

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:

CASE NOS: 20869

APPLICATION OF MARATHON OIL
PERMIAN LLC FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 14, 2019

SANTA FE, NEW MEXICO

This matter came on for hearing before the New Mexico Oil Conservation Division, EXAMINERS LEONARD LOWE, KATHLEEN MURPHY, PHILLIP GOETZE, and LEGAL EXAMINER ERIC AMES, on Thursday, November 14, 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: Irene Delgado, NMCCR 253
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102
505-843-9241

1 A P P E A R A N C E S

2 For the Applicant:

3 DEANA BENNETT
 4 MODRALL SPERLING ROEHL HARRIS & SISK PA
 5 500 4th Street, NW, Suite 1000
 6 Albuquerque, NM 87102
 7 505-848-9710
 8 deana.bennett@modrall.com

7 I N D E X

8 CASE NO. 20869 CALLED

9 RYAN GYLLENBAND (By Affidavit) 03

10 THOMAS LOCKWOOD (By Affidavit) 04

11 TAKEN UNDER ADVISEMENT: 09

12

13 E X H I B I T I N D E X

14 Admitted

15 Exhibit A and Attachments 06

16 Exhibit B and Attachments 06

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1 HEARING EXAMINER LOWE: We will call case --

2 Deana, do you want to consolidate the cases, the next three
3 cases?

4 MS. BENNETT: I have actually consolidated two of
5 the cases, 20870 and 20871, and then I'm presenting 20869
6 separately.

7 HEARING EXAMINER LOWE: We will call case Number
8 20869 Marathon for compulsory pooling. Call for appearance.

9 MS. BENNETT: Good morning. My name is Deana
10 Bennett and I'm here on behalf of Marathon Oil Permian LLC.

11 I apologize, I only made three copies.

12 HEARING EXAMINER LOWE: Thank you. You may
13 proceed.

14 MS. BENNETT: Thank you. As you're aware, I'm
15 presenting this case by affidavit. There is no opposition
16 that's been levied against the case, or against the case
17 being heard by affidavit.

18 In the materials before you there are two main
19 exhibits, Exhibit A, which is the affidavit of the landman,
20 and Exhibit B which is the affidavit of the geologist, both
21 of whom have previously testified before the Division and
22 their credentials have been accepted as a matter of record.

23 Behind Exhibit A you will find the application,
24 and I should say, these are exhibits -- I'm sorry, Case
25 Number 20869 is for the Wolfcamp well, and it's for three

1 wells. And so the application that you see behind Exhibit 1
2 is the application for 20869, which is the Wolfcamp well.

3 Behind Tab 2 are the C-102s for the Wolfcamp
4 wells.

5 Tab 3 contains the lease tract maps and unit
6 recapitulation, as well as some other information I will get
7 to in a minute.

8 Tab 4 is the proposal letter.

9 Tab 5 is the AFEs. Mr. Gyllenband testifies that
10 the costs set forth in the AFEs are reasonable and
11 comparable to rates charged by other operators in this area
12 of New Mexico for the same length and type of wells.

13 Exhibit 6 is my affidavit of notice.

14 Behind Tab B are the geology exhibits. They are
15 the standard exhibits that you would expect to see, a
16 structure map, cross section, an isochore, and as well as we
17 have included a location -- a locator map, a gun barrel
18 view, and a citation to the Snee and Zoback paper justifying
19 the geologist's conclusion about the maximum orientation and
20 the preferred orientation for the wells. That's the easy
21 part of this case.

22 In this case Marathon is also using the proximity
23 tract rule to bring in adjoining tracts, and Mr. Gyllenband
24 testifies about that in his affidavit at Paragraph 9.

25 The completed interval for the Ender Wiggins 14

1 WA FC 19H well is less than 330 feet from the adjoining
2 tracts, and the Division's rules allow for the inclusion of
3 proximity tracts under that situation.

4 There's also a depth severance in this case --
5 two depth severances, actually. Mr. Gyllenband testifies
6 about those two depth severances in Paragraphs 14 through
7 19, and we have included behind Tab 3 the relevant lease
8 language creating the depth severances, and that's on Pages
9 16 and 17.

10 Marathon proposed an allocation formula in its
11 application. No parties oppose the allocation formula. The
12 allocation formula is set out in Paragraph 17, and that is
13 an allocation for production and costs. And the allocation
14 formula is based on the prorata division essentially by
15 foot.

16 So assuming a 500-foot interval, there's the
17 middle part of that interval has 250 feet, so that part
18 is being -- the owners in that part are being attributed or
19 allocated 50 percent of the production and 50 percent of the
20 cost. The other two halves, they are rough halves, one is
21 at 70 feet, one is at 180 feet, so we divided those up
22 prorata. One is getting 14 percent, one is getting 36
23 percent to equal the 100 percent of the 500 feet.

24 We proposed that allocation formula in the
25 application. No parties have opposed that allocation

1 formula, and Marathon is requesting that that allocation
2 formula be approved and be included in the order.

3 Marathon is also requesting expedited orders in
4 this case and the two following cases, and I will be
5 submitting Exhibit A's when I submit the PDF of the exhibit
6 packet.

7 One final note is that on the -- on my affidavit,
8 which is behind Tab 6 at Page 27, our tracking software that
9 we use did not update, and so it shows a number of letters
10 as being undelivered when, in fact, those letters were
11 delivered. And I will provide supplemental information to
12 the Division showing which letters were, in fact, delivered.
13 But, in any event, I have published, out of an abundance of
14 caution in the newspaper.

15 At this time I would request that Exhibit A and
16 its attachments and Exhibit B and its attachments be
17 accepted into the case for Case Number 20869.

18 HEARING EXAMINER LOWE: Exhibits A and B and
19 attachments will be accepted for this case. Thank you.

20 (Exhibits A and B admitted.)

21 MS. BENNETT: Thank you. And I stand for any
22 questions you may have.

23 HEARING EXAMINER LOWE: Kathleen?

24 EXAMINER MURPHY: I had a question, but now I
25 can't find it, so no.

1 MS. BENNETT: I'm here all day.

2 EXAMINER MURPHY: No questions.

3 HEARING EXAMINER LOWE: Mr. Goetze?

4 EXAMINER GOETZE: Oh, yeah. Okay. So you are
5 proposing this extraordinary set of terms and negotiations
6 to be included in an order, why not have an agreement
7 between the operator and exclude the Division from the
8 cumbersome task of having to put something in an order that
9 really we can't track or enforce?

10 MS. BENNETT: I can't answer that question.

11 EXAMINER GOETZE: Okay. The geology were secure
12 enough that over a mile and a half lateral that these
13 conditions could still be real?

14 MS. BENNETT: Yes.

15 EXAMINER GOETZE: Oh, okay.

16 MS. BENNETT: I mean, the geologist and the --
17 the geologist reviewed the language in the depth
18 severances -- that's my understanding anyway. I saw it in
19 the affidavit.

20 EXAMINER GOETZE: The geology is nice over here,
21 but when you've finished your well and you have a defined
22 profile in the deviation, will there be some way of
23 verifying it, of Marathon doing that, than it met its
24 obligations under the conditions?

25 MS. BENNETT: I'm happy to follow up with the

1 geologist about that and provide you supplemental
2 information, but I don't have that in the affidavit, so I
3 can't answer that question.

4 EXAMINER GOETZE: Fine. We're not being -- we're
5 not -- it's just unusual to have this type of, of condition
6 being requested when what we have is a standard compulsory
7 pooling. So we share the burden now of saying we verified
8 this and everyone is playing by the rules. So that's all I
9 have right now for that.

10 MS. BENNETT: Thank you.

11 HEARING EXAMINER LOWE: Eric.

12 MR. AMES: Nothing.

13 HEARING EXAMINER LOWE: You mentioned allocation
14 formula.

15 MS. BENNETT: Uh-huh.

16 HEARING EXAMINER LOWE: Where is that in your
17 exhibit?

18 MS. BENNETT: That's on the page in the landman's
19 affidavit on Paragraph 17, I believe it is.

20 HEARING EXAMINER LOWE: What page?

21 MS. BENNETT: Page 3.

22 HEARING EXAMINER LOWE: I have no other questions
23 for now.

24 MS. BENNETT: Thank you. With that I would ask
25 that case Number 20869 be taken under advisement.

1 HEARING EXAMINER LOWE: Case Number 20869 will be
2 taken under advisement.

3 MS. BENNETT: Thank you.

4 (Case 20869 taken under advisement.)

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1 STATE OF NEW MEXICO)
)SS
2 COUNTY OF SANTA FE)

3 I, IRENE DELGADO, certify that I reported the
4 proceedings in the above-transcribed pages, that pages
5 numbered 1 through 9 are a true and correct transcript of my
6 stenographic notes and were reduced to typewritten
7 transcript through Computer-Aided Transcription, and that on
8 the date I reported these proceedings I was a New Mexico
9 Certified Court Reporter.

10 Dated at Santa Fe, New Mexico, this 14th day of
11 November 2019.

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Irene Delgado, NMCCR 253
Expires: 12-31-19

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