

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 TO)
 REOPEN CASE NO. 11,774 TO AMEND ITS)
 PROPOSED UNORTHODOX GAS WELL LOCATION,)
 EDDY COUNTY, NEW MEXICO)
)

CASE NO. 11,774

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 26th, 1997

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 26th, 1997, 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.

* * *

I N D E X

June 26th, 1997
 Examiner Hearing
 CASE NO. 11,774

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REPORTER'S CERTIFICATE	8

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit A	4	6
Exhibit B	5	6

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
 Attorney at Law
 Legal Counsel to the Division
 2040 South Pacheco
 Santa Fe, New Mexico 87505

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 8:30 a.m.:

3 EXAMINER STOGNER: Call next case, Number 11,774.

4 MR. CARROLL: Application of Marathon Oil Company
5 to reopen Case Number 11,774 to amend its proposed
6 unorthodox gas well location, Eddy County, New Mexico.

7 EXAMINER STOGNER: 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.

11 EXAMINER STOGNER: Mr. Kellahin, I believe this
12 case was heard by me, wasn't it, around May 1st and also
13 again on May 30th?

14 MR. KELLAHIN: That's exactly right, Mr.
15 Examiner.

16 EXAMINER STOGNER: Okay. Would you please
17 proceed then?

18 MR. KELLAHIN: Yes, sir.

19 Mr. Examiner, this case was presented to you with
20 the witnesses appearing and testifying at a hearing called
21 on May 1st, 1997. At that time the request was for
22 approval of the Jim Bowie 11 Federal Well Number 1 at an
23 unorthodox location 1000 feet from the south line and 700
24 feet from the east line of Section 11.

25 At the time of the presentation, we advised you

1 that Marathon had inadvertently overlooked providing notice
2 to Heyco, which was the offset operator towards whom this
3 well encroached. As a result, Mr. Jim Bruce entered his
4 appearance on behalf of Heyco, and the matter was continued
5 to determine whether or not they had any opposition.

6 We continued the matter to May 29th, and the
7 matter was taken under advisement at that time based upon
8 Mr. Bruce's and my understanding that Heyco had no
9 opposition to approval of the location.

10 Unbeknownst to Mr. Bruce and I, the parties had
11 been talking directly and, in fact, had entered into a
12 letter agreement, which is attached to Mr. DeMis's
13 affidavit which I have submitted to you as Marathon's
14 Exhibit A to today's hearing.

15 As a result of that information, I filed an
16 Application, then, to reopen this matter. We again
17 notified all the parties that were entitled to notice,
18 including Heyco. The matter was placed back on the docket
19 for today.

20 I wish to advise you that the stipulated
21 agreement between Heyco and Marathon is one in which the
22 parties have agreed to amend the location that you heard
23 requested for at the May 1st hearing. The amended location
24 which we now seek to approve is a location 990 feet from
25 the south and east lines of Section 11.

1 In addition, you'll note that the stipulation
2 provides that Marathon has accepted a production penalty of
3 25 percent.

4 In order to satisfy you that that change in
5 location is still a viable geologic location which is
6 preferable to any standard location, I have had Mr. William
7 DeMis, who was the geologist that testified before you on
8 May 1st, provide the affidavit that you're now reviewing.

9 He identifies on the second page of his affidavit
10 that although the location originally requested by Marathon
11 would be the optimum location in this spacing unit for this
12 very risky well, Marathon can still expect to encounter
13 more than 30 feet of lower Morrow sand at the new location.

14 He concludes that thus the risk of the well,
15 though still quite high, is not significantly increased by
16 the agreed change in location and is still better than the
17 standard location at which I would expect to encounter less
18 than 20 feet of lower Morrow sand.

19 We would request, with your permission, the
20 admission of Exhibit A as his affidavit.

21 In addition, we request the admission of Exhibit
22 B, which is my certificate of notice to all the parties
23 that were entitled to notice under the rules, including all
24 those parties that were originally subject to that portion
25 of the Application that dealt with compulsory pooling and

1 those parties that are entitled to notice with regards to
2 the unorthodox location.

3 Since providing notice to all these parties, I
4 have had no communication from any of these companies or
5 individuals. We believe the matter now is ready to be
6 taken under advisement and to have you issue an appropriate
7 order in this case.

8 EXAMINER STOGNER: Supplemental Exhibits A and B
9 will be admitted into evidence at this time.

10 Mr. Kellahin, I want to ask for your assistance
11 to help me redo the draft order in this instance --

12 MR. KELLAHIN: All right, sir.

13 EXAMINER STOGNER: -- put language in there about
14 the penalty --

15 MR. KELLAHIN: All right, sir.

16 EXAMINER STOGNER: -- if you would, please.

17 MR. KELLAHIN: I'd be happy to.

18 EXAMINER STOGNER: Just for the record, this
19 matter was taken under advisement after the 29th; is that
20 correct? The hearing on the 29th of May?

21 MR. KELLAHIN: I believe that's correct, Mr.
22 Examiner.

23 EXAMINER STOGNER: And somewhere in the interim
24 Marathon and Yates agree that it should be reopened for
25 these changes; is that correct?

1 MR. KELLAHIN: I advised Marathon to reopen the
2 case. The letter of stipulated settlement was apparently
3 being processed by the company while I was on vacation.

4 It did not come to Mr. Carr's attention, who was
5 handling this matter in my absence, and apparently Mr.
6 Bruce was also unaware of the stipulation. So as a result
7 of that circumstance, I took the initiative to put this
8 case back on the docket.

9 EXAMINER STOGNER: And Mr. Carr is now on
10 vacation; is that correct?

11 MR. KELLAHIN: I do believe.

12 EXAMINER STOGNER: And I was on vacation, so
13 thank you bringing me up to date on that.

14 If you will get with me subsequent to this
15 hearing, perhaps offer some language and help me draft this
16 order up, we can get it out --


17 MR. KELLAHIN: All right.

18 EXAMINER STOGNER: -- fairly quickly.

19 If there's nothing further in Case Number 11,774,
20 then this matter will now be taken under advisement once
21 again.

22 (Thereupon, these proceedings were concluded at
23 8:36 a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 11774.
* * * heard by me on 26 June 1997.

 Examiner
Oil Conservation Division

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

ADMINISTRATIVE APPLICATION OF
MARATHON OIL COMPANY TO REOPEN
CASE 11774 TO AMEND PROPOSED WELL
LOCATION, LEA COUNTY, NEW MEXICO

CASE NO. 11774 (Reopened)

AFFIDAVIT OF WILLIAM D. DeMIS

STATE OF TEXAS §
 § SS.
COUNTY OF MIDLAND §

Before me, the undersigned authority, personally appeared William D. DeMis, who being first duly sworn, stated:

A. My name is William D. DeMis. I am over the age of majority and am competent to make this Affidavit.

B. I am a Senior Geologist for Marathon Oil Company.

C. On May 1, 1997, I appeared before the Division in Case 11774 and presented geologic evidence to demonstrate the justification for approval to drill the Jim Bowie "11" Federal Well No. 1, at a then proposed unorthodox gas well location 1000 feet FSL and 700 feet FEL (Unit P) of Section 11, T18S, R28E, NMPM, for a spacing unit consisting of the S/2 of said Section 11.

D. The case was continued to May 29, 1997, in order to provide HEYCO, the offset operator towards whom the location encroaches, with an opportunity to object.

E. Subsequent to the hearing, HEYCO objected, and as a result, Marathon entered into a Stipulated Agreement by letter dated May 13, 1997 (attached as Exhibit "A").

F. As part of the Stipulation, Marathon has agreed to amend its requested location to an unorthodox gas well location 990 feet from the south and east lines of Section 11.

BEFORE EXAMINER STOGNER
OIL CONSERVATION DIVISION
MARATHON EXHIBIT NO. <u>A</u>
CASE NO. <u>11774</u>

G. In my expert opinion:

(1) Although the location originally requested by Marathon would be the optimum location in this spacing unit for this very risky well, Marathon can still expect to encounter more than 30 feet of Lower Morrow Sand at the new location.

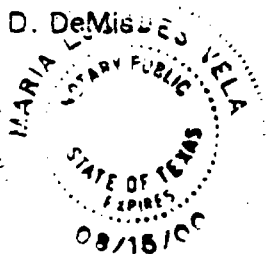
(2) Thus, the risk of the well, though still quite high, is not significantly increased by the agreed change in location and is still better than the closest standard well location at which I would expect to encounter less than 20 feet of Lower Morrow Sand.

FURTHER AFFIANT SAITH NOT:

William D. DeMis
William D. DeMis

STATE OF TEXAS §
 § ss.
COUNTY OF MIDLAND §

SUBSCRIBED AND SWORN to before me this 24th day of June, 1997, William



Maria L. Vela
Maria L. Vela, Notary Public

My commission expires:
August 15, 2000

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1033

ONE SUNWEST CENTRE

808/833-8801

FAX 808/833-0211

ROSWELL, NEW MEXICO 88202-1033

May 13, 1997

Marathon Oil Company
P. O. Box 552
Midland, Texas 79702-0552

Attention: Tim B. Robertson

Re: N.M. OCD Case No. 11771
Application of Marathon Oil Co. for
Compulsory Pooling and an
Unorthodox Gas Well Location
Jim Bowie "11" Federal Com #1
T-18S, R-28E, N.M.L.P.M.
Section 11: S/2
Eddy County, New Mexico

Ladies & Gentlemen:

Harvey E. Yates Company (HEYCO) is in receipt of your FAXed letter agreement, dated May 12, 1997, which concerns Marathon Oil Company's (MOC's) request for an unorthodox gas well location ("Application") offsetting HEYCO's Travis Deep Unit Working Interest Area.

HEYCO is agreeable to the following and agrees to FAX a letter to its Travis Deep Unit Working Interest Owners (TDUWIO) in an attempt to obtain their written approval:

1. MOC will amend the location in the Application to be 990' from the South line and 990' from the East line of Section 11, T-18S, R-28E.
2. MOC will accept a production penalty on the well drilled pursuant to the Application equal to 25% of the current Deliverability of such well into the pipeline from the Morrow formation or any other formations spaced on 320 acres. Deliverability is defined as the total volume produced into the production pipeline for a 24-hour period.
3. Deliverability will be determined on the well every three (3) months for the first two (2) years of its production life, and every six (6) months thereafter and HEYCO will be furnished with copies of the Deliverability test information within ten (10) days following each test.

EXHIBIT

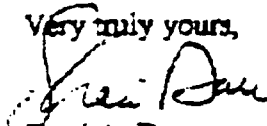
A

Marathon Oil Company
May 13, 1997
Page 2

4. HEYCO will not protest the current Application under Case #11771, subject to the above changes.
5. MOC will provide HEYCO with C-115 reports on a monthly basis on the well.
6. For its efforts to attempt to acquire approval from its non-operators, HEYCO will receive all well data from MOC's Jim Bowie "11" Federal Com #1 well.

Should these terms be agreeable, please so evidence by signing in the space provided below and FAXing the signed letter to me at 505/622-4221 by 5:00 P.M. on May 13, 1997.

Very truly yours,


Shari A. Darr
Land Manager

msvr
jrb/bowie2.doc/A295

AGREED TO AND ACCEPTED THIS 13TH DAY OF MAY, 1997.

MARATHON OIL COMPANY

By: 

Title: Advanced Landman

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

**APPLICATION OF MARATHON OIL COMPANY
FOR COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION
EDDY COUNTY, NEW MEXICO.**

BEFORE EXAMINER STOGNER
OIL CONSERVATION DIVISION
<i>Marathon</i> EXHIBIT NO. <u>3</u>
CASE NO. <u>11774</u>

CASE NO. 11774

**CERTIFICATE OF MAILING
AND
COMPLIANCE WITH ORDER R-8054**

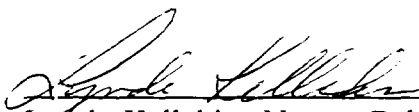
STATE OF NEW MEXICO)
) SS.
COUNTY OF SANTA FE)

W. Thomas Kellahin, being first duly sworn, hereby certifies that he is an attorney for the Applicant and responsible for notification in this matter and that the notice provisions of Division Rule 1207 (Order R-8054) have been complied with, that Applicant has caused to be conducted a good faith diligent effort to find the correct addresses of all interested parties entitled to receive notice, that on June 6, 1997, he caused to be mailed by certified mail return-receipt requested the attached notice of this hearing and a copy of the application for the above referenced case, at least twenty days prior to the hearing of this case set for June 26, 1997, to the parties shown in said application and as evidenced by the attached copies of return receipt cards and/or receipts of certified mailing, and that pursuant to Division Rule 1207, notice has been given at the correct addresses provided by such rule.

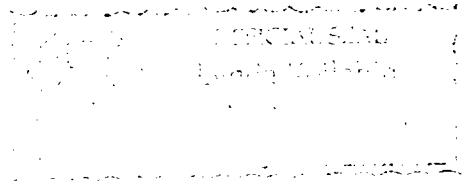


W. Thomas Kellahin

SUBSCRIBED AND SWORN to before me this 25th day of June, 1997, by W. Thomas Kellahin.



Lynda Kellahin, Notary Public
My Commission Expires: June 14, 2000



KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285

TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

June 4, 1997

TO: ALL INTERESTED PARTIES ENTITLED TO NOTICE
OF THE HEARING OF THE FOLLOWING NEW MEXICO
OIL CONSERVATION DIVISION CASE:

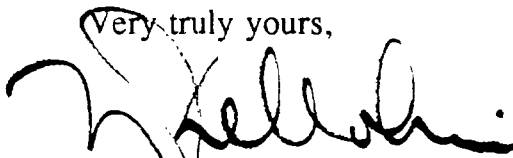
*Re: Application of Marathon Oil Company
to Reopen Case 11774 to amend its
proposed unorthodox well location,
Eddy County, New Mexico*

On behalf of Marathon Oil Company, please find enclosed our application to reopen case 11774 and to amend the unorthodox gas well location for its Jim Bowie "11" Federal Well No. 1 which has been set for hearing on the New Mexico Oil Conservation Division Examiner's docket now scheduled for June 26, 1997. The hearing will be held at the Division hearing room located in Santa Fe, New Mexico.

As an interest owner who may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

Pursuant to the Division's Memorandum 2-90, you are further notified that if you desire to appear in this case, then you are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, June 20, 1997, with a copy delivered to the undersigned.

Very truly yours,



W. Thomas Kellahin

cc: BY CERTIFIED MAIL-RETURN RECEIPT REQUESTED
to all parties listed in application

Atlantic Richfield Company ("ARCO")
P. O. Box 1610
Midland, Texas 79702-1610
Attn: Lee Scarborough

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210
Attn: Janet Richardson

Louis Dreyfus Natural Gas Corp.
14000 Quail Springs Prkwy, Ste 600
Oklahoma City, OK 73134
Attn: Rusty Waters

EXHIBIT "B"

Atlantic Richfield Company ("ARCO")
P. O. Box 1610
Midland, Texas 79702-1610
Attn: Lee Scarborough

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210
Attn: Janet Richardson

Louis Dreyfus Natural Gas Corp.
14000 Quail Springs Prkwy, Ste 600
Oklahoma City, OK 73134
Attn: Rusty Waters

Enron Oil & Gas Co.
P. O. Box 2267
Midland, Texas 79702

Read & Stevens, Inc.
P. O. Box 1518
Roswell, New Mexico 88202

Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88202-1933
Attn: Shari Darr

Marathon Oil Company
 Case 11774
 June 20, 1997 6/6/97

I also wish to receive the following services (for an extra fee):
 1. Addressee's Address
 2. Restricted Delivery
 Consult postmaster for fee.

What we can return this space does not include number and the date

4a. Article Number
 P 551 048 434

4b. Service Type
 Registered
 Express Mail
 Return Receipt for Merchandise
 COD

7. Date of Delivery
 JUN 09 1997

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

3. Article Addressed to:
 Enron Oil & Gas Co.
 P.O. Box 2267
 Midland, TX 79702

Atlantic Richfield Company
 P.O. Box 1610
 Midland, TX 79702-1650
 Attn: Lee Scarborough

Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

3. Article Addressed to:
 Atlantic Richfield Company
 P.O. Box 1610
 Midland, TX 79702-1650
 Attn: Lee Scarborough

Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

3. Article Addressed to:
 Atlantic Richfield Company
 P.O. Box 1610
 Midland, TX 79702-1650
 Attn: Lee Scarborough

Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

PS Form 3811, December 1994

Marathon Oil Company
 Case 11774
 June 20, 1997 6/6/97

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 1. Addressee's Address
 2. Restricted Delivery
 Consult postmaster for fee.

What we can return this space does not include number and the date

4a. Article Number
 P 551 048 433

4b. Service Type
 Registered
 Express Mail
 Return Receipt for Merchandise
 COD

7. Date of Delivery
 JUN 09 1997

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

3. Article Addressed to:
 Read & Stevens, Inc.
 P.O. Box 1518
 Roswell, NM 88202

Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

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 Read & Stevens, Inc.
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 Roswell, NM 88202

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PS Form 3811, December 1994

Marathon Oil Company
 Case 11774
 June 20, 1997 6/6/97

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 COD

7. Date of Delivery
 JUN 10 1997

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

3. Article Addressed to:
 Louis Dreyfus Natural Gas
 14000 Quail Springs Prkwy
 Suite 600
 Oklahoma City, OK 73134
 Attn: Rusty Waters

Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

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 Louis Dreyfus Natural Gas
 14000 Quail Springs Prkwy
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PS Form 3811, December 1994

Marathon Oil Company
 Case 11774
 June 20, 1997 6/6/97

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PS Form 3811, December 1994

Marathon Oil Company
 Case 11774
 June 20, 1997 6/6/97

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5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

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 Louis Dreyfus Natural Gas
 14000 Quail Springs Prkwy
 Suite 600
 Oklahoma City, OK 73134
 Attn: Rusty Waters

Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

5. Received By: (Print Name)
 Signature: (Address or Agent)
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 Louis Dreyfus Natural Gas
 14000 Quail Springs Prkwy
 Suite 600
 Oklahoma City, OK 73134
 Attn: Rusty Waters

Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

5. Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

3. Article Addressed to:
 Louis Dreyfus Natural Gas
 14000 Quail Springs Prkwy
 Suite 600
 Oklahoma City, OK 73134
 Attn: Rusty Waters

Received By: (Print Name)
 Signature: (Address or Agent)
 X [Signature]

PS Form 3811, December 1994

SEND

Marathon Oil Company
Case 11774
June 20, 1997 6/6/97

3. Article Addressed to:

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210
Attn: Janet Richardson

5. Received By: (Print Name)

Anita Sims
Signature: (Addressee or Agent)
X Anita Sims

PS Form 3811, December 1994

Domestic Return Receipt

4a. Article Number

PS51 048 903

4b. Service Type

Registered Certified
 Express Mail Insured
 Return Receipt for Merchandise COD

7. Date of Delivery

6-4-97

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

Is your RETURN ADDRESS completed on the reverse side?

SEND

Marathon Oil Company
Case 11774
June 20, 1997 6/6/97

3. Article Addressed to:

Harvey E. Yates Company
P.O. Box 1933
Roswell, NM 88202-1993
Attn Shari Darr

5. Received By: (Print Name)

Randie Saltympic
Signature: (Addressee or Agent)
X Randie Saltympic

PS Form 3811, December 1994

Domestic Return Receipt

4a. Article Number

PS51 048 432

4b. Service Type

Registered Certified
 Express Mail Insured
 Return Receipt for Merchandise COD

7. Date of Delivery

6-9-97

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

Is your RETURN ADDRESS completed on the reverse side?