

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. 20662  
LLC FOR COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 8, 2019

Santa Fe, New Mexico

BEFORE:    LEONARD LOWE, CHIEF EXAMINER  
             MICHAEL McMILLAN, TECHNICAL EXAMINER  
             DANA Z. DAVID, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Leonard Lowe, Chief Examiner; Michael McMillan, Technical Examiner; and Dana Z. David, Legal Examiner, on Thursday, August 8, 2019, 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  
                     500 4th Street, Northwest, Suite 105  
                     Albuquerque, New Mexico 87102  
                     (505) 843-9241

## 1 APPEARANCES

2 FOR APPLICANT MARATHON OIL PERMIAN, LLC:

3 LANCE D. HOUGH, ESQ.  
 DEANA M. BENNETT, ESQ.  
 4 MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.  
 500 4th Street, Northwest, Suite 1000  
 5 Albuquerque, New Mexico 87102  
 (505) 848-1800  
 6 ldh@modrall.com  
 deanab@modrall.com

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11 Marathon Oil Permian, LLC's Case-in-Chief:

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## 20 EXHIBITS OFFERED AND ADMITTED

21 Marathon Oil Permian, LLC Exhibit  
 Numbers A and A1 through A8 13

22 Marathon Oil Permian, LLC Exhibit  
 23 Numbers B and B1 through B7 18

24 Marathon Oil Permian, LLC Exhibit C 20

25

1 (11:25 a.m.)

2 EXAMINER LOWE: All right. We will call  
3 Case Number 20662.

4 Call for appearances.

5 MR. HOUGH: Lance Hough and Deana Bennett  
6 on behalf of Marathon Permian Oil [sic], LLC.

7 And I do know there was a prehearing  
8 statement filed by Gene Gallegos on behalf of Ratina  
9 [phonetic] Hernandez, Federico Hernandez, Gerardo  
10 [phonetic] Hernandez and Jaime Hernandez. I understand  
11 they have an unleased mineral interest. We've reached a  
12 stipulation where due to the fact that the client's  
13 representative is out of the country and unavailable, in  
14 four days when she returns, we're going to negotiate in  
15 good faith and try to resolve that component. So we  
16 have removed her from the list of unleased mineral  
17 interests in the packet that we're seeking to pool at  
18 this time.

19 EXAMINER LOWE: Okay.

20 MR. HOUGH: What I would like to present  
21 today is the land testimony done via live testimony from  
22 a witness and then the geology component by affidavit.  
23 With that said, I'd like to call my first witness, Chase  
24 Rice.

25 EXAMINER LOWE: Sworn in?

1 CHASE RICE,  
2 after having been duly sworn under oath, was  
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. HOUGH:

6 Q. Would you please state your name for the  
7 record?

8 A. Chase Rice.

9 Q. And who do you work for and in what capacity?

10 A. Marathon Oil Permian as a landman.

11 Q. And have you previously testified before the  
12 Division?

13 A. Yes.

14 Q. And have you been qualified as an expert in  
15 land matters before the Division?

16 A. Yes.

17 Q. And were your credentials accepted as a matter  
18 of record?

19 A. Yes.

20 Q. And does your area of responsibility at  
21 Marathon include the area of Eddy County in New Mexico?

22 A. Yes.

23 Q. And are you familiar with the application filed  
24 by Marathon in this case?

25 A. Yes.

1           **Q.    Are you familiar with the status of the lands**  
2           **that are the subject to this application?**

3           A.    I am.

4                   MR. HOUGH:  At this time I'd like to tender  
5           the witness as an expert in land matters.

6                   EXAMINER LOWE:  Okay.  He is so qualified.

7           **Q.    (BY MR. HOUGH) Now, would you please turn to**  
8           **Exhibit A1?  I have -- Tabs A and 1 should be right**  
9           **behind there.  Can you explain what that is for the**  
10          **examiners?**

11          A.    This is an application to pool for Case Number  
12          20662.

13          **Q.    And what does Marathon seek in this**  
14          **application?**

15          A.    We're seeking to pool all uncommitted interests  
16          within a Wolfcamp horizontal spacing unit underlying the  
17          west half of Section 28, Township 23 South, 28 East,  
18          Eddy County, New Mexico.  And our plans are to drill  
19          four wells targeting the Wolfcamp Formation known as the  
20          Thor 28 WXY Fee 1H, WA Fee 3H, WXY Fee 5H and WD Fee 8H.

21          **Q.    Are there any depth severances in the proposed**  
22          **spacing unit?**

23          A.    No.

24          **Q.    Turn to the next tab, Exhibit A1.  Can you**  
25          **explain what Exhibit A is for the hearing examiners?**

1           A.     These are our C-102 permit plats for the four  
2     wells.

3           **Q.     And has the Division identified the pool and**  
4     **pool code for these wells?**

5           A.     The pool code is the Purple Sage; Wolfcamp,  
6     pool code number 98220.

7           **Q.     Okay. And is that governed by a specific**  
8     **order?**

9           A.     Yes.

10          **Q.     And will these wells comply with the setback**  
11     **requirements for the Purple Sage; Wolfcamp Gas Pool?**

12          A.     Yes. It will comply with the 330-foot setback  
13     requirement.

14          **Q.     Let's turn to Exhibit A3. Explain what this is**  
15     **for the hearing examiners.**

16          A.     A3 is a lease tract map of the west half of  
17     Section 28, the unit area that we're seeking to pool.  
18     The ownership consists of all fee acreage. Tracts 1, 2,  
19     4 -- Tracts 1, 2, 3 and 4 are fee tracts. Tract 5 is --  
20     will be more fair represented to be the portion over the  
21     Loving townsite -- subdivision. So the north half of  
22     Section -- the north half of the northwest quarter is a  
23     townsite, has multiple lots and tracts in it. So that's  
24     why I'm here, to go over that.

25          **Q.     Mr. Rice, are you looking at Exhibit A4?**

1           A.    Yes.  I flipped to number A4.

2           Q.    So you're providing us a breakdown of Tract 5?

3           A.    Correct.  It's a breakdown of Tract 5.

4           Q.    And does this provide a lease of the tracts  
5 within that subdivision?

6           A.    Yes.

7           Q.    And I see there are three -- here with green  
8 under the legal tab.  What's indicated by that green  
9 coloring?

10          A.    All these tracts are under lease either through  
11 Marathon or through another party.

12          Q.    I believe after those there are two pages  
13 indicated in yellow.  What's indicated by that yellow?

14          A.    These tracts are lots within Tract 5, which is  
15 currently under lease -- are not leased yet, but we're  
16 hoping to get those leases.

17          Q.    Turning to Exhibit A5, what's provided here?

18          A.    This is a list of all the unleased mineral  
19 interest owners.

20          Q.    Okay.  And then turning to Exhibit A6, can you  
21 explain what this is for the hearing examiners?

22          A.    This is an interest breakdown of the west half  
23 of 28 -- Section 28, committed interests, the  
24 uncommitted working interests and the unleased mineral  
25 interests.

1           Q.    And just to be clear for the record, what type  
2 of interests do you seek to pool here?

3           A.    The uncommitted interests, both the uncommitted  
4 working interests and the unleased mineral interests.

5           Q.    Okay. And who are the uncommitted working  
6 interest holders in this case?

7           A.    Concho Operating, LLC; MRC Permian; Llano  
8 Natural Resources; and BC Operating.

9                   Llano Natural Resources and BC Operating  
10 have signed our AFEs but haven't signed the JOA yet.

11                   Currently working on a trade with Concho  
12 for their acreage.

13          Q.    And all these unleased mineral interest  
14 holders, those are already all listed in --

15          A.    Correct. Correct.

16          Q.    Okay. And what percentage of interest does  
17 Marathon Oil Permian hold?

18          A.    Approximately 33 percent.

19          Q.    And what percentage is the -- for the unleased  
20 mineral interest?

21          A.    About 5-1/2 percent.

22          Q.    Okay. Now, could you summarize for the  
23 examiners the efforts that Marathon has made to obtain  
24 voluntary pooling of these interests?

25          A.    They've sent well-proposal letters. We've

1     contacted the uncommitted working interest owners, and  
2     we've made a lot of effort to take new leases or leases  
3     from the unleased mineral interest owners. We're  
4     currently in negotiations with several of these parties.  
5     It's very -- the City of Loving has a little bit. We've  
6     been in contact with them multiple times to negotiate  
7     leases. So those are our efforts.

8           **Q.     And is it your opinion that Marathon made**  
9     **good-faith efforts to obtain voluntary joinder in the**  
10    **wells?**

11           A.     Yes.

12           **Q.     Let's turn to what's been marked as Exhibit A7.**  
13    **Can you explain what's provided here?**

14           A.     A7 was our initial well-proposal letter to the  
15    owners that would be in the west half of Section 28.

16           **Q.     And are there two wells -- two letters provided**  
17    **here?**

18           A.     One was sent to the working interest owners,  
19    and one was sent to the unleased mineral interest  
20    owners.

21           **Q.     And did you send a proposal for the wells to**  
22    **each and every working interest owner?**

23           A.     Yes.

24           **Q.     And did you do the same for each unleased**  
25    **mineral interest owner?**

1           A.     Yes.

2           Q.     Now, do the well-proposal letters identify the  
3     proposed surface-hole location and bottom-hole location  
4     and approximate TVD for the wells?

5           A.     They do.

6           Q.     And do the well-proposal letters include an AFE  
7     for the wells?

8           A.     Yes.

9           Q.     Okay. So Marathon provided a cost for doing  
10    the wells and completion costs to the parties it seeks  
11    to pool?

12          A.     Yes.

13          Q.     Now, behind Tab Number 8 is Exhibit A8. What's  
14    provided here?

15          A.     This is an AFE for the Thor 28 WXY Fee #1H,  
16    drilling costs to complete the well.

17          Q.     And what's that total cost for that 1H well?

18          A.     Total costs for drilling, completion,  
19    facilities is \$6,941,435.

20          Q.     Okay. And what about those costs for the 3H  
21    well?

22          A.     The 3H is the same, \$6,941,435.

23          Q.     And the 5H well?

24          A.     Same as well, \$6,941,435.

25          Q.     What about the costs for the 8H well?

1           A.     The 8H well cost to drill and complete is  
2     \$8,923,269.

3           Q.     And are those costs in line with the costs of  
4     the other horizontal wells being drilled to this length  
5     and depth in this area of New Mexico?

6           A.     Yes.

7           Q.     And who should be appointed as operator of  
8     these wells?

9           A.     We are requesting that Marathon Oil Permian be  
10    appointed operator.

11          Q.     And do you have a recommendation for amounts  
12    which Marathon should be paid for supervision and  
13    administrative expenses?

14          A.     We're requesting 7,000 per month be allowed for  
15    drilling a well and 700 per month for producing a well.

16          Q.     And are these amounts equivalent to those  
17    normally charged by Marathon and other operators in this  
18    area for horizontal wells of this length and depth?

19          A.     Yes.

20          Q.     Do you request these rates be adjusted  
21    periodically as provided by the COPAS accounting  
22    procedure?

23          A.     Yes.

24          Q.     And does Marathon request the maximum cost plus  
25    200 percent charge if any pooled working interest owner

1 fails to pay its share of costs for drilling, completing  
2 and equipping the wells?

3 A. Yes.

4 Q. And are there also overriding royalty interest  
5 owners that Marathon is seeking to pool in the proposed  
6 spacing unit?

7 A. We sent notifications to the riders, and we're  
8 seeking to pool the override interests as well.

9 Q. And were all the parties you are seeking to  
10 pool notified of this hearing?

11 A. Yes.

12 Q. And does Marathon request that it be allowed a  
13 period of one year between when this well is drilled and  
14 when the first well is completed under the order?

15 A. Yes.

16 Q. And is the granting of these applications in  
17 the interest of conservation and the prevention of  
18 waste?

19 A. Yes.

20 Q. And were Exhibits A1 through A8 prepared by  
21 you, under your supervision or compiled from company  
22 business records?

23 A. Yes, they were.

24 MR. HOUGH: At this time I would like to  
25 move to have Exhibits A1 through A8 admitted into the

1 record.

2 EXAMINER LOWE: Exhibits A1 through A8 will  
3 be accepted into the record.

4 (Marathon Oil Permian, LLC Exhibit Numbers  
5 A1 through A8 are offered and admitted into  
6 evidence.)

7 MR. HOUGH: At this time Mr. Chase is  
8 available for any questions.

9 EXAMINER LOWE: Do you have any questions?

10 EXAMINER DAVID: I have no questions.

11 EXAMINER LOWE: Mr. McMillan?

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 Q. Where is the Affidavit of Publication for the  
15 locatable interests?

16 MR. HOUGH: The Affidavit of Publication is  
17 provided behind Tab C. That also includes an affidavit  
18 from myself regarding our efforts to send out notice --  
19 notice letters of the hearing with the application, and  
20 there is also -- there is a list of all the mailings,  
21 and then there is a list of the status of those  
22 mailings, and then there is a publication -- Affidavit  
23 of Publication. And you can see there behind Exhibit C.

24 EXAMINER McMILLAN: I'm shocked at how few  
25 unlocatables.

1                   MR. HOUGH: Well, I think there was only  
2 about ten of them. But I've gone through the list of  
3 people that we're seeking to pool, I should say. And  
4 there is also included, I believe, behind the  
5 affidavit -- because the actual Affidavit of Publication  
6 cuts off a little bit of the publication, we included,  
7 from the "Carlsbad Argus," a complete -- it's not from  
8 their website, but it's a complete publication. You can  
9 see it. So we threw that in in addition to the  
10 affidavit.

11           Q.    (BY EXAMINER McMILLAN) And what about the  
12 railroad?

13           A.    The railroad doesn't have mineral interests.

14           Q.    It's nearly impossible to tell whether or not  
15 they do.

16           A.    Right.

17                   And the way we read the deed is that the  
18 town lots go up to the center of the street, so the --  
19 the lot owners own the minerals under the streets there  
20 in this town, too.

21           Q.    Wow. Okay.

22                   EXAMINER McMILLAN: Go ahead.

23                   EXAMINER LOWE: I have no questions.

24                   Thank you.

25                   MR. HOUGH: All right. Thank you.

1                   I would move to the next component of this  
2 case, which is the geology testimony from Tom Lockwood's  
3 affidavit labeled Exhibit B in your packet there. It  
4 should be at Tab B.

5                   So Mr. Lockwood provides here that he is a  
6 geologist for Marathon and has been qualified by the  
7 Division as an expert in petroleum and geology matters.  
8 And he provides that he conducted a geological study of  
9 the area that encompasses the horizontal spacing unit  
10 that is the subject of Marathon's application in this  
11 case and that he's familiar with the geological matters  
12 in this case. And his study is reflected in the  
13 geological exhibits that are attached to his affidavit.

14                  So I'll go ahead and turn to the next tab  
15 under 1, Exhibit B1. He provides this is a TVD subsea  
16 structure map on the top of the Wolfcamp Formation. And  
17 this exhibit identifies the proposed unit with a black  
18 dotted line, and then the proposed wells are provided  
19 there with the corresponding numbers of 1 through 4. It  
20 also shows the structure is relatively consistent across  
21 the proposed unit, and it dips slightly to the east in  
22 the area.

23                  And he also provides that in the next  
24 slides, he's prepared these exhibits for the Upper  
25 Wolfcamp wells that are proposed and then testifies for

1 the Lower Wolfcamp wells.

2                   Turning next to Exhibit B2, he provides  
3 this is a reference map for the stratigraphic cross  
4 section, and it shows the Upper Wolfcamp wells and  
5 these, the WA and the WXY wells. And this exhibit  
6 identifies the cross-section vertical wells in proximity  
7 to the three proposed Upper Wolfcamp wells with a pink  
8 line running from A to A prime, and it also provides the  
9 cross-section well names there.

10                  Turning to Exhibit B3, he provides that  
11 this is a stratigraphic cross section hung on the top of  
12 the Wolfcamp, and the well logs in this cross section  
13 show the Wolfcamp Y Sand and Wolfcamp A in the area.  
14 And these are the target zones for the proposed Upper  
15 Wolfcamp wells. And these wells also show the formation  
16 thicknesses is relatively consistent from north to south  
17 in the Wolfcamp Y Sand and very slightly from the north  
18 to south in the Wolfcamp A. And the target zones are  
19 identified there with green shading, and the proposed  
20 well locations are identified with red arrows.

21                  Moving to Exhibit B4, he provides this is a  
22 gross interval isochore for the Wolfcamp to Wolfcamp B,  
23 and it shows the stratigraphy has consistent thickness  
24 across the proposed well unit. And it's -- this map  
25 also identifies the proposed unit well -- or wells, I

1     should say.

2                     Moving to Exhibit B5, this is a reference  
3     map. Now moving to the Lower Wolfcamp wells, this is a  
4     reference map for the stratigraphic cross section used  
5     to show the Lower Wolfcamp wells, which is really just  
6     one there. It's the WD well. And it identifies the  
7     cross section vertical wells in proximity to the  
8     proposed Lower Wolfcamp well with that pink line running  
9     from A to A prime.

10                    And moving to exhibit B6, this is the  
11     stratigraphic cross section hung on the top of the  
12     Wolfcamp D2. And the well logs on the cross section  
13     show the Wolfcamp C2 and D2 in the area and the target  
14     zones for the proposed Lower Wolfcamp well. And these  
15     well logs show a formation thickness -- thickens -- I'm  
16     sorry. The formation thickens from north to south, both  
17     the Wolfcamp C2 and D2, and the target zones are  
18     identified with, again, green shading. The proposed  
19     well locations are identified with red arrows.

20                    Turning now to Exhibit B7, he provides this  
21     is a gross interval isochore for the Wolfcamp C2 and  
22     Wolfcamp D2A. This also shows the stratigraphy has  
23     consistent thickness across the proposed well unit. And  
24     it also shows the proposed unit well.

25                    He further provides that the preferred

1 orientation in this area is either north-south or  
2 east-west, and this is because the SHmax is roughly 45  
3 degrees from north within this unit.

4 He provides that the B1 through B7 exhibits  
5 were prepared by him and under his supervision or from  
6 business records. And lastly he provides that just  
7 based upon his study, as illustrated in the exhibits,  
8 his knowledge of the geology in the area, education and  
9 training, it's his expert opinion that the horizontal  
10 spacing unit is justified from a geologic standpoint,  
11 that there are no structural impediments or faulting  
12 that will interfere with the horizontal development.  
13 And he provides that each quarter section in this unit  
14 will contribute more or less equally to production.

15 With that, I move to have Exhibits B1  
16 through -- I should say B and B1 through B7 admitted  
17 into the record.

18 EXAMINER LOWE: Okay. Exhibits B1 through  
19 B7 will be admitted into the record.

20 (Marathon Oil Permian, LLC Exhibit Numbers  
21 B1 through B7 are offered and admitted into  
22 evidence.)

23 MR. HOUGH: Are there any questions on the  
24 geology component?

25 EXAMINER LOWE: Sir?

1 EXAMINER DAVID: I have no questions.

2 EXAMINER McMILLAN: I don't have any  
3 questions.

4 EXAMINER LOWE: No questions.

5 MR. HOUGH: And moving to the last  
6 component that we briefly discussed earlier is Exhibit  
7 C. It's an affidavit from myself providing that, as an  
8 authorized representative of Cimarex [sic], we provided  
9 via -- or previously referenced application with notice  
10 letters, and also provided there is a list, proof of  
11 mailing, for all the people we've mailed notice out to.  
12 And then there is proof of receipts of the mailing and  
13 providing status, and then, of course, the publication  
14 affidavit showing that we published. And then there is  
15 one last attachment. It's just a clarification on the  
16 actual content of the publication just due to the issue  
17 with the Affidavit of Publication.

18 And so as a result, you know, I'm just  
19 providing here that Cimarex [sic] has provided a  
20 good-faith and diligent effort to find the names and  
21 correct addresses for the interest owners entitled to  
22 receive notice of these applications and providing  
23 notice to each of the last known addresses.

24 I'm sorry. Not Cimarex. Marathon. My  
25 apologies. So we have Marathon, one update there.

1                   But, again, as the attachments to my  
2   affidavit provide, this is the correct mailing sheet  
3   prepared, of course, with the list of mineral interests  
4   we're seeking to pool.

5                   What I would like to do is just request,  
6   due to the one copy-paste error in my affidavit, to be  
7   able to submit an updated affidavit and -- when we  
8   submit our hearing packet electronically to Kathleen.

9                   EXAMINER McMILLAN:   That would be good.

10                  EXAMINER DAVID:   If it's corrected.

11                  MR. HOUGH:   Okay.   With that, I'd like to  
12   move admission of Exhibit C.

13                  EXAMINER LOWE:   Exhibit C will be accepted  
14   for this record.

15                  (Marathon Oil Permian, LLC Exhibit C is  
16   offered and admitted into evidence.)

17                  MR. HOUGH:   And just for the record, I  
18   would request that you take it under advisement.

19                  EXAMINER LOWE:   Okay.   Case Number 20662  
20   will be taken under advisement.

21                  And I guess we will conclude -- not  
22   conclude.   We will break for lunch, and then we will be  
23   back in an hour and a half, if you-all can return.

24                  MS. BENNETT:   Meet back at 1:15?

25                  EXAMINER LOWE:   1:15.

1 (Case Number 20662 concludes, 11:48 a.m.)

2 (Recess, 11:48 to 1:15 p.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 19th day of August 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