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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
CASE 10,657

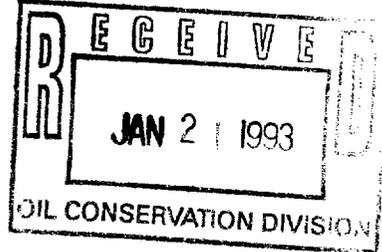
EXAMINER HEARING

IN THE MATTER OF:

Application of Marathon Oil Company for  
reinstatement of underproduction for a GPU in the  
Indian Basin-Upper Pennsylvanian Gas Pool, Eddy  
County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER



STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

January 7, 1993

## A P P E A R A N C E S

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## I N D E X

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## E X H I B I T S

## 16 APPLICANT'S EXHIBITS:

17	Exhibit 1 5
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1                   WHEREUPON, the following proceedings were had  
2 at 1:28 p.m.:

3

4

5                   EXAMINER CATANACH: At this time we'll call  
6 case 10,657.

7

8                   MR. STOVALL: Application of Marathon Oil  
9 Company for reinstatement of underproduction for a GPU  
10 in the Indian Basin-Upper Pennsylvanian Gas Pool, Eddy  
11 County, New Mexico.

12

13

14                   EXAMINER CATANACH: Are there appearances in  
15 this case?

16

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21                   MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin  
22 of the Santa Fe law firm of Kellahin & Kellahin,  
23 appearing in association with Thomas C. Lowry, an  
24 attorney for Marathon Oil Company, on behalf of  
25 Marathon Oil Company.

26

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31                   MR. CARR: May it please the Examiner, my  
32 name is William F. Carr with the Santa Fe law firm  
33 Campbell, Carr, Berge & Sheridan. We would like to  
34 enter our appearance on behalf of Chevron USA, Inc.

35

36

37

38                   We do not intend to call a witness.

39                   EXAMINER CATANACH: Any other appearances?

40                   Okay, will the witness please stand to be  
41 sworn in?

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CRAIG T. KENT,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you please state your name and occupation?

A. My name is Craig Kent and I'm a reservoir engineer with Marathon Oil Company.

Q. Mr. Kent, on prior occasions have you testified before the Division as a reservoir engineer?

A. Yes, I have.

Q. Pursuant to your employment by your company, have you made a study of the facts surrounding this Application by your company?

A. Yes, I have.

MR. KELLAHIN: We would tender Mr. Kent as an expert reservoir engineer.

EXAMINER CATANACH: Mr. Kent is so qualified.

Q. (By Mr. Kellahin) Let me ask you to take Exhibit Number 1, Mr. Kent, and, before we discuss what you're seeking to accomplish, have you identify for us the information shown on Exhibit Number 1.

A. Yes, Exhibit Number 1 is a plat of the area surrounding the Indian Basin gas field in Eddy County,

1 New Mexico.

2 The sections shown in color represent the  
3 active gas wells in the Indian Basin Upper Penn Pool.  
4 In each tract, or each GPU, it's color-coded to  
5 indicate the operator of that GPU.

6 Q. GPU is simply shorthand for the "gas  
7 proration unit"?

8 A. That's correct.

9 Q. And in this prorated gas pool, a standard GPU  
10 would consist of 640 acres?

11 A. That's correct.

12 Q. The well that's located in this GPU is  
13 identified as what?

14 A. The well that's in Section 34 of Township 21  
15 South, Range 23 East, indicated with the green square,  
16 is the Indian Basin D Well Number 1.

17 Q. What are you seeking from the Examiner with  
18 this Application, Mr. Kent?

19 A. We're seeking reinstatement of under-  
20 production that was accrued in 1990 for the Indian  
21 Basin D Well Number 1.

22 Q. Okay. Have you determined what volume of  
23 underproduction you are seeking to have reinstated as a  
24 credit for this GPU?

25 A. Yes, I have.

1 Q. What is that volume of gas?

2 A. That volume is 167,977 MCF of gas.

3 Q. Describe for us the status of the well  
4 whereby it had an underproduced allowable credit that  
5 was subject to cancellation.

6 A. Basically the well was classified as  
7 nonmarginal during 1989, and as the reservoir energy  
8 became depleted the well was no longer able to produce  
9 at allowable rates, and so while it was still  
10 classified as nonmarginal, it accrued underproduction  
11 during that time.

12 Q. What is the ending period in terms of the  
13 month and the year in which that underproduced  
14 allowable remained on the books for this GPU?

15 A. December of 1989.

16 Q. All right. The well is then reclassified  
17 from nonmarginal to marginal?

18 A. That's correct.

19 Q. What then happened to the well?

20 A. The well produced less than allowable for the  
21 better part of 1990.

22 Then in the first quarter of 1991 we  
23 undertook some steps to remove various friction  
24 pressure drops by adding perforations in the well,  
25 making some surface facility modifications, adding

1 wellhead compression.

2 Q. For this particular well, did you change out  
3 the tubing?

4 A. Yes, we changed out the tubing. We changed  
5 out chokes and various other surface facilities to  
6 reduce those friction-pressure problems.

7 Q. When did this workover activity take place on  
8 the well?

9 A. It started in basically the first quarter of  
10 1991.

11 Q. As a result of that workover effort, what  
12 happened to the capacity of the well to produce gas?

13 A. The well was then able to produce a volume in  
14 excess of the allowable for the pool.

15 Q. That caused the well to be classified as  
16 what?

17 A. That caused the well to be classified as  
18 nonmarginal in April of 1991.

19 Q. Under the general rules for prorated gas  
20 pools of New Mexico, what happened to the underproduced  
21 allowable credited to the well at this point in time?

22 A. That underproduced allowable was canceled as  
23 of December, 1989.

24 Q. All right. When the well then became  
25 reclassified as nonmarginal, did it produce in excess

1 or less than its allowable?

2 A. It produced in excess of the allowable.

3 Q. Okay. What is the current status or  
4 classification of the well at this point, say, December  
5 of 1992?

6 A. As of December of 1992, the well is  
7 classified as a nonmarginal well. It continues to  
8 produce in excess of the allowable. It currently  
9 carries an overproduction of 681 million cubic feet of  
10 gas.

11 Q. And that overproduction debit has not yet had  
12 applied to it any credit remaining for underproduced  
13 allowable that it did not use at the point in time that  
14 it went marginal?

15 A. That's correct.

16 Q. All right. What would you like the Examiner  
17 to do?

18 A. I would like the Examiner to reinstate the  
19 underproduction as described in Rule 14-B of the  
20 general pool rules.

21 Q. Okay. Let's go now through some of the  
22 spreadsheets that you have prepared, and show the  
23 Examiner how you have made the calculation under  
24 various assumptions.

25 A. Okay.

1 Q. All right?

2 MR. STOVALL: Mr. Kellahin, before --

3 MR. KELLAHIN: Yes, sir.

4 MR. STOVALL: -- just to make sure we're --  
5 for record purposes, when we're talking about Rule 14-B  
6 in the general rules, we're talking about the rules for  
7 prorated gas pools in, I think it's Order R-8271; is  
8 that correct?

9 EXAMINER CATANACH: 8170.

10 MR. KELLAHIN: 8170, Mr. Stovall.

11 MR. STOVALL: Okay, I just want to get that  
12 in the record so that we know where to refer if we've  
13 got any questions --

14 MR. KELLAHIN: Yes, sir.

15 MR. STOVALL: -- and wanted to read in it.

16 Q. (By Mr. Kellahin) Yes. Let's turn to  
17 Exhibit 2, Mr. Kent, and before we look at the numbers,  
18 take each of the columns, starting from the left, going  
19 to right, and identify for us the information contained  
20 in each column of the spreadsheet.

21 A. Okay. This is basically -- The spreadsheet  
22 in general is a month-by-month accounting of gas sales  
23 versus the allowable for the well, the leftmost column  
24 being the month of interest.

25 Moving to the right, the column entitled

1 "Status" references the proration status, "N" meaning  
2 nonmarginal, "M" meaning marginal.

3 Moving to the right again, the column  
4 entitled "Gas Sales" is the gas sales from the Form  
5 C-115.

6 The "Allowable" is the allowable for the well  
7 as reported in the Division proration schedule.

8 Moving to the right again, the column  
9 entitled "Over/Under" is a running accumulation of  
10 the -- excuse me, not running but a monthly calculation  
11 of the over- or underproduction for the well for a  
12 given month.

13 To the right again, the column entitled "Cum  
14 Over/Under" is a running accumulation of the monthly  
15 over- and underproduction.

16 The next column to the right, entitled "OP  
17 Limit", is the overproduction limit, which would be six  
18 times the allowable for the well.

19 And the next column to the right, entitled  
20 "Old OP", is old overproduction carried over from the  
21 prior proration period.

22 And the final column, entitled "Comments"  
23 just describes some pertinent comments for that  
24 particular month.

25 Q. When we look at the "Gas Sales" column and

1 read down the "Gas Sales" column until we get through  
2 December of 1992, stopping at that point, how did you  
3 determine the gas sales on a monthly basis for this  
4 GPU?

5 A. The gas sales were equal to the -- as  
6 reported on the C-115 as being equal to the production  
7 less lease use.

8 Q. Okay, and that is also consistent with the  
9 general proration rules under Order R-8170?

10 A. That's correct.

11 Q. And then after that, January, February and  
12 March, you've simply made estimates of what those sales  
13 may be?

14 A. I believe December, January, February, March.

15 Q. All right.

16 A. Those are estimates.

17 Q. Okay. Have you determined whether or not the  
18 information reported in this column is consistent with  
19 the records kept at the Oil Conservation Division?

20 A. Yes, I have.

21 Q. And what is the result of that check?

22 A. These numbers are consistent with what is  
23 reported to and by the Division.

24 Q. The next column, the "Allowable" column, does  
25 this volume of gas represent this GPU share of the pool

1 allowable?

2 A. Yes, it does.

3 Q. And then when we get to the "Over/Under"  
4 column, if it's a negative number that is  
5 overproduction as of the end of the month?

6 A. That's correct.

7 Q. And if it doesn't show a negative, it's a  
8 positive number, that represents underproduction?

9 A. That's correct.

10 Q. All right. If you go to the "Cum Over/Under"  
11 column, read down that column until the entry just  
12 above where the zeroes start, okay?

13 A. Yes.

14 Q. It's the 167,977 MCF of gas?

15 A. That's correct.

16 Q. What does that number represent?

17 A. That number represents the amount of  
18 underproduction for the well that was canceled when the  
19 well was reclassified to marginal.

20 Q. Have you made a determination whether that is  
21 an accurate and correct number?

22 A. Yes, I have.

23 Q. How did you make that determination?

24 A. By looking at the over- and underproduction  
25 for the well on a monthly basis until the well was

1 reclassified to marginal in January of 1990.

2 Q. When you go over to the column that shows  
3 "Comments" and read "Amount canceled upon reclassifi-  
4 cation", it is parallel to the entry just above the  
5 167,977 number?

6 A. That's correct.

7 Q. Why is it put on the spread sheet at that  
8 point?

9 A. That was put on the spread sheet at that  
10 point because that was the number that was reported in  
11 the Division schedule as being canceled, although -- as  
12 being the November underproduction, although the well  
13 was not reclassified until January.

14 Q. So the December, 1989, volume needed to be  
15 added into the amount that was subject to cancellation?

16 A. That's correct.

17 Q. Have you satisfied yourself that the proper  
18 volume of credit, then, is the 167,977 number?

19 A. Yes, I have.

20 Q. All right. The first zero represents the  
21 point in time in which the underproduction is canceled,  
22 the well is reclassified marginal, and then you have a  
23 bunch of zeroes?

24 A. That's correct.

25 Q. What's the purposes of the zeroes?

1           A.    Basically, under the Rules, a well that is  
2 classified as marginal carries -- or accumulates no  
3 under- or overproduction while classified that way.

4           Q.    Okay.  January of 1990, the well is worked  
5 over, gets reclassified then as nonmarginal, beginning  
6 with the proration period of April 1st of 1991?

7           A.    That's correct.

8           Q.    Is that how to read the spread sheet?

9           A.    That's correct.

10          Q.    From that point on down, describe for us how  
11 you've made the rest of the calculations.

12          A.    The rest of the calculation from there on  
13 down is made by determining the monthly over- or  
14 underproduction for the well, by comparing the gas  
15 sales to the allowable, and then keeping a running  
16 total of that through time.

17          Q.    Okay.  Under 14-B, how do you make the  
18 calculation by which you apply the credit?  If you're  
19 going to reinstate the underproduction that was  
20 canceled, how do you do it?

21          A.    The underproduction that was canceled would  
22 be applied directly as a credit to the overproduction  
23 to the well.

24          Q.    Will it matter as to what point in time you  
25 actually put that credit in when you do this

1 calculation?

2 A. Not really.

3 Q. So we could put that credit back in as of,  
4 say, December 1st of 1992, apply it to offset some of  
5 the overproduction, and get the right answer?

6 A. That's correct.

7 Q. And the well is still overproduced and  
8 subject to being shut in, curtailed till it makes up  
9 the overproduction?

10 A. That's correct.

11 Q. Under the proration rules, is there any  
12 mechanism by which a well which has accumulated  
13 overproduction has the overproduction canceled if it's  
14 reclassified from nonmarginal to marginal?

15 A. No, because the only way that a well can be  
16 classified from nonmarginal to marginal is once it's  
17 worked off all that overproduction.

18 Q. With regards to overproduction, then there is  
19 not a corresponding cancellation of that overproduc-  
20 tion, as we find when we look at underproduction  
21 credits?

22 A. That's correct.

23 Q. When we look at this spread sheet, have you  
24 determined what nonmarginal wells were being utilized  
25 to make the calculation by which the allowable was

1 obtained for the pool and then factored back to the  
2 nonmarginal gas proration units?

3 A. Yes, I have.

4 Q. What had you determined?

5 A. I determined that as of the summer proration  
6 schedule of 1992, there was one well which probably  
7 should have been reclassified to marginal but was left  
8 as a nonmarginal status.

9 MR. STOVALL: Mr. Examiner, at this point I'm  
10 going to take the unusual step of suggesting that we do  
11 not need testimony with respect to the reclassification  
12 of wells.

13 I will inform the Applicant and the Examiner  
14 that the Division is aware that Marathon has identified  
15 at least one well or one proration unit with a less-  
16 than-one acreage factor.

17 The Division is re-examining the entire  
18 schedule at all nonmarginal wells, and if we find that  
19 those wells should have been marginal at the beginning  
20 of this last period, as Marathon is about to testify  
21 to, then those reclassifications will be made  
22 administratively and automatically in accordance with  
23 the rules, and are really not particularly relevant to  
24 this.

25 They affect where the allowable is, but it's

1 not part of this hearing, and this hearing doesn't need  
2 to address the issue of reclassification and the effect  
3 on allowable.

4 But I will tell the Applicant that we are  
5 looking at it and appreciate their providing the  
6 information.

7 But that doesn't have to be done by order.  
8 It's -- Under the rules, they will be reclassified if  
9 they should have been.

10 MR. KELLAHIN: My only point in raising this  
11 issue with you, Mr. Examiner, is so as not to confuse  
12 you with Exhibit 2 and the subsequent two exhibits.

13 So that you have a roadmap, Exhibit 2 shows  
14 the calculation with the assumption that the MOK well  
15 is classified as nonmarginal, okay? And it runs  
16 through both the summer and the current winter  
17 proration period with the MOK well in the calculation.

18 The next two exhibits, which Mr. Kent and I  
19 will touch on briefly, demonstrate what we think will  
20 be the end result of the administrative judgment by the  
21 Division in properly reclassifying the MOK well from  
22 nonmarginal to marginal, effective as of October 1st of  
23 1992.

24 It's a small difference in the numbers, and I  
25 didn't want you to get to the two spreadsheets and be

1 confused by what we did. The only change is that that  
2 I've just described to you.

3 MR. STOVALL: Well, let me make -- One thing  
4 again on that. I think Exhibits 3 and 4 -- and I've  
5 looked at those prior to this -- don't really support  
6 this Application. They simply provide some numbers for  
7 planning purposes --

8 MR. KELLAHIN: It shows you how to crunch the  
9 numbers.

10 MR. STOVALL: -- for Marathon.

11 MR. KELLAHIN: Yeah.

12 MR. STOVALL: Then let me ask this question,  
13 Mr. Kellahin. At this point -- I mean, if you stopped  
14 right now and just said, We request the 167,977  
15 reinstatement, the number that's really critical to  
16 Marathon's operations is the column labeled "Old OP",  
17 because that's the number that's going to be worked off  
18 after the end of March before they can start producing  
19 the subject well again; is that correct? The 355,857?

20 That is the number which will cause the shut-  
21 in of the D-1 well, I believe; is that correct? Do you  
22 follow me?

23 MR. KELLAHIN: Yes, I think so.

24 MR. STOVALL: Your witness is nodding his  
25 head, so I think he's following me too.

1 MR. KELLAHIN: Well, and if you put the  
2 credit into the "OP Limit" column, which neither one of  
3 these spreadsheets do, and make the adjustment  
4 regardless of where you put it in, you're going to get  
5 to the same point, and the answer to your question is  
6 yes.

7 MR. STOVALL: Well, the reason I'm focusing  
8 on this is because I think this is the crux of the  
9 first part -- of the main part of this case.

10 And if you don't mind, I would take your  
11 witness through this effort so that we get this cleared  
12 up.

13 Mr. -- And if I switch your names, please  
14 accept that, because do -- I know a Kent Craig as well  
15 as a Craig Kent, so I always --

16 MR. KELLAHIN: We all do.

17 EXAMINATION

18 BY MR. STOVALL:

19 Q. Mr. Craig [sic], is it your understanding of  
20 the rules, as it is mine, that the D-1 well is not  
21 reaching an OP limit based upon the six times  
22 overproduced oil; is that correct?

23 A. That's correct.

24 Q. But it is your understanding of the rules  
25 that the D-1 well will have to be shut in April 1st to

1 make up the production that's carried in that last  
2 column, the 355,857, because under the rules, that was  
3 overproduction that it went into the one-year proration  
4 period with on April 1st, 1992?

5 A. That's correct.

6 Q. And by reinstating the credit what you would  
7 in effect accomplish is that -- what you really were  
8 looking for is to subtract from that 355,857 the  
9 167,977, which will reduce the volume of gas from the  
10 old -- from last year's proration period, which will  
11 have to be made up by shut-in; is that correct?

12 A. That's correct.

13 Q. And so the OP limit and the cumulative over-  
14 production for this period are not critical going into  
15 April 1st?

16 A. That's correct.

17 Q. Now, the second part of that analysis, and  
18 where the number that 3 and 4 talk about becomes  
19 important, is, presumably you're going to anticipate  
20 that in April 1st, 1994, the D-1 will still be  
21 overproduced and will have to make some production in  
22 -- Make up the overproduction that it went into April  
23 1st, 1993, with?

24 A. That's correct, and -- That's correct, that's  
25 correct.

1 Q. Okay. And again back to my -- I just want to  
2 tell you that the Division has -- it has looked at the  
3 MOK well that you've referred to, and we believe you  
4 are correct that it should be reclassified and that  
5 that is not a matter that is subject to this hearing.

6 And again, I'll restate that we are also  
7 looking at all other proration units in there, since we  
8 have examined this pool and we're going to determine if  
9 there are any other currently nonmarginal wells, which  
10 should have been classified marginal, which might go  
11 even further and ultimately could benefit Marathon, if  
12 that's the case.

13 But at that point again, I will state that  
14 the Division is doing that and it will not be the  
15 subject of this Order, and if you want to put these  
16 exhibits in, it's just an exercise in information.

17 But we're going to take care of that and  
18 determine that and make that correction, because it's  
19 one that was not automatically and correctly made by  
20 the proration management system.

21 MR. KELLAHIN: Let me complete with Mr. Kent,  
22 then.

23 DIRECT EXAMINATION (Resumed)

24 BY MR. KELLAHIN:

25 Q. Let's turn your attention now to Exhibit

1 Number 3, sir. Would you identify and describe for us  
2 in a summary fashion what that spreadsheet shows?

3 A. Exhibit Number 3 basically just describes the  
4 calculation for determining the nonmarginal allowable  
5 for a well in the Indian Basin Upper Penn Pool.

6 One column of numbers, entitled "Revised from  
7 OCD", is -- the bottom number of 178,372 is the  
8 nonmarginal allowable as reported in the fall proration  
9 schedule.

10 The column entitled "Proposed by MOC"  
11 reflects the removal of the MOK well and ends up with a  
12 nonmarginal allowable of 196,497.

13 Q. The change in numbers here represents the  
14 deletion of the MOK well as a nonmarginal well, taking  
15 that allowable, putting it back into the pool, and  
16 redistributing it to the remaining nonmarginal  
17 proration unit?

18 A. That's correct.

19 Q. All right. And then for Exhibit 4, you've  
20 taken that information, put it in a format like Exhibit  
21 2, and again the only change you've made in the  
22 spreadsheet is the deletion of the MOK well as a  
23 nonmarginal gas proration unit, effective as of October  
24 1st of 1992?

25 A. That's correct.

1           Q.    All right, sir.  Do you see any potential  
2           impairment of correlative rights if the canceled  
3           underproduction credit is reinstated as Marathon  
4           proposes?

5           A.    No, there should be no impairment of  
6           correlative rights.

7           Q.    Do you gain any advantage over any of the  
8           other operators or interest owners in the pool?

9           A.    No, we don't.

10          Q.    Have you caused notification to be sent to  
11          all the operators in the pool of this Application?

12          A.    Yes, we have.

13          Q.    And have you received any objection from any  
14          of the operators?

15          A.    No, we have not.

16                MR. KELLAHIN:  That concludes my examination  
17                of Mr. Kent.  We move the introduction of Exhibits 1  
18                through 5.

19                EXAMINER CATANACH:  Exhibits 1 through 5 will  
20                be admitted as evidence.

21                Mr. Kellahin, let me ask you which operators  
22                were advised or were notified of this hearing.

23                MR. STOVALL:  We have the --

24                MR. KELLAHIN:  All of them.

25                MR. STOVALL:  I believe we have the notice.

1 MR. KELLAHIN: Yeah, Exhibit 5 shows the  
2 notice. Exhibit 1 will identify the six operators in  
3 the pool.

4 EXAMINER CATANACH: Was it simply the offset  
5 operators, or was it --

6 MR. KELLAHIN: No, every operator in the pool  
7 in the pool --

8 EXAMINER CATANACH: -- in the pool.

9 MR. KELLAHIN: -- that had a producing GPU.  
10 We picked up seven, I think.

11 MR. STOVALL: That's correct. That's how  
12 many cards you have here, anyway.

13 MR. KELLAHIN: Yeah, and there are eight  
14 operators including Marathon, and we've notified the  
15 other seven.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. Okay. Mr. Kent, what happened to this well,  
19 is that a common occurrence in this pool? I mean --

20 A. As far as the -- being reclassified from  
21 marginal back to nonmarginal?

22 It's becoming more of one as operators start  
23 paying attention to this particular pool, start trying  
24 to get more productivity out of their wells.

25 Q. So what we do here could be a precedent-

1 setting issue that could come up again and again?

2 A. The opportunity would be available to other  
3 operators in this pool, as well as other prorated pools  
4 in the state.

5 EXAMINATION

6 BY MR. STOVALL:

7 Q. Mr. Kent, you've actually -- the work that  
8 Marathon has done, it appears, has almost doubled the  
9 capacity of the well; is that correct?

10 A. That's correct.

11 Q. Since 1989?

12 A. That's correct. And the reason is, these  
13 wells were designed mechanically in 1960 when you were  
14 dealing with a reservoir pressure of roughly 2900  
15 pounds. We're dealing, in the early Nineties, with  
16 reservoir pressure down around 1500 pounds.

17 The gas expansion is causing additional  
18 friction pressure drops through the system that was  
19 designed to operate at higher pressures.

20 And by reducing those friction pressure drops  
21 in combination with the tremendous productivity of the  
22 reservoir, you're able to get rate increases by just  
23 making small adjustments.

24 Q. Do you know of any other wells in this pool  
25 that will be going into April 1st, 1993, with an April

1 1st, 1992, overproduction to be worked off?

2 A. Not off the top of my head, I don't.

3 Q. Which, again from the precedent standpoint,  
4 would indicate that this is probably the only well, at  
5 least in this pool, that's going to have that  
6 situation?

7 A. It could be.

8 Q. Are you familiar with other states' proration  
9 systems?

10 A. Not in great detail.

11 Q. I was wondering if -- It seems to me that  
12 some other states have simply carried underproduction  
13 forward indefinitely. Do you know that for --

14 A. No.

15 Q. -- have any knowledge of that?

16 MR. STOVALL: Okay. I don't think it's  
17 particularly important, I'm just interested.

18 Okay, I don't have any other questions.

19 FURTHER EXAMINATION

20 BY EXAMINER CATANACH:

21 Q. It's my understanding that the well in April  
22 of 1993 will have to be shut in at that time --

23 A. That's correct.

24 Q. -- to make up 355,857 MCF; is that correct?

25 A. Assuming that the underproduction credit is

1 not instated --

2 Q. Right.

3 A. -- that's correct.

4 Q. Okay. Once that amount is made up, is  
5 Marathon allowed to produce that well again?

6 A. Under my understanding of the rules, they  
7 would be allowed to produce the well again.

8 Q. And next April they would have to shut in  
9 again to make up overproduction from --

10 A. -- whatever overproduction was accrued in  
11 1992. If -- Assuming that that overproduction was not  
12 worked off subsequently in 1993 through production less  
13 than the allowable.

14 MR. STOVALL: In other words, we look at your  
15 Exhibit Number 2, look at the March -- I'm using that  
16 one, just because that's the current real number. Look  
17 at the March, 1993, cumulative over-/underproduction,  
18 and again if the credit is allowed, that number will go  
19 down, as well as the other one, as well as the 355?

20 THE WITNESS: That's correct.

21 MR. STOVALL: But for the moment let's assume  
22 that's not the case.

23 At the end of March, 1994, you will carry  
24 into that year 787,726 that must be made up, unless  
25 there is underproduction during 1993-94 that would

1 reduce that?

2 THE WITNESS: That's correct, except that  
3 would be less the 355,857, which would be made up in  
4 April of 1993, or starting April of 1993.

5 So that would be roughly 430,000 cubic feet  
6 -- MCF of gas that would have to be made up either  
7 during 1993 or by shut-in starting April of 1994.

8 Q. (By Examiner Catanach) The 787 includes the  
9 355?

10 A. That's correct. The 355 is a carryover from  
11 the 1991 proration period.

12 Q. Okay. So with this crediting this  
13 underproduction, you may have to shut the well in for  
14 about a month?

15 A. Roughly, yeah. The last -- I believe  
16 November's production was roughly 201,000 MCF of gas,  
17 so we're talking something on the order of a month to  
18 six weeks.

19 Q. Would the reinstatement of this  
20 underproduction have an effect on -- Would it have any  
21 kind of retroactive effect on the allowable in the  
22 pool?

23 A. No.

24 Q. Would it have any effect on the subsequent  
25 allowable?

1           A.    It could have a slight effect on the  
2 allowable for the April -- the period beginning April,  
3 1995, as the well -- your nonmarginal production in --  
4 or 1994, excuse me, since the nonmarginal production in  
5 1993 would be less due to the shut-in of this well.

6           Your total nonmarginal production for the  
7 like period, when calculating the 1994 allowable, would  
8 be somewhat less than what we would see today.

9           MR. STOVALL:  Presumably, Marathon will come  
10 in and ask for an adjustment that says we were shut in  
11 because we had to, but we shouldn't be?  Future  
12 allowables based on past shut-ins, right?

13           THE WITNESS:  I can't --

14           MR. STOVALL:  Yeah, I realize that.  I'll  
15 make that presumption.

16           Q.    (By Examiner Catanach)  So approval of your  
17 Application could have a slight adverse effect on the  
18 allowable or on the other operators in the pool --

19           A.    It's possible.

20           Q.    -- in 1994?

21           MR. STOVALL:  Well, wait a minute.  If it's  
22 approved, it would reduce the effect --

23           THE WITNESS:  That's correct.

24           MR. STOVALL:  -- over if it's not approved --

25           THE WITNESS:  That's correct.

1 MR. STOVALL: -- because there would be less  
2 shut-in and therefore higher production during the  
3 period.

4 EXAMINER CATANACH: Okay, I think I'm done  
5 delving into this.

6 (Off the record)

7 EXAMINER CATANACH: Is there anything else,  
8 Mr. Kellahin?

9 MR. KELLAHIN: No, sir. I don't want you to  
10 think that you're doing something terribly unusual,  
11 though.

12 The equities for correlative rights in the  
13 pool are predicated in a prorated pool based upon your  
14 share of that allowable. And if we have an allowable  
15 that we don't use and have it canceled as an  
16 underproduction, simply because the well has moved in  
17 and out of the marginal/nonmarginal cycle, that really  
18 is gas production for which this GPU is entitled. And  
19 if you don't reinstate it as a credit, the interest  
20 owners in the GPU have their correlative rights  
21 impaired.

22 By granting it, I think it puts us on a  
23 comparable footing with all the rest of the nonmarginal  
24 GPUs, and we don't get penalized because of the  
25 mechanics of the system, cause a cancellation of

1 underproduction.

2 I don't think it's going to be a common  
3 occurrence. I think it's rather unusual to see this  
4 event. It's the only one we could find in the pool,  
5 and I'm not sure it's going to happen again.

6 EXAMINER CATANACH: Mr. Kellahin, you're not  
7 aware of us doing the same action in other cases or in  
8 previous cases?

9 MR. KELLAHIN: I can remember action under  
10 the old rules, and that action was, if you had the  
11 capacity of the well to produce but had a temporary  
12 disruption of market and had your allowable cancel  
13 because you didn't produce it, you could get it  
14 reinstated. We did that in the Eumont and the Jalmat  
15 and a number of others.

16 Occasionally we've had production reinstated  
17 because the gathering line froze, couldn't get it to  
18 market, you didn't use your allowables which you could  
19 have produced, it was canceled. We've reinstated it in  
20 those kind of situations.

21 Indian Basin, this is the first one I can  
22 think of being done this way, and it perhaps is the  
23 only one.

24 EXAMINER CATANACH: Okay, anything further?

25 MR. KELLAHIN: That's it.

1 EXAMINER CATANACH: There being nothing  
2 further, Case 10,657 will be taken under advisement.

3 (Thereupon, these proceedings were concluded  
4 at 2:04 p.m.)

5 \* \* \*

6  
7  
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12  
13 I do hereby certify that the foregoing is  
14 a complete record of the proceedings in  
15 the Examiner hearing of Case No. 10657,  
16 heard by me on January 7 1993.  
17 David K. Catanch, Examiner  
18 Oil Conservation Division  
19  
20  
21  
22  
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25

1 CERTIFICATE OF REPORTER

2

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

5

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

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

16 WITNESS MY HAND AND SEAL January 11, 1993.

17   
 18 \_\_\_\_\_  
 19 STEVEN T. BRENNER  
 CCR No. 7

20 My commission expires: October 14, 1994

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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
CASE 10,657

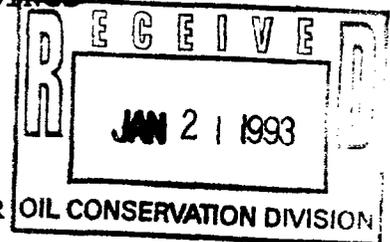
EXAMINER HEARING

IN THE MATTER OF:

Application of Marathon Oil Company for  
reinstatement of underproduction for a GPU in the  
Indian Basin-Upper Pennsylvanian Gas Pool, Eddy  
County, New Mexico

**ORIGINAL**

TRANSCRIPT OF PROCEEDINGS



BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

January 7, 1993

## A P P E A R A N C E S

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\* \* \*

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1           WHEREUPON, the following proceedings were had  
2 at 1:28 p.m.:

3

4

5           EXAMINER CATANACH: At this time we'll call  
6 case 10,657.

7           MR. STOVALL: Application of Marathon Oil  
8 Company for reinstatement of underproduction for a GPU  
9 in the Indian Basin-Upper Pennsylvanian Gas Pool, Eddy  
10 County, New Mexico.

11          EXAMINER CATANACH: Are there appearances in  
12 this case?

13          MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin  
14 of the Santa Fe law firm of Kellahin & Kellahin,  
15 appearing in association with Thomas C. Lowry, an  
16 attorney for Marathon Oil Company, on behalf of  
17 Marathon Oil Company.

18          MR. CARR: May it please the Examiner, my  
19 name is William F. Carr with the Santa Fe law firm  
20 Campbell, Carr, Berge & Sheridan. We would like to  
21 enter our appearance on behalf of Chevron USA, Inc.

22                   We do not intend to call a witness.

23          EXAMINER CATANACH: Any other appearances?

24                   Okay, will the witness please stand to be  
25 sworn in?

1                                    CRAIG T. KENT,

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

4                                    DIRECT EXAMINATION

5            BY MR. KELLAHIN:

6                    Q.    Would you please state your name and  
7                    occupation?

8                    A.    My name is Craig Kent and I'm a reservoir  
9                    engineer with Marathon Oil Company.

10                   Q.    Mr. Kent, on prior occasions have you  
11                   testified before the Division as a reservoir engineer?

12                   A.    Yes, I have.

13                   Q.    Pursuant to your employment by your company,  
14                   have you made a study of the facts surrounding this  
15                   Application by your company?

16                   A.    Yes, I have.

17                   MR. KELLAHIN: We would tender Mr. Kent as an  
18                   expert reservoir engineer.

19                   EXAMINER CATANACH: Mr. Kent is so qualified.

20                   Q.    (By Mr. Kellahin) Let me ask you to take  
21                   Exhibit Number 1, Mr. Kent, and, before we discuss what  
22                   you're seeking to accomplish, have you identify for us  
23                   the information shown on Exhibit Number 1.

24                   A.    Yes, Exhibit Number 1 is a plat of the area  
25                   surrounding the Indian Basin gas field in Eddy County,

1 New Mexico.

2 The sections shown in color represent the  
3 active gas wells in the Indian Basin Upper Penn Pool.  
4 In each tract, or each GPU, it's color-coded to  
5 indicate the operator of that GPU.

6 Q. GPU is simply shorthand for the "gas  
7 proration unit"?

8 A. That's correct.

9 Q. And in this prorated gas pool, a standard GPU  
10 would consist of 640 acres?

11 A. That's correct.

12 Q. The well that's located in this GPU is  
13 identified as what?

14 A. The well that's in Section 34 of Township 21  
15 South, Range 23 East, indicated with the green square,  
16 is the Indian Basin D Well Number 1.

17 Q. What are you seeking from the Examiner with  
18 this Application, Mr. Kent?

19 A. We're seeking reinstatement of under-  
20 production that was accrued in 1990 for the Indian  
21 Basin D Well Number 1.

22 Q. Okay. Have you determined what volume of  
23 underproduction you are seeking to have reinstated as a  
24 credit for this GPU?

25 A. Yes, I have.

1 Q. What is that volume of gas?

2 A. That volume is 167,977 MCF of gas.

3 Q. Describe for us the status of the well  
4 whereby it had an underproduced allowable credit that  
5 was subject to cancellation.

6 A. Basically the well was classified as  
7 nonmarginal during 1989, and as the reservoir energy  
8 became depleted the well was no longer able to produce  
9 at allowable rates, and so while it was still  
10 classified as nonmarginal, it accrued underproduction  
11 during that time.

12 Q. What is the ending period in terms of the  
13 month and the year in which that underproduced  
14 allowable remained on the books for this GPU?

15 A. December of 1989.

16 Q. All right. The well is then reclassified  
17 from nonmarginal to marginal?

18 A. That's correct.

19 Q. What then happened to the well?

20 A. The well produced less than allowable for the  
21 better part of 1990.

22 Then in the first quarter of 1991 we  
23 undertook some steps to remove various friction  
24 pressure drops by adding perforations in the well,  
25 making some surface facility modifications, adding

1 wellhead compression.

2 Q. For this particular well, did you change out  
3 the tubing?

4 A. Yes, we changed out the tubing. We changed  
5 out chokes and various other surface facilities to  
6 reduce those friction-pressure problems.

7 Q. When did this workover activity take place on  
8 the well?

9 A. It started in basically the first quarter of  
10 1991.

11 Q. As a result of that workover effort, what  
12 happened to the capacity of the well to produce gas?

13 A. The well was then able to produce a volume in  
14 excess of the allowable for the pool.

15 Q. That caused the well to be classified as  
16 what?

17 A. That caused the well to be classified as  
18 nonmarginal in April of 1991.

19 Q. Under the general rules for prorated gas  
20 pools of New Mexico, what happened to the underproduced  
21 allowable credited to the well at this point in time?

22 A. That underproduced allowable was canceled as  
23 of December, 1989.

24 Q. All right. When the well then became  
25 reclassified as nonmarginal, did it produce in excess

1 or less than its allowable?

2 A. It produced in excess of the allowable.

3 Q. Okay. What is the current status or  
4 classification of the well at this point, say, December  
5 of 1992?

6 A. As of December of 1992, the well is  
7 classified as a nonmarginal well. It continues to  
8 produce in excess of the allowable. It currently  
9 carries an overproduction of 681 million cubic feet of  
10 gas.

11 Q. And that overproduction debit has not yet had  
12 applied to it any credit remaining for underproduced  
13 allowable that it did not use at the point in time that  
14 it went marginal?

15 A. That's correct.

16 Q. All right. What would you like the Examiner  
17 to do?

18 A. I would like the Examiner to reinstate the  
19 underproduction as described in Rule 14-B of the  
20 general pool rules.

21 Q. Okay. Let's go now through some of the  
22 spreadsheets that you have prepared, and show the  
23 Examiner how you have made the calculation under  
24 various assumptions.

25 A. Okay.

1 Q. All right?

2 MR. STOVALL: Mr. Kellahin, before --

3 MR. KELLAHIN: Yes, sir.

4 MR. STOVALL: -- just to make sure we're --  
5 for record purposes, when we're talking about Rule 14-B  
6 in the general rules, we're talking about the rules for  
7 prorated gas pools in, I think it's Order R-8271; is  
8 that correct?

9 EXAMINER CATANACH: 8170.

10 MR. KELLAHIN: 8170, Mr. Stovall.

11 MR. STOVALL: Okay, I just want to get that  
12 in the record so that we know where to refer if we've  
13 got any questions --

14 MR. KELLAHIN: Yes, sir.

15 MR. STOVALL: -- and wanted to read in it.

16 Q. (By Mr. Kellahin) Yes. Let's turn to  
17 Exhibit 2, Mr. Kent, and before we look at the numbers,  
18 take each of the columns, starting from the left, going  
19 to right, and identify for us the information contained  
20 in each column of the spreadsheet.

21 A. Okay. This is basically -- The spreadsheet  
22 in general is a month-by-month accounting of gas sales  
23 versus the allowable for the well, the leftmost column  
24 being the month of interest.

25 Moving to the right, the column entitled

1 "Status" references the proration status, "N" meaning  
2 nonmarginal, "M" meaning marginal.

3 Moving to the right again, the column  
4 entitled "Gas Sales" is the gas sales from the Form  
5 C-115.

6 The "Allowable" is the allowable for the well  
7 as reported in the Division proration schedule.

8 Moving to the right again, the column  
9 entitled "Over/Under" is a running accumulation of  
10 the -- excuse me, not running but a monthly calculation  
11 of the over- or underproduction for the well for a  
12 given month.

13 To the right again, the column entitled "Cum  
14 Over/Under" is a running accumulation of the monthly  
15 over- and underproduction.

16 The next column to the right, entitled "OP  
17 Limit", is the overproduction limit, which would be six  
18 times the allowable for the well.

19 And the next column to the right, entitled  
20 "Old OP", is old overproduction carried over from the  
21 prior proration period.

22 And the final column, entitled "Comments"  
23 just describes some pertinent comments for that  
24 particular month.

25 Q. When we look at the "Gas Sales" column and

1 read down the "Gas Sales" column until we get through  
2 December of 1992, stopping at that point, how did you  
3 determine the gas sales on a monthly basis for this  
4 GPU?

5 A. The gas sales were equal to the -- as  
6 reported on the C-115 as being equal to the production  
7 less lease use.

8 Q. Okay, and that is also consistent with the  
9 general proration rules under Order R-8170?

10 A. That's correct.

11 Q. And then after that, January, February and  
12 March, you've simply made estimates of what those sales  
13 may be?

14 A. I believe December, January, February, March.

15 Q. All right.

16 A. Those are estimates.

17 Q. Okay. Have you determined whether or not the  
18 information reported in this column is consistent with  
19 the records kept at the Oil Conservation Division?

20 A. Yes, I have.

21 Q. And what is the result of that check?

22 A. These numbers are consistent with what is  
23 reported to and by the Division.

24 Q. The next column, the "Allowable" column, does  
25 this volume of gas represent this GPU share of the pool

1 allowable?

2 A. Yes, it does.

3 Q. And then when we get to the "Over/Under"  
4 column, if it's a negative number that is  
5 overproduction as of the end of the month?

6 A. That's correct.

7 Q. And if it doesn't show a negative, it's a  
8 positive number, that represents underproduction?

9 A. That's correct.

10 Q. All right. If you go to the "Cum Over/Under"  
11 column, read down that column until the entry just  
12 above where the zeroes start, okay?

13 A. Yes.

14 Q. It's the 167,977 MCF of gas?

15 A. That's correct.

16 Q. What does that number represent?

17 A. That number represents the amount of  
18 underproduction for the well that was canceled when the  
19 well was reclassified to marginal.

20 Q. Have you made a determination whether that is  
21 an accurate and correct number?

22 A. Yes, I have.

23 Q. How did you make that determination?

24 A. By looking at the over- and underproduction  
25 for the well on a monthly basis until the well was

1 reclassified to marginal in January of 1990.

2 Q. When you go over to the column that shows  
3 "Comments" and read "Amount canceled upon reclassifi-  
4 cation", it is parallel to the entry just above the  
5 167,977 number?

6 A. That's correct.

7 Q. Why is it put on the spread sheet at that  
8 point?

9 A. That was put on the spread sheet at that  
10 point because that was the number that was reported in  
11 the Division schedule as being canceled, although -- as  
12 being the November underproduction, although the well  
13 was not reclassified until January.

14 Q. So the December, 1989, volume needed to be  
15 added into the amount that was subject to cancellation?

16 A. That's correct.

17 Q. Have you satisfied yourself that the proper  
18 volume of credit, then, is the 167,977 number?

19 A. Yes, I have.

20 Q. All right. The first zero represents the  
21 point in time in which the underproduction is canceled,  
22 the well is reclassified marginal, and then you have a  
23 bunch of zeroes?

24 A. That's correct.

25 Q. What's the purposes of the zeroes?

1           A.    Basically, under the Rules, a well that is  
2   classified as marginal carries -- or accumulates no  
3   under- or overproduction while classified that way.

4           Q.    Okay.  January of 1990, the well is worked  
5   over, gets reclassified then as nonmarginal, beginning  
6   with the proration period of April 1st of 1991?

7           A.    That's correct.

8           Q.    Is that how to read the spread sheet?

9           A.    That's correct.

10          Q.    From that point on down, describe for us how  
11   you've made the rest of the calculations.

12          A.    The rest of the calculation from there on  
13   down is made by determining the monthly over- or  
14   underproduction for the well, by comparing the gas  
15   sales to the allowable, and then keeping a running  
16   total of that through time.

17          Q.    Okay.  Under 14-B, how do you make the  
18   calculation by which you apply the credit?  If you're  
19   going to reinstate the underproduction that was  
20   canceled, how do you do it?

21          A.    The underproduction that was canceled would  
22   be applied directly as a credit to the overproduction  
23   to the well.

24          Q.    Will it matter as to what point in time you  
25   actually put that credit in when you do this

1 calculation?

2 A. Not really.

3 Q. So we could put that credit back in as of,  
4 say, December 1st of 1992, apply it to offset some of  
5 the overproduction, and get the right answer?

6 A. That's correct.

7 Q. And the well is still overproduced and  
8 subject to being shut in, curtailed till it makes up  
9 the overproduction?

10 A. That's correct.

11 Q. Under the proration rules, is there any  
12 mechanism by which a well which has accumulated  
13 overproduction has the overproduction canceled if it's  
14 reclassified from nonmarginal to marginal?

15 A. No, because the only way that a well can be  
16 classified from nonmarginal to marginal is once it's  
17 worked off all that overproduction.

18 Q. With regards to overproduction, then there is  
19 not a corresponding cancellation of that overproduc-  
20 tion, as we find when we look at underproduction  
21 credits?

22 A. That's correct.

23 Q. When we look at this spread sheet, have you  
24 determined what nonmarginal wells were being utilized  
25 to make the calculation by which the allowable was

1 obtained for the pool and then factored back to the  
2 nonmarginal gas proration units?

3 A. Yes, I have.

4 Q. What had you determined?

5 A. I determined that as of the summer proration  
6 schedule of 1992, there was one well which probably  
7 should have been reclassified to marginal but was left  
8 as a nonmarginal status.

9 MR. STOVALL: Mr. Examiner, at this point I'm  
10 going to take the unusual step of suggesting that we do  
11 not need testimony with respect to the reclassification  
12 of wells.

13 I will inform the Applicant and the Examiner  
14 that the Division is aware that Marathon has identified  
15 at least one well or one proration unit with a less-  
16 than-one acreage factor.

17 The Division is re-examining the entire  
18 schedule at all nonmarginal wells, and if we find that  
19 those wells should have been marginal at the beginning  
20 of this last period, as Marathon is about to testify  
21 to, then those reclassifications will be made  
22 administratively and automatically in accordance with  
23 the rules, and are really not particularly relevant to  
24 this.

25 They affect where the allowable is, but it's

1 not part of this hearing, and this hearing doesn't need  
2 to address the issue of reclassification and the effect  
3 on allowable.

4 But I will tell the Applicant that we are  
5 looking at it and appreciate their providing the  
6 information.

7 But that doesn't have to be done by order.  
8 It's -- Under the rules, they will be reclassified if  
9 they should have been.

10 MR. KELLAHIN: My only point in raising this  
11 issue with you, Mr. Examiner, is so as not to confuse  
12 you with Exhibit 2 and the subsequent two exhibits.

13 So that you have a roadmap, Exhibit 2 shows  
14 the calculation with the assumption that the MOK well  
15 is classified as nonmarginal, okay? And it runs  
16 through both the summer and the current winter  
17 proration period with the MOK well in the calculation.

18 The next two exhibits, which Mr. Kent and I  
19 will touch on briefly, demonstrate what we think will  
20 be the end result of the administrative judgment by the  
21 Division in properly reclassifying the MOK well from  
22 nonmarginal to marginal, effective as of October 1st of  
23 1992.

24 It's a small difference in the numbers, and I  
25 didn't want you to get to the two spreadsheets and be

1 confused by what we did. The only change is that that  
2 I've just described to you.

3 MR. STOVALL: Well, let me make -- One thing  
4 again on that. I think Exhibits 3 and 4 -- and I've  
5 looked at those prior to this -- don't really support  
6 this Application. They simply provide some numbers for  
7 planning purposes --

8 MR. KELLAHIN: It shows you how to crunch the  
9 numbers.

10 MR. STOVALL: -- for Marathon.

11 MR. KELLAHIN: Yeah.

12 MR. STOVALL: Then let me ask this question,  
13 Mr. Kellahin. At this point -- I mean, if you stopped  
14 right now and just said, We request the 167,977  
15 reinstatement, the number that's really critical to  
16 Marathon's operations is the column labeled "Old OP",  
17 because that's the number that's going to be worked off  
18 after the end of March before they can start producing  
19 the subject well again; is that correct? The 355,857?

20 That is the number which will cause the shut-  
21 in of the D-1 well, I believe; is that correct? Do you  
22 follow me?

23 MR. KELLAHIN: Yes, I think so.

24 MR. STOVALL: Your witness is nodding his  
25 head, so I think he's following me too.

1 MR. KELLAHIN: Well, and if you put the  
2 credit into the "OP Limit" column, which neither one of  
3 these spreadsheets do, and make the adjustment  
4 regardless of where you put it in, you're going to get  
5 to the same point, and the answer to your question is  
6 yes.

7 MR. STOVALL: Well, the reason I'm focusing  
8 on this is because I think this is the crux of the  
9 first part -- of the main part of this case.

10 And if you don't mind, I would take your  
11 witness through this effort so that we get this cleared  
12 up.

13 Mr. -- And if I switch your names, please  
14 accept that, because do -- I know a Kent Craig as well  
15 as a Craig Kent, so I always --

16 MR. KELLAHIN: We all do.

17 EXAMINATION

18 BY MR. STOVALL:

19 Q. Mr. Craig [sic], is it your understanding of  
20 the rules, as it is mine, that the D-1 well is not  
21 reaching an OP limit based upon the six times  
22 overproduced oil; is that correct?

23 A. That's correct.

24 Q. But it is your understanding of the rules  
25 that the D-1 well will have to be shut in April 1st to

1 make up the production that's carried in that last  
2 column, the 355,857, because under the rules, that was  
3 overproduction that it went into the one-year proration  
4 period with on April 1st, 1992?

5 A. That's correct.

6 Q. And by reinstating the credit what you would  
7 in effect accomplish is that -- what you really were  
8 looking for is to subtract from that 355,857 the  
9 167,977, which will reduce the volume of gas from the  
10 old -- from last year's proration period, which will  
11 have to be made up by shut-in; is that correct?

12 A. That's correct.

13 Q. And so the OP limit and the cumulative over-  
14 production for this period are not critical going into  
15 April 1st?

16 A. That's correct.

17 Q. Now, the second part of that analysis, and  
18 where the number that 3 and 4 talk about becomes  
19 important, is, presumably you're going to anticipate  
20 that in April 1st, 1994, the D-1 will still be  
21 overproduced and will have to make some production in  
22 -- Make up the overproduction that it went into April  
23 1st, 1993, with?

24 A. That's correct, and -- That's correct, that's  
25 correct.

1 Q. Okay. And again back to my -- I just want to  
2 tell you that the Division has -- it has looked at the  
3 MOK well that you've referred to, and we believe you  
4 are correct that it should be reclassified and that  
5 that is not a matter that is subject to this hearing.

6 And again, I'll restate that we are also  
7 looking at all other proration units in there, since we  
8 have examined this pool and we're going to determine if  
9 there are any other currently nonmarginal wells, which  
10 should have been classified marginal, which might go  
11 even further and ultimately could benefit Marathon, if  
12 that's the case.

13 But at that point again, I will state that  
14 the Division is doing that and it will not be the  
15 subject of this Order, and if you want to put these  
16 exhibits in, it's just an exercise in information.

17 But we're going to take care of that and  
18 determine that and make that correction, because it's  
19 one that was not automatically and correctly made by  
20 the proration management system.

21 MR. KELLAHIN: Let me complete with Mr. Kent,  
22 then.

23 DIRECT EXAMINATION (Resumed)

24 BY MR. KELLAHIN:

25 Q. Let's turn your attention now to Exhibit

1 Number 3, sir. Would you identify and describe for us  
2 in a summary fashion what that spreadsheet shows?

3 A. Exhibit Number 3 basically just describes the  
4 calculation for determining the nonmarginal allowable  
5 for a well in the Indian Basin Upper Penn Pool.

6 One column of numbers, entitled "Revised from  
7 OCD", is -- the bottom number of 178,372 is the  
8 nonmarginal allowable as reported in the fall proration  
9 schedule.

10 The column entitled "Proposed by MOC"  
11 reflects the removal of the MOK well and ends up with a  
12 nonmarginal allowable of 196,497.

13 Q. The change in numbers here represents the  
14 deletion of the MOK well as a nonmarginal well, taking  
15 that allowable, putting it back into the pool, and  
16 redistributing it to the remaining nonmarginal  
17 proration unit?

18 A. That's correct.

19 Q. All right. And then for Exhibit 4, you've  
20 taken that information, put it in a format like Exhibit  
21 2, and again the only change you've made in the  
22 spreadsheet is the deletion of the MOK well as a  
23 nonmarginal gas proration unit, effective as of October  
24 1st of 1992?

25 A. That's correct.

1 Q. All right, sir. Do you see any potential  
2 impairment of correlative rights if the canceled  
3 underproduction credit is reinstated as Marathon  
4 proposes?

5 A. No, there should be no impairment of  
6 correlative rights.

7 Q. Do you gain any advantage over any of the  
8 other operators or interest owners in the pool?

9 A. No, we don't.

10 Q. Have you caused notification to be sent to  
11 all the operators in the pool of this Application?

12 A. Yes, we have.

13 Q. And have you received any objection from any  
14 of the operators?

15 A. No, we have not.

16 MR. KELLAHIN: That concludes my examination  
17 of Mr. Kent. We move the introduction of Exhibits 1  
18 through 5.

19 EXAMINER CATANACH: Exhibits 1 through 5 will  
20 be admitted as evidence.

21 Mr. Kellahin, let me ask you which operators  
22 were advised or were notified of this hearing.

23 MR. STOVALL: We have the --

24 MR. KELLAHIN: All of them.

25 MR. STOVALL: I believe we have the notice.

1 MR. KELLAHIN: Yeah, Exhibit 5 shows the  
2 notice. Exhibit 1 will identify the six operators in  
3 the pool.

4 EXAMINER CATANACH: Was it simply the offset  
5 operators, or was it --

6 MR. KELLAHIN: No, every operator in the pool  
7 in the pool --

8 EXAMINER CATANACH: -- in the pool.

9 MR. KELLAHIN: -- that had a producing GPU.  
10 We picked up seven, I think.

11 MR. STOVALL: That's correct. That's how  
12 many cards you have here, anyway.

13 MR. KELLAHIN: Yeah, and there are eight  
14 operators including Marathon, and we've notified the  
15 other seven.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. Okay. Mr. Kent, what happened to this well,  
19 is that a common occurrence in this pool? I mean --

20 A. As far as the -- being reclassified from  
21 marginal back to nonmarginal?

22 It's becoming more of one as operators start  
23 paying attention to this particular pool, start trying  
24 to get more productivity out of their wells.

25 Q. So what we do here could be a precedent-

1 setting issue that could come up again and again?

2 A. The opportunity would be available to other  
3 operators in this pool, as well as other prorated pools  
4 in the state.

5 EXAMINATION

6 BY MR. STOVALL:

7 Q. Mr. Kent, you've actually -- the work that  
8 Marathon has done, it appears, has almost doubled the  
9 capacity of the well; is that correct?

10 A. That's correct.

11 Q. Since 1989?

12 A. That's correct. And the reason is, these  
13 wells were designed mechanically in 1960 when you were  
14 dealing with a reservoir pressure of roughly 2900  
15 pounds. We're dealing, in the early Nineties, with  
16 reservoir pressure down around 1500 pounds.

17 The gas expansion is causing additional  
18 friction pressure drops through the system that was  
19 designed to operate at higher pressures.

20 And by reducing those friction pressure drops  
21 in combination with the tremendous productivity of the  
22 reservoir, you're able to get rate increases by just  
23 making small adjustments.

24 Q. Do you know of any other wells in this pool  
25 that will be going into April 1st, 1993, with an April

1 1st, 1992, overproduction to be worked off?

2 A. Not off the top of my head, I don't.

3 Q. Which, again from the precedent standpoint,  
4 would indicate that this is probably the only well, at  
5 least in this pool, that's going to have that  
6 situation?

7 A. It could be.

8 Q. Are you familiar with other states' proration  
9 systems?

10 A. Not in great detail.

11 Q. I was wondering if -- It seems to me that  
12 some other states have simply carried underproduction  
13 forward indefinitely. Do you know that for --

14 A. No.

15 Q. -- have any knowledge of that?

16 MR. STOVALL: Okay. I don't think it's  
17 particularly important, I'm just interested.

18 Okay, I don't have any other questions.

19 FURTHER EXAMINATION

20 BY EXAMINER CATANACH:

21 Q. It's my understanding that the well in April  
22 of 1993 will have to be shut in at that time --

23 A. That's correct.

24 Q. -- to make up 355,857 MCF; is that correct?

25 A. Assuming that the underproduction credit is

1 not instated --

2 Q. Right.

3 A. -- that's correct.

4 Q. Okay. Once that amount is made up, is  
5 Marathon allowed to produce that well again?

6 A. Under my understanding of the rules, they  
7 would be allowed to produce the well again.

8 Q. And next April they would have to shut in  
9 again to make up overproduction from --

10 A. -- whatever overproduction was accrued in  
11 1992. If -- Assuming that that overproduction was not  
12 worked off subsequently in 1993 through production less  
13 than the allowable.

14 MR. STOVALL: In other words, we look at your  
15 Exhibit Number 2, look at the March -- I'm using that  
16 one, just because that's the current real number. Look  
17 at the March, 1993, cumulative over-/underproduction,  
18 and again if the credit is allowed, that number will go  
19 down, as well as the other one, as well as the 355?

20 THE WITNESS: That's correct.

21 MR. STOVALL: But for the moment let's assume  
22 that's not the case.

23 At the end of March, 1994, you will carry  
24 into that year 787,726 that must be made up, unless  
25 there is underproduction during 1993-94 that would

1 reduce that?

2 THE WITNESS: That's correct, except that  
3 would be less the 355,857, which would be made up in  
4 April of 1993, or starting April of 1993.

5 So that would be roughly 430,000 cubic feet  
6 -- MCF of gas that would have to be made up either  
7 during 1993 or by shut-in starting April of 1994.

8 Q. (By Examiner Catanach) The 787 includes the  
9 355?

10 A. That's correct. The 355 is a carryover from  
11 the 1991 proration period.

12 Q. Okay. So with this crediting this  
13 underproduction, you may have to shut the well in for  
14 about a month?

15 A. Roughly, yeah. The last -- I believe  
16 November's production was roughly 201,000 MCF of gas,  
17 so we're talking something on the order of a month to  
18 six weeks.

19 Q. Would the reinstatement of this  
20 underproduction have an effect on -- Would it have any  
21 kind of retroactive effect on the allowable in the  
22 pool?

23 A. No.

24 Q. Would it have any effect on the subsequent  
25 allowable?

1           A.    It could have a slight effect on the  
2 allowable for the April -- the period beginning April,  
3 1995, as the well -- your nonmarginal production in --  
4 or 1994, excuse me, since the nonmarginal production in  
5 1993 would be less due to the shut-in of this well.

6           Your total nonmarginal production for the  
7 like period, when calculating the 1994 allowable, would  
8 be somewhat less than what we would see today.

9           MR. STOVALL: Presumably, Marathon will come  
10 in and ask for an adjustment that says we were shut in  
11 because we had to, but we shouldn't be? Future  
12 allowables based on past shut-ins, right?

13          THE WITNESS: I can't --

14          MR. STOVALL: Yeah, I realize that. I'll  
15 make that presumption.

16          Q.    (By Examiner Catanach) So approval of your  
17 Application could have a slight adverse effect on the  
18 allowable or on the other operators in the pool --

19          A.    It's possible.

20          Q.    -- in 1994?

21          MR. STOVALL: Well, wait a minute. If it's  
22 approved, it would reduce the effect --

23          THE WITNESS: That's correct.

24          MR. STOVALL: -- over if it's not approved --

25          THE WITNESS: That's correct.

1 MR. STOVALL: -- because there would be less  
2 shut-in and therefore higher production during the  
3 period.

4 EXAMINER CATANACH: Okay, I think I'm done  
5 delving into this.

6 (Off the record)

7 EXAMINER CATANACH: Is there anything else,  
8 Mr. Kellahin?

9 MR. KELLAHIN: No, sir. I don't want you to  
10 think that you're doing something terribly unusual,  
11 though.

12 The equities for correlative rights in the  
13 pool are predicated in a prorated pool based upon your  
14 share of that allowable. And if we have an allowable  
15 that we don't use and have it canceled as an  
16 underproduction, simply because the well has moved in  
17 and out of the marginal/nonmarginal cycle, that really  
18 is gas production for which this GPU is entitled. And  
19 if you don't reinstate it as a credit, the interest  
20 owners in the GPU have their correlative rights  
21 impaired.

22 By granting it, I think it puts us on a  
23 comparable footing with all the rest of the nonmarginal  
24 GPUs, and we don't get penalized because of the  
25 mechanics of the system, cause a cancellation of

1 underproduction.

2 I don't think it's going to be a common  
3 occurrence. I think it's rather unusual to see this  
4 event. It's the only one we could find in the pool,  
5 and I'm not sure it's going to happen again.

6 EXAMINER CATANACH: Mr. Kellahin, you're not  
7 aware of us doing the same action in other cases or in  
8 previous cases?

9 MR. KELLAHIN: I can remember action under  
10 the old rules, and that action was, if you had the  
11 capacity of the well to produce but had a temporary  
12 disruption of market and had your allowable cancel  
13 because you didn't produce it, you could get it  
14 reinstated. We did that in the Eumont and the Jalmat  
15 and a number of others.

16 Occasionally we've had production reinstated  
17 because the gathering line froze, couldn't get it to  
18 market, you didn't use your allowables which you could  
19 have produced, it was canceled. We've reinstated it in  
20 those kind of situations.

21 Indian Basin, this is the first one I can  
22 think of being done this way, and it perhaps is the  
23 only one.

24 EXAMINER CATANACH: Okay, anything further?

25 MR. KELLAHIN: That's it.

1 EXAMINER CATANACH: There being nothing  
2 further, Case 10,657 will be taken under advisement.

3 (Thereupon, these proceedings were concluded  
4 at 2:04 p.m.)

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14  
15 I do hereby certify that the foregoing is  
16 a complete record of the proceedings in  
17 the Examiner hearing of Case No. 10657,  
18 heard by me on January 7 1993.  
19 David L. Catanach, Examiner  
20 Oil Conservation Division  
21  
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24  
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