

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:

AMENDED APPLICATION OF BTA OIL PRODUCERS, LLC FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 16024

APPLICATION OF MARATHON OIL PERMIAN, LLC FOR COMPULSORY POOLING IN EDDY COUNTY, NEW MEXICO. CASE NO. 16076

APPLICATION OF MARATHON OIL PERMIAN, LLC FOR A NONSTANDARD PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 16077

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 24, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Tuesday, April 24, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters

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1 (9:01 a.m.)

2 EXAMINER JONES: Let's go on the record
3 this morning. This is the docket for a special examiner
4 hearing, Tuesday, April 24th, 2018. I'm William V.
5 Jones.

6 This is David K. Brooks, attorney for the
7 Examiner this morning.

8 And it's 9:00 a.m. on April 24th. We have
9 three cases on the docket. Let's call --

10 Any pre-administrative matters to discuss?

11 MR. FELDEWERT: We do have one thing. If
12 you want us to enter an appearance, then we can talk
13 about that.

14 EXAMINER JONES: Okay. Let's call all
15 three cases. First off, Case Number 16024, amended
16 application of BTA Oil Producers, LLC for a nonstandard
17 spacing and proration unit and compulsory pooling, Eddy
18 County, New Mexico.

19 Call for appearances.

20 MR. FELDEWERT: May it please the Examiner,
21 Michael Feldewert, with the Santa Fe office of Holland &
22 Hart, appearing on behalf of the Applicant. And I have
23 three witnesses.

24 MS. BRADFUTE: May it please the Examiners,
25 Jennifer Bradfute, with Modrall Sperling Law Firm in

1 Albuquerque, New Mexico, appearing on behalf of Marathon
2 Oil Permian.

3 EXAMINER JONES: And I'll also call Case
4 Numbers 16076 and 16077. Both are titled -- actually, I
5 will read 16076 first. It's application of Marathon Oil
6 Permian, LLC for compulsory pooling in Eddy County, New
7 Mexico, and Case Number 16077 is application of Marathon
8 Permian, LLC for a nonstandard proration unit and
9 compulsory pooling in Eddy County, New Mexico.

10 Call for appearances in those two cases.

11 MS. BRADFUTE: Mr. Examiner, Jennifer
12 Bradfute, Modrall Sperling Law Firm, on behalf of the
13 Applicant.

14 EXAMINER JONES: Other appearances?

15 MR. FELDEWERT: Again, Michael Feldewert,
16 from the Santa Fe office of Holland & Hart, appearing on
17 behalf of BTA Oil Producers.

18 EXAMINER JONES: Will all witnesses that
19 are going to testify today please stand and the court
20 reporter swear the witnesses?

21 (Ms. Beal, Mr. Eti, Mr. McQuien, Mr. Rice,
22 Mr. Keren and Mr. Alekseenko sworn.)

23 EXAMINER JONES: Okay.

24 MR. FELDEWERT: Mr. Examiner, Cases 16024
25 and 16076, the first two on the docket, involve

1 competing well proposals for the Wolfcamp Formation,
2 which involves the west half of Section 29, at least
3 under our proposal, as well as the northwest quarter of
4 Section 32. So as you know, the Wolfcamp, the
5 difference -- you have 320-acre spacing under the Purple
6 Sage Pool. Okay? Those cases are obviously ripe for
7 review by the Division of the competing development
8 plans for the Wolfcamp Formation.

9 Case Number 16077 involves Marathon's
10 proposed development plan for an east half of the west
11 half Bone Spring unit in the east half of the west half
12 of Section 29, so different formation, different
13 spacing.

14 As Ms. Bradfute knows, BTA has submitted
15 competing development proposals for the Bone Spring
16 Formation. Essentially, Marathon wants to develop these
17 in one-miles, and BTA wants to develop them in
18 one-and-a-half-mile wells. Okay? BTA has submitted
19 their competing Bone proposals. The submittals -- the
20 time period for filing a compulsory pooling application,
21 the 30-day period, has not yet expired. I requested
22 permission from Marathon to file that compulsory pooling
23 application early so that the competing Bone Spring
24 applications could be heard together. I don't know if
25 they dispute that or not. I haven't heard back.

1 But my point is, I'm not sure it makes a
2 whole lot of sense to go forward with Case 16077, which
3 involves their proposal to develop the Bone Spring in
4 the east half of the west half, when BTA is going to
5 file shortly, hopefully tomorrow if we can get
6 permission to file early, a competing compulsory pooling
7 application.

8 So my proposal would be that Case 16077 be
9 continued to when we can hear the competing Bone Spring
10 proposal at the same hearing, just like we're going to
11 hear the competing Wolfcamp proposals at the hearing
12 today.

13 MS. BRADFUTE: If I may, Mr. Examiner, if
14 you will recall, we had a pre-hearing conference in this
15 matter in order to set a special docket -- or the
16 parties actually -- excuse me. The parties agreed to a
17 stipulated motion in this matter to have all three cases
18 heard together today. I obtained approval from Adam
19 Rankin at Holland & Hart to have both of Marathon's
20 applications heard today.

21 Following the filing of that stipulated
22 motion, about two weeks later, BTA submitted well
23 proposals for the 3rd Bone Spring, and that was on April
24 10th. Mr. Feldewert did not ask to continue the Bone
25 Spring application in 16077 until around 5:00 on Friday.

1 Our witnesses had already prepared their exhibits, had
2 left the office for the day, because it was 6:00 p.m. in
3 Houston and they were catching flights Sunday night
4 because a flight was canceled on Monday night, and we
5 had one witness come in late Monday afternoon. And so
6 our case is prepared. It was very late to notify or ask
7 for a continuance on Case 16077.

8 And as the Division has previously heard,
9 16077 involves a 3rd Bone Spring well. Oftentimes, a
10 3rd Bone Spring well needs to be completed with your
11 Wolfcamp wells, and other operators have testified to
12 those under the direction of Mr. Feldewert to the
13 Division. So in order to hear Marathon's complete
14 development plan for the acreage, we want the Division
15 to hear testimony concerning the 3rd Bone Spring and the
16 Bone Spring development in connection with the Wolfcamp
17 development so that you can adequately consider the
18 recovery that's going to come from the acreage. I don't
19 know how you're going to be able to evaluate waste
20 unless you hear those issues together.

21 On Friday, I asked Mike if he wanted to
22 continue everything and hear everything together so that
23 you got a complete idea that we would agree to, but what
24 Marathon won't agree to is -- they want you to hear
25 their complete development plan so you get an idea of

1 the recovery that's going to come out of their acreage.
2 Their argument in this case is going to be a density
3 argument. They have proposed ten wells to develop a
4 half section. Their completion operations rely on
5 zipper-fracking a portion of those wells together, and
6 what is being pooled is their first stage of
7 development, which is four wells total.

8 EXAMINER JONES: They're proposing ten
9 wells?

10 MS. BRADFUTE: They're going to propose ten
11 wells.

12 EXAMINER JONES: In the west half?

13 MS. BRADFUTE: In the west half.

14 EXAMINER JONES: And the existing Marathon
15 proposal is for Zeus #15H?

16 MS. BRADFUTE: Yeah.

17 EXAMINER JONES: And that would be only the
18 east half-west half of 29 and that -- would that be
19 possibly amended to increase the number of wells?

20 MR. FELDEWERT: Well, let's step back a
21 minute.

22 We're BTA, number one.

23 EXAMINER JONES: Okay.

24 MR. FELDEWERT: Number two, what they have
25 here today before the Division is simply the Zeus 12H,

1 and the Zeus 17H and the Zeus 16H, and they're under
2 Case Number 16076.

3 EXAMINER JONES: Yeah.

4 MR. FELDEWERT: I mean, I suppose they can
5 talk about all the other wells they think they're going
6 to drill, but that's what's before the Division now.

7 And BTA has the Ogden wells that are set
8 forth in Case 16024. So that's the competing pooling
9 proposals before you for the spacing unit. They're Bone
10 Spring. They have been -- since we filed our pooling
11 application, you know, and sent out our well proposals,
12 especially since we filed a pooling application, it
13 seems like there is a never-ending series of additional
14 wells that they are now proposing and apparently want to
15 drill, some of which are in the Wolfcamp, some of which
16 are in the Bone Spring. The only Bone Spring pooling
17 application filed is for 15H, so I don't know what their
18 other Bone Spring proposals are.

19 My point is, I guess they can go forward
20 and put on their case in the Bone Spring, but I'm not
21 sure it makes a whole lot of sense because we're going
22 to have another Bone Spring pooling case coming before
23 you here in about a month. So it's up to you whether
24 you want to let them go forward with their Bone Spring
25 case. I'm not sure it's as efficient as it would be if

1 they were heard together.

2 But the only things that are really
3 competing applications that are ripe here would be the
4 competing Wolfcamp applications that are set forth in
5 Case 16024 and 16076.

6 So it's entirely up to you, Mr. Examiner,
7 what you think is more efficient, but my thought is if
8 we're going to -- we ought to wait on the Bone Spring
9 until the competing pooling application is filed. And
10 I'm hopeful and I'm assuming Marathon doesn't mind if we
11 filed that pooling application tomorrow.

12 MS. BRADFUTE: We have no objection to you
13 filing your pooling application tomorrow.

14 MR. FELDEWERT: Okay. We can get that
15 filed tomorrow then.

16 MS. BRADFUTE: But there has been testimony
17 in the past that in order to hear a complete proposal,
18 especially if there is synergy and recovery between the
19 3rd Bone Spring and the Wolfcamp, that the Division
20 prefers to hear those development plans together.
21 Because if they interrelate, we're going to put on the
22 Wolfcamp today with some information about the Bone
23 Spring, and then a month later, put on the Bone Spring
24 and hear all the information about the Wolfcamp again.

25 EXAMINER JONES: Would Marathon prefer if

1 we just wait and hear all of the cases together in
2 another month?

3 Would BTA object to that? Are you ready to
4 go ahead with the Wolfcamp?

5 MR. FELDEWERT: Well, I think that --
6 everybody has leases that apparently have some, you
7 know, expiration dates in 2019. I thought Marathon was
8 hot to trot in getting these cases to hearing. They
9 were pushing, trying to get the cases to hearing, so I
10 don't know why we wouldn't move forward with the
11 Wolfcamp proposals today, because it is a separate
12 spacing unit, and it's different spacing.

13 MS. BRADFUTE: And, actually, though, we
14 have actually requested continuances of these cases,
15 Marathon has, and BTA was reluctant to continue the
16 cases initially. So we first had to request and work
17 together to get them continued to the May 3rd docket,
18 and that took some negotiations with Adam Rankin, and
19 then they agreed for the stipulated motion because it
20 was likely to be set for a special docket.

21 Marathon is fine. We would prefer to have
22 this complete development plan heard together.
23 Marathon's lease-expiration issues occur in February of
24 2019.

25 MR. FELDEWERT: So, Mr. Examiner, if they

1 want to put on their Bone Spring case, they can
2 certainly do that, and then we'll just come back in a
3 month and put on our Bone Spring case. And we can
4 incorporate the record with whatever you want to put on
5 here today. I'm just not sure that's as efficient as if
6 we wait to do the Bone Spring when both applications are
7 ripe for --

8 EXAMINER JONES: Yeah. I would prefer to
9 hear --

10 Mr. Brooks, what do you think?

11 EXAMINER BROOKS: Well, the policy in the
12 past has been to hear competing applications together,
13 but I don't think there is any rule requiring it. So I
14 think it's in your discretion how we do this. I
15 thought -- I think I have this mixed up with another
16 case because I was thinking it was a really early lease
17 expiration date.

18 MS. BRADFUTE: That is a different case,
19 David.

20 EXAMINER BROOKS: That's the one that went
21 away.

22 MS. BRADFUTE: It has not gone away, but
23 it's been set for May 9th.

24 EXAMINER BROOKS: Okay. I'm confused. But
25 I'm glad one of them went away.

1 Anyway, it's in your discretion to do what
2 you think best.

3 EXAMINER JONES: Yeah. It's hard to know
4 until you start talking about the depths between the
5 Wolfcamp and the Bone Spring and -- but it looks like
6 that the matter will be written up almost
7 simultaneously, and we could take the -- we could hear
8 the Wolfcamp today and take the record into account in
9 the next -- in the Bone Spring hearing to come.

10 MS. BRADFUTE: Okay. And there may be some
11 duplication, Mr. Examiner, on Marathon's part in the
12 later hearing.

13 EXAMINER JONES: Okay. Let's just do that.
14 Let's just go ahead with the Wolfcamp -- with the
15 Wolfcamp proposal.

16 Would the attorneys like to briefly
17 summarize the cases that are going to be presented
18 today?

19 We have the Ogden well already permitted.
20 That's BTA. Mr. Feldewert, would you rather put on your
21 case, or do you want to -- can you tell us what you're
22 going to put on before you do it, kind of a briefing?

23 OPENING STATEMENT

24 MR. FELDEWERT: It's up to you. I will be
25 very brief. We're going to put on three witnesses.

1 We're going to explain to you that we proposed them way
2 back in October, mile-and-a-half wells, okay, after
3 having had discussions with Marathon in which they led
4 the company to believe that they were going to proceed
5 under a joint operating agreement or they were going to
6 trade acreage and we were not going to have to pool.

7 And after an extensive period of time, they
8 finally disclosed the fact that they wanted to have a
9 competing development plan and only wanted to drill a
10 one-mile well, which doesn't make a whole lot of sense
11 to me, but that's what they said they wanted to do. So
12 then we had to file our compulsory pooling application,
13 and, of course, once we did that, we started receiving a
14 bunch of well proposals from Marathon because they
15 hadn't done anything up to that point.

16 And when you look at the facts, I mean,
17 we're doing a mile-and-a-half versus a mile.

18 EXAMINER JONES: Okay.

19 MR. FELDEWERT: We are the largest interest
20 owner in that -- in this acreage that's involved,
21 whether you look at the west half of 29 or whether you
22 look at the west half of 29 and the northwest quarter of
23 34 [sic]. We're the ones that initiated development.
24 We're the ones that proposed the well first. We're the
25 ones that filed the compulsory pooling application

1 first. We've got the most -- we have a better
2 development plan because we're going to develop a
3 mile-and-a-half.

4 So they can talk about all the density that
5 they want to do, and, you know, they're going to plan to
6 have ten wells or whatever she said they plan on doing.
7 And that sounds all fine and dandy, but the proof is in
8 the pudding as to what you're actually doing. Okay?

9 And we proposed the development. We
10 proposed the well. We filed a compulsory pooling
11 application. We went out and got APDs. We got the
12 surface facilities approved. We got a pad built. Okay?
13 We've got another pad that we're ready to build for the
14 other wells.

15 So they can talk about all their theories,
16 okay, but BTA is the one who is taking action, and BTA
17 is ready to drill this well. In fact, this 5H and 6H
18 well, you're going to hear, this would have been drilled
19 already if they hadn't suddenly pulled the plug on what
20 they had represented to the company and that is that
21 they were going to proceed under a JOA or they were
22 going to do an acreage trade.

23 So we lost that rig in March. Otherwise,
24 the 5H and 6H would already be drilled. And now that
25 rig's coming back around here in a couple of months, and

1 if we can get this case done, then we're going to be
2 able to drill. We've got the pad ready. We've got the
3 facilities in place. We're ready to go.

4 EXAMINER JONES: Ms. Bradfute.

5 OPENING STATEMENT

6 MS. BRADFUTE: Yes. Thank you.

7 Mr. Examiner, Marathon's version of the
8 facts significantly differs from BTA's. Marathon did
9 receive these well proposals in the fall of 2017. When
10 their subsurface department started to look at the well
11 proposals, they noticed that the AFE costs were
12 excessively high, much higher than what Marathon
13 typically sees. They could not agree to participate in
14 the wells, and they had significant concerns.

15 They approached BTA about those concerns,
16 and BTA, it appears, within a day, issued new AFEs with
17 different costs. And Marathon then had questions. Did
18 they go out to vendors? Did they actually quote? Were
19 they going to see overages? And that led Marathon to
20 look at the acreage more seriously. Who should be the
21 operator of this acreage?

22 They looked into BTA's development plans
23 and Marathon also looked into its land records and
24 realized they have a depth severance covering part of
25 their interest that is going to expire. BTA's plans did

1 not plan to develop that depth severance, the depths
2 that will be severed and will expire. BTA has not
3 responded to a number of trades that Marathon has
4 offered them. Marathon has offered to buy out BTA's
5 acreage. They've offered to trade acreage. The parties
6 discussed a joint development scenario that would
7 protect everybody's correlative rights, and so far no
8 agreement has been reached between the parties.
9 Marathon has gone to extensive lengths in order to try
10 to work with BTA in order to protect its correlative
11 rights in this acreage that it only recently acquired
12 last summer, less than a year ago.

13 Marathon has come up with a separate well
14 proposal. After looking at BTA's proposal, they felt
15 that BTA's proposal will not adequately drain the
16 acreage. They propose two wells. That's what's in
17 front of you today. Marathon has four wells total that
18 are in front of you when you consider the 3rd Bone
19 Spring well. And those are the two competing proposals
20 that Mr. Feldewert explained. When you look at BTA's
21 proposal, those two wells are inadequately placed to
22 drill additional infill wells if you want to go back in
23 to create an additional reservoir through fracking
24 operations that can be produced.

25 And so the Division has to weigh what is

1 the benefit of having a mile-and-a-half lateral if
2 you're going to still leave a lot of acreage on either
3 side of that lateral that's not going to be produced in
4 the productive formations.

5 Marathon has come in with a competing
6 proposal that is essentially going to mine the acreage.
7 They're going to fully produce it. They're going to
8 invest. They have the capital. They're committed. And
9 ultimately they have a three-stage plan. They have ten
10 wells within that half section. Marathon is the
11 operator of the adjoining sections -- of many of the
12 adjoining sections where they are already drilling under
13 a similar pattern. They are the operator to the west of
14 these wells, and they've already drilled four or five
15 wells in similar formations using the same spacing
16 pattern based on a one-mile basis.

17 The data that they have obtained from these
18 development plans has given them a superior outlook over
19 how the acreage should be developed, and you're going to
20 hear testimony today which confirms that Marathon has
21 the best plan to efficiently recover reserves from the
22 formations.

23 EXAMINER JONES: Okay. Thank you very
24 much.

25 And I thank all the witnesses for coming

1 this morning. I appreciate you sharing your knowledge
2 with us.

3 Mr. Feldewert, would you like to proceed?

4 MR. FELDEWERT: We'll call our first
5 witness.

6 ASHLEY BEAL,

7 after having been previously sworn under oath, was
8 questioned and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. FELDEWERT:

11 **Q. Would you please state your name, identify by**
12 **whom you're employed and in what capacity?**

13 A. My name is Ashley Beal. I'm employed by BTA
14 Oil Producers, LLC, and I'm a landman.

15 **Q. And have your responsibilities as a landman**
16 **included the Permian Basin of New Mexico?**

17 A. Yes, sir.

18 **Q. Have you previously testified before this**
19 **Division?**

20 A. No, sir.

21 **Q. Would you please review your educational**
22 **background for the Examiners?**

23 A. I graduated from Western State Colorado
24 University in December of 2014 with a business
25 administration degree with an emphasis in professional

1 land and resource management and also an accounting
2 degree.

3 Q. What did you do after you graduated?

4 A. I started working for Caruso [phonetic] Oil &
5 Gas.

6 Q. For Cruz Oil?

7 A. Caruso.

8 Q. Caruso?

9 A. Yes.

10 Q. In what capacity?

11 A. I was a land tech, and then I was promoted to a
12 senior land tech.

13 Q. And how long were you with Caruso?

14 A. A little over two years.

15 Q. Then you went to work for BTA at that point?

16 A. Yes, sir.

17 Q. Are you a member of any professional
18 affiliations or associations?

19 A. Yes, sir, the American Association of
20 Professional Landmen and the Permian Basin Landmen's
21 Association.

22 Q. How long have you been a member of the Permian
23 Basin Landmen's Association?

24 A. A little over a year.

25 Q. What about the other one?

1 A. Since 2013.

2 Q. You started that when you were in school?

3 A. Yes, sir.

4 Q. Are you familiar with the application that's
5 been filed by the company in this case?

6 A. Yes, sir.

7 Q. And are you familiar with the status of the
8 lands in the subject area?

9 A. Yes, sir.

10 MR. FELDEWERT: I would tender Ms. Beal as
11 an expert witness in petroleum land matters.

12 EXAMINER JONES: Any objection?

13 MS. BRADFUTE: No objection.

14 EXAMINER JONES: How do you spell your last
15 name?

16 THE WITNESS: B, as in boy, E-A-L.

17 EXAMINER JONES: Yeah. Because they list
18 Chase Rice as the witness for land.

19 THE WITNESS: That's for Marathon.

20 EXAMINER JONES: Well, I'm totally mixed up
21 this morning. I apologize.

22 Okay. Go ahead.

23 Q. (BY MR. FELDEWERT) Ms. Beal, would you be so
24 kind to go into our exhibit book and turn to what is
25 marked as BTA Exhibit Number 1. First off, what is set

1 **forth under BTA Exhibit Number 1?**

2 A. These are our C-102s for our two Wolfcamp wells
3 that we're planning to drill for the Ogden 5H and 6H.

4 **Q. And have these applications to drill been**
5 **approved?**

6 A. Yes, sir.

7 **Q. By the BLM?**

8 A. Yes, sir.

9 **Q. And does this reflect that the company intends**
10 **to drill, initially, one-and-a-half-mile laterals in the**
11 **Wolfcamp Formation?**

12 A. Yes, sir.

13 **Q. And to accommodate this drilling plan, what**
14 **relief do you seek from the Division?**

15 A. I seek a spacing order for these wells, a
16 mile-and-a-half spacing order, so a 320 in the west half
17 of Section 29 and a 160 nonstandard spacing unit in
18 the -- in the northwest quarter of Section 32.

19 **Q. And that would be the 480-acre spacing unit?**

20 A. Yes, sir.

21 **Q. Which is then dedicated to these initial wells**
22 **in the Wolfcamp?**

23 A. Yes, sir.

24 **Q. Do you also then seek to pool the uncommitted**
25 **interests in this nonstandard spacing unit?**

1 A. Yes, sir.

2 Q. The nice thing is Exhibit Number 1 provides the
3 Examiner with the API number for each well, right, since
4 they approved? In the upper left-hand corner, we have
5 an API number for each well?

6 A. Yes, sir.

7 Q. Okay. And does it also then identify the pool
8 that's involved here?

9 A. Yes, sir.

10 Q. And which pool is that?

11 A. 98220.

12 Q. And that would be the Purple Sage; Wolfcamp
13 Pool?

14 A. Yes, sir.

15 Q. Are you familiar with those rules?

16 A. Yes, sir.

17 Q. What do they provide with respect to spacing?

18 A. A 320-acre spacing.

19 Q. And with respect to the special pool rules,
20 what do say with respect to the setback requirements?

21 A. 330 feet.

22 Q. Will the completed interval for these wells
23 comply with the setback requirements set forth in the
24 special pool rules for the Purple Sage?

25 A. Yes, sir.

1 Q. What type of acreage is involved with this
2 mile-and-a-half development plan?

3 A. It's federal, fee and state acreage.

4 Q. If I then turn to what's been marked as BTA
5 Exhibit Number 2, does this identify the tracts of lands
6 that are involved in the proposed 480-acre spacing unit?

7 A. Yes, sir.

8 Q. And how many tracts are in total there?

9 A. Eight tracts of land.

10 Q. And are all designated on the first page of
11 this exhibit with different colors?

12 A. Yes, sir.

13 Q. If I then look at the second page and third
14 page of this exhibit, does it provide an ownership
15 breakdown, working interest -- with respect to working
16 interests by tract?

17 A. Yes, sir.

18 Q. And then on the last page, does it provide a
19 working interest percentage based on the complete
20 480-acre spacing unit?

21 A. Yes, sir.

22 Q. And this reflects that any proposed spacing
23 unit, BTA owns over 70 percent of the working interest?

24 A. Yes, sir.

25 Q. By far a majority owner?

1 A. Yes, sir.

2 Q. Does Marathon only own a few of the tracts that
3 are involved?

4 A. Yes, sir.

5 Q. If I go back to the first page of this exhibit,
6 would you identify for the Examiner what tracts Marathon
7 has ownership in?

8 A. Marathon owns in Tract 3, Tract 4 and Tract 5.

9 Q. And with respect to Tract 3, what's the
10 ownership percentage?

11 A. Marathon and BTA own 50 percent of Tract 3.

12 Q. And then the only tracts in which Marathon owns
13 100 percent would be Tract 4 and Tract 5?

14 A. Yes, sir.

15 Q. Is it true, then, that BTA owns a majority of
16 the interest if you just look at the west half of
17 Section 29?

18 A. Yes, sir.

19 Q. And when you look at the west half of Section
20 29 and the northwest quarter of Section 32, the last
21 page reflects that BTA owns over 70 percent of the
22 working interest?

23 A. Yes, sir.

24 Q. Okay. Do you recall what ownership percentage
25 BTA owns, if you look at the west half of Section 29?

1 A. It's approximately 55 percent of the working
2 interest in just the west half of Section 29.

3 Q. And then you own 100 percent of the northwest
4 quarter of 32?

5 A. Yes.

6 Q. Is BTA pooling any other interest owners?

7 A. Yes, sir.

8 Q. And what are they?

9 A. Overrides.

10 Q. Overrides.

11 So were you able to locate addresses for
12 these overriding royalty interests?

13 A. Yes, sir.

14 Q. Why is that?

15 A. We have them in current decks. We're paying
16 them for wells we have already drilled.

17 Q. Okay. And do you plan on asking those
18 overriding royalty interest owners to execute a
19 communitization agreement?

20 A. Yes, sir.

21 Q. In the event they don't, you ask that they be
22 subject to a pooling order?

23 A. Yes, sir.

24 Q. All right. Then if I focus on the working
25 interests and I go to what's marked as BTA Exhibit

1 Number 3, does this contain the well-proposal letters
2 that were sent to Marathon for each well?

3 A. Yes, sir.

4 Q. And does this reflect they were sent way back
5 in October of 2017?

6 A. Yes, sir.

7 Q. At that time did the company include an AFE for
8 these wells?

9 A. Yes, sir.

10 Q. And an AFE would have been drafted with these
11 letters. Do you recall when that AFE was put together,
12 the initial AFE?

13 A. I'm not sure when the initial AFE was put
14 together.

15 Q. Would it have been before October?

16 A. Yes, sir.

17 Q. Okay. And since this well was proposed way
18 back in October, then, did BTA update the AFE that was
19 provided?

20 A. Yes, sir.

21 Q. And you heard some discussion about Marathon
22 being concerned about the cost of that AFE. Was that
23 also the result of having some discussions with
24 Marathon?

25 A. Yes, sir.

1 Q. And did the company then go out and examine the
2 costs and come up with an estimate of the costs as of a
3 more recent vintage?

4 A. Yes, sir.

5 Q. If I turn to what's been marked as BTA Exhibit
6 Number 4, is this the updated APD?

7 A. AFE, yes, sir.

8 Q. Or I'm sorry. AFE. Thank you.

9 A. Yes, sir.

10 Q. And when was this provided to Marathon?

11 A. February 1st, I believe.

12 Q. And we see a date on here of February 1st,
13 correct?

14 A. Yes. Yes, sir.

15 Q. And are the costs reflected on this AFE
16 consistent with what BTA and other operators have
17 incurred for drilling similar Wolfcamp horizontal wells
18 at the time that this was put together in February of
19 2018?

20 A. Yes, sir.

21 Q. And have you gotten any comments from Marathon
22 since you gave this AFE to them suggesting that this
23 doesn't reflect the actual costs?

24 A. No, sir, not to my knowledge.

25 Q. They had some concerns about the initial AFE

1 that was provided way back in October, right?

2 A. Yes, sir.

3 Q. But they haven't raised any concerns about this
4 AFE?

5 A. No, sir.

6 Q. What overhead rates and administrative costs
7 does the company request while drilling and producing
8 these wells?

9 A. 800 and 8,000.

10 Q. Okay. And are those the rates that were
11 provided in the COPAS provisions for a JOA?

12 A. Not the initial JOA, but a revised COPAS, yes,
13 sir.

14 Q. And you revised the COPAS provision to update
15 it?

16 A. Yes, sir.

17 Q. And these are the numbers that were provided in
18 the revised COPAS provisions?

19 A. Yes, sir.

20 Q. And were those sent to Marathon?

21 A. Yes, sir.

22 Q. And in addition, Marathon had received a JOA,
23 correct?

24 A. Yes, sir.

25 Q. Okay. Has Marathon raised any issues over

1 these overhead rates?

2 A. No, sir.

3 Q. And are these overheads rates consistent with
4 what BTA and other operators charge for Wolfcamp wells?

5 A. Yes, sir.

6 Q. Especially mile-and-a-half Wolfcamp wells?

7 A. Yes, sir.

8 Q. Now, I know the company sent their
9 well-proposal letter out in October of 2017. Was there
10 a discussion that had occurred between BTA and Marathon
11 before you sent out your October well proposal then?

12 A. Yes, sir. I reached out to Marathon in June of
13 last year.

14 Q. So BTA reached out to Marathon?

15 A. Yes, sir.

16 Q. And initiated discussions about development?

17 A. Yes, sir.

18 Q. And were there some discussions that took place
19 prior to October?

20 A. Yes, sir.

21 Q. What was nature of those discussions?

22 A. We discussed trade options with Marathon.

23 Q. Okay. Proposals went back and forth?

24 A. Yes, sir.

25 Q. But nobody reached an agreement?

1 A. No, sir.

2 Q. Now, you then send your well-proposal letters
3 in October. After you sent your well-proposal letters
4 in October, did the company again reach out to Marathon
5 in an effort to reach an agreement?

6 A. Yes, sir. We planned a meeting with Marathon
7 in November.

8 Q. BTA planned a meeting?

9 A. Yes, sir.

10 Q. And where did you have the meeting?

11 A. Houston.

12 Q. So we had initiated -- BTA initiated
13 discussions with Marathon about the development in June,
14 right?

15 A. Yes, sir.

16 Q. BTA filed their well proposal in October?

17 A. Yes, sir.

18 Q. And once again you initiated discussions with
19 them and organized a meeting in November?

20 A. Yes, sir.

21 Q. I want you to turn to what's been marked as BTA
22 Exhibit Number 5. Is this a series of emails and
23 comments that you put together, Ms. Beal?

24 A. Yes, sir.

25 Q. And it contains five pages; is that right?

1 A. Yes, sir.

2 Q. And hopefully they're numbered. At least mine
3 are. Are yours numbered?

4 A. Yes, sir.

5 Q. If I look at page 1, does this email
6 correspondence reflect the meeting in Houston that you
7 referenced?

8 A. Yes, sir.

9 Q. And that took place when?

10 A. On November 15th.

11 Q. Okay. What happened at that meeting?

12 A. We brought up a trade proposal again with
13 Marathon that we had previously discussed, and they said
14 that they were not interested in that trade but that
15 they wanted to work out something with us, whether that
16 meant participating in our wells or coming to some kind
17 of trade agreement.

18 Q. Did they indicate at that time, having received
19 your well-proposal letter, that you were going to have
20 to go get a compulsory pooling order?

21 A. No, sir.

22 Q. As a result of that meeting, did you then
23 provide to Marathon a joint operating agreement for the
24 property?

25 A. Yes, sir.

1 Q. And is that reflected on page 2 of this
2 exhibit?

3 A. Yes, sir.

4 Q. And when was that provided to Marathon?

5 A. December 20th.

6 Q. And how did they respond to the receipt of a
7 joint operating agreement?

8 A. I did not receive a response until January.

9 Q. To the joint operating agreement?

10 A. Yes. But I had to reach out again to see if
11 they had reviewed it.

12 Q. Okay. And why did you reach out to them again
13 in January to see if they had reviewed it? What was
14 problem with that?

15 A. Because we were originally supposed to spud
16 these wells in February, so I was trying to get a
17 response from them to see where they stood and see if
18 they had looked at the proposals or the JOA.

19 Q. Okay. And did they -- did they provide a
20 response to you at that time?

21 A. Yes, on January 9th.

22 Q. And what did they indicate in January about --
23 on January 9th?

24 A. They indicated that they would like to give us
25 an answer so that we did not have to file for compulsory

1 pooling.

2 Q. In fact, if I look at the bottom of page 2,
3 they ask: "What is BTA's timing for this well? We
4 would like to provide our election," talking about the
5 wells you had proposed in October, right?

6 A. Yes, sir.

7 Q. "We would like to provide our election prior to
8 BTA having to file an application for compulsory
9 pooling"?

10 A. Yes, sir.

11 Q. After making that representation to the company
12 in January, there were some additional discussions about
13 trades?

14 A. Yes, sir.

15 Q. If I look at page 3 of this timeline, moving
16 now into January, does this reflect that there were
17 continuing discussions that took place in January?

18 A. Yes, sir.

19 Q. Did they involve a joint operating agreement?

20 A. The discussion?

21 Q. Yes.

22 A. Yes, sir.

23 Q. And, in fact, I'm looking now to the middle of
24 page 3, and this is an email from Chase Rice to you,
25 correct?

1 A. Yes, sir.

2 Q. Dated January 9th, 2018?

3 A. Yes, sir.

4 Q. Chase Rice is with Marathon?

5 A. Yes, sir.

6 Q. He says, "Ashley, I am now handling this area."

7 So we've got somebody new?

8 A. Yes, sir.

9 Q. You were dealing with somebody else prior to
10 that?

11 A. Yes, sir. Matt Tate.

12 Q. Matt Tate.

13 Now, we've got somebody new.

14 Okay. And he represents, "The JOA is out
15 for review and I hope to have some feedback by the end
16 of the week"?

17 A. Yes, sir.

18 EXAMINER BROOKS: Mr. Feldewert, which
19 exhibit are you looking at?

20 MR. FELDEWERT: Exhibit 5, page 3.

21 EXAMINER BROOKS: That's the one that says
22 at the top "1/10/2018: Marathon proposed trade
23 options"?

24 MR. FELDEWERT: Uh-huh. And I'm in the
25 middle of the next email, Mr. Brooks, dated January 9th,

1 2018, middle of the page.

2 EXAMINER BROOKS: Okay. Go ahead.

3 Q. (BY MR. FELDEWERT) Now, this had been --
4 October, November, January. This had been over three
5 months after you had proposed your well?

6 A. Yes, sir.

7 Q. And at this time, they're still representing to
8 you that they -- you don't have to go seek pooling?

9 A. Yes, sir.

10 Q. And you were trying to move things forward
11 because you had your wells scheduled to drill, right?

12 A. Yes, sir.

13 Q. If I then turn to the next page -- and
14 Ms. Bradfute mentioned that Marathon raised some issues
15 three months later about the AFE that you provided back
16 in October, correct?

17 A. Yes, sir.

18 Q. So this is three months later?

19 A. Yes, sir.

20 Q. Do you recall them raising questions about the
21 AFE?

22 A. Yes, sir.

23 Q. Did you have a conference call thereafter with
24 Marathon to discuss the AFE?

25 A. Yes, sir.

1 Q. And address their concerns?

2 A. Yes, sir.

3 Q. And, in fact, Ms. Beal, if I look at the
4 bottom of page -- towards the bottom of page 4, the last
5 email --

6 A. Yes, sir.

7 Q. -- doesn't it indicate that Marathon, if I'm
8 reading this correctly, provided to someone at your
9 company by the name of Willis -- could that be Willis
10 Price?

11 A. Yes, sir.

12 Q. That Marathon provided its costs for a
13 one-and-a-half mile?

14 A. Yes, sir.

15 Q. For you to take a look at it?

16 A. Yes, sir.

17 Q. So there was no indication at this point in
18 time that they were not in favor of a
19 one-and-a-half-mile lateral, is there?

20 A. No, sir.

21 Q. And, in fact, all you're, at this point, doing
22 is discussing the AFE costs?

23 A. Yes, sir.

24 Q. Then if I turn to the next page, which is
25 Exhibit 5, page 5, 1st of February, did you then send a

1 revised AFE to Marathon?

2 A. Yes, sir.

3 Q. And is that the AFE that we've marked as
4 Exhibit Number 4?

5 A. Yes, sir.

6 Q. An AFE for each well?

7 A. Yes, sir.

8 Q. Okay. And did they express any issues with
9 that AFE?

10 A. No, sir, not to my knowledge.

11 Q. And after you sent the revised AFE and they had
12 the JOA in place, in hand, and you had your well
13 proposals that had been sent way back in October, what
14 did they represent to you about how they were intending
15 to proceed?

16 A. I received an email from Marathon on 2/12 that
17 I should receive feedback on the JOA that day.

18 Q. So I'm looking at the bottom of page 5 --

19 A. Yes, sir.

20 Q. -- February 12th --

21 A. Yes, sir.

22 Q. -- October, November, December, January,
23 February -- four months later after you proposed your
24 well, a couple months after you sent the JOA, they're
25 saying, "I'm going to give you some feedback on your JOA

1 today?

2 A. Yes, sir.

3 Q. Okay. Did that happen?

4 A. No, sir.

5 Q. And you had rigs that were scheduled to drill
6 at that point; did you not?

7 A. Yes, sir.

8 Q. Okay. Did you then reach out to them after
9 receiving this email saying -- on February 12th, saying
10 they were going to give you feedback, did you call them
11 up and say, "What's going on"?

12 A. I emailed them on February 16th asking if they
13 had any feedback on the JOA or the well proposals.

14 Q. Did you get any kind of response?

15 A. No, sir.

16 Q. What happened after that?

17 A. Marathon proposed their four wells on February
18 19th.

19 Q. So they didn't get back to you on the JOA?

20 A. No, sir.

21 Q. They didn't -- they didn't comment on your well
22 proposals. Instead, four months later, they send you
23 competing well proposals?

24 A. Yes, sir.

25 Q. Did that come as a surprise to you, Ms. Beal?

1 A. Yes, sir.

2 Q. Why is that?

3 A. Because they didn't indicate that they were
4 going to send competing well proposals at any point.

5 Q. In fact, didn't they represent to you that you
6 weren't going to have to go get a compulsory pooling
7 application?

8 A. Yes, sir, in January.

9 Q. And didn't they represent to you that you were
10 going to be drilling your wells in March because they
11 were going to either trade acreage or participate and
12 make an election in those wells?

13 A. Yes, sir.

14 Q. And instead they turn around in February --
15 what date was that?

16 A. February 19th, I believe.

17 Q. And send out competing well proposals --

18 A. Yes, sir.

19 Q. -- for one-mile wells?

20 A. Yes, sir.

21 Q. After discussing the AFE costs and development
22 for mile-and-a-half wells?

23 A. Yes, sir.

24 Q. So after that, is that when BTA filed its
25 pooling application with the Division?

1 A. Yes, sir.

2 Q. Did you have to release your rigs because of
3 their actions?

4 A. Yes, sir.

5 Q. And now we're here today?

6 A. Yes, sir.

7 Q. All right. If I then look at BTA Exhibit
8 Number 6, does this more succinctly summarize what you
9 just discussed and what has occurred since Marathon's
10 surprising well proposals on February 19th?

11 A. Yes, sir.

12 Q. And doesn't this reflect, Ms. Beal, when you
13 look at this, that BTA was the one -- if I look at June
14 through October about trade discussions, weren't you the
15 one that initiated that proposed discussions?

16 A. Yes, sir.

17 Q. And doesn't this reflect that BTA was the first
18 to formally propose any wells on this jointly held
19 acreage?

20 A. Yes, sir.

21 Q. And doesn't this reflect that BTA was the first
22 to file a pooling application --

23 A. Yes, sir.

24 Q. -- for this acreage?

25 And, Ms. Beal, is it correct that you

1 delayed filing that pooling application only because
2 they represented that they were going to either trade
3 acreage or participate in your well proposals?

4 A. Yes, sir.

5 Q. And isn't it true that BTA owns the majority
6 interest -- working interest, whether you want to look
7 at this on the west half of Section 29 or look at this
8 on a 480-acre spacing-unit basis?

9 A. Yes, sir.

10 Q. Are there any concerns that Marathon raised
11 after it sent its competing well proposals about its
12 leases?

13 A. Yes, sir.

14 Q. What did they represent to you?

15 A. They represented that their leases were going
16 to expire in early 2019 and that those leases had depth
17 severances without continuous development.

18 Q. So in other words, their leases would expire if
19 they didn't have continuous development because of the
20 depth severance?

21 A. Yes, sir.

22 Q. Is that because leases would only cover
23 anything -- they wouldn't cover anything 100 feet below
24 producing depth?

25 A. Yes, sir.

1 Q. Is that how that works?

2 A. Yes, sir.

3 Q. Does BTA have leases?

4 A. Yes, sir.

5 Q. Does BTA have a similar depth-severance clause?

6 A. Yes, sir.

7 Q. So do they have the same incentive as Marathon
8 to develop this acreage in a timely fashion to avoid the
9 similar depth-severance clauses?

10 A. Yes, sir.

11 Q. And as a result of Marathon's concern, did you
12 then -- did the company then take actions to alleviate
13 their concerns?

14 A. Yes, sir.

15 Q. What did the company do?

16 A. We sent additional well proposals for the
17 Wolfcamp D Formation.

18 Q. And when did those go out?

19 A. Those went out on April 10th.

20 Q. And that's reflected in the last line here on
21 Exhibit Number 6?

22 A. Yes, sir.

23 Q. And it indicates that after they raised
24 concerns about their depth-severance clause, you
25 proposed the Ogden 7H and 8H in the Lower Wolfcamp D --

1 A. Yes, sir.

2 Q. -- to address those concerns?

3 A. Yes, sir.

4 Q. And then did you also propose wells in the Bone
5 Spring Formation?

6 A. Yes, sir.

7 Q. And those are the ones that are pending now in
8 a compulsory pooling application, correct?

9 A. Yes, sir.

10 Q. All right. In each of these -- with respect to
11 the Wolfcamp wells and the Bone Spring wells, did you
12 propose to develop these under the same mile-and-a-half
13 pattern that was reflected with your initial well
14 proposals back in October?

15 A. Yes, sir.

16 Q. Now, the proof is in the pudding, right, about
17 what you did do?

18 A. Yes, sir.

19 Q. Okay. You've been trying to work this -- get
20 this -- move this forward. In addition to all this
21 effort to work with Marathon, did you also obtain
22 federal permits to enable you to drill these wells?

23 A. Yes, sir.

24 Q. If I turn to what's been marked as BTA Exhibit
25 Number 7 -- we already saw the approved permits for the

1 wells proposed back in October, right, the 5H and 6H?

2 A. Yes, sir.

3 Q. What does Exhibit Number 7 reflect?

4 A. These are two additional permits for the 7H and
5 the 8H wells. This would be our Wolfcamp D wells.

6 Q. And you were able to get federally approved
7 permits for those?

8 A. Yes.

9 Q. Okay. And, Ms. Beal, is it your understanding
10 that that Marathon -- or I'm sorry -- that BTA, under
11 its lease provisions in these depth-severances clauses,
12 that its leases actually will expire before Marathon's?

13 A. Yes, sir.

14 Q. So you actually have more incentive than
15 Marathon does to fully develop the acreage as is
16 prudently needed to avoid the depth-severance clauses?

17 A. Yes, sir.

18 Q. Does the company -- the company lost its rig
19 that it had available in March to drill the 5H and 6H.
20 Does the company have a rig coming available for this
21 Ogden area in the near future?

22 A. Yes, sir, in June.

23 Q. In June.

24 So you have a rig moving over here to the
25 Ogden area?

1 A. Yes, sir.

2 Q. Does BTA have facilities in place for the
3 drilling and completing of the proposed wells?

4 A. Yes, sir.

5 Q. Of the 5H and the 6H?

6 A. Yes, sir.

7 Q. Got your pad built?

8 A. Yes, sir.

9 Q. You've got your gas-connection facilities in
10 place?

11 A. Yes, sir.

12 Q. Are they actually out there?

13 A. Yes, sir.

14 Q. They've been laid?

15 A. Yes, sir.

16 Q. Okay. And do you have all the other takeaway
17 needs ready to drill the 5H and the 6H?

18 A. Yes, sir.

19 Q. And do you have pad locations approved for the
20 7H and 8H wells?

21 A. Yes, sir.

22 Q. Which would target the Lower Wolfcamp D
23 Formation?

24 A. Yes, sir.

25 Q. Are those pad locations, are they -- for the 7H

1 and 8H, are they in the same general area as the pad
2 location for the 5H and the 6H?

3 A. Yes, sir.

4 Q. In fact, aren't they pretty close together?

5 A. Yes, sir.

6 Q. And that's all been approved by the BLM?

7 A. Yes, sir. And we also have a pad location for
8 the Bone Spring wells. We have an SUA already in place.
9 And so we just need to go out and build that pad
10 location for the Bone Spring wells as well.

11 Q. So your plan is not theoretical. You're ready
12 to go?

13 (Cell phone ringing.)

14 A. Yes, sir.

15 Q. And you have the approvals in place that would
16 allow you to move forward?

17 A. Yes, sir.

18 Q. If we can get a pooling order?

19 A. Yes, sir.

20 Q. Okay. Or reach an agreement with Marathon
21 somehow, right?

22 A. Yes, sir.

23 Q. All right. Now, we've been talking about
24 this -- I'll call it the west-half acreage, right, the
25 west half of 29 and the northwest of 32?

1 A. Yes, sir.

2 Q. Does BTA also own in the east half of 29?

3 A. Yes, sir.

4 Q. And in the northeast of 32?

5 A. Yes, sir.

6 Q. Is BTA also proceeding with developing that
7 east-half acreage? I know it's not part of this
8 application, but is the company also proceeding to
9 develop the east-half acreage?

10 A. Yes, at a mile-and-a-half-length laterals as
11 well in the east half.

12 Q. So it mirrors what you've done in the west
13 half?

14 A. Yes, sir.

15 Q. And, in fact, if I look -- let's put some paper
16 on this. If I look, for example, at Exhibit Number 8 --
17 BTA Exhibit Number 8 -- now we've been talking about the
18 5H and the 6H. Are those the wells that you've got the
19 pad built and ready to go, right?

20 A. Yes, sir.

21 Q. And you also mentioned that at the end of
22 April, to accommodate Marathon's concerns about their
23 lease expiration, you proposed the 7H and the 8H in the
24 Wolfcamp?

25 A. Yes, sir.

1 Q. And you also mentioned Bone Spring wells?

2 A. Yes, sir.

3 Q. What are those? What number are those?

4 A. The 9H and the 10H.

5 Q. And if I look at Exhibit Number 8, does this
6 reflect the additional drilling plan to take place in
7 addition to the 5H and the 6H?

8 A. Yes, sir.

9 Q. And it shows a mile-and-a-half?

10 A. Yes, sir.

11 Q. All right. And if I look at Exhibit Number 9,
12 is that the development then on the east-half acreage?

13 A. Yes, sir.

14 Q. And I see a 3H, a 1H and a 2H.

15 A. Yes, sir.

16 Q. What formation is being targeted on the east
17 half?

18 A. The Wolfcamp.

19 Q. And over there, do you likewise have the
20 facilities and the pads?

21 A. Yes, sir. We have already started building the
22 pad location.

23 Q. Okay. And have you filed for administrative
24 approval of a nonstandard spacing unit comprised of the
25 northeast quarter to create your 480-acre spacing unit?

1 A. Yes, sir.

2 Q. And that should be ripe for decision pretty
3 soon, right?

4 A. Yes, sir. Today, I believe.

5 Q. Today. Okay. I know Mr. McMillan's working
6 very hard.

7 On the east-half side, did you have to do
8 any pooling?

9 A. No, sir, just overrides as well in the east
10 half. So there are not other working interest parties.

11 Q. Okay. And you mentioned, then, you have your
12 drilling rig coming available in the next couple of
13 months to go to this Ogden area, right?

14 A. Yes, sir.

15 Q. How many rigs will the company have available,
16 let's say, over the next six months for drilling needs
17 in New Mexico?

18 A. We should have three rigs running in the
19 Delaware.

20 Q. And, again, you have the same type of lease as
21 Marathon, right?

22 A. Yes, sir.

23 Q. And you've got the same depth-severance clause?

24 A. Yes, sir, very similar.

25 Q. And you have leases that are actually expiring

1 before theirs?

2 A. Yes, sir.

3 Q. So am I correct, you've got every incentive to
4 develop as necessary to save those lease provisions?

5 A. Yes, sir.

6 Q. At any time, Ms. Beal, in your discussions with
7 Marathon -- I know they proposed a bunch of wells. But
8 at any time, have they indicated to you whether they
9 have staked any surface locations?

10 A. No, sir.

11 Q. Have they indicated to you whether they have
12 any rigs available?

13 A. No, sir.

14 Q. Have they indicated to you whether they have
15 any takeaway facilities actually in place and lined up
16 to drill any wells?

17 A. No, sir.

18 Q. Okay. Now, I'm looking at Exhibit Number 9, or
19 you can also look at Exhibit Number 8. I have a
20 question for you.

21 A. Yes, sir.

22 Q. Why is BTA drilling one-and-a-half-mile wells
23 instead of two-mile wells, for example?

24 A. Because they're more efficient wells.

25 Q. Okay. And with respect to one-and-a-half-mile

1 wells, why wouldn't you drill two-mile wells and go all
2 the way down through Section 32?

3 A. The south half of Section 2, there are already
4 two horizontal wells that are one-mile wells operated by
5 Mewbourne.

6 Q. I'm going to stop you. I think you said
7 Section 2. Did you mean the south half of Section --

8 A. The south half of Section 32.

9 Q. Okay. And Mewbourne is currently drilling
10 Wolfcamp wells down there in the lay-down spacing unit?

11 A. Yes, sir. I believe they've drilled them, and
12 they're just waiting to complete them at this time.

13 Q. Okay. And so if I take into account what
14 Mewbourne is doing there in the south half of 32 in the
15 Wolfcamp, your proposed development plan for both 480s,
16 when you look at the east half-west half acreage, would
17 then develop all of Section -- allow the development of
18 all of Section 32, right?

19 A. Yes, sir.

20 Q. You're not going to leave any quarter
21 sections -- I don't know if stranded is the right word,
22 Mr. Brooks -- but orphaned in the development plan,
23 right?

24 EXAMINER BROOKS: Stranded is not a word we
25 like.

1 MR. FELDEWERT: What's that?

2 EXAMINER BROOKS: Stranded is not a word we
3 like.

4 MR. FELDEWERT: I don't know that. You can
5 use whatever adjective you want.

6 EXAMINER BROOKS: I know Mr. Foppiano
7 doesn't like it.

8 Q. (BY MR. FELDEWERT) But your development plan
9 takes into account, does it not, Ms. Beal, what is going
10 on out there in the Wolfcamp in the south half of 32?

11 A. Yes, sir.

12 Q. And will allow for the drilling of wells not
13 only in Section 29 but in the north half of 32?

14 A. Yes, sir.

15 Q. So that we have all the quarter sections in
16 these two sections covered?

17 A. Yes, sir.

18 Q. Okay. Now, with respect to your request for a
19 nonstandard spacing unit comprised of the northwest
20 quarter of 32 to accommodate your drilling plan, did the
21 company identify and provide notice to the mineral
22 owners in the northeast quarter of Section 32?

23 A. Yes, sir.

24 Q. And then as you mentioned, the south half of 32
25 was already indicated to the Wolfcamp wells operated by

1 Mewbourne, correct?

2 A. Yes, sir.

3 Q. Is Exhibit Number 10 an affidavit prepared by
4 my office with attached letters providing notice to the
5 parties being pooled?

6 A. Yes, sir.

7 Q. And to the other parties that have been
8 affected by the nonstandard 160-acre spacing unit?

9 A. Yes, sir.

10 Q. And if I look at Exhibit Number 11 -- BTA
11 Exhibit Number 11, is this an Affidavit of Publication
12 providing notice of this hearing by name to the parties
13 that were affected?

14 A. Yes, sir.

15 Q. And I note that this was initially set for
16 March 22nd, right?

17 A. Yes, sir.

18 Q. And the notice went out at that time hoping to
19 have a hearing then, but we had to continue to
20 accommodate Marathon's desire to hear both together,
21 right?

22 A. Yes, sir.

23 MR. FELDEWERT: Mr. Examiner, at this time
24 I would move the admission of BTA Exhibits 1 through 11.

25 EXAMINER JONES: Any objection?

1 MS. BRADFUTE: No objection.

2 EXAMINER JONES: Exhibits 1 through 11 are
3 admitted.

4 (BTA Oil Producers, LLC Exhibit Numbers 1
5 through 11 are offered and admitted into
6 evidence.)

7 MR. FELDEWERT: And that concludes my
8 examination of Ms. Beal.

9 EXAMINER JONES: Ms. Bradfute.

10 MS. BRADFUTE: Yes. Thank you.

11 CROSS-EXAMINATION

12 BY MS. BRADFUTE:

13 Q. Good morning, Ms. Beal.

14 A. Good morning.

15 Q. How are you?

16 A. I'm good. How are you?

17 Q. I'm doing good. Thanks.

18 I would like to open a couple of exhibits.

19 I would like you turn to an exhibit in BTA's exhibits
20 and then also turn to an exhibit in Marathon's packet
21 that's in front of you. So the exhibit I'd like you to
22 turn to in BTA's exhibit is Exhibit Number 3, and the
23 exhibit I'd like you to turn to in Marathon's packet is
24 "I." And "I" has a couple of tabs behind it. I
25 apologize in advance. We ran out of ones and twos, so

1 some of your packet might have 100 and 200. Turn to
2 Tab -- it's going to be Tab 1 or 100.

3 MR. FELDEWERT: So Marathon --

4 MS. BRADFUTE: I1.

5 Q. (BY MS. BRADFUTE) Now, do both of these
6 exhibits contain your -- BTA's October 25th, 2017
7 well-proposal letter for the 5H well?

8 A. Yes, ma'am.

9 Q. Okay. Can you please turn to the second page
10 of Marathon's exhibit -- and actually I apologize -- the
11 third page OF Marathon's exhibit there. Does this
12 document contain an AFE that is provided by BTA Oil
13 Producers, LLC for the 5H well?

14 A. Yes, ma'am.

15 Q. Okay. Is there a date anywhere from when this
16 AFE was issued on this document?

17 A. September 14th, 2017.

18 Q. Okay. And if you go all the way down to the
19 bottom of this AFE -- I realize the print is small -- it
20 says "cumulative well costs" near the bottom, and it has
21 three boxes of well costs there. Do you see that?

22 A. Yes, ma'am.

23 Q. Okay. And the total cost with completion
24 reflected within this AFE is \$10,114,950; is that
25 correct?

1 A. Yes, ma'am.

2 Q. Okay. Was this the initial AFE that BTA sent
3 to Marathon in the fall of 2017?

4 A. Yes, ma'am.

5 Q. And does this AFE accurately reflect the costs
6 that were initially proposed to Marathon to drill the 5H
7 well?

8 A. Yes, ma'am.

9 Q. And was a very similar AFE issued to BTA on the
10 6H well?

11 A. Yes, ma'am.

12 Q. Which reflected proposed costs of over
13 \$10 million to drill the 6H well?

14 A. Yes, ma'am.

15 Q. Okay. And were those costs based on actual
16 quotes that BTA received from vendors to complete its
17 drilling operations from the vendor?

18 A. I don't know.

19 Q. You don't know?

20 A. No.

21 Q. Okay. Could you please turn to Exhibit 4 in
22 BTA's exhibits? And I believe you testified earlier
23 that this is the revised AFE that BTA sent out in
24 February of 2017 to Marathon; is that correct?

25 A. Yes, ma'am.

1 Q. I'm sorry?

2 A. Yes, ma'am.

3 EXAMINER BROOKS: 2018?

4 MS. BRADFUTE: 2018. Thank you,
5 Mr. Brooks.

6 EXAMINER BROOKS: You're welcome.

7 Q. (BY MS. BRADFUTE) And if I look down near the
8 bottom of this AFE, it likewise contains cumulative well
9 costs; is that correct?

10 A. Yes, ma'am.

11 Q. Okay. And the cumulative well costs to
12 complete the 5H well proposed by BTA in this AFE is?
13 \$8,321,541; is that correct?

14 A. Yes. Yes, ma'am.

15 Q. BTA decreased its costs by a little bit more
16 than 1.5 million?

17 A. Yes, ma'am.

18 Q. Okay. I want to turn quickly to BTA Exhibit 6.
19 In your timeline within Exhibit 6, on January 22nd,
20 2018, Marathon raised questions about these costs to
21 BTA; is that correct?

22 A. Yes, ma'am.

23 Q. On January 22nd, Marathon asks you about the 10
24 million-plus cost to drill the 5H and 6H wells, correct?

25 A. Yes, ma'am.

1 Q. If you could now turn to Tab 3 or 300 of
2 Marathon's exhibits that you have open, Exhibit I, and
3 if you look at the bottom of this document, it should be
4 an email from Chase Rice at Marathon Oil sent to Willis
5 Price and copying yourself; is that correct?

6 A. Yes, ma'am.

7 EXAMINER BROOKS: What document are you
8 looking at?

9 MS. BRADFUTE: I'm looking at this
10 (indicating), Mr. Brooks. It's under Tab 3, Exhibit I
11 of Marathon's exhibits.

12 EXAMINER BROOKS: Okay. Exhibit I, Tab
13 300.

14 MS. BRADFUTE: Yes.

15 EXAMINER BROOKS: Thank you.

16 MS. BRADFUTE: You're welcome.

17 Q. (BY MS. BRADFUTE) This email sent by Marathon
18 on January 31st, 2018 provided BTA with a sample AFE
19 that Marathon had for costs for a 1.5-mile lateral,
20 correct?

21 A. Yes, ma'am.

22 Q. Why was Marathon providing BTA with sample
23 costs on January 31st, 2018?

24 A. We had a conference call previously to discuss
25 costs. And I am not sure why -- I think -- I'm not sure

1 why they sent it, to be honest with you. I was not in
2 the conference call.

3 Q. Okay. And did that conference call occur after
4 January 22nd, 2018 when Marathon expressed their
5 concerns?

6 A. Yes, ma'am.

7 Q. And then if you look to the next email at the
8 top of the page, this is an email sent from Willis Price
9 to Chase Rice on February 1st, the next day, correct?

10 A. Yes, ma'am.

11 Q. Revising the AFE?

12 A. Yes, ma'am.

13 Q. So within a day, a revised AFE was issued
14 lowering the cost by over 1.5 million?

15 A. We had been discussing cost previous to this.

16 Q. Okay. But only starting around the 22nd of
17 January, correct?

18 A. I'm not sure if that was the first time we
19 talked about cost.

20 Q. Okay. And do you know if BTA went out and got
21 new quotes from vendors to support its revised AFE for
22 the 5H and 6A wells?

23 A. I do not know.

24 Q. Okay. I want to talk briefly about the
25 compulsory pooling process. So once the AFE was

1 significantly revised and costs differed from the
2 original proposal sent out in 2017, that started a new
3 30-day window for Marathon to have an election into the
4 well; isn't that correct?

5 MR. FELDEWERT: Objection. Calls for a
6 legal conclusion.

7 EXAMINER BROOKS: Well, what do the
8 documents say? Do you have documents stating on this
9 that you can put in evidence?

10 MS. BRADFUTE: No, but I can have evidence
11 submitted through you the landman -- let me rephrase.

12 EXAMINER BROOKS: Okay. Go ahead.

13 Q. (BY MS. BRADFUTE) So, Ms. Beal, did BTA ever
14 submit a revised well-proposal letter for the 5H and 6H
15 wells to Marathon after it revised its AFEs?

16 A. No, ma'am.

17 Q. Okay. And do you have personal knowledge as to
18 the process of sending out well-proposal letters before
19 a company submits a pooling application?

20 A. Yes, ma'am.

21 Q. Okay. And to your knowledge, do operators
22 typically have to send out a well-proposal letter along
23 with an AFE 30 days before they can apply for compulsory
24 pooling?

25 A. Yes, ma'am.

1 Q. Okay. So after BTA revised its AFE in February
2 of 2018, it could not apply for pooling until a 30-day
3 period had passed, right?

4 MR. FELDEWERT: Objection. Calls for a
5 legal conclusion, and it's an incorrect reading of the
6 Division's order.

7 EXAMINER BROOKS: Well, I think I have some
8 knowledge of that since I wrote the order -- last order
9 for that issue, I think. So I'm just going to overrule
10 the objection. I am familiar with the limitations.

11 MS. BRADFUTE: Great. Thank you.

12 Q. (BY MS. BRADFUTE) I want to move on to a
13 different topic. I want to talk briefly about BTA's
14 depth severance that you had testified about. Where is
15 the depth severance in BTA's interest? At what depths
16 is the depth severance?

17 A. It's 100 feet below the producing formation --
18 or producing -- not the producing formation but the
19 producing depth.

20 Q. So it's 100 feet below the last producing
21 depth --

22 A. Yes.

23 Q. -- of the well?

24 Okay. Okay. Have you looked at the
25 instrument [sic] creating depth severance?

1 A. Briefly, yes.

2 Q. Okay. And you testified earlier that these
3 depth severances are similar?

4 A. Yes, ma'am.

5 Q. Are they identical?

6 A. No, ma'am.

7 Q. How do they differ?

8 A. I'm not sure exactly how they differ.

9 Q. Okay. Great.

10 I want to now turn to BTA's Exhibit Number
11 7, and this is, at least in part, the first page of an
12 approved APD issued by the BLM for the 7H well, correct?

13 A. The Ogden 7H.

14 Q. And BTA has not applied for compulsory pooling
15 for the 7H well; is that accurate?

16 A. Yes, ma'am.

17 Q. Okay. So any order issued by the Division may
18 not apply to this well, correct?

19 A. Yes, ma'am.

20 Q. Okay. And this is kind of difficult to read.
21 There is a box in the middle of the page, and it's kind
22 of right underneath the D. It's box number 19. It
23 says, "Proposed Depth."

24 EXAMINER BROOKS: I'm sorry. I'm again not
25 following. Which document is this?

1 MS. BRADFUTE: BTA Exhibit 7.

2 EXAMINER BROOKS: BTA Exhibit 7. Okay.

3 Okay. Go ahead.

4 MS. BRADFUTE: Okay.

5 Q. (BY MS. BRADFUTE) So right near the middle of
6 the page in box 19, this APD states the proposed depth
7 for the 7H well, correct?

8 A. Yes.

9 Q. And what is the proposed depth to this well?

10 A. 9,450 feet.

11 Q. Okay. And is the number next to it the
12 measured depth?

13 A. Yes.

14 Q. What is that?

15 A. 17,142.

16 Q. Okay. And then in box 17, it states that the
17 spacing unit dedicated to this proposed well is for the
18 7H well; is that correct?

19 A. Yes, ma'am.

20 Q. What is the spacing unit that's been approved
21 by the BLM in this?

22 A. 280 acres.

23 Q. Okay. Can you please turn to the next page of
24 this document? Is this the first page of an APD for the
25 Ogden 8H well?

1 A. Yes, ma'am.

2 Q. And, likewise, on this APD is box 19, which
3 states the proposed depth for the 8H well?

4 A. Yes, ma'am.

5 Q. What is the proposed depth?

6 A. 10,193 feet.

7 Q. And the measured depth?

8 A. 17,885 feet.

9 Q. What is the spacing unit that is dedicated to
10 the 8H well?

11 A. 280 acres.

12 Q. Okay. Do you know whether or not the proposed
13 depths in these APDs for the 7H and the 8H wells will
14 adequately protect Marathon's -- in the depth
15 severances?

16 MR. FELDEWERT: Objection. Calls for
17 speculation.

18 MS. BRADFUTE: I asked if they would.

19 EXAMINER BROOKS: She can answer the
20 question if she knows. If she doesn't, she shouldn't
21 speculate.

22 THE WITNESS: I do not know.

23 Q. (BY MS. BRADFUTE) Okay. I want to briefly
24 discuss the JOA that was proposed. And I apologize.
25 This is not marked as an exhibit. We can mark it as

1 Marathon Exhibit R. We decided to use letters this
2 time.

3 MS. BRADFUTE: I'm hoping I made enough.

4 Q. (BY MS. BRADFUTE) Ms. Beal, is this a letter
5 dated April 10th, 2018 from BTA, sent to Marathon Oil
6 Company, that has been signed by you?

7 A. Yes, ma'am.

8 Q. And does this reflect that changes were being
9 made to BTA's proposed joint operating agreement to
10 Marathon on that date?

11 A. Yes, ma'am.

12 Q. And were part of changes that were being made
13 to lower the well rates in provision III.1.A.(1) the
14 rates for administrative expenses and drilling expenses?

15 A. That was the only change.

16 Q. Okay. And does this letter state that those
17 charges were being lowered to reflect \$800 per month for
18 producing wells and \$8,000 per month for drilling wells?

19 A. Yes, ma'am.

20 Q. So they had previously been higher than that in
21 the proposed JOA?

22 A. Yes, ma'am.

23 Q. Do you know what rates Marathon has proposed
24 for wells drilled in this area for administrative
25 expenses?

1 A. It was -- for their mile-long wells they
2 proposed to us, it was 750 and 7,500.

3 Q. You had mentioned earlier in your testimony
4 that there had been several attempts to enter into trade
5 negotiations between the parties, correct?

6 A. Yes, ma'am.

7 Q. And there was a meeting in June of 2017 between
8 BTA and Marathon?

9 A. Of 2017?

10 Q. Yes.

11 A. There was not a meeting.

12 Q. There was not a meeting.

13 Was that a phone call in June of 2017?

14 A. It was email correspondence.

15 Q. It was email correspondence.

16 And did Marathon propose a trade offer to
17 BTA in June of 2017?

18 A. Yes, ma'am.

19 Q. And was that trade offer rejected by BTA?

20 A. Yes, ma'am.

21 Q. And did Marathon also propose another trade
22 offer in November of 2017 to BTA?

23 A. I'm not sure if that is the exact time that
24 they proposed an additional trade.

25 Q. Did they propose an additional trade offer

1 later in the fall of 2017?

2 A. Yes, ma'am.

3 Q. And did BTA also reject that trade offer?

4 A. Yes, ma'am.

5 Q. And I apologize. Let me review my notes.

6 Ms. Beal, when did BTA plan on drilling the
7 two Bone Spring wells it has proposed?

8 MR. FELDEWERT: The Bone Spring wells?

9 MS. BRADFUTE: Yes.

10 Q. (BY MS. BRADFUTE) There was testimony earlier
11 about the two 3rd Bone Spring wells, I believe, the
12 Ogden 9H and 10H, listed in your exhibits.

13 A. It depends on the outcome of this hearing.

14 Q. Okay. So assuming for argument's sake that BTA
15 was awarded operatorship of the acreage, when would BTA
16 drill and complete those two Bone Spring wells?

17 A. I don't know.

18 Q. You don't know.

19 Does one of the other witnesses here today
20 know the answer to that?

21 A. I don't know.

22 Q. Okay. That's fine.

23 Likewise, would you lack knowledge
24 concerning when the Wolfcamp wells would be drilled?

25 A. Which Wolfcamp wells?

1 Q. The 5H and the 6H.

2 A. We plan -- it depends on the outcome of this
3 hearing as well.

4 Q. Okay. So assuming that BTA's awarded
5 operatorship of the 5H and 6H wells, when does BTA plan
6 on drilling those wells?

7 A. June.

8 Q. Assuming that BTA is awarded the operatorship
9 in this case, when does BTA plan on drilling the 7H and
10 the 8H?

11 A. Are those Wolfcamp D wells?

12 Q. I'm not sure if they're actually within the
13 Wolfcamp D but the Lower Wolfcamp wells.

14 A. They will be drilled before the expiration
15 date. If both parties agree on the development plan,
16 before the expiration dates of every single party's
17 leases.

18 Q. But you don't have a specific date in mind at
19 this point?

20 A. No.

21 MS. BRADFUTE: That concludes my questions.
22 Thank you.

23 EXAMINER JONES: Mr. Brooks.

24

25 CROSS-EXAMINATION

1 BY EXAMINER BROOKS:

2 Q. Good morning.

3 A. Good morning.

4 Q. I didn't quite -- like Mr. Jones, I did not
5 hear your name distinctly enough when you -- when you
6 said it the first time, so I'm obliged to the spelling,
7 but I take it you're one of family?

8 A. Yes, sir.

9 Q. Well, I knew several of them when I lived in
10 Midland in the 1970s, but I think that may be a little
11 early for you. And I know that's not accurate because
12 that was the age I was in those days, and they were
13 friends of my father's, Richard Brooks, who died in
14 1989.

15 You have proposed -- we're talking now
16 about two Wolfcamp wells, right?

17 A. Yes, sir.

18 Q. The 5H and the 6H?

19 A. Yes, sir.

20 Q. And these are both to be in the west half of
21 Section -- whatever the section is?

22 A. 29, and the north --

23 Q. Section 29.

24 A. And the northwest quarter of Section 32.

25 Q. Okay. But you're proposing mile-and-a-half

1 **laterals?**

2 A. Yes, sir.

3 Q. Now, I have to get my map -- get to one of your
4 maps here.

5 In paragraph N [sic] in Exhibit Number 8,
6 now that gets over into 29 and 32. So I'm a little
7 confused with the maps. Where's the maps that have the
8 5, 6, 7 and 8 on them?

9 MR. FELDEWERT: Be Exhibit 1 -- I'm sorry.

10 THE WITNESS: It's Exhibit 9. The 7 and
11 the 8 and the 9 and 10 are Exhibit 9.

12 Q. (BY EXAMINER BROOKS) Okay. What I'm seeing is
13 Exhibit 9 is --

14 EXAMINER JONES: Exhibit 8.

15 THE WITNESS: I'm sorry. Exhibit 8. That
16 is my mistake.

17 Q. (BY EXAMINER BROOKS) Exhibit 8 is the 9 and 10?

18 EXAMINER JONES: And 7 and 8.

19 THE WITNESS: And 7 and 8 as well. And
20 then the 5 is --

21 EXAMINER BROOKS: Are the pages not
22 separating here? I just have 9 and 10 in Exhibit 8.

23 EXAMINER JONES: It's right here
24 (indicating).

25

1 EXAMINER BROOKS: Oh, okay. I see. I was
2 looking at a different exhibit before.

3 Q. (BY EXAMINER BROOKS) But the 7H and the 8H. So
4 it's the west half of 29 and the northwest quarter of
5 32?

6 A. Yes, sir.

7 Q. Okay. So you're proposing -- where's the 5 and
8 6?

9 A. On Exhibit 1, I believe.

10 Q. Sorry for all the confusion here.

11 Okay. 5 and 6 in the west half of 29 and
12 the northwest quarter of 32. And you're drilling from
13 the surface -- surface location's at the south end?

14 A. It's in the south end of the northwest quarter
15 of Section 32.

16 Q. Yeah. It's where the "SL" on the map is,
17 right?

18 A. Yes, sir.

19 Q. And then the well is going to -- the first take
20 point is 330 from the south line, and then you're going
21 to go in a northeasterly direction to a .330 [sic] north
22 line of 29, right?

23 A. Yes, sir.

24 Q. Okay. And that's the #5H.

25 The #6H is going to go in a similar course,

1 but it's going to go -- it's going to be 660 feet from
2 the west line, right?

3 A. Yes, sir.

4 Q. These are both Wolfcamp?

5 A. Yes, sir.

6 Q. And your project area will be the west half of
7 29 and the northwest quarter of 32?

8 A. Yes, sir.

9 Q. Okay. Now, the #9H and the #10H -- Numbers 7,
10 8, 9 and 10 are proposed to be drilled in that same
11 area. Are they -- which ones are the Wolfcamp and which
12 are Bone Spring, or are they all one or the other?

13 A. The 7H and 8H are going to be Wolfcamp D wells,
14 and the 9H and the 10H will be the Bone Spring wells --
15 the 3rd Bone Spring wells.

16 Q. Okay. We don't have -- we don't have measured
17 distance here, but they look like much the same area --
18 much the same alignment as the 5H and 6H. Are they
19 going to be different Bone Spring productive zones -- I
20 mean different Wolfcamp productive zones?

21 A. Yes, sir.

22 Q. Which ones are which?

23 A. So the 5H and the 6H are the Wolfcamp Sand
24 wells. And then the 7H and the 8H are the Wolfcamp D
25 wells.

1 Q. Wolfcamp B?

2 A. D, as in dog.

3 Q. D, as in dog.

4 A. Yes, sir.

5 Q. I keep hearing about Wolfcamp zones I've never
6 heard of before. It seems to depend on which geologist
7 you're talking to.

8 How many of the ten wells that you propose
9 to drill eventually in this project area, how many of
10 them are in the Wolfcamp?

11 A. So we've -- in the west half, we've proposed
12 six wells to this point, and four of them will be in the
13 Wolfcamp D.

14 Q. Okay. So those are -- the 5, 6, 7 and 8 are
15 the only Wolfcamp wells you're proposing in the
16 Wolfcamp -- in the west half?

17 A. Yes, sir.

18 Q. Now, you're also making proposals in the east
19 half. Is the east half at issue in this group of cases?

20 A. No, sir. We own 100 --

21 Q. Maybe it was?

22 A. No. We own 100 percent in the east half.

23 Q. Okay. Well, lucky you.

24 A. Exactly (laughter).

25 Q. Now, when you -- I know you were asked this,

1 but I understand you said in the south half of 32 that
2 there are existing Mewbourne wells?

3 A. Yes, sir.

4 Q. And do you know the name of those wells?

5 A. They're -- I know they're both called Zeppelin.
6 I can't remember the exact -

7 Q. They're called Zeppelin?

8 A. Zeppelin.

9 Q. Like the -- like the airship.

10 Okay. Did you -- nevertheless, did you
11 notify any -- the interest owners in the southwest
12 quarter of Section 32?

13 A. Not all of them, no, sir. We own -- we have a
14 lease that's in most of the southwest quarter of Section
15 32, but because there was already an existing unit
16 there, we believe that we did not need to notify the
17 southwest quarter.

18 Q. Okay. Now, Mr. Bruce and I have differing
19 opinions of that. I don't know what Mr. Feldewert's
20 opinion is. The rule does not make any distinction on
21 the ground of whether the excluded portion is in another
22 spacing unit or not. But, now, I can quite well imagine
23 that that might have been the intention, but the rule is
24 silent on the subject. So, you know, that's the reason
25 Mr. Bruce and I don't really totally agree on it.

1 However, I do have some concerns about
2 that. If, after I talk with Mr. Feldewert, we end up
3 having some concerns about it, that would be a little
4 bit of a problem for a June drilling date but probably
5 not insurmountable. Probably your biggest problem is
6 this other case that is going to be filed. But we'll
7 talk about those issues after testimony.

8 I think I've got this pretty clearly in
9 mind now.

10 You've not received any indication that
11 anyone that has been notified has any objection to what
12 you proposed except Marathon?

13 A. No, sir.

14 Q. Okay. Thank you.

15 CROSS-EXAMINATION

16 BY EXAMINER JONES:

17 Q. Okay. Are any of the two proposed wells, the
18 5H and the 6H, nonstandard completions -- proposed
19 nonstandard completions? They're going to be within the
20 330-foot setbacks of the Purple Sage Pool?

21 A. Yes, sir. Yes, sir.

22 Q. So basically the other two that are talked
23 about, the 7H and 8H, are not really part of the --
24 you're proposing two proposed wells, not -- the other
25 two, you're just mentioning that you intend to drill

1 **them within this --**

2 MR. FELDEWERT: Mr. Examiner, they'd be --
3 assuming that the pooling order is granted, they would
4 be infill wells.

5 EXAMINER JONES: Infill wells. Okay.

6 Q. **(BY EXAMINER JONES) And I noticed the depth --**
7 **the TVD depth on the 7H is shallower than the depth on**
8 **the 8H. The 8H is like 10,000 feet, and the 7H is**
9 **shallower. So it looks like the 8H would cover the**
10 **Wolfcamp D, is that correct, or should I just ask the**
11 **geologist on that?**

12 A. My understanding is that we are amending those
13 to have their correct spacing included and different
14 depths because our original plans were not -- I don't
15 think those two wells were originally planned to be
16 drilled in the Wolfcamp D, but now they are.

17 Q. **Oh. So they will basically have an amended AFE**
18 **also, or are you just going to do a sundry to propose**
19 **deeper depths?**

20 A. Sundry, yes, sir.

21 Q. **Okay. Okay. Anyway, they'd be proposed wells**
22 **in the spacing unit to propose to whoever -- parties get**
23 **pooled?**

24 A. Yes. And we've already proposed those wells to
25 Marathon. We proposed them on April 10th.

1 Q. Okay. But it's possible that the costs might
2 change a bit, but that's -- that's just AFE costs?

3 A. So the cost -- we proposed them as Wolfcamp D
4 wells, but we applied for these approvals months ago,
5 and so our plans have changed since these discussions
6 started.

7 Q. Okay. Okay. Are you requesting an extended
8 completion time? Do you intend to complete all four
9 wells together, or are the two wells -- the 5H and the
10 6H together, and do you want more than 120 days from the
11 spud date of any one well to the completion date of that
12 well?

13 A. Yes, sir.

14 Q. How much more do you want?

15 A. We would like 180 days.

16 Q. 180?

17 A. Yes, sir.

18 Q. 180 days. Okay.

19 Does that mean you want to -- I guess I can
20 ask the geologist and the engineer about the rest of it.

21 The depths -- vertical divisions in Tract
22 4, I think it is -- where is Tract 4? Tract 4 has those
23 vertical depths. You said that was 100 feet below what
24 vertical depth was completed in a previous well? Is
25 that what the language was?

1 A. Or just in wherever -- 100 feet below the
2 producing depth.

3 Q. Oh. One of the wells in the past --

4 A. Yes.

5 Q. -- created that depth severance?

6 A. No, because nothing is holding these leases
7 currently.

8 Q. Oh.

9 A. And so -- yes, sir. So in Tracts 2, 3, 4 and
10 5, that's where those depth severances exist.

11 Q. 2, 3, 4 and 5. Okay.

12 And the wording is that if you drill a well
13 within a certain amount of time, that 100 below that is
14 still doing to be retained by the mineral owner; is that
15 correct?

16 A. Yes, sir. Yes, sir.

17 Q. Even though it's within the spacing unit? So
18 are you pooling the mineral owner, then, those interests
19 in the remainder of the vertical portion of the spacing
20 unit, or are you asking for a depth severance to be put
21 in the -- in the compulsory pooling order?

22 MR. FELDEWERT: Let's step back. At this
23 point the depth severance is in the lease. It has not
24 been put into effect, okay, because the companies are
25 developing. Leases expire in 2019. So if the

1 development -- once the continuous development has
2 ceased, as I understand it, then the depth severance
3 will kick in. So hasn't kicked in yet. It's a
4 contingency. And as noted, both companies have the same
5 issue.

6 EXAMINER JONES: Okay. So as it stands
7 right now, 10,000 feet would be the TVD of the deepest
8 well, somewhere around there. So I can talk to the
9 geologist about how much deeper the Wolfcamp would
10 extend below that.

11 But these overrides -- I guess I'll talk
12 about something else that I'm a little more clear on.
13 The overrides are the pooling overrides, but I don't see
14 them listed anywhere. Are they listed somewhere?

15 MR. FELDEWERT: Yes, sir. They are in our
16 Notice of Affidavit, those notice letters, and you'll
17 see a list of parties under "Pooled Parties,"
18 Mr. Examiner.

19 EXAMINER JONES: Okay.

20 MR. FELDEWERT: And everybody except
21 Marathon would be an override.

22 Q. (BY EXAMINER JONES) Okay. Marathon and BTA are
23 the only working interest owners, correct?

24 A. Yes, sir.

25 Q. And unless there is a mineral owner that

1 doesn't -- hasn't leased because of the drilling clause,
2 depth-to-earn clause, so that owner would turn into a
3 7/8, 1/8 working interest.

4 EXAMINER BROOKS: I'm going to ask some
5 questions about the depth-severance issue because your
6 questions reminded me that I should have done so.

7 EXAMINER JONES: Okay.

8 Q. (BY EXAMINER JONES) So anyway, those overrides
9 are all listed on Exhibit Number 10; is that correct?

10 A. Yes, sir.

11 Q. And I guess I've got two more questions that --
12 why Ogden and why Ogden 20509? Where did that name come
13 from?

14 A. So on the east half, some of the leases that we
15 took are under the Ogden family, and our initial
16 horizontal well on the east half is called the Ogden 1.

17 Q. So you just continued that name?

18 A. Yes, sir.

19 Q. And what about 20509? Where did that come
20 from?

21 A. That's -- we -- that's our venture number. So
22 our company's broken up in ventures, and each venture
23 gets a number.

24 Q. Okay.

25 A. Yes, sir.

1 Q. Okay. On one of your letters that was written
2 by, I think, your boss to Mr. Willis, or maybe I've got
3 them mixed up. But he talks about -- I guess it's --
4 it's on page 4 of Exhibit 5 of -- BTA Exhibit 5, page 4.
5 At the bottom, he says -- I'm just trying to understand
6 this bit because it seems a bit confusing. That Chase
7 Rice -- I realize you are not -- you don't know what
8 Mr. Rice might have meant here, but he says, "Willis,
9 please see the attached AFE." And then below there, he
10 says, "We would prefer to trade out of this acreage.
11 Our focus areas are...." And then he commences to list
12 Township 23 -- or Range 28 East.

13 A. 28 East.

14 Q. So he's listing the same township that is part
15 of this acreage. So why do you think that happened?

16 A. I think that they're interested in this
17 township and range, but --

18 Q. But not this specific --

19 A. I think that they would prefer to be operator.
20 And so if there is a chance that that's not going to
21 happen, they would rather trade acreage so that they can
22 be operator.

23 Q. Okay. So did you end up sitting down with that
24 person, Nate --

25 A. I did not. He was actually at a hearing, I

1 think, here.

2 Q. Oh, okay.

3 A. But my -- my manager did actually go up to
4 Houston and met with Chase to try to do a last-ditch
5 effort before we had to release our rig to try to come
6 to some kind of agreement, and nothing was reached at
7 that point.

8 Q. Okay. Okay. Thanks.

9 So there is a total of eight tracts, and
10 that total of eight tracts will probably be for both
11 companies. You'll probably be listing the same tracts.

12 But you're not pooling any unleased mineral
13 owners, but Mr. Brooks is going to ask that question.

14 And leases without pooling clauses, you
15 don't -- you're not pooling any fee leases without
16 pooling clauses because there are leased -- you're going
17 to get a com agreement from the BLM and the State Land
18 Office, correct, for these, because it includes --

19 A. Yes.

20 Q. -- state land and federal land and fee lands?

21 A. Yes, sir. And we will also have all of the
22 overriding royalty owners sign the com agreement.

23 Q. Okay. Okay. So you will actually --
24 because -- is that the BLM requirement?

25 A. It's the requirement of my attorney.

1 Q. Okay (laughter).

2 And all potential pool parties have been
3 located, correct?

4 A. Yes, sir.

5 Q. Even all the overrides?

6 A. Yes, sir. We have them currently in pay deck,
7 so we know where they are.

8 Q. Oh, you've got them in a pay deck.

9 A. Yeah.

10 Q. You said that earlier.

11 And you published notice, but they were all
12 noticed by certified mail?

13 A. Yes, sir.

14 Q. And you just published newspaper notice to be
15 careful?

16 A. Yes, sir.

17 Q. Sorry for these questions. I just have to --

18 And the newspaper notice date doesn't
19 matter because everybody was provided with notice.

20 EXAMINER JONES: Okay. Mr. Brooks.

21 EXAMINER BROOKS: Okay. Thank you.

22 RE CROSS EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. Looking at this -- or I was looking at this
25 tract map, Exhibit 2. How much -- which -- which are

1 **federal? Which are state? Which are fee?**

2 A. Tract 6 is the federal lease. Tract 7 and
3 Tract 8 are two different state leases, and then the
4 rest of the tracts are fee.

5 **Q. So everything -- everything in Section 29 is**
6 **fee?**

7 A. Yes, sir.

8 **Q. Now, the fee leases, I assume, all have pooling**
9 **clauses; is that correct?**

10 A. I am not sure. But to cover that, we would
11 have all of the lessors sign a DPU.

12 **Q. Yeah, if they join in the com agreement --**

13 A. Or the com agreement. I have not received the
14 title opinion on this, so --

15 **Q. Yeah. Well, most fee leases have pooling**
16 **clauses, so we often don't even ask that question. But**
17 **our rules require notice to the mineral owner if the**
18 **lease does not have a pooling clause.**

19 A. From my understanding, all of the leases do
20 have pooling clauses. Whether it encompass the spacing
21 or not is a different story.

22 **Q. That's true. And, of course, I'm sure as a**
23 **land person, you check those things out, but you rely on**
24 **the attorney for the -- title attorney for the**
25 **complicated stuff.**

1 A. Yes, sir.

2 Q. Okay. So the depth severance -- which leases
3 have the depth severance?

4 A. The leases in Tracts 2, 3, 4 and 5.

5 Q. 2, 3, 4 and 5. So that's all of 20, except
6 Tract 1?

7 A. Yes, sir.

8 Q. They're all alike? They're all 100 feet
9 below -- was it 100 feet below the depth --

10 A. The producing depth.

11 Q. -- producing depth?

12 And the producing depth, would that be
13 measured by the -- by the true vertical depth of the
14 well?

15 A. I'm not sure.

16 Q. I would tend to assume that because -- but I
17 have not seen -- I've not had any experience with a
18 clause like that. But they were probably written with a
19 vertical well in mind.

20 A. These -- all these leases were taken, I think,
21 around 2016, so --

22 Q. Well, they would have known what they were
23 talking about.

24 A. Yes, sir.

25 Q. Okay. I think that's all the questions I have.

1 **RECROSS EXAMINATION**

2 BY EXAMINER JONES:

3 **Q. The surface locations of -- of the possible**
4 **future wells, 7H and 8H, would be up in the north? Why**
5 **do that? Is there a land reason for that? Or I ask**
6 **request the geologist.**

7 A. I know that there are some surface issues in
8 the north half of Section 32, but I'm not exactly sure
9 why our engineer chose to drill them -- some wells from
10 the north, some wells from the south.

11 **Q. Okay. Thank you.**

12 EXAMINER JONES: Redirect?

13 MR. FELDEWERT: Sure.

14 **REDIRECT EXAMINATION**

15 BY MR. FELDEWERT:

16 **Q. Ms. Beal, if you look at Exhibit 7, that is the**
17 **APD that came from the BLM for the 7H and the 8H wells?**

18 A. Yes, sir.

19 **Q. Those are the ones that are -- your plan of use**
20 **to target the Wolfcamp D?**

21 A. Yes, sir.

22 **Q. And you made that plan after Marathon raised**
23 **concerns about these expiration clauses, right?**

24 A. Yes, sir.

25 **Q. But these APD were filed before they raised**

1 **those concerns?**

2 A. Yes, sir.

3 **Q. All right. And, in fact, do you recall in your**
4 **well-proposal letters to Marathon to address their**
5 **concerns about this depth severance -- do you recall the**
6 **depth that's being proposed for the 7H and the 8H?**

7 A. I do not remember what the depth severance is.

8 MR. FELDEWERT: If I may approach the
9 witness?

10 EXAMINER JONES: Yes.

11 MR. FELDEWERT: I'm going to have her look
12 at the April 10th, 2018 letter that went to Marathon.

13 MS. BRADFUTE: Okay.

14 **Q. (BY MR. FELDEWERT) Would you review the April**
15 **10th, 2018 letter that went to Marathon and identify for**
16 **us the depths that are proposed in the 7H and 8H?**

17 A. The measured depth is 18,172 feet, and the
18 total vertical depth is 10,480 feet.

19 **Q. That's for the --**

20 A. That is for the 7H.

21 **Q. Okay. And what about the 8H, which would be**
22 **further in?**

23 A. The 8H, the measured depth is 18,192 feet, and
24 the total vertical depth is 10,500 feet.

25 **Q. And does each letter indicate that you're going**

1 to target the Lower Wolfcamp?

2 A. Yes.

3 Q. That would be the Wolfcamp D, as you understand
4 it?

5 A. Yes, sir.

6 Q. And that was in response to Marathon's
7 concerns?

8 A. Yes, sir.

9 Q. Has Marathon raised -- and you sent that out to
10 them on May 10th?

11 A. Yes, sir.

12 Q. Have they raised any concerns with you about
13 that depth?

14 A. No, sir.

15 Q. So the APDs that have been approved by the BLM,
16 you recognize you have to go back and amend those and
17 change the depth?

18 A. Yes, sir.

19 Q. So that's a simple sundry you file with the
20 BLM, right?

21 A. Yes, sir.

22 Q. We don't have to go through all the extensive
23 process of getting an APD from the BLM?

24 A. No, sir.

25 Q. You have your APD?

1 A. Yes, sir.

2 Q. Okay. Also, then, there were questions about
3 your lowering of the AFE cost. Remember that?

4 A. Yes, sir.

5 Q. Okay. Now, you sent that initial AFE to
6 Marathon in September -- or October of last year, right?

7 A. Yes, sir.

8 Q. Okay. And is it true that they waited until
9 three months later to raise any concerns about it?

10 A. Yes, sir.

11 Q. And you then sent them the amended AFE on --
12 when was that? February?

13 A. February 1st.

14 Q. February 1st, which is Exhibit 4?

15 A. The well proposals are Exhibit 4.

16 Q. When did you send them the revised AFE?

17 A. February 1st.

18 Q. Okay. And have they raised any concerns with
19 you about that revised AFE?

20 A. No. No, sir.

21 Q. In fact, if we go to Marathon's Exhibit I and
22 go to I guess what is marked as 300 -- so Exhibit I 300,
23 it notes that that was sent to them on February 1st,
24 correct, to Mr. Chase Rice?

25 A. Yes, sir.

1 Q. And Willis Price is with your company, right?

2 A. Yes.

3 Q. And Mr. Price indicates on here that this is a
4 revised AFE reflecting pad savings, correct?

5 A. Yes, sir.

6 Q. Average drilling days in the area?

7 A. Yes, sir.

8 Q. Current frac prices?

9 A. Yes, sir.

10 Q. Completed construction on the lease?

11 A. Yes, sir.

12 Q. And a 6 percent contingency?

13 A. Yes, sir.

14 Q. Lowered from 12 percent to 6 percent?

15 A. Yes, sir.

16 Q. And to your knowledge, has anyone raised any
17 questions with Mr. Price about this AFE?

18 A. No, sir.

19 Q. Okay. Ms. Bradfute went through kind of a
20 litany of Marathon made a trade offer and you rejected
21 it. Remember that? Like two of them.

22 A. Yes, sir.

23 Q. Did BTA make trade offers to them?

24 A. Yes, sir.

25 Q. And did they reject those?

1 A. Yes, sir.

2 Q. **The parties were not able to reach agreement --**

3 A. No, sir.

4 Q. **-- despite trade and counterproposals?**

5 A. Yes, sir.

6 Q. **All right.**

7 MR. FELDEWERT: That's all the questions I
8 have.

9 MS. BRADFUTE: No further questions.

10 EXAMINER BROOKS: Okay. I think we could
11 take a break.

12 EXAMINER JONES: Let's take a break. We
13 promise to come back.

14 EXAMINER BROOKS: But you don't promise
15 when.

16 (Recess, 10:45 a.m. to 11:07 a.m.)

17 EXAMINER JONES: Okay. Let's go back on
18 the record this morning and continue with BTA's case.

19 MR. FELDEWERT: We'll call our next
20 witness.

21 EXAMINER JONES: Yes, sir.

22 RAJENDRA ETI,
23 after having been previously sworn under oath, was
24 questioned and testified as follows:

25 DIRECT EXAMINATION

1 BY MR. FELDEWERT:

2 Q. Would you please state your name, identify by
3 whom you're employed and in what capacity?

4 A. I'm Rajendra Eti. I'm employed by BTA Oil
5 Producers, LLC, and I'm a geologist.

6 Q. How long have you been acting as a geologist
7 for BTA?

8 A. I've been acting as a geologist for the last
9 three years.

10 Q. And have your responsibilities included the
11 Permian Basin?

12 A. Yes, sir.

13 Q. Prior to working as a geologist for BTA, did
14 you also work for BTA in another capacity?

15 A. Yes, sir. I did work as a geoscientist for two
16 years before that.

17 Q. And what was your area of responsibility when
18 you were employed by BTA and worked for them as a
19 geoscientist?

20 A. The Texas Gulf Coast.

21 Q. Have you previously testified before this
22 Division, Mr. Eti?

23 A. No, sir.

24 Q. Would you please reveal your educational
25 background?

1 A. I have a Master's in Geophysics from the
2 University of Houston, 2004.

3 **Q. When did you receive that degree?**

4 A. 2004.

5 **Q. What's been your work experience since you**
6 **graduated in 2004?**

7 A. Since I graduated in 2004, I worked for Unit
8 Petroleum for almost ten years in the capacity of a
9 geoscientist.

10 **Q. Was that on the Texas Gulf Coast?**

11 A. Yes, sir.

12 **Q. And then you went to work for BTA, I guess,**
13 **right?**

14 A. Yes, sir.

15 **Q. And has your experience included horizontal**
16 **wells?**

17 A. Yes, sir. My experience included drilling
18 horizontal wells in the Texas Gulf Coast starting in
19 2007.

20 **Q. And you were involved in the drilling of those**
21 **wells?**

22 A. Yes, sir. I helped plan them and drill those
23 wells in the Edwards Limestone and the Woodbine Sand in
24 Texas.

25 **Q. Are you a member of any professional**

1 **affiliations or associations?**

2 A. Yes, sir. I'm a member of the Society of
3 Exploration Geophysicists.

4 **Q. And how long have you been a member of that**
5 **association?**

6 A. Almost 15 years.

7 **Q. Are you familiar with the application filed in**
8 **this case?**

9 A. Yes, sir.

10 **Q. And have you conducted a geologic study of the**
11 **lands that are the subject of this hearing?**

12 A. Yes, sir.

13 MR. FELDEWERT: I would tender Mr. Eti as
14 an expert witness in petroleum geology and in petroleum
15 geoscience.

16 EXAMINER JONES: Any objection?

17 MS. BRADFUTE: No objection.

18 EXAMINER JONES: He is so qualified.

19 THE WITNESS: Thank you.

20 **Q. (BY MR. FELDEWERT) What is the target formation**
21 **for the initial wells that have been proposed for this**
22 **480-acre spacing unit?**

23 A. Wolfcamp Sand. BTA calls it the Wolfcamp Y
24 Sand.

25 **Q. Wolfcamp Y?**

1 A. Yeah.

2 Q. Have you prepared a structure map and cross
3 section for this targeted interval?

4 A. Yes, sir, I did.

5 Q. If I turn to what's been marked as BTA Exhibit
6 12, is this the structure map you've created?

7 A. Yes, sir.

8 Q. Would you please orient us to how you identify
9 the acreage that's involved here and what you show in
10 this exhibit?

11 A. Yes, sir. In this exhibit, the acreage that's
12 in question today is highlighted yellow in color, and
13 the two wells that BTA has proposed are being shown in
14 this map. And as far as the orientation and exact
15 location, we can refer to Exhibit 1.

16 And on this map, what I have is the
17 structure on top of the Wolfcamp, and the structural
18 contours -- along the structural contours, you see the
19 values. For example, on the westernmost contour, which
20 is on the southwestern side, you can see the value of
21 around 6,000 contour there. On the eastern side, you
22 can see that the contour is 6,450. The contour interval
23 is about 50 feet, and you also see the tops in black
24 color for all the wells which have been used for control
25 for making this structure map.

1 And all the horizontal wells that you are
2 seeing here in this map are completed in the Wolfcamp
3 Sand.

4 **Q. So all the sticks we see on here are Wolfcamp**
5 **Sand completions?**

6 A. Yes, sir.

7 **Q. What do you observe about the structure in this**
8 **particular area that's involved?**

9 A. Yeah. The structure is basically trending
10 north to south and dipping to the east. And as you see
11 in the study area, it's pretty much uniform as to where
12 it is striking, so I couldn't really see any faults.
13 There is no impediment of any kind according to this
14 structure map.

15 **Q. Okay. Now, I see that you've identified two**
16 **wells here in the south half of Section 32.**

17 A. Yes, sir.

18 **Q. And are those the Mewbourne wells that they**
19 **were -- that the previous witness discussed?**

20 A. Yes, sir. Those are the Mewbourne wells.

21 **Q. And those are completed in the Wolfcamp Sand?**

22 A. Yes, sir.

23 **Q. Okay. That would be the same target as the**
24 **initial wells proposed by Marathon?**

25 A. Yes, sir.

1 Q. Have you observed any production differences
2 between orienting your wells in a lay-down fashion or a
3 stand-up fashion?

4 A. No, sir. I did not.

5 Q. What about for drilling? Are there issues that
6 arise that give -- that result in a preferred
7 orientation for the drilling of wells?

8 A. Yes, sir. Yes, sir. We would prefer drilling
9 a north-south well because, as you can see, the strike,
10 it's not south. As far as geosteering is concerned,
11 it's better, basically, to go along the strike so that
12 you don't have any issues that could arise later on.

13 Q. Okay. Does this structure map then also
14 identify the wells that were utilized to create your
15 cross section?

16 A. Yes, sir. In this map, you can see the wells
17 that are in the cross sections. I have two cross
18 sections labeled A, A dash and B, B dash. So there are
19 three wells in the A, A dash cross section. So you can
20 see one of the wells, in which the center well passes
21 through the acreage in question, as far as the A, A dash
22 question is concerned.

23 And the B, B dash, which is running from
24 north to south, has two wells. The last two wells in
25 the cross section are within the present acreage under

1 question.

2 Q. And if I'm reading this correctly, Mr. Eti, the
3 middle well in your A to A prime cross section is the
4 same well that you used as your southernmost well for
5 your B to B prime?

6 A. Yes, sir.

7 Q. Okay. So we have a common well there?

8 A. Yes, sir.

9 Q. Why did you choose these particular wells?

10 A. I wanted to include the wells that are
11 available within the study area, being the yellow
12 highlighted area. Apart from that, the other reason is
13 I also wanted to get the good wells with good data,
14 because many of these wells are old and stuff. So I
15 used those wells with good data and within the acreage.

16 Q. Okay. And why don't we turn to what's been
17 marked as BTA Exhibit 13? And, Mr. Eti, first of all,
18 does this correspond with the wells shown in the A to A
19 prime in the prior exhibit?

20 A. Yes, sir.

21 Q. And would you please, on this exhibit, identify
22 how you noted the formations in the targeted landing
23 zone?

24 A. Yes, sir. So in this particular cross section,
25 A, A dash, you can see the Wolf [sic] top Wolfcamp as

1 the brown color pick, which has been followed by the
2 industry. And then you can also see what is called the
3 Wolfcamp A Sand top, and the other top is the Wolfcamp A
4 Sand base. So that particular sand would be the
5 Marathon -- top of the Wolfcamp X Sand. The other top
6 is Wolfcamp B Sand top. And the base of that sand would
7 be the Upper Wolfcamp, and that particular interval is a
8 Marathon Y sand. And that particular zone is the
9 Wolfcamp landing zone, in this particular area.

10 Q. So these initial wells are targeting the sands.
11 And do they go by other names?

12 A. Marathon goes by the Y Sand in here.

13 Q. Okay. And do other companies call them, I
14 guess, X or Y sands?

15 A. Yes. Yeah.

16 Q. And with respect to the targeted interval for
17 these initial wells, what do you observe about the
18 continuity across the proposed nonstandard unit?

19 A. The sand is continuous.

20 Q. Okay. And that would -- the well within the
21 unit would be the middle well within this particular
22 cross section?

23 A. Yes, sir.

24 Q. Then if I turn to what's been marked as BTA 14,
25 is that the stratigraphic cross section that corresponds

1 with B to B prime shown on Exhibit 12?

2 A. Yes, sir.

3 Q. And, again, you identify the tops and the
4 formations in the same fashion?

5 A. Yes, sir, I did.

6 Q. What is the common well in this particular
7 exhibit?

8 A. The common well in this exhibit would be the
9 last well.

10 Q. And you've also, likewise, then noted the
11 interval being targeted, landing zone for the initial
12 wells?

13 A. Yes, sir, I did.

14 Q. And, again, do you see any differences in the
15 continuity of the targeted interval as you move north
16 and south through the proposed spacing unit?

17 A. No, sir. The sand is pretty continu- --
18 continuous as you move north to south.

19 Q. Now, I think you testified earlier, but I want
20 to make sure I'm clear. Do you see any geologic
21 impediments developing this area using horizontal wells?

22 A. No, sir. I don't see any.

23 Q. In your opinion, is this an area that can be
24 efficiently and effectively developed by horizontal
25 wells?

1 A. Yes, sir.

2 Q. And in your opinion, will the acreage that you
3 seek to include in the spacing unit contribute more or
4 less equally to production from the wellbore?

5 A. Yes, sir.

6 Q. I should say the wellbores.

7 A. Yes, sir.

8 Q. Now, if I look at Exhibit 12 -- if I flip back
9 to Exhibit 12 -- first off, I think you mentioned that
10 the sticks on here that represent -- that represent --
11 within the yellow area, I see two sticks that form a V.

12 A. Yes, sir.

13 Q. Those are the two proposed wells?

14 A. Yes, sir.

15 Q. But I think you testified earlier that the
16 actual well orientation for the wells is shown on
17 Exhibit 1?

18 A. Yes, sir.

19 Q. We don't need to turn to that. But if I look
20 at this exhibit -- I want to ask you a question:
21 Marathon has proposed to develop the west half of
22 Section 29 separately from the northwest quarter of 32.
23 Are you aware of that?

24 A. Yes, sir.

25 Q. If that plan is adopted by the Division, will

1 that result in setbacks on both -- on the section line
2 between 29 and 32?

3 A. Yes, sir.

4 Q. And under the proposed rules, it would be 330
5 on each side?

6 A. Yes, sir.

7 Q. Which, if my math is right, that adds up to a
8 total of 660 feet of setback area?

9 A. Yes, sir.

10 Q. In your opinion, Mr. Eti, are there recoverable
11 reserves in what would otherwise be that standard
12 setback area?

13 A. Yes, sir.

14 Q. And will BTA's proposed mile-and-a-half
15 laterals both in the west half of this acreage and the
16 east half of this acreage, will that recover the
17 reserves in that 660-foot setback area?

18 A. Yes, sir.

19 Q. And in your opinion, does BTA's proposed
20 one-and-a-half-mile stand-up wells thereby prevent
21 waste?

22 A. Yes, sir.

23 Q. In your opinion, is that a more efficient and
24 effective way of developing Section 29 and the north
25 half of 32?

1 A. Yes, sir.

2 Q. In your opinion, is the granting of this
3 application in the best interest of conservation, the
4 prevention of waste and the protection of correlative
5 rights?

6 A. Yes, sir.

7 MR. FELDEWERT: Mr. Examiner, I would move
8 the admission --

9 Q. (BY MR. FELDEWERT) Let me ask you first,
10 Mr. Eti, were Exhibits 12 through 14 prepared by you or
11 compiled under your direction and supervision?

12 A. Yes, sir.

13 MR. FELDEWERT: Mr. Examiner, I would move
14 admission in evidence of Exhibits 12 through 14.

15 EXAMINER JONES: Any objection?

16 MS. BRADFUTE: No objection.

17 EXAMINER JONES: Exhibits 12 through 14 for
18 BTA are admitted.

19 (BTA Oil Producers, LLC Exhibit Numbers 12
20 through 14 are offered and admitted into
21 evidence.)

22 MR. FELDEWERT: That concludes my
23 examination of this witness.

24 MS. BRADFUTE: I have no questions of this
25 witness.

1 EXAMINER JONES: Mr. Brooks?

2 CROSS-EXAMINATION

3 BY EXAMINER BROOKS:

4 Q. I'm curious about what the difference is
5 between a geologist and a geoscientist.

6 A. Like -- so my degree was in geophysics, so then
7 I started -- then I started working at Unit Petroleum.
8 So at that place, the idea is that -- like, you know,
9 you have to be well-rounded. There is actually -- like,
10 you can't just be a single geophysicist or a geologist.
11 You need to be cross-trained in both. So at Unit
12 Petroleum, the way I was trained is I would handle the
13 project, both geology and geophysics, so that I'm
14 well-rounded. So I used to go to the log runs. I could
15 plan wells. I make structure maps. I correlate logs.
16 I do everywhere analysis. So it's like a well-rounded
17 guy with both knowledge in geology and geophysics.

18 Q. So geoscientists -- geoscience covers both
19 geology and geophysics?

20 A. Yeah. That's the way I was trained at Unit
21 Petroleum.

22 Q. Thank you. I don't believe I have any
23 questions.

24

25 CROSS-EXAMINATION

1 BY EXAMINER JONES:

2 Q. I guess before I forget to ask: Why two wells
3 in the north -- from the north going south, and why two
4 wells in the south going north?

5 A. I don't know the answer to the question. It
6 may have to deal with the land issues, but geologically,
7 no issues.

8 Q. Okay. But the Wolfcamp Y, is that correct, Y
9 Sand, is what you're calling this landing zone on
10 Exhibit Number 13?

11 A. Yes, sir. Yes, sir.

12 Q. And is that because of the best porosity in the
13 Wolfcamp that you're seeing there, or is that the
14 primary target in the Wolfcamp?

15 A. That's the primary target in this whole area
16 all around.

17 Q. Okay. Okay. And I've got to keep rolling on
18 because I'll forget what I was going to ask. But this
19 Wolfcamp D that was the drill-to-earn depth, did you
20 propose that as the lowest prospective target in the
21 Wolfcamp and anything 100 feet below that, you don't
22 care if the lease expires or not; is that correct?

23 A. As far as the Wolfcamp is concerned, so as of
24 now, we believe that's the lower unit for the Wolfcamp.

25 Q. The lowest possible --

1 A. The lowest possible. I mean, the studies are
2 still going on, but as of now, that's what we believe.

3 Q. The Wolfcamp goes on -- how much further down
4 would it go below the Wolfcamp D, the target that is
5 being proposed in well #8H?

6 A. Pardon me, sir. Can you repeat this question
7 again?

8 Q. The two wells proposed to be spud in the north,
9 to be drilled south --

10 A. Uh-huh.

11 Q. -- I think you revised the depths on those to
12 include the Wolfcamp D.

13 A. Uh-huh.

14 Q. So at what -- how much further down deeper
15 vertically would the Wolfcamp extend to the
16 Pennsylvania-age rocks?

17 A. From the top of my head, I can't recall the
18 exact number.

19 Q. Okay. But those logs that you used for the
20 cross section, they were -- they were on -- they Morrow
21 logs, is that correct, or deep Pennsylvanian-age logs?

22 A. I don't exactly remember like how deep they
23 went.

24 Q. Okay.

25 A. Yeah.

1 Q. But -- well, most importantly is the deepest
2 zone you're interested in is the ones being proposed in
3 wells #7H and 8H?

4 A. As of now.

5 Q. Okay. As of now.

6 A. Yeah, because every day it's changing.

7 Q. Get the land people to release the deeper
8 depths, and you'll be fine (laughter). You can do that.

9 So as a geophysics person, you're
10 up-to-date on stress, strain relationships --

11 A. Uh-huh.

12 Q. -- and stress directions. Can you tell us
13 about the stress direction out here?

14 A. Yeah. In here, we don't have the data to
15 analyze the stress relationships here. Yeah.

16 Q. So it's all empirical? Like, north-south wells
17 are the best?

18 A. Here, I didn't see any particular oriental
19 preference in here.

20 Q. So just drill along strike?

21 A. For us, the reason I mentioned earlier would be
22 the geosteering purpose. You could drill horizontal and
23 linear wells north-south. Yeah. But as you can see in
24 those wells, it's basically like people drill
25 north-south and east-west.

1 Q. So the Matador wells to the south, they're
2 drilling east-west?

3 A. They're drilling east-west.

4 Q. In what zone are they targeting?

5 A. The same zone, the Wolfcamp. Yeah. It's the
6 same zone.

7 Q. The same -- it's called the B Sand, but you're
8 calling it the Y?

9 A. Yeah. Marathon calls it the Y Sand, and in our
10 internal terminology, it's the B Sand. So it's the
11 same.

12 Q. Oh, okay. Okay. We've heard B Sand before
13 here, and we've also heard the X-Y, which is above the
14 A Sand, real close to the Bone Spring.

15 A. Uh-huh.

16 Q. We've heard that (laughter). And it seems
17 like -- you know, whatever you want to call it, we'll go
18 with it.

19 Paul Kautz is our geologist in Hobbs, and
20 I'm sure you've talked to him some. If you haven't, you
21 should stop by and talk to him sometime.

22 A. Okay.

23 Q. He's best spoken to in person, I think.

24 So the resistivity -- I was going to ask
25 you that. It gives lower on resistivity. Is that

1 **implying that that's a true reading of the resistivity**
2 **in the better porosity zones?**

3 A. Yeah. What I can equate this best to is a good
4 sand.

5 Q. It's a good sand?

6 A. Yeah.

7 Q. So it's an actual -- so what kind of oil cut do
8 you think is in that sand?

9 A. I think my reservoir engineer could answer that
10 more accurately than I could, as far as the oil cuts.

11 Q. As far as the production goes. But if you do a
12 log analysis of that, would you -- would you prefer the
13 engineer answer that?

14 A. Yes. Yes.

15 Q. Okay. That's fine.

16 And your geophysics -- do you participate
17 in the completion -- the planning, the frac job, how far
18 the frac job might go as far as the stress -- stresses
19 on the wells, the top -- the bounding rocks on the top
20 and the bottom?

21 A. I would like to. We don't have any frac models
22 in this area to study.

23 Q. But you think all of the quarter sections
24 involved in this well will produce relatively equally
25 into the well? There are three quarter sections being

1 **proposed?**

2 A. Yeah. Yes, I do.

3 Q. Okay. Thanks very much.

4 A. Thank you, sir. Thank you.

5 REDIRECT EXAMINATION

6 BY MR. FELDEWERT:

7 Q. Mr. Eti, I've got one question for you. You
8 mentioned your target right now -- as of now is -- the
9 lowest depth is the 8H?

10 A. Pardon me?

11 Q. The lowest targeted depth as of now in the
12 Wolfcamp, for planning purposes, is the Wolfcamp D?

13 A. Yeah.

14 Q. Okay. And you mentioned you're analyzing data?

15 A. Yes, sir.

16 Q. And will the company -- and the company has the
17 same depth-severance issues as Marathon?

18 A. Yes.

19 Q. So am I correct in understanding that the
20 company will continue to analyze the data, and before
21 the leases expire and the depth severance kicks in, that
22 they will drill what is appropriate?

23 A. Yes, sir.

24 Q. Okay. Thank you.

25 MS. BRADFUTE: No questions.

1 MR. FELDEWERT: Call our next witness.

2 EXAMINER JONES: Yes, sir.

3 BRITTON McQUIEN,

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

6 DIRECT EXAMINATION

7 BY MR. FELDEWERT:

8 Q. Would you state your name, identify by whom
9 you're employed and in what capacity?

10 A. Britton McQuien, BTA Oil Producers, LLC, and
11 I'm a reservoir engineer.

12 Q. How long have you been a reservoir engineer
13 with BTA?

14 A. For 13 years.

15 Q. And, Mr. McQuien, you have previously testified
16 before this Division as an expert in petroleum
17 engineering?

18 A. Yes.

19 Q. And are you familiar with the application filed
20 in this case by the company?

21 A. Yes.

22 Q. And have you also reviewed the competing
23 Wolfcamp development plans that Marathon has offered?

24 A. Yes.

25 Q. And have you, Mr. McQuien, conducted a study of

1 **the well performances in this area?**

2 A. Yes, sir.

3 MR. FELDEWERT: I would retender
4 Mr. McQuien as an expert witness in petroleum
5 engineering.

6 MS. BRADFUTE: No objection.

7 EXAMINER JONES: He is so qualified.

8 **Q. (BY MR. FELDEWERT) Mr. McQuien, there were some**
9 **questions earlier about the drilling plans for the 5H**
10 **and the 6H?**

11 A. Yes, sir.

12 **Q. They will both be drilled from a common pad?**

13 A. That's correct.

14 **Q. In a south-to-north orientation?**

15 A. Yes.

16 **Q. What's the drilling plan? How do you plan on**
17 **doing it?**

18 A. So the 5H and 6H, there is a pad that's
19 constructed. It's almost covering the quarter section
20 line. And so the wells will be drilled in a tangent
21 drilled, and then they will be drilled in, more or less,
22 a due-north direction in each 240-acre unit with spacing
23 between the wells about 1,320 feet apart.

24 **Q. And so they will be drilled back to back?**

25 A. Yes. They will be drilled back to back, and

1 the completion will be a simultaneous frac job, zipper
2 frac.

3 Q. And why do you do that?

4 A. It's more cost effective and the completion,
5 zipper frac, we believe, is a more efficient way to
6 stimulate the reservoir.

7 Q. And you were here for Ms. Beal's testimony?

8 A. Yes, sir.

9 Q. And she indicated because of the drilling
10 plans, you request a modification to the normal 120-day
11 period between the commencement of drilling and the
12 completion of a well?

13 A. Yes.

14 Q. Just confirm what additional time frame you
15 request?

16 A. Yes. It was 60 additional days, for 180 days
17 total, is our request.

18 Q. Now, have you -- you've also been here with
19 respect to the testimony about the concerns over BTA's
20 initial AFE costs that they sent to Marathon way back in
21 October?

22 A. Yes.

23 Q. Okay. When -- did you do an analysis of how
24 the -- and I'm talking about the initial AFE costs, the
25 one with the October letter.

1 A. Yes.

2 Q. Did you do an analysis of how those costs
3 compared to Marathon's costs that were subsequently
4 provided given the differences in the length of the
5 wellbores?

6 A. Yes.

7 Q. And what did you find?

8 A. So Marathon proposed roughly one-mile wells and
9 assuming that -- you assume a 330-foot setback off the
10 section lines.

11 Q. For their wells?

12 A. For their wells. That leaves you with a
13 4,620-foot lateral length completed -- completed lateral
14 length.

15 For the AFE that they provided, on a
16 cost-per-foot basis, I came up with -- it was, you know,
17 a little under \$1,500 a foot, maybe \$1,480 a foot for
18 the completed -- per-foot completed cost.

19 Q. And how did that then compare with your
20 one-and-a-half-mile well costs that were reflected in
21 the initial AFE on a per-foot basis?

22 A. So using the same assumptions of 330-foot
23 setbacks for a mile-and-a-half unit, in the original AFE
24 we sent, I calculated it was under \$1,400 per foot for
25 the completed cost.

1 Q. So the initial AFE, then, Mr. Britton --
2 Mr. McQuien that you sent back in October on a per-foot
3 basis, when you took into account the lateral length,
4 was less?

5 A. Yes.

6 Q. -- than Marathon's?

7 A. Yes.

8 Q. Yet when Marathon raised some concerns, the
9 company updated the AFE?

10 A. That's correct.

11 Q. And provided an even lower AFE?

12 A. That's correct.

13 Q. Which, if I'm understanding the math right,
14 your cost per foot under the new AFE is even lower than
15 when you look at Marathon's?

16 A. Yes.

17 Q. Okay. All right. Now, in addition, you're
18 aware that Marathon is now suggesting that the Division
19 should approve development on a one-mile-Wolfcamp-well
20 basis rather than a one-and-a-half-mile-well basis?

21 A. Yes.

22 Q. In your opinion, is that prudent for this
23 acreage?

24 A. No.

25 Q. Why is that?

1 A. One-and-a-half-mile wells are just more cost
2 efficient and have a greater recovery efficiency than
3 one-mile wells.

4 Q. Just on their own?

5 A. Yes.

6 Q. Does it also then allow the recovery of the
7 setback area that would normally exist if you developed
8 Section 29 differently from the north half of 32?

9 A. Yes.

10 Q. Did you do -- if I then turn -- did you do some
11 analysis to support this claim?

12 A. Yes.

13 Q. If I turn to what has been marked as BTA
14 Exhibit Number 15 --

15 A. Yes.

16 Q. -- would you please explain to us -- first,
17 orient us to the acreage at issue and then explain what
18 is shown on here.

19 A. Okay. So this is just a snapshot of an area.
20 BTA's proposed 480-acre unit is highlighted in yellow,
21 including the northwest quarter of Section 32 and the
22 west half of Section 29. The wells shown on here are
23 all Wolfcamp -- Lower Wolfcamp or Wolfcamp D wells that
24 we have identified, completed, you know, within a mile
25 of the unit. There are ten total completions we've

1 identified. Seven of them are one-mile. And of the
2 one-miles, five are, you can see, oriented east-west and
3 two of them are oriented north-south. And then three of
4 them are mile-and-a-half lengths. And these are
5 Wolfcamp D completions.

6 Q. And those -- with respect to the wells that
7 have been drilled out here for a mile and a half, what's
8 been the orientation of those?

9 A. North-south.

10 Q. North-south. Okay.

11 Now, let me ask you a couple of things.
12 First off, does this show all the Wolfcamp development
13 in this area?

14 A. No.

15 Q. So just the development in the Wolfcamp D?

16 A. That's correct.

17 Q. I want to ask why here in a minute.

18 As a result, therefore, we don't see the
19 Mewbourne wells in the south half of 32, right?

20 A. That's correct.

21 Q. Because they're completed from the Wolfcamp
22 sand?

23 A. Well, they're not completed.

24 Q. Been drilled in the --

25 A. Yes. Oh, and one of them was actually -- there

1 are two wells. One of them was drilled in the Wolfcamp
2 Sand. The other one was drilled in this Wolfcamp D. I
3 only included the completed wells that we have
4 production data on.

5 Q. So one of the advantages of what Mewbourne's
6 doing down there is we're going to get some information
7 on the completions in the Wolfcamp Sand, right?

8 A. That's correct.

9 Q. And then we're going to get some information
10 from Mewbourne's wells on the completions in the
11 Wolfcamp D?

12 A. That's correct.

13 Q. And will that help further formulate the
14 company's drilling plans for the east half of the
15 west-half acreage comprised of Section 29 and the north
16 half of 32?

17 A. That's correct.

18 Q. In your opinion, is it -- first off, do you
19 propose the 5H and 6H in the sands?

20 A. That's correct.

21 Q. Do you agree with the observation that that has
22 been the primary target in this area?

23 A. Yes.

24 Q. Now, why then did you choose just to do a study
25 of the Wolfcamp D wells in this area, what some people

1 **call the Lower Wolfcamp?**

2 A. In this area, nearly all of the wells that were
3 drilled in the Wolfcamp Sand intervals, you know, were
4 all one-mile wells. I just didn't have the population
5 of one-and-a-half-mile wells to compare it to.

6 **Q. Why wouldn't you include the Wolfcamp Sand**
7 **one-mile wells with your analysis on the Wolfcamp D**
8 **wells?**

9 A. I didn't want to -- I wanted to make an
10 apples-to-apples comparison, trying to take the
11 reservoir issue out, if there were differences between
12 the Wolfcamp sands and the Wolfcamp D. Only look at one
13 reservoir to compare things in.

14 **Q. With that understanding, then, let's look at**
15 **your results. If I turn to what's been marked as BTA**
16 **Exhibit Number 16, would you please -- before you get to**
17 **your findings, would you please explain to us what all**
18 **these colors mean, what you're showing?**

19 A. Yes. So this is a cumulative versus time. The
20 data was just pulled off the New Mexico OCD Web site for
21 these wells or through our IHS subscription. You see a
22 series of wells that have orange and -- I'm sorry --
23 let's start with the axis.

24 The x-axis is months on production. Then
25 on the y-axis is just the cumulative BOE. I used a

1 6-to-1 Mcf to barrel conversion factor.

2 You can see a group, yellow and orange
3 shadings. Those are the one-mile laterals. And then
4 there's a red curve in the middle of them. That is the
5 average of the one-miles. In the -- and then you see a
6 set. There are three wells that are -- three curves
7 that are blue, different shadings of blue. In the
8 middle of them, there is a black curve. So the black is
9 the average of the one-and-a-half-mile wells.

10 **Q. So if I look at the right-hand side of this**
11 **exhibit, I see the wells identified, correct?**

12 A. That's correct.

13 **Q. And the first three wells listed, then, are**
14 **your average for the one-and-a-half-mile well?**

15 A. That is correct.

16 **Q. And the remaining wells listed went into your**
17 **average for the one-mile well?**

18 A. That is correct.

19 **Q. What did you observe in your study?**

20 A. You know, the one-and-a-half-mile wells are
21 substantially outperforming the one-mile wells.

22 **Q. Okay. If I then turn to what's been marked as**
23 **BTA 17, does this further demonstrate the results that**
24 **you saw from the prior exhibit?**

25 A. Yes. It basically quantifies the prior

1 exhibit. And so on the x-axis, once again you have
2 months of completion -- or months from completion. On
3 the y-axis is just the ratio of the -- you know, the
4 average of the one-mile curves are the black curve
5 divided by the average of the one-mile curves. Sorry.
6 The one-and-a-half miles are the black, and the
7 one-miles for the red. So this is just the ratio of
8 those two curves to each other.

9 You can see -- it looks like about month
10 three, the one-and-a-half miles are nearly 60 percent
11 better than the one-mile laterals, and then by month 14,
12 they're now showing about an 8 percent improvement or
13 greater recovery than what the one-mile wells have
14 observed.

15 **Q. Okay. In your opinion, does BTA's proposed**
16 **one-and-a-half-mile development plan provide a more**
17 **efficient and effective means of developing the**
18 **reserves?**

19 A. Yes.

20 **Q. And in your opinion, will Marathon's proposed**
21 **one-mile development plan result in potential waste of**
22 **oil and gas?**

23 A. Yes.

24 **Q. Okay. And given the current development of the**
25 **south half by Mewbourne in the Wolfcamp, does your**

1 proposed development plan allow the acreage in the north
2 half of Section 32 to be developed in conjunction with
3 29?

4 A. Yes.

5 Q. And in your opinion, will the granting of your
6 application be in the best interest of conservation, the
7 prevention of waste and the protection of correlative
8 rights?

9 A. Yes.

10 Q. Were Exhibits 15 through 17 compiled by you or
11 prepared under your direction and supervision?

12 A. Yes.

13 MR. FELDEWERT: Mr. Examiner, I'd move the
14 admission into evidence of BTA Exhibits 15 through 17.

15 EXAMINER JONES: Any objection?

16 MS. BRADFUTE: No objection.

17 EXAMINER JONES: Exhibits 15 through 17 are
18 admitted for BTA.

19 (BTA Oil Producers, LLC Exhibit Number 15
20 through 17 are offered and admitted into
21 evidence.)

22 MR. FELDEWERT: That concludes my
23 examination of this witness.

24

25 CROSS-EXAMINATION

1 BY MS. BRADFUTE:

2 Q. Good morning, Mr. McQuien.

3 A. Good morning.

4 Q. How are you?

5 A. Fine.

6 Q. I'm going to start with BTA's past development
7 in Eddy County within the last couple of years.

8 A. Okay.

9 Q. In 2017, how many horizontal wells did BTA
10 drill in Eddy County?

11 A. One.

12 Q. And in 2018, how many horizontal wells has BTA
13 drilled in Eddy County to date?

14 A. To date, two.

15 Q. Two. Okay.

16 And out of those wells that BTA has drilled
17 in 2017 and 2018, how many of them have been a
18 mile-and-a-half-long lateral?

19 A. None.

20 Q. Has BTA previously drilled multiwell pads in
21 Eddy County?

22 A. Yes.

23 Q. How many of those have you previously
24 drilled -- or not drill -- installed, constructed?

25 A. We have drilled one multiwell pad with two-mile

1 laterals.

2 Q. Okay. When BTA has planned its 5H and 6H
3 mile-and-a-half laterals, how many frac stages will be
4 included in those wells?

5 A. I'm sorry. What was your question?

6 Q. I can repeat the question. Absolutely.

7 A. Yes.

8 Q. For the 5H and the 6H wells, how many frac
9 stages are planned for those wells?

10 A. I would be -- I think I know, but I don't
11 know -- I can't remember exactly.

12 Q. Okay. So at this current time, you don't know?

13 A. No. I wouldn't -- it may be listed on the AFE,
14 if you want to go back and look at one of the previous
15 exhibits.

16 Q. Okay. And would you be familiar with BTA's
17 frac point spacing for those wells?

18 A. Roughly, yes.

19 Q. Roughly.

20 And what is the frac point spacing for
21 those wells?

22 A. The frac spacing -- it's coming back -- is 48
23 stages for a mile-and-a-half lateral at four clusters
24 per stage.

25 Q. Okay. When did BTA plan on drilling the 5H and

1 **the 6H wells?**

2 A. The -- as I said before, it depends on the
3 outcome of this hearing. We have a pad constructed, and
4 there is a rig coming to this area in June.

5 **Q. In June.**

6 Okay. So provided you had an order, you
7 **would drill those wells in June?**

8 A. Yes.

9 **Q. When does BTA plan on drilling the Bone Spring**
10 **wells that were discussed earlier in Ms. Beal's**
11 **testimony, the 9H and 10H?**

12 A. We are in the process of applying -- those will
13 require federal permits, so we're in the process of
14 applying for the federal permits. So at this point, I
15 can't give a date. It's once we receive the federal
16 permits.

17 **Q. Have you submitted an APD package to the BLM**
18 **for those 3rd Bone Spring wells?**

19 A. Not at this time. Or let me take that -- I
20 don't know where we are in the permitting process.

21 **Q. But you would be early on in the permitting**
22 **process?**

23 A. Yes.

24 **Q. Did you submit an APD package to the BLM prior**
25 **to sending out the well-proposal letters prior to April**

1 10th?

2 A. I don't know. Like I said, I don't know where
3 we are in the permitting process.

4 Q. Okay. When does BTA plan on drilling the Lower
5 Wolfcamp wells, the 7H and 8H wells?

6 A. They will be drilled in time to save the deep
7 rights that we're all concerned about.

8 Q. And what is the expiration of BTA's deep
9 rights?

10 A. I don't know.

11 Q. And you say that they're going to be drilled in
12 time to save those deep rights, but testimony earlier
13 was that a sundry notice needed to be submitted to the
14 BLM to amend those drilling plans, correct?

15 A. Correct.

16 Q. And you also testified earlier that you're
17 seeking an additional -- well, additional time, 180-day
18 period, from the time after you complete the first well
19 before you move on to completing any subsequent wells
20 within the pooled area? And I'm just confused about the
21 timing.

22 A. I don't understand what your question is here.
23 Is it the implication that we can't start on the 7H and
24 8H until we complete the 5H and 6H?

25 Q. I'm asking you if that's your intent.

1 A. No. The completion of the 5H and 6H -- when we
2 spud the 7H and 8H is not contingent on when we complete
3 the 5 and 6.

4 Q. But you're proposing those as infill wells,
5 correct?

6 A. So yes.

7 Q. And are you familiar at all with the Division's
8 infill well proposals?

9 A. Not enough to speak to it.

10 Q. Okay. I want to turn and look briefly at your
11 Exhibit 16. And this is your chart that is entitled
12 "Lower Wolfcamp Cum BOE vs Time"; is that correct?

13 A. Yes.

14 Q. Okay. And looking at some of these wells, and
15 I'm hoping that I'm identifying the right orange well.
16 But it's the orange well with the longest lateral, the
17 Jimmy Kone 05 24S 28 RB East 228H; is that correct?

18 A. I'm sorry. Are you looking at the --

19 MS. BRADFUTE: Is it all right if I walk
20 over and show him, Mike?

21 THE WITNESS: Are you looking at the chart
22 or the --

23 Q. (BY MS. BRADFUTE) Yeah. I'm looking at the
24 chart. And I just want to identify a well, make sure
25 I'm looking at -- I'm looking at this well right here

1 (indicating).

2 A. Okay.

3 Q. Is that Jimmy Kone 05 24 South 24 East RB 222H?

4 A. Yes.

5 Q. And that well has a slight -- in the chart,
6 there is a slight downward dip right before you get to
7 ten months of production.

8 A. Okay.

9 Q. Why is that?

10 A. I don't know.

11 Q. Okay. You don't know.

12 Do you have any information concerning the
13 frac stages that were used in the wells that are listed
14 within this chart?

15 A. No.

16 Q. Do you have any information about other wells
17 that were being fracked within the areas that these
18 wells are located in while these wells were producing?

19 A. Not -- not that I can recall. It would require
20 a study of what's been filed.

21 Q. Okay. And have you made that study?

22 A. No.

23 Q. Could you please turn to Exhibit 17? And this
24 chart is entitled "Ratio of 1.5 Mile Cum to 1 Mile Cum";
25 is that correct?

1 A. Yes.

2 Q. I'd like to focus on the time period. There
3 are second and third data points on here, your two-month
4 jump to three-month jump, it looks like.

5 A. Okay.

6 Q. What is the explanation for that jump, that
7 increase in the curve that you plotted?

8 A. The -- typically, the -- in the very early
9 months, the data is very noisy because month one is not
10 a full month in most cases. It's only a partial month,
11 what's recorded, so you get a pretty noisy data stream
12 very early on.

13 Q. Okay. So you anticipate to see lower
14 production right after the well is produced in month one
15 because it may not be a full month?

16 A. Correct.

17 Q. And then month two, you show it being
18 considerably lower than month three?

19 A. It's a cumulative chart, so the impact of month
20 one is felt in month two as well. So by month three, it
21 appears that impact is pretty well not being observed
22 anymore.

23 Q. Okay. And you said there is a lot of noise. I
24 didn't quite understand what that means. Can you
25 explain what that means?

1 A. That means -- or that's the incomplete month,
2 month one production, not being a full month of
3 production, is what I'm referring to.

4 **Q. Thank you. That concludes my questions.**

5 EXAMINER JONES: Mr. Brooks?

6 CROSS-EXAMINATION

7 BY EXAMINER BROOKS:

8 **Q. While we're talking about these mile versus**
9 **mile-and-a-half-well charts, are they adjusted for the**
10 **fact that you're going to produce more from a**
11 **mile-and-a-half well in any case because it's longer?**

12 A. Are you asking about is this a per foot --

13 **Q. Yes.**

14 A. No. They're not normalized for the actual
15 number of feet.

16 **Q. Some of your co-professionals have brought**
17 **charts that were, so I just wanted to get that --**

18 A. Well, that was -- the ratio chart was supposed
19 to kind of capture that.

20 **Q. Yeah.**

21 I know it's hard for a professional to go
22 outside to try to talk to people who are not in the
23 profession, so I'm wondering, can you explain this
24 zipper-frac process in terms that a lawyer could
25 understand it?

1 A. Yes. So we have two wells in close proximity
2 to each other.

3 **Q. Right.**

4 A. There is one frac crew, and I think typically
5 we have two wireline crews, one for each well. So
6 what's happening is we're perforating one well while
7 we're fracking the other well. So finish the frac on
8 this well, pull -- you know, the perforating is done on
9 the other well. That's pulled out, switch wells, frac
10 this one, start the frac on the other one.

11 **Q. So you go from the bottom of the wells to the**
12 **top one frac at a time?**

13 A. That's correct.

14 **Q. And you perforate, frac, perforate, frac,**
15 **perforate, frac until you get to the top of the well?**

16 A. That's correct.

17 **Q. And then you move to another set of wells, or**
18 **do you do two wells at a time, or do you do more than**
19 **two wells at a time?**

20 A. We've done up to three wells at a time. Other
21 companies, I hear, are doing more.

22 **Q. That's kind of irrelevant for here. For this**
23 **particular case, we're only talking about two wells?**

24 A. Right.

25 **Q. Okay. Thank you.**

1 CROSS-EXAMINATION

2 BY EXAMINER JONES:

3 Q. I'm in a similar situation as Mr. Brooks here.
4 I would say I don't know if an attorney can understand
5 anything without a client.

6 (Laughter.)

7 EXAMINER BROOKS: Well, I know a lot of
8 attorneys who try.

9 EXAMINER JONES: Got to know which
10 direction to go, don't you?

11 Q. (BY EXAMINER JONES) And to continue the
12 question, you said 48 stages for one-and-a-half mile
13 with four clusters per stage.

14 A. Yes.

15 Q. Can you explain that to me? I don't have a
16 client either, but --

17 A. Typically, a stage, when we're perforating,
18 it's, I think, 42 perforating charges, and so --

19 Q. Oh, 42 on inner gun?

20 A. Yeah. So there - well, there are four guns
21 with a total of 42 charges [sic], so we're shooting ten,
22 ten, ten, ten or ten, 11. And it varies slightly from
23 well to well.

24 Q. You push those down on a tubing string?

25 A. No. They're -- they're on wireline, so they're

1 actually pumping down.

2 Q. Oh, you pump it down to the base of the well?

3 A. Yeah.

4 Q. And somehow you get on depth down there?

5 A. Yes.

6 Q. And using a short collar or a gamma ray?

7 A. No. It's -- you have to do wireline, stretch
8 calculations, to understand where we are. I mean, if
9 we're in a horizontal gamma ray, it's kind of one --

10 Q. Yeah.

11 A. -- one measurement the whole lateral length.

12 Q. Okay. So a collar locator? You've got a
13 collar locator on it?

14 A. No. Well, let me back up. I don't know if
15 there is a collar locator.

16 Q. Okay. That's fine.

17 And the AFEs -- first of all, do the
18 AFEs -- I didn't look at them in particular. Do they
19 include facilities costs, or at what point do they
20 include facilities? Do they include gathering or just
21 surface facilities or --

22 A. I can't speak to Marathon's AFEs. BTA's did
23 include the facilities and gathering line, cost to
24 gather.

25 Q. Okay. So there was a mention earlier that you

1 might have someone already set up to gather the gas.

2 You've got a gas contract in place?

3 A. Yes.

4 Q. And you've got a place to take your water --
5 your disposal water?

6 A. I don't know where we are with the disposal.

7 Yeah. I don't know where we are with that.

8 Q. And the gas and the oil will be trucked out?

9 A. The oil, I don't know where we are either. We
10 are attempting to get everything on pipe, along with
11 SWD. We want everything on pipe.

12 Q. Oh, okay.

13 And did you do the AFE?

14 A. No, I did not.

15 Q. Okay. Did a commercial service do it, or did
16 someone inside your company do it?

17 A. No. It was people inside our company.

18 Q. But to lower the AFE between September and
19 February 1st, did the cost actually drop during that
20 period of time for oilfield services?

21 A. Since I didn't prepare it, I --

22 Q. That's fine. That's fine.

23 A. One thing I do know is recently the local sand
24 mines have been opening out there.

25 Q. Oh.

1 A. I don't know if that's what maybe played a role
2 in this, but that has been one change out here.

3 Q. Okay. Yeah. We've been reading about that,
4 Kermit sand opening up.

5 And these wells are real close to the city
6 of Loving, right?

7 A. That's right.

8 Q. That's right next door to Loving. And when I
9 got up -- on a break, I got up to my office and I
10 noticed there is an Ogden NSP that's been already
11 reviewed and waiting to get signed by the -- for the
12 east half of this section.

13 A. Oh, okay.

14 Q. So I guess Michael has been working on that.

15 As far as BTA's ability to carry out this
16 operation, can you explain more about who you have on
17 the ground, you know, who you would contact to get the
18 rigs, who would be shepherding your operation on the
19 ground, who would be watching the frac job? Just talk
20 about that.

21 A. So we have our drilling manager -- we've had
22 a -- Patterson, we had a rig with them, and, you know,
23 have had some different consultants working with -- you
24 know, been with us, working in -- you know in the
25 drilling side.

1 On the completion side, we have a
2 completion engineer. We have a couple foremen who
3 work -- basically, they work rotationally, seven on,
4 seven off schedule, and operate 24 hours during their --

5 **Q. Okay. So one of them would be in the frac van**
6 **watching the frac --**

7 A. Yeah, in the frac van or at a trailer on
8 location until his rotation ends, and then the next
9 guy's coming on.

10 **Q. Okay. Did you do the log calculations of the**
11 **reserves? Did you try to do volumetrics of these wells?**

12 A. No. We have not done a volumetric analysis.

13 **Q. Just analogy of decline curves?**

14 A. Yes. Yeah, empirical correlations to all the
15 other wells.

16 **Q. Okay. Can't beat that.**

17 Now, the comparison you show in your
18 **Exhibit Number 17** looks pretty compelling, but you said
19 **that you based that on averages of certain populations.**
20 **How many wells were in each one of those populations?**

21 A. So if you go back to Exhibit 16 --

22 **Q. These are the wells?**

23 A. These are the wells. So the ratio curve is the
24 black curve divided by the red curve.

25 **Q. Okay. Now -- but the black curve and the red**

1 curve, those curves are simple averages, or are they
2 geometric means?

3 A. Oh, no. It's a -- it's an arithmetic average.

4 Q. It's an arithmetic average of a limited number
5 of wells? It's all the wells you had, right?

6 A. It was the direct offsets --

7 Q. Direct offsets.

8 A. -- in a single reservoir unit surrounding this
9 acreage.

10 Q. Okay. Do you think it would change the results
11 a lot if you used a geometric mean instead of a -- in
12 other words, instead of a simple arithmetic average?

13 A. I would be guessing.

14 Q. Okay. Okay. That's fine.

15 And the drilling direction out here?

16 A. You know, specifically in the Wolfcamp, we have
17 not been able to see that it makes a difference.

18 Q. Okay. What about the reservoir in the
19 Wolfcamp? Is it actually -- this is -- this is Eddy
20 County.

21 A. Yes, sir.

22 Q. And it's Purple Sage. So we've had a lot of
23 testimony about Purple Sage. So I guess that answers
24 that question, because over in Lea County, I understand,
25 the upper part of the Wolfcamp is -- can be oil and the

1 lower part of the Wolfcamp can be gas. So out here,
2 you're more like high GOR -- or high-gravity oil and --

3 A. I mean, you still see -- you know, like the
4 Upper Wolfcamp out here tends to be oilier, and the
5 lower Wolfcamp is a much higher GOR.

6 Q. Okay. Now, the 1,320 spacing --

7 A. Yes.

8 Q. -- for these two wells, was that just evenly
9 spaced in this half section? Is that the reason for
10 that?

11 A. Yes. It's a consistent four-well-per-section
12 spacing.

13 Q. Okay. Now, the two wells in the north, will
14 they be -- the frac jobs in those be interfering, or
15 they'll be seeing the drop in pressure from the wells in
16 the south? In other words, should you drill all four
17 wells together and frac them all as close together as
18 you can or --

19 A. You know, I would say sure, in a perfect world,
20 if I had everything permitted, everything ready to go,
21 you know -- but, honestly, though, I really have not
22 seen the impact of a Wolfcamp Sand, 3rd Bone Spring, so
23 I don't know what difference it will make when spacing
24 over time.

25 Q. And what about the reasoning? It could be a

1 **surface land issue, but what is the reasoning for**
 2 **placing the two infill wells -- let's see -- the 9H and**
 3 **the 10H to the north and drill south rather than to the**
 4 **south and drill north?**

5 A. One thing is, you know, Section 32, it's
 6 getting pretty tight down there from a surface
 7 perspective, you know. It's not related to this pooling
 8 hearing, but, you know, the east side there is a canal
 9 over there that really restricts access. There is now a
 10 gas plant that's gone in in Section 31 almost on the
 11 section line. You've got new gathering lines going
 12 through there. So we thought it would be simpler just
 13 to avoid all that and move up to the north.

14 **Q. Okay. And the two wells to the north, will**
 15 **they have surface location on the same spot, same pad?**

16 A. Yes. It'll be a pad location for those two.

17 **Q. Pad location.**

18 **And the Pecos River, is it close by here?**
 19 **It's the city of Loving or the town of Loving.**

20 A. Right. It's the town of Loving. But no, the
 21 Pecos River is 16 miles west -- or east of here.

22 **Q. Oh, it's east.**

23 A. Yeah.

24 **Q. Okay. Thanks.**

25 EXAMINER JONES: Any redirect?

1 MR. FELDEWERT: Just a couple.

2 REDIRECT EXAMINATION

3 BY MR. FELDEWERT:

4 Q. Mr. McQuien, you were asked about the company's
5 experience in Eddy County?

6 A. Yes.

7 Q. Have you drilled horizontal wells in Lea
8 County?

9 A. Yes.

10 Q. How many?

11 A. Total, I don't know off the top of my head. We
12 drilled a total of 14 horizontal wells in New Mexico
13 last year.

14 Q. Last year?

15 A. Uh-huh.

16 Q. Fourteen last year alone?

17 A. Yes.

18 Q. And I believe -- it was kind of glossed over,
19 but she asked you about -- specifically about horizontal
20 wells in Eddy County from the single pad. You mentioned
21 you had drilled two of them?

22 A. Yes.

23 Q. And how long were those horizontal wells in
24 Eddy County drilled? What was the length?

25 A. They were roughly two-mile laterals.

1 Q. Two-mile laterals?

2 A. Yes.

3 Q. Beyond what you are proposing here?

4 A. Correct.

5 Q. Were those drilled in the Wolfcamp?

6 A. Yes.

7 Q. Okay. And has the company completed any of
8 those wells yet?

9 A. No. Those two are waiting on completion.

10 Q. Waiting on completion.

11 But you successfully drilled them?

12 A. Yes.

13 Q. In the Wolfcamp?

14 A. Yes.

15 Q. Two-mile lateral?

16 A. Yes.

17 Q. In Eddy County?

18 A. Yes.

19 Q. When Mr. Brooks asked you a question about
20 length of wellbores, you mentioned that that was taken
21 into account in the ratio chart?

22 A. Yes.

23 Q. If I turn to your ratio chart, Exhibit 17,
24 would you please explain how that's taken into account?

25 A. So you're basically comparing mile-and-a-half

1 recovery to one-mile recovery. You know, none of
2 them -- it's not a true mile and a half. It's not a
3 true one mile in either case, but this was the
4 population of wells that the spacing unit was, you know,
5 one-mile long versus a population of wells where the
6 spacing unit was a mile and a half long. We're
7 seeing -- you know, to me the natural assumption would
8 be -- I would have expected -- you know, that ratio
9 should be about one and a half. What the data is
10 showing is it's actually better than that.

11 **Q. It's showing 1.8?**

12 **A. That's correct.**

13 **Q. Okay. That's all the questions. Thank you.**

14 MS. BRADFUTE: Can I follow up with just
15 one question?

16 RE CROSS EXAMINATION

17 BY MS. BRADFUTE:

18 **Q. Mr. McQuien, do you know what the GOR is for**
19 **the Wolfcamp D Formation that you're proposing to**
20 **develop?**

21 **A. Can I give you a range?**

22 **Q. Yeah. You can give me a range.**

23 **A. In this area, it's typically 10- to 12,000 mcf**
24 **per barrel.**

25 **Q. 10- to 12,000?**

1 A. Yes.

2 **Q. Okay. That concludes my questions.**

3 EXAMINER JONES: Is that all for your case,
4 Mr. Feldewert?

5 MR. FELDEWERT: Yes, sir, Mr. Examiner.
6 That concludes our presentation at this point.

7 EXAMINER JONES: Okay. It's lunchtime, it
8 looks like. We prefer hour-and-a-half lunches, but I
9 could be talked into less if one party prefers. What is
10 the preference?

11 MR. FELDEWERT: It's up to you.

12 MS. BRADFUTE: I think we would be fine
13 with an hour and a half.

14 EXAMINER BROOKS: An hour and 20 minutes
15 would give us a round number to start back.

16 EXAMINER JONES: You should have been an
17 engineer, Mr. Brooks.

18 (Laughter.)

19 EXAMINER BROOKS: An hour and 20 minutes,
20 we'll be able to start back at 1:30.

21 EXAMINER JONES: Okay. 1:30.

22 (Recess, 12:09 p.m. to 1:32 p.m.)

23 EXAMINER JONES: Let's go back on the
24 record this afternoon, and we'll turn it over to
25 Ms. Bradfute.

1 MS. BRADFUTE: Thank you, Ms. Examiner.

2 I'd like to call my first witness.

3 EXAMINER JONES: For the record, this is
4 Case Numbers 16024 and 16077.

5 MS. BRADFUTE: Yes. And just to clarify,
6 the parties earlier received a ruling from the hearing
7 examiner that Case Number 16077 is going to be continued
8 to a later docket, but we are still going to be
9 presenting evidence today concerning that 3rd Bone
10 Spring well because it relates to Marathon's development
11 plan in Case Number 16076.

12 EXAMINER BROOKS: And we don't know how far
13 to continue the case yet, do we?

14 MS. BRADFUTE: That's right. That's right.

15 CHASE F. RICE,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. BRADFUTE:

20 Q. Good afternoon.

21 A. Good afternoon.

22 Q. Could you please state your name for the
23 record.

24 A. Chase Rice.

25 Q. And, Mr. Rice, who do you work for?

1 A. Marathon Oil Permian.

2 Q. What is your position at Marathon?

3 A. Landman.

4 Q. What are your responsibilities as a landman at
5 Marathon?

6 A. Leasing, title review, land operations, trades,
7 acquisitions.

8 Q. And have you previously testified before the
9 Division?

10 A. Yes.

11 Q. And were your credentials as a landman accepted
12 and made a matter of record?

13 A. Yes.

14 Q. And does your area of responsibility at
15 Marathon include the area of Eddy County, New Mexico?

16 A. Yes.

17 Q. And are you familiar with the application
18 that's been filed by Marathon in Case Number 16076?

19 A. Yes.

20 Q. And are you familiar with the application
21 that's been filed by BTA in Case Number 16024?

22 A. Yes.

23 Q. Are you familiar with the status of the lands
24 which are the subject matter of these applications?

25 A. Yes.

1 MS. BRADFUTE: I'd like to tender Mr. Rice
2 as an expert witness in petroleum land matters.

3 EXAMINER JONES: Any objection?

4 MR. FELDEWERT: No objection.

5 EXAMINER JONES: He's so qualified.

6 Q. (BY MS. BRADFUTE) Mr. Rice, if you could
7 please turn to Exhibit K in your notebook -- or in the
8 packet in front of you?

9 MR. FELDEWERT: Exhibit K?

10 MS. BRADFUTE: Exhibit K, as in king.

11 Q. (BY MS. BRADFUTE) Is this document a map
12 showing Marathon's development plan and other wells that
13 have been drilled within Eddy County, including the west
14 half of Section 29?

15 A. Yes, ma'am.

16 Q. Okay. And is this map the same map that is
17 enlarged and is in front of everybody here today?

18 A. Yes, ma'am.

19 Q. Okay. Since these maps -- these enlarged
20 versions of the map are rolled out in front of
21 everybody, I wanted to go ahead and just start with this
22 document. Could you walk the hearing examiner through
23 this document and explain to him what the yellow shading
24 shows and what the various colors for the wellbores show
25 and just kind of help orient them?

1 A. Sure. So this map -- the yellow on the map
2 depicts Marathon's acreage, either fee, state or fed.
3 The cross-hatched or dashed outline is showing the west
4 half of Section 29, 23 South, 28 East. The well sticks
5 within that -- west-half sticks are the ten-well
6 development plan. Green shows their 2nd Bone wells.
7 Red shows our 3rd Bone well. The gray is the Wolfcamp A
8 portion of the Wolfcamp Formation. The brown is the
9 Wolfcamp D wells, and the blue is the WXY wells Upper
10 Wolfcamp wells. Some of the well sticks are on top of
11 each other so you might not count exactly ten within
12 that west half.

13 The other sticks on the map are wells that
14 we have either drilled or are in the process of
15 currently drilling. The rig -- rig symbols are rigs
16 that have moved on to those locations and are currently
17 drilling.

18 It further depicts that we have drilled
19 six -- five or six wells to the west of 29, in the east
20 half of 30, and it also shows our development plan over
21 a larger area.

22 **Q. Thank you, Mr. Rice.**

23 **And our focus here today is kind of**
24 **outlined in this dark bold dashed area, which is the**
25 **west half of 29, correct?**

1 A. Yes.

2 Q. Okay. And I want to now turn to Exhibit A,
3 which is at the beginning of Marathon's exhibit packet
4 in front of you. Does Exhibit A contain a more simple
5 depiction of the acreage that's at issue in Marathon's
6 application in Case Number 16076?

7 A. Yes. It's just a simplified version of that
8 map showing -- outlining the west half of Section 29.

9 Q. And could you please turn to what has been
10 marked as Exhibit Number B in Marathon's exhibits? And
11 this exhibit contains multiple pages. I wanted to first
12 focus on the first page in this exhibit. Could you
13 please identify what that document is for hearing
14 examiner?

15 A. This is the preliminary C-102 application for
16 the Zeus Fee 23-28-29 WXY 12H well. It targets the
17 Upper Wolfcamp, Purple Sage portion.

18 Q. And within this proposed C-102 form, it says
19 that the dedicated acreage to this well will be 320
20 acres; is that correct?

21 A. Yes, ma'am.

22 Q. Is Marathon seeking in its application, in Case
23 Number 16076, to dedicate wells to a standard 320-acre
24 spacing and proration unit and to compulsory pool
25 uncommitted interests within that spacing unit?

1 A. Yes.

2 Q. Okay. And does this C-102 identify a pool and
3 a pool code these wells will develop?

4 A. Yes.

5 Q. And what is that?

6 A. Pool Code 98220, the Purple Sage; Wolfcamp.

7 Q. And are the setback requirements for the Purple
8 Sage; Wolfcamp established under a special pool rule
9 order which calls for 330-foot setbacks from the
10 boundary of the project area?

11 A. Yes.

12 Q. Okay. And does the 12H well comply with those
13 setback requirements?

14 A. Yes.

15 Q. Could you please turn to the second page of
16 this exhibit? Is this the C-102 form for the 16H well?

17 A. Yes.

18 Q. And is this well also dedicated to the Purple
19 Sage; Wolfcamp Gas Pool?

20 A. Yes.

21 Q. And will this well also comply with the setback
22 requirements for the pool?

23 A. Yes.

24 Q. And could you please turn to the third page of
25 this exhibit? Is this the proposed C-102 form for the

1 17H well?

2 A. Yes.

3 Q. And is this well also proposed to be drilled
4 within the Purple Sage; Wolfcamp Gas Pool?

5 A. Yes.

6 Q. Will this well also comply with the setback
7 requirements?

8 A. Yes.

9 Q. And finally, the last page of this exhibit
10 contains a C-102 form for a 3rd Bone Spring well,
11 correct?

12 A. Yes.

13 Q. And that's the subject matter of a separate
14 application that Marathon has filed with the Division?

15 A. Correct.

16 Q. Okay. We're going to be talking a little bit
17 about this well during the hearing today. Could you
18 please identify which pool this well will be located in?

19 A. This will be in the Culebra Bluff, South; Bone
20 Spring, Pool Code 15011.

21 Q. And this 3rd Bone Spring well is the 15H well?

22 A. Yes, ma'am.

23 Q. Could you please turn to what has been marked
24 as Exhibit C in the packet in front of you, and could
25 you please explain what this exhibit shows to the

1 **hearing examiner?**

2 A. This exhibit was created to depict the lease
3 tract map of the west half of Section 29. The tracts
4 are working interest owner tracts, not necessarily lease
5 tracts. Tract 1 is fee acreage owned by BTA Oil
6 Producers. Tract 2 is a tract that is owned partially
7 by Marathon Oil Permian and partially by BTA Oil
8 Producers. Tract 3 is a Marathon Oil fee lease, 100
9 percent owned by Marathon. And Tract 4 is a small
10 5-acre tract that is not outlined within the -- or I
11 guess north -- within Tract 2 outline. The arrow is
12 just kind of pointing in the general area where that
13 tract lies.

14 **Q. And does this exhibit primarily show who the**
15 **working interest owners are within the tracts you've**
16 **identified?**

17 A. Yes.

18 **Q. And as you stated before, this is mainly**
19 **outlining who has the ownership for the different tracts**
20 **you've created?**

21 A. Correct. Correct. There is no unleased
22 interest within the 320.

23 **Q. And this exhibit shows that all of the acreage**
24 **at issue within the west half of Section 29 is fee**
25 **acreage, correct?**

1 A. Correct.

2 Q. And so there are no federal leases within the
3 west half of Section 29?

4 A. No.

5 Q. And there would be no need to obtain approval
6 from the Bureau of Land Management?

7 EXAMINER BROOKS: I'm sorry. Did you say
8 there is or there is not unleased acreage?

9 THE WITNESS: There is no unleased acreage
10 currently within the west half.

11 Q. (BY MS. BRADFUTE) Could you please turn to the
12 second page of this exhibit and explain what this
13 document shows to the hearing examiner?

14 A. This document is a summary of committed and
15 uncommitted working interests within the west half of
16 320. We show Marathon committed working interest with
17 44.53 percent working interest and BTA Oil Producers
18 with a 55.46 working interest as to the 320.

19 Q. And does that information correspond with
20 Ms. Beal's testimony that we heard earlier this morning
21 for the west half of Section 29?

22 A. Yes. I believe it does.

23 Q. And could you -- I'm going to go ahead and skip
24 over Exhibit D.

25 What types of interest does Marathon seek

1 to pool within the Wolfcamp Formation underlying the
2 west half of Section 29?

3 A. We seek to pool the uncommitted working
4 interest.

5 Q. Has Marathon also provided notification of this
6 hearing to overriding royalty interest owners?

7 A. Yes.

8 Q. And have you reviewed the assignments which
9 create those overriding royalty interest owners?

10 A. I've done a cursory review of those
11 assignments. It appears that all the assignments that
12 are affecting the 320 have -- the leases that those
13 overrides are derived from have pooling provisions.
14 We've also gone ahead and notified the overriding
15 interest owners.

16 Q. In the event there is any lease that doesn't
17 contain a pooling provision or a provision authorizing
18 the working interest owners to commit the override to a
19 pool unit, does Marathon seek to pool those overriding
20 working interests?

21 A. Yes.

22 Q. Could you please turn to what's been marked as
23 Exhibit E in front of you? Has Marathon engaged in
24 various discussions with BTA concerning the development
25 plans for the west half of Section 29, as well as BTA's

1 **competing proposal to develop a 480-acre spacing unit**
2 **involving the northwest quarter of Section 32?**

3 A. Yes.

4 **Q. And I'd like you to kind of summarize those**
5 **discussions for the hearing examiner.**

6 A. Those discussions have included acreage trades.
7 They've included joint development scenarios, quasi
8 farm-out discussions, as well as offers to purchase
9 different interests in different depths.

10 **Q. Now, why was Marathon interested in proposing**
11 **acreage trades to BTA?**

12 A. The initial acreage trade proposals, we --
13 Marathon does not wish to be nonoperator in our acreage.
14 We would prefer to trade out non-op acreage to acreage
15 that would either increase our working interest in our
16 existing operating units or create newly operated
17 potential for Marathon.

18 **Q. Were there additional concerns for this acreage**
19 **at issue in the west half of Section 29 that caused**
20 **Marathon to want to either obtain some sort of**
21 **operatorship for the acreage or trade out of the**
22 **acreage?**

23 A. Yes. As part of Marathon's process, as BTA
24 started -- really started asking about what we were
25 planning on doing, that initiated myself and the other

1 subsurface groups to look at the AFEs that were
2 provided, the acreage situation and utilizing our data
3 that we've acquired over time. My first -- first red
4 flag that I saw was that our main lease, 137 net acres,
5 has a depth-severance clause which states "100 feet
6 below the deepest producing depth." So their two-well
7 proposal was for Upper Wolfcamp. So we would --
8 Marathon would lose a significant portion of its
9 Wolfcamp rights.

10 **Q. Did you engage in discussions with BTA when you**
11 **realized that there was a depth-severance provision in**
12 **the leases at issue?**

13 A. Yes.

14 **Q. And can you summarize those discussions for the**
15 **Examiners?**

16 A. Just pointed out that their well -- we would
17 lose a significant portion of our acreage if they did
18 not drill a Wolfcamp D within the primary term. Their
19 response was, "Why don't you just go and try to get an
20 extension?" And my response to that was, "Well, that
21 doesn't mean you're going to drill it within two years,
22 and we just spent a bunch of money acquiring all this
23 acreage. So we'd rather drill up to D and hold those
24 rights, and also the D would give us more data to
25 further develop the acreage."

1 **Q. And when did those discussions take place?**

2 A. Around January.

3 **Q. Around January.**

4 **And during those discussions, did BTA**
5 **express any interest to you in developing the Wolfcamp**
6 **D.**

7 A. Not -- not to my knowledge or not as a very
8 committed offer to develop it. They offered an initial
9 farm-out, where essentially Marathon would carry 100
10 percent of the cost and drill a B well, and they would
11 come back in at payout. I recall that kind of the
12 initial terms were thrown out. I told them that we
13 would prefer not to drill one well at a time. It's a
14 waste of money and time -- and drill time, and we at
15 least would prefer to drill two wells -- two wells at a
16 time was our minimum. And until today, I did not
17 reali- -- they did not initiate that they also had a
18 depth-severance issue.

19 **Q. So today is the first time that you've heard**
20 **that BTA also had a depth-severance issue?**

21 A. Correct.

22 **Q. And, in fact, when you first raised the**
23 **depth-severance issue to BTA, you just testified earlier**
24 **that they told you to go out and get a lease extension?**

25 A. They said, "Why don't you get a lease

1 extension" -- or "try to get a lease extension, and why
2 don't we drill the Wolfcamp D and not go spend money on
3 something that we just bought."

4 **Q. So there's already been testimony that the**
5 **parties both exchanged acreage-trade offers; is that**
6 **correct?**

7 A. Correct.

8 **Q. There was also -- listed here as point two on**
9 **Exhibit E is a joint development scenario. Could you**
10 **please explain that to the hearing examiners?**

11 A. As we came closer to this hearing, 11th-hour
12 trade discussions had been going on. My proposal to
13 BTA -- or Mr. Price and maybe Ashley as well was: Why
14 doesn't Marathon operate the Lower Wolfcamp from 10,030
15 feet to 10,800 feet, and BTA can operate the Upper
16 Wolfcamp portion as their plan? Their response was,
17 "What about the Bone Spring?" I said, "We would prefer
18 to be the Bone Spring operator, as we have more
19 knowledge about that, but we'll operate the east half of
20 the west half, and you can operate the west half-west
21 half." That seemed in my mind to check off everybody's
22 boxes, but that did not go forward.

23 **Q. And you testified just a few minutes ago about**
24 **a farm-out. You have bullet point three, "Farm-out."**
25 **Is that the farm-out you were referencing?**

1 A. The farm-out -- initial farm-out discussions
2 were about allowing Marathon to drill one A Wolfcamp D
3 well at 100 percent of the cost, and I believe, if I
4 remember, they either come back in at 100 percent payout
5 or they come back in for less of their interest.
6 Essentially, Marathon would be assuming all the risk and
7 cost for BTA, and then we would not be the operator of
8 the remainder of the D 320.

9 Q. And that was limited to a one-well drill?

10 A. Yes.

11 Q. Okay. And then the last bullet point on this
12 offer to purchase, could you please explain what that is
13 to the hearing examiners?

14 A. Kind of the same time frame here the last
15 couple of weeks, I told Mr. Price, "Throw me an offer
16 for all of our interest within this 320 so I have
17 something to bring to my management." Their offer, we
18 felt, was extremely low for what we are paying for
19 acreage currently, so we did not counter with a higher
20 offer and -- follow the path of joint development
21 discussions. Also, we had offered to purchase BTA's
22 Wolfcamp D rights. I did not get a rejection of that
23 price, but I did not get an acceptance of that. But it
24 still went back onto the Bone Spring Formation, who
25 developed that.

1 Q. I have noticed that a lot of these offers to
2 resolve the issue in this case involve Marathon being
3 the operator of the Wolfcamp D. Why is that important
4 to Marathon?

5 A. Well, first is to ensure that we're going to
6 keep all our deeps rights. Based on the communications
7 and recommendations, we do not feel that BTA is being --
8 we don't feel that they're going to drill the Wolfcamp D
9 in time, or at least the initial conversations up until
10 today seemed to indicate that they don't really have an
11 issue. It's our issue, about our deep rights, and also
12 based on what I understand, could they get a permit in
13 time to drill a Wolfcamp D as to their 480.

14 Q. Okay. Let's talk about that permitting issue
15 for just a minute. Has Marathon researched how long it
16 is currently taking operators to get approved sundry
17 notices which make changes to APDs with the BLM Carlsbad
18 Office?

19 A. Yes.

20 Q. And how long does it take to get approval of
21 such a sundry?

22 A. The BLM told us it's going to take six to nine
23 months, potentially, to get permits and whatnot for
24 federal acreage.

25 Q. So it's not a simple issue to just amend the

1 **drilling plans for the --**

2 A. Not to my knowledge and not to our
3 understanding of how backlogged the BLM is.

4 **Q. Please turn to what's been marked as Exhibit F.**
5 **Could you please identify what this exhibit is to the**
6 **hearing examiners?**

7 A. This kind of outlines communications that
8 occurred between myself and BTA, kind of what I've just
9 discussed with our trade talks. So kind of after the
10 December break, when everybody's out, I think BTA
11 started -- you know, this is what -- a rig is coming --
12 a rig is potentially coming, you know, what do you guys
13 want to do? That initiated Marathon's process to review
14 in more depth their proposal. The initial concern was,
15 the AP costs were extremely high compared to what we
16 could drill it for, the fee lease depth-expiration
17 issue, and they weren't going to hold that, and then our
18 understanding is that the 3rd Bone Spring needs to be
19 drilled and completed at the same time as the Upper
20 Wolfcamp wells to maximize recovery of hydrocarbons.

21 We contacted BTA and expressed our concerns
22 with the AFE costs, as well as the formation
23 depth-severance issue. We had a phone conference on the
24 26th to talk about the costs. They asked for an -- or a
25 Marathon AFE, which we decided was prudent to send them,

1 so we sent them a sample AFE that Marathon would -- a
2 one-and-a-half-mile AFE that Marathon could drill it
3 for. Obviously, within a few days, they returned the
4 new AFEs for their Ogden wells and high level explained
5 why their costs came down significantly from four months
6 earlier.

7 **Q. And did you have reason to question BTA's**
8 **explanation for these costs increases and the revised**
9 **AFE?**

10 A. We did.

11 **Q. And why is that?**

12 A. One of the reasoning was drill-time
13 efficiencies. When you look at BTA's drilling program
14 over the last two years, we just didn't see how they
15 could increase their drill efficiencies that much by not
16 drilling multiple well pads like Marathon and the bigger
17 operators do.

18 Marathon, you know, has four to five rigs
19 running, one dedicated frac crew and another one coming,
20 so we have a lot of long-term contracts with our
21 third-party vendors, you know, fracs and pump rigs, so
22 we negotiate lower prices. We have to make assumptions
23 by what BTA said because they didn't provide that they
24 were able to negotiate lower costs, but as a matter of
25 just how it works, we didn't feel that their reduction

1 was really attainable based on the reasonings they gave.

2 Q. And, in fact -- and I apologize for jumping.

3 But if you look at Exhibit I and you go to Tab 3 or

4 300 --

5 MR. FELDEWERT: Exhibit I.

6 MS. BRADFUTE: "I" and Tab 3 or 300,

7 depending on the tab you have.

8 MR. FELDEWERT: Okay.

9 Q. (BY MS. BRADFUTE) If you look at the very
10 bottom of this email exchange on the bottom of the
11 page --

12 A. Uh-huh.

13 Q. -- is there an email sent from you to Willis
14 Price on January 31st, 2018?

15 A. Yes.

16 Q. And does the content of this email indicate
17 that you were sending them a sample AFE for Marathon's
18 costs for the 1.5-mile-lateral equivalent to the Ogden
19 wells?

20 A. Yes.

21 Q. Is that sample AFE on January 31st?

22 A. Yes.

23 Q. Okay. And if you look up at the next email, up
24 at the top of the page --

25 A. Uh-huh.

1 Q. -- on February 1st, the next day, did Willis
2 Price email you back attaching the revised AFEs?

3 A. Yes.

4 Q. Okay. So those revisions took place within a
5 day after you sent Marathon's sample AFE that BTA had
6 requested?

7 A. Correct.

8 Q. I want to go back to Exhibit G.

9 And actually before I start asking you
10 questions about Exhibit G, Mr. Rice, is it your opinion
11 that Marathon has engaged in good-faith efforts to try
12 to negotiate a resolution with BTA concerning these
13 competing proposals?

14 A. Yes.

15 Q. Is it your opinion that Marathon, in some
16 instances, has even tried to bend over backwards to try
17 to come to a resolution that would adequately protect
18 its correlative rights within the west half of Section
19 29?

20 A. Yes.

21 Q. Okay. I want to turn to Exhibit G, and it has
22 several tabs. I want to focus on Tab 1.

23 EXAMINER BROOKS: Did you say G?

24 MS. BRADFUTE: G, yes.

25 EXAMINER BROOKS: As in golf?

1 MS. BRADFUTE: As in golf. I was going to
2 say George (laughter), but golf works, too.

3 EXAMINER JONES: We have the landman here,
4 so it's "golf."

5 MS. BRADFUTE: Yeah.

6 (Laughter.)

7 Q. (BY MS. BRADFUTE) Mr. Rice, could you identify
8 what this exhibit contains? And it has several pages.

9 A. The first email or the first page?

10 Q. Yeah. Yeah. Let's go to the first page.

11 A. This was an email where I sent our competing
12 proposal to Ashley and cc'ing Mr. Price for our
13 four-well development plan as to the west half of
14 Section 29.

15 Q. Okay. And this was sent on Monday, February
16 19th?

17 A. Yes.

18 Q. Okay. And if you flip to the next page, is
19 this document the well-proposal letter that Marathon
20 submitted to BTA for its Zeus wells, which are at issue
21 in Case Number 16076?

22 A. Yes.

23 Q. And does it also contain the 15H well, which is
24 a 3rd Bone Spring well that Marathon has proposed in
25 Case Number 16077?

1 A. Yes.

2 Q. Okay. And if you turn to the third page of
3 this document -- and actually -- I'm sorry -- to the
4 fourth page, did Marathon provide a separate election
5 for each of these wells to BTA so that BTA could either
6 elect or not elect to participate in any of the wells
7 that are being proposed?

8 A. Yes.

9 Q. Okay. And could you please turn to the second
10 tab of this exhibit? Along with its well-proposal
11 letter, did Marathon also submit AFEs to BTA for its
12 Zeus wells?

13 A. Yes.

14 Q. And in this second tab, is there an AFE for the
15 15H well?

16 A. Yes.

17 Q. And in all of the AFEs that have been
18 submitted, did Marathon provide costs for drilling the
19 well, dry-hole costs and completion costs to BTA? And
20 that's the only working interest owner that you seek to
21 pool, correct?

22 A. Correct.

23 Q. Okay. Could you please identify what those
24 costs are for 15H well?

25 A. The 15H well drilling cost was 1.9 --

1 approximately, 1.9 million. Our completion cost was
2 3.742 million. Total cost, which included artificial
3 lift, surface equipment costs and location costs, was
4 approximately 6.645 million.

5 Q. Okay. And can you please turn to Tab 3 of this
6 exhibit? Does Tab 3 contain the AFE that was submitted
7 for the 16H well?

8 A. Yes.

9 Q. And can you please identify the costs
10 associated with this well, which are contained in the
11 AFE?

12 A. Total drilling cost is approximately 2.25
13 million. Completion cost is approximately 3.742
14 million. Total AFE cost is approximately \$7 million.

15 Q. And could you please turn to Tab 4 of this
16 exhibit? Does Tab 4 contain the AFE for the 17H well?

17 A. Correct.

18 Q. Okay. And could you please identify the
19 relevant costs for the 17H well?

20 A. Total drilling cost is approximately 2.14
21 million. Total completion cost is approximately 3.742
22 million. Total AFE cost was approximately 6.87 million.

23 Q. And are these costs estimated by Marathon to
24 drill these lines in line with the cost to drill other
25 horizontal wells that have been drilled to these lengths

1 and these depths within this area of New Mexico?

2 A. Yes.

3 Q. And then I am going to -- did I cover Tab 5,
4 Mr. Rice, in this AFE?

5 A. No.

6 Q. Okay. And could you identify what Tab 5
7 contains?

8 A. This is the AFE for the Zeus Fee 23-28-29 WXY
9 12H well.

10 Q. And could you identify the relevant costs of
11 this well?

12 A. Total drilling cost, 2.14 million; total
13 completion cost, 3.7 million; total AFE costs, 6.8
14 million.

15 Q. And are the costs for this well likewise in
16 line with the cost to drill other horizontal wells
17 drilled to this depth in this area of New Mexico?

18 A. Yes.

19 Q. Could you please turn to Exhibit H? Upon
20 receipt of these well-proposal letters and AFEs, did BTA
21 request any changes to Marathon's AFEs that have been
22 submitted?

23 A. Yes. Ms. Beal noticed some typos and asked for
24 a correction page to some of them. I believe it was
25 naming -- well-naming, but nothing significant as far as

1 costs or anything like that.

2 Q. Okay. And did you submit that change to Ashley
3 Beal at BTA the same day that the change was requested
4 or the next after --

5 A. This was on Monday at 6:00, so I responded on
6 Tuesday, February 20 at 6:20 a.m., with corrected
7 AFEs -- or AFE changes that she asked for.

8 Q. In general, have you tried to respond promptly
9 to BTA's requests concerning the competing development
10 proposals at issue in the cases being heard today?

11 A. I responded promptly when I have information I
12 can give them or honest feedback. When my emails say,
13 "I hope -- I give you information today," I can't
14 guarantee that the subsurface people are going to give
15 me that information to respond to that exactly when I
16 said it was. But I feel like we responded as promptly
17 as possible, took into account all considerations. And
18 the decision was to submit a competing proposal as our
19 development plan based on the depth-severance issue, the
20 cost issue, the pace of development, as well as
21 reviewing BTA's concern about stranded acreage. We felt
22 that they could drill the north half of Section 32 in an
23 east-westerly direction the same as Mewbourne and as
24 they had not drilled anything yet that would prevent
25 them to do that. And we felt like the current surface

1 locations, surface -- probably be used to do that. But
2 that was our consideration in that and why we proposed
3 mile laterals and also because it's all fee acreage and
4 we don't have to hire a big redo of federal permitting
5 so we can drill our formations in time to hold that
6 acreage.

7 Q. And Marathon is a large production company,
8 correct?

9 A. Yes.

10 Q. Kind of stating the obvious.

11 As a larger operator, does it have certain
12 processes in place that it needs to comply with in order
13 to review proposals that come in?

14 A. We have a lot of processes.

15 Q. Do you have multiple teams that are required to
16 review proposals that come from other operators?

17 A. Yes.

18 Q. Okay. And is that similar to processes filed
19 by other major operators operating within New Mexico?

20 A. Yes.

21 Q. Could you please turn to Exhibit I? I now want
22 to discuss BTA's proposal in Case Number 16024 for the
23 Ogden 5H and the 6H wells. Are you familiar with that
24 proposal?

25 A. I'm familiar with the proposal. I did not

1 start in the Permian division until mid-October, and so
2 I can't speak directly to what occurred between about
3 that time and June, but the land professionals that are
4 still at Marathon have given me feedback on what kind of
5 occurred up to that point.

6 Q. Okay. And I want to start by looking at the
7 first tab in this exhibit. Is this the well-proposal
8 letter that was sent by BTA to Marathon in late October
9 2017 for the Ogden 5H well?

10 A. Yes.

11 Q. And connected to this well-proposal letter, is
12 there an AFE?

13 A. Yes.

14 Q. And I believe that we heard testimony earlier
15 about this AFE. When I look at the bottom of the first
16 page of this AFE, it shows cumulative well costs of
17 \$10,114,950, correct?

18 A. Correct.

19 Q. Okay. And did you review this AFE in January
20 of 2017 to evaluate BTA's proposal?

21 A. Yes.

22 Q. And upon your review, what issues did you
23 notice in this AFE?

24 A. The big issue was the -- a large cost request
25 for a well of similar nature.

1 Q. Okay. And did other teams within Marathon also
2 review this AFE?

3 A. Yes.

4 Q. And did they also express concerns about the
5 costs that were estimated for the well?

6 A. Yes.

7 Q. Was there a decision by management within
8 Marathon that you would not participate at this cost
9 that's been proposed?

10 A. There was, subject to further management
11 approval, a decision that we should engage BTA and, you
12 know, talk about their costs being extremely high.
13 Especially if we have 30 percent working interest, it
14 would be, you know, a large capital outlay for a
15 nonopposition.

16 Q. Yeah. And even if these costs were reduced
17 like they later were, did this raise several red flags
18 within Marathon's teams?

19 A. Yes.

20 Q. Prior to receiving these -- or reviewing -- you
21 personally reviewing these AFEs, had Marathon hoped that
22 they would be able to partner with BTA in the
23 development of this acreage?

24 A. Our hope was to initially trade out of the
25 acreage, as we don't make it a habit of getting in the

1 way of other people's development plans. We tried that.
2 We did not get a lot of help from BTA. We requested
3 maps. You can see from previous emails, I sent them a
4 large area that we could focus in for acreage trades. I
5 did not get a lot of feedback from that. It feels like
6 pretty much any initiation of trades or development
7 scenarios have been pushed by Marathon to be BTA, so
8 that's kind of where it went. And that's where we kind
9 of led to we should at least -- competing proposal --
10 acreage. It protects everybody's correlative rights.
11 And a geologist and engineer will probably testify as to
12 why think we are the better operator.

13 **Q. At this point in time, is it Marathon's**
14 **viewpoint that they are potentially being forced into a**
15 **development plan which they don't support under BTA's**
16 **proposal?**

17 A. Yes.

18 **Q. Could you please turn to the second tab of this**
19 **exhibit? Is this the well-proposal letter sent by BTA**
20 **on October 25th, 2017 for the 6H well?**

21 A. Yes.

22 **Q. And I want to focus on the third page of this**
23 **exhibit. Was an AFE also sent for the 6H well, which**
24 **likewise contained the well costs of \$10,114,950 for**
25 **this well?**

1 A. Yes.

2 Q. Could you please turn to Tab 3, which we've
3 already gone through? Marathon did communicate its
4 concerns with the proposed AFE costs to BTA, correct?

5 A. Yes.

6 Q. And Marathon decided that it would not, at that
7 point in time, elect to participate under these AFEs,
8 correct?

9 A. We elected not to make any election at the time
10 pending trade or pooling, looking at different
11 scenarios. We did not tell them we would not elect, but
12 we weren't going to participate at their cost
13 internally.

14 Q. And has it been Marathon's intent throughout
15 this entire time to try to negotiate some resolution
16 with BTA in good faith?

17 A. Yes.

18 Q. Can you please turn to what's marked as
19 Exhibit J? On February 1st, 2018, did BTA send Marathon
20 a revised AFE for the Ogden 5H and 6H wells?

21 A. I'm sorry. Which exhibit?

22 Q. J, as in Jennifer.

23 A. J1?

24 Q. Yeah, J1. Sorry. It has several tabs.

25 A. J1 is Marathon's proposal to BTA of our Zeus --

1 of our six wells, additional development plan for the
2 320.

3 Q. Okay. Great.

4 And I apologize. I'm a little out of order
5 on my outline.

6 So I want to back up just a little bit. On
7 February 1st, 2018, BTA did send you a revised AFE for
8 the 5H and the 6H wells, correct?

9 A. Correct.

10 Q. And Marathon has not yet elected to participate
11 under those AFEs either?

12 A. No.

13 Q. And around April 10th, about a week and a half
14 ago, did BTA propose two additional Wolfcamp wells to
15 Marathon?

16 A. Yes.

17 Q. And those are the 7H and 8H Ogden wells?

18 A. Correct.

19 Q. Did these proposals alleviate Marathon's
20 concerns regarding BTA's development plans for the
21 deeper zones within the Wolfcamp Formation?

22 A. It did not appear so. It looked like it would
23 only target the Wolfcamp C. And as per testimony, they
24 were amending those permits to go deeper, but the
25 initial proposal does still not protect all of our

1 deeper rights.

2 Q. Why is that?

3 A. Based on the rewarding [sic] of our lease, the
4 100 feet below the deepest produced in depth, there
5 would be at least 200 more feet of Wolfcamp Formation
6 that Marathon would potentially lose based on their
7 initial proposal of the other wells.

8 Q. Okay.

9 A. There's been a lot of -- different companies
10 have different nomenclature, I guess, so it's -- but
11 that's the way we read it as far as the depths that were
12 on the proposal.

13 Q. Did Marathon understand this proposal by BTA to
14 essentially be BTA's later stages of development --

15 A. Correct.

16 Q. -- for the acreage?

17 And did Marathon, after receiving these
18 proposals, likewise respond and decide to send out
19 proposals for its second and third stages of development
20 for the west half of Section 29?

21 A. Yes.

22 Q. And now I'd like to look at Exhibit J under
23 Tab 1. Is this the well-proposal letter that Marathon
24 sent out for its second and third stages of development
25 within the acreage that's at issue?

1 A. Yes. This proposal would target three
2 additional Wolfcamp D wells, one Wolfcamp A well and two
3 2nd Bone Spring wells.

4 Q. Okay. And going to have an exhibit that
5 outlines the location of those wells for everybody in a
6 few minutes.

7 And along with these well proposals -- in
8 fact, on the last page of this well proposal, did
9 Marathon provide the option to BTA to participate or not
10 participate in each of the separate wells that are being
11 proposed?

12 A. Yes.

13 Q. So in total, Marathon has now proposed ten
14 wells to develop the west half of Section 29; is that
15 correct?

16 A. Yes.

17 Q. But its initial stage of development would be
18 to drill four wells; is that correct?

19 A. Correct.

20 Q. And that's three Wolfcamp wells and one 3rd
21 Bone well?

22 A. There are three Wolfcamp wells and one 3rd
23 Bone. The 3rd Bone is to be drilled at the same time as
24 the X-Y for completion reasons. We wanted, obviously,
25 to drill a D to hold our deep rights, as well as to get

1 additional log information to coincide with our 3D
2 seismic. That -- that -- that pad -- four-well pad will
3 alleviate a lot of concerns about development, and the
4 next phase we're going to have six well pads -- or six
5 wells.

6 Q. And do Exhibits [sic] 2 through 7, Exhibit J,
7 contain AFEs for these wells that have been proposed?

8 A. Yes.

9 Q. Could you please turn to what's been marked as
10 Exhibit K? And is this an exhibit you've already
11 provided some testimony about?

12 A. Uh-huh.

13 Q. And it's a map that's enlarged in front of
14 everybody, correct?

15 A. Yes.

16 Q. Okay. I just wanted to go back and highlight
17 some points on this map. There are four drilling
18 derricks located or depicted on this map. What do those
19 represent?

20 A. Those are wells that are currently drilling as
21 of right now or are planned within the next two months
22 -- two to three months.

23 Q. So are those locations where Marathon has
24 active rigs within the area right now?

25 A. Yes.

1 Q. And how many wells has Marathon actually
2 drilled in the area that's depicted?

3 A. We've completed drilling the Hermes Unit off to
4 the east. It will be five wells targeting the various
5 formations within the Wolfcamp and the Bone Spring.
6 We're drilling the Mariner pad, which is just north, and
7 then the Trevy Shay [phonetic] pad, which is
8 north-northwest, so five wells drilled and completed so
9 far within a mile of our plan of development -- or for
10 the Zeus pad.

11 Q. And then there are a number of wells shown in
12 colors -- blue, brown and red -- which look like they
13 have all been proposed and are planned to be drilled by
14 Marathon?

15 A. Uh-huh.

16 Q. Could you please turn to what is marked as
17 Exhibit L? Did Marathon provide notice of its
18 application -- and I want to first look at the first
19 tab. We're not going to discuss the second tab. Did
20 Marathon provide notice in Case Number 16076 of its
21 application in this case to affected parties?

22 A. Yes.

23 MS. BRADFUTE: I will represent to the
24 hearing examiners that I did not get notice published in
25 time, and there were two undelivered and one returned.

1 So we would like to continue this for notice purposes,
2 in Case 16076, to the May 17th docket, which will give
3 us time to publish specific continuation.

4 Q. (BY MS. BRADFUTE) Mr. Price, in your opinion,
5 who should be appointed as operator of the wells?

6 A. Marathon Permian.

7 Q. And do you have a recommendation for the
8 amounts which Marathon should be paid for supervision
9 and administration expenses?

10 A. I believe we're asking for 700 and 7,000.

11 Q. Okay. And are these amounts equivalent to
12 those normally charged by Marathon and other operators
13 in this area for horizontal wells which have been
14 drilled to these lengths and these depths?

15 A. Yes.

16 Q. Is Marathon requesting that these rates be
17 adjusted periodically as provided under the COPAS
18 accounting procedure?

19 A. Yes.

20 Q. And there was testimony earlier about the
21 amount that BTA has requested for administrative and
22 supervision expenses. Do you remember what those
23 amounts are?

24 A. 800 and 8,000.

25 Q. Okay. And those amounts are higher than the

1 amounts that Marathon is requesting?

2 A. Yes.

3 Q. Are those amounts higher than what Marathon has
4 imposed in the other areas that it's developing shown on
5 the maps that are in front of everyone?

6 A. These costs are higher than the one-mile
7 development plans. I can't speak to the other areas in
8 New Mexico as far as lateral length and the cost
9 request.

10 Q. And does Marathon request the maximum cost plus
11 200 percent risk charge if any pooled working interest
12 owner fails to pay for its fair share of the cost of
13 drilling and equipping the wells?

14 A. Yes.

15 Q. And was BTA notified of this hearing?

16 A. Yes.

17 Q. And were the overriding royalty interest owners
18 who you are seeking to pool notified of this hearing?

19 A. To the best of our ability, they were notified.

20 Q. Were Exhibits A through L, with the exception
21 of Exhibit D, prepared by you or under your supervision
22 or compiled from company business records?

23 A. Yes.

24 Q. And is the granting of the application in Case
25 Number 16076 in the interest of conservation and the

1 **prevention of waste?**

2 A. Yes.

3 **Q. And in your opinion, does Marathon's**
4 **application in Case Number 16076 adequately protect**
5 **correlative rights?**

6 A. Yes.

7 MS. BRADFUTE: I'd like to move the
8 admission of Exhibit Letters A through L, with the
9 exception of Exhibit D, into the record.

10 EXAMINER JONES: And also Tab 2 on Exhibit
11 L? Are you going to submit that now? Do you want to
12 submit that now?

13 MS. BRADFUTE: No, we are not.

14 EXAMINER JONES: Okay.

15 EXAMINER BROOKS: Which exhibit was it you
16 were excepting?

17 MS. BRADFUTE: Exhibit D, as in David.

18 EXAMINER JONES: Oh, "David." Okay.

19 MR. FELDEWERT: So not D, as in David, and
20 not Tab 2 on L?

21 MS. BRADFUTE: Yes.

22 MR. FELDEWERT: No objection.

23 EXAMINER JONES: No objection?

24 MR. FELDEWERT: No.

25 EXAMINER JONES: Exhibits A through L,

1 except for Exhibit D, and Exhibit L and only Tab 1 will
2 be admitted. How do you like that?

3 EXAMINER BROOKS: Sounds all right.

4 MS. BRADFUTE: And that concludes my
5 questions for this witness.

6 (Marathon Oil Permian, LLC Exhibit Letters
7 A, B, C, E through K, and L, Tab 1 are
8 offered and admitted into evidence.)

9 EXAMINER JONES: Okay. Mr. Feldewert.

10 CROSS-EXAMINATION

11 BY MR. FELDEWERT:

12 **Q. Mr. Chase, I want to talk first about the**
13 **last -- you were concerned about the \$800 a month and**
14 **8,000 a month while drilling?**

15 A. Uh-huh.

16 **Q. I think you were very careful. You said that**
17 **you thought that was higher than you'd seen for one-mile**
18 **wells?**

19 A. To the best of my knowledge, yes. 100 and
20 1,000 --

21 **Q. I'm sorry?**

22 A. I said that I can't speak -- 700 and 7,000 is
23 what we were asking for. If, in some other
24 communications, it had been higher, I'm not -- that's
25 the best of my knowledge. Yes.

1 Q. But you can't testify, based on any study, that
2 800 and 8,000 is out of line for one-mile wells?

3 A. No.

4 Q. You can't say that?

5 A. I can't say that with expert knowledge.

6 Q. Did you look at what Mewbourne was charging for
7 their wells to the south?

8 A. We are not in those wells, so I didn't research
9 it, and it didn't really affect our development plans.

10 Q. Would it surprise you to learn that it's 800
11 and 8,000?

12 A. No, not anymore. No, it wouldn't.

13 Q. Because that's one mile.

14 A. Okay.

15 Q. And, of course, BTA's proposal is 7,500 and
16 750, is for a mile-and-a-half well --

17 A. Okay.

18 Q. -- correct?

19 MS. BRADFUTE: Objection. I don't think
20 that accurately states the record.

21 EXAMINER JONES: Is it correct that it's
22 800 and 8,000?

23 Q. (BY MR. FELDEWERT) I'm sorry. 8,000 and 800.
24 And that would be for a one-and-a-half-mile lateral?

25 A. Yes.

1 Q. Okay. Now --

2 MR. FELDEWERT: Thank you.

3 Q. (BY MR. FELDEWERT) Now, I want to look at your
4 Exhibit K, and I just want to make sure I understand it.
5 Okay? This is the big map you-all threw out there on
6 the table?

7 A. Uh-huh.

8 Q. I think if I look at the legend, all the wells
9 that we see there in color are simply proposed wells?

10 A. For the Zeus 320?

11 Q. Well, I'm just looking at all the colors on
12 here.

13 A. These are the wells that we plan to drill or
14 are in the process of drilling. We operate all these
15 320-stand-ups. So we're not in the process of pooling
16 or anything like that.

17 Q. So if I look at your legend -- right?

18 A. Uh-huh.

19 Q. You have -- "MRO." That's Marathon?

20 A. Yes.

21 Q. It says "proposed wells"?

22 A. (Indicating.)

23 Q. And it has colors, green --

24 A. Right.

25 Q. -- red. I don't know what the other colors

1 **are. So if I see colors on here, does that represent**
2 **proposed wells?**

3 A. The colors represent the proposed wells to the
4 Zeus 320. The colored sticks in the north are wells
5 that we are in the process of drilling or planning on
6 drilling. It depicts our development plan for the area.
7 The wells to the east -- or to the west of the 320, as
8 you can see from those sticks that are not straight, are
9 wells that have been drilled.

10 **Q. Okay. So let's go the proposed wells. Can you**
11 **point to me the proposed wells that you are currently**
12 **drilling?**

13 A. You see the rig symbol --

14 **Q. Uh-huh.**

15 A. -- to the west half of Section 19? Those are
16 the Trevy Shay [phonetic] wells. Those are either spud
17 or in the process of being spud at the time. We are not
18 at liberty to submit our DRT tracker as to our rig lines
19 as evidence at this time per counsel's advice.

20 **Q. I'm sorry. I missed that. You're not allowed**
21 **to say what?**

22 A. We're not allowed to submit our drill rig
23 tracker that shows what rigs are drilling on what pads
24 and make a public record of that, but I can talk to it.

25 **Q. So with respect to this Trevy Shay wells, those**

1 **are the ones you are able to point to as being --**

2 A. No.

3 **Q. I'm sorry.**

4 A. If you go to the west half of Section 20, those
5 are the Mariner pad wells, and those are drilling right
6 now. Let's see. The east half of 19 is the Mercury
7 pad. Those are planned to be drilled within the next 20
8 to 30 days -- or spud within the next 20 to 30 days.
9 The pad up in the north -- so it would be the east half
10 of Section 18 -- is the Gravel Grinder. Those are about
11 to be spud. We're about 50/50 partners with Chevron on
12 that.

13 **Q. Where are you drilling the Trevy Shay wells?**

14 A. I'm sorry? Excuse me?

15 **Q. What formation are you targeting --**

16 A. Trevy Shay wells are targeting the Wolfcamp D,
17 the Wolfcamp X-Y and the 3rd Bone Spring and mimic the
18 initial development plan for the Zeus 1A [sic], two X-Ys
19 and one 3rd Bone.

20 **Q. So similar to BTA's initial target of the**
21 **Wolfcamp sands?**

22 A. They're not similar, no. I mean, the X-Ys, I
23 assume, are targeting the same portion of the sands.

24 **Q. Right. That's correct.**

25 **So both of them -- you're drilling the**

1 sands, and BTA's initial wells are going to be in the
2 sands?

3 A. Their two wells are going to target the sand.
4 Yes.

5 Q. What about your Mariner wells? Where are they
6 targeting?

7 A. They are targeting two X-Y wells and, looks
8 like, a 3rd Bone Spring well.

9 Q. So Wolfcamp sands?

10 A. Wolfcamp sands.

11 Q. The Mercury pad?

12 A. X-Y Formation of the Wolfcamp, looks like a D,
13 a 3rd Bone Spring. As I mentioned, the sticks are on
14 top of each other, so it's hard to see that there are
15 wells on top of each other.

16 Q. Wolfcamp sands?

17 A. There's Wolfcamp sands, 3rd Bones, Wolfcamp Ds.
18 You know, it's a developing area.

19 Q. Okay. Now, with respect to Section 29, you
20 show on there it's just proposed?

21 A. Those are the proposed locations. Yes.

22 Q. You don't have any drilling permits yet?

23 A. We are in the process of obtaining those. As
24 we said, it's only fee acreage, so we're not too
25 concerned with acquiring BLM federal permits. We can

1 get those in three to seven days upon submittal --
2 preliminary C-102s. So we are moving the process to
3 drill our pad -- our initial four-well pad as soon as
4 possible.

5 Q. So you haven't filed your APDs?

6 A. No.

7 Q. Have you gotten your surface locations
8 approved?

9 A. We have sent notice out and contacted the
10 surface owner, and we're working with the U.S.A. [sic]

11 Q. So you don't have anything in place yet?

12 A. Not currently.

13 Q. You don't have any pads staked or --

14 A. We have pads staked. We have pads built.

15 Q. Okay. Do you have any takeaway facilities
16 lined up?

17 A. We are in contracts with third party --
18 marketing. So we have all our acreage dedicated to gas
19 and crude marketing.

20 Q. Do you have any facilities lined up for the
21 west half of 29?

22 A. The facilities will tie in with the pads to the
23 west.

24 Q. But have you made those arrangements yet?

25 A. Those arrangements will be made as the

1 process -- if we are named operator, we will go down
2 that route.

3 Q. Okay. Now, one of your concerns you raised
4 about -- first off, you said Marathon just doesn't like
5 to be a nonoperator in its acreage --

6 A. Yes.

7 Q. -- is that right?

8 A. That is our preference, not to.

9 Q. Even when you're a minority interest in the
10 acreage?

11 A. When we have a substantial non-op working
12 interest with initial AP proposals, we'll lay out a line
13 of what the current costs are.

14 Q. I'm going to get to that in a minute.

15 If I'm understanding it, you said that you
16 don't like to be a nonoperator in acreage, and if I'm
17 hearing your testimony correctly, even in the
18 circumstances where you're a minority working interest
19 owner; is that right?

20 A. We can find a better deal, and then we will
21 work with the other companies within the area.

22 Q. And the other thing you mentioned you were
23 concerned about was the depth severance in your lease?

24 A. Uh-huh.

25 Q. When does your lease expire?

1 A. I believe it's January 17th, 2019 or so.

2 **Q. Have you reviewed that lease, Mr. Chase?**

3 A. I've reviewed the depth severance. If I had
4 the date a little wrong, but --

5 **Q. Not just a little wrong.**

6 **Have you reviewed the lease?**

7 A. I'm sure you'll tell me I didn't.

8 **Q. I'm sorry?**

9 A. I said, I -- not all of it.

10 MS. BRADFUTE: Looks like you're going to
11 refresh his recollection there.

12 THE WITNESS: Yeah, if you'll refresh my
13 recollection.

14 **Q. (BY MR. FELDEWERT) Have you reviewed the lease?**

15 A. I have not reviewed the lease in the past 30 or
16 40 days -- the question you asked.

17 **Q. When was the last time you looked at the lease?**

18 A. I looked at a part of the lease this morning as
19 to the depth-severance language.

20 **Q. You didn't look at the expiration date?**

21 A. If I'm wrong on the expiration date, then --

22 **Q. Why didn't you look at the expiration date?**

23 A. I probably did. Maybe I was mistaken.

24 MR. FELDEWERT: May I approach the witness?

25 EXAMINER BROOKS: You may.

1 Q. (BY MR. FELDEWERT) Is this the lease you're
2 talking about, Mr. Chase?

3 A. This appears to be the lease for the
4 320 portion.

5 Q. I'm sorry?

6 A. This appears to be the lease that is in the 320
7 for the west half.

8 Q. Okay. This is what governs your acreage
9 holdings in the -- in the west half of 29?

10 A. Correct.

11 Q. Okay. And do you see that the effective date
12 under the terms of this lease is August 24th, 2016?

13 A. Yes.

14 Q. And do you read under the second paragraph that
15 this remains in force for a term of three years from the
16 effective date for its primary term?

17 A. Yes.

18 Q. So if I did my math right, isn't it true that
19 that lease does not expire until August of 2019?

20 A. Your math is correct. It looks like it's
21 August 24th, 2019 is when the primary term is up.

22 Q. That would be, what, over 16 months from now?

23 A. 16, 14 months. That's about right.

24 MR. FELDEWERT: I would move admission into
25 evidence BTA Exhibit 18.

1 MS. BRADFUTE: No objection.

2 EXAMINER JONES: Okay. BTA Exhibit 18 is
3 admitted.

4 (BTA Oil Producers, LLC Exhibit Number 18
5 is offered and admitted into evidence.)

6 Q. (BY MR. FELDEWERT) Now, you're aware, are you
7 not, Mr. Chase, now at least, that BTA has similar
8 depth-severances clauses --

9 A. I'm aware this morning. That was not brought
10 to my attention through the presentation, so I can't
11 speak to what their similar or differences are between
12 our depth-severance issues.

13 Q. Okay. Let me make sure I finish my question
14 before you start your answer. Okay? And I'll do the
15 same thing for you. We're going to help out Mary.
16 Okay?

17 A. (Indicating.)

18 Q. Now, you mentioned that you talked to someone
19 at the BLM and that they told you it was going to take
20 eight to nine months --

21 A. No. Sorry.

22 Q. -- to make a sundry change. Is that your
23 testimony?

24 MS. BRADFUTE: Objection. I think that
25 mischaracterizes the prior testimony.

1 MR. FELDEWERT: Let's find out, because
2 that's what I heard. Maybe I heard it wrong.

3 THE WITNESS: From my understanding from my
4 regulatory department in their communications with the
5 BLM, I've been advised that permitting for BLM federal
6 permits can take six to nine months.

7 Q. **(BY MR. FELDEWERT) Okay. Permitting?**

8 A. Permitting and --

9 Q. **That's getting your APD?**

10 A. Just let me finish the answer.

11 -- as well as sundry. Now, is there -- if
12 they're incorrect, but that is their communication as
13 far as I understand.

14 Q. **Have you had any experience in getting a sundry**
15 **notice approved by the BLM with respect to an approved**
16 **application to drill?**

17 A. I have not, no.

18 Q. **You have not.**

19 Okay. So you cannot testify, Mr. Chase,
20 that it's going to take six to nine months for the BLM
21 to approve a sundry change to the permit to drill that
22 has been obtained by BTA?

23 A. I cannot personally testify to that. I can
24 only use what my other departments have told me about
25 that.

1 Q. Okay. And I don't know who -- and do you know
2 who they spoke with at the BLM?

3 A. I don't.

4 Q. Now, if I look at your Exhibit C, if I'm
5 understanding your testimony, we all agree that BTA has
6 the majority interest in the west half of 29?

7 A. Correct.

8 Q. And then it's even of greater interest when you
9 look at the northwest quarter of 32?

10 A. Initial acreage, yes.

11 Q. And I think you indicated that you feel like
12 you're being forced into a development plan that you
13 don't necessarily support?

14 A. Correct.

15 Q. And you understand, if BTA is the majority
16 interest owner, it feels the same way on the other side?

17 A. If they feel that way.

18 Q. Okay. Now, I want to talk about your timeline.
19 Okay? So let's take a look at your Exhibit F, as in
20 Frank. And at the same time, Mr. Chase, pull out BTA
21 Exhibit 5 and have both of them in front of you. Okay?

22 Mr. Chase, you weren't involved when they
23 had the discussions, initiated by BTA, back in June,
24 correct?

25 A. In June? I wasn't aware of discussions in

1 June. But no, I wasn't on board then.

2 Q. Okay. And if I look, for example, at BTA
3 Exhibit 5, and I go to the second page and I look at
4 page 2 of Exhibit 5 --

5 A. Uh-huh.

6 Q. -- do you see there is an email there from a
7 Tate Matthews?

8 A. Matt Tate?

9 Q. Yes.

10 It's dated 1/9/2018?

11 A. Correct.

12 Q. And you're aware that this is in response to a
13 well proposal that had been submitted way back in
14 October of 2017 by BTA?

15 A. I assume that's what this is referencing.

16 Q. Is Mr. Matthews [sic] still with you?

17 A. Yes, sir. Mr. Tate, Matthew Tate, yes, he is
18 still a landman at Marathon.

19 Q. Does he work under you?

20 A. No.

21 Q. Is he your supervisor?

22 A. No.

23 Q. You guys are on the same level?

24 A. Yes.

25 Q. He says here, "What is BTA's timing for this

1 well? We would like to provide our election prior to
2 BTA having to file an application for compulsory
3 pooling." Do you see that?

4 A. Correct.

5 Q. Now, this would have been three months after
6 the well had been proposed?

7 A. I'll agree with your timeline.

8 Q. You mention all these processes that a big
9 company like Marathon goes through in getting its well
10 proposals. Would that three months have been long
11 enough for you-all to go through your processes?

12 A. If we had started it.

13 Q. If you had started it?

14 A. Right.

15 Q. Okay. So let's assume you started it, and
16 looks like in January, a decision had been made to
17 provide an election prior to BTA having to file
18 compulsory pooling. Isn't that what you communicated?

19 A. I can't talk to what Mr. Tate said.

20 Q. If I then go to the next page of this exhibit,
21 now I see an email, January 9th, 2018, from you,
22 correct, middle of the page?

23 A. What page -- or sorry -- what date?

24 Q. I'm on Exhibit 5 --

25 A. Right.

1 Q. -- page 3 --

2 A. Okay.

3 Q. -- middle of the page. There's an email from a
4 Chase F. Rice -- is that you?

5 A. That's me.

6 Q. -- to Ashley Beal.

7 A. Uh-huh.

8 Q. Remember sending this email?

9 A. Probably, or I will agree that that's probably
10 a genuine [sic] email. Do I remember the exact
11 conversation or email at that time? No. Or the
12 circumstances behind it? No, of course not.

13 Q. On January 9th, you say, "Ashley, I'm now
14 handling the area. The JOA's out for review, and I hope
15 to have some feedback by the end of the week." Do you
16 see that?

17 A. Yeah.

18 Q. Did you provide any feedback by the end of the
19 week?

20 A. Probably not.

21 Q. Why?

22 A. Because we were reviewing it and our feedback
23 was to -- ended up being the competing proposal, and our
24 feedback was to cost, the significant cost differences
25 from what we did. So did I give her feedback on the

1 actual JOA? No. But the review indicated that we don't
2 need to negotiate the JOA right now, as we're not going
3 to participate with their proposal at that time.

4 Q. Okay. So you mentioned that instead of giving
5 her feedback on the JOA, you-all submitted your February
6 well proposals, right?

7 A. Correct.

8 Q. What?

9 A. Correct. Well, I mean, between that date and
10 the proposals, we had conversations. We began
11 initiating our concerns. We did not just leave them out
12 there for two or three weeks and then hit them with
13 competing proposals.

14 Q. In fact, what you initiated concerns with were
15 not the JOA but the AFE?

16 A. The cost of their plan, yes.

17 Q. Okay. And that's reflected over on page 4 of
18 this exhibit, right, F5?

19 A. Page 5?

20 Q. Yup.

21 A. Page 5. Which one?

22 Q. I'm sorry. Exhibit 5, page 4. And it shows at
23 the end of the month of January, you provided them with
24 Marathon's AFE costs for a mile-and-a-half lateral?

25 A. Uh-huh.

1 **Q. Is that right?**

2 A. We provided that at that time. We had contact
3 with them prior to that.

4 **Q. Okay.**

5 A. So --

6 **Q. But you were discussing with them the AFE?**

7 A. We discussed that we felt their costs were
8 extremely high to what we could do --

9 **Q. And you provided them --**

10 A. -- and as a courtesy, we provided them an
11 AFE -- Marathon's AFE to review.

12 **Q. A mile-and-a-half?**

13 A. For a mile -- what Marathon would drill a
14 mile-and-a-half for is to their two wells. That's why
15 we're targeting the X-Y Formation.

16 **Q. And you think Marathon's costs for a
17 mile-and-a-half well are reasonable?**

18 A. Marathon's costs are reasonable based on fact
19 and negotiations with our vendors and what we have seen
20 as far as our drill times and our activity level. But
21 that is what our AFE costs here are about and have
22 remained around that area, as far as I know.

23 **Q. Okay. So then let's go, see what happened
24 next. Let's go to your timeline --**

25 A. Okay.

1 Q. -- Exhibit F, your Exhibit F. Are you there?

2 A. Uh-huh.

3 Q. It says -- I'm about -- one, two, three -- the
4 fourth bullet point down, on 2/12/2018. Do you see
5 that?

6 A. Okay.

7 Q. "BTA sent new/revised AFEs for the Ogden 6H and
8 5H."

9 A. Uh-huh.

10 Q. And then you say or somebody says here on
11 behalf of Marathon, "More or less used Marathon's AFE
12 with small revisions."

13 A. That was our review of it.

14 Q. Yeah. So basically it was your -- sent your
15 AFE with small revisions?

16 A. I believe that occurred, but --

17 Q. I'm sorry?

18 A. I said that is our notes. Yes.

19 Q. Okay. So we're not going to debate, then,
20 whether the AFE that was sent by BTA on February 12th is
21 reasonable?

22 A. If they can achieve those costs, yes.

23 Q. Okay.

24 A. But they're not Marathon, and so we have
25 different -- different parameters and different

1 leverages with third-party vendors. So I can't speak to
2 that, that they will be able to hit those costs or not.

3 Q. Now, you've also mentioned that you had
4 concerns about their plan, right, their development
5 plan --

6 A. Uh-huh.

7 Q. -- in particular with respect to the Wolfcamp
8 D?

9 A. The Wolfcamp D, the 3rd Bone Spring, the
10 targeting of where their X-Y -- their WXYs were as far
11 as additional wells within the 320 or 480, as far as the
12 offset tract.

13 Q. Okay. And you're concerned about the depth at
14 which they have proposed a Wolfcamp D well to help save
15 both their lease issues and yours?

16 A. After we brought up the concern, they proposed
17 the Wolfcamp D to alleviate those concerns.

18 Q. So if I go to your Exhibit G -- are you there?

19 A. Yes.

20 Q. Now, this is the well-proposal letter that you
21 sent to Marathon after you had represented that you were
22 going to get some feedback on the JOA, right?

23 A. We reviewed the JOA.

24 Q. And this was sent after you had sent them your
25 AFE and got an AFE back that was similar to yours?

1 A. Yes.

2 Q. Okay. And after you had represented up until
3 now that you were going to elect to participate so they
4 wouldn't have to compulsory pool?

5 A. As you'll see at the bottom of this email,
6 everything is subject to management approval, and there
7 is no definite agreement, because they're copied on a
8 lot of these emails, but they cut and paste off that. I
9 was just --

10 Q. I'm just trying to get the timeline --

11 A. Uh-huh.

12 Q. -- for your first well proposal. Okay?

13 A. Right.

14 Q. All right. So let's look at this. I see that
15 in your well proposal here, you propose the Zeus 12H?

16 A. Yes.

17 Q. And that is a Wolfcamp X-Y, if I'm reading it
18 correctly?

19 A. Yes.

20 Q. And that would be in the sands?

21 A. That would be in Upper Wolfcamp sands.

22 Q. Okay. One well in the sands --

23 A. Uh-huh.

24 Q. -- for the west half of 20?

25 A. Yes.

1 Q. And if I go to the next bullet point, you
2 propose the 17H?

3 A. Correct.

4 Q. Again, in the Wolfcamp X-Y sands?

5 A. I believe that's the X-Y sands. Yes.

6 Q. Okay. So that would be the second well that
7 you proposed in the sands?

8 A. Yes.

9 Q. And you're aware of the fact that BTA, back in
10 October, had proposed the Ogden 5H and the Ogden 6H in
11 the west half of 29, right?

12 A. Yes.

13 Q. In the Wolfcamp sands?

14 A. They proposed in the Wolfcamp sands, not the
15 same spacing that we had proposed.

16 Q. But the same?

17 A. No. It was different, and it had made the
18 development plan a lot better to do it the Marathon way.

19 Q. You did two wells in the sands --

20 A. We did two wells in the sands. They're
21 targeting different, you know, setbacks, I guess. So
22 they're not exactly in the same spot as far as any --
23 you know, off the leaselines, is what I'm trying to say.

24 Q. Okay. Two wells in the sand proposed by you
25 now, and BTA previously proposed two wells in the sand.

1 **We can agree on that?**

2 A. In addition to the two other wells we proposed.

3 Q. Then your third well, right? This is your 16H.
4 This is your last Wolfcamp well that you proposed on the
5 19th and that you say is targeting the Wolfcamp D?

6 A. Wolfcamp D, yes.

7 Q. And that is at a depth of what, sir?

8 A. Well, in the letter it says, "10,334 TVD."

9 Q. 10,334.

10 And that is the depth to save your
11 depth-severance clause, right?

12 A. It will save the production -- productive -- it
13 will allow us to keep the Wolfcamp D Formation 100 feet
14 below that productive depth, so 10,437 [sic] is --

15 Q. So is it fair to say that on February 19, 2018,
16 the company came to the conclusion after all of its
17 processes that 10,334 total vertical depth was
18 appropriate to save the rights that you wanted to in the
19 Wolfcamp D under your leases?

20 A. Yes. That's --

21 Q. All right. Then more recently, if I then go to
22 Exhibit -- where is the more recent well proposals,
23 Mr. Chase?

24 MS. BRADFUTE: Exhibit J.

25 MR. FELDEWERT: Exhibit J?

1 MS. BRADFUTE: Yeah.

2 Q. (BY MR. FELDEWERT) Let's go to that one. Now,
3 these are not at issue here today?

4 A. These were -- these are not on the docket. No.

5 Q. And these were proposed 4/19/2018?

6 A. Yes.

7 Q. This is part of this development plan that
8 you've got on your Exhibit K --

9 A. Yes.

10 Q. -- right?

11 A. Uh-huh.

12 Q. And this -- if my days are right, you proposed
13 these last Thursday?

14 A. Yes.

15 Q. Just a couple of days before this hearing?

16 A. Yes.

17 Q. Now, you mentioned you wanted to use these,
18 likewise, to help save your lease?

19 A. Obviously, the 1D well would save the lease.

20 Q. That's what I'm thinking.

21 Let's take a look at what you've got here.
22 So the 11H, what does that one target?

23 A. Wolfcamp D.

24 Q. Wolfcamp D.

25 What's the depth there?

1 A. That has a TVD of 10,300.

2 Q. That would be the 11H, Wolfcamp D?

3 A. Uh-huh.

4 Q. What about the 14H that you proposed last
5 Thursday?

6 A. That's the Wolfcamp A, so that'll be a bit
7 lower than the X-Y sands.

8 Q. What's the next Wolfcamp D, if any, well that
9 you have on here?

10 A. The next Wolfcamp D is the 18H.

11 Q. 18H.

12 And that depth is what?

13 A. One -- 2,150 [sic] TVD.

14 Q. Any other Wolfcamp Ds on here?

15 A. Wolfcamp WD 20H, 10,100 TVD.

16 Q. And have I exhausted the Wolfcamp Ds?

17 A. That is the full development of the Wolfcamp D,
18 Lower Wolfcamp.

19 Q. Okay. So you have one that you've got at issue
20 here today, and then you've proposed three others?

21 A. Uh-huh.

22 Q. And you said your concern was that BTA's
23 proposed development of the Wolfcamp D wasn't deep
24 enough to save all the rights that you wanted to under
25 your lease. Is that what you testified?

1 A. Their initial proposals, the way we read it,
2 did not -- the first proposals, the first two wells,
3 which is the only thing they proposed, was not going to
4 hold the deep rights. They subsequently added the wells
5 after we brought up the --

6 Q. After you brought up the issue with them, if I
7 look at the timeline -- let's go back to our timeline.
8 And if we look at Exhibit 6, after you brought up the
9 issue with them about --

10 A. Your timeline?

11 Q. Uh-huh.

12 A. Page 6?

13 Q. Exhibit 6, down at the bottom.

14 A. Okay.

15 Q. After you brought up your concern about the
16 lease-severance [sic] issue, right, that you had, they
17 proposed the 7H and the 8H in the Lower Wolfcamp D?

18 A. To allev- -- to alleviate our concerns?

19 Q. Yeah.

20 A. Yeah. I assume, yeah.

21 Q. And -- and is it your opinion that their
22 proposals for the Wolfcamp D with the 7H and the 8H
23 aren't sufficient to alleviate your concerns about the
24 lease-severance clauses -- or the severance clauses in
25 your leases?

1 A. If they get down to around 10,337 feet, then I
2 think that would hold all the -- the productive deep
3 portion of the formation.

4 Q. Did you look at their well proposals that they
5 sent to you on April 10th?

6 A. I probably reviewed them, yes.

7 Q. Do you recall the depth they were proposing
8 their Wolfcamp D wells?

9 A. Not off the top of my head, no.

10 MR. FELDEWERT: May I approach the witness?

11 EXAMINER BROOKS: You may.

12 Q. (BY MR. FELDEWERT) Mr. Chase, I'm going to hand
13 you a letter dated April 10th, 2018 that was sent to
14 your attention from Ashley Beal. Okay?

15 A. Okay.

16 Q. Have you seen this before?

17 Hold on one second. I guess I better take
18 off my top secret notes.

19 A. This appears a letter, looks familiar,
20 proposing their Lower Wolfcamp well target, 10,480 TVD.

21 Q. I'm sorry?

22 A. That targets 10,480 TVD, which I believe
23 alleviates both of our issues of depth severance.

24 Q. In fact, it's lower than anything you've
25 proposed, right?

1 A. What we've proposed will hold anything --

2 Q. Look at the 8H. Look at the well proposal for
3 the 8H, Mr. Chase, the next couple of pages in. Keep
4 going, the April 10th letter. Let me get it on record.
5 April 10th letter, right?

6 A. It's a copy of the April 10th letter sent to my
7 attention proposing the Ogden 8H, TVD -- proposed TVD is
8 10,500 feet, targeting the Lower Wolfcamp productive
9 formation area.

10 Q. And if I did my math right, that's over 200 --
11 that's roughly 200 feet lower than any Wolfcamp D well
12 you've proposed?

13 A. Correct.

14 Q. Okay. Finally, Mr. Chase, I know Marathon has
15 this policy of not wanting to be a nonoperator even in a
16 circumstance where they've got a minority interest, but
17 let me ask you something. Have you examined the
18 regulations that address additional proposed wells for
19 spacing units that are subject to compulsory pooling
20 orders?

21 A. I have not -- I'm not versed in that.

22 Q. Therefore, you're not aware that nonoperators
23 can actually propose wells under the terms of the
24 pooling order to the operator named in the pooling
25 order?

1 MS. BRADFUTE: Objection. He already
2 testified he lacks knowledge.

3 EXAMINER BROOKS: Okay.

4 Q. (BY MR. FELDEWERT) Let me ask you this way:
5 Has anybody ever told you that?

6 A. Not to my knowledge.

7 Q. Has anybody ever told you that the regulations
8 would allow for nonoperators to then not only propose
9 infill wells, but then if a nonoperator didn't agree to
10 drill it, they could get authorization to drill
11 themselves? Nobody ever told you that?

12 A. So if a nonoperator proposes, the operator
13 cannot elect to participate?

14 MS. BRADFUTE: Yeah. I'm going to object
15 on the line of questioning because he already testified
16 he doesn't have knowledge.

17 EXAMINER BROOKS: Well, he's asking an
18 incomplete question because there is more to the rule
19 than that. So I'll sustain the objection.

20 Q. (BY MR. FELDEWERT) Okay. So nobody's ever
21 discussed with you the options available to nonoperators
22 under the Division's regulations for pooled spacing
23 units?

24 A. No.

25 Q. Okay. That's all the questions I have.

1 EXAMINER JONES: Mr. Brooks?

2 EXAMINER BROOKS: Yeah, I have questions.

3 CROSS-EXAMINATION

4 BY EXAMINER BROOKS:

5 Q. This case is very confusing because there are
6 so many wells, among other things.

7 You said Marathon proposed ten wells, four
8 initially, right?

9 A. Yes, sir.

10 Q. Okay. I'm going to try to get over here and
11 get these tallied so I know what we're talking about.

12 Now, what are the four wells that Marathon
13 proposed in the initial phase?

14 A. The four wells were -- I forget the names, but
15 two Wolfcamp X-Y horizontals, one Wolfcamp D well and a
16 3rd Bone Spring well. If you would like the names,
17 the --

18 Q. I need to get the names because I'm not going
19 to be able to keep them straight unless I have the
20 names, so if you've got --

21 A. Okay. It's the Zeus Fee 12H.

22 Q. Zeus 12H.

23 A. Zeus 12H targeting the X-Y sands, Wolfcamp X-Y
24 sands.

25 Q. Wolfcamp X-Y. Okay.

1 A. The Zeus 16H targeting the Wolfcamp D portion
2 of the Wolfcamp.

3 **Q. Wolfcamp B?**

4 A. Wolfcamp D.

5 **Q. As in bravo?**

6 A. Delta.

7 **Q. That's the Wolfcamp D?**

8 A. Yes, sir.

9 **Q. Okay. Go ahead.**

10 A. Then the Zeus 17H targeting the Wolfcamp X-Y,
11 and the fourth one was the Zeus 15H targeting the 3rd
12 Bone Spring.

13 **Q. Zeus 15H?**

14 A. Yes, sir.

15 **Q. And that was targeting the 3rd Bone Spring?**

16 A. Yes, sir.

17 MS. BRADFUTE: And, David, we will have an
18 exhibit that depicts all of Marathon's wells and where
19 they're located so you can --

20 EXAMINER BROOKS: Okay.

21 **Q. (BY EXAMINER BROOKS) But all of these wells are**
22 **going to be -- all these wells proposed by Marathon are**
23 **going to be one-mile horizontals in the north -- in the**
24 **west half of Section 29?**

25 A. Yes, sir.

1 Q. Okay. And the Wolfcamp D well, the #16H, was
2 the one that, in your opinion, would hold the lease in
3 force?

4 A. It would hold the amount of Lower Wolfcamp to
5 fully develop the Lower Wolfcamp.

6 Q. And that's under the terms of Marathon
7 Exhibit -- of BTA Exhibit 15 that was introduced during
8 Mr. Feldewert's cross-examination?

9 A. Exhibit 15?

10 Q. Well, 15 is not in the book. It's --

11 MR. FELDEWERT: It should be Exhibit 18.

12 EXAMINER BROOKS: 18. I'm sorry. 18.

13 Q. (BY EXAMINER BROOKS) That would be in
14 accordance with the terms of the lease that is Exhibit
15 18?

16 A. Yes. That would hold enough -- a sufficient
17 amount of the Lower Wolfcamp to fully develop the --

18 Q. Okay. Now, which tracts on the map -- on the
19 plats that have put in evidence by both parties, which
20 tracts does this lease cover?

21 A. This -- on -- Marathon submitted ownership
22 tract map or lease tract map. It would be Tract Number
23 3, which is a blue color.

24 MS. BRADFUTE: That's in Exhibit C, as in
25 cat.

1 Q. (BY EXAMINER BROOKS) Okay. So it's Tract 3 on
2 Marathon's Exhibit C, which it looks like it's probably
3 the same as Tract 5 -- no -- Tract 5, yes, Tract 5 on
4 BTA's map, which is the south half-south half of the --
5 no -- the south half of the south half -- I'm sorry --
6 well, it's the three tracts in the southwest quarter of
7 Section 29, three quarter-quarters in the southwest
8 quarter of Section 29. Okay.

9 Now, what are the other wells that Marathon
10 has proposed up to now?

11 A. To date, Marathon has proposed six additional
12 wells as to the four wells proposed. Those wells are
13 the Zeus Fee 11H --

14 Q. 11H.

15 A. -- targeting to the Wolfcamp D.

16 Q. Wolfcamp D --

17 A. Yes, sir.

18 Q. -- as in dog?

19 A. As in dog.

20 The Zeus Fee 14H.

21 Q. 14H.

22 A. That'll be targeting the Wolfcamp A.

23 Q. Wolfcamp A.

24 A. The Zeus 18H targeting the Wolfcamp D.

25 Q. Wolfcamp C?

1 A. Wolfcamp D, as in delta.

2 Q. Okay.

3 A. The Zeus 20H targeting the Wolfcamp D, delta.

4 Q. Okay.

5 A. And then the Zeus 13H targeting the 2nd Bone
6 Spring.

7 Q. Okay.

8 A. And then the Zeus 19H targeting the 2nd Bone
9 Spring.

10 Q. That was 11, 14, 18 and 20 all in the Wolfcamp,
11 and the 13 and the 19 in the Bone Spring?

12 A. Yes, sir.

13 Q. Okay. And they're all called Zeus?

14 A. Yes, sir.

15 Q. Okay. Now I've got the wells straightened out.

16 Let's see what else.

17 All right. Your exhibit -- I know from
18 having prepared exhibits last week that it's easy to do
19 this, but your Exhibit -- this one (indicating) -- now,
20 this is 6 in the notebook. No. Which one in your
21 notebook indicates the big map?

22 MS. BRADFUTE: K.

23 EXAMINER BROOKS: K. Okay.

24 Q. (BY EXAMINER BROOKS) Now, if you look at where
25 your wells are placed, those well symbols indicate

1 you've got a rig running -- or you've got a rig in
2 location and that it's either drilling or preparing to
3 drill; is that correct?

4 A. Yes, sir.

5 Q. Now, that rig symbol that's right at the top --
6 or the north end of Section 20 -- well, no. That --
7 that --

8 A. P 23 [sic]?

9 Q. Yeah. It's at the top of Section 29, at the
10 north end of Section 29. Is that actually in Section
11 29, or is that in Section 20?

12 A. That's drilling in the west half of Section 20
13 south to north.

14 Q. So you have not begun any drilling in the
15 subject part?

16 A. No, sir.

17 Q. Now, if we're going to have to continue this to
18 May 17, it looks like BTA, even if they win, is not
19 going to be able to get their drilling rig in there by
20 June very likely?

21 A. If the June 8th is a hard date, then probably
22 not.

23 Q. That's what I was thinking, and that gave me
24 some concern. However, I don't see that the examiner
25 has a lot of choice on that if you have -- if notice

1 hasn't gone out to everybody on the wells that are in
2 this proceeding.

3 So which well incidentally -- we're talking
4 about some wells that did not get into this proceeding,
5 that we talked about before we started the testimony.
6 Do you have a clear idea of which ones are actually the
7 subject of this proceeding?

8 A. The three Wolfcamp wells that are the subject.
9 Yes.

10 Q. Which are they?

11 A. The first three wells that we talked about
12 targeting the Wolfcamp.

13 Q. The 12, 16 and 17?

14 A. Yes, sir.

15 Q. And the 15H is brought in because it might
16 affect the Wolfcamp even though --

17 A. Right, targeting in the 3rd Bone Spring. And
18 we feel it's prudent to drill them at the same time as
19 the Wolfcamp X-Y.

20 Q. Okay. I think that's all I have here.

21 EXAMINER JONES: If you think of something
22 else, let me know.

23 EXAMINER BROOKS: Okay. Well, I -- no, I
24 don't want to ask you about that.

25 EXAMINER JONES: He leaves the stupid

1 questions to me.

2 EXAMINER BROOKS: If he answered all my
3 stupid questions, he can answer yours, too.

4 CROSS-EXAMINATION

5 BY EXAMINER JONES:

6 Q. BTA listed their Tract 1 and Tract 2. It looks
7 like you included both of those together as one tract.

8 A. Theirs is a lease tract. I styled mine as a
9 lease tract, but it's really an ownership tract. They
10 have 100 percent of those tracts, so that's how I
11 stylized it. It's essentially close to the same thing,
12 but it isn't.

13 Q. Okay. And the lease that's in question about
14 the depth severance, can you explain -- is that
15 somewhere in this lease?

16 A. Yes, sir. It's on Exhibit A of the lease,
17 paragraph 14, approximately midway through the
18 paragraph.

19 Q. This must have been written by an attorney.
20 It's really long. Oh, here it is. I see it.

21 A. Kind of where it says "100 feet," a little
22 bit -- a couple of lines back and down.

23 Q. Okay. It was mentioned earlier that
24 continuous -- after continuous drilling is finished. Is
25 that what you interpret this lease to say, too?

1 A. The rights could be held by continuous
2 development. But our concern is that we are not the
3 operator, so we do not dictate that -- that development.
4 At the time that this was brought up, you know, they
5 never indicated they had depth issues, so the additional
6 concern was that we had no real way to protect those
7 rights that were sufficient use of Marathon's capital to
8 do that. Drilling one well is a waste of -- when you
9 can target multiple formations, you know, it's a waste
10 of space, a waste of time. And that's why we proposed a
11 development plan that would, you know, cover all these
12 issues.

13 **Q. Okay. But you could propose -- if that did**
14 **expire down below, somebody could pick that up, maybe**
15 **propose it as a lease to that fee owner and -- pick it**
16 **up and participate in the wells or --**

17 A. Correct. If the -- if the depth expired by the
18 lease terms, either the 100 feet below or continuous
19 development did not occur, the rights 100 feet below the
20 deepest producing formation would be open for lease,
21 although I'm not 100 percent sure how a Purple Sage
22 pooled order would affect something after the fact, but
23 they would probably become unleased and need to be
24 pooled again or let that person participate.

25 **Q. It would have to be one or the other, I**

1 suppose. I can talk to the attorneys about that.

2 But your proposed -- it looks like what you
3 proposed as the place where Marathon had an issue with
4 the depth severance was a different spot in tract -- in
5 that same southeast of the northwest? Is that correct,
6 or am I just --

7 A. The lease that has the depth severance is this
8 blue --

9 Q. That whole thing?

10 A. That whole thing. A Wolfcamp D drilled within
11 that 320 would hold the depths -- all the depths.

12 Q. Okay. So your depth-severance issues are not
13 in the exact same -- their Tract 4 is totally different
14 than your depth severance in your -- that blue?

15 A. They're not same exactly.

16 Q. Okay. Gotcha.

17 And did anybody talk to BTA about east-west
18 drilling, and was there -- was there -- we didn't talk
19 to the witnesses today about that, but are --

20 A. I recall mentioning that to Mr. Price when he
21 came to my office when he was down in Houston for a
22 wedding. Essentially, their development plan is
23 mile-and-a-half, and that doesn't fit their economic
24 plan. It was -- it was a very quick exchange on that
25 subject.

1 Q. Okay. And just to cross all the Ts here,
2 you're not naming these mineral interest owners as
3 potential pooled parties in this case that -- you don't
4 get that portion of the spacing unit included by the
5 drilling. In other words, it looks like no matter what
6 happens here, some portion of the spacing unit is going
7 to be -- revert back to some other owner, but you're
8 not -- neither side here is listing that fee or that --
9 those fee owners as potential pooled parties --

10 A. Yes.

11 Q. -- unless they're part of these overrides that
12 we're talking about.

13 A. I guess today there is no unleased mineral
14 interest to pool.

15 Q. Today there is not?

16 A. Today there is not. But I guess we don't know.

17 Q. You don't know --

18 A. -- until it happens if it -- will become
19 unleased below the Wolfcamp at some time.

20 Q. You would have to come back to hearing, do that
21 again, like we see a lot of these come back to hearing.

22 MS. BRADFUTE: But, Will, since we have
23 asked to continue to publish notice, there is plenty of
24 time also to get a certified mailing form out before May
25 17th, because it's the 24th of April right now.

1 EXAMINER JONES: Okay.

2 Q. (BY EXAMINER JONES) And you testified before,
3 to the best of your ability, you identified the
4 overrides and provided them notice. Did you mean that
5 there's possible -- did you get a title opinion?

6 A. We have title opinions and used that as our
7 basis -- as to our 320. Their notice would be a little
8 bit different because they're including more acreage.

9 Q. Yeah. But you were hedging your bets.

10 A. I believe we had two returned, undeliverable,
11 which we'll deal with the notifications letter -- or the
12 newspaper ad.

13 Q. And two of your notices went out to surrounding
14 parties because this is a compulsory pooling case?

15 A. As part of the compulsory pooling, you know, we
16 notified the offsetting interest owners.

17 MS. BRADFUTE: In this case we did
18 overnotify the offsets because we had to notify the
19 offsets for the Bone Spring application. So we
20 provided -- it was easier to send everybody one mailing
21 with both applications, and we erred on the side of
22 overnotifying. We didn't see any issues with that.

23 EXAMINER JONES: Okay.

24 EXAMINER BROOKS: Somebody asked me that
25 question recently, did you have to send separate notice

1 for every application if you filed simultaneously. I
2 said no.

3 MS. BRADFUTE: As long as you contract
4 them, right?

5 EXAMINER BROOKS: Yes. I hope not.

6 EXAMINER JONES: But all potential pool
7 parties have been located; it's just you don't have a
8 green card back?

9 MS. BRADFUTE: Yeah. We don't have a green
10 card back on two or three.

11 EXAMINER JONES: And you didn't publish
12 newspaper notice? That was just --

13 MS. BRADFUTE: That was my error. I just
14 didn't get the publication in in enough time to run it.

15 EXAMINER JONES: But you won't need to if
16 you get the green cards back?

17 MS. BRADFUTE: That's right. If we get the
18 green cards back, we won't need to, but we'll probably
19 go ahead and do it out of caution.

20 EXAMINER JONES: Okay. I don't know if
21 you've got time for that now.

22 We've got 30 days for that, right, David?

23 EXAMINER BROOKS: For what?

24 EXAMINER JONES: For the newspaper notice.

25 MS. BRADFUTE: No. It's ten.

1 EXAMINER BROOKS: Ten business days before
2 the hearing for adjudicatory, 30 days for a rulemaking.

3 EXAMINER JONES: Oh, if somebody else had
4 to be identified and noticed, it would be 30 days.

5 I'm sorry about this. I just have to get
6 this straight.

7 Q. (BY EXAMINER JONES) And no NSLs for these three
8 wells; is that correct?

9 A. No, sir.

10 Q. Okay. I think I've asked all the usual
11 questions, but --

12 Is it correct to say that you're satisfied
13 now with the depth proposed by BTA's Wolfcamp well?

14 A. Their deep well --

15 Q. Their deepest well.

16 A. -- will satisfy the depth issues as to us and
17 to them -- I mean, I don't know their lease depth
18 exactly, which I assume they did that to make sure that
19 was all captured.

20 Q. Okay. Now, as far as drilling that deeper
21 well -- I guess I can save the question for the
22 technical witnesses. But it's real expensive to drill a
23 deep well just to hold something that you could
24 potentially -- unless you really are going to pay out
25 that well. Is that well --

1 A. The Wolfcamp D has been drilled a lot in the
2 area, and it is a very prospective formation, and we
3 very much want to drill it up.

4 Q. Okay.

5 A. It's not just to hold the acreage.

6 Q. That's all I have. Thank you.

7 EXAMINER JONES: Redirect?

8 EXAMINER BROOKS: I have follow-up on your
9 questions.

10 EXAMINER JONES: Go ahead.

11 RE CROSS EXAMINATION

12 BY EXAMINER BROOKS:

13 Q. Mr. Jones asked some questions, if I understood
14 him correctly, concerning some of the lessors falling
15 out because the lease expired during the term of the --
16 or I'm not sure whether he was talking about partial
17 expiration of the lease because of where the well was
18 located. But I would assume these leases probably do
19 have pooling clauses, but I have not, of course, read
20 them, not even this one, because as Mr. Jones observed,
21 it's rather long --

22 A. It has a pooling provision.

23 Q. -- not that it's any different from most leases
24 in that respect. But do all of your fee leases have
25 pooling clauses?

1 A. All of Marathon's fee leases have pooling
2 clauses.

3 Q. All Marathon's leases are fee leases?

4 A. Yes, sir.

5 Q. The only federal lease is on the acreage in
6 Section 32, right?

7 A. Yes, sir. There is a BLM -- BLM lease and a
8 state lease in that northwest quarter section of 32.

9 Q. Okay. So they all have pooling clauses?

10 A. I have not reviewed them, but I assume they do.

11 Q. So it's not necessary to notify them for
12 purposes of where the well is located because if a
13 compulsory pooling order is issued, you don't have to
14 notify somebody who's got -- who is brought in by a
15 pooling clause? You don't have to notify the mineral
16 owner who is subject -- whose interest is subject to a
17 pooling clause, correct?

18 A. Correct.

19 Q. Okay. But now if there is a partial lease
20 expiration, a compulsory pooling order doesn't help for
21 that because even if the lessor is subject to the -- to
22 a compulsory pooling order. The lease expires when it
23 expires, right?

24 A. Correct.

25 Q. And the compulsory pooling order does not

1 continue in force as to that interest in the -- of the
2 lessor even if he was joined in the proceeding?

3 A. Correct.

4 Q. Okay. That's my understanding, although I'm
5 not sure about that last part. I'll have to be sure,
6 but I would be wary of it.

7 EXAMINER JONES: To be clear, my concern
8 was from the -- from the 100 feet down all the way to
9 the -- down to the Pennsylvanian.

10 EXAMINER BROOKS: Yeah.

11 EXAMINER JONES: That portion of the
12 spacing unit will eventually expire within this --
13 within these acreages.

14 EXAMINER BROOKS: Yeah. Well, I thought
15 that might have been what you were concerned about, and
16 I was trying to clarify it. But then I realized at the
17 last minute that I don't really know if a lessor's
18 residuary interest is -- is brought into a pooled unit
19 by a pooling order or not. I don't think that the
20 statute speaks to that, and I have not read a case -- I
21 can't recall having read a case that does. So it's kind
22 of unfair of me to ask a landman that question when I'm
23 not sure I know the answer to it myself.

24 I'm very suspicious of any idea -- of
25 anything that carries back to the mineral owner -- lease

1 expires. The lease interest is usually -- lease
2 expiration wipes out most things, if not everything.

3 Thank you.

4 MR. FELDEWERT: Mr. Brooks, I would like to
5 point out a couple of things. Exhibit 18 --

6 EXAMINER BROOKS: Yes.

7 MR. FELDEWERT: -- if you look at paragraph
8 five, there is a pooling clause in there.

9 EXAMINER BROOKS: Okay. Yes. Well, he
10 testified with respect to a pooling clause. Okay.
11 Thank you.

12 MR. FELDEWERT: And, secondly, I guess I
13 want to -- you know, in the interest of BTA wanted to
14 move development forward as to what they proposed back
15 in October, I am not aware of any precedent by the
16 Division indicating, for example, that a lessor who is
17 subject to a pooling clause in a lease is somehow not
18 brought into the pooled spacing unit simply because
19 there's a contingency in there that perhaps will come to
20 trigger and part of the lease will fall out of that --
21 of that lease. That acreage is still subject to the
22 pooling order pursuant to the pooling authority granted
23 under the lease. That's how --

24 EXAMINER BROOKS: That's quite likely true.

25 MR. FELDEWERT: That's the way it's always

1 been.

2 EXAMINER BROOKS: I realized after I asked
3 him that question that I don't know the answer myself,
4 so it's unfair for me to raise that when I don't know
5 the answer to it.

6 MS. BRADFUTE: Mr. Brooks, my one caveat to
7 that would be any party who has an interest that's being
8 pooled probably needs to be notified of this proceeding.

9 EXAMINER BROOKS: Well, if you have a
10 lessor who does not have a pooling clause, notification
11 is required by terms of the statute.

12 MS. BRADFUTE: Uh-huh.

13 EXAMINER BROOKS: But it's not if there is
14 a pooling clause that covers the proposed -- pooling.
15 Now, the way pooling has changed with horizontal wells,
16 that's a question in every case. We do not review oil
17 and gas leases. People don't offer them as a rule, so
18 the Division has not been called to rule upon that.

19 MS. BRADFUTE: I just have a couple of
20 short questions for redirect.

21 REDIRECT EXAMINATION

22 BY MS. BRADFUTE:

23 **Q. Mr. Chase, there were several questions both by**
24 **Mr. Feldewert and by Mr. Brooks about the Marathon wells**
25 **that are at issue in the application today.**

1 I want to briefly focus on which wells are
2 at issue in Case Number 16024, the application by BTA.
3 What are the wells at issue in that application?

4 A. The two wells at issue are the Ogden 5H and the
5 6H.

6 Q. Okay. And the Ogden 5H well is going to be
7 drilled into the Wolfcamp Sand?

8 A. Correct.

9 Q. Wolfcamp Y -- X-Y?

10 A. What Marathon calls the X-Y Sand, Upper
11 Wolfcamp.

12 Q. And the 6H well is also going to be drilled in
13 that exact same subpart of the Wolfcamp Formation?

14 A. Correct.

15 Q. So there is no application in front of the
16 Division today that's filed by BTA involving a Wolfcamp
17 D well?

18 A. Correct.

19 Q. And the Division can't issue any sort of order
20 based on the hearing today which would govern the way
21 that the BTA Wolfcamp well is drilled?

22 A. Correct.

23 MS. BRADFUTE: That concludes my
24 questioning.

25 EXAMINER JONES: Okay. Is that it for this

1 witness?

2 Let's take a ten-minute break.

3 (Recess, 3:25 p.m. to 3:44 p.m.)

4 EXAMINER JONES: Let's go back on the
5 record in Case Number 16076.

6 MS. BRADFUTE: Mr. Examiner, I'd like to
7 proceed and call my second witness.

8 TUCKER KEREN,
9 after having been previously sworn under oath, was
10 questioned and testified as follows:

11 DIRECT EXAMINATION

12 BY MS. BRADFUTE:

13 Q. Could you please state your name for the
14 record?

15 A. Tucker Keren.

16 Q. Mr. Keren, who do you work for?

17 A. Marathon Oil Company.

18 Q. What are your responsibilities at Marathon?

19 A. I'm a geologist. My responsibilities are for
20 properties in Eddy County, New Mexico.

21 Q. Have you testified before the Division before?

22 A. Yes.

23 Q. Were your credentials accepted and made a part
24 of the record?

25 A. Yes.

1 Q. And are you familiar with the application filed
2 in Case Number 16076?

3 A. Yes.

4 Q. And are you familiar with the application filed
5 by BTA in Case Number 16024?

6 A. Yes.

7 Q. Are you familiar with the status of the lands
8 which are the subject matter of these applications?

9 A. Yes.

10 Q. And are you familiar with the drilling plans
11 for the proposed wells?

12 A. Yes.

13 Q. Have you conducted a geologic study of the area
14 embracing the proposed spacing unit for the wells?

15 A. I have.

16 MS. BRADFUTE: I'd like to tender Mr. Keren
17 as an expert witness in petroleum geology matters.

18 MR. FELDEWERT: No objection.

19 EXAMINER JONES: He is so qualified.

20 Q. (BY MS. BRADFUTE) Mr. Keren, could you please
21 look at Exhibit K, which is both in the exhibit packet
22 in front of you for Marathon's exhibits and also shown
23 as a blown-up map in front of the Examiners and myself?
24 And Mr. Rice previously testified that this exhibit
25 depicts the wells in the area surrounding Sections 29

1 **and 32; is that correct?**

2 A. Correct.

3 **Q. Are you familiar with Marathon's drilling**
4 **operations for the Marathon wells depicted on this map?**

5 A. Yes. I planned all those wells, and I'm
6 currently overseeing the drilling operations.

7 **Q. Could you provide the Examiners a brief summary**
8 **of Marathon's drilling operations and activity within**
9 **this depicted area?**

10 A. Sure. So I'll try to go chronologically and
11 start in Section 30 immediately west of the project area
12 that we're discussing today.

13 You see there are five wells that are
14 drilled with the unit name "Hermes" on them. Those five
15 wells have been drilled by Marathon Oil in formations
16 that we're been talking about today. Those wells are
17 currently sitting uncompleted as we speak today. So
18 they're drilled and uncompleted, and we plan to complete
19 those wells later this year.

20 The wells that are all to the north of
21 there that are dashed are wells that are on pads that we
22 are currently drilling as we speak today. So we have,
23 as we speak today, 17 wells that are on pads that are
24 occupied by four drill rigs that Marathon has already
25 committed to drilling and is in the process of drilling

1 right now.

2 Q. Okay. And looking at this exhibit, it appears
3 that there are approximately 20 or so wells that
4 Marathon has either drilled or is in the process of
5 drilling within this area; is that correct?

6 A. Yes. We've actually committed to 22 wells,
7 including both the ones that are drilling and the ones
8 that have been drilled and are drilled and uncompleted.
9 In this map alone, we've committed to 22 wells.

10 Q. Okay. And this looks like it's
11 approximately kind of -- looking at Sections 30, 29, 20,
12 19 and 18 up above, it's about a two-mile radius?

13 A. Yes.

14 Q. Okay. And in the offsetting sections for the
15 Hermes wells and the wells in Section 19, the wells in
16 the west half of Section 20 and the wells in the north,
17 in Section 18, do these wells just depict Marathon's
18 first stage of development in these areas?

19 A. Yes, they do. And that's a theme I'll be
20 talking about as we go through our exhibits. But all of
21 these rigs, including the Hermes wells that have already
22 been drilled, are developing Marathon's first stage of
23 development in both the Bone Spring and Wolfcamp
24 Formations.

25 Q. Does Marathon have plans within the next

1 year-and-a-half, two years to come back in and infill
2 these sections with a second stage of development which
3 looks very similar to the west half of Section 29?

4 A. Yes.

5 Q. Okay. So Marathon's made a substantial
6 commitment to, you might say, mine the area within this
7 two-mile radius in order to fully develop the reserves?

8 A. Yes.

9 Q. What is the targeted formation for the wells at
10 issue in Marathon's application in Case 16076?

11 A. These wells are in the Wolfcamp Formation.

12 Q. Okay. And could you please turn to what's been
13 marked as Exhibit M, as in Michael, in Marathon's
14 exhibit packet in front of you? And could you please
15 explain what this exhibit depicts to the hearing
16 examiners?

17 A. This is a structure map on the top of the
18 Wolfcamp Formation using subsea depths. And we've also
19 shown on this map Marathon's acreage and dashed the
20 project area that we're speaking about today. Within
21 that project area, I have dashed lines indicating where
22 we plan to drill Wolfcamp wells, as well as where all
23 the surrounding Wolfcamp horizontal-producing wells are
24 in this area. You can see the structural contours are
25 approximately oriented north-south. The downdip

1 direction would be down to the east as the colors get
2 warmer. And so Marathon is proposing to drill along --
3 approximately along strike in a north-south orientation.

4 **Q. And, Mr. Keren, are there any faults or**
5 **geologic impediments within the west half of Section 29**
6 **and also within the northwest quarter of Section 32?**

7 A. Based on my geologic study, Marathon is aware
8 of some small faults in this area that do displace the
9 Wolfcamp Formation and parts of the Bone Spring
10 Formation as well. This is partly due to our knowledge
11 from the wells that we've already drilled in the area --
12 that would be the Hermes wells immediately west in
13 Section 30 -- as well as the 3D seismic coverage that we
14 have over this area that we can use to map out the
15 structure in a lot higher resolution. Even if you look
16 at this structure map, you can see some inflections in
17 your contours that may be related to the fault system
18 that we see in this area. Now, I don't think that these
19 faults are resulting in any pinch-outs of the formations
20 that we're targeting, and they're not going to be an
21 impediment to horizontal drilling.

22 **Q. And, Mr. Keren, has Marathon seen similar**
23 **faulting in the surrounding acreage that it has**
24 **developed?**

25 A. Yes, we have.

1 Q. Okay. And has Marathon successfully been able
2 to drill the Hermes wells in the offsetting acreage even
3 though faulting existed there?

4 A. Yes, we have, and primarily due to our ability
5 to use 3D seismic to practically geosteering our wells.

6 Q. And has Marathon found that it's very important
7 to have 3D seismic information before drilling in this
8 area in order to adequately drill horizontal wells?

9 A. In our opinion, in order to stay in the zone
10 that you're targeting in this area, it's critical to
11 have the 3D seismic.

12 Q. What are some potential things that could go
13 wrong if a company doesn't have that information while
14 they're seeking to horizontally drill within this area
15 that has faulting?

16 A. They might be thrown in or out of the section
17 that they are planning to drill, which could lead to
18 potentially even commingle pools, as we are drilling
19 closer to the boundary between Bone Spring and Wolfcamp.

20 Q. Okay. And on your structure map, have you also
21 identified other Wolfcamp wells, and how are those
22 denoted on your map?

23 A. Those are denoted as a slightly bolder, thicker
24 line and a larger surface-hole location with a red
25 outline and a large dot -- large black dot.

1 Q. Okay. And did you prepare cross-section logs
2 to determine the relative thickness and porosity of the
3 Wolfcamp Formation in the area?

4 A. I did. And that's noted on this map as A to A
5 prime. There is a yellow cross-section line that
6 indicates the cross section I'll show you next, and I've
7 also labeled the well names.

8 Q. And if you turn the page within the same
9 exhibit, is this the cross section that you were
10 referencing?

11 A. This is.

12 Q. And could you please walk the hearing examiners
13 through this exhibit?

14 A. Sure. These are the three wells that I've
15 chosen for my cross section that go approximately from
16 the northwest down to the southeast. The well in the
17 middle sits in the west half of Section 29. So I'm
18 using that as my primary type log to identify our
19 targets for the wells -- the horizontal wells that we're
20 drilling in this area.

21 If you look at the tracts on the logs,
22 going from left to right, we have the gamma ray in the
23 middle. We have the depth in TVD. Next to that is your
24 resistivity logs, and next to that is your porosity
25 logs. And I'm showing the whole Wolfcamp Formation

1 here. So this is going all the way from the top of the
2 Wolfcamp down to what Marathon considers the base of the
3 Wolfcamp D. And what I'm also notating is where we
4 would be -- just cartooning here, where we would be
5 landing our horizontal wells, and I've included the well
6 numbers on there so you can use those for reference.

7 The final thing that I've noted on here is
8 a little -- a little note here that says, "Open-hole
9 wireline from kickoff point to casing." So in our deep
10 Wolfcamp D 16H well, we plan to actually do a series of
11 wireline logging to get porosity logs over some of the
12 Upper Wolfcamp. So if you look on this log, our
13 porosity logs in the middle don't actually start until
14 what we call the Wolfcamp B. Everything above that, we
15 don't have porosity logs. We have an unreliable
16 resistivity log. So we need to get a modern-day log
17 over that to really understand how to appropriately
18 develop it, and that's part of our plan.

19 **Q. Okay. And on this cross section, have you**
20 **identified the targeted interval for each of the**
21 **Wolfcamp wells that Marathon has proposed?**

22 A. Yes, I have.

23 **Q. And could you please identify first the**
24 **targeted interval for the 12H, the 16H and the 17H,**
25 **which are the wells that are the subject matter of Case**

1 **Number 16076?**

2 A. Both the 12H and the 17H are targeted in
3 Marathon's Wolfcamp Y Sand, as we would call it, and the
4 16H is in the Wolfcamp D. We more specifically notate
5 that as the Wolfcamp D2 member.

6 Q. And I apologize. Did you also explain the --
7 yeah, you did, for the 17H.

8 Can you please identify the targeted
9 intervals for Marathon's second stage of development,
10 the remainder of the Wolfcamp wells that are depicted on
11 this cross section?

12 A. So in the second stage of development, after we
13 collect open-hole logs through the Upper Wolfcamp, we
14 will drill one infill well, depending on that data in
15 the Wolfcamp A. When I say depending on that data,
16 where we would actually land that well, choosing an
17 optimal target based on the data. We would also drill
18 three more wells in the Wolfcamp D. That would be our
19 20H, 18H and 11H. Two of those would be slightly
20 shallower in that deeper Wolfcamp section. Marathon
21 calls that the Wolfcamp C2. Across industry, it's
22 pretty commonly considered a part of the Wolfcamp D.
23 The 11H would be the same target as the 16H.

24 Q. And do you consider the wells that you've
25 included within your cross section to be representative

1 of the Wolfcamp Formation for the area surrounding the
2 proposed spacing unit?

3 A. Yes.

4 Q. And can you please turn to the third page of
5 this exhibit and identify what this document is for the
6 hearing examiners and explain this document?

7 A. So this is my Wolfcamp isopach map. So I'm
8 mapping here the thickness of what Marathon considers
9 the full producible Wolfcamp section. So you can
10 consider it basically the thickness of all of the rock I
11 showed you on the previous cross section. And as you
12 can see, it's thickening to the south here, going from
13 the contour of about 1,400 just north of our project
14 area and increasing to about 1,500 down into Section 32,
15 so the south of our project area. And within the
16 project area, we sit somewhere in that thickness for the
17 whole Wolfcamp of 1,400 to 1,500 feet.

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

21 A. That we can expect approximately equal
22 contribution across the whole length of the lateral and
23 that we shouldn't expect any impediments to horizontal
24 drilling given -- given the geology that I've seen here.

25 Q. And in your opinion, will Marathon's

1 development plan effectively drain the proposed
2 proration unit?

3 A. Yes.

4 Q. Would you please turn to what has been marked
5 as Exhibit N? And I realize that we're not presenting
6 the Bone Spring case today for pooling, but I want to go
7 ahead and walk through the geology to help give the
8 Examiners some inclination of why development on the 3rd
9 Bone Spring is important. Could you please explain what
10 this document is to the hearing examiners?

11 A. So this structure map is now on the top of the
12 3rd Bone Spring Sand, so we've moved up in the
13 stratigraphic section a little bit. And, once again,
14 I'm mapping the structure in subsea depths, and I've
15 shown Marathon's acreage and where the project area is
16 and also where our proposed 3rd Bone Spring Sand well
17 is. And that's the little dashed well in the project
18 area.

19 You can see structural contours are
20 oriented approximately north-south, but, once again,
21 there are some small inflections in those contours that
22 we believe are real data points. We confirmed that
23 based on the drilling that we've done in Section 30
24 immediately to the west. And, once again, we think that
25 those are controlled by the small displacement faults in

1 the area.

2 Q. So Marathon also sees small displacement faults
3 in the Bone Spring -- in the 3rd Bone Spring Sand within
4 the west half of Section 29?

5 A. Yes.

6 Q. And does Marathon believe that it can
7 successfully drill a 3rd Bone Spring Sand well within
8 the west half of Section 29?

9 A. Yes.

10 Q. And is it important for an operator to have
11 significant data concerning the underlying formation,
12 whether it be seismic or other well data, before it
13 attempts to drill a 3rd Bone Spring well within the
14 area?

15 A. Yes, as well as offset operations data from the
16 two wells we've already drilled and the four that we're
17 currently drilling right now.

18 Q. And did you prepare a cross section of logs to
19 determine the relative thickness and porosity of the 3rd
20 Bone Spring Sand within this area?

21 A. Yes, also noted as A to A prime on this map
22 using the same three wells that we've looked over.

23 Q. And I'm going to skip over the next page, which
24 is a structure map of the 3rd Bone Spring, and go to the
25 third page of this exhibit. Is this a cross section

1 **that you have prepared?**

2 A. This is, yes.

3 **Q. Okay. And could you please explain this cross**
4 **section to the hearing examiner?**

5 A. So this cross section is very similar in format
6 to the one I previously showed for the Wolfcamp
7 Formation, except now we are looking just above the
8 Wolfcamp Formation at the 2nd Bone Spring Sand, the 3rd
9 Bone Spring Carbonate and then the 3rd Bone Spring Sand.
10 And this is hung on the Wolfcamp Formation top.

11 So I'm showing the same logs here as well,
12 and you can see, once again, on that log in the middle,
13 the Cassidy Com 1 well. This is the primary type log
14 for our area. We don't have porosity logs in this
15 specific section of the hole. So, once again, driving
16 home that point, that we're planning to collect these
17 logs on our first Wolfcamp D well on the first stage of
18 development in this area. That's going to help us
19 better fine-tune our targets in the Bone Spring. And
20 I'm showing approximately -- cartooning where those
21 horizontal wells would be if we were to drill them
22 today.

23 **Q. Great.**

24 **And do you consider the wells included**
25 **within this cross section that you've prepared to be**

1 **representative of the Bone Spring Formation in the area**
2 **near the proposed spacing unit?**

3 A. Yes.

4 **Q. And can you please turn to the next page in**
5 **this exhibit and explain this document to the hearing**
6 **examiners?**

7 A. So this is an isochore map of the 3rd Bone
8 Spring Sand. So this would be the target of the 15H
9 well, and I've shown it with respect to Marathon's
10 acreage and the planned well location within our planned
11 project area. And as you can see, there is some
12 variability in the thickness of these sands in just this
13 small area alone, and we believe that a lot of this is
14 due to the depositional controls that are governed by
15 some of the faults in the area, as well as the way that
16 the small faults can possibly result in missing section
17 within some of these sand bodies. Over this project
18 area, however, we see a pretty consistent thickness of
19 the 3rd Bond Spring Sand, so it would only change on the
20 order of a few feet.

21 **Q. Okay. And what has Marathon learned from its**
22 **study of development in the 3rd Bone Spring Sand and the**
23 **other offsetting acreages that it has been developing?**

24 A. So in -- can you repeat the question? I'm
25 sorry.

1 **Q. Yeah. Has Marathon gained knowledge about**
2 **development in the 3rd Bone Spring Sand when it's**
3 **developed other acreage within Eddy County, New Mexico?**

4 A. Yes. We've gained extensive knowledge,
5 especially with respect to some of the way that the
6 faults in the area are affecting how we can stay within
7 our zone of interest that we're arguing.

8 As we've said, we've already drilled two
9 wells in the 3rd Bone Spring immediately west in Section
10 30. All four rigs that are depicted on the large map in
11 front of you are drilling 3rd Bone Spring wells as we
12 speak right now. All that data that we're gaining is
13 critical to confirming our understanding from the 3D
14 seismic, and then we'll turn around and use that to best
15 drill the wells in Section 29.

16 **Q. And does Marathon -- is it Marathon's opinion**
17 **that it is important to develop the 3rd Bone Spring Sand**
18 **concurrently with drilling Wolfcamp wells in X-Y**
19 **Formation?**

20 A. That is the strategy that Marathon has taken.
21 Yes.

22 **Q. Okay. And are you aware that other operators**
23 **have followed that same strategy as well?**

24 A. Yes.

25 **Q. And why is that a prudent development strategy,**

1 **in Marathon's opinion?**

2 A. So based on the geology, Marathon sees that the
3 3rd Bone Spring Sand and the Wolfcamp Sand are pretty
4 similar rock types. We're talking about pretty similar
5 permeabilities, pretty similar porosities as well and
6 that there isn't much in the way of mechanical barriers
7 between the 3rd Bone Spring Sand and the Wolfcamp Sand.
8 And so in order to effectively stimulate that
9 stratigraphic section, we have learned through our own
10 operations that co-developing those or zipper-fracking
11 3rd Bone Spring wells with Wolfcamp Sand wells is the
12 most efficient way to produce those intervals.

13 **Q. And we heard earlier testimony. I believe the**
14 **Examiners asked a question as to what is**
15 **zipper-fracking. Can you explain, based on Marathon's**
16 **experience, what zipper-fracking is?**

17 A. I think I'll actually leave that to the
18 engineer, as he's more experienced in discussing those
19 matters.

20 **Q. Okay. Great.**

21 **Mr. Keren, what, in your opinion, will**
22 **occur if an operator goes in and drills a Wolfcamp X-Y**
23 **well and then waits a year and then drills a 3rd Bone**
24 **Spring Sand well?**

25 A. They are at high risk of drilling a 3rd Bone

1 Spring Sand well into a depleted sand body, whether that
2 is from a hydrocarbon volumes standpoint or even just a
3 pressure standpoint. It introduces significant drilling
4 risks, as well as completion risks and potential risks
5 of not getting the production that they expect.

6 Q. And were you present for BTA's testimony here
7 during this hearing earlier today?

8 A. I was.

9 Q. And is it your understanding, based on that
10 testimony, that BTA plans to drill two Wolfcamp X-Y
11 wells preferably by June, if possible?

12 A. Yes.

13 Q. But BTA -- is it also your understanding that
14 BTA has not yet submitted an APD package -- or is in the
15 process of submitting an APD package right now for its
16 3rd Bone Spring Sand wells to the BLM, which may not be
17 approved for some time?

18 A. That was the testimony I heard.

19 Q. So in your opinion, can BTA frac its Wolfcamp
20 X-Y wells simultaneously or concurrently with its 3rd
21 Bone Spring Sand wells?

22 A. Not in the way that they have proposed their
23 plan to us.

24 Q. Okay. And in your opinion, will that
25 development plan likely result in significant waste?

1 A. Yes.

2 **Q. So could you please turn to Exhibit O and**
3 **explain what this document is to the hearing examiners?**

4 A. So this document is Marathon's full development
5 plans for the west half of Section 29 and showing how
6 they complement the wells that have already been drilled
7 to date in Marathon's development area in the east half
8 of Section 30. We have depicted all of the wells that
9 we have discussed today on this exhibit, and I'm showing
10 them all in respect to the two pools, the Bone Spring
11 Pool shaded in the upper portion of this diagram, the
12 Wolfcamp Pool shaded at the bottom, and on the left, a
13 chart depicting the formations -- the specific members
14 within these formations that we've been discussing
15 today.

16 Really what I want to show here is that
17 Marathon has a highly strategic way of developing this
18 area that achieves both the land challenges that we have
19 with the depth severance, the geologic challenges that
20 we've seen based on the lack of good quality log data in
21 the area, and then also the reservoir and completion
22 challenges that we've learned from developing
23 extensively in this area and how to co-develop multiple
24 sands within the 3rd -- within the Bone Spring and the
25 Wolfcamp. So that's how we have broken this out, into

1 Development Stage 1, 2 and 3, and that meets our
2 strategy that we're using in a lot of Eddy County right
3 now.

4 The other thing I want to show on here is
5 that our plan in the west half of Section 29,
6 specifically in the Upper Wolfcamp and the Lower 3rd
7 Bone Spring, is simply a continuation of the plan that
8 we've already executed in the east half of Section 30.
9 That is with respect to the spacing of the wells, as
10 well as the vertical separation of the wells and how we
11 plan to go about co-developing them. So we're simply
12 continuing that development plan as we move a half
13 section to the east.

14 **Q. And in your opinion, will Marathon obtain**
15 **greater recovery from the Wolfcamp and the 3rd Bone**
16 **Spring Formations by continuing this spacing pattern**
17 **from the east half of Section 30 into the west half of**
18 **Section 29?**

19 A. Yes. And I think the critical point here too
20 is we have chosen to put our Wolfcamp Sand wells right
21 on the edges of the lease boundary here because we don't
22 want to leave any stranded reserves. We don't want to
23 waste any reserves that may be sitting on the eastern
24 line or the western line of this unit. And that is best
25 achieved by placing wells right on the lease boundary.

1 If you look at the big map in front of you and just
 2 observe all the wells drilled out here to date, most of
 3 these wells from other operators, Mewbourne, Matador,
 4 are doing the exact same thing. They're placing their
 5 wells right on the lease hard line, right at the 330
 6 setbacks. This gives them the best opportunity to
 7 produce those reserves that sit in those 330 setbacks.

8 **Q. And, Mr. Keren, can you please turn to BTA's**
 9 **Exhibit 1? Does this exhibit contain a C-102 plat**
 10 **that's been submitted by BTA for the Ogden 5H well?**

11 A. It does.

12 **Q. What do you notice about the placement of this**
 13 **well on this C-102 form?**

14 A. So it appears to be a slightly unorthodox
 15 Wolfcamp orientation. The first thing I notice is that
 16 they're drilling almost directly from their surface-hole
 17 location to their last take point.

18 **Q. Is this well located near the 330-foot setback**
 19 **line --**

20 A. No. It appears this well is in the east half
 21 of the west half. The 6H --

22 **Q. Which is on the next page?**

23 A. Yes.

24 So this well appears to be set back 660
 25 feet from the west line.

1 Q. Now, what does the placement of these wells
2 indicate to you as a geologist?

3 A. As a geologist, I mean, it indicates to me that
4 they are not able to produce those reserves -- or have
5 not given themselves the best chance to produce those
6 reserves on the western 330 hard line and even farther
7 west. By placing their wells 660 feet from the west
8 line, they're missing an opportunity there.

9 Q. And that opportunity would be to drill
10 additional infill wells within the acreage in order to
11 have more linear footage that can be fractured within
12 the spacing unit that they're attempting to develop?

13 A. Exactly.

14 Q. Mr. Keren, in your opinion, will Marathon's
15 plan of development result in the greatest amount of
16 recovery from the west half of Section 29?

17 A. Yes.

18 Q. And in your opinion, will Marathon's
19 development plan protect correlative rights?

20 A. Yes.

21 Q. And in your opinion, will Marathon's
22 development plan result in the reduction of waste?

23 A. Yes.

24 Q. And I want you to kind of go into more detail
25 on that. Why, in your opinion, will Marathon's plan

1 **result in the reduction of waste here?**

2 A. Sure. So I think from the geology standpoint,
3 the primary reason for that is two things, and I'll
4 break it down out by Bone Spring and Wolfcamp.

5 In the Wolfcamp, we think Marathon's plan
6 is best designed to understand using a modern-day log
7 that we'll get during our first development stage, what
8 we have for potential between those Wolfcamp sands and
9 the Lower Wolfcamp D that we're drilling to hold that
10 depth severance. We see a lot of wells drilled in this
11 area in zones between those two that we've been
12 discussing today. We want to understand if we think we
13 have economic reserves in those zones as well, and we're
14 going to collect the data to understand that.

15 Without planning to at least propose wells
16 in those zones and go about planning those wells as if
17 you were prepared to drill them, you could potentially
18 be leaving behind valuable reserves and wasting that
19 acreage.

20 In the Bone Spring, we kind of already
21 talked about the reduction of waste by co-developing the
22 3rd Bone Spring Sand with the Wolfcamp Sand. And that
23 reduces the potential for later depletion if you were to
24 come back and drill Bone Spring wells later, and it
25 gives you your most efficiently generated stimulated

1 rock volume that you can create by zipper-fracking the
2 wells in those zones.

3 Q. And in your opinion, will BTA's proposed well
4 spacing result in waste and unrecovered reserves within
5 the west half of Section 29?

6 A. Yes.

7 Q. And could you explain why that is in greater
8 detail to the hearing examiner?

9 A. The proposed wells that we have seen from BTA
10 have only been in three geologic zones. We've seen the
11 3rd Bone Spring Sand, in which they have not begun their
12 permitting process. We've seen the Wolfcamp Sand, which
13 is the 5H and 6H that they appear to be pretty close
14 being ready to drill. And we've seen two wells in the
15 Wolfcamp D as a separate development plan for them, but
16 relatively deep, even deeper than we've proposed yet to
17 date. But we've seen no wells planned in between the
18 Wolfcamp Sand and the very deep Wolfcamp wells that they
19 have proposed.

20 Simply just looking at offset production,
21 we know there are producible reserves in those zones
22 between the Wolfcamp Sand and the Wolfcamp D. We're
23 prepared to go out and collect the data to know exactly
24 how to get those reserves out of the ground.

25 Q. And is Marathon prepared to make this

1 investment within this acreage in order to fully produce
2 the area?

3 A. Yes.

4 Q. In your opinion, should BTA's application in
5 Case Number 16024 be denied?

6 A. Yes.

7 Q. And in your opinion, will royalty owners and
8 overriding royalty owners be best benefited by
9 Marathon's development plan within the west half of
10 Section 29?

11 A. Yes.

12 Q. And why is that?

13 A. We have given them the most comprehensive
14 development plan that any operator has proposed. And
15 it's giving them the highest chance to participate in
16 wells that will give them the most production from this
17 zone -- from this project area. Excuse me.

18 Q. And were Exhibits M through O prepared by you
19 or compiled under your direction and supervision?

20 A. Yes.

21 MS. BRADFUTE: I would like to tender
22 Exhibits M through O into the record.

23 EXAMINER JONES: Any objections?

24 MR. FELDEWERT: No objection.

25 EXAMINER JONES: Exhibits M, N and O --

1 MS. BRADFUTE: M, N and O.

2 EXAMINER JONES: -- are admitted. Okay.

3 (Marathon Oil Permian, LLC Exhibit Letters
4 M, N and O are offered and admitted into
5 evidence.)

6 MS. BRADFUTE: And that concludes my
7 examination of this witness.

8 EXAMINER JONES: Mr. Feldewert?

9 CROSS-EXAMINATION

10 BY MR. FELDEWERT:

11 Q. Mr. Keren, would you turn to -- I think you've
12 got Exhibit Number 1 in front of you?

13 A. Yes.

14 Q. Now, these are the drill APDs for the 5H and
15 the 6H, correct?

16 A. Yes.

17 Q. And if you flip over to Exhibit 7, these are
18 approved APDs for the 7H and the 8H wells --

19 A. Yes.

20 Q. -- is that correct?

21 So you-all have these exotic plans that you
22 want to do, but BTA has actually approved APDs to
23 implement some drilling out here and collect data; is
24 that right?

25 A. Yes.

1 Q. And they have pads built to drill out here and
2 collect data?

3 A. Yes.

4 Q. And they've got a rig that was available, but
5 because of Marathon's actions, they were lost, and it's
6 coming back in June to drill and collect data. You were
7 here for that testimony, right?

8 A. I didn't hear a question.

9 Q. You were here for that testimony?

10 A. Yes.

11 Q. Okay. So in theory, they actually have APDs,
12 pads and plans in place to actually start drilling and
13 collecting data that you say you need?

14 A. Not the exact data that I need.

15 Q. So we all have disagreements over what data we
16 need?

17 A. I was very clear about the data that we will be
18 collecting, in addition to drilling operations data.

19 Q. Now, with respect to your Exhibit K --

20 A. The map?

21 Q. Yes. Are you there?

22 A. Yes.

23 Q. -- the only wells that the company's actually
24 drilled are shown there in the east half of 32?

25 A. That is incorrect. We are currently drilling

1 wells on four pads as we speak right now.

2 Q. The only wells that the company's drilled and
3 completed is in the east half of 32? Oh, I'm sorry.

4 East half of 30?

5 A. Those wells are drilled and uncompleted.

6 Q. Oh, drilled and uncompleted.

7 A. Correct.

8 Q. Okay. So they haven't even been completed?

9 A. Correct. I said that.

10 Q. So they've been drilled.

11 In what zones have they been drilled in?

12 A. These wells are drilled in three zones. The
13 3rd Bone Spring Sand, there are two wells in that zone.
14 The Wolfcamp Sand, there's one well in that zone. And
15 then what Marathon calls the Wolfcamp A -- what BTA,
16 from looking at their cross section, calls the Upper
17 Wolfcamp -- two wells.

18 Q. So you haven't completed any of these wells?

19 A. No.

20 Q. What are your plans on completion?

21 A. We'll be completing these wells either late Q2
22 or early Q3.

23 Q. I'm sorry?

24 A. Late quarter two, early third quarter.

25 Q. Of this year?

1 A. Our frac schedule, it moves around a lot, but
2 we will certainly be completing these wells this year.

3 Q. But you just don't have any idea when this
4 year?

5 A. I'm giving you the timeline that we would be
6 most likely completing these wells, late second quarter,
7 early third quarter.

8 Q. And the way you've drilled these wells over
9 here in the east half of 30 is two 3rd Bone Spring Sand,
10 right?

11 A. Yes.

12 Q. And one Wolfcamp Sand?

13 A. Let's look at the exhibit -- these wells are on
14 Exhibit O, so I can speak to them more easily using this
15 exhibit. So you see --

16 Q. East half of 32, right?

17 A. -- east half of 30.

18 Q. East half of 30.

19 A. Two wells in the 3rd Bone Spring Sand.

20 Q. Are those the two red dots?

21 A. Two red dots.

22 Q. Those are the only two that have been drilled?

23 A. On this east half of Section 30.

24 Q. Okay. So I'm putting a circle around those two
25 red dots as --

1 A. Now --

2 Q. Hold on.

3 Just so I'm clear, those have only been
4 drilled?

5 A. The only 3rd Bone wells that have been drilled
6 in the east half of Section 30.

7 Q. Okay. What's the other wells drilled over
8 there?

9 A. The Wolfcamp X-Y well, the 5H, which is right
10 in the middle of the east half of Section 30, is
11 drilled.

12 Q. That's that middle red circle?

13 A. Correct.

14 Q. Okay.

15 A. And the two wells in the Wolfcamp A.

16 Q. The two other red dots?

17 A. The two other red dots, existing wells, drilled
18 and completed.

19 Q. Okay. So that's all that's been done over
20 there in the east half of 32?

21 A. East half of 30.

22 Q. 30. Thank you. I keep saying 32.

23 Are the wells that you have here in Section
24 29, in the west half -- am I safe in assuming none of
25 those have been drilled?

1 A. That is correct.

2 Q. And none of them -- you don't have any APDs
3 approved for any of those wells?

4 A. We do not have APDs for those wells.

5 Q. No pads built?

6 A. We do not have pads built.

7 Q. Okay. You mentioned this idea that while you
8 were drilling your wells in the east half of 30, that
9 you encountered what you call small faulting? Is that
10 what you said?

11 A. That is what I said.

12 Q. How small is the small faulting?

13 A. When I say small faulting, I'm referring to the
14 amount of displacement on the faults.

15 Q. What's small mean?

16 A. The amount of displacement on the faults.

17 Q. How much displacement?

18 A. That's proprietary information.

19 Q. You can't tell us the displacement that you
20 think exists in that area?

21 A. I'm not allowed to disclose. Our company has
22 spent a very large amount of money on this seismic data.

23 MS. BRADFUTE: Yeah. I think if the
24 Division wanted confidential seismic information, we
25 could set up a private meeting and show the seismic

1 information, if that information is needed. But
2 Marathon, similar to other operators, does have
3 proprietary information that they've obtained through
4 their seismic data, and we ask that information remain
5 confidential.

6 Q. (BY MR. FELDEWERT) So you come in here and
7 suggest, Mr. Keren, that you need this seismic data to
8 drill because you see this small faulting, but you're
9 not willing to tell the Examiners what you mean by small
10 faulting and how much displacement?

11 MS. BRADFUTE: Objection. We just offered
12 to show the Division that.

13 EXAMINER BROOKS: Okay. I thought maybe
14 Mr. Feldewert was going on to another subject.

15 MR. FELDEWERT: I am going on to another
16 subject.

17 EXAMINER BROOKS: There is a procedure for
18 submitting testimony subject to confidentiality. It's
19 very complicated, and it's easier for everybody if we
20 don't do it (laughter). But, you know, you have a right
21 to go that way -- an attorney has a right to proceed
22 under that procedure if he or she wishes to do so.
23 That's up to Mr. Feldewert.

24 Q. (BY MR. FELDEWERT) This small faulting that
25 you're referencing, has it caused any problems in

1 **drilling the Wolfcamp wells?**

2 A. The problems it has caused is staying in the
3 zone of interest that we are targeting.

4 **Q. Okay. Were you able to stay within the zone of**
5 **interest you're targeting?**

6 A. Sometimes we do get faulted out of that zone.

7 **Q. Hold on. I'm talking about the wells you**
8 **drilled in the west half -- east half of 30. You**
9 **drilled three Wolfcamp wells?**

10 A. Yes.

11 **Q. Did you have any trouble drilling those wells**
12 **south to north?**

13 A. I -- I -- I think I need to say that I need
14 more specific questions. When you say, "Do you have any
15 trouble," do you mean are you having drilling
16 challenges, or are you saying did I as a geologist have
17 a hard time seeing that the geologic target that I gave
18 my drillers was the one that they were able to actually
19 stay in, because there are different answers to that.

20 We have a very advanced drilling team who
21 was able to work with these faults because we were able
22 to proactively tell them where they are. However, as a
23 geologist, I had concerns in those wells because I have
24 mudloggers out there who I speak to every day and
25 they're telling me that they're seeing rapid changes in

1 lithologies that I can't predict using various vertical
2 wells.

3 Q. Let me try to ask a more pointed question,
4 Mr. Keren, since you didn't like my question.

5 A. Okay.

6 Q. Was the company able to drill in the Wolfcamp
7 and stay within the zone in the east half of 30?

8 A. There were parts of that lateral that were out
9 of the zone that I told my drillers that I wanted them
10 to stay in.

11 Q. Was the company -- can you answer? Was the
12 company able to stay within the zone that you targeted
13 in the east half of 30 when you drilled the three wells
14 in the Wolfcamp?

15 A. I've given you the answer. They were not able
16 to stay in my geologic target for 100 percent of the
17 lateral.

18 Q. What target did they hit? If I look at your
19 Exhibit O, were they able to drill that well --

20 A. I give my drillers a 30-foot drill window.
21 They could not stay in that 30-foot drill window.

22 Q. What was -- what was the footage variation?
23 Could they stay within a 50-foot window?

24 A. Now you're going to start to try and understand
25 the displacement on the faults that I've already told

1 you are proprietary information.

2 **Q. Were they able to stay within a 50-foot window?**

3 EXAMINER BROOKS: Considering the proposed
4 rule changes that are before the Division and the fact
5 that -- given what rule that the Division has
6 provisionally adopted, even though it's not in force
7 now, that allows the 50-foot tolerance, I think that's a
8 relevant subject to deal with regardless of the --

9 MR. FELDEWERT: Well, he's the one that
10 threw out 30 foot. I was just asking what they were
11 able to stay within.

12 **Q. (BY MR. FELDEWERT) Were they able to stay**
13 **within 35?**

14 A. 35?

15 **Q. Yeah, a 35-foot window.**

16 A. No.

17 **Q. A 40-foot window?**

18 EXAMINER BROOKS: In fact, I don't think
19 any confidential information is indicated anyway because
20 he's already -- he's already told us what his drilling
21 window was. So --

22 MR. FELDEWERT: Right.

23 EXAMINER BROOKS: -- you can question about
24 wider intervals if you want to.

25 **Q. (BY MR. FELDEWERT) Were they able to stay**

1 **within a 40-foot window?**

2 A. I don't remember the precise number. I will
3 tell you that they were not able to stay within a
4 30-foot window.

5 Q. But you can't tell us if they could stay within
6 a 40-foot window?

7 A. (No response.)

8 Q. Mr. Keren, you're under oath.

9 A. I understand that. I don't remember --

10 Q. Can you tell us or not?

11 A. I don't know the exact number, so I can't tell
12 you the exact number. I get told by my geosteerers
13 whether I'm in the window or out. They do not tell me
14 the exact distance outside of that window. Hence, I
15 don't know the exact distance that you're asking.

16 Q. Were they able to stay within the Wolfcamp A
17 zone.

18 A. Yes.

19 Q. Were they able to stay within the Wolfcamp B
20 zone?

21 A. We did not drill a well in the Wolfcamp B.

22 Q. I'm sorry. I thought these other two red dots
23 were in the Wolfcamp B zone.

24 A. Those in the base of the Wolfcamp A zone.

25 Q. I'm sorry.

1 Okay. So were they able to drill all these
2 three wells in the Wolfcamp A zone?

3 A. They were able to stay in the Wolfcamp A as we
4 define it on the cross section that I have put in my
5 exhibits.

6 Q. You weren't able to stay at different depths
7 within the Wolfcamp A zone --

8 A. Yes.

9 Q. -- that you targeted?

10 A. Within that Wolfcamp A zone, yes.

11 Q. Okay. All right. Now, this co-development
12 that you're talking about, let's look at your -- look at
13 your Exhibit K. This co-development, as I understand
14 it, where you want to frac the 3rd Bone Spring Sand at
15 the same time that you frac your Wolfcamp Sand, right?

16 A. Yes.

17 Q. That's your co-development plan?

18 A. Almost entirely in this area. We also have
19 that Wolfcamp A where we see it as a high confidence of
20 being reservoir -- high reservoir-quality rock.

21 Q. I'm just trying to understand what you term a
22 "co-development plan."

23 A. So let's call it Upper Wolfcamp, Lower 3rd Bone
24 Spring Sand.

25 Q. Upper Wolfcamp, 3rd Bone Spring Sand.

1 A. Co-developed.

2 Q. Okay. If I look at this area you've depicted
3 on Exhibit K --

4 A. Yes.

5 Q. -- is there any operator out there that has
6 done this co-development as you define it?

7 A. On this map, the best example I would have --
8 not on this map, although we have seen other operators
9 doing this in Eddy County.

10 Q. But not on your big area here?

11 A. Only our Hermes wells.

12 Q. So you don't have any data showing any
13 comparison for this area between the recovery, if you do
14 this co-development as you describe it, or if you do,
15 for example, what Mewbourne did in the south half of 32
16 where they drilled two Wolfcamp wells?

17 A. Well, Mewbourne's wells in the south half of 32
18 were not both in the same formation. They were both in
19 the Wolfcamp. One was in the Wolfcamp Sand and the
20 other in the Wolfcamp D.

21 Q. So you don't have any data from this area
22 showing the difference between a recovery if you do the
23 co-development as you suggest should be done or you do
24 the development as other operators have currently done
25 in this area?

1 A. We will be showing you the production data when
2 the engineering -- when the engineer comes up to show
3 you Marathon's --

4 **Q. Do you have any data for this area?**

5 A. What we have is the public data for the wells
6 that are shown around on this map, several of which are
7 both drilled in the Wolfcamp Sand. And sometimes
8 they're co-developed, other times are not.

9 **Q. Okay. Now, wait a minute. That's why I want**
10 **to get clear on what we're talking about,**
11 **co-development. Okay? Your definition of**
12 **"co-development" is simultaneously completing the 3rd**
13 **Bone Spring Sand, right --**

14 A. Yes.

15 **Q. -- and the Upper Wolfcamp?**

16 A. Yes.

17 **Q. That's your definition?**

18 A. Yes.

19 **Q. My question to you was: Has any operator in**
20 **this area done that on your map, and you said no,**
21 **correct?**

22 A. Correct.

23 **Q. So that's why you don't have any data to**
24 **compare for that type of co-development with the**
25 **development that has so far occurred in this area?**

1 A. We have data in those formations in Eddy County
2 just off of this map, I mean literally if you were just
3 extend this map two sections.

4 Q. Okay. Now, so let's talk a little bit about
5 what we know, okay, in these areas. I mean, would you
6 agree with me that one-and-a-half-mile wells are better
7 than one-mile wells?

8 A. It would depend on the spacing that you are
9 drilling those wells in, the formations you're drilling
10 those wells in and how you choose to develop them,
11 whether it's a co-development or a single-well
12 development.

13 Q. Do you know Mr. Ryan Gyllenband?

14 A. Yes. He's a landman at Marathon.

15 Q. Okay. Landman at Marathon.

16 Do you know a Mr. Roy Wilty?

17 A. Yes. That's a geoscience supervisor at
18 Marathon.

19 Q. He's your supervisor?

20 A. Yes.

21 Q. Have you talked to him about his opinions on
22 whether one-and-a-half-mile wells perform better and
23 recover more than one-mile wells?

24 A. That is not a conversation that we have
25 specifically had a meeting on, but we talk about these

1 things all the time.

2 Q. And hasn't he voiced the opinion that -- hasn't
3 he made the opinion or voiced the opinion to you that
4 one-and-a-half-mile wells recover better than one-mile
5 wells?

6 A. When you're developing at a density like
7 Marathon is, then yes. But if you're not, then it
8 shouldn't matter.

9 Q. And hasn't he offered the opinion that
10 one-and-a-half-mile wells avoid the waste that you see
11 from one-mile wells?

12 A. One-and-a-half mile --

13 MS. BRADFUTE: Objection.

14 Mike, there may not be a proper foundation.
15 There may not be enough context for the witness to know
16 the area at issue that is being discussed.

17 EXAMINER BROOKS: Well, the question is
18 awfully broad. Do you want to restate, Mr. Feldewert?

19 MR. FELDEWERT: Sure.

20 Q. (BY MR. FELDEWERT) Do you disagree -- would you
21 disagree with Mr. Wilty's statement -- I want you to
22 assume that he testified before this Division that
23 one-and-a-half-mile wells are better than one-mile wells
24 because they prevent waste. Would you disagree with
25 that opinion?

1 MS. BRADFUTE: Objection. Again, I still
2 don't think there is enough information for the witness
3 to properly answer that question because he doesn't know
4 the area that Mr. --

5 I'm sorry. What is Roy's last name again?

6 MR. FELDEWERT: Wilty.

7 MS. BRADFUTE: -- Mr. Wilty has testified
8 about. And different areas have different geologic
9 considerations.

10 MR. FELDEWERT: Well, I appreciate the
11 coaching of counsel.

12 EXAMINER BROOKS: I was going to say, the
13 witness can answer for himself.

14 Q. (BY MR. FELDEWERT) Are you aware of that?

15 A. Roy is a geologist. I'm a geologist. When
16 I'm --

17 Q. Can you answer the question?

18 A. He's a geoscience supervisor. I'm a geologist.
19 When I'm asked this question and you give me a
20 one-and-a-half-mile well, I don't know what the spacing
21 is. I don't know what the formations you're drilling
22 those wells in. When Roy says something about
23 one-and-a-half-mile wells, I have to assume that he is
24 speaking with regards to Marathon's development plans.
25 That is at the density that Marathon chooses to develop

1 the Permian Basin at. That's in the way that we choose
2 to complete our wells. This is not an apples-to-apples
3 comparison.

4 Q. Are you aware of Marathon's development plan
5 that they brought before the Division for the Grama
6 Ridge State area?

7 A. I am the geologist responsible for Eddy County.

8 Q. I'm not sure that answers my question.

9 Are you familiar with the Grama Ridge?

10 A. I did not participate in that hearing.

11 MR. FELDEWERT: May I approach the witness?

12 EXAMINER BROOKS: You may.

13 MR. FELDEWERT: Let the record reflect I'm
14 going to hand Mr. Keren what is Exhibit 19.

15 Q. (BY MR. FELDEWERT) Mr. Keren, I'm going to
16 represent to you this is an exhibit pulled out of Case
17 Numbers 15655 and 15656, the Black Mountain Operating
18 application that was brought before the Division.
19 You're aware, are you not, that Marathon acquired Black
20 Mountain's interest?

21 A. I'm aware of that.

22 Q. You're aware, are you not, that Mr. Gyllenband
23 and Mr. Wilty testified before the Division about the
24 merits of Marathon's development plan as proposed in
25 this Exhibit Number 1?

1 A. I was aware of that hearing.

2 Q. Okay. And if I'm reading this correctly, this
3 is a proposed spacing unit comprised of the west half of
4 Section 2 and the southwest quarter of Section 35. Do
5 you see that?

6 A. Yes.

7 Q. And this is the development plan with a company
8 who is going to drill a 2nd Bone Spring well and one 3rd
9 Bone Spring well. Do you see that?

10 A. Where's the 2nd Bone Spring well?

11 Q. They have the two lines on here.

12 A. Yeah.

13 Q. Wells 1 and 3?

14 A. But not both 3rd Bone Spring?

15 Q. I can't tell from the colors. They're
16 proposing two wells here, though, right?

17 A. Yes.

18 Q. Might be in the same zone, 3rd Bone Spring?

19 A. Both 3rd Bone Spring.

20 Q. Do you want to assume that?

21 A. Yes.

22 Q. Do you feel more comfortable assuming that?

23 A. Yes.

24 Q. And they testified that with this development
25 plan -- were you aware that Mr. Gyllenband testified

1 before this Division that this development plan would
2 access reserves in these offset areas that, quote,
3 "would otherwise not be reached"?

4 A. I was not aware of that specific line.

5 MR. FELDEWERT: May I approach the witness?

6 EXAMINER BROOKS: You may.

7 MR. FELDEWERT: Let me make sure I didn't
8 have any of my secrets on it.

9 Let the record reflect I'm handing what's
10 been marked as Exhibit 20 to Mr. Keren.

11 Q. (BY MR. FELDEWERT) Mr. Keren, I'm going to --
12 we will represent -- if you look at the case numbers on
13 Exhibit Number 19, you'll see it's Case Numbers 15655
14 and 15656. Do you see that on Exhibit 19 in the bottom
15 left-hand corner?

16 A. Yes.

17 Q. And what I've handed you is Exhibit 20, a
18 transcript from a hearing less than a year ago before
19 this Division in those same cases. Do you see that on
20 the first page?

21 A. I see the date.

22 Q. And if you look at the third page in -- third
23 page in, down at the bottom, page 4 of the transcript --

24 A. Thank you.

25 Q. You with me?

1 A. Yes.

2 Q. -- do you see Mr. Gyllenband?

3 A. Yes.

4 Q. He's a landman that works for Marathon?

5 A. Yes.

6 Q. I want you to turn to page -- go to the next
7 page, page 84. Are you there?

8 A. Yes.

9 Q. I'm going to read from line 15. I want to make
10 sure I read it correctly. All right?

11 Question: "In your opinion, would the
12 granting of Black Mountain and Marathon's application be
13 in the best interest of conservation and the prevention
14 of waste and the protection of correlative rights?" Do
15 you see that question?

16 A. Yes.

17 Q. Answer: "Yes. It would allow for the
18 development of 330 feet on either side of 35 and 2 that
19 would otherwise not be reached." Do you see that?

20 A. Yes, I see that.

21 Q. And that corresponds with this Exhibit 19,
22 Mr. Keren, right?

23 A. Yes.

24 Q. Okay. Now, you said Mr. Wilty is your
25 supervisor?

1 A. Yes.

2 Q. He's a geoscientist?

3 A. Yes.

4 Q. So he's got a lot of training that we heard
5 about earlier today as a geoscientist?

6 A. Yes.

7 Q. Do you think he's knowledgeable?

8 A. Yes.

9 Q. Knows what he's talking about?

10 A. Yes.

11 Q. What's that?

12 A. Yes.

13 Q. Okay. Are you aware that he testified in that
14 hearing that -- that a one-and-a-half-mile lateral as
15 opposed to a one-mile lateral will prevent waste?

16 A. Can you show me? I don't remember. I've not
17 reviewed this hearing.

18 Q. Okay. Let me show you what's been -- if we go
19 to the next page, page 98 --

20 A. Yes.

21 Q. -- the question on line 12. Question: "All
22 right. Do you have an opinion whether developing
23 Section 2 with one-mile laterals as opposed to
24 developing Sections 2 and 35 with one-and-a-half-mile
25 [sic] laterals will result in waste?" Do you see that

1 question?

2 A. I do.

3 Q. And he testified, Answer: "Sure. I think the
4 first scenario of one-mile laterals would result in
5 waste."

6 A. I see that.

7 Q. You see that?

8 And he goes on to answer the next question.

9 "All right. And if you develop these wells
10 respecting the 330-foot [sic] setback for one-mile
11 laterals on either side of the section line, are you
12 leaving 660 feet of reservoir unrecovered?"

13 Answer: "Yes, you would be." Do you agree
14 with that?

15 A. Yeah, I see that.

16 Q. Do you agree with that position?

17 A. Yes.

18 Q. Next question: "And would that result in
19 waste?" And your supervisor, Mr. Wilty, answered "yes."
20 Do you agree with that?

21 A. Yes.

22 Q. And if I look at the proposed plan before the
23 Division -- okay? I'm talking about the wells that are
24 before the Division for the Wolfcamp, these competing
25 applications. I want you to go to Exhibit Number 1 in

1 our notebook. And the well proposal before the Division
2 for BTA for the 5H and 6H have one-and-a-half-mile
3 laterals, correct?

4 A. Correct.

5 Q. Thereby developing that 660-foot setback
6 between Section 29 and Section 32, right?

7 A. Correct.

8 Q. Okay. If I go to your Exhibit B, these
9 represent the draft applications to drill for the wells
10 that are before the Division under the competing pooling
11 application filed by Marathon, right?

12 A. Correct.

13 Q. And the three Wolfcamp wells that are involved,
14 I believe, are the first three wells shown on here, the
15 12H, the 16H and the 17H; is that right?

16 A. Correct.

17 Q. And all three of those wells as proposed by
18 Marathon are platted as one-mile laterals?

19 A. Slightly less than one mile, but yes.

20 Q. Okay. Which according to Mr. Wilty's testimony
21 would result in waste; isn't that correct, Mr. Keren?

22 A. You're not comparing the same two wells.

23 Q. Okay. That's your position?

24 A. Yes.

25 MR. FELDEWERT: That's all the questions I

1 have.

2 EXAMINER JONES: Mr. Brooks?

3 CROSS-EXAMINATION

4 BY EXAMINER BROOKS:

5 Q. It really depends on the reservoir
6 characteristics, does it not, because if -- if you're
7 dealing with -- well, first of all, have you ever heard
8 of homogen- -- have you ever -- I'm sure you've heard
9 the expression "homogeneous reservoir." We use it all
10 the time.

11 A. Uh-huh.

12 Q. Have you ever met one?

13 (Laughter.)

14 A. This part of the Permian Basin is very
15 challenging for sure. We see high lateral variability
16 in our reservoirs.

17 Q. And if you had a perfect homogeneous reservoir,
18 you would be leaving some gaps because of the spacing,
19 but it wouldn't be 660 feet if you're developing the
20 whole area because you don't put in the 30 feet at the
21 end.

22 A. Exactly.

23 Q. So you'd have more than -- if you're developing
24 a reservoir on one mile versus half mile, you'd have
25 more -- more undrilled space than if you were drilling

1 on a one-and-a-half mile, but it wouldn't be 330 because
2 you'd be -- it would be an average somewhere between 330
3 and 660, right?

4 A. And if we knew exactly, you know, what our
5 fracs were doing, I would be a very wealthy man.

6 Q. I'm sure you would be.

7 A. But there is -- there is potential for growing
8 fractures, you know, produced from parts of those
9 setbacks --

10 Q. Yeah.

11 A. -- generating your reservoir.

12 Q. And there always will be because you can't
13 drill --

14 A. Right.

15 Q. Thank you.

16 CROSS-EXAMINATION

17 BY EXAMINER JONES:

18 Q. I promise to be quick.

19 The difference in vertical depth between
20 your target in the 3rd Bone Spring Sand and the Wolfcamp
21 X-Y, what would that be?

22 A. Approximately 200 feet or so. Let me confirm
23 that with the cross section.

24 Q. It looks like your 3rd Bone Spring is about 350
25 feet thick itself.

1 A. Well, and if you look on the cross section,
2 we're showing that we would be landing our well very
3 close to the base of that 3rd Bone Spring Sand, so that
4 would put the vertical separation on the order of 200
5 feet. Yeah.

6 Q. Okay. That's fine.

7 A. Yeah.

8 Q. You've sparked some controversy here on these
9 faults. Can you talk about the age of the faults? I
10 mean --

11 A. So -- I'm sorry.

12 Q. -- age of the faulting that happened in this
13 area?

14 A. We think that there is reactivation of old
15 Precambrian basement faults, and we do know that these
16 faults do cut rocks of Wolfcampian age and Leonardian
17 age. So we know at the very least they were reactivated
18 at some point after the deposition of those rocks.
19 These are not going through rock faults all the way to
20 the surface. We only see them in the subsurface.

21 Q. And can you talk about stress directions in
22 this area --

23 A. Sure.

24 Q. -- what you know about that?

25 A. We've actually done a fair amount of data

1 collection on that, because as you've seen in Eddy
2 County, especially in this area, there are a lot of
3 wells that are oriented east-west and a lot that are
4 oriented north-south. We wanted to understand if there
5 really truly is a preference or not.

6 In this area, we don't think that there is
7 a preference in wellbore orientation due to those stress
8 orientation -- present-day stress orientations because
9 they're in approximately a north-northeast,
10 south-southwest orientation. So whether you're drilling
11 your well north-south or east-west, you're going to be
12 oblique to that present-day stress orientation. And so
13 we have the data to support that that is the current-day
14 stress, and so we've built our plan of development
15 around that.

16 Q. Okay. Okay. Was your data of a geologic
17 nature, or was it more of an engineering like the dipole
18 sonics and --

19 A. Geologic --

20 Q. So you've done imaging logs?

21 A. Yeah. We've done image-log analysis, looking
22 at borehole breakouts.

23 Q. Okay. So your position is Section 32 could
24 be -- the north half could be developed by east-west
25 wells?

1 A. Absolutely. And we know the north half-south
2 half has already been developed by east-west wells by
3 Mewbourne in the Wolfcamp Formation.

4 **Q. That's Matador or Mewbourne?**

5 A. Mewbourne.

6 I'm not showing those wells on this map
7 because they're not currently producing. They were just
8 drilled earlier this year. So we don't have the data
9 publicly available for us to show where those wellbores
10 fall, but if you go on the OCD Web site, you see that
11 those wells have been drilled.

12 **Q. Do you remember what zone they were drilled in?**

13 A. We did not participate in those wells, but from
14 the testimony earlier by BTA, they stated one was in the
15 Wolfcamp Sand, the other was in the Wolfcamp D.

16 **Q. What about the Bone Spring? How does it differ**
17 **from the Wolfcamp out here as far as preferred**
18 **orientation of wells?**

19 A. We see the same stress orientation for
20 present-day stresses in that Bone Spring section as the
21 Wolfcamp.

22 **Q. What about the historical stresses as far as**
23 **the fault directions go? Can you talk about that or --**
24 **is it the same as it is now, or was it different in**
25 **those days?**

1 A. So without giving away too much information
2 about these faults -- I know we've gone back and forth a
3 lot about that -- these faults are oriented in a manner
4 that makes sense with the tectonic history of the
5 Permian Basin, which has left us with the present-day
6 stress orientation that we see today.

7 **Q. Okay. I guess what about -- where are you**
8 **going to put the pads for the proposed wells?**

9 A. Sure. So we would have two pads on the
10 southwest quarter -- what's called the south half of the
11 southwest quarter of 29. I know it's hard to see on the
12 large map here. The first pad, though, would be about
13 1,320 from the west line. So it would be right in the
14 middle of our project area on the south half. The next
15 pad would be immediately adjacent to it. So that would
16 be a little bit closer to 1,000 feet from the west line
17 or so. And as we've discussed, we've already begun
18 talks with the surface owner there.

19 **Q. Okay. And you could do all your wells from**
20 **that?**

21 A. Oh, sorry. And then the two 2nd Bone Spring
22 wells will be drilled from the north. That's largely
23 because of the land position, as well as the ability to
24 center that pad is valuable in that it minimizes the
25 tangents off from that pad to the first take points.

1 And also the 2nd Bone Spring wells can be on a pad of
2 their own, as we don't see that they need to be
3 co-developed with any of the other formations we've been
4 discussing, because they sit several thousand feet up in
5 the section. We don't expect any interference there.

6 Q. Okay.

7 A. Yeah.

8 Q. The city of Loving over in the east half to the
9 north -- northeast quarter of 29, that doesn't interfere
10 with your pad locations that you're proposing?

11 A. No.

12 Q. Okay. I have a lot of questions about the
13 faults, but I guess I might -- but your position is 3D
14 seismic and the knowledge you've gained from the
15 drilling behavior so far has been invaluable?

16 A. Absolutely.

17 Q. Is that -- let's see here.

18 I don't want to ask any more questions.

19 EXAMINER JONES: Redirect? You've been
20 waiting to go do that?

21 MS. BRADFUTE: Yes, please. I have a
22 couple of questions.

23 REDIRECT EXAMINATION

24 BY MS. BRADFUTE:

25 Q. I wanted to clarify just a couple of points,

1 **Mr. Keren. Mr. Feldewert asked you about data**
2 **collection. Do you remember that line of questioning**
3 **earlier on in your cross-examination?**

4 A. Yes.

5 Q. And I believe there is a little bit of
6 **confusion about which set of data Marathon wants to**
7 **obtain, meaning which formation -- subset of formation**
8 **Marathon wants to obtain. What is the formation subset**
9 **that Marathon wants to obtain data for when it's**
10 **drilling during its first stage of development?**

11 A. So what we would like to do is we would like to
12 do open-hole wireline logging as deep as we possibly
13 can, into the curve even a little bit, on our Wolfcamp D
14 well. So being that of the deepest well, we have a D
15 well in our first stage of development. That's going to
16 allow us to do that logging over all of the wells that
17 we are planning to drill above that. So we would drill
18 that well first, run that log, be able to examine our
19 landing -- optimal landing targets in all of the
20 overlying formations from getting that data, as well as
21 de-risk some of the potential wells that we would drill
22 as infill wells in between the Wolfcamp D and the
23 Wolfcamp Sand. We have proposed those wells because
24 based on the data that we have, the 3D seismic, our
25 geologic studies using well control, we have high

1 confidence that the reservoir quality is there. We just
2 need to confirm where to actually land our well.

3 Q. And Mr. Feldewert asked you if this data could
4 be collected by BTA in BTA's first stage of development,
5 which involves the Ogden 5H well and the Ogden 6H, which
6 are Wolfcamp X-Y wells. Do you remember that line of
7 questioning?

8 A. Yes.

9 Q. Is it possible for Marathon to obtain the data
10 that it wants on the Wolfcamp D Formation from BTA's
11 drilling operations into the X-Y?

12 A. We won't -- we won't get any data below the
13 X-Y, and we also haven't had any communication from them
14 with any intent to collect any sort of geologic data
15 beyond the standard gamma ray logs and mud logs.
16 Whereas, we would be investing in a much more advanced
17 logging program.

18 Q. And has Marathon drilled other Wolfcamp D wells
19 within Eddy County?

20 A. We have, yes.

21 Q. And have those well been completed?

22 A. Yes.

23 Q. Okay. And has Marathon obtained information in
24 other areas of Eddy County which indicates Wolfcamp D
25 development will be economic?

1 A. Yes.

2 Q. Earlier on in the day, there was testimony from
3 BTA's engineer, Mr. McQuien, that BTA had only drilled
4 one well in Eddy County in 2017; is that correct?

5 A. Yes.

6 Q. And have you independently looked into the
7 number of wells that BTA drilled in 2017 in Eddy County?

8 A. Yes.

9 Q. And did you likewise find that they had only
10 drilled one well?

11 A. Yes.

12 Q. One horizontal well?

13 A. One horizontal well.

14 Q. And then Mr. McQuien also testified that BTA
15 has since drilled two additional horizontal wells in
16 Eddy County; is that correct?

17 A. That is correct.

18 MR. FELDEWERT: You're talking about
19 two-mile wells?

20 MS. BRADFUTE: Two-mile wells.

21 Q. (BY MS. BRADFUTE) So a total of three wells
22 within Eddy County have been drilled by BTA within the
23 last two years; is that correct?

24 A. I think the time -- that is correct. And I
25 think that timeline might extend even more than two

1 years, based on my studies that I've done. Based on the
2 publicly available data, we haven't seen -- prior to
3 that, the last well -- horizontal well they had drilled
4 was this Ogden well in Eddy County, this Ogden well
5 right here, drilled in the 1st Bone Spring Sand in the
6 late 2000s. So that would be -- you know, that would be
7 the extent of horizontal development that I have seen in
8 my own research from BTA in Eddy County.

9 Q. And BTA also testified earlier that they did
10 have at least more extensive development operations in
11 Lea County, including maybe about -- I think there were
12 14 wells -- horizontal wells that have been drilled --

13 A. Yeah.

14 Q. -- in the last years?

15 A. Yeah.

16 Q. Does the geology in Lea County differ from the
17 geology in Eddy County?

18 A. Yes, definitely.

19 Q. And I've heard some people describe it as
20 apples to oranges, night and day. Is that accurate?

21 A. Yes.

22 Q. Are you familiar with where the Grama Ridge
23 State Com unit is located in Marathon's unit?

24 A. It's in Lea County. I know that. Yeah.

25 Q. Okay. And you have not previously studied the

1 geology underlying that unit, have you?

2 A. No.

3 Q. Okay. In general, Marathon doesn't oppose
4 developing wells on a mile-and-a-half-long basis, does
5 it?

6 A. No.

7 Q. Okay. But here, Marathon's true concern
8 appears to be the density or the spacing of the wells
9 within the half section in the west half of Section 29,
10 correct?

11 A. The density and the strategy of development in
12 terms of their time line.

13 Q. Okay. And with greater density, when you're
14 infilling a half section with more fractures, what is
15 the result?

16 A. Can you rephrase the question?

17 Q. Yeah. So by drilling -- let me back up.

18 By drilling more wells within the half
19 section, will you end up having more frac stages within
20 that half section as a result of just the number of
21 wells that are located?

22 A. Yup. Yeah.

23 Q. Okay. And when you have more fractures within
24 the Wolfcamp and the 3rd Bone Spring Formation, are you
25 able to create greater producible reserves by investing

1 in that infrastructure and --

2 A. Yes. Certainly.

3 Q. So well density -- by planning your well
4 density properly and investing in more wellbores that go
5 within a section, you're creating greater recovery
6 within the acreage?

7 A. Yes.

8 Q. At least within these formations?

9 A. Correct.

10 MS. BRADFUTE: That concludes my questions.

11 EXAMINER JONES: Okay. Thank you. Thank
12 you very much.

13 We have one more witness, I assume?

14 EXAMINER BROOKS: Let's take a five-minute
15 break.

16 EXAMINER JONES: Five-minute break.

17 (Recess, 5:02 p.m. to 5:09 p.m.)

18 EXAMINER JONES: Okay. Let's go back on
19 the record in Case 16076.

20 MS. BRADFUTE: Mr. Examiner, I'd like to
21 call my third and last witness today.

22 MIKHAIL ALEKSEENKO,
23 after having been previously sworn under oath, was
24 questioned and testified as follows:

25 DIRECT EXAMINATION

1 BY MS. BRADFUTE:

2 Q. Would you please state your name for the
3 record?

4 A. Mikhail Alekseenko.

5 Q. Mr. Alekseenko, who do you work for?

6 A. Marathon Oil Permian.

7 Q. And what is your position at Marathon?

8 A. Reservoir engineer.

9 Q. And what are your responsibilities as a
10 reservoir engineer at Marathon?

11 A. Reservoir engineering and the development of
12 Eddy County, New Mexico.

13 Q. Okay. And do you analyze estimated recoveries
14 from reservoirs? What are some of your duties and
15 functions that you do?

16 A. Comparative analysis, benchmarking, type
17 curves, working with geologists on identifying the best
18 targets, working with production engineers, overseeing
19 wells that have come to sales, analyzing flowback data,
20 communicating with upper management the finds of those
21 analyses, and steering the development patterns of our
22 program.

23 Q. And, Mr. Alekseenko, can you please describe
24 your educational background to the hearing examiners?

25 A. Bachelor's in Petroleum Engineering from the

1 University of Houston and a Master's in Finance from
2 Indiana University.

3 **Q. And have you provided any research activities?**

4 A. I've been actively involved with SPE for the
5 last seven years, serving as president of the student
6 chapter and being involved on several committees, first
7 the Gulf Coast section. I'm currently the chairman of
8 the SPE Gulf Coast Innovate Committee, which was a
9 grassroots initiative that myself and several other
10 folks started to help entrepreneurs, investors and
11 innovators in the oil and gas arena to develop their
12 ideas.

13 I've also conducted research with Dr. John
14 Lee while being at the University of Houston and
15 participating in -- and my research with Dr. John Lee
16 was largely focused on decline curve analysis methods
17 and on estimating recoveries for oil and gas wells in
18 unconventional, particularly in Barnett Shale and in
19 Bakken.

20 **Q. And, Mr. Alekseenko, could you please describe**
21 **your work history to the Examiners?**

22 A. I've been employed by Marathon Oil since -- in
23 different capacities since 2011. I was employed part
24 time for two years while still being in school. In
25 2013, upon graduation, I joined Marathon as a drilling

1 engineer in the Eagle Ford. I spent six months
2 supervising activities in the field and then joined our
3 office in Houston where I started initially supporting
4 one rig and supervising one rig, and by the time I
5 finished my drilling assignment a year later, I was
6 supervising three rigs in the Eagle Ford.

7 I was then moved to a reservoir engineering
8 assignment in the Eagle Ford where I oversaw 30,000
9 barrels of production and, over the course of
10 two-and-a-half years, brought on line over 100 wells and
11 developed the Eagle Ford for two-and-a-half years.

12 And a year ago, I've been asked to join the
13 Marathon Permian team on our acquisition of Black
14 Mountain NBC assets in the Delaware.

15 **Q. And are you familiar with the application**
16 **that's been filed by Marathon in Case Number 16076?**

17 A. Yes, I am.

18 **Q. And are you familiar with the application that**
19 **has been filed by BTA in Case Number 16024?**

20 A. Yes, ma'am.

21 **Q. And are you familiar with the status of the**
22 **lands which are the subject matters of these**
23 **applications?**

24 A. Yes, I am.

25 **Q. And are you familiar with the drilling plans**

1 **for the proposed wells?**

2 A. Yes, I am.

3 MS. BRADFUTE: I'd like to tender
4 Mr. Alekseenko as an expert witness in reservoir
5 engineering matters.

6 MR. FELDEWERT: No objection.

7 EXAMINER JONES: He's qualified as an
8 expert in petroleum reservoir engineering.

9 Q. **(BY MS. BRADFUTE) Mr. Alekseenko, could you**
10 **please turn to what has been marked as Exhibit O in the**
11 **packet in front of you? And Mr. Keren previously**
12 **testified about this exhibit from a geology standpoint**
13 **and the well spacing standpoint, but I'd like for your**
14 **input as a reservoir engineer on this exhibit. Could**
15 **you walk through this exhibit with the hearing examiners**
16 **and add to Mr. Keren's testimony that he's previously**
17 **provided?**

18 A. From the reservoir standpoint, it's a
19 magnificent rock. We've got to go after it. That is my
20 view. Marathon, while bullish on the prospects of the
21 development here, wants to do so in a prudent way, and
22 that is the reason for the development plans laid out in
23 front of you. We considered the development stages very
24 carefully. As Mr. Keren indicated, there is a reason
25 for why certain wells are in Development Stage 1, why

1 certain wells are in Development Stage 2, and why other
2 wells are in Development Stage 3.

3 In Development Stage 1, we're proposing to
4 drill the Zeus 12H, 17H and the 16H and 15H. Our
5 current modeling and analysis suggest that in order to
6 adequately access 3rd Bone Spring lower resource, you
7 have to co-develop. That is why 15H is developed
8 concurrently with 12H and 17H.

9 **Q. Go ahead.**

10 A. Secondly, we have some certainty in the
11 Wolfcamp A, and, therefore -- and then some horizons
12 between X-Y A and deeper Wolfcamps, and, therefore, we
13 are planning to drill 16H as part of our Development
14 Stage 1 so that, as Mr. Keren indicated, we collect
15 advanced logs and properly identify optimal targets for
16 wells in the Development Stage 2.

17 Finally, our Development Stage 3, our 2nd
18 Bone Spring wells, are separated from our other target
19 horizons by several hundred feet and present no risk of
20 depletion from our development stages and have carried
21 no risk of depletion from Development Stages 1 and 2,
22 and, therefore, those are pushed to Development Stage 3.

23 **Q. I want to talk briefly about the risk of**
24 **depletion that you mentioned. What is the risk that the**
25 **reservoir's going to be depleted?**

1 A. There are significant risks, and we've seen
2 them nearby. If I may point to BTA's engineering
3 exhibit, I believe it's 16 or 17. Let me figure out
4 where that is.

5 It's BTA's Exhibit 16, showing -- titled
6 "Lower Wolfcamp Cum BOE versus Time," showing wells --
7 one-and-a-half-mile-long wells in shades of blue and
8 one-mile wells in shades of orange and yellow.

9 I'd like to point your attention to the
10 Jimmy Kone 05 24S 28E RB 228H. That is the well that,
11 at 20 months of production, reached approximately
12 400,000 cum BOE. Has everybody been able to locate that
13 well?

14 I would then like to point out the fact
15 that around nine months of production, the slope of that
16 well of the cum production on that well has changed
17 significantly. We are familiar with the reasoning --
18 unlike BTA, we are familiar with the reasoning for why
19 that is the cause.

20 **Q. I want to have you pause right there.**

21 **You say that the slope of the well changed**
22 **significantly right around nine months. And when I'm**
23 **looking at the graph here, this is kind of a**
24 **purple-shaded well, and it's the -- I'm sorry, not**
25 **purple -- orange-shaded well that's closest to the top**

1 of the chart. It's the highest orange-shaped well you
2 see. And right around nine months, the curve kind of
3 dips down just slightly, and you can barely notice it
4 within this curve. Is that what you were pointing out
5 to the hearing examiners?

6 A. That is correct. The well performance changes
7 dramatically. It was -- if you compare the forms of
8 that well to the one-and-a-half-mile well's performance,
9 you see that it's tracking fairly closely, and then all
10 of a sudden, something changes. And we know what
11 changes. I believe these are Mewbourne wells, if I'm
12 not mistaken, and they were -- they brought on line two
13 more wells. The 228H was brought on line in May of
14 2016, and in February of 2017, they brought on line two
15 wells nearby, frac hitting the 228H well, resulting in
16 significant degradation of performance on that well.

17 Secondly, if you look Jimmy Kone wells that
18 were brought on line -- they're in lighter shades of
19 orange on the same graph -- those are -- I'm not going
20 to read the whole names, but wells 223H and 221H,
21 they're nowhere near close to the performance of the
22 original 228H because they're suffering from the
23 depletion impacts of the original wellbore.

24 That shows why it's imperative to think
25 about the development of these horizons holistically and

1 approach them as a single reservoir and make sure that
2 the pace of development is such that it does not hinder
3 the performance of the subsequent wells.

4 Q. So I want to walk back through that. When you
5 pursue a development plan that may result in depletion
6 like we're seeing here with the Jimmy Kone 223H, the
7 226H and the 226H [sic], you could essentially cut
8 development short on those wells where you're not seeing
9 as significant of reserves being developed as could be?

10 A. Most certainly. This results in significant
11 waste, in our opinion, not only on child wells but also
12 on the parent wells.

13 So to provide you with a physics
14 background, inherently the parent well creates SRV
15 around it.

16 Q. Okay. Let me have you pause right there. What
17 is a parent well?

18 A. So the parent well in this case would be the
19 Jimmy Kone 228H or the well that's drilled in the virgin
20 rock, drilled before anything else in that horizon. As
21 you frac the well, then you create a similar rock volume
22 around that well and subsequently produce from that
23 horizon, the pressures in that SRV lessen. As you
24 subsequently come next to those wells, your hydraulic
25 stimulation is going to be shifting and seeking those

1 lower pressures. In other words, you will not be
2 accessing as much virgin rock as you would with a parent
3 well. Not only does that result in poor stimulated rock
4 volume on the children wells, there is significant risk
5 of the fracs heads, as shown here in the Jimmy Kone 228H
6 changing its slope at month nine and resulting in loss
7 both on the parent wellbores and on the children
8 wellbores.

9 Q. And, Mr. Alekseenko, have you spotted any risks
10 of the -- in BTA's proposed development plan for the
11 west half of Section 29 and in the northwest quarter of
12 Section 22?

13 A. Absolutely. There are or two risks that are
14 concurrent. BTA, in their testimony, had brought up two
15 Zeppelin wells that they're anticipating to be brought
16 on line soon. Those are lay-downs in the southern half
17 of 32. From their testimony, those wells target
18 Wolfcamp X-Y and Wolfcamp D. Both of those horizons are
19 also target horizons for Marathon Oil.

20 Secondly, if you look in Section 31, there
21 are two wells that are -- that have been drilled, but
22 they're not shown on the map. And I'm pointing to the
23 maps laying down in front of you or Exhibit K. So if
24 you look to -- into the southeastern 1/16th, I suppose,
25 of 31, there are several yellow dots. That's where our

1 surface-hole location for the Sweeney Charlie wells are,
2 and they have drilled their wells at 330 offset to the
3 eastern boundary of Section 31. And they also present
4 depletion risk if the northwestern quarter of Section 32
5 were to be pooled into the unit that we're debating
6 today.

7 **Q. And why is that? Why would that particular**
8 **development pattern present a particular depletion risk?**

9 A. Well, fluid and sand see no boundaries. It
10 doesn't matter if it's Section 31 or 32.

11 **Q. And, Mr. Alekseenko, is it true that the**
12 **reservoirs which are proposed to be developed by**
13 **Marathon and BTA in these cases -- are they similar to**
14 **unconventional reservoirs?**

15 A. Very much so. These reservoirs would not flow
16 on their own in commercial quantities, and that is the
17 reason for horizontal development in this area.

18 **Q. And by drilling an increased number of wells**
19 **within a half section, is Marathon essentially creating**
20 **the production, the reservoir that's going to be**
21 **produced by the wells?**

22 A. Most certainly. And when comparing two
23 development plans and looking at miles per section or
24 per half section, you can see that Marathon's plan --
25 Marathon's plan is superior. We are planning, in the

1 3rd Bone Spring, Wolfcamp X-Y A and Wolfcamp D. We are
2 planning -- as you can see on Exhibit O, we are planning
3 eight wells. And BTA's proposal is to drill six wells,
4 of which two wells have not even had the permit process
5 started yet, two 3rd Bone Spring wells. So their
6 proposal is to drill six one-and-a-half-mile wells over
7 480 acres, and our proposal is to drill eight mile --
8 eight one-mile wells over 320. So if you do the math,
9 eight over 320 or nine over 480, it is evident that our
10 plan is more adequate to enhance the reservoir quality.

11 And I'll show you the support for that from
12 the DC analysis and volumetrics.

13 I remember, Mr. Examiner, you asked that
14 question earlier today, and I'll be happy to provide our
15 view on that to you.

16 **Q. Mr. Alekseenko, can you please turn to what's**
17 **been marked as Exhibit P in Marathon's exhibits in front**
18 **of you? And could you please briefly explain what that**
19 **hearing exhibit is to the Examiners?**

20 A. So this exhibit shows recent horizontal
21 development in the vicinity of the project area.
22 Marathon acreage is depicted in yellow. The project
23 area is depicted in the dashed black box. And finally
24 what I'm showing here is all horizontal wells for which
25 deviation surveys are available in the public domain

1 that were drilled since 2010 -- drilled and brought on
2 line since 2010.

3 And there are about 60 wells, of which ten
4 are 2nd Bone Spring -- roughly ten 2nd Bone Spring
5 wells. Those are depicted in orange. There are about
6 20 wells that are targeting the Upper Wolfcamp Sand,
7 which Marathon holds the Wolfcamp X-Y. Those are
8 depicted in green. And the deeper Lower Wolfcamp is
9 depicted in red, and there are 30 -- over 30 Wolfcamp
10 Lower wells that were drilled since 2010.

11 I'd like to emphasize that there are more
12 Wolfcamp Lower wells drilled in this area than Wolfcamp
13 Upper wells drilled in this area since 2010. And we
14 believe we know the reason for that.

15 The most active operators here are Matador
16 and Mewbourne. And you can see I've indicated here the
17 surface-hole locations with different shapes, and there
18 is a legend on the top right showcasing which -- which
19 operators operate those wells.

20 This map does not show Marathon's current
21 drilling activity. That, you can see on Exhibit K or
22 the maps that are laid in front of you. And, again,
23 there are about 22 wells that we will be drilling and/or
24 bringing on line in 2018. We've committed significant
25 amount of capital to develop these resources at density

1 in this part of Eddy County.

2 **Q. And does Marathon believe that completing these**
3 **development areas at density, as you've described, will**
4 **be successful and result in a greater amount of**
5 **recovery?**

6 A. Absolutely. Not only we -- our analysis shows
7 that density development is the only way to properly --
8 to prevent waste by avoiding parent-child issues, but
9 we're also benefiting from many, many synergies that we
10 enjoy as a large operator. We have recycling -- water
11 recycling facilities and reusable processes in place.

12 Our pads are not single-well pads or
13 double-well pads. Those are four- and six-well pads
14 that are not substantially larger than a single-well
15 pad. If you look at the size of pads that are required
16 to drill a single well, it's roughly 400 feet by 400
17 feet. If you want to drill two or four or six wells,
18 you only have to increase those pad sizes larger by only
19 a small amount of distance. Our six-well pad is roughly
20 400 feet by 500 feet, utilizing just 20 percent more
21 land to drill six times more wells. That is why we're
22 developing this acreage in the way we're developing it.
23 There are just too many benefits to forgo.

24 **Q. And has Marathon pursued similar development**
25 **plans within other basins within the United States?**

1 A. Absolutely. We operate in four basins: The
2 Bakken in North Dakota; the SCOOP and STACK in Oklahoma;
3 the Eagle Ford in Texas; and the Delaware in New Mexico.
4 I'll speak for the Eagle Ford, since this is where my
5 experience is, but at the time I joined the asset in
6 2013, we had over 900 wells in the ground that the
7 company operated. Now we have over 1,500 wells in the
8 ground in the Eagle Ford asset. We understand how to
9 properly develop unconventional reservoirs, and we are
10 bringing that expertise from other basins to the
11 Delaware in New Mexico.

12 **Q. Now, Mr. Feldewert, when he was questioning**
13 **Mr. Keren, described Marathon's development plans within**
14 **this area of Eddy County as exotic. Are these**
15 **development plans exotic?**

16 A. They may be for BTA. For us, we understand the
17 reservoir. We know what we're doing, and that is why
18 we're pursuing them in this fashion. If there is any
19 chance we can communicate our knowledge to BTA, we'll be
20 happy to do so and explain why our plan is not exotic
21 but only the proper way to develop this rock.

22 **Q. When I look at the map contained in Exhibit P,**
23 **it looks like many of these wells are drilled on or near**
24 **what is likely to be the setback for the spacing unit.**
25 **Is that a correct assumption?**

1 A. Would you repeat the question, please?

2 Q. When I look at the exhibit contained in P, it
3 looks like many of these wells are drilled at or near
4 the 330-foot setback or maybe even closer than that; is
5 that correct?

6 A. That is correct. And as Mr. Keren testified
7 earlier, it is our view as a company that drilling wells
8 on a leaseline, as most of these developed operators are
9 doing, is the way to prevent waste.

10 Q. Okay. And have you reviewed BTA's proposed
11 development plan in Exhibit 1 for the Ogden 5H and 6H
12 wells?

13 A. I have.

14 Q. And are those wells proposed to be drilled near
15 the 330-foot setback point?

16 A. No. Those offsets not 330 but 660.

17 Q. Okay. And so BTA has spaced its wells in a
18 manner where there is less room to go back in and drill
19 infill wells; is that correct?

20 A. Our view is that the development plans laid out
21 by BTA will prevent nearly any infill opportunities in
22 the future and, again, result in significant --
23 significant waste.

24 Q. So under BTA's proposal, it's your opinion that
25 it would be very difficult to go back in and drill

1 **additional infill wells with correct spacing?**

2 A. Absolutely, both from a spacing standpoint and
3 again from the parent-child impact, as we have observed
4 in this area and all over other basins and pretty much
5 everywhere.

6 **Q. And will that result in significant waste**
7 **located to the east and west of these proposed wells?**

8 A. Most certainly. It will result in significant
9 loss to Marathon's net value in these assets.

10 **Q. And just looking at BTA's Exhibit 1, it looks**
11 **like there's much more acreage that won't be developed**
12 **to the east and west of these wells than what would be**
13 **developed just between the 330-foot setback requirements**
14 **that you may not obtain production from through drilling**
15 **one-mile laterals.**

16 A. Yes. We view that their plans are not going to
17 access and take advantage of the resource that is in
18 place here.

19 **Q. Could you please turn to Exhibit 2? And this**
20 **exhibit has one tab. And if you could turn to that,**
21 **could you please explain this exhibit to the hearing**
22 **examiners?**

23 A. Yes. This exhibit actually piggybacks on the
24 map that we saw earlier in the exhibit -- in Exhibit P,
25 the map that showed 60 wells drilled since 2010 in the

1 area close to the project area. And what was done here
2 is I separated the wells into broad categories of
3 Wolfcamp Upper to Wolfcamp Lower. I performed a decline
4 curve analysis on each and every well in those two
5 groups, and then I normalized the EURs on a per-foot
6 basis, although out of 60 wells, about 57 are one-mile
7 laterals. There are three that are one-and-a-half mile,
8 and I wanted to take into account that they have longer
9 lateral lines [sic]. So what's shown here is EUR per
10 foot.

11 And the oil component -- this is a
12 two-phase EUR. The oil component is shown in green, and
13 the gas component, the BOE -- 61 BOE, is shown in red.
14 It is clear that the Wolfcamp Upper has much further
15 [sic] content, and that is why a lot of people are
16 chasing it. And it's easier to get the oil out of the
17 ground and distribute it.

18 However, you can also see from the EUR
19 perspective and the energy content perspective, the
20 Wolfcamp Lower has tremendous potential. And if you
21 were to normalize this on a value basis, these are
22 competing horizons. I have -- I've done the math, but
23 they're nearly identical. Both on the 20-to-1 BOE ratio
24 have roughly 120 BOE per foot, both Wolfcamp Upper and
25 Lower. That is why we're so bullish on the Wolfcamp

1 Lower. And that is why, frankly, many other operators
2 are bullish on it, too. That is why there were 30 wells
3 drilled since 2010 targeting the Wolfcamp Lower and only
4 20 targeting the Wolfcamp Upper.

5 Now, what I'd like to turn your attention
6 to is the volumetric analysis that was performed, and
7 that provides our view on what recovery factors we would
8 get by developing these horizons at density, because
9 it's our current view that the 3rd Bone Spring, the
10 Wolfcamp X-Y and the Wolfcamp A need to be developed
11 simultaneously. Those are packaged together, and that
12 is the first line of the table that you see on the
13 bottom.

14 Based on the DCA, we have oil EURs per
15 section of about 4.3 million barrels out of the Wolfcamp
16 Upper and the 3rd Bone and about 10 bcf of gas out of
17 the same horizon. And based on our resource-in-place
18 calculations -- that leverage PVT data that we've
19 obtained elsewhere and extensive analysis of the
20 properties surrounding the project area, we've also
21 calculated resource in place and calculated our recovery
22 factors. And you can see that we're roughly at about 17
23 percent for the Wolfcamp Upper and 3rd Bone Spring,
24 which is consistent with the industry view of what one
25 would get out of sandy reservoirs.

1 Similarly, we've done this exercise for the
2 Wolfcamp Lower. Assuming eight wells per section -- and
3 to remind you, even though the Wolfcamp Lower is not
4 part of this docket, BTA has proposed two Wolfcamp Lower
5 wells in a half section or four wells per section. Our
6 proposal is eight. And based on that proposal, the
7 recovery here -- the recovery factors here -- based on
8 our density assumptions -- pardon -- the recovery
9 factors here we're estimating nine and 18 percent for
10 oil and gas, respectively, again very consistent with
11 the industry views of what unconventional rocks would
12 yield.

13 That provides support for why our density
14 is required the density to access these resources
15 effectively and efficiently and prudently and prevent
16 waste associated with developing this at an
17 inappropriate density.

18 **Q. Mr. Alekseenko, has Marathon already begun the**
19 **permitting process for these wells by completing C-102s**
20 **that need to be finalized and --**

21 A. The C-102s have been completed. More over, the
22 project area is all fee land, so the permitting process
23 is fairly quick.

24 **Q. And has Marathon staked its pad areas for these**
25 **wells?**

1 A. I would refer the question to Tucker Keren.
2 I'm not familiar where exactly we are in that process.

3 **Q. Okay. I believe there is earlier testimony to**
4 **that fact.**

5 **And does Marathon have drilling rigs within**
6 **this area which will be used to drill the wells that it**
7 **has proposed?**

8 A. Absolutely. As Mr. Keren had testified
9 earlier, just within a two-mile radius, right now we
10 have four rigs. Marathon Oil Permian, LLC has five rigs
11 and one dedicated frac crew that is committed to
12 developing of this resource. And shall we be awarded
13 the operatorship, we will make plans in place -- put
14 plans in place to access this resource and develop it in
15 a prudent way.

16 **Q. In your opinion, will Marathon's plan protect**
17 **correlative rights?**

18 A. Most certainly. We think that our density is
19 the required density to access all hydrocarbons that can
20 commercially be accessed here, and, inevitably,
21 producing more out of ground will result in larger
22 revenue streams for the State and for the mineral right
23 owners.

24 **Q. And in your opinion, will Marathon's**
25 **development plan result in a reduction of waste?**

1 A. Our view is that it will because of the more
2 appropriate development density despite the fact that
3 there are some losses associated with setbacks drilling
4 one-and-a-halves versus ones.

5 If I may emphasize, in my view, we are not
6 debating one-and-a-half versus one-mile. We're debating
7 what is the appropriate development plan here.

8 Q. In other words, what is the appropriate density
9 or spacing for the wells?

10 A. Yes.

11 Q. And in your opinion, if wells aren't properly
12 spaced when they're proposed, drilled and completed,
13 does that reduce -- does result in waste?

14 A. Yes. Inappropriate well density results in
15 waste.

16 Q. In your opinion, does BTA's proposed
17 development plan result in waste?

18 A. Yes.

19 Q. Does it result in waste because BTA will not be
20 simultaneously completing the 3rd Bone Spring along with
21 the Upper Wolfcamp zones?

22 A. Yes. But that is not -- that is not a complete
23 answer. There are other reasons why it results in
24 waste.

25 Q. Can you outline those real quickly for the

1 **Examiners?**

2 A. It will result in waste because the 3rd Bone
3 Spring will not be co-developed with the Wolfcamp X-Y.
4 It will result in waste because the setbacks on planned
5 X-Y wells are 660 instead of 330. It will result in
6 waste because well-density assumptions for the Lower
7 Wolfcamp are inadequate and half of what they are --
8 they need to be.

9 **Q. Thank you.**

10 **In your opinion, who should be appointed as**
11 **the operator in the west half of 29?**

12 A. Marathon Oil Permian, LLC.

13 **Q. Were Exhibits P through Q prepared by you or**
14 **compiled under your direction and supervision?**

15 A. Yes.

16 MS. BRADFUTE: I would like to admit
17 Exhibits P through Q into the record.

18 MR. FELDEWERT: No objection.

19 EXAMINER JONES: Exhibits P through Q are
20 admitted.

21 (Marathon Oil Permian, LLC Exhibit Letters
22 P through Q are offered and admitted into
23 evidence.)

24 MS. BRADFUTE: And that concludes my
25 questions.

1 EXAMINER JONES: Mr. Feldewert?

2 CROSS-EXAMINATION

3 BY MR. FELDEWERT:

4 Q. Yeah. Mr. Alekseenko, your Exhibit Q, do you
5 have that in front of you now?

6 A. (Indicating.)

7 Q. Now, I think I understand the top half.

8 I'm trying to understand the bottom half of
9 the chart down there. When you say in the "Horizon,"
10 three Bone Spring -- "3rd Bone Spring, plus WXY, plus
11 WA" and you have a total there of 9 WPS, what do you
12 mean by that?

13 A. I would like to turn your attention to Exhibit
14 O, Mr. Feldewert. Please tell me if I butcher your last
15 name.

16 Q. Well, the same goes for you, my friend. We've
17 got the same last names.

18 A. So if you look at the Exhibit O and you
19 consider full-section development in the eastern half of
20 Section 30 and the western half of Section 29 and you
21 count the number of dots in 3rd Bone Spring, Wolfcamp
22 X-Y and Wolfcamp A, you will see that there are nine
23 wells per section in those three benches.

24 Q. So I'm trying to -- I'm looking at O here. I
25 see -- which of the 3rd -- I see a 3rd Bone Spring Sand,

1 **right?**

2 A. May I approach the --

3 Q. No, that's okay. You're talking about these
4 two dots right here (indicating)?

5 A. Yes.

6 Q. There's two of them there?

7 A. Two of them there.

8 Q. Where do you get three in each bench?

9 A. One, two, three; one, two, three; and one, two,
10 three (indicating).

11 Q. So I'm just looking at the east half of 30?

12 A. Okay.

13 Q. Right? You were pointing over into the west
14 half of 29.

15 A. Those are half sections, and two half sections
16 would comprise a full section.

17 Q. Okay. But your plan here wouldn't correspond
18 with -- you would just be developing the west half of
19 29, right, if you gained operatorship?

20 A. As testified earlier, fluid and sands see no
21 boundaries. We are considering this in a more holistic
22 view, Mr. Feldewert.

23 Q. Okay. But you are horizoning [sic] in a number
24 of wells that you show in that gray box, and they
25 wouldn't fit in the west half of 29, right?

1 A. I'm not sure I follow the question.

2 Q. You're not proposing nine wells in each bench
3 in the west half of 29?

4 A. We are proposing nine wells per section.

5 Q. Okay. What does that do to the west half of
6 29?

7 A. When you're reviewing half sections, it's a
8 little bit different, and that's why you have to look at
9 two half sections and look at the full section.

10 Q. But what's available to you, if the Division
11 awards, is just a half section, right, in the west half
12 of 29?

13 A. Well, we already developed the eastern half of
14 Section 30.

15 Q. You're waiting to complete those wells?

16 A. We will, yes.

17 Q. What's the data source for your information
18 down at the bottom in gray?

19 A. His.

20 Q. His?

21 A. His.

22 Q. From what area? What geologic area?

23 A. This is -- this is from -- so let me turn your
24 attention to Exhibit P, as in Peter.

25 Q. So my question is: When I see, for example,

1 **your input parameters --**

2 A. Yeah.

3 **Q. -- where does that data come from?**

4 A. So if you look at Exhibit P and you look at the
5 wells shown here, that is about 60 wells that were
6 brought on line in 2010. The data is publicly
7 available, and that is the information used to -- that
8 was used to decline and normalize the production and
9 estimate the oil on a per-foot basis and then
10 subsequently generate EURs per section that are supplied
11 in Exhibit Q.

12 **Q. Okay. So in other words, the data that -- the**
13 **input and the data that you show in Exhibit Q comes from**
14 **all the wells that are shown and Exhibit P?**

15 A. Correct.

16 **Q. Is that right?**

17 A. Yes. Correct.

18 **Q. Thank you. I didn't catch that the first time**
19 **around.**

20 Now, when I look at Exhibit P -- okay?

21 A. Uh-huh.

22 **Q. -- do you observe any of the -- any development**
23 **at the -- any full-section development at the density**
24 **and the spacing that you're suggesting should occur?**

25 A. What we have seen to date in the immediate

1 vicinity is a standalone development, but based on our
2 analysis, that coming back at density results in
3 significant loss, we view that essentially mowed-down
4 approach, if you will, is the best way to access
5 resource in place.

6 **Q. So my question is: The density and spacing**
7 **that you're suggesting should occur, do you see that**
8 **anywhere on your Exhibit P?**

9 A. We see -- again, it was -- if I may -- if you'd
10 like, we can go back to the Jimmy Kone wells shown in
11 Exhibit 16. And those are -- in Exhibit P, in our
12 testimony, that's wells in Township Range 24S-28E,
13 Section 5.

14 **Q. Section 5.**

15 A. In Section 5.

16 And those were at about, I believe, four
17 wells a section, and we've seen significant depletion,
18 in fact, from coming back later in life of the reservoir
19 and infilling. So we've seen evidence of the
20 parent-child impacts in the immediate area of the
21 project. Not only that, we've seen it in many, many
22 instances, not just in the Delaware Basin but elsewhere,
23 and that knowledge is transferable to this rock, and
24 that is why we have plans in place where we have them.

25 **Q. Hold on. Here's my question. Okay? I don't**

1 see any spacing on Exhibit P at the density that you're
2 suggesting --

3 A. Okay.

4 Q. -- is that correct?

5 A. That -- that is correct.

6 Q. Okay. And these are operators such as CAZA,
7 Chevron, COG, Matador and Mewbourne, right?

8 A. Uh-huh.

9 Q. And if I look, for example, at Section 35 -- do
10 you see Section 35 here on Exhibit P?

11 A. Which township and range?

12 Q. Township 23 South, 28 East --

13 A. Okay.

14 Q. -- Exhibit [sic] 35.

15 A. Section 25. Yes, I see that.

16 Q. Section --

17 A. Section 35, not Exhibit 35. Yes, I see that.

18 Q. You with me?

19 A. Yes, sir.

20 Q. If I'm understanding the symbols, that was
21 developed by Mewbourne?

22 A. That was developed by Mewbourne. You are
23 correct.

24 Q. They've been operating out here -- do you know
25 how long?

1 A. I would welcome your knowledge.

2 Q. Okay. Well, Mewbourne -- well, let me put it
3 this way. How long have you been operating in the
4 Permian Basin?

5 A. Our expertise in the Delaware Basin -- we've
6 had the Yates Field. Marathon has been the operator of
7 the Yates Field for ages and ages. What we bring to the
8 Delaware is the knowledge we've gained from other basins
9 that we believe is transferable.

10 Q. How long have you been working with Marathon in
11 the Permian Basin of New Mexico?

12 A. Since May 11th -- I don't remember the exact
13 date in May, but since May 2017.

14 Q. May 2017. So a little less than a year?

15 A. Coming up on a year.

16 Q. Okay. Coming up on a year. All right. I'll
17 give you that one.

18 Now, I'll represent to you that Mewbourne's
19 been operating out here for a long time.

20 A. Okay.

21 Q. Okay?

22 If I'm reading their development plan
23 right, aren't they developing these with four wells per
24 section?

25 A. That is correct.

1 Q. Okay. And that would be consistent with what
2 BTA has at least started to implement with their initial
3 wells?

4 A. That is correct, Mr. Feldewert.

5 Q. So we appear to may have had just a difference
6 of opinion, right, as to how these should be developed?

7 A. I don't think so.

8 Q. Okay. All right.

9 A. May I clarify my testimony?

10 Q. Well, I've heard your testimony. What I'm
11 trying to, I guess, ask you is: Does it appear to you
12 that Mewbourne is following the spacing and density that
13 you suggest is appropriate and necessary out here?

14 A. We bring knowledge from other basins. We have
15 collected an immense amount of data. We've collected an
16 immense amount of capital, and we believe our plans are
17 reflective of what's best for the resource.

18 Q. Okay. Now, you show a well here in Township --
19 28 East over there in Section 25 to the left of the
20 subject area. Do you see that? It's a green well
21 drilled by Matador.

22 A. 23-27.

23 Q. 23 South, 27, yes.

24 A. Okay.

25 Q. I see a green stick over in Section 25 just to

1 the left of the subject area outlined in black hatch.

2 A. Yes.

3 Q. That's a Matador well?

4 A. Yeah.

5 Q. I want you to take a look -- keep that open,
6 and I want you to look at BTA Exhibit 12 for me, please.

7 If I'm looking at BTA Exhibit 12 --

8 A. Uh-huh.

9 Q. -- and if we look at the subject area in BTA
10 Exhibit 12, it's yellow, right? As I move left from
11 that, I get to the same section, 25. Do you see that?

12 A. Yeah. I can locate Section 25.

13 Q. And this shows that there are actually two
14 wells over there. Do you see that?

15 A. And we show the same in Exhibit K, and our view
16 is consistent with yours. Yes.

17 Q. Okay. And if you look, for example, at -- so
18 you would agree with me that there are two wells in
19 Section 25?

20 A. Again, as shown on Exhibit P, as I testified
21 earlier, are the wells that were brought on line since
22 2010.

23 Q. Okay. Which should include, then, two wells in
24 Section 25, right?

25 A. What are the first production dates for those

1 two wells?

2 Q. Okay. That, I don't know.

3 You're saying -- you're saying the first
4 one of two wells in Section 25 may predate 2010?

5 A. I don't know. But I don't know why there would
6 be a difference -- a discrepancy. And I'm telling you
7 how this data has been sourced, and I'd like to find out
8 how this data has been sourced to identify those
9 discrepancies.

10 Q. Well, I think he indicated that he did an
11 examination and provided all the Wolfcamp wells, right,
12 in this area?

13 A. I'm sorry. Was that the earlier testimony?

14 Q. Yes.

15 A. I must have blinked there.

16 Q. You may have missed that.

17 Here's my point. You see those wells shown
18 on Exhibit Number 12 in Section 25?

19 A. Yes.

20 Q. Now, those are pretty tight, right, tightly
21 spaced?

22 A. Well, it's hard to tell because they're
23 U-shaped, so I think the surface holes are -- sorry --
24 the first take points are probably just the surface hole
25 connecting to the bottom hole. So it's kind of hard to

1 figure out what the actual spacing here is, but they do
2 appear to be kind of -- maybe six wells a section. I'm
3 not sure.

4 **Q. Maybe six, maybe eight, right --**

5 A. Kind of hard to tell, right.

6 **Q. -- if you were going to follow that spacing?**

7 A. Yeah.

8 **Q. Have you looked at the performance of those**
9 **wells?**

10 A. My analysis has been to look at -- my analysis
11 for this area and preparation for this hearing is shown
12 in Exhibits P and Q.

13 **Q. My question is: Did you look at the**
14 **performance of those tightly spaced wells in the**
15 **Wolfcamp over there in Section 25?**

16 A. I'm not sure of the timing of those two wells,
17 Mr. Feldewert. I suspect that one was brought on line
18 earlier than another and that if -- since I'm not
19 showing it here on the exhibit that shows wells that are
20 brought on line since 2010, I suspect that one of these
21 wells might be a much older well. As you know,
22 completions have changed significantly in the past eight
23 years --

24 **Q. Mr. Alekseenko --**

25 A. -- and it might have been -- let me finish, if

1 you don't mind.

2 **Q. Wait. My question is: Did you examine -- did**
3 **you analyze the information from those two wells? Yes**
4 **or no?**

5 A. The completions -- if I may finish,
6 Mr. Feldewert, answering your question, the completions
7 techniques have improved dramatically since 2010. What
8 I'm showing is I'm focusing on the more recent
9 completions to show what reservoir is capable of with
10 modern-day frac jobs.

11 **Q. Okay. What's the answer to my question?**

12 A. Because of discrepancies in the data, I suspect
13 that one of these wells is an older well.

14 **Q. Did you examine the performances of these two**
15 **wells?**

16 A. I believe that one of these wells is an older
17 well that has no relevance to today's hearing, and it
18 was not examined.

19 **Q. So you did not?**

20 A. I did not.

21 **Q. Okay. Thank you.**

22 Now, you mentioned you're concerned about
23 **existing vertical wells in certain areas, right?**

24 A. I don't recall me stating that. If you can
25 refresh my memory how I made that assertion, that would

1 be helpful.

2 Q. You don't remember that?

3 A. I don't think I stated it in the way you stated
4 it.

5 Q. What exhibit were you looking at when you
6 talked about the concern you have over the depletion
7 effect from existing vertical wells?

8 A. I have not talked about the depletion effects
9 from existing vertical wells, Mr. Feldewert.

10 Q. What were you talking about when you referenced
11 vertical wells, for example, in adjacent sections?

12 A. I have not referred to vertical wells in my
13 testimony, Mr. Feldewert.

14 MS. BRADFUTE: Mike, I don't recall him --

15 MR. FELDEWERT: He didn't?

16 Q. (BY MR. FELDEWERT) Okay. I thought you
17 mentioned some concern about the northwest quarter of
18 Section 34?

19 A. I do have that concern because there are two
20 Sweeney Charlie wells that I believe Mewbourne just
21 drilled, and they are not completed, but they are
22 sitting on the 330 offset. So let me --

23 Q. Which exhibit?

24 A. Exhibit K. Exhibit K, the map.

25 As testified earlier both by Mr. Keren and

1 myself, some of the wells are missing from this map,
2 wells for which deviation surveys are not publicly
3 available. Therefore, from Exhibit K, two Zeppelin
4 wells are excluded, and those are, as referred to in
5 BTA's testimony, the X-Y Sand and Wolfcamp D wells.

6 Similarly, Sweeney Charlie wells that are
7 placed in the eastern half of Section 31 on the 330
8 offset between 31 and 32 are also excluded from being
9 shown on Exhibit K. Those two wells target Wolfcamp X-Y
10 and D, and those two wells will inevitably result in
11 some losses and some impacts in the northwestern quarter
12 of Section 32.

13 **Q. All right. I'm trying to figure out where**
14 **we're at. Are you suggesting those wells have been**
15 **drilled?**

16 A. I'm fairly certain that's been the case.

17 **Q. And are you suggesting that they have been**
18 **brought on line?**

19 A. No, they have not been.

20 **Q. Okay. Because you don't show them on your**
21 **Exhibit P.**

22 A. Because they have not been brought on line.

23 **Q. Okay.**

24 A. In fact, as I just testified, we don't even
25 have publicly available deviation surveys for those

1 wells, the Zeppelin, about which you testified.

2 Q. Now, have you done any studies of comparing the
3 production rates from one-and-a-half-mile wells in this
4 area versus one-mile wells?

5 A. I have.

6 Q. Have you presented that here today?

7 A. As I testified earlier, we view this -- the
8 subject of this hearing not a conversation about
9 one-and-a-half mile versus one-mile, but a conversation
10 about different development plans. It is my view that
11 one-and-a-half-mile development is superior to one-mile.
12 It leads to more efficient land use. It lowers G&A
13 costs, et cetera. However, as outlined earlier, BTA's
14 development plan is not going to access the resource the
15 way it needs to be accessed.

16 Q. But you'll agree, then, with Mr. Wilty that
17 one-and-a-half mile wells are more efficient than
18 one-mile wells?

19 A. I am most -- I have no reason to lead me
20 thinking otherwise.

21 Q. Okay. You would agree with his opinion that if
22 you develop -- if you look at one-and-a-half miles
23 versus one-mile wells, that one-and-a-half-mile wells
24 will prevent waste?

25 A. When you are comparing apples to apples, which

1 we are not doing here today, one-and-a-half miles are
2 better than one-miles. All else being equal, one and a
3 half is better than one mile. All else is not equal
4 here.

5 Q. And you're talking about "all else" being
6 overall development plan put together?

7 A. The timing of the well -- or the timing of the
8 development, the well spacing and the data collection,
9 yes.

10 Q. And the wells that you have proposed here for
11 development of the west half of 29 are one-mile wells?

12 A. Roughly, minus two setbacks.

13 Q. And what you've proposed are one-mile wells,
14 two of them in the Wolfcamp Sand?

15 A. Let's turn to Exhibit O, so I'm not making a
16 mistake.

17 Q. I'll tell you what --

18 A. I'd like to answer the question.

19 Q. -- let's turn to Exhibit B. Are these the
20 C-102s that you referenced earlier as being completed?

21 A. As testified earlier by Mr. Rice, those are the
22 C-102s that have been completed.

23 Q. Thanks.

24 And are they the only C-102s that have been
25 completed?

1 A. That is outside my knowledge. I'll defer that.

2 Q. Well, when you said C-102s have completed, have
3 not yet been filed, you're talking about the C-102s in
4 Exhibit B?

5 A. Yes, as testified earlier by Mr. Rice.

6 Q. And if I understand these C-102s, there's four
7 of them, right?

8 A. Let's count them. One, two, three, four.

9 Q. Okay. Two of them are in the Wolfcamp Sand?

10 A. Okay. Yes.

11 Q. And one of them is in the Wolfcamp D?

12 A. Yes.

13 Q. And you're also aware, are you not, that BTA
14 has filed and received APDs for two wells in the
15 Wolfcamp Sand?

16 A. Yes.

17 Q. And those are at issue here today?

18 A. Yes, they are.

19 Q. And after you raised your concern about the
20 Wolfcamp D, the company did, you're aware that BTA was
21 going out and obtaining a drilling permit for the two
22 wells in the Wolfcamp D?

23 A. If we were to count C-102s here, I would also
24 count just APDs that BTA has admitted, because if we are
25 starting to count our phase two development, we're going

1 to -- if we were to start counting Wolfcamp Ds that you
2 are bringing to the question, we've got to start
3 counting the Wolfcamp Ds in phase two development that
4 we are bringing to the table.

5 Q. Turn to Exhibit BTA Exhibit 7, please. These
6 are the approved APDs for the 7H and the 8H wells,
7 correct?

8 A. I'm not routinely working with applications for
9 permit to drill, but reading the header, it certainly
10 appears to be the case.

11 Q. Have you been here all day?

12 A. Since 9:00.

13 Q. Okay. You were here for the testimony in which
14 the target interval for these two wells are the Wolfcamp
15 D, as proposed by BTA?

16 A. I know the 7H and the 8H are Wolfcamp Ds -- or
17 Lower Wolfcamp, rather.

18 Q. And that's a target you said was a good zone to
19 target, correct?

20 A. That we believe is appropriate to develop using
21 eight wells per section or four wells per half section.

22 Q. Well, do you think BTA should drill wells in
23 the Wolfcamp D?

24 A. Twice as many as you're planning to.

25 Q. So these would be the initial wells, right?

1 A. Subsequent wells will result in significant
2 waste, as testified earlier, due to the parent-child
3 depletion.

4 Q. Now, I think your geologist testified that
5 couldn't -- you didn't really know your frac lengths.
6 Were you here for that testimony?

7 A. Earlier -- I don't recall. And because
8 earlier he testified about vertical wells and I didn't
9 recall that, I would defer stating that I've heard that
10 because I haven't; I do not recall that.

11 Q. Do you know the frac lengths for your wells?

12 A. No, we don't.

13 Q. If you don't know the frac lengths, then how
14 can you know what the adequate spacing is going to be?

15 A. Analyzing the empirical data.

16 Q. Empirical data, not actual data?

17 A. Would you mind turning to Exhibit 16 and
18 revisit the Jimmy Kone 228H and subsequent development
19 that led to significant degradation performance on that
20 well and significant depletion impacts observed on the
21 second-generation wells.

22 Q. But you don't know the frac lengths from which
23 to determine your well spacing? That's what you're
24 telling me, right?

25 A. Mr. Keren, I now recall, also testified that

1 he'd be a rich man.

2 Q. That's right.

3 MS. BRADFUTE: (Laughter.)

4 THE WITNESS: And, you know, I hate to go
5 on record that I'd be a rich man.

6 Q. (BY MR. FELDEWERT) Okay. So you don't know?

7 A. No one knows. If you do, we need to talk after
8 this.

9 (Laughter.)

10 Q. And you will agree with me, then, that there
11 are operators out there such as Mewbourne and others who
12 have not, with a lot more experience in the basin,
13 chosen to follow your well spacing based on your
14 empirical data?

15 A. There is a lot of trial and error. Also, these
16 reservoirs are nonhomogeneous. Also, rocks are rocks.
17 We are bringing significant expertise from other basins
18 to the play. We are committing a lot of capital, 22
19 wells within a 2-mile radius. Even if we are the early
20 entrant, we already know more about this rock than many
21 small operators have learned over decades of drilling.
22 We've collected, in this immediate area, core data, PVT
23 data, advance-logging data. We understand this rock.
24 We make every effort to understand it because we're
25 committing a significant amount of capital to it. This

1 year alone we are committing over \$160 million to
2 develop in New Mexico.

3 Q. I don't have any more questions.

4 A. And when making those big bets --

5 MR. FELDEWERT: That's all the questions I
6 have.

7 THE WITNESS: Good.

8 EXAMINER JONES: Mr. Brooks?

9 EXAMINER BROOKS: No questions.

10 EXAMINER JONES: You're ready to go, David.

11 CROSS-EXAMINATION

12 BY EXAMINER JONES:

13 Q. I guess I'll jump to the most -- the change in
14 the slope on those cum versus time curves, is that --
15 what happens when you put the wells on artificial lift,
16 does that change the slope also?

17 A. It does. But wells are normally put on
18 artificial lift a lot sooner here. As you probably are
19 aware, the saturations up there are fairly high. Oils
20 are producing at about 8 percent water cuts. And when
21 they do that, you have to put artificial lift fairly
22 soon because your average fluid density that you are
23 lifting is fairly high. So those artificial lifts
24 normally kick in within the first three or four months,
25 and I'm being conservative by saying three, four. A lot

1 of times, it's sooner.

2 Q. Before the nine months?

3 A. Well before the nine months.

4 Q. And the Lower Wolfcamp, you talked about
5 maybe -- sounds like it's gassier?

6 A. It is gassier. The Wolfcamp X-Y A comes about
7 2-, 3,000 GOR, falls [sic] out oil to kind of very, very
8 wet gas. The Wolfcamp D is on a kind of dryer wet gas
9 to dry gas, at about eight to ten, a little bit lower
10 than earlier testified. It's not ten to 12. It's about
11 8- to 10,000 scf per barrel.

12 Q. The actual economic limit you're projecting for
13 these two, what do you think for that for the decline
14 curve?

15 A. Yeah. We let the operators dictate it, but
16 it's one of the earliest out of 40 years or opex
17 outstrips the revenue.

18 Q. But if -- so how many years?

19 A. 40, 4-0.

20 Q. Okay. So you set your curve on that, but -- so
21 you hadn't looked at it to see when it -- when it's
22 projected to hit the economic limit? Do you remember
23 what your --

24 A. It will be different for every well. Each of
25 these wells are individual, and that is not something I

1 was monitoring for this particular study.

2 Q. Okay. That's fine.

3 How many months to drill and complete? I
4 know BTA asked for 180 days. Are you asking for that
5 also in this case?

6 A. We do not view that to be a need. We enjoy the
7 economies of scale. We have dedicated rigs and a
8 dedicated frac crew, and we will be fine with the 120
9 window.

10 Q. And as far as the drill direction out here, you
11 own a lot of Section 19, and yet you've chosen to go
12 north-south on your wells. What is your opinion on
13 that? East-west or north-south is the best?

14 A. I've looked in Eddy County -- I shall say in
15 south Eddy County, and we have not observed significant
16 differences in the performance of lay-downs or
17 stand-ups. They're fairly similar, and that is
18 consistent with our view on the stress orientation.

19 Q. Okay. So it's possible, then, that someone
20 could drill right along the section line east-west and
21 recover some of those reserves that were lost by the
22 setbacks on the one-mile wells?

23 A. That would be our dream to do so.

24 Q. You should have your landman work that out,
25 right?

1 A. It must be easy. Yeah.

2 **Q. I don't have any more questions.**

3 MS. BRADFUTE: I have a couple of questions
4 on redirect.

5 REDIRECT EXAMINATION

6 BY MS. BRADFUTE:

7 **Q. Mr. Alekseenko, does Marathon generate frac**
8 **models for the wells that it's proposing to drill?**

9 A. We have an in-house reservoir engineer with
10 about 15 years of experience and experience in every
11 single basin in the United States that came from
12 Schlumberger, and his only responsibility is to generate
13 frac models and reservoir models to aid our development
14 plans.

15 **Q. And you were here earlier in the day, correct,**
16 **and heard the testimony by BTA's engineer, Mr. McQuien?**

17 A. Yes, I have.

18 **Q. And did you hear -- do you remember hearing**
19 **testimony to the effect that BTA currently doesn't have**
20 **frac models for this area in Eddy County?**

21 A. I remember him stating that and also the
22 geologic witness from BTA stating the same.

23 **Q. You remember at least one of them testifying to**
24 **that effect on the record?**

25 A. Yeah.

1 Q. I want to just quickly turn to Exhibit P in
2 Marathon's exhibits. You studied development from 2010
3 to what is currently available on the Division's Web
4 site when you compiled this map; is that correct?

5 A. That is accurate.

6 Q. What has happened to oil prices recently,
7 within the last six months?

8 A. Well, as you-all know, in November of -- the
9 prices have rebounded since over the last few months.
10 But yeah, since November of 2014, they were largely
11 suppressed, and now they're picking up.

12 Q. Also in the last year, has there been a greater
13 interest in development in New Mexico in the Permian
14 Basin?

15 A. There has been significant amount of interest.
16 There's been recent activity that's going on like crazy.
17 A lot of people are still developing on a standalone
18 basin [sic], and we are one of the few operators that is
19 willing to put capital to develop that density.

20 Q. In your opinion, will more operators begin to
21 develop at density in New Mexico as has been done in
22 other basins that Marathon has operated in?

23 A. We firmly believe so. We think that other
24 operators will catch up, and we frankly see it in, say,
25 Lea County, the EOG developing the 3rd Bone Spring,

1 we're in the Wolfcamp X-Y A, co-developing them, making
2 sure that they're doing it in the same fashion, putting
3 at times three, four rigs in the same section in order
4 to make sure that they waste no time between spud and
5 bringing wells on line and making sure the entire swath
6 of land is co-developed and brought on line, again, at
7 the same time to minimize the depletion impact.

8 We claim that over time, as acreage is
9 consolidated, more large operators will switch from
10 securing leasehold to developing at density as we are
11 doing today.

12 Q. And, Mr. Alekseenko, there were some questions
13 earlier about BTA's APDs for the 7H and the 8H wells.
14 Could you please turn to Exhibit 7 in BTA's exhibits?
15 Mr. Feldewert asked you whether or not you were aware of
16 the fact that BTA applied for an APD in order to resolve
17 Marathon's concerns about the development of the
18 Wolfcamp D zone; is that correct?

19 A. Yes, he did.

20 Q. If you look near the bottom of this APD -- this
21 is the APD he was referring to, correct?

22 A. This and the one on the next page, yes.

23 Q. If you look near the bottom of this APD, it
24 provides a date when this was submitted on the
25 right-hand side. Do you see that?

1 A. Is that the July 14th, 2017?

2 Q. I think it's the date right above it.

3 A. Oh, the February 15th, 2017?

4 Q. Yeah. So February 17th, 2017 is the date
5 that's listed?

6 A. I believe so, yes.

7 Q. So that's a much earlier date than when the
8 parties began discussing the potential development
9 options at issue in this hearing today, correct?

10 A. That is correct.

11 Q. So this couldn't have been an APD that was
12 submitted to the BLM to satisfy Marathon's concerns
13 concerning the depth severance, right?

14 A. We didn't even own the land at that time.

15 Q. Okay. And if you look kind of halfway down the
16 page on this APD, in box 19 -- and, again, 19 is
17 difficult to read.

18 A. Uh-huh.

19 Q. The D for "Confidential" is kind of going right
20 through it. It lists the proposed depth for the 7H
21 well, and what is the proposed vertical depth to this
22 well?

23 A. 9,450 feet.

24 Q. In your opinion, will a well that is drilled to
25 9,450 feet develop the Wolfcamp D well?

1 MR. FELDEWERT: Mr. Examiner, do I need to
2 go back through the testimony where we point out the
3 April 10th letter is the letter in which they proposed
4 the Wolfcamp D and that they would be amending this APD
5 to allow them to drill the Wolfcamp D, as they proposed
6 in the April 10th letter? Do I really need to back
7 through that again?

8 MS. BRADFUTE: I don't dispute that. There
9 were just some messy questions, Mr. Examiner, at the end
10 during the cross-examination of Mr. Alekseenko. We
11 don't have to rehash it. I just want to point out on
12 the record that these weren't Wolfcamp D proposals.

13 MR. FELDEWERT: I believe the April 10th
14 proposal was the Wolfcamp D proposal.

15 MS. BRADFUTE: Yes.

16 MR. FELDEWERT: Correct?

17 MS. BRADFUTE: Yeah, the April 10th, 2018.

18 MR. FELDEWERT: Okay.

19 THE WITNESS: Those TVDs, from my
20 evaluation, land us in the Upper Wolfcamp and the
21 Wolfcamp X-Y sands rather than the Wolfcamp Lower.

22 **Q. (BY MS. BRADFUTE) And I just have one last**
23 **question to follow up on the Examiner's question**
24 **concerning well orientation. In your opinion, does BTA**
25 **have the ability to develop east-west wells in the**

1 **northern half of Section 32?**

2 A. Yes, they do.

3 **Q. Okay. Great.**

4 MS. BRADFUTE: That concludes my questions.

5 EXAMINER JONES: Okay. Do you want to
6 submit written closing statements, or do you want to --

7 EXAMINER BROOKS: I think that would be
8 good, but I'll leave it --

9 EXAMINER JONES: It's not -- you won't have
10 any problem doing that?

11 EXAMINER BROOKS: Yeah. You're going to be
12 the one that's going to have to read them.

13 (Laughter.)

14 MR. FELDEWERT: Mr. Examiner, I would
15 rather not do a closing statement. I think you've heard
16 enough.

17 EXAMINER JONES: Okay. Yeah.

18 MR. FELDEWERT: Quite frankly, I'd like to
19 get this case moving forward.

20 EXAMINER JONES: Okay.

21 MR. FELDEWERT: I mean, you know, to the
22 extent they've got any notice issues on their
23 application, I don't know why that would impact our
24 application.

25 EXAMINER BROOKS: Well, I would like to

1 mention -- you said you wanted to do an oral closing
2 statement. Is that what you just said?

3 MR. FELDEWERT: No. I said I don't think
4 we need any closing statements.

5 EXAMINER BROOKS: Okay.

6 MS. BRADFUTE: I actually differ with that.
7 I would like to have a closing statement. I could
8 submit it in writing and very short. I just want to sum
9 up some of the legal points.

10 MR. FELDEWERT: If she has to do a closing,
11 then I have to do a closing.

12 EXAMINER JONES: That's true.

13 MR. FELDEWERT: Let's do it now.

14 EXAMINER BROOKS: I think that there are
15 some cases -- some decisions by the Commission in the
16 past that have dealt with or have listed factors to be
17 considered in competing development plans. Now, I have
18 some cases, but the ones I have dealt with are only --
19 where the only issue is operations. And I also realize
20 that any prior orders have to be applied to the
21 horizontal world because they don't come from that
22 world. So that is going to be -- it's not something
23 that can be slavishly followed. But I would like to
24 know any of those that could be considered on this.

25 The ones I have are -- let's see --

1 R-10731-B, but that's only the operator selection.
 2 R-10922 is in the same -- same category. Then we have
 3 R-17 -- 11770-B, which is TMBR/Sharp versus Arrington,
 4 which I remember the case, but I don't remember what was
 5 said on that subject. Order R-12108-C, and that was
 6 Yates versus Pride, and there were many Yates versus
 7 Pride orders. But that one is marked in here under
 8 "competing applications." And Order 12343-E, Sampson
 9 versus Chesapeake, which I also remember. If you have
 10 any -- if you come up with any that are pertinent other
 11 than those, because I have those here, so I will -- you
 12 know, we'll be looking at them.

13 MR. FELDEWERT: Have you looked at the
 14 Grama Ridge rule?

15 EXAMINER BROOKS: I do not have that one.
 16 No.

17 MR. FELDEWERT: We'll get that one for you.

18 EXAMINER BROOKS: And I was looking at --
 19 when you showed that partial transcript, I was looking
 20 at the date of the hearing and trying to remember if I
 21 was involved in that hearing, and I can't remember.

22 MR. FELDEWERT: Don't say that on the
 23 record. Say that you're going to check on it.

24 (Laughter.)

25 EXAMINER BROOKS: It's typical at my age

1 that I remember things that happened 18 years ago better
2 than things that happened last year.

3 MR. FELDEWERT: There have been --
4 Mr. Examiner, there have been some recent orders. We
5 can certainly get those to you. The ones you've listed,
6 you already have?

7 EXAMINER BROOKS: The ones I have listed in
8 this notebook are copies of them and they're listed by
9 topic. So I will be looking at those in any case to
10 evaluate the -- or I will advise the Examiner to
11 consider them, and I will review. But if there are any
12 others that you think we should consider, we need to
13 know about them because OCD orders are extremely hard to
14 find.

15 MR. FELDEWERT: Yes, sir.

16 Well, what I would suggest is that both
17 counsel here can take a look at the orders that have
18 been issued since -- then we can provide you our
19 independent analysis of those.

20 EXAMINER BROOKS: That would be helpful.

21 MR. FELDEWERT: Does that work?

22 MS. BRADFUTE: Yeah, that would work.

23 EXAMINER BROOKS: I would mention other
24 things. I said some things off the cuff about the
25 effect of compulsory pooling on leasing, and those

1 statements should be disregarded, and not because
 2 they're necessarily wrong, although they may well be,
 3 but they were not considered judgments. But I would
 4 suggest with regard to this lease, that --

5 Let me ask you this: In your notice -- in
 6 your subsequent notice, who are you giving -- who is it
 7 you have to give notice to?

8 MS. BRADFUTE: We have two overriding
 9 royalty interest owners that were not delivered, and if
 10 we don't -- I'm just going to go ahead and publish --
 11 get the publication sent out tomorrow for the May 17th
 12 docket date.

13 EXAMINER BROOKS: Yeah.

14 MS. BRADFUTE: And if the green cards come
 15 in prior to then, we'll make copies to present that at
 16 the May 3rd hearing. I just don't know if they will.

17 EXAMINER BROOKS: I have some reservations
 18 about the agency of the pooling clause in this lease. I
 19 don't know what form was used in others, but you might
 20 want to look at it and see if you can share it --
 21 decisions about subsequent --

22 MS. BRADFUTE: And we will probably go
 23 ahead and send a certified mailing with the May 17th
 24 docket date to the mineral owner in the west half of
 25 Section 29. My opinion is it's better to go ahead and

1 send out notice than to overnotify.

2 EXAMINER BROOKS: I'm inclined to agree
3 with that. However, the depth consideration in this
4 case is -- if we hold it for notice to May 17th, then,
5 like I said earlier, BTA probably won't be able to meet
6 their June rig arrangement even if they win.

7 MR. FELDEWERT: My thought would be they
8 could cure their -- their necessity to cure their notice
9 issue doesn't necessarily have to prevent the Division
10 from deliberating on the merits of the issues.

11 EXAMINER BROOKS: Okay. You're satisfied
12 with the notices in the case?

13 MR. FELDEWERT: From our end.

14 EXAMINER BROOKS: Okay. I'll let the
15 Examiner make that decision because that's kind of a
16 discretionary thing. I haven't made any judgment if
17 there are inadequate notices for anything.

18 EXAMINER JONES: You don't think anybody
19 else would show up?

20 EXAMINER BROOKS: Well, I don't think
21 anybody else will show up, but I can say that in almost
22 every case. Most of the people we give notice to don't
23 show up. But I can't really make a judgment on the
24 information I have, whether or not the notice is
25 adequate or not.

1 I do have some concern about the adequacy
2 of the pooling clauses in this particular lease, but I'm
3 not saying I've reached an opinion on it. I think it
4 needs to be restudied.

5 So, you know, I would like to see it
6 continued, but I don't know how -- I can't make any
7 judgment how important the June rig date is.

8 MR. FELDEWERT: Well, like I said, I don't
9 have a problem. You know, if they need to continue a
10 case to cure their case, cure their notice issue, that's
11 fine. I don't think that prevents the Division from
12 moving forward with its deliberation.

13 EXAMINER BROOKS: Well, obviously, we have
14 to consider both sides of the coin before we can write
15 an order. I suppose we could determine Marathon's
16 evidence was inadequate and decide in your favor because
17 they've closed, but at the same time, we might not
18 determine it was inadequate. We might want to write it
19 in their favor. So I think it would be more orderly if
20 we're going to do that, continue it for notice.

21 MS. BRADFUTE: Mr. Examiner, historically,
22 cases have been continued by the Division on -- similar
23 notice issue.

24 EXAMINER BROOKS: That's true.

25 MS. BRADFUTE: I do apologize. It was my

1 error.

2 EXAMINER BROOKS: Well, I just came from a
3 hearing in which I made some errors, so I can't be hard
4 on you for that reason. But I cannot make a judgment.
5 It's kind of a discretionary call whether we want to do
6 that given they've got -- that BTA has got a deadline
7 that would be difficult to meet. I don't know.

8 Well, I guess this is what we ought to do.
9 We better continue it for purposes of notice with the
10 understanding that we try to get the order written
11 before the next hearing, be ready to issue, unless
12 somebody else comes in, which is probably not going to
13 happen. That's probably the best way to do it.

14 EXAMINER JONES: And the Bone Spring case,
15 there will --

16 EXAMINER BROOKS: In the Bone Spring -- we
17 don't have that issue in the Bone Spring case because
18 that was not submitted.

19 MS. BRADFUTE: Uh-huh.

20 EXAMINER JONES: It will be, though.

21 EXAMINER BROOKS: The only thing that was
22 submitted was --

23 MS. BRADFUTE: Marathon's application was
24 submitted in the Bone Spring case.

25 EXAMINER JONES: Which --

1 EXAMINER BROOKS: Okay. So.

2 MS. BRADFUTE: BTA's applications are not
3 yet ripe for the Bone Spring. They haven't filed
4 applications.

5 EXAMINER JONES: And they will be at what
6 point?

7 MR. FELDEWERT: My understanding is that we
8 have an agreement that we file them early, right?

9 MS. BRADFUTE: Yes. That's right.

10 MR. FELDEWERT: Okay. Then we will file
11 them tomorrow.

12 EXAMINER BROOKS: Did you understand that
13 we were -- that their applications in the Bone Spring
14 case might be taken under advisement today?

15 MS. BRADFUTE: No. We do not have that
16 understanding.

17 MR. FELDEWERT: No. We decided early on to
18 wait on that.

19 EXAMINER BROOKS: Okay. What cases are
20 ripe to be taken under -- well, if we put it off for
21 notice, we put everything off for notice. But we need
22 to know what cases are to be presented in the future
23 because these others will be continued only for the
24 notice issues.

25 MS. BRADFUTE: So to be continued for

1 notice on Marathon's behalf is Case Number 16076, which
2 involves the Wolfcamp Formation, and to be continued to
3 be heard with the competing Bone proposal is Case Number
4 16077.

5 EXAMINER JONES: Which are you opposed
6 to -- if we promise we will work on this, if we can
7 continue all three cases until May the 17th, do you want
8 to do that?

9 MR. FELDEWERT: We can do that for notice
10 purposes. And then on May 17th, we will -- we can
11 probably find a date to deal with the Bone Spring cases,
12 right?

13 MS. BRADFUTE: Uh-huh. Yes.

14 EXAMINER JONES: Okay.

15 EXAMINER BROOKS: Yeah, continuing for
16 notice purposes is, of course, subject to the unlikely
17 possibility that somebody else may show up and want to
18 be heard.

19 EXAMINER JONES: Okay. Well, all three
20 cases are continued to May the 17th, and the hearing is
21 over.

22 (Case Numbers 16024, 16076 and 16077 are
23 continued to May 17, 2018; proceedings
24 conclude, 6:30 p.m.)

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 23rd day of May 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

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