

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 NOS. 15906
LLC FOR A NONSTANDARD SPACING AND and 15907
PRORATION UNIT, NONSTANDARD LOCATIONS
AND COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 25, 2018

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
LEONARD LOWE, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, Leonard Lowe, Technical Examiner, and
David K. Brooks, Legal Examiner, on Thursday, January
25, 2018, 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 (2:40 p.m.)

2 EXAMINER JONES: Let's go back on the
3 record. This is Case Numbers 15906 and 15907,
4 application of Marathon Oil Permian, LLC for a
5 nonstandard spacing and proration unit, nonstandard
6 locations and compulsory pooling in Lea County, New
7 Mexico.

8 Call for appearances.

9 MS. BRADFUTE: Jennifer Bradfute, with the
10 Modrall Sperling Law Firm, on behalf of Marathon Oil
11 Permian, LLC.

12 MR. HALL: Scott Hall on behalf of Advance
13 Energy Partners. No witnesses, likely no questions.

14 MR. RANKIN: Adam Rankin, with Holland &
15 Hart, appearing on behalf of EOG Y Resources and EOG
16 Resources. No witnesses and likely no questions.

17 EXAMINER JONES: All right. We've evolved.
18 (Laughter.)

19 EXAMINER JONES: I guess there are no other
20 appearances.

21 Will the witnesses please stand?

22 And will the court reporter swear in the
23 witnesses?

24 (Mr. Gyllenband, Mr. Perry and Mr. Neal
25 sworn.)

1 MS. BRADFUTE: Mr. Examiners, I'll start
2 out briefly explaining the two applications to be heard
3 in this matter. I'm going to start in numerical order.
4 Case Number 15907 is a very straightforward pooling case
5 involving the Bone Spring well that will develop 160
6 acres approximately. Case Number 15906 is an
7 application to create a 320-acre spacing and proration
8 unit within the Wolfcamp, but this Wolfcamp Pool is an
9 oil pool that's at issue. And then it will include the
10 development of three different wells within that pool,
11 and we're asking for compulsory pooling as well.

12 MR. RANKIN: Before we get started, I'd
13 like to make a quick statement for the record. EOG is
14 anticipating working out an agreement with Marathon, so
15 we're just entering an appearance today just to preserve
16 our interest and rights. So with that, nothing further.

17 MR. HALL: And that's the same for Advance.

18 EXAMINER JONES: Okay.

19 MS. BRADFUTE: And I'd like to call my
20 first witness.

21 EXAMINER JONES: Are we going to start with
22 one case before the other or both together?

23 MS. BRADFUTE: Both together. It will be a
24 little more efficient. I tried to include number and
25 letter tabs to try to help distinguish between the two.

1 RYAN GYLLENBAND,
2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MS. BRADFUTE:

6 Q. State your name for the record.

7 A. Ryan Gyllenband.

8 Q. And, Mr. Gyllenband, who do you work for?

9 A. Marathon Oil Company.

10 Q. And what is your position there?

11 A. Land professional.

12 Q. And, Mr. Gyllenband, what are your
13 responsibilities as a land professional?

14 A. Preparing wells for drilling, running title,
15 curing title in Lea County, New Mexico.

16 Q. And have you previously testified before the
17 Division?

18 A. Yes.

19 Q. And were your credentials accepted and made
20 part of the record?

21 A. Yes.

22 Q. And does your area of responsibility at
23 Marathon include the area of Lea County in New Mexico?

24 A. Yes.

25 Q. And are you familiar with the applications that

1 have been filed by Marathon in Case Numbers 15906 and
2 15907?

3 A. Yes.

4 Q. And are you familiar with the status of the
5 lands which are the subject matter of those
6 applications?

7 A. Yes.

8 MS. BRADFUTE: I'd like to tender
9 Mr. Gyllenband as an expert in land matters.

10 EXAMINER JONES: No objections?

11 MR. HALL: No objection.

12 MR. RANKIN: No objection.

13 EXAMINER JONES: So qualified.

14 Q. (BY MS. BRADFUTE) Mr. Gyllenband, if you could
15 please turn to Tab 1 and then go to Tab A in the
16 notebook that's in front of you. And could you please
17 identify what this document is for the Hearing
18 Examiners?

19 A. This is an application creating a nonstandard
20 160-acre spacing and proration unit in the Bone Spring
21 Formation comprised of the east half-east half of
22 Section 26, 24 South, Range 34 East in Lea County, New
23 Mexico approving nonstandard locations and pooling all
24 the mineral interests in the Bone Spring Formation
25 underlying this proposed standard and nonspacing

1 proration unit.

2 Q. Application for Case Number 15907, correct?

3 A. Yes.

4 Q. And it pertains to the Bone Spring Formation,
5 correct?

6 A. Yes.

7 Q. Could you please turn to what's been marked as
8 Tab B in Exhibit Number 1 and identify what this
9 document is for the Hearing Examiners?

10 A. This is an application creating a nonstandard
11 320-acre spacing and proration unit in the Wolfcamp
12 Formation, comprised of the east half of Section 26, the
13 24 South, 34 East, Lea County, New Mexico, approving
14 nonstandard locations and pooling all mineral interests
15 in the Wolfcamp underlying this proposed nonstandard
16 spacing and proration unit.

17 Q. And this is Marathon Oil Company's application
18 in Case Number 15906, correct?

19 A. Correct.

20 Q. And this application pertains to the Wolfcamp
21 Formation?

22 A. That's right.

23 Q. Could you please turn to what's been marked as
24 Exhibit Number 2 in the notebook that's in front of you?
25 And this exhibit has two letter tabs again, so I want to

1 turn first to Tab A. And could you please identify what
2 this document is for the Hearing Examiners?

3 A. This is the Form C-102 for the Knife Fight 7H
4 well, which is the Bone Spring well that's going to be
5 drilled in the east half-east half of Section 26.

6 Q. Now, which pool will this well develop?

7 A. The Red Hills; Bone Spring, North Pool.

8 Q. And what is the pool code?

9 A. It is 96434.

10 Q. And Marathon seeks to create a nonstandard
11 proration unit for this well?

12 A. That's correct.

13 Q. And is the Red Hills; Bone Spring, North Pool
14 an oil pool that's governed by the Division statewide
15 rules?

16 A. Yes.

17 Q. And you mentioned before that you're seeking a
18 nonstandard location approval in your application,
19 correct?

20 A. That's right.

21 Q. What are the nonstandard locations that
22 Marathon is requesting?

23 A. The only nonstandard locations are the first
24 take and the last take, which will be -- the first take
25 will be 150 feet from the north line of the section, and

1 the last take point will be 150 feet from the south line
2 of the section.

3 Q. And the remaining portions of the lateral will
4 comply with the setback requirements?

5 A. That's correct.

6 Q. Okay. Could you please turn to Exhibit -- or
7 Tab B within this exhibit? And this tab contains three
8 pages of materials. I want to start with the first
9 page. Could you please identify what this document is
10 for the Hearing Examiners?

11 A. This is a C-102 for the Knife Fight 3H well.

12 Q. Okay. And which pool does this well develop?

13 A. The Antelope Ridge; Wolfcamp Pool.

14 Q. What is the pool code?

15 A. 2220.

16 Q. And is Marathon also seeking a nonstandard
17 location approval for this well?

18 A. Yes. Just like with the 7H, 150 feet from the
19 north line for the first take point and 150 feet from
20 the south line for the last take point. But other than
21 that, they all fall within the pool rules.

22 Q. Okay. And could you turn to the next page of
23 this exhibit and identify what this document has for the
24 Hearing Examiners?

25 A. This is the Form C-102 for Knife Fight 19H

1 well.

2 Q. And which pool will this well develop?

3 A. The Antelope Ridge; Wolfcamp Pool, Pool Code
4 2220.

5 Q. So it is the same Wolfcamp pool as the previous
6 well, correct?

7 A. Yes.

8 Q. And then this well will also have nonstandard
9 locations of 150 feet off of the north and south lines?

10 A. That's correct.

11 Q. And could you please turn to the last page of
12 this exhibit and identify what this document is?

13 A. This is the Form C-102 for the Knife Fight 6H
14 well.

15 Q. Okay. And, again, Marathon is seeking
16 nonstandard locations off of the north and south line
17 for this well, correct?

18 A. Correct. 150 feet from the north and south
19 line.

20 Q. Has Marathon notified affected parties that
21 these wells are going to encroach towards about its
22 application in this hearing today?

23 A. Yes, we have.

24 Q. In both cases?

25 A. Yes.

1 Q. And has Marathon notified parties of its
2 request to create nonstandard proration units for both
3 the Bone Spring and the Wolfcamp Formations?

4 A. Yes.

5 Q. I want to focus on the C-102 for the 6H well,
6 which should be the document that's right in front of
7 you. This well is proposed as an oil well that's going
8 to develop the Wolfcamp Formation, correct?

9 A. Correct.

10 Q. So this formation is subject to the statewide
11 rules for oilwell spacing?

12 A. Yes.

13 Q. But Marathon is seeking to create a nonstandard
14 proration unit?

15 A. Yes.

16 Q. Which consists of 320 acres, correct?

17 A. Correct.

18 Q. Where will this well be located within that
19 proposed proration unit?

20 A. Right down the centerline of the proposed
21 320-acre unit.

22 Q. And why is Marathon proposing to locate this
23 well near the centerline of this half section?

24 A. Because of our planned optimal spacing for this
25 half section, it requires a well right down the middle,

1 and so to move it either side of that line, it would
2 create an NSL and potentially leave out some people in
3 either side of this line. So we thought the fairest and
4 most equitable way to develop it would be to drill it
5 right down the line and form a joint 320-acre spacing
6 unit.

7 Q. And the interest owners from each of the
8 160-acre areas within this proposed unit would benefit
9 economically on this well?

10 A. Correct.

11 Q. Could you please -- oh, and Marathon does
12 propose to drill two other wells within this 320-acre
13 spacing unit, correct?

14 A. Yes, the 3H and the 19H wells.

15 Q. Okay. And could you point out to the Hearing
16 Examiners approximately where those wells will be
17 located in connection with this 6H?

18 A. The 3H will be 990 -- approximately 990 feet
19 west of this. And the 19H will be approximately 990
20 feet east of this, so 330 off of the east side, and then
21 the 3H, 330 feet off of the west line of -- section.

22 Q. Great.

23 Could you please turn to what has been
24 marked as Tab 3 in the notebook that's in front of you?
25 And this exhibit has two different pages. I wanted to

1 **start with the first page. Could you please walk the**
2 **Hearing Examiners through this diagram?**

3 A. This is showing the proposed spacing unit for
4 the 7H well, and it's identifying each of the tracts
5 that we are proposing to pool there covering the east
6 half of the east half in Section 26. Each one of these
7 is fee interest.

8 Q. Okay. So these are all fee leases that are at
9 **issue?**

10 A. Correct.

11 Q. Okay. Great.

12 **Could you please turn to the next page and**
13 **explain what this diagram shows to the Hearing**
14 **Examiners?**

15 A. This is the same thing but for the 3H, 6H and
16 19H. It's showing all of the proposed tracts that we're
17 proposing to pool there in the east half of Section 26.

18 Q. And, again, does this acreage consist solely of
19 **fee acreage?**

20 A. Yes.

21 Q. Could you please turn to what's been marked as
22 **Exhibit Number 4 within your notebook in front of you**
23 **and identify what the first page of this exhibit**
24 **contains?**

25 A. This is showing the committed working interests

1 and then also the uncommitted interests in the east half
2 of Section 26 for the 3H, the 6H and the 19H Wolfcamp
3 Pool that we're proposing to pool.

4 **Q. And who are the parties that Marathon is**
5 **seeking to pool in its application for the Wolfcamp**
6 **wells?**

7 A. All the uncommitted interests in the pool.

8 **Q. Okay. And could you please turn to the second**
9 **page of this exhibit and kind of walk the Hearing**
10 **Examiners through this document?**

11 A. This is showing the committed working interests
12 and the uncommitted owners in the east half of the east
13 half of Section 26 which is subject to the 7H Bone
14 Spring well that we're planning to drill.

15 **Q. And who are the parties that Marathon seeks to**
16 **pool in the application related to the Bone Spring 7H**
17 **well?**

18 A. All the uncommitted owners in this east
19 half-east half spacing unit.

20 **Q. Can you please summarize to the Hearing**
21 **Examiners what efforts Marathon has made to obtain**
22 **voluntary joinder of interest in both of the proposed**
23 **project areas?**

24 A. Initially, we sent out well proposals and AFEs,
25 followed up with JOAs or offers to lease, and then

1 continued with phone calls trying to get joinder of all
2 the parties.

3 Q. Could you please turn to Tab Number 5 in the
4 notebook in front of you and identify what these
5 documents are to the Hearing Examiners?

6 A. The first two pages there is a sample letter
7 that was sent to the working owners in -- the
8 uncommitted working -- the uncommitted working interest
9 owners in the sections that we're proposing to pool.
10 And then the next two pages is the sample letter we sent
11 to the unleased mineral interest owners.

12 Q. And these letters both contain a separate
13 election for each of the wells that have been proposed
14 so the affected interest owners could elect for each
15 separate well whether or not they wanted to participate?

16 A. Correct.

17 Q. In your opinion, has Marathon made a good-faith
18 effort to obtain voluntary joinder in the wells?

19 A. Yes, we have.

20 Q. And did each of the well-proposal letters
21 include an AFE for each of the wells that's being
22 proposed as well?

23 A. Yes.

24 Q. Could you please turn to Tab Number 6? And
25 this, again, has several letter tabs within this

1 **Exhibit. I want to first turn to Tab A within Exhibit**
2 **6. Is this one of the AFEs that Marathon sent out to**
3 **interest owners?**

4 A. Yes.

5 Q. And which well is this AFE for?

6 A. This is for the Knife Fight 7H well.

7 Q. And could you please describe the cost for
8 **drilling and completing the well?**

9 A. The overall cost is \$7,397,073. The total
10 drilling cost is \$2,576,155, and the total completion
11 cost is \$3,797,896.

12 Q. And could you please turn to Tab B of Exhibit 6
13 **and identify what that document is?**

14 A. This is the AFE for the Knife Fight 3H with an
15 overall cost for the well of \$7,350,667, the drilling
16 cost of \$2,586,489, and with a completion cost of
17 \$3,797,896.

18 Q. Could you please turn to Tab C and identify
19 **what that document is for the Hearing Examiners?**

20 A. This is the AFE for the Knife Fight 19H, with a
21 total cost of \$7,350,666, a total drilling cost of
22 \$2,286,489, and a total completion cost of \$3,797,896.

23 Q. And could you please turn to Tab D of Exhibit 6
24 **and identify what this document is?**

25 A. This is the AFE for the Knife Fight 6H well,

1 with a total cost of \$9,441,096, a total drilling cost
2 of \$4,676,918, and a total completion cost of
3 \$3,797,896.

4 Q. Now, the costs for the 6H well are higher than
5 the costs for some of the other wells that are being
6 proposed. Why is that?

7 A. We're planning to drill a pilot hole on this
8 well to run some advanced logs and also take some cores.

9 Q. And are the costs for the pilot hole identified
10 on the AFE?

11 A. Yes, they were.

12 Q. And could you point out where those are
13 identified for the Hearing Examiners?

14 A. It's on the drilling side. It's \$460,000 for
15 the well-logging service and some other associated
16 charges, but they're all listed out there separately.

17 Q. Okay. Thank you.

18 And are the costs for each of these wells
19 in line with the cost to drill other horizontal wells
20 drilled to these depths and these lengths within this
21 area of New Mexico?

22 A. Yes.

23 Q. And who, in your opinion, should be appointed
24 as the operator of these wells?

25 A. Marathon Oil Permian, LLC.

1 Q. And do you have a recommendation for the
2 amounts that Marathon should be paid for supervision and
3 administrative expenses?

4 A. Yes, \$7,000 per month while drilling and \$700
5 per month while producing.

6 Q. And are these amounts equivalent to those
7 normally charged by Marathon and other operators in this
8 area for horizontal wells that are drilled to these
9 lengths and depths?

10 A. Yes.

11 Q. And do you request that these rates be adjusted
12 periodically as provided for under the COPAS accounting
13 procedure?

14 A. Yes.

15 Q. Does Marathon request the maximum cost plus 200
16 percent risk charge if any pooled working interest owner
17 fails to pay its share of costs for drilling, completing
18 and equipping the wells?

19 A. Yes.

20 Q. And were the parties that you're seeking to
21 pool notified of this hearing?

22 A. Yes.

23 Q. Could you please turn to what's been marked as
24 Tab 7? And this is set out in two different letter
25 tabs, first Tab A and then Tab B. I want to first look

1 at Tab A. Does Tab A contain an affidavit that your
2 counsel prepared confirming that notice was sent to all
3 affected parties of Marathon's application in Case
4 Number 15906?

5 A. Yes.

6 Q. And if you look at the very last page contained
7 in Tab A, is it an Affidavit of Publication from a
8 newspaper of general circulation located in Lea County?

9 A. Yes.

10 Q. Could you please turn to Tab B? Does Tab B
11 contain an Affidavit of Notice prepared by your attorney
12 in this case for Case Number 15907 confirming that
13 notice has been provided to all affected parties of that
14 application?

15 A. Yes.

16 Q. And could you please turn to the last page of
17 Tab B? Is this document an Affidavit of Publication
18 from a newspaper confirming that notice was published?

19 A. Yes.

20 MS. BRADFUTE: That concludes my questions
21 for this witness.

22 EXAMINER JONES: Mr. Rankin?

23 MR. RANKIN: No questions.

24 MR. HALL: No questions.

25 EXAMINER JONES: Mr. Brooks?

1 CROSS-EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. Have you got any overrides, and were they
4 notified?

5 A. There are some overrides. Their -- the leases
6 have pooling clauses and also the assignments.

7 Q. So there -- there is no question about notice
8 to them because there are pooling clauses in the
9 assignments, as well as in the leases --

10 A. Correct.

11 Q. -- the assignments of the overrides?

12 A. Correct.

13 Q. Okay. That's good.

14 The people that -- there were some people
15 that you were unable to get addresses for, correct?

16 A. Correct.

17 Q. And did you notify those people -- did you make
18 a diligent effort to locate correct addresses for those
19 people?

20 A. That's right. The only ones that I -- the only
21 one that I think actually didn't get notice was
22 Mr. Curtis Taylor, who is deceased. We talked to --

23 Q. It's kind of hard to give notice to deceased
24 persons.

25 A. Yes, sir.

1 We talked to his brother, and he was not
2 able to give us any information on where his heirs went.
3 He said he has not talked to his nephew or niece in
4 several years.

5 MS. BRADFUTE: But he was listed by name in
6 the publication.

7 EXAMINER BROOKS: Very good. I think
8 that's all I have.

9 CROSS-EXAMINATION

10 BY EXAMINER JONES:

11 **Q. What about the surface location? It's all fee,**
12 **isn't it? Did you have to actually get a use agreement**
13 **with --**

14 A. Yes, sir. We're currently negotiating a
15 surface-use agreement with the surface owner.

16 **Q. And you're anticipating joinder by some more of**
17 **the working interests?**

18 A. Yes. We're currently negotiating with Matador
19 a JOA, several other parties, and then we're working on
20 a trade with EOG.

21 **Q. Oh, okay.**

22 EXAMINER JONES: Chuck is sitting back in
23 the back, I noticed. Working in the back, I should say.

24 MS. BRADFUTE: My understanding,
25 Mr. Examiner, the parties reached a deal in principle.

1 Q. (BY EXAMINER JONES) Okay. And Advance, they're
2 a party to a working interest?

3 A. Yes. We provided them with a JOA, and I've
4 talked to Mr. Scott several times.

5 Q. He disappeared.

6 A. David -- David Scott is their landman, and then
7 Scott is their attorney. He does have our JOA, and I
8 think he's reviewing it.

9 Q. Okay. So it's pretty much -- it's all fee, but
10 you've got some working -- you're pooling working
11 interest owners, and you're pooling unleased mineral
12 owners?

13 A. Yes, sir.

14 Q. So some pooling parties are not located, is
15 that correct, or not even known about? You were talking
16 about somebody's --

17 A. The only one is Curtis Robert Taylor that we
18 were not able to get in touch with, at least over the
19 phone.

20 Q. Okay. And you provided notice all the way
21 around for the nonstandard proration unit and --

22 MS. BRADFUTE: In the Bone Spring, that is
23 correct, to all offsets.

24 EXAMINER JONES: To all offsets.

25 MS. BRADFUTE: Yes. Yeah.

1 Q. (BY EXAMINER JONES) And as far as the NSL goes,
2 you're just NSL on the toe and the heel; is that
3 correct?

4 A. Yes, sir.

5 Q. So did you have any issues with parties there
6 that you were applying --

7 A. We didn't, no.

8 Q. -- for?

9 So you provided notice to all affected
10 parties?

11 A. Yes, sir.

12 Q. To the north and to the south?

13 MS. BRADFUTE: Yes. And we looked at
14 diagonal, if there were any instance that needed to go
15 diagonal.

16 EXAMINER JONES: Okay. That was the
17 Brooks' quarrel.

18 And we don't have APIs on these yet?

19 MS. BRADFUTE: That is correct.

20 And I guess one point we should clarify is
21 that these C-102s, these exhibits, have not been
22 submitted yet to the district office because the
23 nonstandard locations haven't been approved yet. So
24 these are not as-filed plats, but we thought they would
25 be easier for you to use.

1 EXAMINER JONES: Okay.

2 THE WITNESS: But we have some submitted
3 permits just with a 330 offset, and we're waiting on the
4 order to change the plats --

5 Q. (BY EXAMINER JONES) Okay. There shouldn't be
6 any issues with locations changing, should there?

7 A. No, sir.

8 Q. The fee owners are okay with you putting the
9 locations where you're proposing?

10 A. So far they've -- they've been fine. We're
11 working on an SUA, so I don't -- I don't think that they
12 will have us move it because it's been staked.

13 EXAMINER JONES: Okay. Any other
14 questions?

15 MR. RANKIN: Not from me.

16 EXAMINER JONES: Thanks very much.

17 MS. BRADFUTE: I'd like to call my second
18 witness.

19 ETHAN PERRY,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MS. BRADFUTE:

24 Q. Could you please state your name for the
25 record?

1 A. Ethan Perry.

2 Q. And, Mr. Perry, who do you work for?

3 A. Marathon Oil.

4 Q. And what are your responsibilities at Marathon?

5 A. I'm a geologist.

6 Q. And what do you do regularly as a geologist?

7 A. My responsibilities include conducting
8 geological studies and well planning in Eddy and Lea
9 Counties, New Mexico.

10 Q. And have you previously testified before the
11 Division?

12 A. Yes, I have.

13 Q. And were your credentials accepted and made a
14 part of the record?

15 A. Yes, they were.

16 Q. Are you familiar with the applications that
17 have been filed by Marathon in these matters?

18 A. Yes.

19 Q. And are you familiar with the status of the
20 lands which are the subject matter of these
21 applications?

22 A. Yes, ma'am.

23 Q. And are you familiar with the drilling plans
24 for the wells?

25 A. Yes, ma'am.

1 Q. And have you conducted a geologic study of the
2 areas embracing the proposed spacing units for the
3 wells?

4 A. Yes, I have.

5 MS. BRADFUTE: I'd like to tender Mr. Perry
6 as an expert witness in geology matters.

7 EXAMINER JONES: Any objection?

8 MR. RANKIN: No objection.

9 EXAMINER JONES: He is so qualified.

10 Q. (BY MS. BRADFUTE) Mr. Perry, what is the
11 targeted interval for the Wolfcamp wells, which consist
12 of the 3H, the 6H and the 19H?

13 A. Those three wells will be targeting the Upper
14 Wolfcamp.

15 Q. And what is the targeted interval for the 7H
16 well?

17 A. The 3rd Bone Spring Sand.

18 Q. Could you please turn to Exhibit 8? And I want
19 to first focus on Tab A in that exhibit. Could you
20 please identify what this exhibit is for the Hearing
21 Examiners?

22 A. This exhibit contains a structure map on the
23 top of the Wolfcamp. The Wolfcamp is the surface
24 immediately underlying the producing interval that we're
25 proposing for the 3rd Bone Sand. You can see from the

1 structural contours that the structure dips from
2 northwest to southeast -- down to the southeast. The
3 Marathon acreage is shown in yellow. The project area
4 is shown in the dashed black rectangle in the east half
5 of Section 28 -- or 26. I'm sorry. I've also included
6 three-well cross section, A to A prime, which we'll look
7 at it in a subsequent exhibit. I've also included
8 offsetting 3rd Bone Spring Sand producers, and the four
9 subject wells are annotated with 1 through 4.

10 **Q. Could you please turn to Exhibit -- or Tab B**
11 **within this exhibit and explain what this document is to**
12 **the Hearing Examiners?**

13 A. This is a stratigraphic cross section hung on
14 the Wolfcamp datum, and the producing zone, the 3rd Bone
15 Spring interval, is shown -- or highlighted in green.
16 This is the A to A prime cross section. The log tracks
17 on this three-well cross section are -- gamma ray is on
18 the left, the depth track. The resistivity is the next
19 track over. The green shading is density porosity
20 greater than 6 percent, and the rightmost track contains
21 the caliper and then the neutron-density porosity logs.

22 **Q. And are the wells that you've selected for this**
23 **cross section representative of wells within the area?**

24 A. Yes, they are.

25 **Q. And what does this cross section show you about**

1 **the acreage within the Bone Spring Formation in the**
2 **area?**

3 A. It shows that the gross interval is relatively
4 consistent across the area.

5 **Q. Could you please turn to Tab C within this**
6 **exhibit and explain what this document is to the Hearing**
7 **Examiners?**

8 A. This is a net sand isochore for the 3rd Bone
9 Spring interval. Marathon acreage is again shown in
10 yellow. The project area is the dashed rectangle, and
11 the offsetting 3rd Bone Spring producers in the
12 red-black circles -- red-and-black circles. The same
13 three-well cross section shows that the net sand
14 thickness for the 3rd Bone Spring interval is roughly
15 consistent, 250 to 300 foot thick across the project
16 area.

17 **Q. And what conclusions can you draw from your**
18 **study of the Bone Spring Formation within this area?**

19 A. Based on the available data, we expect the
20 reservoir thickness and continuity is relatively
21 consistent across the project area.

22 **Q. And did you notice any impediments to**
23 **horizontal development within this area?**

24 A. No.

25 **Q. Did you notice any faults or pinch-outs?**

1 A. No.

2 Q. Will the Bone Spring well, the 7H well, be
3 productive in each 40-acre tract that contributes to the
4 well?

5 A. Yes.

6 Q. And will each quarter-quarter tract contribute
7 approximately equally to production from the well?

8 A. Yes.

9 Q. Could you please turn to Exhibit 9? And,
10 again, this has several letter tabs under it, and I want
11 to first look at Tab A. Could you please identify what
12 the document is under Tab A for the Hearing Examiners?

13 A. This is a structure map on the top of the
14 Wolfcamp showing the same Marathon acreage and project
15 area, with the Knife Fight wells straight [sic] 1
16 through 4. Again, the structure of the Wolfcamp dips
17 northwest to southeast. In this instance, I've shown
18 the Upper Wolfcamp offset producers with the
19 black-and-red circles.

20 Q. And did you also prepare a cross section of
21 logs when you were putting together this structure map
22 for the Wolfcamp Formation?

23 A. Yes.

24 Q. Could you please turn to Tab B? And is the
25 document in Tab B the cross section that you put

1 **together for the Wolfcamp Formation?**

2 A. Yes, ma'am.

3 **Q. And could you please walk the Examiners through**
4 **this document?**

5 A. This is the A to A prime cross section shown on
6 the previous plat. Again, a stratigraphic cross section
7 hung on the Wolfcamp surface, with the producing Upper
8 Wolfcamp zones -- Wolfcamp marker down to the Wolfcamp B
9 highlighted in green.

10 **Q. And could you please turn to Tab C in this**
11 **exhibit and identify what this document is for the**
12 **Hearing Examiners?**

13 A. This is a gross interval isochore using the
14 surface as the Wolfcamp to the Wolfcamp B, and it
15 illustrates that the gross interval thickness is
16 relatively consistent across the project area. Again,
17 we're showing the Knife Fight unit in the dashed
18 rectangle.

19 **Q. And what conclusions have you drawn from your**
20 **geologic study of the Wolfcamp Formation within this**
21 **area?**

22 A. We expect the reservoir thickness and the
23 quality to remain fairly consistent across the project
24 area.

25 **Q. And did you notice any impediments to**

1 horizontal development within this proposed project for
2 the horizontal -- or for the Wolfcamp wells?

3 A. No, ma'am.

4 Q. Did you notice any faults or pinch-outs?

5 A. No.

6 Q. And in your opinion, will each of the
7 horizontal wells contribute approximately equal to the
8 320-acre unit that's being proposed?

9 A. Yes.

10 Q. And will each of the horizontal wells be
11 productive in the Wolfcamp Formation?

12 A. Yes.

13 Q. Could you please turn to what's been marked as
14 Exhibit Number 10 and identify what this exhibit
15 contains for the Hearing Examiners?

16 A. This exhibit shows a wellbore schematic for the
17 WXY 3H well showing a back-build from the surface-hole
18 location to the north section line of Section 26 and
19 with the first and last take points no closer than 150
20 foot from the north and south line, targeting the Upper
21 Wolfcamp.

22 Q. And can you turn to the next page and walk the
23 Examiner through that page?

24 A. This wellbore schematic is for the WA 6H
25 wellbore, again a back-build to the north section line

1 and landing in the Upper Wolfcamp. In this case this is
2 a pilot well, so we'll be taking this -- drilling a
3 pilot hole down to the Lower Wolfcamp in this instance.

4 Q. And could you please turn to the next page and
5 identify this document?

6 A. A wellbore schematic for the TB 7H well, again
7 a back-build to the Section 26 line, and the first and
8 last take points no closer than 150 foot from the north
9 and south line.

10 Q. And could you turn to the next page of this
11 exhibit and identify what this document is?

12 A. This is a wellbore schematic for the WXY 19H
13 showing a similar back-build to the north section line
14 of 26, and the first and last take points no closer than
15 150 foot from the section lines.

16 Q. In your opinion, would the granting of
17 Marathon's applications in these cases be in the best
18 interest of conservation, the prevention of waste and
19 the protection of correlative rights?

20 A. Yes.

21 Q. And were Exhibits 8 through 10 prepared by you
22 or compiled under your direction and supervision?

23 A. Yes, they were.

24 MS. BRADFUTE: I'd like to move to admit
25 Exhibits 8 through 10 into the record.

1 MR. RANKIN: No objection.

2 EXAMINER JONES: 8 through 10 are admitted.

3 (Marathon Oil Permian, LLC Exhibit Numbers
4 8 through 10 are offered and admitted into
5 evidence.)

6 EXAMINER JONES: Questions, Mr. Rankin?

7 MR. RANKIN: No questions.

8 EXAMINER BROOKS: No questions.

9 CROSS-EXAMINATION

10 BY EXAMINER JONES:

11 Q. Well, it just seems like you're going through
12 the 3rd Bone Spring and then the Upper Wolfcamp, so
13 they're reasonably close. But you're wanting to put
14 that center Wolfcamp well in.

15 A. Uh-huh.

16 Q. And I guess we'll hear some arguments about
17 that in a few minutes?

18 A. Yes. I'll certainly defer to my reservoir
19 engineer counterpart to discuss the spacing
20 considerations.

21 Q. What about fracturing in the Wolfcamp as far as
22 geologically?

23 A. In terms of natural fracturing?

24 Q. Yeah.

25 A. There certainly can be natural fractures. A

1 lot of times they're heel-cemented up with carbonates --
2 calcium carbonate cement. In some cases, they can be
3 open in structurally complex areas. Based on the
4 available data, we don't see any large structures that
5 run counter to the regional dip in this particular area.

6 **Q. So it's part of the risk whether these**
7 **fractures are filled or not?**

8 A. Yes. The nature of the fractures is unknown
9 unless you run an image log or something along those
10 lines.

11 **Q. What kind of porosity are you looking for in**
12 **the Wolfcamp?**

13 A. Generally, us and many operators use sort of a
14 6 percent -- greater than 6 percent density-porosity
15 cutoff in terms of producibility.

16 **Q. What about the Bone Spring? What porosity are**
17 **you looking for there?**

18 A. Currently, we use a similar 6 percent cutoff.
19 We see porosities higher in some cases in the Bone
20 Spring interval.

21 **Q. But you see more silts and clays in the**
22 **Wolfcamp?**

23 A. We do. It's -- the Bone Spring is more sand
24 prone. Its turbidite expands as you move into the
25 Basin, and the net sand thickness in the 3rd Bone Spring

1 is perhaps a little bit higher than in the Upper
2 Wolfcamp where it's more compartmentalized than the
3 Wolfcamp.

4 **Q. Was it more active in the Bone Spring time than**
5 **the Wolfcamp time, or was it quieter in the Bone Spring**
6 **time?**

7 A. It's -- there is unconformity between the
8 Wolfcamp and so a gap in time.

9 **Q. It's in an unconformity. How many years you**
10 **think of that?**

11 A. We're talking hundreds of thousands to a
12 million years, that time frame, fairly short by geologic
13 standards.

14 **Q. Okay. Does unconformity mean it was there and**
15 **it was eroded off or --**

16 A. In some cases, you see incision from the Bone
17 Spring into the Wolfcamp, but it's not a long hiatus.
18 But yeah, in general, the -- the depositional systems
19 are actually fairly consistent. You have turbidites.
20 You have deep-basin sands moving into the system both
21 from the late Wolfcamp time and up through the Bone
22 Spring period as well.

23 **Q. Did the unconform- -- I've always heard that**
24 **unconformities are areas that might be really good**
25 **producing targets or exploration targets. So is that**

1 **because migration is easier through those intervals**
2 **or --**

3 A. You can certainly have a bedding parallel
4 migration, and unconformity can be a mechanical
5 interface, as well as a migration pathway in some
6 instances. Yes.

7 **Q. Okay. Thanks very much.**

8 MS. BRADFUTE: Thank you.

9 I'd like to call my last witness.

10 EXAMINER JONES: The rest of you can go
11 jump on the plane (laughter).

12 LANE NEAL,
13 after having been previously sworn under oath, was
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MS. BRADFUTE:

17 **Q. Could you please state your name for the**
18 **record?**

19 A. Lane Neal.

20 **Q. And, Mr. Neal, who do you work for?**

21 A. Marathon Oil.

22 **Q. What is your position at Marathon?**

23 A. I'm the subsurface manager for Marathon's
24 Permian asset. I lead a team of reservoir engineers and
25 geologists charged with the development of Marathon's

1 Permian assets.

2 Q. And have you previously testified before the
3 Division?

4 A. No, ma'am.

5 Q. Could you please explain your educational
6 background to the Examiners?

7 A. Sure. I have a Bachelor of Science degree in
8 petroleum engineering from Texas A & M University.

9 Q. And could you please explain your professional
10 background to the Examiners?

11 A. Yes. I've got ten years of experience in
12 various reservoir, drilling, production, engineering
13 roles and functions with my previous employer, Hess
14 Corporation, as well as with Marathon, my current
15 employer.

16 Q. And are you familiar with the applications that
17 have been filed by Marathon in these cases?

18 A. Yes, I am.

19 Q. And are you familiar with the status of the
20 lands which are the subject matter of these
21 applications?

22 A. Yes, ma'am.

23 Q. And are you familiar with the drilling plans
24 for the Knife Fight 3H, 6H, 19H and 7H wells?

25 A. I am.

1 MS. BRADFUTE: I'd like to tender Mr. Neal
2 as an expert in engineering matters.

3 MR. RANKIN: No objection.

4 EXAMINER JONES: So qualified.

5 Q. (BY MS. BRADFUTE) Mr. Neal, could you please
6 turn to what is marked as Exhibit Number 11 in the
7 notebook in front of you?

8 A. Yes, ma'am.

9 Q. And could you please identify what this
10 document is to the Hearing Examiners?

11 A. Sure. What we're showing here is a base map
12 surface view, as well as a cross-sectional depiction of
13 the development plan for the four wells that are the
14 subject of our cases today.

15 Q. Okay. And where will the 6H be located in
16 relation to the centerline of the east half of Section
17 26?

18 A. Sure. It's going to be drilled along the
19 centerline of the -- right down the middle, basically,
20 of the east half of Section 26.

21 Q. And does Marathon have other acreage within the
22 vicinity of that proposed project area in the Wolfcamp
23 Formation?

24 A. Yes, ma'am. We've got approximately 13,000
25 acres in the area around this immediate vicinity.

1 Q. And there's been other testimony. There's
2 going to be two other Wolfcamp wells within the half
3 section well, correct?

4 A. Yes, ma'am. As we're depicting on this
5 picture, you've got the X-Y 3H and the X-Y 19H, as well
6 as the 6H down the middle.

7 Q. And do you believe that developing three
8 Wolfcamp wells across the half section is the most
9 efficient, economical way to develop the Wolfcamp
10 Formation?

11 A. Yes, ma'am.

12 Q. And why is that?

13 A. Yeah. We believe that's the optimal
14 development density for maximizing recovery while
15 minimizing waste and preventing any -- and preventing
16 waste and protecting correlative rights.

17 Q. And in your opinion, will the Wolfcamp oil
18 wells develop and drain portions of the lands in each
19 quarter-quarter section within the proposed 320-acre
20 project area?

21 A. Yes, ma'am.

22 Q. In your opinion, will production from each well
23 be reasonably uniform across the entire length of the
24 laterals?

25 A. To the best of our knowledge, yes, we believe

1 that.

2 **Q. And in what order does Marathon plan to**
3 **complete these wells?**

4 A. Our tentative plan right now is to frac the 7H
5 and 19H together first, followed -- zippered together,
6 immediately followed by the 3H and 6H zippered as the
7 second pair, and then they would all be brought online
8 together.

9 **Q. And are similar drilling plans used by Marathon**
10 **in other basins?**

11 A. Yes, ma'am.

12 **Q. And has Marathon found that this development**
13 **plan is an effective plan to drain the half section?**

14 A. Yes, ma'am, we do.

15 **Q. In your opinion, will this plan of development**
16 **be successful?**

17 A. Yes, ma'am. In our opinion, it will be.

18 **Q. And in your opinion, will this plan of**
19 **development within this area result in the production of**
20 **more oil than would occur if you used less wells within**
21 **this half section?**

22 A. Yes, ma'am. That's our belief.

23 **Q. And do you expect that the EUR from this plan**
24 **of development will be greater than if Marathon excluded**
25 **the well that will be drilled down the center?**

1 A. Yes. We absolutely believe that to be the
2 case.

3 Q. And by producing more oil using this drilling
4 pattern, Marathon is preventing waste, correct?

5 A. Absolutely.

6 Q. Experts in other cases have testified before
7 the Division that once horizontal wells have been
8 drilled in a particular pattern, it's very difficult to
9 go back in and drill infill wells.

10 A. That's been our experience across, you know,
11 many different basins.

12 Q. So Marathon is incentivized to get the spacing
13 correct the first time it goes in and drills these
14 wells?

15 A. Yes, ma'am. That's correct.

16 Q. And did Marathon take that into consideration
17 when it was locating the 6H well down the center of the
18 half section?

19 A. We did.

20 Q. And in your opinion, would the granting of
21 Marathon's application be in the best interest of
22 conservation, the prevention of waste and the protection
23 of correlative rights?

24 A. Yes, ma'am.

25 Q. And was Exhibit 11 prepared by you or compiled

1 **under your direction?**

2 A. Yes, it was.

3 MS. BRADFUTE: I'd like to move to admit
4 Exhibit 11 into the record.

5 EXAMINER JONES: Exhibit 11 is admitted.

6 MR. RANKIN: No objections.

7 (Marathon Oil Permian, LLC Exhibit Number
8 11 is offered and admitted into evidence.)

9 EXAMINER JONES: Any questions?

10 MR. RANKIN: No questions.

11 EXAMINER BROOKS: No questions.

12 CROSS-EXAMINATION

13 BY EXAMINER JONES:

14 **Q. Can you -- the 150 feet -- foot for the heel**
15 **and the toe, was that something that you guys have**
16 **determined scientifically, or was that just a number?**

17 A. No. I mean, it allows us to pick up an
18 additional stage on the toe and heel side, maximizing
19 lateral lengths and maximizing recovery and the recovery
20 of minerals. So that's of kind the driver for it.

21 **Q. Yeah. It does -- but what about the -- how far**
22 **out are you expecting the influence of that last --**
23 **first and last frac job to go --**

24 A. Yeah, outside to the north and south,
25 basically. Yeah. I mean, generally speaking, from the

1 modeling work our technical team has done, we're not
2 seeing significant amounts of drainage outside from sort
3 of the fracture drilling north-south. We're not
4 anticipating a significant amount of drainage outside
5 the unit from that. That's -- that's our current --
6 we're also not going to protest if anybody comes back
7 and decides they want to put -- and likes 150-foot
8 setbacks on the north side from us as well. That would
9 not be something we would be opposed to.

10 Q. Okay. What about the well drilled down the
11 center -- the Wolfcamp well drilled down the center?
12 Can you say that well will -- after it's been fractured,
13 will it basically what you could call develop all of the
14 40-acre tracts within the 320-acre proposed unit?

15 A. I wouldn't say that that the Wolfcamp -- the WA
16 6H well in isolation will drain that 320-acre unit, but
17 we believe that the three wells in combination will
18 drain, you know, all of the 40-acre tracts within the
19 unit.

20 Q. Can you say that that center well will drain
21 portions of all of the 40-acre tracts that are in the
22 320-acre unit?

23 A. I mean, that's one of those -- I would say that
24 I think that the Wolfcamp A 6H well will drill -- I
25 mean, will drain portions of a lot of those, but I don't

1 think it will necessarily drain all of them.

2 Q. Right.

3 A. Right. That's why we want to form the
4 proration unit with the three wells. To us that's the
5 most equitable way to ensure that everybody's
6 correlative rights are protected.

7 MS. BRADFUTE: And the Division has issued
8 similar relief involving a multiwell drilling plan in
9 Order 14261.

10 THE WITNESS: Our anticipation is that
11 performance of these wells should be relatively
12 consistent across them. So in our view, it should be
13 relatively consistent.

14 Q. (BY EXAMINER JONES) Okay. The effective length
15 of -- the half length of your frac job on the 6H well,
16 is that -- will that extend over into all 40-acre tracts
17 within the 320 acres?

18 A. No. No. We don't believe that we're going
19 to -- we don't believe that a single well is going to
20 have conductive -- although we might -- we might place
21 fluid, we don't think you're going to have conductive,
22 long-term fracture drainage from that far of a distance,
23 like the 1,500 feet half length. It's not -- our model
24 work would not suggest they be that large.

25 Q. You won't drain the whole thing --

1 A. No, sir.

2 Q. -- but you'll drain portions of it?

3 A. Yes, sir.

4 Q. And your half length on your frac job, you
5 spaced -- you did the 150-foot heel and toe, so you must
6 have an idea on the -- of the reach of that frac job.

7 Is there a number you would like to throw out?

8 A. In terms of -- your asking what do we think our
9 actual half lengths are?

10 Q. Yeah.

11 A. I mean, it depends on the area and -- you know,
12 so we've seen differences depending on where you are in
13 the field. I mean, in this area, we're certainly not
14 expecting, you know, conductive half lengths that exceed
15 5- or 600 feet. That's probably a very high estimate.

16 Q. Okay.

17 A. But frac modeling's definitely not an exact
18 science --

19 Q. No.

20 A. -- either by any means.

21 Q. What model do you use?

22 A. We use GOHFER, as well as Mangrove.

23 Q. I've never heard of Mangrove.

24 A. It's a Schlumberger --

25 Q. They don't use Frac Aid [phonetic] anymore?

1 A. Marathon hasn't used that one since I've been
2 there, so I'm not familiar with it.

3 Q. It's been a while, I guess.

4 But the 6H well is going to be drilled real
5 close to the centerline?

6 A. Yes, sir. To the best of our ability, we're
7 going to basically paint the centerline with the well.

8 Q. Do you know -- so is that well going to be
9 drilled and the 19H well going to be drilled and fracked
10 together? You said that earlier.

11 A. The way that we're going to do it -- our
12 current plan with the completion engineers is that the
13 TV 7H well and the WXY 19H well will be drilled -- will
14 be fracked together first as a pair, get them fracked,
15 and then we will come back and frac the WXY 3H and the
16 WA 6H together as a pair, and then we will bring all
17 four wells online together.

18 Q. Okay. And they're all -- okay. That sounds
19 good. Thank you very much.

20 MS. BRADFUTE: We ask this case be taken
21 under advisement.

22 EXAMINER JONES: Any reasons not to?

23 MR. RANKIN: No objection at this point.

24 EXAMINER JONES: No objections at this
25 point. Thank you-all.

1 Case Numbers 15906 and 15907 are taken
2 under advisement.

3 (Case Numbers 15906 and 15907 conclude,
4 3:26 p.m.)

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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 13th day of February 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25