

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. 12,721
)	
APPLICATION OF MARATHON OIL COMPANY)	
TO AMEND DIVISION ORDER R-11,186,)	
EDDY COUNTY, NEW MEXICO)	
)	ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

September 20th, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV.
 01 OCT - 4 AM 10:12

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, September 20th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, 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

September 20th, 2001
Examiner Hearing
CASE NO. 12,721

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A P P E A R A N C E S

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 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 2:23 p.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 12,721, which is the Application of Marathon Oil
5 Company to amend Division Order Number R-11,186, Eddy
6 County, New Mexico.

7 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 witnesses?

13 Will the witness please stand to be sworn?

14 (Thereupon, the witness was sworn.)

15 MR. KELLAHIN: Mr. Examiner, I have provided you
16 a copy of Division Order Number R-11,186, which was issued
17 by the Division on May 25th, 1999. This is the order that
18 authorizes Marathon to operate this centralized surface
19 facility for the consolidation of production. The
20 production being consolidated is production from an area
21 that includes wells that are capable of producing from the
22 Indian Basin-Upper Penn Associated Pool.

23 In addition, the authority provided in this order
24 is that they may also commingle on the surface production
25 from the Indian Basin-Upper Pennsylvanian Gas Pool.

1 We are before you this afternoon with Mr. Steve
2 Millican to ask that you expand this order to include
3 additional sections. The additional sections are shown on
4 Exhibit Number 1. They're Sections 16, 17 and 19.

5 And with that introduction, I would like to
6 proceed with my questions of Mr. Millican.

7 EXAMINER STOGNER: This was expanding it to which
8 sections again?

9 MR. KELLAHIN: If you look on Exhibit 1, it would
10 be Section 16 in the north corner, 17, and then you drop
11 down to 19.

12 EXAMINER STOGNER: Okay, that's what was throwing
13 me, it's not marked in yellow, but that's --

14 MR. KELLAHIN: No, sir.

15 EXAMINER STOGNER: Okay.

16 MR. KELLAHIN: The yellow boundary is the unit
17 boundary.

18 EXAMINER STOGNER: Okay, you may proceed.

19 STEVE MILLICAN,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. KELLAHIN:

24 Q. Mr. Millican, for the record, sir, would you
25 please state your name and occupation?

1 A. Steven Millican, engineer for Marathon Oil
2 Company.

3 Q. And where do you reside, sir?

4 A. I live in Midland, Texas.

5 Q. On prior occasions have you testified as an
6 engineer before the Division?

7 A. I have not.

8 Q. Summarize for us your education.

9 A. I received a bachelor's of science in petroleum
10 engineering from the University of Alberta in April, 1998.

11 Q. Summarize for us your employment experience as an
12 engineer.

13 A. I have a cumulative of five years of industry
14 experience, three and a half of those with Marathon Oil.
15 I've worked in a variety of roles -- I can't spit a four-
16 letter word out. I've had a bunch of roles in the
17 petroleum industry from working in field operations to
18 operations within the office.

19 Q. All right. Do your responsibilities as an
20 engineer for Marathon now include responsibilities for what
21 we've called the Indian Hills Unit Gathering System?

22 A. Yes, it does.

23 Q. As part of your responsibilities, have you made
24 yourself familiar with the Division rules and orders and
25 regulations that have been issued pursuant to our

1 Applications for this facility?

2 A. I have.

3 Q. And what are you seeking to do today?

4 A. Marathon is seeking to add Sections 16, 17 and 19
5 to the existing Order 11,186.

6 Q. All right, and is that a subject and a topic that
7 you've examined and studied?

8 A. I have.

9 MR. KELLAHIN: We tender Mr. Millican as an
10 expert witness.

11 EXAMINER STOGNER: Mr. Millican, did you grow up
12 in Alberta?

13 THE WITNESS: Yes, sir, I did.

14 EXAMINER STOGNER: Where at?

15 THE WITNESS: Edmonton, Alberta.

16 EXAMINER STOGNER: Edmonton.

17 THE WITNESS: Right in the middle of the
18 province.

19 EXAMINER STOGNER: Okay, I'm familiar with
20 Lethbridge, but that's a different story.

21 THE WITNESS: I'm sorry?

22 EXAMINER STOGNER: Yes, I am too.

23 (Laughter)

24 EXAMINER STOGNER: So qualified. Thank you, Mr.
25 Kellahin.

1 Q. (By Mr. Kellahin) Mr. Millican, would you turn
2 to what is marked as Exhibit 1, and let's talk about the
3 information displayed in relationship to the color code.
4 Let's start first of all with what you've intended to
5 convey with the yellow boundary line.

6 A. The yellow is intended to illustrate the boundary
7 of the Indian Hills Unit, which includes a collection of
8 state and federal lands underneath the federal unit.

9 Q. There are certain sections on the plat that have
10 been subdivided, either vertically or horizontally. What
11 is that subdivision intended to represent?

12 A. The black lines shown subdividing the sections
13 into 320-acre units are intended to illustrate the 320-acre
14 gas proration units of the Indian Basin-Upper Penn
15 Associated Pool.

16 Q. Okay. Production currently from all the wells
17 associated with the centralized facility is from what pool
18 or formation?

19 A. The Indian Basin-Upper Penn Associated Gas Pool.

20 Q. Do you currently have any production from the
21 Indian Basin-Upper Pennsylvanian Gas Pool?

22 A. No, sir, we do not.

23 Q. Does that remain a future opportunity for these
24 wells and for this facility?

25 A. It does. One of the sections that we are looking

1 to include, amend to the order, is Section 19, which is
2 included in the Upper Pennsylvanian Gas Pool.

3 Q. Okay. Do you have currently in either Section
4 17, 16 or 19, any active well that is hooked into the
5 gathering system?

6 A. In Section 16 we recently drilled the Indian
7 Hills Unit Well Number 32, which is producing into the
8 comminglized facilities underneath Order 11,186.

9 Q. Okay. Are there systems in place within the
10 facility that you can automatically monitor the production
11 from the wells and allocate it back on a spacing unit basis
12 so that the parties entitled to share in that production
13 receive their appropriate share?

14 A. There are. Shall I detail them?

15 Q. No, sir, I just wanted to ask you if they exist.

16 A. They do.

17 Q. And were they approved by the Division when they
18 entered Order R-11,186?

19 A. Yes, sir.

20 EXAMINER BROOKS: Excuse me.

21 (Off the record)

22 Q. (By Mr. Kellahin) Is there anything about the
23 addition of the three sections that would materially change
24 your ability to perform under the existing approved order?

25 A. No, sir.

1 Q. Okay, there is no change.

2 Let's go to the schematics and have you identify
3 them so that the record contains illustrations of how the
4 facility works, and rather than discuss them in detail, let
5 me just ask you to identify each one as we go through and
6 tell me what we are seeing.

7 If you'll start with Exhibit Number 2, Mr.
8 Millican, what is this?

9 A. Exhibit Number 2 reflects all the piping and
10 tankage that we have in the centralized production facility
11 where all wells eventually are produced to under Order
12 11,186.

13 Q. How does this schematic relate to Section 19,
14 when we look at Exhibit Number 1? Go back to Exhibit 1
15 with me and show me where Exhibit 2 fits into the schematic
16 that's shown on Exhibit 1.

17 A. The centralized facility that is illustrated in
18 Exhibit Number 2 is located in Section 19.

19 Q. Okay. So if the Examiner chooses, he can look to
20 see how the centralized facility is configured for
21 operation.

22 What is Exhibit 3?

23 A. The next several exhibits detail the satellite
24 facilities whereby all wells are tested, individual well
25 tests are conducted prior to the fluids being commingled at

1 the centralized facility.

2 Q. It says "Station 117 Satellite"?

3 A. Yes, sir, which is reflected on Exhibit Number 1
4 within Section 17.

5 Q. Okay. Do you have separate schematics for each
6 of the other satellite facilities?

7 A. Yes, they are.

8 Q. Let's identify those and have you find them for
9 me on Exhibit 1, starting with Satellite Station 120,
10 Exhibit Number 4.

11 A. Exhibit Number 4, Station 120, is located in
12 Section 20.

13 Q. All right, sir.

14 A. Section 28 contains --

15 Q. This is Exhibit 5? You're on Exhibit 5 now,
16 right?

17 A. Exhibit 5, yes, sir. Exhibit 5 contains the
18 Station 128 facility, Section 28.

19 Exhibit Number 6 contains Station 129, which is
20 located in Section 29.

21 Exhibit Number 7 is the Indian Basin 32 State
22 Satellite facility, which is located in Section 32.

23 And finally Station 133 is Exhibit Number 8 and
24 is located in Section 33.

25 Q. All right, sir. Let me direct your attention now

1 to Exhibit Number 9. What is this?

2 A. Exhibit Number 9 is the production history of our
3 most recent well, the Indian Hills Unit Number 32, which
4 was drilled in Section 16.

5 Q. Did you prepare this exhibit?

6 A. Yes, sir.

7 Q. What does it show us by the color code?

8 A. The color code is illustrating red for gas
9 production, blue for water production and green for the oil
10 production. These are daily allocated numbers from our
11 production data gathering system.

12 Q. This is the only well not currently included
13 within the approval issued under Order R-11,186?

14 A. Yes, sir.

15 Q. All right, sir. Do you have an exhibit, Mr.
16 Millican, that identifies and describes for Mr. Stogner the
17 identification of the various leases within the area that
18 contributes production that's taken through the centralized
19 facility?

20 A. The original order, 11,186, contains the lease
21 numbers for all approved sections. Exhibit Number 10
22 contains all of the new lease numbers which would be pulled
23 into Sections 16, 17 and 19. This was prepared by me for
24 our landman.

25 Q. Have you and personnel at Marathon responsible

1 for this type of activity satisfied yourself to the best of
2 your knowledge that Exhibit 10 is accurate and complete?

3 A. To the best of my knowledge it is.

4 Q. Let's turn to Exhibit 11, Mr. Millican. Identify
5 that for me.

6 A. What I was trying to do here, based on what I'd
7 seen in the original order, was to outline for the Hearing
8 Examiner where all of our current wells are, what lease
9 they are producing from, the pool they are producing from,
10 and I've also included some of the proposed wells that we
11 have at this point in time to illustrate upcoming
12 development that we have proposed in the area.

13 Q. Do you have an engineering opinion as to whether
14 the addition of these three sections will provide a method
15 or a means by which Marathon may more effectively and
16 efficiently produce the wells in these three sections?

17 A. By allowing us to continue to use our centralized
18 facilities, we'll be more economically able to produce
19 these wells. These wells are predominantly pushing the
20 boundaries of the pool.

21 The economics are not as prolific for them,
22 they're much more difficult to make economic because our
23 reserve estimates are less, and this is definitely
24 necessary for us to continue to develop -- finish the
25 development of the field.

1 Q. Do you have an engineering opinion as to whether
2 that conclusion will be applicable to the other additional
3 sections that you've asked for in your Application?
4 Sections 16, 17 and 19 --

5 A. Yes.

6 Q. -- for future wells?

7 A. Yes, it will, will allow that.

8 MR. KELLAHIN: Mr. Examiner, I'm going to hand
9 you my Exhibit Number 12, which is my certificate of
10 notification.

11 You may have realized, Mr. Stogner, that Section
12 29 is subdivided in a way that it is a gas com unit. There
13 is a division of interest, if you will. So -- I'm sorry,
14 it should be Section 32. Section 32, I think, is a state
15 lease. It's got different interests from the unit. And
16 there is some acreage in Section 29 that is added to
17 spacing units so that there is not common interest
18 throughout the entire gathering system.

19 What we've done for purposes of notice, we have
20 notified every interest owner, and we have received no
21 objection.

22 We would move the introduction of Exhibits 1
23 through 12 at this time.

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

EXAMINATION

BY EXAMINER STOGNER:

Q. Okay, let's see, quick question. Exhibit Number 11, your reference is the Morrow, Indian Basin-Morrow Gas Pools or wells. Is it your plan, or Marathon's plan, on including Morrow production into this facility?

A. The Morrow production will go close to the facility, but it's kept separate because it's sweet gas, and the upper Penn is sour.

Q. So it's not to be included, is that the way I interpret that?

A. Those lines currently go -- or after the Morrow gas is produced it is metered and it is ultimately -- it is sold at that point to the gas plant.

Q. And goes right into the plant or line?

A. Yes. Yes, sir.

Q. Because you do show on Exhibit Number 1 some -- I do see a Morrow -- a couple of Morrow wells in there.

A. I believe if you look at Station 117, which is Exhibit Number 3 --

Q. Okay.

A. -- I'm sorry, could I have you look at -- Now I'm all turned around. I know the answer, the reason I'm not finding it, I'm looking at Station 117 to see where Indian Hills Unit 26 and 25 come through. The reason they're not

1 illustrated is because they are not going through this
2 satellite facility. They're metered at the well and sent
3 to the gas plant.

4 Q. Also on referring up there to the far northeast
5 corner, you have a well actually on Section 16 that was
6 already included in the old order, but that had bottomhole
7 location, or it was completed in Section 21; is that
8 correct?

9 A. Yes, sir.

10 Q. So when I look at the order, there's really
11 nothing changed in there about the testing?

12 A. All we are asking for is to include Section 16
13 and 17, 19. We are not asking for any other changes.

14 EXAMINER STOGNER: Okay, I have no other
15 questions. You may be excused. Thank you, sir.

16 Mr. Kellahin, anything further?

17 MR. KELLAHIN: No, sir.

18 EXAMINER STOGNER: Mr. Kellahin, could I get you
19 to provide me a rough draft?

20 MR. KELLAHIN: I'd be happy to, sir.

21 EXAMINER STOGNER: Nothing further in Case Number
22 12,721, then this matter will be taken under advisement.

23 (Thereupon, these proceedings were concluded at
24 2:42 p.m.)

25

* * *

20 September 2004


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 September 23rd, 2001.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002