EXAMINERS' REPORT AND RECOMMENDATION

OIL & GAS DOCKET NO. 02-0296470

THE APPLICATION OF MARATHON OIL EF LLC AND MARATHON OIL EF II LLC FOR THE FORMATION OF A POOLED UNIT FOR THE HEMBY UNIT B MIPA 4H WELL IN THE SUGARKANE (AUSTIN CHALK) FIELD, KARNES COUNTY, TEXAS

OIL & GAS DOCKET NO. 02-0296471

THE APPLICATION OF MARATHON OIL EF LLC AND MARATHON OIL EF II LLC FOR THE FORMATION OF A POOLED UNIT FOR THE HEMBY UNIT B MIPA 5H WELL IN THE SUGARKANE (AUSTIN CHALK), KARNES COUNTY, TEXAS

OIL & GAS DOCKET NO. 02-0296474

THE APPLICATION OF MARATHON OIL EF LLC AND MARATHON OIL EF II LLC FOR THE FORMATION OF A POOLED UNIT FOR THE HEMBY UNIT B MIPA 5H WELL IN THE EAGLEVILLE (EAGLE FORD-2) FIELD, KARNES COUNTY, TEXAS

OIL & GAS DOCKET NO. 02-0296475

THE APPLICATION OF MARATHON OIL EF LLC AND MARATHON OIL EF II LLC FOR THE FORMATION OF A POOLED UNIT FOR THE HEMBY UNIT B MIPA 6H WELL IN THE EAGLEVILLE (EAGLE FORD-2) FIELD, KARNES COUNTY, TEXAS

APPEARANCES

FOR APPLICANTS MARATHON OIL EF LLC AND MARATHON OIL EF II LLC:

Mark Hanna, Attorney
Ryan Gyllenband, Land Professional
Steve Virant, Land Professional
Rick Johnston, Consulting Petroleum Engineer Expert

PROCEDURAL HISTORY

DATE APPLICATIONS FILED:	April 24, 2015
DATE OF NOTICE OF HEARING:	May 20, 2015
DATE OF HEARING:	July 2, 2015
REPORT AND RECOMMENDATION ISSUED:	October 21, 2015
REPORT AND RECOMMENDATION BY:	Laura Miles-Valdez, Hearings Examiner
HEARD BY:	Terry Johnson, Hearings Examiner Karl D. Caldwell, Technical Examiner

STATEMENT OF THE CASE

Marathon Oil EF LLC and Marathon Oil EF II LLC (collectively, "Marathon") have filed four applications under the Texas Mineral Interest Pooling Act (the "MIPA"), Chapter 102 of the Texas Natural Resources Code. The four dockets were consolidated for the purpose of a joint hearing record. By its applications, Marathon is requesting that the Commission enter orders creating four force-pooled units: the Hemby B 4H Austin Chalk Unit (the "AC 4H Unit") with its proposed Well No. 4H; the Hemby B 5H Austin Chalk Unit (the "AC 5H Unit") with its proposed Well No. 5H; the Hemby B 5H Eagle Ford Unit (the "EF 5H Unit") with its proposed Well No. 5H; and the Hemby B 6H Eagle Ford Unit (the "EF 6H Unit") with its proposed Well No. 6H. If the applications are approved, Marathon intends to drill the MIPA wells as horizontal wells in the Sugarkane (Austin Chalk) and Eagleville (Eagle Ford-2) Fields (the "Fields"), respectively, in Karnes County, Texas.

The applications are unprotested. The Examiners recommend approval.

APPLICABLE LAW

Subject to limitations found elsewhere in the act, Section 102.011 of the MIPA provides that "[w]hen two or more separately owned tracts of land are embraced in a common reservoir of oil or gas for which the commission has established the size and shape of proration units, whether by temporary or permanent field rules, and where there are separately owned interests in oil and gas within an existing or proposed proration unit in the common reservoir and the owners have not agreed to pool their interests, and where at least one of the owners of the right to drill has drilled or has proposed to drill a well on the existing or proposed proration unit to the common reservoir, the commission, on the application of an owner specified in Section 102.012 of [the MIPA] and for the purpose of avoiding the drilling of unnecessary wells, protecting correlative rights, or preventing waste, shall establish a unit and pool all of the interests in the unit within an area containing the approximate acreage of the proration unit, which unit shall in no event exceed 160 acres for an oil well or 640 acres for a gas well plus 10 percent tolerance."

DISCUSSION OF THE EVIDENCE

Marathon's Evidence

All four of the proposed MIPA units are located in Karnes County, Texas, near the city of Kenedy. The proposed units adjoin and overlay one another. Each of the proposed units includes acreage from Marathon's Hemby B Voluntary Pooled Unit, and unleased acreage.[1]

The proposed AC 4H Unit contains 72.36 total acres. Marathon has leases on tracts comprising 70.84 mineral acres, which is 97.9% of the total acreage in the proposed AC 4H Unit. The proposed AC 4H Unit includes one unleased tract, containing 1.52 mineral acres, which is 2.1% of the total acreage.[2]

The proposed AC 5H Unit contains 73.73 total acres. Marathon has leases on tracts comprising 71.31 mineral acres, which is 96.7% of the total acreage in the proposed AC 5H Unit. The proposed AC 5H Unit includes one unleased tract, containing 2.42 mineral acres, which is 3.3% of the total acreage.[3]

The proposed EF 5H Unit contains 84.75 total acres. Marathon has leases on tracts comprising 81.74 mineral acres, which is 96.4% of the total acreage in the proposed EF 5H Unit. The proposed EF 5H Unit includes one unleased tract, containing 3.01 mineral acres, which is 3.6% of the total acreage.[4]

The proposed EF 6H Unit contains 80.40 total acres. Marathon has leases on tracts comprising 79.47 mineral acres, which is 98.8% of the total acreage in the proposed EF 6H Unit. The proposed EF 6H Unit includes one unleased tract, containing 0.93 mineral acres, which is 1.2% of the total acreage.[5]

Marathon proposes that Marathon Oil EF LLC be the operator of each proposed unit.

Field, Discovery Date and State of Texas Ownership

The MIPA does not apply in fields discovered and produced before March 8, 1961, and it does not apply to land in which the State of Texas has an interest unless the State has given consent.[6] Neither exception applies to this case. The Eagleville (Eagle Ford-2) Field was discovered in March of 2009.[7] Commission records list the discovery date for the Sugarkane (Austin Chalk) Field as May of 2013, though the field was separated out of the Sugarkane (Cretaceous) Field (a field that was discovered in 2006).[8] None of the interests affected by the applications are owned by the State of Texas.

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[1] Hearing Exhibit ("Ex.") 1.
[2] Ex. 12.
[3] *Id.*
[4] *Id.*
[5] *Id.*
[6] MIPA §§ 102.003, 102.004.
[7] Ex. 27.
[8] Exs. 28 & 29.

The Voluntary Pooling Offer

On February 6, 2015, Marathon sent a voluntary pooling offer to Cole TS Kenedy Texas, LLC ("Cole"), the owner of the minerals in the unleased tract within the boundaries of the proposed units.[9] Marathon offered Cole three options for inclusion of its interests in the respective proposed units: a lease option, a working-interest participation option, and a farm-out option.[10]

The lease option included a 25% royalty and a bonus of $2,000 per net mineral acre, with a primary term of three years.[11] The oil, gas and mineral lease attached to the offer letter provided that Marathon was authorized to pool the tract owner's mineral interest into a pooled unit. The lease provided that the lessee could drill a horizontal well beneath the surface of the leased premises but could not conduct drilling operations on the surface of the lease.[12]

The participation option provided Cole an opportunity to participate as a working interest owner in the respective proposed unit. By electing this option, Cole would be responsible for its proportionate share of the costs of drilling and completing the well or wells in the unit and would share proportionately in the production from the well. The offer letter had as attachments AFEs (authorizations for expenditure) indicating the estimated cost to complete and drill each relevant well. This option stated that if the owner failed to fully pay his or her proportionate share of costs to Marathon within 15 days prior to commencement of actual drilling operations, then the owner would be subject to the non-consent penalties set forth in the standard joint operating agreement (the "JOA") proposed by Marathon. Marathon represented to Cole that the proposed JOA would not contain any of the following: (1) a preferential right of the operator to purchase mineral interests in the unit; (2) a call on or option to purchase production from the unit; (3) operating charges that may include any part of district or central office expenses other than reasonable overhead charges; or (4) a prohibition against non-operators questioning the operation of the unit.[13]

The farm-out option proposed to Cole that it convey to Marathon an 80% net revenue interest attributable to its mineral interest and retain an overriding royalty interest equal to 20% of 8/8ths, proportionately reduced to the extent that each owner's mineral interest bears to all of the mineral interests in the unit, until payout of all well costs (to drill, test, fracture stimulate, complete, equip, and connect the well for production). At payout, the electing owner would have the option to convert the retained override to a 25% working interest, proportionately reduced.[14]

Ryan Gyllenband, Marathon's landman, testified about the voluntary pooling offers and Cole's response. Cole declined to accept any of the offers in Marathon's voluntary pooling offer and did not make any counteroffer.[15]

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[9] Ex. 13.
[10] *Id.*
[11] *Id.*
[12] *Id.*
[13] *Id.*
[14] *Id.*
[15] Hearing Transcript ("Tr.") 42-43.

Marathon believed that the lease terms included in its voluntary offer were fair and reasonable.[16] Mr. Gyllenband stated that the lease option offered to Cole ($2,000 per-acre bonus with a 25% royalty) is consistent with the other leases that Marathon has taken in the area.[17] Mr. Gyllenband also testified that the royalty offered to Cole was higher than the average royalty rate for the Hemby B Voluntary Pooled Unit.[18]

Need for MIPA Wells

Marathon's expert petroleum engineering witness, Mr. Rick Johnston, prepared a model to predict recovery from Eagle Ford Shale and Austin Chalk wells with varying drainhole lengths. Mr. Johnston presented a map showing Eagle Ford Shale and Austin Chalk wells within a five-mile radius of the terminus point of the Hemby Unit B Well No. 1H.[19] Mr. Johnston also presented a cross-section over that area showing Austin Chalk and Eagle Ford formations.[20] From the location of existing wells and his study of the cross-section, Mr. Johnston concluded that the Eagle Ford and Austin Chalk formations are expected to be productive over the entirety of each of the four proposed MIPA Units.[21]

For every well within the five-mile study with sufficient data (163 wells), Mr. Johnston plotted the estimated drainhole length of the well versus the well's estimated ultimate oil recovery ("EUR").[22] He calculated the estimated ultimate recoveries (the "EURs") by decline curve analysis.[23] Using the EUR as the y-coordinate and the estimated drainhole length as the x-coordinate, he then created a scatter plot of the data points.[24] A computer-generated least-squares regression of the plotted data points resulted in a line through the points with a positive slope of 0.0388 and a y-intercept of 41,000.[25] The inference of this resulting equation is that an average well within the five-mile radius will recover 38,000 barrels of oil for each incremental 1,000 feet of drainhole length.[26]

At the time of the hearing, Marathon's development plan for the Hemby B Voluntary Unit called for 11 wells in the Eagle Ford formation and five wells in the Austin Chalk.[27] Marathon's plats showed that, in spite of the high percentage of acreage under lease, the unleased interest blocked the path of the proposed wells to the southern portion of the voluntary unit.[28] Marathon contends that, absent MIPA approval of the proposed wells, the underlying reserves could not be recovered and would therefore be wasted.[29] Mr. Johnston also testified that MIPA approval was necessary to protect correlative rights by giving

[16] Tr. 50.
[17] Tr. 49.
[18] *Id.*; and Ex. 15.
[19] Tr. 57-58; Ex. 18.
[20] Tr. 58-59; Ex. 19.
[21] Tr. 57-59.
[22] Tr. 63; Ex. 21.
[23] Tr. 61-63; Ex. 20.
[24] Tr. 63-64; Ex. 21.
[25] Ex. 21.
[26] Tr. 64.
[27] Exs. 5 & 6.
[28] *Id.*; and Tr. 72-73.
[29] Tr. 72-74.

Marathon and its lessors a reasonable opportunity to recover their fair share of the oil and gas underlying the proposed units.[30]

Relying on the least-squares analysis, Mr. Johnston showed the EUR that would be lost in each well for the proposed units if the applications were not approved. In each case, absent approval of the application, the well's lateral would have to be drilled shorter than planned.[31] Mr. Johnston presented plats of the proposed MIPA units and associated wells, in each case showing the portion of the lateral that could not be drilled absent approval of the application.[32] He then calculated, if the applications were not approved, that the EF 5H would lose 2,750 feet of drainhole length, resulting in lost reserves of 107,000 barrels of oil; the EF 6H would lose 2,350 feet of drainhole length, resulting in lost reserves of 91,000 barrels of oil; the AC 4H would lose 2,800 feet of drainhole length, resulting in lost reserves of 109,000 barrels of oil; and the AC 5H would lose 2,550 feet of drainhole length, resulting in lost reserves of 99,000 barrels of oil.[33]

Charge for Risk

Marathon's applications requested that the Commission's forced-pooling orders include a 100% charge for risk attached to the working-interest component. During the hearing, however, Marathon stated that it would not consider an Examiners' recommendation for a 50% charge for risk to be an adverse recommendation.[34]

Marathon believes that there exists significant risk that an Austin Chalk or Eagle Ford well in the area of the MIPA units will be uneconomic, meaning the well will not recover the cost of drilling and completing the well. Using a cost of drilling and completing equal to roughly $8.3 million, and a gas-adjusted oil price of $65.70 per barrel of oil, Mr. Johnston found the break-even recovery point, at which the well's cost would be recouped, was roughly 168,000 barrels.[35] Of the wells in Mr. Johnston's study, there was a 25% chance that a well would not reach that level and would not pay out.[36]

EXAMINERS' OPINION

Under the MIPA, the Commission may order compulsory pooling only if it is necessary to avoid the drilling of unnecessary wells, protect correlative rights, or prevent waste. Tex. Nat. Res. Code § 102.011. The evidence in this proceeding demonstrates that compulsory pooling is necessary to protect correlative rights and prevent waste.

Due to the location of the unleased tract within the respective proposed units, the MIPA wells could not be drilled as proposed without compulsory pooling. Marathon will not — and cannot — drill these wells, as proposed, unless compulsory pooling is ordered because of the

30 Tr. 73-74 & 88-89.
31 Tr. 66; Ex. 22.
32 Ex. 22.
33 Ex. 23.
34 Tr. 84.
35 Tr. 75-78; Ex. 25.
36 Tr. 77-78.

impracticality, if not impossibility, of drilling around the unleased tract. Therefore, in the absence of compulsory pooling, each mineral interest owner within these proposed units would not be afforded a reasonable opportunity to recover his fair share of hydrocarbons.

Forced pooling as proposed by Marathon, wherein the proposed horizontal well will extend the length of the unit, protects correlative rights because all tract owners, whether leased or unleased, will have their fair share of hydrocarbons produced.

Furthermore, the wells and units proposed by Marathon would allow the Commission to fashion an order in compliance with Section 102.017 of the MIPA, which requires that a compulsory pooling order be made on terms that are fair and reasonable and will afford the owners of all tracts in the unit the opportunity to produce and receive their fair share.

The Examiners believe that Marathon's voluntary pooling offer was fair and reasonable. Its offer followed the framework—providing lease, participation, and farm-out options—that the Commission has determined to be fair and reasonable in other approved MIPA applications.

Charge for Risk

Section 102.052(a) of the MIPA provides "As to an owner who elects not to pay his proportionate share of the drilling and completion costs in advance, the commission shall make provision in the pooling order for reimbursement solely out of production, to the parties advancing the costs, of all actual and reasonable drilling, completion, and operating costs plus a charge for risk not to exceed 100 percent of the drilling and completion costs."

Marathon's applications originally requested a 100% charge for risk be applied to the working interest portion of an owner who elects not to pay his proportionate share of the drilling and completion costs in advance. At the hearing, however, Marathon stated that it would not consider an Examiners' recommendation of a 50% charge for risk to be adverse.

The Examiners believe that a 50% charge for risk is fair and reasonable, as required by Section 102.017 of MIPA, and is appropriate under Section 102.052 of MIPA. First, under the Commission's practice of providing the unleased owners with a cost-free royalty at the market rate for leases in the area, the unleased owners are in as good or better a position than all of the other lessors in the MIPA units. The charge for risk is applicable only to the reimbursement to the parties advancing costs that is required under MIPA Section 102.052 and that is made solely out of production. This would apply only to the portion of the unleased owners' mineral interest that is treated as a cost-bearing working interest. Second, to support its position that there is significant risk involved in drilling Austin Chalk and Eagle Ford wells in the area, Marathon demonstrated that, under a probabilistic analysis, 25% of the wells in the 5-mile radius are not expected ultimately to recover 168,000 barrels of oil, which is the risked break-even point.

Based on the record in this case, the Examiners recommend adoption of the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. Notice of the hearing was mailed to all interested parties at mailing addresses provided by the Applicants, Marathon Oil EF LLC and Marathon Oil EF II LLC (collectively, "Marathon"), at least 30 days prior to the hearing date.[37]

2. No one appeared at the hearing in opposition to Marathon's applications.

3. Appendix 1 to this Report and Recommendation, incorporated into this finding by reference, is a plat for the proposed Hemby Unit B EF 5H MIPA Unit (the "EF 5H Unit"), which also shows the external boundary of Marathon's existing Hemby B Voluntary Unit, the path of the proposed EF 5H MIPA well, and the unleased tract within the EF 5H Unit.[38]

4. Appendix 2 to this Report and Recommendation, incorporated into this finding by reference, is a plat for the proposed Hemby Unit B EF 6H MIPA Unit (the "EF 6H Unit"), which also shows the path of the proposed EF 6H MIPA well, and the unleased tract within the EF 6H Unit.[39]

5. Appendix 3 to this Report and Recommendation, incorporated into this finding by reference, is a plat for the proposed Hemby Unit B AC 4H MIPA Unit (the "AC 4H Unit"), which also shows the path of the proposed AC 4H MIPA well, and the unleased tract within the AC 4H Unit.[40]

6. Appendix 4 to this Report and Recommendation, incorporated into this finding by reference, is a plat for the proposed Hemby Unit B AC 5H MIPA Unit (the "AC 5H Unit"), which also shows the path of the proposed AC 5H MIPA well, and the unleased tract within the AC 5H Unit.[41]

7. On February 6, 2015, Marathon sent a voluntary pooling offer to the owner of the unleased tract within the boundaries of the proposed MIPA units.[42] The unleased mineral owner was offered three options for inclusion of its interest in the proposed units: a lease option; a working-interest participation option; and a farm-out option.

    a. The lease option included a 25% royalty and a bonus offer of $2,000 per net mineral acre, for a three-year primary term. The lease attached to the offer letter provided that Marathon was authorized to pool the tract owner's mineral interest into a pooled unit and drill a horizontal well beneath the surface of the leased premises but could not conduct drilling operations on the surface of the lease.

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[37] Tr. 20-21.
[38] Ex. 8.
[39] Ex. 9.
[40] Ex. 10.
[41] Ex. 11.
[42] Ex. 13.

b. The participation option provided the unleased owner an opportunity to participate as a working interest owner in the respective proposed unit. By choosing this option, the owner would be responsible for its proportionate share of the costs of drilling and completing the well or wells in the unit and would share proportionately in the production from the well. The offer letter had as an attachment an AFE (Authorization for Expenditure) indicating the estimated cost to complete and drill each proposed well.

The participation option stated that if the owner failed to fully pay his or her proportionate share of costs to Marathon within 15 days prior to commencement of actual drilling operations, then the owner would be subject to the non-consent penalties set forth in the standard Joint Operating Agreement (the "JOA") proposed by Marathon.

Marathon represented to the owner that the proposed JOA would not contain any of the following: (1) a preferential right of the operator to purchase mineral interests in the unit; (2) a call on or option to purchase production from the unit; (3) operating charges that may include any part of district or central office expenses other than reasonable overhead charges; or (4) a prohibition against non-operators questioning the operation of the unit.

c. The farm-out option proposed to the unleased owner that it convey to Marathon an 80% net revenue interest attributable to its mineral interest and retain an overriding royalty interest equal to 20% of 8/8ths, proportionately reduced to the extent that the owner's mineral interest bears to all of the mineral interests in the unit, until payout of all well costs (to drill, test, fracture stimulate, complete, equip, and connect the well for production). At payout, the owner would have the option to convert the retained override to a 25% working interest, proportionately reduced.

8. Marathon provided the essential terms of the participation option and the farm-out option in its offer letter. Marathon did not enclose copies of its JOA or farm-out agreement, but instead offered to provide a copy of its JOA and farm-out agreement to the mineral owner if it was interested in one or both of those options. The mineral owner never expressed an interest in either the participation option or the farm-out option.

9. The unleased mineral owner declined all three options in Marathon's voluntary offer.[43]

10. The tracts within the proposed EF 5H Unit and EF 6H Unit are embraced in the Eagleville (Eagle Ford-2) Field, a common reservoir of oil or gas for which the Commission has established the size and shape of proration units. The Eagleville (Eagle Ford-2) Field is present and reasonably productive in the area covering all of the proposed EF 5H Unit and EF 6H Unit.[44]

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[43] Tr. 42-43.
[44] Tr. 57-59.

11. The Eagleville (Eagle Ford-2) Field was discovered after March 8, 1961. This field has special field rules providing for 330-foot lease-line spacing, and there is no between-well spacing requirement. The standard drilling and proration unit for the Eagleville (Eagle Ford-2) Field is 80 acres. An operator is permitted to form optional drilling units of 40 acres.[45]

12. The tracts within the proposed AC 4H Unit and AC 5H Unit are embraced in the Sugarkane (Austin Chalk) Field, a common reservoir of oil or gas for which the Commission has established the size and shape of proration units. The Sugarkane (Austin Chalk) Field is present and reasonably productive in the area covering all of the proposed EF 5H Unit and EF 6H Unit.[46]

13. The Sugarkane (Austin Chalk) Field was discovered after March 8, 1961. This field has special field rules providing for 330-foot lease-line spacing, and there is no between-well spacing requirement. The standard drilling and proration unit for an oil well in the Sugarkane (Austin Chalk) Field is 80 acres and for gas is 320 acres. An operator is permitted to form optional drilling units of 40 acres for oil.[47]

14. Marathon created a scatter plot of the estimated ultimate recoveries (the "EURs") versus the estimated drainhole length for Eagle Ford and Austin Chalk wells within five miles of the Hemby Unit B Well No. 1H. A computer-generated least-squares regression of the data points on the plot resulted in a line with a positive slope of 0.0388 and a y-intercept of 41,000.[48] Based on Marathon's analysis an average well in the area will recover an additional 38,000 barrels of oil for each incremental 1,000 feet of drainhole length.[49]

15. Marathon cannot drill the four proposed wells as planned unless compulsory pooling is ordered as requested.[50] None of the four proposed wells can be drilled to its full planned length without traversing the unleased tract.[51]

16. Compulsory pooling within each of the four units as requested by Marathon will protect correlative rights and prevent waste. Without compulsory pooling, Marathon will not be able to drill the proposed wells, Marathon and its lessors will not have a reasonable opportunity to recover their fair share of hydrocarbons from the reservoir, and the underlying hydrocarbons will be left unrecovered.

17. Marathon presented evidence supporting a charge for risk of 50 percent of the drilling and completion costs of the respective well.

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[45] Ex. 16.
[46] Tr. 57-59.
[47] Ex. 17.
[48] Ex. 21.
[49] Tr. 64.
[50] Exs. 5 & 6; Tr. 72-73.
[51] *Id.*

18. The Estimated Ultimate Recoveries (EURs) for the wells within a five-mile radius of the Hemby Unit B Well No. 1H on a probability plot. Marathon's evidence demonstrated that 25% of these wells are not expected to recover at least 168,000, which is the risked break-even point.

CONCLUSIONS OF LAW

1. Pursuant to Texas Natural Resources Code § 102.016, notice of the hearing was given to all interested parties by mailing the notices to their last known addresses at least 30 days before the hearing.

2. The Commission has jurisdiction over the parties and the subject matter and has authority to issue a compulsory pooling order pursuant to Texas Natural Resources Code § 102.011.

3. Marathon made a fair and reasonable offer to pool voluntarily to the mineral owner of the unleased tract within each of the proposed units, as required by Texas Natural Resources Code § 102.013.

4. Compulsory pooling of the owners of the unleased tract within each of the proposed proration units as owners of a 25% royalty and 75% working interest, proportionately reduced, with the unleased owner's share of expenses, subject to a charge for risk of 50%, payable only from the owner's working-interest component, and subject to a no-surface-use restriction, is fair and reasonable within the meaning of Texas Natural Resources Code § 102.017.

5. Compulsory pooling of the mineral interests in all tracts within the boundaries of the EF 5H Unit, EF 6H Unit, AC 4H Unit and AC 5H Unit, with Marathon Oil EF LLC as operator, will serve the purpose of protecting correlative rights.

6. The terms and conditions of the Commission's Final Order in this proceeding are fair and reasonable and will afford the owner of each tract or interest in each respective unit the opportunity to produce or receive his fair share.

RECOMMENDATION

The Examiners recommend that Marathon's applications be approved, subject to conditions, as set forth in the attached recommended Final Orders.

Respectfully Submitted,

Laura Miles-Valdez
Hearings Examiner

Karl D. Caldwell
Technical Examiner