

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. 12,135
)
APPLICATION OF MARATHON OIL COMPANY FOR)
SURFACE COMMINGLING, OFF-LEASE)
MEASUREMENT AND STORAGE, EDDY COUNTY,)
NEW MEXICO)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 18th, 1999

Santa Fe, New Mexico

OIL CONSERVATION DIV.
99 APR -1 AM 8:53

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, March 18th, 1999, 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

March 18th, 1999
Examiner Hearing
CASE NO. 12,135

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A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:23 a.m.:

3 EXAMINER CATANACH: Okay, at this time we'll call
4 Case 12,135.

5 MR. CARROLL: Application of Marathon Oil Company
6 for surface commingling, off-lease measurement and storage,
7 Eddy County, New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

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

14 EXAMINER CATANACH: Call for additional
15 appearances.

16 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
17 representing Santa Fe Energy Resources, Incorporated. I
18 have no witnesses.

19 EXAMINER CATANACH: Any additional appearances?
20 Will the witness please stand to be sworn in?
21 (Thereupon, the witness was sworn.)

22 MR. KELLAHIN: Mr. Examiner, Marathon has a
23 centralized gathering facility project that you're
24 examining here this morning. It has been approved
25 administratively on several occasions. The last request

1 was to add an additional well. That well appears in
2 Section 32 of the plat that you have in front of you.

3 The reason it was set for hearing is, based upon
4 the review, there is a difference in ownership between the
5 production from that well and the consolidated tracts that
6 are shown outlined in yellow.

7 Mr. Spilman, the engineering witness and the
8 project manager for Marathon for this project, is here to
9 identify and describe what he does with the facility, how
10 the products and production is measured and metered, and
11 what he proposes to do if you'll approve his request.

12 KIRK SPILMAN,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

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

19 A. Kirk Spilman, I work for Marathon Oil Company as
20 the project manager of what we refer to as the East Indian
21 Basin development.

22 Q. On prior occasions have you testified before the
23 Division?

24 A. No, sir, I have not.

25 Q. Summarize your education for us.

1 A. I received a degree from Texas A&M University in
2 petroleum engineering, graduating in May of 1995.

3 Q. Are you familiar with this facility in your
4 capacity as the project operational engineer?

5 A. Yes, sir.

6 Q. Are the displays that we're about to show the
7 Examiner true and accurate to the best of your knowledge,
8 information and belief?

9 A. Yes, sir, they are.

10 Q. Let's have you look at Exhibit Number 1. Is this
11 a schematic that you have caused to be prepared that
12 identifies and describes your project?

13 A. Yes, sir.

14 MR. KELLAHIN: Mr. Examiner, we tender Mr.
15 Spilman as an expert petroleum engineer.

16 EXAMINER CATANACH: Mr. Spilman is so qualified.

17 Q. (By Mr. Kellahin) Let me have you take Exhibit
18 1, and let's first of all describe why this facility was
19 originally constructed in this manner.

20 A. Mr. Catanach, as you may be aware, this area is
21 located in what is referred to as the scenic byway in the
22 Azotea Mesa area. The scenic byway runs diagonally from
23 north to west through Section 28 and Section 32.

24 And in an effort to minimize the effect on the
25 visual resources along the scenic byway, Marathon

1 constructed this setup here with a centralized facility up
2 in Section 19 and satellite facilities indicated in Section
3 20, Section 29, Section 28, Section 32 and Section 33. The
4 purpose of those satellite facilities are to measure fluids
5 and gas volumes going from the well to the satellite
6 facilities.

7 Q. What are the pools that these wells produce from?

8 A. The pools, as indicated further in the exhibits,
9 are the same, the Upper Penn Associated Pool, Indian Basin-
10 Upper Penn Associated Pool.

11 Q. Let's describe for the Examiner the reason that
12 interest owners in Section 32 are not the same at this
13 point in time as the interest owners that share in the
14 production within the unit area outlined in yellow.

15 A. Well, if you look on -- Want to move on to the
16 separate exhibits?

17 Q. Sure.

18 A. If you look on Exhibit 4, there's a list of the
19 wells that are being put into this gathering system. The
20 Indian Basin 32 State Number 1 Y, Indian Basin 32 State
21 Number 2, 3 and then so forth, you see in front of you
22 there.

23 The lease in question, the 32 State -- the Indian
24 Basin 32 State lease, has two working interests, Marathon
25 Oil Company and Santa Fe Energy Resources.

1 As noted by the third column, the working
2 interests in those three wells are separate and different.
3 The 1 Y, which is separate from the Number 2 and 3, was
4 affected by a nonconsent, and therefore a penalty was
5 assessed and will be paid out over time.

6 That penalty -- There's actually two penalties.
7 The first penalty after payout will result in a working
8 interest between Santa Fe and Marathon Oil Company of 50
9 percent. After the second penalty is paid out, the working
10 interest will be reverted to the exact same working
11 interest as shown on the 32 State and the 32 State Number
12 3, 2 and 3.

13 Q. At this point, Mr. Spilman, has Marathon received
14 administrative approvals to commingle this product on the
15 surface and to take it to the battery on 19?

16 A. Yes, sir.

17 Q. Those prior approvals will address all issues
18 except what? What now remains to be decided?

19 A. The commingling of the 32 State Number 1 Y and
20 the commingling of the 32 State Number 2 and 3.

21 Q. Okay. How do you propose to handle that
22 production in terms of measuring it and allocating it to
23 its appropriate owner?

24 A. Turn to Exhibit Number 2. You can see that this
25 is a blowup of the satellite in Section 32. And what you

1 have there is a production header with the separate wells,
2 the three separate wells, going into a test and production
3 separator setup. The fluids there will be metered, oil,
4 gas and water.

5 The fluids will be recombined, as you see, as
6 indicated by the purple line on the top of the page. Do
7 you see that, Mr. Catanach?

8 EXAMINER CATANACH: Uh-huh.

9 THE WITNESS: The gas will be shipped separately
10 from the fluid and liquid via a 12-inch on the gas and an
11 8-inch gathering line, and will be shipped to the central
12 production facility.

13 And I might add, the reason, looking at the plat
14 here, you see the central production facility being located
15 in Section 19 and all the satellites, it's quite obvious
16 that it's not areally the best place to put it. I want you
17 just to keep in mind that Section 32 and Section 33 are on
18 top of a hill, and that is why we are -- that's what
19 requires these large gathering lines.

20 Section 32 and 33 are in a remote area. While
21 only being a mile away, it takes roughly 45 minutes to
22 drive from Section 29 to Section 32.

23 Q. (By Mr. Kellahin) When we look at the -- Is
24 there additional cost associated with this production if
25 you're not allowed to commingle it into this current

1 approved facility?

2 A. Yes, if you look at Exhibit Number 5, this may
3 give you some idea as to the volumes that these wells
4 produce. For instance, the Indian Basin 32 State Number 2,
5 the second from the bottom, you can see there it averages
6 roughly 5000 barrels of water and almost 6 million a day.

7 These are not your typical 4-by-10-type
8 separators. These separators are typically 6 by 20, 8 by
9 25 in size and, due to the remote nature, require
10 substantial automation in order to prevent spills,
11 accidents, numerous shut-ins are required because of the
12 sheer volumes that are moving through the separators.

13 So where your typical separator package may cost
14 \$10,000, \$15,000, these type separator package can run in
15 excess of \$100,000 apiece. And due to the temporary nature
16 of this working interest discrepancy between the three
17 wells, short period of time, if that would be necessary,
18 seems fairly unpractical.

19 Q. Do you have an opinion as to whether it is
20 appropriate to add this additional production into the
21 gathering system that's already approved?

22 A. Yes, sir, in order to accommodate the 32 State
23 Number 1 Y separately from the other two wells, it would
24 require a large amount of investment that would be a
25 temporary basis, and it's just not practical not to include

1 it in this gathering system at this time.

2 Q. What is the method by which that production is
3 measured and allocated to the owners?

4 A. Turning back to Exhibit Number 2, you can see
5 there that the liquids are metered separately, the test
6 vessel on Halliburton meters, I mean, we have total-flow
7 gas meters. This production will be allocated back to the
8 wells based on those well tests.

9 A normal situation would require, or would allow,
10 one test per month because of the limited amount of wells
11 that are in this satellite here. We've got three wells for
12 two separators. There will be multiple tests, as you can
13 expect, on a monthly basis. So it should be fairly
14 accurate.

15 Q. Does Marathon have plans to add additional wells
16 to the consolidated facility?

17 A. The consolidated facility, yes. As indicated on
18 the plat, there's roughly six wells indicated on that plat
19 to be drilled, one in Section 29, four in Section 28 and
20 one in Section 32 and -- I'm sorry, and I missed one in
21 Section 33. So there will be additional wells added in the
22 future to the central gathering system.

23 Q. In order to avoid the necessity of additional
24 administrative hearings for each of these wells as they are
25 drilled and completed, do you see any problem if the

1 Division were to approve these to-be drilled wells now, as
2 part of issuing an order in this case?

3 A. I think that would be appropriate.

4 Q. Let's turn to the schematic that shows the
5 portion of the facility located in Section 19. It's your
6 Exhibit Number 3.

7 A. Okay.

8 Q. Give us a short summary of what we're seeing
9 here.

10 A. What you have here is via the 12-inch and 8-inch
11 gathering lines. The recombined liquid hydrocarbon and
12 water are entering the bottom in the purple. Do you see
13 that?

14 EXAMINER CATANACH: Okay.

15 THE WITNESS: And basically, we have two 8-by-25
16 separators right there, handling roughly 30,000 barrels,
17 30,000 to 40,000 barrels of fluid per day.

18 The water and oil are basically re-separated, the
19 oil going through the heater treater and to the gunbarrel
20 and subsequently to the loading rack to be sold. The water
21 basically goes directly to the gunbarrel and is separated
22 and injected via an injection system.

23 The gas is basically brought in via the 12-inch
24 and sent through a suction scrubber, compressed through a
25 filter separator and glycol unit and sent to sales.

1 And that's pretty much it.

2 Q. (By Mr. Kellahin) Has Marathon obtained Santa fe
3 Energy Resources' written concurrence to the modification
4 of the facility?

5 A. Yes. Look at Exhibit Number 6. The only parties
6 that are affected by this case before the Commission, Mr.
7 Catanach, is Santa Fe Energy Resources. And as you can see
8 there, on Exhibit Number 6, we received written approval or
9 consent for this case.

10 MR. KELLAHIN: Mr. Examiner, Exhibit 7 is taken
11 from the administrative files of the Division. It
12 represents the prior administrative action by the Division
13 for the surface commingling and the offlease storage.

14 If you'll note on the third page of that exhibit,
15 there is a typographical error in the description. It
16 should be Section 32 as noted, instead of 33. You may
17 choose to correct that clerical error with the issuance of
18 this order if it may make it easier for us to track this
19 later. The well is correctly identified, but the section
20 number is wrong.

21 And then the last attachment to this exhibit is a
22 copy of the January 7th administrative filing by Marathon
23 to add the additional production that Mr. Spilman has just
24 described to you.

25 And then finally Exhibit 8 is the certificate of

1 notification where we notified the Commissioner of Public
2 Lands, Bureau of Land Management and Santa Fe Energy.

3 With your permission, that concludes our
4 presentation. We would ask that you admit our Exhibits 1
5 through 8.

6 EXAMINER CATANACH: Exhibits 1 through 8 will be
7 admitted as evidence.

8 Mr. Kellahin, I'm a little concerned about notice
9 in this case. There appears to be several interest owners
10 within the Indian Hills unit that were not provided notice.
11 What's your thinking on that? It appears to me that you're
12 asking for commingling authority again within the Indian
13 Hills unit for future wells that are yet to be drilled, and
14 I might recommend that it might be appropriate to notice
15 those interest owners.

16 MR. KELLAHIN: If that's your desire, Mr.
17 Catanach, we'll be happy to do that. You may want to
18 continue the case, then, after our presentation, and let
19 Mr. Spilman accomplish that.

20 EXAMINER CATANACH: It may take care of any
21 problems that...

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. It appears that we're going to try to wrap this
25 up all at once and not have to come back and amend this

1 order again. Is that what we're trying to do?

2 A. Yes, sir. I guess my understanding is that all
3 the wells that are affected within the Indian Hills Unit
4 would just be amendments in the future, and a hearing would
5 not be required. My understanding for the reason of this
6 hearing, other than the fact that we would like to get --
7 to add in the future wells, the main purpose of this
8 hearing is to allow for the temporary commingling of the --
9 on the 32 State lease. Is that clear?

10 Q. Let me ask you this: The existing PLC order,
11 does that -- is it your understanding that that order
12 authorizes you to commingle anything within the Indian
13 Hills unit?

14 A. That is my understanding, yes, sir.

15 Q. Is the land description in that order -- is that
16 complete as to the extent of the unit?

17 A. I'm sorry, which exhibit are you looking at?

18 Q. Well, I'm looking at Exhibit Number 7, which is
19 the PLC order, and then I'm looking at the land plat for
20 the description of the unit.

21 MR. KELLAHIN: It is not, Mr. Examiner.

22 EXAMINER CATANACH: It does not contain the
23 entire unit?

24 MR. KELLAHIN: No, sir, it is categorized on the
25 40-acre tracts that there were active wells.

1 EXAMINER CATANACH: So there is land description
2 left out of that?

3 MR. KELLAHIN: That's right.

4 EXAMINER CATANACH: Okay.

5 MR. KELLAHIN: And to accomplish what we're
6 trying to achieve, those land descriptions would have to be
7 modified to include the to-be-drilled, either by describing
8 the 40-acre tracts or simply consolidating the whole
9 section, if you will.

10 And if that's the issue that bothers you about
11 notifications, I agree with you, and we'll be happy to send
12 the additional notifications.

13 EXAMINER CATANACH: Yeah, I would suggest that
14 with this order that we write we just take care of the
15 whole -- just include the whole Indian Hills unit within
16 the order allowed to be commingled?

17 MR. KELLAHIN: That's our preference.

18 EXAMINER CATANACH: But that will take notice.

19 MR. KELLAHIN: Yes, sir.

20 EXAMINER CATANACH: I suggest that those interest
21 owners be notified of what's going on.

22 MR. KELLAHIN: We'll do it that way. We do have
23 another Marathon centralized facility that we've had to do
24 on a well-by-well basis, and I needs to address that at a
25 different time. But that drew my attention to the fact

1 that here was an opportunity to approve the area and avoid
2 the administrative details of approving this well by well,
3 which we don't think is necessary for this project.

4 EXAMINER CATANACH: And I agree, it's burdensome.

5 Q. (By Examiner Catanach) With regards to the
6 Indian Basin 32 State 1 Y and 2 and 3, the interest between
7 the 1 Y and the 2 and 3 is not going to be common even
8 after payout; is that correct?

9 A. That is not correct. It is -- As I stated, that
10 there's two payouts, and what you're seeing there is the
11 first payout. The second payout, which affects an
12 overriding royalty --

13 Q. Uh-huh.

14 A. -- owned by Marathon Oil Company, we'll revert it
15 back to the 5625 and the 43.75.

16 So as indicated there, it does state that the
17 working interest will be 50 percent for each owner after
18 payout. But what is not indicated there is, there is an
19 additional payout of a nonconsent overriding royalty that
20 we'll revert it back -- after that is paid out, we'll
21 revert it back to the 56 1/4 and 43 3/4.

22 Q. Okay.

23 A. So I apologize for that.

24 Q. And Santa Fe Energy has agreed to your proposal?

25 A. Yes, sir.

1 Q. And the method by which you propose to test the
2 wells and allocate production?

3 A. Yes, sir.

4 Q. Have you heard anything from the Land Office with
5 regards to the proposal? This is a state lease, the 32,
6 right?

7 A. Yes, sir.

8 Q. You have heard anything from the Land Office?

9 A. No, we have not.

10 MR. KELLAHIN: We'll recheck with them, Mr.
11 Examiner, during the notice period and make sure that
12 they're comfortable with this amendment.

13 Q. (By Examiner Catanach) Okay. That whole Section
14 32 is one state lease?

15 A. Actually there's -- It's an east-west state
16 lease, basically. They're both state leases, but different
17 actual lease numbers, to my understanding.

18 Q. So they're separate state leases?

19 A. Yes, sir.

20 Q. And one is west-half and one is east-half?

21 A. Yes, sir.

22 Q. Could you provide me with those lease numbers?

23 A. I don't have them with me at the moment, but yes,
24 sir, we can.

25 Q. Okay.

1 A. With regards to the test procedures on the 1, 2
2 and 3 wells, as I understand it, did you say you were going
3 to test each well once a month?

4 A. I indicated that that happen at least once a
5 month, but due to the number of wells going into the
6 facility -- we have basically two separators, three
7 wells -- in all likelihood it will occur more than once a
8 month.

9 Q. Are these wells producing at fairly constant
10 daily rates?

11 A. Yes, sir, on a day-to-day basis, they do, other
12 than the down time that occurs, and that, of course, is
13 noted and taken into account when the monthly allocations
14 are allocated back to each well.

15 Q. And that's basically how all the different
16 satellites are handled?

17 A. Yes, sir.

18 Q. You're on well tests on all the satellites?

19 A. Yes, sir, that is correct.

20 Q. And then you're just taking your total fluid
21 production in Section 19 and just allocating it back, based
22 on well tests?

23 A. Right, satellite -- you allocate it back to each
24 satellite and then back to each well.

25 Q. Is there -- You have a meter going on the --

1 measuring each of the production -- each of the satellite
2 production?

3 A. Yes, sir.

4 Q. Oil and gas?

5 A. And water.

6 Q. Okay. And none of the interest owners that
7 you're aware of have had any problems with this setup?

8 A. No, sir. You know, as we had already gotten
9 approved for the previous wells in the Indian Hills unit,
10 and actually the 32 state lease too, so none were
11 indicated.

12 And this is really a typical setup for Marathon
13 Oil Company's other facilities in the area, the MOC Fed
14 Battery and the NIBU, with different working interests
15 coming into facilities with similar metering and testing
16 practices being used.

17 Q. Do you think your method allocates production to
18 all these interest owners on a fair and reasonable basis?

19 A. Yes, sir.

20 EXAMINER CATANACH: Okay, I have no further
21 questions of this witness, Mr. Kellahin. I suggest we
22 continue to at least --

23 MR. KELLAHIN: At least the April 15th docket.

24 EXAMINER CATANACH: Will that give you sufficient
25 time?

1 MR. KELLAHIN: I'll have to advise you after the
2 hearing, Mr. Examiner. Let's try for that. And if not, we
3 may have to take it back to the 29.

4 EXAMINER CATANACH: Okay, let's continue Case
5 12,135 to the April 15th docket, at which time we'll get a
6 report from you.

7 MR. KELLAHIN: All right, sir.

8 (Thereupon, these proceedings were concluded at
9 9:52 a.m.)

10 * * *

11
12
13
14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
the Examiner hearing of Case No. 12,135,
17 heard by me on March 18 1999.
18 David P. Catnach, Examiner
OM Conservation Division

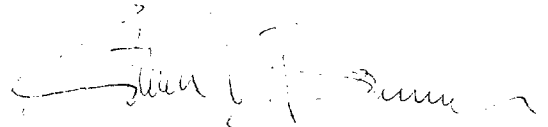
CERTIFICATE OF REPORTER

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 March 20th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002