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(10:09 a.m.)

EXAMINER McMILLAN: Call Case Number 20563, Marathon Oil Permian for compulsory pooling, Eddy County.

MS. BENNETT: Good morning. This is Deana Bennett on behalf of Marathon Oil Permian, LLC.

And I would like to consolidate Case Numbers 20563 and 20470 for hearing today.

EXAMINER McMILLAN: Okay. Other appearances?

MR. PADILLA: Ernest L. Padilla for Edward -- I can't remember who my client is.

MS. BENNETT: Sawyer.

(Laughter.)

MR. PADILLA: -- Sawyer and the Estate of Edward Sawyer.

And we have no witnesses, and we're entering an appearance only.

MR. FELDEWERT: May it please the examiner, Michael Feldewert, with the Santa Fe office of Holland & Hart, appearing on behalf of Chevron U.S.A., Inc. and also separately appearing on behalf of MRC Permian Company and related entities.

We do not object to the case proceeding by affidavit.

1 MR. PADILLA: And I should say our case is
2 restricted to -- our entry of appearance is to the 20470
3 case.

4 EXAMINER McMILLAN: And then if I could,
5 Chevron and MRC are making appearances in both cases.

6 MR. FELDEWERT: At this point, yes.

7 EXAMINER McMILLAN: Okay. Thank you.

8 EXAMINER LOWE: You may proceed.

9 MS. BENNETT: Thank you.

10 I have put in front of you-all copies of
11 the materials for the hearing today. And as
12 Mr. Feldewert indicated, I intend to put these on by
13 affidavit. And I have consolidated the exhibits as well
14 in the packet before you, so the packet before you
15 includes exhibits for both cases.

16 The first -- behind Tab A, the first
17 exhibit is the affidavit of the landman, Mr. Jeffrey
18 Broussard. And Mr. Broussard has previously testified
19 before the Division, and his credentials were accepted
20 as a matter of record. And his affidavit, again, covers
21 both the Wolfcamp case and the Bone Spring case.

22 So behind his affidavit, he's included as
23 Exhibit 1 and Exhibit 2 the applications that I filed on
24 behalf of Marathon. He notes in his application -- or
25 in his affidavit that the purpose of these applications

1 is to force pool working interest owners, and that in
2 Case Number 20563, Marathon is seeking an order from the
3 Division pooling all uncommitted mineral interests
4 within a Bone Spring horizontal spacing unit underlying
5 the west half-east of Sections 7 and 18. And this
6 spacing unit will be dedicated to the Nemesis 7 SB Fee
7 6H well. And the producing intervals for this well will
8 be orthodox.

9 And in Case 20470, Marathon is seeking an
10 order from the Division pooling all uncommitted mineral
11 interests within a Wolfcamp horizontal spacing unit
12 underlying the east half of Sections 7 and 18. And,
13 again, the producing areas for these wells will be
14 orthodox.

15 The C-102s for all of the wells are behind
16 Tab 3, and these are proposed C-102s. And the C-102s
17 identify the pool code and the pool name. And for the
18 Bone Spring well, the pool name is the Culebra Bluff;
19 Bone Spring, South, pool code 15011, and that's the 6H
20 well. There is a typo on this C-102. It shows
21 dedicated acres as 640, and it should be 320. I'm happy
22 to supply a revised C-102 if the Division desires.

23 EXAMINER McMILLAN: (Indicating.)

24 MS. BENNETT: I will do that.

25 The next several C-102s are for the

1 Wolfcamp wells, and those wells are all in the Purple
2 Sage; Wolfcamp Gas Pool with pool code 98220. And that
3 pool does have special pool rules, but these wells will
4 comply with the special pool rules.

5 Behind Tab 4 are lease tract maps for the
6 Bone Spring well and the Wolfcamp wells. 4A, which is
7 on page 22, is the lease tract map for the Bone Spring
8 well. Page 23 shows the summary of interests, and this
9 is for the Bone Spring well. And it shows Marathon's
10 interest as 54.89 percent, approximately, three
11 uncommitted working interest owners, which are OXY
12 Chevron and Fasken and then an unleased mineral
13 interest, which is the State Highway Commission of
14 New Mexico. And, again, this is in Case 20563. So
15 Marathon is seeking to pool all the uncommitted working
16 interest owners and the unleased mineral interest owner.

17 Turning to Exhibit 4B, which is on page 24,
18 this is the lease tract map for the Wolfcamp wells.
19 This is a smaller version of the map. The next page is
20 the larger version showing all of the tract numbers a
21 bit enlarged. And, again, this is for the east half of
22 Sections 7 and 18.

23 Turning to page 26, page 26 shows a summary
24 of the interests, and Marathon is shown as a committed
25 working interest owner with over 51 percent. MRC

1 Permian is committed, has made an election but hasn't
2 signed the JOA yet. Uncommitted working interest owners
3 are OXY, Chevron and Fasken. Unleased mineral interest
4 owners are the State Highway Commission and New Mexico
5 Department of Transportation. I would also point out
6 that there are several other unleased mineral interest
7 owners that are in this -- they are estates. And
8 they -- for example, the Sawyer estate that Mr. Padilla
9 represents. Marathon is in the process of negotiating
10 with those estates. They have to be probated still.
11 Many of them do. And so Marathon is not seeking to pool
12 those interests at this time. And if it turns out that
13 Marathon needs to come back to pool those interests, it
14 will at a later time, and that is set forth in
15 Mr. Broussard's affidavit, that Marathon is not seeking
16 to pool, for example, the Sawyer's interest, in Case
17 Number 20470, at this time.

18 There are no depth severances within the
19 Bone Spring Formation or the Wolfcamp Formation
20 according to Mr. Broussard's affidavit. He conducted a
21 diligent search of public records in the county where
22 the wells are located and, in his opinion -- among other
23 things, among other diligence, in his opinion, Marathon
24 made a good-faith effort to obtain voluntary joinder.

25 Behind Exhibit 5 is the well-proposal

1 letters that were sent out on Marathon's behalf. On
2 page 27, there is an example of the letter that was sent
3 out to uncommitted working interest owners. Page 30 is
4 the letter that was sent out to the Department of
5 Transportation as an unleased mineral interest owner.
6 These proposal letters include the well name, the
7 surface-hole location, the bottom-hole location and the
8 approximate TVD, as well as elections for each well
9 individually, separate elections.

10 Exhibit 6 contains the AFEs for each of the
11 wells, and I've highlighted for each AFE the well number
12 and the total cost, which looks like around plus or
13 minus 10 million for each of the wells. In
14 Mr. Broussard's opinion, the estimated cost of the wells
15 set forth in the AFEs is fair and reasonable and is
16 comparable to the cost of other wells of similar depths
17 and lengths drilled in this area of New Mexico.

18 Marathon is requesting overhead and
19 administrative rates of 7,000 per month for drilling a
20 well and 700 a month for a producing well. And in
21 Mr. Broussard's opinion, these rates are fair,
22 reasonable and comparable to the rates charged by
23 Marathon and other operators in this area of New Mexico.
24 Marathon is requesting that these rates be adjusted
25 periodically as provided for in the COPAS accounting

1 procedure. Marathon requests the maximum cost plus 200
2 percent risk charge be assessed against nonconsenting
3 working interest owners. Marathon requests that it be
4 designated operator of the wells. Marathon requests
5 that it be allowed a period of one year between when the
6 wells are drilled and when the first well is completed
7 under the order.

8 Marathon -- the parties Marathon --
9 Marathon is seeking to pool were notified of this
10 hearing, and Marathon is requesting that overriding
11 royalty interest owners be pooled, and they were also
12 provided notice of this hearing.

13 Exhibit 18 is an Affidavit of Notice that I
14 prepared. And so page 64 is the Affidavit of Notice.
15 Pages 65, 66, 67 and 68 are the addresses of the folks
16 to whom I sent notice. And page 69 actually shows the
17 status of the mailing. This is our version of the green
18 cards. So it shows to whom notice was sent and the
19 status -- the delivery status. Pages 70 through 72 are
20 an Affidavit of Publication showing that notice of this
21 hearing was provided in the "Carlsbad Current-Argus" on
22 4/18/2019, so April 18, 2019. This hearing -- formation
23 about this hearing was punished in the "Carlsbad
24 Current-Argus."

25 Mr. Broussard testifies that his -- the

1 attachments to his affidavits were prepared by him or
2 prepared from company business records or prepared at
3 his direction. He also testifies that the information
4 provided in his affidavit and the exhibits is complete
5 and correct to the best of his knowledge and, in his
6 opinion, the granting of these applications is in the
7 interest of conservation and the prevention of waste.

8 At this time I would like to -- actually,
9 I'll move the admission of all the exhibits at the end
10 of my presentation, if that's acceptable to the Division
11 and to the other parties.

12 MR. PADILLA: No objection.

13 MR. FELDEWERT: That's fine.

14 EXAMINER LOWE: That's fine.

15 MS. BENNETT: That's all the information I
16 have to present as far as Mr. Broussard's affidavit. I
17 stand for any questions, if I may answer any.

18 MR. PADILLA: No questions.

19 MR. FELDEWERT: I have none.

20 EXAMINER McMILLAN: What's the building
21 blocks?

22 MS. BENNETT: For the Bone Spring, it's
23 40-acre building blocks, and for the Wolfcamp, it's 320.

24 EXAMINER McMILLAN: And are there OTHER
25 unlocatable interests?

1 MS. BENNETT: If by unlocatable interests,
2 you mean the estates, they're undetermined at this time,
3 but we do know who the potential heirs are, but we're
4 working with them to go through -- working --
5 communicating with them, Marathon is, as they proceed
6 through the probate process.

7 EXAMINER McMILLAN: And so you have good
8 addresses for them?

9 MS. BENNETT: Yes, we do. Marathon has
10 been in contact with all of the unleased mineral
11 interest owners and has addresses for the heirs it knows
12 of or the potential heirs and estates but doesn't have a
13 firm understanding of who the heirs are yet because
14 those have to be determined by a probate proceeding.

15 EXAMINER McMILLAN: And the status?

16 MS. BENNETT: Of the probate proceedings?

17 EXAMINER McMILLAN: No. The status of the
18 wells.

19 MS. BENNETT: They're proposed.

20 EXAMINER McMILLAN: Any API numbers?

21 MS. BENNETT: Not that I'm aware of.

22 EXAMINER McMILLAN: Okay.

23 EXAMINER LOWE: You mentioned verbally
24 that -- you referenced State Highway Commission. Did
25 you mean New Mexico DOT by that?

1 MS. BENNETT: Let me look at the lease
2 tract map. I'm looking at Exhibit 4A, page 23. And the
3 title work that Marathon had done does show that it's --
4 the unleased mineral interest is held by the State
5 Highway Commission. Now, whether that's just an
6 antiquated name for the Department of Transportation
7 right now, but that's what the title work did show.

8 EXAMINER LOWE: Okay. Okay. I just wanted
9 to -- then you mentioned later on the New Mexico DOT, so
10 I don't know if it's the same or if it's different.

11 MS. BENNETT: Yes. Well, actually, if you
12 look at page 26, for the Wolfcamp wells, the title work
13 came back showing both the State Highway Commission and
14 New Mexico Department of Transportation. So I think
15 that's a relic from perhaps an outdated name for the
16 State Highway Commission, but that's what the title work
17 shows.

18 EXAMINER LOWE: Okay. That's all the
19 questions I've got.

20 MS. BENNETT: Thank you.

21 With that, I'd like to turn to Tab B then.
22 Tab B is the affidavit prepared by Marathon's geologist
23 Matt Baker. And Mr. Baker has previously testified
24 before the Division, and his credentials were accepted
25 as a matter of record.

1 Mr. Baker has included several exhibits
2 behind his affidavit starting with exhibits that relate
3 to the Bone Spring well, and then he turns to the
4 Wolfcamp wells. And he's broken out the Wolfcamp wells
5 between Upper Wolfcamp and Lower Wolfcamp, which is why
6 there is a number of exhibits to his affidavit.

7 So starting with Exhibit 7, Exhibit 7 is
8 the Bone Spring structure map, and it shows the project
9 area outlined by a black dashed line and the proposed
10 horizontal location in the blue line. And this is a 2nd
11 Bone Spring Sand well. And this shows the contours, and
12 Mr. Baker testifies that this shows that the structure
13 dips to the east.

14 Exhibit 8 is a cross reference -- I'm
15 sorry -- the reference map for the cross-section wells
16 that Mr. Baker used. And here he's identified five
17 wells for the cross section, and those run from A to A
18 prime.

19 Exhibit 9, then, is the cross section that
20 is taken from those cross-section reference wells. And
21 you can again see he's put an inset map in the upper
22 right-hand corner to orient you to where those
23 cross-section wells are reference to the proposed wells.

24 And Mr. Baker testifies that in his opinion
25 the well logs here give a representative sample of the

1 Bone Spring Formation in this area. The target zone is
2 identified by the words "Producing Zone" and the
3 green-shaded area across the cross section, along with
4 the red arrow. And in his opinion, the 2nd Bone Spring
5 Sand thickens slightly from north to south.

6 Exhibit 10 is the isochore for the 2nd Bone
7 Spring Sand top to base. And based on his analysis,
8 Mr. Baker testifies that the formation thickens slightly
9 from north to south.

10 Turning to Exhibit 11, Exhibit 11 is the
11 structure map for the Wolfcamp. Now, this structure map
12 does show on Exhibit 11 all seven of the Wolfcamp wells,
13 the upper and lower Wolfcamp wells. The project area's
14 outlined by a black-dashed box. The wells are
15 identified within that black-dashed box by color, and
16 they're also identified by number alongside.

17 Exhibit 12, then, is devoted to the Upper
18 Wolfcamp wells, which are the WXY and WA wells. This is
19 the reference map for the cross section, and it shows
20 the same five wells running from A to A prime.

21 Exhibit 13 is the stratigraphic cross
22 section built off of those five wells. And the wells,
23 according to Mr. Baker, on the log on the cross section
24 give a representative sample of the Wolfcamp Formation
25 in this area. Again, the target zone for these wells,

1 the Upper Wolfcamp wells, is the Wolfcamp Y Sand and the
2 Wolfcamp A, identified by the words "Producing Zone" and
3 the shaded area across the cross section, along with the
4 red arrow. Mr. Baker testifies that the Wolfcamp Y is
5 relatively consistent from north to south. The Wolfcamp
6 A thickness, in his opinion, varies slightly from north
7 to south based on these logs.

8 Exhibit 14 is the gross interval isochore
9 for the Upper Wolfcamp wells. Again, you'll see here a
10 black-dashed box outlining the project area and the four
11 wells that are the Upper Wolfcamp wells, which are the
12 WXY and WA wells. Mr. Baker testifies that the
13 formation here is relatively uniform across the proposed
14 unit.

15 Exhibit 15 is the cross-reference map for
16 the Lower Wolfcamp wells. It again shows the five wells
17 that Mr. Baker used and now identifies the three Lower
18 Wolfcamp wells, which are the WD wells. And you can see
19 those identified on the cross-reference map, as well as
20 to the right by number.

21 Exhibit 16, then, is the logs and the cross
22 section that Mr. Baker built using those five wells for
23 the Lower Wolfcamp wells. And in his opinion, these --
24 the well logs on the cross section give a representative
25 sample of the Wolfcamp Formation in this area. Again,

1 he's identified the target zones and producing zone in
2 green shading with a red arrow for the target zone. And
3 in his opinion, based on these logs, the Wolfcamp C2
4 interval thickens from north to south, and the Wolfcamp
5 D2 interval thickens from north to south.

6 Exhibit 17 is the gross interval isochore
7 for the Lower Wolfcamp wells. This is Wolfcamp C2 to
8 Wolfcamp D3, and you can see the project area outlined
9 by the black-dashed box and the three horizontal well
10 locations identified within that black box, as well as
11 identified by number on the right. Mr. Baker testifies
12 that the formation is relatively uniform across the
13 proposed well unit, in his opinion.

14 His conclusion from these maps and his
15 study is that the horizontal spacing unit is justified
16 from a geologic standpoint. There are no structural
17 impediments or faulting that will interfere with
18 horizontal development. Each quarter-quarter section in
19 the unit will contribute more or less equally to
20 production. He also testifies that the preferred well
21 orientation in this area is either north-south or
22 east-west, and he states that this is because the SHmax
23 is roughly 45 degrees from north within this unit.

24 He states that Exhibits 7 through 17 were
25 prepared by him, under his supervision or compiled from

1 company business records. And in his opinion, the
2 granting of these applications is in the interest of
3 conservation and the prevention of waste.

4 At this time I would like to ask that
5 Exhibits 1 through 18 -- well, A and B and 1 through 18
6 be admitted into the record.

7 MR. PADILLA: No objection.

8 MR. FELDEWERT: No objection.

9 EXAMINER LOWE: No objections?

10 Exhibits 1 through 18 will be admitted.

11 (Marathon Oil Permian, LLC Exhibits A and B
12 and 1 through 18 are offered and admitted
13 into evidence.)

14 MS. BENNETT: I don't have any geology, but
15 I'm happy to answer any questions I can.

16 EXAMINER McMILLAN: Cross?

17 MR. PADILLA: No.

18 MR. FELDEWERT: No questions.

19 EXAMINER McMILLAN: Go ahead.

20 EXAMINER LOWE: Case Number 20563
21 references that Nemesis SB Fee Number 6 well, correct?

22 MS. BENNETT: That's correct.

23 EXAMINER LOWE: And then the other one,
24 Case Number 20470, is the Nemesis 7 WXY, WA and WD?

25 MS. BENNETT: That's right, although that's

1 an abbreviated description only for the docket sheet.
2 There are actually seven wells that are at issue in Case
3 20470, and I'm happy to go through each one.

4 EXAMINER LOWE: No. That's okay. I just
5 wanted to make sure my flaming ducks are in a row on my
6 side.

7 MS. BENNETT: Yeah.

8 EXAMINER LOWE: I've got no questions. I
9 just want to compliment you on numbering your pages,
10 your exhibits. It's easier to find something when
11 you're thrown everything up front right now and find
12 what you're going to be looking at.

13 MS. BENNETT: Yes. Well, I'm definitely
14 trying to be responsive to the Division's requests.
15 So --

16 EXAMINER LOWE: The way you numbered it,
17 it's a lot easier to see instead of referencing to
18 Exhibit 18 and trying to find what part in 18 it is. So
19 I compliment you on that. So thank you.

20 MS. BENNETT: Thank you. I apologize that
21 they're handwritten, but --

22 EXAMINER LOWE: No. That's okay.

23 MS. BENNETT: -- that's the best I've got
24 right now (laughter).

25 EXAMINER LOWE: That's fine. It's clear

1 and it's good. Thank you.

2 I have no additional questions.

3 MS. BENNETT: Thank you.

4 EXAMINER McMILLAN: Just for clarity
5 purposes, you expect the Wolfcamp every quarter section?

6 MS. BENNETT: Every quarter section,
7 uh-huh. Bone Spring, every quarter-quarter. Wolfcamp,
8 every quarter.

9 With that, then, I would ask that Case
10 Numbers 20563 and Case Number 20470 be taken under
11 advisement.

12 MR. PADILLA: No objection.

13 MR. FELDEWERT: No objection.

14 EXAMINER LOWE: Okay. Case Number 20563
15 and Case Number 20470 will be taken under advisement.

16 MS. BENNETT: Thank you.

17 (Case Numbers 20563 and 20470 conclude,
18 10:33 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

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

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

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

20 DATED THIS 15th day of July 2019.

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