

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

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

APPLICATION OF MARATHON OIL PERMIAN,           CASE NOS. 20058,  
LLC FOR A SPACING UNIT AND COMPULSORY           20059,  
POOLING, LEA COUNTY, NEW MEXICO.               20060

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 16, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, Phillip Goetze, Technical 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  
                  New Mexico CCR #20  
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APPEARANCES

FOR APPLICANT MARATHON OIL PERMIAN, LLC:

JENNIFER L. BRADFUTE, ESQ.  
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.  
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EXHIBITS OFFERED AND ADMITTED

Marathon Oil Permian, LLC Exhibit  
Numbers 1 through 3 for each case (Attached)

1 (8:29 a.m.)

2 EXAMINER JONES: Which Marathon cases do  
3 you want to start with?

4 MS. BRADFUTE: Let's start with 20059, 60  
5 and 61, the Mammoth cases.

6 EXAMINER BROOKS: I was surprised yesterday  
7 to find, when I was gone for a week, the Case Numbers  
8 increased by 300 cases.

9 (Laughter.)

10 EXAMINER JONES: Let's call Case Numbers  
11 20059, 20060 and 20061. All of these are styled the  
12 application of Marathon Oil Permian, LLC for a spacing  
13 unit and compulsory pooling in Lea County, New Mexico.

14 MS. BRADFUTE: And, Mr. Examiner, just a  
15 point of correction, I think it should be 20058 and  
16 20059 and 20060.

17 EXAMINER JONES: Thank you. That's 20058,  
18 20059 and 20060, but they all are application of  
19 Marathon Oil Permian, LLC for a spacing unit and  
20 compulsory pooling in Lea County, New Mexico.

21 Call for appearances.

22 MS. BRADFUTE: Mr. Examiner, Jennifer  
23 Bradfute on behalf of the Applicant.

24 EXAMINER JONES: Any other appearances?

25 MS. BRADFUTE: Mr. Examiner, these three

1 cases all relate to a group of wells entitled the  
2 "Mammoth Federal Com 26 34 1H" [sic] wells. Marathon is  
3 presenting these cases by affidavit to the Division  
4 today.

5 And you have two exhibit packets in front  
6 of you. One exhibit packet relates to a 3rd Bone Spring  
7 well. That's the 1H well, and it also relates to the  
8 10H well, so there are two Bone Spring wells.

9 And then the second packet relates to the  
10 7H well, which is an Upper Wolfcamp well; the 2H well,  
11 which is an Upper Wolfcamp well; and the 11H, which is  
12 an Upper Wolfcamp well as well.

13 I'm going to start first with the 3rd Bone  
14 Spring cases in the packet for Case Numbers 20058 and  
15 20059.

16 EXAMINER BROOKS: Did you say 3rd or 1st  
17 Bone Spring?

18 MS. BRADFUTE: 3rd.

19 Thank you.

20 So in this packet in front of you, there is  
21 a copy of both of the case applications included in the  
22 front of the packet just in case you need those for  
23 reference.

24 Attached in Tab 1 is an exhibit from  
25 Marathon's landman for this matter, Ryan Gyllenband.

1 Mr. Gyllenband was present at yesterday's hearing, and  
2 his credentials were accepted and made part of the  
3 record as an expert in land matters.

4 Mr. Gyllenband testifies in his affidavit  
5 that the purpose of these applications is to force pool  
6 working interest owners in the horizontal spacing units  
7 that have been described. Marathon is also seeking to  
8 force pool overriding royalty interest owners as well.

9 Marathon did not anticipate any opposition  
10 to these applications because it had been working with  
11 parties, and there were just some parties who were  
12 unlocatable or unresponsive to the well proposals.

13 In Case 20058, Marathon seeks an order  
14 pooling all mineral interests in the Bone Spring spacing  
15 unit underlying the west half-west half of Section 1,  
16 Township 26 South, Range 34 East and the west half-west  
17 half of Section 36, Township 25 South, Range 34 East  
18 both of which are in Lea County, New Mexico. And that  
19 spacing unit is dedicated to the Mammoth Federal Com  
20 26 34 1 TB 1H well.

21 In Case 20059, Marathon is seeking a  
22 pooling order pooling all interests within the Bone  
23 Spring spacing unit underlying the east half-west half  
24 of Section 1, Township 26 South, Range 34 East and the  
25 east half-west half of Section 36, Township 25 South,

1 Range 34 East in Lea County, New Mexico. And that  
2 spacing unit is proposed to be dedicated to the Mammoth  
3 Fed Com 26 34 1 TB 10H well.

4 Attached as Exhibit A to Mr. Gyllenband's  
5 affidavit are plats which outline the proposed spacing  
6 units for these wells, along with a list of the  
7 uncommitted interests who are sought to be pooled.

8 And the last page of this exhibit provides  
9 a chart which outlines the different overriding royalty  
10 interest owners who were provided notice of the  
11 application as well, so we have their names identified.

12 Mr. Gyllenband testifies that there are no  
13 depth severances within the Bone Spring Formation and  
14 that he has conducted a diligent search of the public  
15 records in the county where the wells are located and  
16 that he conducted phone and computer searches to locate  
17 contact information to the parties who were entitled to  
18 notice.

19 In Mr. Gyllenband's opinion, he believes  
20 that Marathon made a good-faith effort to obtain  
21 voluntary joinder of the interest in the proposed wells.  
22 And a summary of his attempts to contact working  
23 interest owners is attached as Exhibit B to his  
24 affidavit.

25 Attached as Exhibit C to his affidavit are

1 copies of proposed C-102s for the wells. The wells are  
2 going to develop a Bone Spring pool. And if you look at  
3 Exhibit C, the Bone Spring pool that's been identified  
4 on these preliminary C-102s is a wildcat pool that's  
5 been established by the district office, and the pool  
6 code is 97088. The perforations for both of these wells  
7 are orthodox, and so they'll comply with the Division  
8 setback requirements.

9                   Attached as Exhibits D and E to  
10 Mr. Gyllenband's affidavit is a sample proposal letter  
11 and AFEs for the proposed wells. And Mr. Gyllenband  
12 states that the estimated costs for drilling, completing  
13 and equipping the wells are comparable to costs to drill  
14 similar wells to these depths and these lengths within  
15 this area of New Mexico.

16                   Marathon is requesting overhead and  
17 administrative rates of 7,000 a month for drilling wells  
18 and \$700 a month for producing wells. And  
19 Mr. Gyllenband testifies that these rates are fair and  
20 comparable to rates charged by Marathon and other  
21 operators for wells drilled to these lengths and these  
22 depths. Mr. Gyllenband also testifies that Marathon is  
23 requesting the maximum cost plus 200 percent risk charge  
24 to be assessed against any nonconsenting working  
25 interest owner that fails to pay their fair share of

1 expenses. And he testifies that Marathon is asking to  
2 be designated as the operator of the wells. And he  
3 further testifies that in his opinion the granting of  
4 this application is in the interest of conservation and  
5 the prevention of waste.

6 Attached as Tab 2 in this exhibit packet is  
7 an affidavit prepared by Ethan Perry. Mr. Perry is a  
8 geologist who is employed by Marathon. And he also  
9 testified yesterday, and his credentials were accepted  
10 and made part of the record.

11 Attached to Mr. Perry's affidavit is a  
12 structure map, a cross section and a gross sand isochore  
13 map of the 3rd Bone Spring which he's provided. And I'm  
14 not going to walk through these exhibits in detail, but  
15 I'll be happy to take any questions related to them  
16 based on the testimony and the affidavit.

17 Mr. Perry does testify that based on his  
18 geologic study of the area, that it is his opinion that  
19 horizontal spacing units are justified from a geologic  
20 standpoint, that he did not find any structural  
21 impediments or faulting that would interfere with  
22 horizontal development in the spacing units and that  
23 it's his opinion that each quarter-quarter section in  
24 the spacing units will contribute more or less equally  
25 to production from the wells.

1                   He states that the preferred well  
2 orientation in this area is north to south and that this  
3 is because the maximum horizontal stress orientation is  
4 more or less east-west in the area.

5                   Attached as Exhibit 3 in this affidavit  
6 packet is an affidavit that I have completed confirming  
7 that notice was provided to affected parties of this  
8 application. And in connection or attached to this  
9 affidavit is proof of mailing of notices, and we have a  
10 chart with a blue header which states that -- it looks  
11 like everything was delivered here. As a matter of  
12 course, Marathon does publish affidavits of  
13 publication -- or they publish in a newspaper of general  
14 circulation obtains [sic] affidavit of publication, as  
15 well as mailing out notices, and an Affidavit of  
16 Publication is included as the last page within this  
17 exhibit packet.

18                   And that concludes my presentation for  
19 these two 3rd Bone Spring wells, the 1H and the 10H, if  
20 you have any questions.

21                   EXAMINER JONES: Anybody have any  
22 questions?

23                   The newspaper notice is -- probably will --  
24 are you going to send us the PDFs of this?

25                   MS. BRADFUTE: Yes, we are. Yeah. Yeah.

1 It did copy a little dark.

2 EXAMINER JONES: It is dark, but not as  
3 dark as some that we get.

4 MS. BRADFUTE: But the chart shows that  
5 everything delivered, and the certified mailings are  
6 here, too.

7 EXAMINER JONES: And they listed the  
8 offsets?

9 MS. BRADFUTE: Marathon is still notifying  
10 the offsets just in case there is an issue with a  
11 challenge to the horizontal well rules. We're not  
12 requesting the old request for a nonstandard spacing and  
13 proration unit anymore. But just out of caution, we've  
14 gone ahead and continued to notify offsets. And that  
15 way no one can come in later and say that they did not  
16 receive notice of the application.

17 EXAMINER BROOKS: Well, I don't know of any  
18 adverse consequence from notifying too many people.

19 MS. BRADFUTE: Yeah.

20 EXAMINER JONES: Did you two go to the same  
21 law school or something?

22 (Laughter.)

23 MS. BRADFUTE: No. Mr. Brooks has  
24 instructed me of that before. So it's a cautious  
25 approach, and some operators prefer more caution.

1                   EXAMINER JONES: Okay. I notice these are  
2 not permitted yet, so no controversy here. But there  
3 was -- in preparing yesterday for these Marathon cases,  
4 there was a -- there was a group of them that were  
5 styled as Bone -- well, they were labeled as Bone Spring  
6 and then Wolfcamp, but then Paul's put them in the  
7 Wolfbone Pool.

8                   MS. BRADFUTE: Oh, okay.

9                   EXAMINER JONES: So I don't know what we're  
10 going to do about that.

11                  MS. BRADFUTE: Okay.

12                  EXAMINER JONES: But that's not the case  
13 here.

14                  MS. BRADFUTE: Okay. Thank you.

15                  EXAMINER JONES: And I don't -- you can  
16 probably just go ahead with the Wolfcamp.

17                  MS. BRADFUTE: Okay. Sounds good.

18                         Then I'll move on to the Wolfcamp cases,  
19 and they're in the exhibit packet in front of you for  
20 Case 20060. Attached to the very front of this exhibit  
21 packet is a copy of the application just for ease of  
22 use.

23                                 And Tab 1 is an affidavit prepared by  
24 Mr. Gyllenband. And in this affidavit, Mr. Gyllenband  
25 testifies that Marathon is seeking an order pooling

1 mineral interests in the Wolfcamp Formation underlying  
2 the west half of Section 1, Township 26 South, Range 34  
3 East and the west half of Section 36, Township 25 South,  
4 Range 34 East, and that this proposed spacing unit is  
5 for the Mammoth Federal Com 26 34 1 WXY 7H well, the WA  
6 2H well and the WA 11H well.

7           Attached to Mr. Gyllenband's affidavit is a  
8 copy of a plat, a lease tract map, which outlines the  
9 different tracts included in the proposed spacing unit.  
10 And as a second page to that exhibit is a list of the  
11 parties that Marathon seeks to pool, the working  
12 interest owners and unleased mineral interest owners,  
13 which here there is just one uncommitted working  
14 interest owner, EOG Resources.

15           And then also attached to that exhibit is a  
16 chart of overriding royalty interests owners. Marathon  
17 does seek to pool the overrides to this proposed spacing  
18 unit as well, and they've provided notice to those  
19 overriding royalty interest owners.

20           Mr. Gyllenband testifies that there are no  
21 depth severances within the Wolfcamp Formation and that  
22 he conducted a diligent search of the public records and  
23 also performed computer and phone directory searches to  
24 locate additional contact information.

25           In Mr. Gyllenband's opinion, he believes

1 that Marathon has made a good-faith effort to obtain  
2 voluntary joinder of the working interest in the  
3 proposed wells, and he's included a summary of his  
4 attempts to contact working interest owners as Exhibit B  
5 to his affidavit.

6 Attached as Exhibit C are the proposed  
7 C-102s for the wells. And here the wells will develop a  
8 wildcat Wolfcamp pool, and the pool code is 98117.  
9 Mr. Gyllenband testifies that the producing intervals  
10 for the wells is going to be orthodox and that it's  
11 going to comply with the Division setback requirements.

12 Attached as Exhibits D and E to  
13 Mr. Gyllenband's affidavit is a well-proposal letter, as  
14 well as an AFE for the proposed wells. And  
15 Mr. Gyllenband testifies that the estimated cost for  
16 these wells is fair and reasonable and is comparable to  
17 the cost of other wells drilled to similar lengths and  
18 depths within this area of New Mexico.

19 Mr. Gyllenband states that Marathon is  
20 requesting administrative rates of \$7,000 a month for  
21 drilling and \$700 a month for producing and that these  
22 rates are fair and comparable to the rates charged by  
23 other operators for these types of wells within this  
24 area of New Mexico.

25 He further testifies that Marathon is

1 asking that these rates be adjusted periodically as  
2 provided for under the COPAS acting procedure. Marathon  
3 is requesting the maximum cost plus 200 percent risk  
4 charge be assessed against any nonconsenting working  
5 interest owner. And Mr. Gyllenband testifies that  
6 Marathon is asking to be designated as the operator of  
7 these wells. And finally, he testifies that in his  
8 opinion, the granting of this application is in the  
9 interest of conservation and the prevention of waste.

10           And if you look at Exhibit C to  
11 Mr. Gyllenband's affidavit, I did want to point out that  
12 the 7H well here is located in the middle of the  
13 proposed spacing unit, and so Marathon is taking  
14 advantage of the adjacent tract rule under the  
15 horizontal well rule to form the spacing unit that's  
16 being requested.

17           Attached as Exhibit 2 in the packet in  
18 front of you is an affidavit completed by Ethan Perry.  
19 And Mr. Perry attaches a structure map, a cross section  
20 and an isochore map -- let me see how he styles it -- a  
21 "gross interval isochore map" studying the Wolfcamp  
22 Formation to his affidavit that he completed for  
23 Marathon. Again, I'm not going to walk through those  
24 exhibits in detail, but I'm happy to take any questions  
25 that you have.

1                   Mr. Perry testifies in his affidavit that  
2   it's his opinion that the horizontal spacing units are  
3   justified from a geologic standpoint, that there are no  
4   structural impediments or faulting that's going to  
5   interfere with horizontal development and that each  
6   quarter-quarter section in the unit is going to  
7   contribute more or less equally to production.

8                   Mr. Perry again testifies that the  
9   preferred well orientation in the area is north to south  
10   and again states the reason that this is because maximum  
11   horizontal stress orientation in this area is more or  
12   less east to west.

13                   EXAMINER JONES: Is there a chance EOG will  
14   sign up?

15                   MS. BRADFUTE: They've been contacting EOG.  
16   I think there is a chance, but I don't know what the  
17   status are as of today of those communications. But I  
18   know they've been in contact.

19                   Attached as Exhibit 3 in this packet is a  
20   copy of my affidavit confirming that notice was sent to  
21   affected parties. Proof of mailing is attached to the  
22   Affidavit of Notice, and there is a chart again  
23   confirming that all notices were delivered to all of the  
24   affected parties. And as the last page of this exhibit,  
25   there is an Affidavit of Publication confirming that

1 notice was published in a newspaper of general  
2 circulation.

3 And that concludes my presentation on the  
4 Wolfcamp case.

5 EXAMINER JONES: Anybody have any concerns?

6 EXAMINER GOETZE: No questions. Thank you.

7 EXAMINER JONES: We're doing proximity  
8 tracts in just the Wolfcamp cases?

9 MS. BRADFUTE: Yes, that's correct.

10 EXAMINER JONES: For some reason you're not  
11 wanting to do them in the Bone Spring?

12 MS. BRADFUTE: Let me double-check. One  
13 second. It may have been -- they've had some  
14 wells -- you know, the well location is typically based  
15 on spacing. Let me just confirm this (reading).

16 No. They're not requesting them for the  
17 Bone Spring, just for the Wolfcamp.

18 EXAMINER JONES: Okay. Okay, because --  
19 let's see -- this Wolfcamp -- the Wolfcamp has got what  
20 they're calling -- there is a tract in the northeast  
21 quarter -- northeast -- the edge of Section 36.  
22 Actually, it's in the northeast of the northwest.

23 MS. BRADFUTE: Uh-huh.

24 EXAMINER JONES: So that would be the only  
25 tract that would separate ownership between the east and

1 the west.

2 MS. BRADFUTE: Yes. Yes.

3 EXAMINER JONES: So I guess that must have  
4 been resolved in the Wolfcamp side of it.

5 MS. BRADFUTE: Yes.

6 EXAMINER JONES: But let's see. On the --  
7 on the -- yeah. Same deal. Same deal. Okay. So they  
8 chose to drill that one well in the middle, the WXY.

9 MS. BRADFUTE: They did. And I think it's  
10 driven by well spacing. So there is particular spacing  
11 that's needed for the 3rd Bone Spring wells. They can't  
12 be too close in proximity.

13 EXAMINER JONES: Was there a request -- or  
14 do you want a request for the 120 days to be extended?

15 MS. BRADFUTE: Yes. Thank you. We'd like  
16 to request a one-year period between drilling and  
17 completions. And that is because these wells are pad  
18 drilled together, and Marathon currently has one  
19 completions crew that's working in the state that's  
20 dedicated.

21 EXAMINER JONES: Okay. I don't know who  
22 represents EOG normally up here.

23 Oh (indicating).

24 (Laughter.)

25 MS. BRADFUTE: With that, we ask that these

1 cases be taken under advisement.

2 EXAMINER JONES: Okay. 20058, 20059 and  
3 20060 are taken under advisement.

4 (Case Numbers 20058, 20059 and 20060  
5 conclude, 8:51 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  
Paul Baca Professional Court Reporters

25