

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. 20061,
LLC FOR A SPACING UNIT AND COMPULSORY 20062
POOLING, LEA 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:

JENNIFER L. BRADFUTE, ESQ.
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.
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1 (10:04 a.m.)

2 EXAMINER JONES: Let's call Case Numbers
3 20061 and 20062. Both are styled application of
4 Marathon Oil Permian, LLC for a spacing unit and
5 compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. BRADFUTE: Mr. Examiner, Jennifer
8 Bradfute on behalf of the Applicant.

9 EXAMINER JONES: Any other appearances?

10 MS. BRADFUTE: Mr. Examiner, Marathon has
11 filed these two applications for its Queenie Federal Com
12 20-32-15 wells. This application involves two 2nd Bone
13 Spring wells, the 2H and the 3H, these applications
14 together. And we've consolidated these matters together
15 for hearing, and we would like to present these matters
16 by affidavit.

17 EXAMINER BROOKS: Is this re-opened also?

18 MS. BRADFUTE: This is not re-opened, so
19 these applications are being heard for the first time
20 today.

21 EXAMINER BROOKS: Okay. Go ahead.

22 MS. BRADFUTE: Attached in the exhibit
23 packet in front of you, for your convenience, is a copy
24 of both of the applications at the front of the packet.

25 In Tab 1, attached as Exhibit 1, you'll see

1 an affidavit prepared by Marathon's landman, Travis
2 Prewett. Mr. Prewett testified yesterday before the Oil
3 Conservation Division, and his credentials were accepted
4 and made a matter of record.

5 Mr. Prewett testifies that in Case 20061,
6 Marathon is seeking an order from the Division pooling
7 all uncommitted mineral interests in the Bone Spring
8 Formation underlying the east half-east half of Sections
9 10 and 15 in Township 20 South, Range 32 East in Lea
10 County. And this proposed spacing unit is going to be
11 dedicated to the 2H well.

12 In Case 20062, Marathon is seeking an order
13 from the Division pooling all uncommitted mineral
14 interests also within the Bone Spring Formation
15 underlying the west half-east half of Sections 10 and
16 15. And this spacing unit is going to be dedicated to
17 the 3H well.

18 Mr. Prewett states within his affidavit
19 that a plat outlining the unit and the different tracts
20 in the unit is attached as Exhibit A, and the
21 document -- the page following the tract for these wells
22 contains a list of the parties that Marathon is seeking
23 to pool. There is a list of uncommitted working
24 interests. And there are no unleased mineral interests
25 that are being pooled within the units. Also attached

1 to this is a list of overriding royalty interest owners
2 within the area, and Marathon does seek to pool
3 overriding royalty interest owners. It looks like there
4 are about eight or so overrides within the area.

5 Attached to this affidavit is also a list
6 of summary of attempted contacts that Mr. Prewett
7 engaged in to try to obtain consent and joinder in the
8 wells.

9 Attached to this affidavit is a C-102 for
10 each of the wells and also a well-proposal letter for
11 the wells that was sent out giving a separate election
12 to each of the wells, as well as an AFE for each of the
13 wells.

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

20 Mr. Prewett states that in his opinion
21 Marathon has made a good-faith effort to obtain
22 voluntary joinder of the working interests in the
23 proposed wells. And he states that the producing
24 intervals for both of the wells is going to be orthodox
25 and that it's going to comply with the Division setback

1 requirements.

2 He confirms that the estimated costs for
3 drilling the wells is comparable to costs to drill other
4 wells to these lengths and these depths within this area
5 of New Mexico, and he testifies that Marathon is seeking
6 overhead and administrative rates of \$8,000 a month for
7 drilling and \$800 a month for producing. He states that
8 these rates are fair and reasonable and that they're
9 comparable to the rates charged by other operators for
10 wells drilled to these lengths and these depths within
11 New Mexico.

12 These are two-mile wells. And something
13 that we have noticed with two-mile wells is that people
14 are moving to \$8,000 a month for drilling and \$800 a
15 month for producing.

16 Marathon requests that these rates be
17 adjusted periodically as provided for under the COPAS
18 accounting procedure. And Mr. Prewett testifies that
19 Marathon is requesting the maximum cost plus 200 percent
20 risk charge to be assessed against any nonconsenting
21 working interest owners. Mr. Prewett testifies that
22 Marathon is asking to be designated as the operator, and
23 that based on his opinion, he believes that the granting
24 of this application is in the interest of conservation
25 and the prevention of waste.

1 Attached as Exhibit 2 in this packet is an
2 affidavit prepared by a geologist, Ethan Perry.
3 Mr. Perry's credentials as a geologist have been
4 accepted and made part of the record.

5 And attached to his affidavit are Exhibits
6 A, B and C, which include a structure map, a cross
7 section and a gross interval isochore of the 2nd Bone
8 Spring Sand Formation.

9 I'm not going to summarize these exhibits
10 for you, but I did want to point out that Mr. Perry
11 testifies in his affidavit that based on his study, he
12 concludes that the horizontal spacing unit is justified
13 from a geologic standpoint, that there are no structural
14 impediments or faulting that's going to interfere with
15 horizontal development and that it's his opinion that
16 each quarter-quarter section of the unit is going to
17 contribute more or less equally to production.

18 Mr. Perry also testifies that the preferred
19 wellbore orientation in this area is north to south, and
20 he states that this is because the maximum horizontal
21 stress orientation is more or less east-west.

22 Attached as Exhibit 3 in this packet is a
23 copy of an affidavit prepared by Marathon's attorney,
24 Deana Bennett, and attached to this affidavit is
25 confirmation of all of the mailings that went out to

1 notified affected parties. And there is a chart
2 confirming which mailings were delivered. There appear
3 to be three different mailings that were not delivered
4 on this chart. We did try to track those undelivered
5 mailings and included pages giving the transaction
6 history from the post office for those mailings.
7 Marathon also published notification in a newspaper of
8 general circulation in Lea County, and an Affidavit of
9 Publication which lists all of the parties entitled to
10 notice by name is included in the last page of this
11 exhibit.

12 With that, I'd like to tender Exhibits 1
13 through 3 into the record and answer any questions that
14 you may have.

15 EXAMINER JONES: Exhibits 1, 2 and 3 are
16 admitted in both cases.

17 (Marathon Oil Permian, LLC Exhibit Numbers
18 1 through 3 are offered and admitted into
19 evidence.)

20 EXAMINER BROOKS: I had a question
21 because -- I may be confused. But looking at Exhibit
22 1A, the plat shown there appears to be a plat of the
23 west half-east half, and then if you go over to Exhibit
24 2B, that appears to be a C-102 for a well in the east
25 half-east half. There is also in Exhibit 2C a plat of a

1 well in the west half-east half. But I don't see -- am
2 I missing something?

3 MS. BRADFUTE: Yeah. So the pages
4 sometimes stick together. Let's go to Tab A.

5 EXAMINER BROOKS: Okay. Tab A has got a
6 page 1, which is the east half-east half.

7 MS. BRADFUTE: Yeah. That's the east
8 half-east half.

9 And then if you turn to the next page --
10 because there are two different spacing units at issue
11 here, one for each of the cases.

12 EXAMINER BROOKS: Yeah.

13 MS. BRADFUTE: Turn to the next page, and
14 that's the west half-east half spacing unit.

15 EXAMINER BROOKS: Well, the west half-east
16 half was the one I was looking at, but I realized the
17 tab is attached to the page that has the east half-east
18 half, and that's why I was missing it.

19 MS. BRADFUTE: Yes.

20 EXAMINER BROOKS: Now, Tracts 1 and 2 are
21 in the east half -- no. 1 and 2 -- there are Tracts 1
22 and 2 in the east half-east half and Tracts 1 and 2 in
23 the west half-east half, and they're different tracts.

24 MS. BRADFUTE: Yes. So because these are
25 Bone Spring wells, based on the spacing requirements by

1 the Division, each of these wells had to be broken down
2 into its own application, because they wanted to space
3 these wells where they wouldn't qualify for the
4 proximity tract provision.

5 EXAMINER BROOKS: Okay.

6 MS. BRADFUTE: So there is one application
7 per spacing unit.

8 EXAMINER BROOKS: Okay. Now, where is the
9 tract breakdown that follows the two plats?

10 MS. BRADFUTE: So the ownership -- so the
11 tract breakdown -- the ownership in each of these tracts
12 is the same. They don't give a tract breakdown by the
13 tracts. They just give the list of the uncommitted
14 working interest owners.

15 EXAMINER BROOKS: Okay. They also spelled
16 Fasken wrong --

17 MS. BRADFUTE: Oh, I apologize for that.

18 EXAMINER BROOKS: -- but David Fasken is
19 dead. That would have caused him great heartbreak.

20 MS. BRADFUTE: I'm sorry.

21 EXAMINER BROOKS: But he has been dead for
22 a long time, and so he has more serious problems than --

23 EXAMINER JONES: Oh, it's E-N.

24 EXAMINER BROOKS: It's an E.

25 EXAMINER JONES: Well, I noticed that OXY,

1 in the handling, neither made an appearance in this
2 case, or are they possible sign-ups?

3 MS. BRADFUTE: They are. I know Marathon
4 has been working with OXY, but they obviously haven't
5 committed yet. So --

6 EXAMINER JONES: Okay. And you're drilling
7 from a drill island, looks like.

8 MS. BRADFUTE: Yes. Yes.

9 EXAMINER JONES: Okay. And still not --
10 the wells are not permitted yet. So I assume the
11 locations will be -- I'll just put down what you've got
12 here as locations.

13 MS. BRADFUTE: Yes, please. Yeah.

14 EXAMINER JONES: And our system just shows
15 40-acre -- 40-acre building blocks, and all of them are
16 exactly 40s.

17 MS. BRADFUTE: I believe they are. I don't
18 have any information saying they're less than 40.

19 EXAMINER JONES: Okay. I guess we can
20 always say more or less.

21 MS. BRADFUTE: I think "more or less" is
22 usually what we use.

23 EXAMINER JONES: Especially on federal.

24 EXAMINER BROOKS: Well, building blocks are
25 authorized to be quarter-quarter sections. And actually

1 Mr. Brancard and I -- sometimes I disagree with him, but
2 in this case, he was wiser than I was that he took out
3 the 40 acres, because he said it didn't make any
4 difference as long as they were quarter-quarter sections
5 or equivalents. And I think he's clearly right.

6 MS. BRADFUTE: Yeah. It helps when you
7 have those lots.

8 EXAMINER BROOKS: And if it said 40 acres,
9 which constitutes a quarter-quarter section or an
10 equivalent, then we'd have to decide which it means.

11 MS. BRADFUTE: Yes. Yes.

12 EXAMINER JONES: I like working with all
13 these wizards.

14 EXAMINER BROOKS: Well, the law is pervaded
15 by wizardry.

16 EXAMINER JONES: The newspaper notice was
17 published ten days at least?

18 MS. BRADFUTE: Yes, I believe so. Yeah,
19 November 2nd.

20 With that, we'd ask that these cases be
21 taken under advisement, unless you have additional
22 questions.

23 EXAMINER BROOKS: I have none.

24 EXAMINER JONES: Thank you very much.

25 Cases 20061 and 20062 will be taken under

1 advisement.

2 And that concludes today's hearings.

3 (Case Numbers 20061 and 20062 conclude,
4 10:16 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

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

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

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

20 DATED THIS 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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25