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RECOGNIZED SPECIALIST IN THE AREA OF  
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JASON KELLAHIN (RETIRED 1991)

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:

	<b>Well</b>	<b>Location</b>	<b>Status</b>
(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.

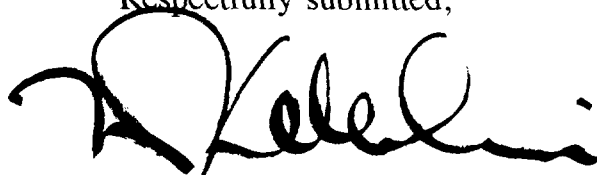
5. Commingling Order PLC-140 authorized commingling "only so long as all commingled production is of identical ownership...."

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.

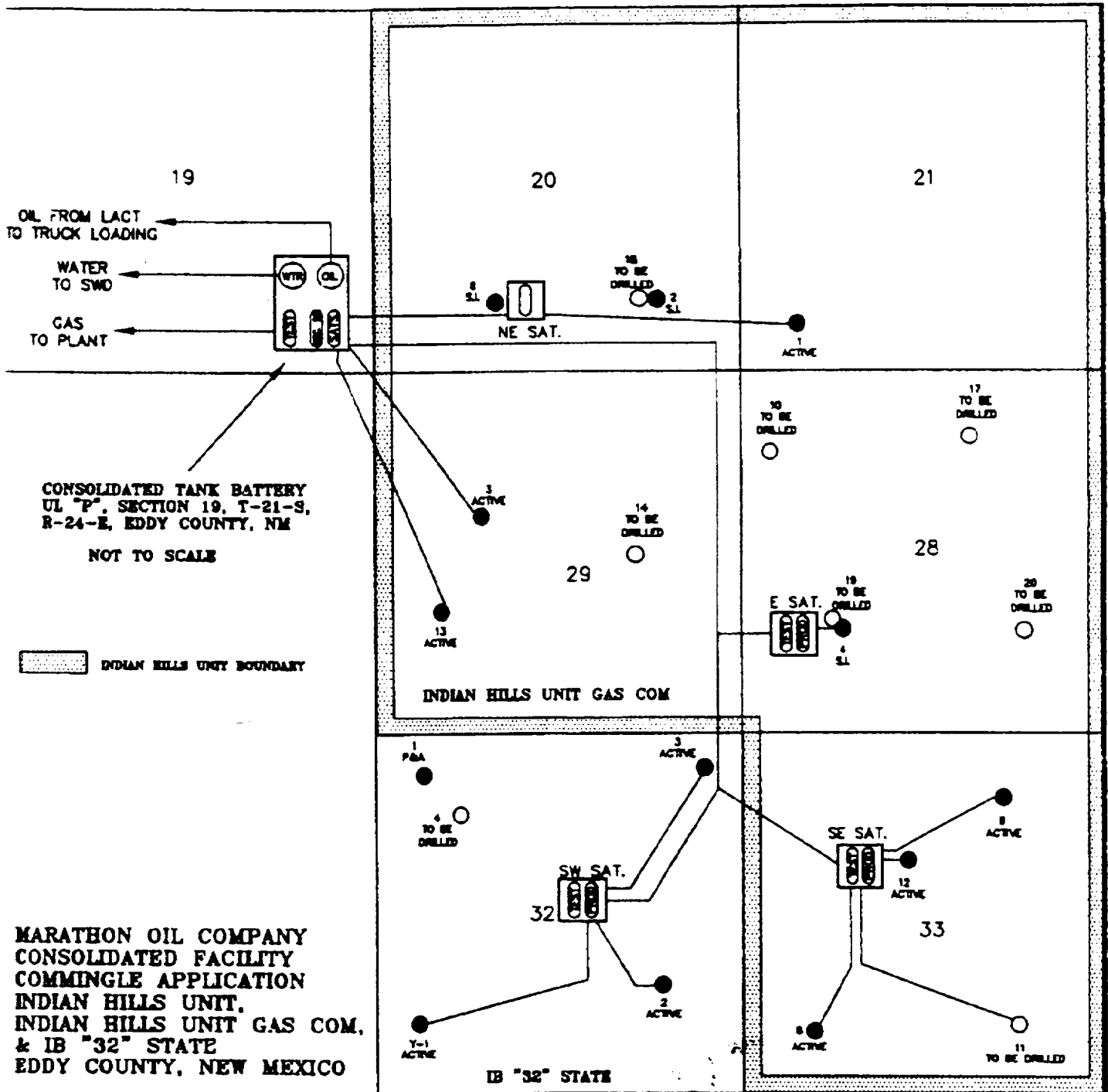
Accordingly, Marathon requests that this application be set for hearing before a Division Examiner and that after notice and hearing, the Division grant an exception to Division Rule 309-A and Rule 303-A and the amendment of Division Commingling Order PLC-140 to permit surface commingling, off-lease 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', with a large, stylized initial 'W' and a long, sweeping horizontal stroke at the end.

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

R-24-E



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

R-24-E

12/29/88  
REMAP JWS  
BY: T. L. LAMER



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