

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF MARATHON OIL PERMIAN, CASE NO. 15958
LLC TO AMEND ORDER R-14623 TO ADD AN (Re-opened)
ADDITIONAL WELL, EDDY COUNTY, NEW MEXICO.

Consolidated with

APPLICATION OF MARATHON OIL PERMIAN, CASE NO. 15960
LLC TO AMEND ORDER R-14624 TO ADD AN (Re-opened)
ADDITIONAL WELL, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 16, 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 Friday, November 16, 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
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APPEARANCES

FOR APPLICANT MARATHON OIL PERMIAN, LLC:

ZOE LEES, ESQ.
JENNIFER L. BRADFUTE, ESQ.
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1 (9:43 a.m.)

2 EXAMINER JONES: Let's go back on the
3 record and call cases -- re-opened Case Numbers 15958
4 and 15960. Both of these are application of Marathon
5 Oil Permian, LLC to amend their respective orders to add
6 an additional well in Eddy County, New Mexico.

7 Call for appearances.

8 I guess we're consolidating these two
9 cases?

10 MS. LEES: Yes, Mr. Examiner.

11 EXAMINER JONES: Okay. Call for
12 appearances.

13 MS. LEES: My name is Zoe Lees on behalf of
14 the Applicant.

15 EXAMINER JONES: Okay. Any other
16 appearances?

17 MS. LEES: Good morning.

18 EXAMINER JONES: Good morning.

19 MS. LEES: I'll be presenting two cases
20 today. We're re-opening Case Numbers 15958 and 15960.
21 I'll present Case Number 15958 first.

22 With each of these applications, I've
23 attached three affidavits, and each affidavit has three
24 exhibits. So I'll go through all of those, and at the
25 end, I'll ask to move all exhibits into the record.

1 The first affidavit is that of Mr. Chase
2 Rice. He has previously been qualified by the Oil
3 Conservation Division as an expert petroleum landman.
4 He testifies that Marathon seeks an order amending Order
5 R-14623 to, one, amend additional -- add an additional
6 well, and for, two, add additional time to complete the
7 well.

8 Attached to Mr. Rice's affidavit is Exhibit
9 A. That is a plat outlining the unit pooled by Order
10 R-14623 and also the parties that were pooled, and the
11 percent of their interests are also included in Exhibit
12 A.

13 Mr. Rice testifies that he has conducted a
14 diligent search of the public records in the county
15 where the well is located, conducted a phone directory
16 and computer search to locate contact information for
17 the parties entitled to notification, and he mailed all
18 parties well proposals, including an authorization for
19 expenditures. The summary of his attempts to contact
20 those working interest owners are attached as Exhibit B
21 to his affidavit.

22 Attached as Exhibit C to Mr. Rice's
23 affidavit is the proposed C-102 for the well. As you
24 can see on Exhibit C, the well will develop the Wolfcamp
25 Formation, Purple Sage; Wolfcamp, with a pool code of

1 98220. Also, on the C-102 -- the proposed C-102, you
2 can see the first take point and the last take point is
3 represented there. The producing interval for the well
4 will be orthodox and will comply with the Division
5 setback requirements.

6 Exhibit D to Mr. Rice's affidavit is a
7 sample proposal letter. I'd also like to point out that
8 in Exhibit D, Mr. Rice has provided the TVD, which is
9 for this well approximately 10,517 feet.

10 Exhibit E is the authorization for
11 expenditure for the proposed well. The estimated cost
12 of the well set forth therein is fair and reasonable, as
13 testified to by Mr. Rice, and is comparable to the cost
14 of other wells of similar depths and lengths drilled in
15 this area of New Mexico.

16 Mr. Rice testifies that Marathon requests
17 overhead and administrative rates of \$7,000 a month for
18 drilling the well and \$700 a month for producing the
19 well. Mr. Rice testifies that these rates are fair and
20 comparable to the rates charged by other operators for
21 wells of this type in this area of southeastern New
22 Mexico. Marathon requests that these rates be adjusted
23 periodically as provided for by the COPAS accounting
24 procedure. Mr. Rice testifies that Marathon requests
25 the maximum cost plus 200 percent risk charge be

1 assessed against nonconsenting working interest owners
2 and that Marathon requests it be the designated operator
3 of this well.

4 Mr. Rice also testifies that due to the
5 rising demand for completion crews in this area,
6 Marathon requests an extension of one year between the
7 time when the well is drilled and the completion of the
8 well.

9 Lastly, Mr. Rice testifies that the
10 granting of these applications is in the interest of
11 conservation and the prevention of waste.

12 Do you have any questions about Mr. Rice's
13 affidavit before I move on?

14 EXAMINER JONES: No, because we're talking
15 strictly about the Purple Sage in the west half and the
16 southwest quarter.

17 MS. LEES: The Purple Sage in the west
18 half, in the southwest quarter, yes.

19 EXAMINER JONES: Yeah.

20 MS. LEES: Yes.

21 EXAMINER JONES: I don't have any, if
22 Mr. Brooks doesn't.

23 EXAMINER BROOKS: I didn't hear anything I
24 need to take exception with, so I guess I'll pass the
25 witness.

1 EXAMINER JONES: Sounds good.

2 You didn't prick his radar.

3 MS. LEES: This is my first time around so
4 if you want to --

5 EXAMINER BROOKS: I listen for certain
6 catch phrases.

7 MS. LEES: Exhibit 2 is our affidavit of
8 our geologist for Marathon Oil. That is Matt Baker.
9 Mr. Baker has been qualified by the Oil Conservation
10 Division as an expert petroleum geologist. Attached to
11 Mr. Baker's affidavit are three exhibits.

12 Exhibit A is a structure map with the top
13 of the Wolfcamp C2.

14 Exhibit B is the stratigraphic cross
15 section.

16 And Exhibit C is the gross interval
17 isochore.

18 I won't go through the details of those
19 exhibits, but I am happy to answer any questions.
20 However, I would like to just make one correction on the
21 record. Mr. Baker testifies in his affidavit that the
22 proposed -- and this is in paragraph two of his
23 affidavit -- horizontal locations are identified by a
24 blue line in Exhibit A. They are identified by a red
25 line in Exhibit A.

1 EXAMINER JONES: Okay. Thanks.

2 MS. LEES: May I answer any questions
3 regarding Mr. Baker's affidavit?

4 EXAMINER BROOKS: No, not from me.

5 EXAMINER JONES: Not in this case.

6 Let's see here. It is oil, per the
7 application. I noticed that the application said --

8 MS. BRADFUTE: Does the application have an
9 oil spacing unit in it?

10 MS. LEES: I have a copy of the
11 application, if I have permission to go grab it.

12 EXAMINER JONES: Here you go.

13 MS. LEES: Oh, you have it.

14 EXAMINER JONES: I'm sorry. I saw that,
15 something about the oil. Okay. I can't find right now.

16 MS. LEES: I'm happy to address any
17 questions you do have.

18 EXAMINER JONES: But basically we're
19 talking -- this is -- well, this is Eddy County, so it
20 should be gas.

21 MS. BRADFUTE: It should be gas. It's in
22 the Purple Sage; Wolfcamp.

23 MS. LEES: Exhibit 3 is my affidavit that
24 discusses the notice to affected parties that my office
25 sent out. Attached to that are the names, addresses and

1 proof of certified mailings to those affected parties.
2 Also attached to my affidavit, with a blue heading, is
3 the list showing delivery to those affected parties.
4 There were parties that the notice was -- had failed to
5 be delivered to. I did double-check that we provided
6 notice via publication to those parties, and the
7 Affidavit of Publication is also attached to my
8 affidavit.

9 And with that, may I answer any questions
10 for the re-opened Case 15958?

11 EXAMINER JONES: Basically you're just
12 adding the one well.

13 MS. LEES: Yes.

14 EXAMINER JONES: And it's already had
15 two -- they've had -- let's see here. You're adding the
16 2H, but it already had the 5H and the 3H.

17 MS. LEES: That is correct.

18 I also just want to -- to reiterate
19 Marathon's request for an extension of one year between
20 the time the well is drilled and the completion of the
21 well that we are asking for.

22 EXAMINER JONES: Okay. I did find that oil
23 quote here.

24 MS. LEES: Oh, okay.

25 EXAMINER JONES: It's in the application in

1 the second paragraph -- at the bottom line of the second
2 paragraph. It says, "Form a nonstandard 480-acre oil
3 spacing" --

4 MS. BRADFUTE: I apologize, Mr. Examiner.
5 That is a typo that I made.

6 EXAMINER JONES: Typo. No problem.

7 MS. LEES: Mr. Examiner, before I move on
8 to Case Number 15960, may I answer any other questions
9 about this case?

10 EXAMINER JONES: Any changes on the
11 parties, are you aware of, since the original
12 application to this application?

13 MS. LEES: None that we are aware of,
14 Mr. Examiner.

15 EXAMINER JONES: Okay. Same parties and
16 same --

17 MS. LEES: Yes. We provided notice to the
18 same parties that we provided notice to in the original
19 application.

20 EXAMINER BROOKS: Okay.

21 EXAMINER JONES: Thank you.

22 MS. LEES: The second case I'm going to
23 present to you today is the re-opened Case 15960. This
24 application seeks an order amending Order R-14624 to add
25 an additional well and to allow for additional time to

1 complete the well. The first affidavit -- there are
2 three affidavits that I will be presenting in support of
3 this application.

4 The first affidavit is that of Chase Rice.
5 Mr. Rice has been qualified by the Oil Conservation
6 Division as an expert petroleum landman. Attached to
7 Mr. Rice's application -- affidavit -- excuse me -- is
8 Exhibit A, which is a plat outlining the unit pooled by
9 Order R-14624. Also, it shows the parties that were
10 pooled, the percent of their interests and -- the
11 percent of their interests on the second page of that
12 exhibit. There are no depth severances within the Bone
13 Spring Formation, as testified to by Mr. Rice.

14 Mr. Rice testifies that he conducted a
15 diligent search of public records in the county where
16 the well is located and conducted a phone directory and
17 computer searches to locate contact information for
18 parties entitled to notification and mailed all parties
19 well proposals, including the AFE. Attached to Mr.
20 Rice's affidavit as Exhibit B is a summary of his
21 attempts to contact working interest owners.

22 Attached as Exhibit C to Mr. Rice's
23 affidavit is the proposed C-102. The well will develop
24 the Bone Spring, the Willow Lake, West; Bone Spring
25 Pool. And the pool code is 96415. Also shown on this

1 C-102 is the first and last take point.

2 And, Mr. Hearing Examiner, as I'm going
3 through this affidavit, I now see that there is a typo
4 in Mr. Rice's affidavit. The pool code, he says, is
5 64450. However, the C-102 is the pool code that I
6 provide, so I would like to correct that on the record.

7 EXAMINER JONES: These pools seem to get
8 finalized later on.

9 MS. BRADFUTE: Right.

10 MS. LEES: Yeah. I apologize for that.

11 EXAMINER JONES: You don't need to
12 apologize for that at all.

13 MS. LEES: The producing interval for the
14 well will be orthodox and will comply with the Division
15 setback requirements.

16 EXAMINER JONES: Good.

17 MS. LEES: Attached as Exhibit D to
18 Mr. Rice's affidavit is the authorization for
19 expenditure.

20 As demon- -- as demonstrated in Exhibit C
21 by Mr. Rice, this well will have a TVD of approximately
22 8,382 feet.

23 Exhibit E is the authorization for
24 expenditure for the proposed well.

25 The estimated cost of the well set forth in

1 Exhibit D is fair and reasonable and is comparable to
2 the costs of other wells of similar depths and lengths
3 drilled in this area of New Mexico. Mr. Rice's
4 testifies that Marathon requests overhead and
5 administrative costs of \$7,000 a month for drilling the
6 well and \$700 a month for producing the well. Mr. Rice
7 testifies that these rates are fair and comparable to
8 the rates charged by other operators for wells of this
9 type in this area of southeastern New Mexico. And
10 Marathon requests that these rates be adjusted
11 periodically as provided for in the COPAS accounting
12 procedure. Mr. Rice testifies that Marathon requests
13 the maximum cost plus 200 percent risk charge be
14 assessed against nonconsenting working owners, and
15 Marathon requests that it be designated operator of the
16 well.

17 Mr. Rice also testifies that due to the
18 rising demand for completion crews in this area,
19 Marathon requests an extension of one year between the
20 time when the well is drilled and the completion of the
21 well.

22 Finally, Mr. Rice testifies that the
23 granting of this application is in the interest of
24 conservation and the prevention of waste.

25 May I answer any questions about Mr. Rice's

1 affidavit before I move on?

2 EXAMINER JONES: It's still the same
3 parties as before?

4 MS. LEES: Yes. Yes, Mr. Hearing Examiner,
5 identical to those parties given notice in Case Number
6 15958 and same as the original pooling application.

7 EXAMINER JONES: Okay. Thank you.

8 MS. LEES: Moving on to Exhibit 2, this is
9 the affidavit of Marathon Oil Permian's geologist, Matt
10 Baker. He has been qualified by the Oil Conservation
11 Division as an expert petroleum geologist.

12 Attached to Mr. Baker's affidavit is
13 Exhibit A, the structure map.

14 Exhibit B is the stratigraphic cross
15 section.

16 And Exhibit C is the gross interval
17 isochore.

18 I won't be going into detail about these
19 exhibits. However, I can answer any questions you have.

20 I would, again, like to offer one
21 correction to Mr. Baker's affidavit. In paragraph two
22 of his affidavit, he says that the proposed horizontal
23 locations are identified by a blue line. It is a red
24 line in Exhibit A that they are identified by.

25 EXAMINER JONES: Okay.

1 MS. LEES: May I answer any questions
2 regarding Mr. Baker's affidavit?

3 EXAMINER JONES: Yes. Why -- why does he
4 want a second well, and why does it have to be a
5 proposed well and not an infill well? He wants it
6 done --

7 MS. BRADFUTE: Mr. Examiner, Marathon likes
8 to zipper frac the wells together. And so -- and under
9 the compulsory pooling regulations, still, when you
10 pool, the regulations provide that you have to complete
11 a well before you can propose an infill well, under the
12 infill well provisions. Here, Marathon wants to
13 complete the wells at the same time, and so it can't
14 comply with that unless it adds an additional well to
15 the order.

16 EXAMINER JONES: Okay. So the thinking has
17 kind of morphed into the zipper frac.

18 MS. BRADFUTE: Yes. There are concerns
19 about parent-child relationships between wells and
20 greater efficiencies and cost savings as well linked
21 together.

22 EXAMINER JONES: Okay. Thank you.
23 Well, go ahead with your next exhibit.

24 MS. LEES: Okay. May I answer any other
25 questions -- or can I answer any other questions about

1 Mr. Baker's affidavit?

2 EXAMINER JONES: Michael listed, opposite
3 these cases, that OXY, through Jordan, was making an
4 appearance.

5 MS. LEES: OXY made an appearance in the
6 original application, but they haven't -- they received
7 notice. They haven't been in contact with us regarding
8 any problems with these applications.

9 MS. BRADFUTE: These were not presented as
10 contested cases when they originally went to hearing,
11 but OXY did enter an appearance. So I think their entry
12 just carried forward from the original case.

13 EXAMINER JONES: Okay. He must have gotten
14 that from somewhere.

15 MS. BRADFUTE: Yeah.

16 EXAMINER JONES: I'll make sure I list
17 them.

18 MS. BRADFUTE: And we did discuss that with
19 Jordan this morning, and she wasn't aware of any issues.

20 EXAMINER JONES: Thank you.

21 EXAMINER BROOKS: No questions.

22 MS. LEES: Exhibit 3 is my affidavit
23 regarding notice to affected parties. Attached to my
24 affidavit are the names, addresses and proof of
25 mailings. Also attached, with a blue header, is a

1 document showing delivery of those mailings. There were
2 parties that delivery failed for. However, I have
3 cross-checked and confirmed that those parties were
4 included in the publication -- Notice of Publication,
5 and the Affidavit of Publication is also attached to my
6 affidavit.

7 And with that, I can answer any questions.

8 EXAMINER JONES: Okay.

9 EXAMINER BROOKS: I don't have any.

10 EXAMINER JONES: Sweet Tea, I guess, maybe
11 came from Alabama or something --

12 MS. LEES: I guess so.

13 (Laughter.)

14 EXAMINER JONES: -- or the geologist came
15 from Alabama.

16 MS. LEES: So I'd move for the admission of
17 these three exhibits for Case 15960.

18 EXAMINER JONES: Yes. Case Number 15960 --

19 MS. LEES: And I'd also move the
20 exhibits -- I apologize for doing this out of order --
21 the three exhibits presented for 15958.

22 EXAMINER JONES: Exhibits as quoted are so
23 admitted.

24 (Marathon Oil Permian, LLC Exhibit Numbers
25 1 through 3 for both cases are offered and

1 admitted into evidence.)

2 MS. LEES: And I'd ask that the Division
3 take these cases under advisement.

4 EXAMINER JONES: You got it. The cases are
5 taken under advisement.

6 (Case Numbers 15958 and 15960 conclude,
7 10:03 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20 DATED THIS 20th day of December 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
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