

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 NO. 13,419

APPLICATION OF MARATHON OIL COMPANY)
 FOR AMENDMENT OF SURFACE COMMINGLING)
 DIVISION ORDER R-11,112-A, EDDY COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 29th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 29th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

I N D E X

June 29th, 2000
Examiner Hearing
CASE NO. 12,419

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<u>ANDREW SCHWANDT</u> (Engineer)	
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A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
 117 N. Guadalupe
 P.O. Box 2265
 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 10:05 a.m.:

3 EXAMINER STOGNER: At this time I'll call next
4 case, Number 12,419, which is the Application of Marathon
5 Oil Company for amendment of surface commingling Division
6 Order R-11,112-A in Eddy County, New Mexico.

7 At this time I'll call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and I have one witness to be
11 sworn.

12 EXAMINER STOGNER: Any other appearances?
13 Will the witness please stand to be sworn?
14 (Thereupon, the witness was sworn.)

15 MR. KELLAHIN: Mr. Examiner, Marathon's Buchanan
16 centralized tank facility has been before the Division at
17 various points for reviews and approval. It first came to
18 the Division Examiners in a hearing held on November of
19 1998. The first R order was issued in December of 1998.

20 The purpose of that order was to have an
21 Examiner order that collectively approved this project area
22 and provided notice to all categories of interest owners to
23 advise them of Marathon's belief in the necessity to
24 centralize these facilities and to test and measure
25 production in such a manner as to reduce the costs and

1 expenses. It was done pursuant to the rules available to
2 us on surface comminglings, and that order was issued.

3 Thereafter, we returned to the Division in May of
4 1999 to amend the order to add an additional well that was
5 the Walker 33 State Lease in the west half of 33. Again,
6 all the parties were notified. In addition to adding that
7 to the centralized facility, we sought and obtained
8 approval from the Division to add and subtract future wells
9 and existing wells with an administrative procedure that
10 could be done without further notice and hearing.

11 When Marathon filed the current request it was
12 processed by Mr. Ashley, and Marathon received verbal
13 approval to take gas production from the Scanlon Draw well
14 and the Guerrero well in the south half of Section 34 and
15 add it to the battery and move and distribute the gas.

16 In further review, Mr. Ashley believed it was
17 necessary for us to obtain an amendment to this current R
18 order, and so we are before you today to accomplish that
19 objective. So the only purpose is to add the gas, to let
20 Marathon transport it through this facility, and we can
21 explain how that occurred.

22 We have one witness, Mr. Andy Schwandt. He is a
23 petroleum engineer, he resides in Hobbs, and he is the
24 engineer in charge of this particular project and the
25 preparation for this hearing.

1 ANDREW SCHWANDT,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. For the record, sir, would you please state your
7 name and occupation?

8 A. Andrew Schwandt, production engineer, Marathon
9 Oil Company.

10 Q. And Mr. Schwandt, where do you reside?

11 A. Hobbs, New Mexico.

12 Q. On prior occasions, have you testified before the
13 Division?

14 A. No.

15 Q. Summarize for us your education.

16 A. 1998 I received a bachelor's of science in
17 chemical engineering from Rose-Hulman Institute of
18 Technology, and the last two years I've worked for Marathon
19 as a production engineer.

20 Q. Okay. Are you familiar with what I've
21 characterized as the Buchanan centralized tank facility?

22 A. Yes.

23 Q. And were you responsible on behalf of your
24 company for seeking the Division's approval to add the gas
25 production into the facility and obtain the necessary

1 approvals?

2 A. Yes.

3 MR. KELLAHIN: We tender Mr. Schwandt as an
4 expert petroleum engineer.

5 EXAMINER STOGNER: Mr. Schwandt is so qualified.

6 Q. (By Mr. Kellahin) Let's orient the Examiner as
7 to what this facility looks like. If you'll take Exhibit
8 1, identify this for me, what is this?

9 A. This is our lease gathering system for the Travis
10 field area. As you can see, the green line is our liquid
11 gathering system. All production is metered on these
12 before it goes into our liquid trunk line to the battery.
13 And the red line is ARCO's gas gathering system for these
14 wells, and that production is sold offlease to their gas
15 gathering system.

16 Q. With the exception of the gas produced in the
17 south half of 34, which is the Scanlon Draw and the
18 Guerrero, is there anything changed in this schematic from
19 the last time it was presented to the Division?

20 A. It would be the gas.

21 Q. Everything else is the same, right?

22 A. Yes.

23 Q. So this is the way this facility currently looks?

24 A. Yes.

25 Q. Prior to adding the gas production from these two

1 wells into the battery system, what was being done with the
2 gas?

3 A. The gas was being sold to Conoco. The acreage
4 was dedicated to Conoco, the high-pressure gas line.

5 Q. Was there a period of time that these wells had
6 the capability to produce gas and move it into a high-
7 pressure gas line?

8 A. Yes, the production was such that it was economic
9 to compress the gas into the high-pressure gas line.

10 Q. Is that still true?

11 A. No.

12 Q. Let's turn to Exhibit 2, and summarize for us
13 what you were asking Mr. Ashley in your April 20th letter.

14 A. Basically requesting to add the gas from the
15 Scanlon Draw and Guerrero to the Division Order R, to
16 include that in a surface commingling.

17 Q. Based upon the Marathon Midland records of
18 ownership, did you cause notification of this request to be
19 sent to all categories of owners?

20 A. Yes, we sent notification applying for
21 administrative approval and also notice of the hearing.

22 Q. All right. Are you aware of any objection from
23 any of the various categories of owners?

24 A. There's been no objection.

25 Q. Let's turn specifically now to the schematic that

1 is Exhibit 3, and have you describe for us how the battery
2 functions in relation to the Scanlon Draw well and the
3 Guerrero well.

4 A. Basically, the produced gas from Scanlon Draw is
5 metered before it is added to the production from the
6 Guerrero. The production from the Guerrero, both oil,
7 water and gas is separated and metered and then mixed back
8 together, flowing to the battery, to the heater treater at
9 the battery, where the gas is then separated and sold.

10 Q. So there are devices and procedures in place so
11 the interest owners which are entitled to receive their
12 appropriate share of the Scanlon Draw production are able
13 to do so?

14 A. Yes, there are two allocation meters, one for the
15 Guerrero and one for the Scanlon Draw.

16 Q. Okay. What is the advantage to Marathon and the
17 interest owners in this production to have this change
18 approved?

19 A. In order to produce the gas, otherwise the
20 Scanlon Draw would be shut in.

21 Q. What are the current approximate producing rates
22 of each of these wells?

23 A. The Scanlon Draw currently produces 30 MCF, and
24 the Guerrero, I believe, produces less than 10.

25 Q. All right. You have production --

1 A. Yes.

2 Q. -- plots on all those wells?

3 Let's turn through the exhibits, then, and
4 identify for the Examiner what's contained in the exhibit
5 packages. Starting with Exhibit 4, then, identify and
6 describe this for me.

7 A. Exhibit 4 is the letter that was sent to Conoco
8 confirming the verbal approval to release us from the gas
9 contract.

10 Q. All right, so Conoco has agreed to release the
11 two wells from the arrangement that required them to be
12 compressed and have that gas move through the high-pressure
13 line?

14 A. Yes.

15 Q. All right. Exhibits 5, 6, 7 are what, sir?

16 A. C-102s describing the legal locations of the
17 battery and the two wells, the Guerrero and the Scanlon
18 Draw.

19 Q. All right. Let's start, then, with Exhibit 8.
20 What are we looking at here?

21 A. Exhibit 8 is current production at the Buchanan
22 central battery. Or production plot, excuse me.

23 Q. And if the Examiner chooses to do so, then he can
24 track your production on a cumulative basis. Is this
25 cumulative for all your wells as they run through the

1 battery?

2 A. Yes.

3 Q. Let's turn specifically, then, to the Scanlon
4 well, Exhibit 9. You indicated the current rate. How
5 would we read this display to confirm that?

6 A. It's a log scale. The line below the 10 is 10
7 the MCF -- or 10 for production, and then 20 and 30 are the
8 next two line above that.

9 Q. All right. For the Scanlon well you estimate
10 it's approximately what per day now?

11 A. 30 MCF.

12 Q. Yes, sir, and that's what this shows, doesn't it?

13 A. Yes.

14 Q. Let's turn to the Guerrero lease, and you've got
15 a production plot on that well? That's Exhibit 10?

16 A. Yes.

17 Q. Describe for us, using the same methodology, what
18 the current rates are for that well?

19 A. Current rates are 6 MCF, same log scale, starting
20 with -- The bottom of the plot is 1 MCF and counting up to
21 6. And the current oil production is eight barrels of oil.

22 Q. Okay. Turn with me to Exhibit Number 11. What
23 is this?

24 A. This is the original letter that was sent to the
25 interest owners, notifying them of the application for

1 administrative approval and also saying if they did not
2 object, that their consent is assumed.

3 Q. The gas production from these two wells, you're
4 requesting that that be added into the approvals. Are
5 there any other gas wells that you would anticipate would
6 require further approvals?

7 A. I do not anticipate any wells would need for
8 approval --

9 Q. All right.

10 A. -- at this time.

11 Q. Will approval of this Application afford the
12 opportunity to continue to produce production that might
13 otherwise have to be abandoned? You're going to have to
14 abandon the production if you can't approval?

15 A. Yes.

16 Q. What would you do with the wells?

17 A. They would be shut in. We would TA them.

18 MR. KELLAHIN: All right, sir.

19 That concludes my examination of this witness,
20 Mr. Examiner. We move the introduction of Marathon's
21 Exhibits 1 through 12.

22 12 is my certificate of notification, which shows
23 you the notice letter we sent on May 24th and gives you
24 copies of the green cards where we sent notice to all the
25 interest owners.

1 EXAMINER STOGNER: Exhibits 1 through 12 will be
2 admitted into evidence at this time.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Mr. Schwandt, I guess I'm trying to figure out
6 what reasons this is in the hearing for.

7 A. There is a -- or 7, on the order of the Division,
8 Number 7, it says natural gas production from the above-
9 described state leases is not commingled prior to
10 marketing.

11 MR. KELLAHIN: It's the order A, -A, on page 3,
12 it's finding 7. In processing this, both Marathon and Mr.
13 Ashley failed to remember that this limitation was in the
14 order, and so he's asked us to come in and, in effect, get
15 this deleted.

16 Q. (By Examiner Stogner) Do you remember what that
17 was put in, or do you know why, Mr. Schwandt?

18 A. I was not the engineer on this project at that
19 time.

20 EXAMINER STOGNER: Mr. Kellahin, are you
21 proposing at this time that this be removed out of this
22 order?

23 MR. KELLAHIN: That may be appropriate. I'm not
24 sure we ended with an advertisement that accomplishes that.
25 It would have to be readvertised to include that. The

1 notice that was sent to all the interest owners referred to
2 that request, but it did not get edited into the notice of
3 hearing. So you would have to continue and readvertise
4 this in order to provide for future wells, other than the
5 Guerrero and the Scanlon.

6 If you choose not to do that, then you could
7 simply approve gas commingling for these two wells, which
8 is within the call of the case. While Marathon believes
9 that these are the only two gas wells, back in 1999 when we
10 did this case, we also believed we wouldn't need to put the
11 gas through the facility. And so circumstances change, and
12 it would be my preference to have it readvertised.

13 EXAMINER STOGNER: Okay, I was reading it first
14 as a stipulation of this whole area, but it was just for
15 these two wells at that time, and then I guess plans have
16 changed after that order was issued and --

17 MR. KELLAHIN: Yes, sir.

18 EXAMINER STOGNER: Okay, so that is what's being
19 taken out, essentially, just for these two wells?

20 MR. KELLAHIN: That's exactly right.

21 EXAMINER STOGNER: Well, maybe the -- I
22 understand there's a committee -- Also there's been rumor
23 of a shadow committee -- I don't know what it is -- being
24 formed to change the surface commingling rules.

25 MR. KELLAHIN: I would doubt that that process

1 would be completed anytime soon, and it would be our
2 preference to have an order issued in this so that it's
3 certain that Marathon is in compliance.

4 EXAMINER STOGNER: Yeah, I'm just hoping that if
5 the committee will let it -- is able to do its work without
6 harassment from some other group out there to address this
7 issue, so if anything else like this comes up, maybe it
8 will keep it from...

9 Okay, I really don't have any other questions in
10 this matter.

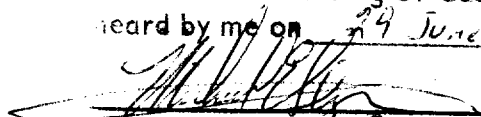
11 MR. KELLAHIN: All right, sir. Thank you, sir.

12 EXAMINER STOGNER: If there's nothing else
13 further in Case Number 12,419, then this matter will be
14 taken under advisement.

15 (Thereupon, these proceedings were concluded at
16 10:22 a.m.)

17 * * *

18
19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
21 the Examiner hearing of Case No. 12419,
heard by me on 29 June 2000.

22  , Examiner
23 Of Conservation Division
24
25

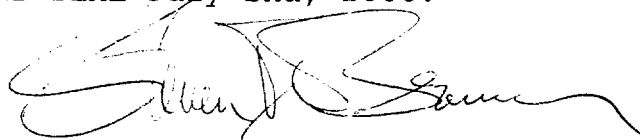
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL July 2nd, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

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OFFICIAL EXHIBIT FILE

EXAMINER HEARING

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June 29th, 2000

Santa Fe, New Mexico

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