
14 but the parties have been able to work things out, and
15 we withdrew our objections to these applications.

16 EXAMINER LOWE: Okay.

17 MS. BENNETT: Thank you.

18 I'd like to start with Case Numbers 20163
19 and 20164 and consolidate those two for affidavit
20 purposes first, and then I'll turn to 20169, if that's
21 agreeable to the examiners.

22 EXAMINER LOWE: That will be fine.

23 MS. BENNETT: Good morning. I am
24 representing Marathon Oil Permian, LLC in these cases.
25 And the first cases I'm presenting are Case Numbers

1 20163 and 20164, and these are applications for
2 compulsory pooling. And the applications are
3 actually -- these applications are for the 3rd Bone
4 Spring, and so I'll be doing the Wolfcamp application
5 separately.

6 The reason that I've chosen to put these
7 two Bone Spring cases together in the same affidavit is
8 that they cover a half section combined, east half-east
9 half, west half-east half, and so it seemed more
10 efficient to put these two together. So I intend to
11 present these by affidavit.

12 EXAMINER McMILLAN: Are there any other
13 appearances?

14 Proceed.

15 MR. HALL: Thank you.

16 So for the Division's review, I've included
17 the applications right behind the cover sheet. So
18 application 20163 and 20164 are right behind the cover
19 sheet.

20 And if you turn to Exhibit 1, Exhibit 1 is
21 the affidavit of the landman, Mr. Ryan Gyllenband. And
22 Mr. Gyllenband has previously testified before the
23 Division on behalf of Marathon, and his credentials were
24 accepted as a matter of record.

25 And in his affidavit, he discusses the fact

1 that there is no opposition expected to the granting of
2 this application -- or these applications, and that's
3 why we decided to put them on by affidavit. He also
4 includes with his affidavit several exhibits, and I'll
5 go through those in a moment. But it's the lease tract
6 map for each proposed unit and the C-102s, proposal
7 letters and AFEs.

8 Well, let's turn to Exhibits A1 and A2.
9 Exhibits A1 and A2 are those lease tract maps and
10 ownership information for the two wells that are
11 proposed, the east half-west half and the west half-west
12 half of Section 18. And so these two exhibits show the
13 acreage, as well as the aggregate ownership and the
14 parties that Marathon is seeking to pool. And so that's
15 the second page of Exhibit A1, and the second page of
16 Exhibit A2 are the parties Marathon is seeking to pool.

17 When Mr. Gyllenband was doing his due
18 diligence for this, he sent out proposal letters.
19 Marathon hires a broker. The broker gets the names and
20 addresses, and proposal letters are sent out to the
21 working interest owners, along with AFEs. And then
22 Marathon follows up to get voluntary agreement in the
23 units. And Mr. Gyllenband, in his affidavit, testifies
24 that it's his opinion that he made a good-faith effort
25 to obtain voluntary joinder in the units.

1 One thing I want to point out about this
2 that we'll be talking a lot more about in the
3 geologist's testimony is that there is a depth severance
4 in the Bone Spring, and that depth severance is created
5 by lease language. And the language [sic] is included
6 in Exhibit B of Mr. Gyllenband's materials. And it is
7 100 feet below the stratigraphic equivalent of the
8 deepest depth drilled by the lessee and capable of
9 producing in paying quantities.

10 EXAMINER BROOKS: Where is this?

11 MS. BENNETT: That's in Exhibit B.

12 EXAMINER BROOKS: Exhibit B. Okay.

13 MS. BENNETT: It's about the
14 third-to-the-last line in Exhibit B.

15 EXAMINER BROOKS: Which tract or tracts
16 does this affect?

17 MS. BENNETT: Both.

18 Examiner BROOKS: Both?

19 MS. BENNETT: Uh-huh. It affects both.

20 EXAMINER BROOKS: So it's all the way
21 across the unit?

22 MS. BENNETT: It is.

23 And Marathon did, though, notify interest
24 owners above and below the depth severance. So they
25 have notified the offsets above and below. And I will

1 be talking a lot more about the depth severance in the
2 geologist's affidavit.

3 EXAMINER BROOKS: Yes. I suppose he will
4 tell us where the landing depth is by comparison to the
5 depth severance.

6 MS. BENNETT: Yes. He won't, but I will be
7 pointing out his exhibits that do tell you that.

8 EXAMINER BROOKS: Yes.

9 Just a question, though, about depth
10 severances. From what you read -- and I haven't gone
11 back and read this paragraph, but does it differ as to
12 various parts of the units as to what the defined depth
13 is? Does it depend on which well may have penetrated,
14 or is it the deepest?

15 MS. BENNETT: My understanding is this is
16 based on the Government L well, and Marathon has well
17 logs of the Government L well in the geologist's
18 affidavit.

19 EXAMINER BROOKS: Very good. We'll let you
20 postpone that until you discuss the geologist's
21 affidavit.

22 MS. BENNETT: Yeah. Any other questions
23 about that before I move on to the landman's other
24 exhibits?

25 EXAMINER BROOKS: Not now.

1 MS. BENNETT: So he testifies -- well,
2 Exhibit C are the C-102s for these two Bone Spring
3 wells, the 4H and the 1H. And they show the pool name,
4 which is the Red Hills; Bone Spring, North, and the pool
5 code, 96434. And he testifies that these wells will
6 comply with the setback requirements.

7 Exhibit D is the proposal letter that was
8 sent out to the working interest owners. And as with
9 other Marathon proposal letters, it has separate
10 elections for each proposed well, and it also includes
11 the approximate TVD for each well and the locations for
12 the wells.

13 And Exhibit E are the AFEs for these two
14 wells, again the 4H and the 1H. And Mr. Gyllenband
15 testifies that the costs reflected in these AFEs are
16 similar to the costs for other wells of the same length
17 and the same depth in this area of southeastern New
18 Mexico, and he believes that those costs are fair and
19 reasonable. He testifies that Marathon requests
20 overhead and administrative rates of 7,000 a month for
21 drilling a well and 700 a month for a producing well.
22 And in his opinion, these rates are fair and comparable
23 to the rates that other operators charge in this area
24 for wells of this same nature. And he requests that
25 these rates be adjusted periodically according to the

1 COPAS accounting procedure. Marathon also requests the
2 maximum cost plus 200 percent risk charge be assessed
3 against nonconsenting working interest owners and that
4 it be designated operator of the well.

5 And Marathon requests that it be allowed a
6 period of one year between when the wells are drilled
7 and when the first well is completed under the order.

8 He also asks that overriding royalty
9 interest owners be pooled, and I did provide notice to
10 overriding royalty owners of this hearing.

11 Exhibit F, in fact, is my Affidavit of
12 Notice, and Exhibit F includes a list of all of the
13 parties entitled to notice. It also includes a
14 spreadsheet showing the results of that notice, and then
15 it has an Affidavit of Publication from the "Hobbs
16 News-Sun" showing that notice was published on May 1st,
17 2019.

18 One thing that I would like to point out is
19 that the BLM has a naming protocol, and consequently
20 Marathon was required to change the name of its wells
21 from what was in the application to what is now on the
22 C-102. And that's based on BLM requirements. And
23 Mr. Gyllenband testifies to that as well in his
24 affidavit, that the name on the C-102 is the name that
25 Marathon would like to have appear on the order.

1 EXAMINER LOWE: Okay.

2 MS. BENNETT: That's all I have to report
3 on Mr. Gyllenband's affidavit. If you-all have any
4 questions for me about his exhibits or my exhibit, I'm
5 happy to try to answer them. If not, then I'll move on
6 to the geologist's exhibit.

7 EXAMINER BROOKS: Which exhibit is the
8 C-102?

9 MS. BENNETT: The C-102 is Exhibit C.

10 EXAMINER BROOKS: B?

11 MS. BENNETT: C, as in cat. C, as in
12 C-102.

13 EXAMINER BROOKS: That makes sense.

14 So the name Ned Pepper 18 TB Federal Com
15 #4H is correct?

16 MS. BENNETT: That's correct. And the
17 application originally had --

18 EXAMINER BROOKS: Yeah. That's the same
19 names that's on the cover sheet.

20 MS. BENNETT: It is. Yes. Yes.

21 EXAMINER BROOKS: Okay. Thank you.

22 MS. BENNETT: The only area that should be
23 different is the application, but the exhibits all
24 reflect the same -- the corrected name.

25 EXAMINER BROOKS: Okay.

1 EXAMINER LOWE: What was the big difference
2 in the name?

3 MS. BENNETT: Marathon's typical naming
4 protocol is to use the section, township and range, but
5 BLM requires "Federal Com" or "Fed Com" be included in
6 the name, and there is a character limitation. It can
7 only have so many letters and numbers, as I understand
8 it. So that's why it's been changed, to remove the
9 township and section -- or the township and range and
10 only add "Federal Com." And we are working on being
11 more proactive about that on the applications to make
12 sure we don't keep running up against this when we have
13 federal leases at issue.

14 EXAMINER McMILLAN: What is the status?

15 MS. BENNETT: They're planned.

16 EXAMINER McMILLAN: Proposed?

17 MS. BENNETT: They're proposed, right. I
18 know they do have some -- actually, that's for the Hades
19 case that's coming up. These are proposed right now. I
20 don't know what the drilling schedule is for the wells.

21 EXAMINER McMILLAN: And are there any
22 unlocatable interests?

23 MS. BENNETT: No.

24 EXAMINER McMILLAN: And the pool rule is
25 statewide, right?

1 MS. BENNETT: It is.

2 Fantastic. With that, I'd like to turn to
3 the geologist's affidavit. And the geologist is Ethan
4 Perry, and his affidavit is behind Tab 2. Mr. Perry has
5 previously testified before the Division, and his
6 credentials were accepted as an expert geologist --
7 petroleum geologist.

8 So the first three of his examples are
9 fairly routine. He's included the structure map of the
10 Wolfcamp. That's Exhibit G. Exhibit G shows the
11 proposed project area for the wells, and this shows both
12 the Bone Spring and the Wolfcamp wells. But the ones
13 we're looking at in particular here are wells -- are
14 numbered 2 and 4. That's the TB Fed Com 1H and the TB
15 Fed Com 4H. And he testifies that Exhibit G shows that
16 the structure dips from the north to south.

17 And Exhibit G also identifies three wells
18 in the vicinity of the proposed wells and has a line of
19 cross section running from A to A prime. And one of
20 those wells is the Government L1, which is the one that
21 is the measuring well for the depth severance as well.

22 So turning to Exhibit H, Exhibit H is a
23 stratigraphic cross section hung on the top of the
24 Wolfcamp. And it's his opinion that the well logs that
25 he's identified here give a representative sample of the

1 Bone Spring Formation in this area. On this particular
2 exhibit, he's identified the producing zone with a
3 green-shaded area, and then you can see the target
4 interval is identified with a red arrow. And that's
5 below 11,800 feet on the Government L2 and the
6 Government L1. In his opinion, the producing zone is
7 continuous across the proposed units.

8 EXAMINER BROOKS: That's the zone -- the
9 target zone for the proposed wells?

10 MS. BENNETT: The target zone, uh-huh.
11 Yeah. And I have a separate exhibit entirely that shows
12 the depth severance, so we'll get to that in just a
13 minute.

14 EXAMINER BROOKS: Okay.

15 MS. BENNETT: Exhibit I is the gross
16 interval isochore -- I'm sorry -- the gross sand
17 isochore. And it shows, according to the witness,
18 according to the geologist, that the formation is
19 relatively uniform across the proposed well units.

20 So Exhibits J and K are the two that show
21 the depth severance. And in my view, Exhibit K is
22 really the more informative of the two, so we want to
23 start with that one and maybe work our way back to J if
24 you have any additional questions.

25 But Exhibit K is the Government L1 log.

1 And it shows the Sebastian SB target zone is the well
2 that's the measuring well that was discussed in the
3 lease language that was in B, and so the depth severance
4 would be 100 feet below that. And so you can see that
5 the depth severance -- what Marathon is proposing is a
6 depth severance of 11,051 feet. And you can see there
7 is a line that says "Depth Severance" right around
8 11,000 feet. Do you see that line --

9 EXAMINER BROOKS: Yes.

10 MS. BENNETT: -- in blue?

11 And you can see that Marathon's target is
12 about -- I don't know -- 1,000 feet, 800 feet below
13 that.

14 EXAMINER BROOKS: Yeah. Below 11,5.

15 MS. BENNETT: Yes. So Marathon's target is
16 identified by that red blob.

17 EXAMINER BROOKS: I assumed as much --

18 MS. BENNETT: That's the Ned Pepper.

19 EXAMINER BROOKS: -- especially since it
20 says "Target."

21 (Laughter.)

22 MS. BENNETT: Yes. That's the target right
23 there. So you can see that that is (A) already quite a
24 distance below the depth-severance line --

25 EXAMINER BROOKS: Right.

1 MS. BENNETT: -- but also Marathon has
2 modeled its hydraulic frac height at best-case scenario,
3 which is the blue portion of that diagram. So if there
4 were no geologic impediments or barriers, that's what
5 they've modeled their frac height to get to. But you
6 can see that there is a 100-foot thick limestone in the
7 3rd Bone Spring Carbonate interval that the geologist
8 testifies will prevent fracturing upward into the 2nd
9 Bone Spring Sand. And then even above that, you can
10 see -- he notes that there is a 300-foot thick limestone
11 in the 3rd Bone Spring Carbonate that will prevent
12 fracking up into the 2nd Bone Spring Sand.

13 So there are two frac barriers, and the
14 proposed target is nearly 1,000 feet below the
15 depth-severance line. So that's what this exhibit is
16 designed to show.

17 Turning back to Exhibit K, Exhibit K does
18 show the -- the first well is the Government L well
19 cross section, and you can see the SBSG target, which is
20 the Sebastian target, and that is around 10,900 feet.
21 And so Marathon has included -- the geologist has
22 included here that it's plus or minus 10,918 feet. So
23 the depth severance technically would be at 11,018 feet,
24 but Marathon's leases are in effect below 10,000 -- I'm
25 sorry -- 11,051 feet. So the Marathon leases are about

1 40 feet below the 100-foot marker for the depth
2 severance. And not only that, they're also -- about 900
3 feet below that is where their target zone is. So it's
4 the geologist's opinion that based on the distance from
5 the depth severance, as well as the geologic formations
6 that Marathon will not obtain any hydrocarbons from
7 above the depth-severed line.

8 He also testifies that the horizontal
9 spacing unit is justified from a geologic standpoint for
10 these two units, that are will no structural impediments
11 or faulting that will interfere with horizontal
12 development and that each quarter-quarter section in the
13 unit will contribute more or less equally to production.
14 He testifies that the preferred well orientation in this
15 area is north to south, and that is because the
16 orientation of the maximum horizontal stress orientation
17 is roughly east-west. And in his opinion, the granting
18 of these application is in the interest of conservation
19 and the prevention of waste.

20 EXAMINER LOWE: Okay.

21 EXAMINER BROOKS: Well, I tend to assume
22 that.

23 MS. BENNETT: Assume that it's his opinion?

24 EXAMINER BROOKS: That that is his opinion.

25 MS. BENNETT: With that, I don't have any

1 further affirmative statements, but I'm happy to answer
2 or try to answer any questions the Division may have.

3 EXAMINER BROOKS: Well, you seem to have a
4 very large margin of separation with the depth
5 severance, as well as geologic proof, so that looks
6 good.

7 MS. BENNETT: That's correct. And in
8 addition, he did model, as I mentioned, maximum frac
9 height, and that shows it would not get anywhere near
10 the depth-severance area.

11 EXAMINER BROOKS: Thank you.

12 EXAMINER LOWE: I have no questions.

13 MS. BENNETT: Thank you.

14 EXAMINER McMILLAN: Okay. I'm looking at
15 essentially Exhibit K.

16 MS. BENNETT: Okay.

17 EXAMINER McMILLAN: So the Ned Pepper is --
18 essentially it's the base of the 3rd Bone Spring. Is
19 ownership identical between the 3rd Bone Spring and the
20 Wolfcamp?

21 MS. BENNETT: I believe it is. Let me
22 just -- he did testify to that in his affidavit that it
23 is uniform. Yes.

24 EXAMINER McMILLAN: So the depth
25 severance -- going back to K, the depth severance is

1 11,051?

2 MS. BENNETT: Uh-huh. Marathon's leases in
3 effect are below 11,051. I think geologically, perhaps,
4 the depth severance is a bit higher than that. Based on
5 the lease language, it would be -- and the depth of the
6 well, the depth severance actually would be at 11,018.

7 EXAMINER BROOKS: That's based on where
8 this formation -- the productive formation base appears
9 in the government well.

10 MS. BENNETT: That's right. And the
11 Government L1 log, which is on Exhibit J, that shows the
12 SBSG target, which is the Sebastian well, and it shows
13 TVD at 10,918 feet. And so when you add 100 feet to
14 that, it's 11,018 feet.

15 EXAMINER BROOKS: Okay.

16 MS. BENNETT: So combining the depth of the
17 well plus the lease language requires a 100-foot buffer,
18 essentially.

19 EXAMINER BROOKS: Thank you.

20 EXAMINER LOWE: I have no questions.

21 MS. BENNETT: Okay. With that, then I
22 would ask that Exhibits 1 and 2 and their attachments be
23 admitted into the record for Case Numbers 20163 and
24 20164.

25 MR. FELDEWERT: No objections.

1 EXAMINER LOWE: No objections?

2 All the exhibits are accepted for these
3 cases, and we'll take it under advisement.

4 (Marathon Oil Permian, Inc. Exhibit Numbers
5 1 and 2 and A through K are offered and
6 admitted into evidence.)

7 MS. BENNETT: Thank you very much.

8 (Case Numbers 20163 and 20164 conclude,
9 10:16 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

25