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*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
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OIL CONSERVATION DIV.
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February 16, 1999

HAND DELIVERED

13135

Ms. Lori Wrotenbery, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: Application of Marathon Oil Company
for surface commingling,
Eddy County, New Mexico.

Dear Ms. Wrotenbery:

On behalf of Marathon Oil Company, please find our application in the referenced case which we request be set on the next available Division Examiner's docket on scheduled for March 18, 1999.

Also enclosed is our suggested advertisement for the Division docket.

Very truly yours,



W. Thomas Kellahin

cfx: Marathon Oil Company
Attn: W. Kent Bickham, Esq.

PROPOSED ADVERTISEMENT

12135

CASE _____ Application of Marathon Oil Company for surface commingling, off-lease measurement and storage, Eddy County, New Mexico. Applicant seeks an exception to Division Rule 309-A and Rule 303-A and the amendment of Division Commingling Order PLC-140 to permit surface commingling, off-lease measurement and storage of Indian Basin Upper Pennsylvanian Gas Pool and Indian Basin Upper Pennsylvanian Associated Pool production from its Indian Basin "32" State Lease in Section 32 with its Indian Hills Unit covering parts of Sections 20, 21, 28, 29 and 33, all in T21S, R24E which shall be stored and measured at its centralized facility located in Unit P, Section 19, T21S, R24E. This facility is located in the approximately 18 miles east of Carlsbad, New Mexico.

**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 COMPANY
FOR SURFACE COMMINGLING, OFF-LEASE
MEASUREMENT AND STORAGE,
EDDY COUNTY, NEW MEXICO.**

CASE NO. 12135

A P P L I C A T I O N

Comes now Marathon Oil Company ("Marathon") by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation Division for an exception to Division Rule 309-A and Rule 303-A and the amendment of Division Commingling Order PLC-140 to permit surface commingling, off-lease measurement and storage of Indian Basin Upper Pennsylvanian Gas Pool and Indian Basin Upper Pennsylvanian Associated Pool production from its Indian Basin "32" State Lease in Section 32 with its Indian Hills Unit covering parts of Sections 20, 21, 28, 29 and 33, all in T21S, R24E which shall be stored and measured at its centralized facility located in Unit P, Section 19, T21S, R24E.

1. Marathon is the operator of the Indian Hills Unit, including Com #NM-071145, which includes the following described wells being produced from the Indian Basin Upper Pennsylvanian Gas Pool and Indian Basin Upper Pennsylvanian Associated Pool all within Township 21 South, Range 24 East:

	Well	Location	Status
(a)	Well No. 6,	SE/4SW/4 Section 20	TA
(b)	Well No. 2,	SW/4SE/4 Section 20	PA

- (c) Well No. 1, SW/4SW/4 Section 21 active
- (d) Well No. 4, NE/4SW/4 Section 28 TA
- (e) Well No. 3, SE/4NW/4 Section 29 active
- (f) Well No. 13, NW/4SW/4 Section 29 active
- (g) Well No. 12, SW/4NW/4 Section 33 active
- (h) Well No. 8, SW/4SW/4 Section 33 active
- (i) Well No. 9, SW/4NE/4 Section 33 active

2. Marathon also is the operator of the Indian Basin "32" State Lease in Section 32, T21S, R24E which includes the following described wells being produced from the Indian Basin Upper Pennsylvanian Gas Pool and Indian Basin Upper Pennsylvanian Associated Pool:

- (j) Well No. 3, NE/4NE/4 Section 32 active
- (k) Well No. 2, NW/4SE/4 Section 32 active
- (l) Well No. Y-1, NW/4SE/4 Section 32 active

3. Marathon also operates a centralized facility in the SW/4 of Section 19, T21S, R24E for the gathering of production from all these wells. This facility has the capability to satellite test and lease meter liquids sent to the battery and gas sold from the individual leases. **See Exhibit "A"**

4. Division Rule 303 and 309 Exceptions:

(a) On April 14, 1998, the Division issued Administrative Commingling Order PLC-140 which, with the exception of wells listed as (j) and (k) in paragraph 2 above, approved the surface commingling of production and the off-lease measurement and storage.

(b) On August 10, 1998, the Division amended Order PLC-140 to add well (f) which had been inadvertently omitted from the original order and well (k) but in doing so incorrectly referenced Section 33 instead of Section 32.

(c) On January 7, 1999, Marathon sought an administrative exception from the Division to add well (j) to those wells already approved by Commingling Order PLC-140.

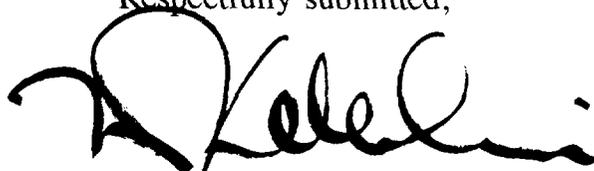
5. Commingling Order PLC-140 authorized commingling "only so long as all commingled production is of identical ownership...."

6. As a result of various ownership transactions affecting the E/2 of Section 32, ownership in the commingled production is no longer identical in terms of parties or interest.

7. In accordance with Division Rule 1207, Marathon has sent a copy of this application and notice for hearing to be held on March 18, 1999 to all the proper parties entitled to said notice.

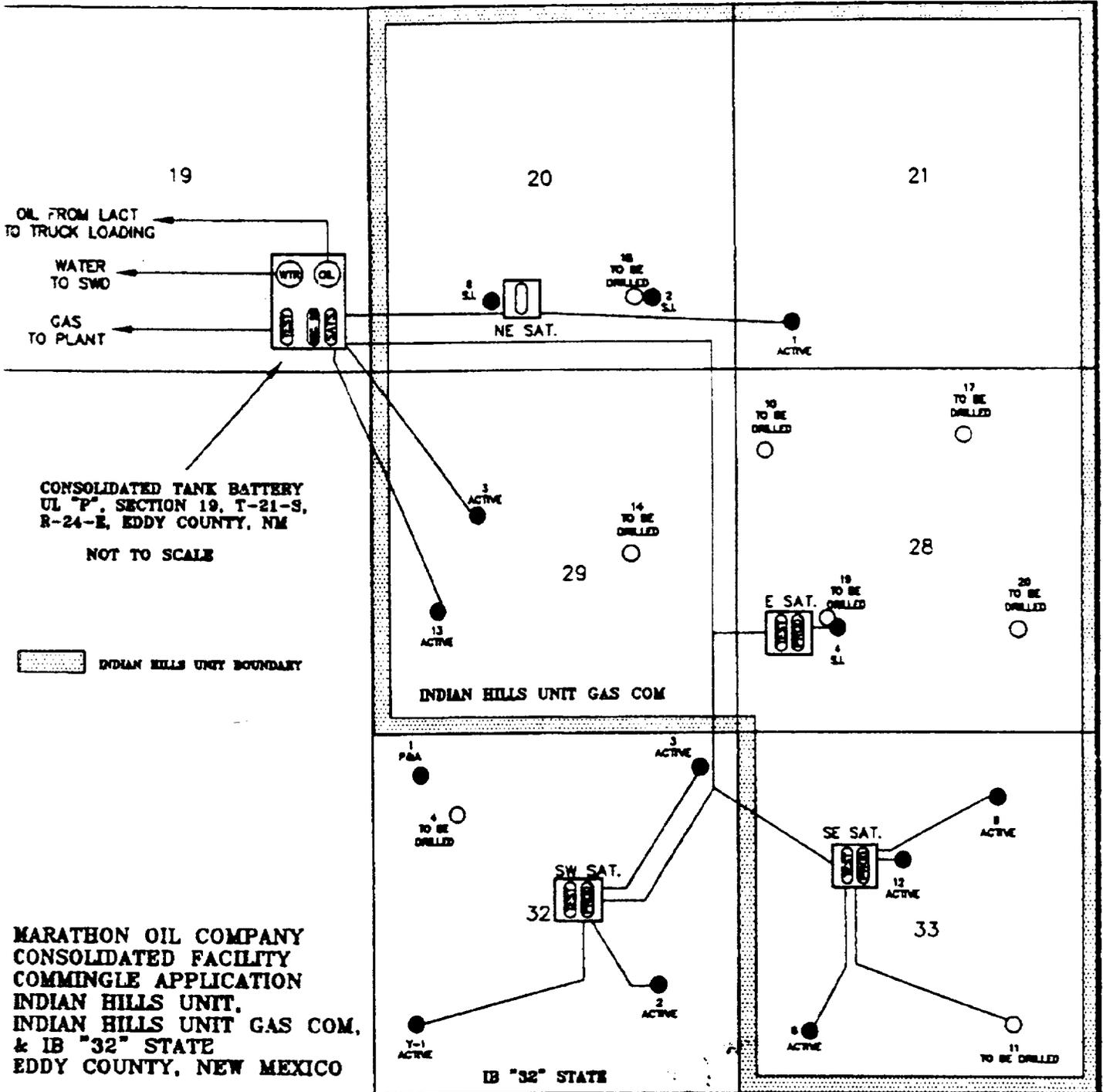
Accordingly, Marathon requests that this application be set for hearing before a Division Examiner and that after notice and hearing, the Division grant an exception to Division Rule 309-A and Rule 303-A and the amendment of Division Commingling Order PLC-140 to permit surface commingling, off-lease measurement and storage of Indian Basin Upper Pennsylvanian Gas Pool and Indian Basin Upper Pennsylvanian Associated Pool production from its Indian Basin "32" State Lease in Section 32 with its Indian Hills Unit covering parts of Sections 20, 21, 28, 29 and 33, all in T21S, R24E which shall be stored and measured at its centralized facility located in Unit P, Section 19, T21S, R24E.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style.

W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504

R-24-E



CONSOLIDATED TANK BATTERY
 UL "P", SECTION 19, T-21-S,
 R-24-E, EDDY COUNTY, NM
 NOT TO SCALE

INDIAN HILLS UNIT BOUNDARY

MARATHON OIL COMPANY
 CONSOLIDATED FACILITY
 COMMINGLE APPLICATION
 INDIAN HILLS UNIT,
 INDIAN HILLS UNIT GAS COM,
 & IB "32" STATE
 EDDY COUNTY, NEW MEXICO

IB "32" STATE

R-24-E

12/29/78
 REVISION 3/90
 BY: T. L. LANE

1-21-S

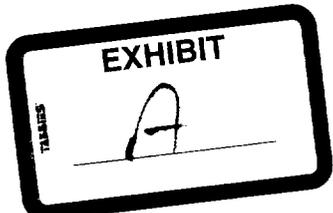


EXHIBIT "B"

Santa Fe Energy Resources, Inc.
550 W. Texas Suite 1330
Midland, Texas 79701
Attn: Steve Smith

Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87504
Attn: Pete Martinez

Bureau of Land Management
2909 West Second Street
Roswell, New Mexico
Attn: Amando Lopez