



**Marathon
Oil Company**

P.O. Box 552
Midland, TX 79702-0552
Telephone 915/682-1626

June 17, 1997

**CERTIFIED MAIL & RETURN
RECEIPT REQUESTED**

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

Re: James Buchanan 33 State No. 1
E/2 Section 33, T-18-S, R-28-E, N.M.P.M.
Eddy County, New Mexico

Gentlemen:

Marathon Oil Company (Marathon), as Operator, hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation, anticipated total depth being 11,200'. Furthermore, Marathon shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. The E/2 of the captioned Section 33 will be dedicated as the proration unit for the well.

The above well will be located at a legal location in the SE/4 of Section 33, T-18-S, R-28-E, Eddy County, New Mexico. An AFE is enclosed for your review. Should you desire to participate to the full extent of your interest in the drilling of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

A Joint Operating Agreement will be provided for your review and execution upon receipt of the executed AFE, or by prior written request.

In the event you do not wish to participate, Marathon respectfully requests you elect one of the following options as to your interest:

1. Farmout all of your interest in the E/2 of Section 33 for a period of one hundred-eighty (180) days to Marathon under the following general terms:
 - (a) If any well drilled, deepened, completed or recompleted under the terms of our Farmout Agreement results in oil and/or gas production on a proration unit that includes your acreage, Marathon will earn an assignment of 100% of your rights and interest, free of any liens or encumbrances, in the proration unit assigned to each well from a depth of 500' below the top of the San Andres formation to a depth of 100' below the total depth drilled for each well, not to exceed the base of the Morrow formation.

A subsidiary

SENDER: <ul style="list-style-type: none">Complete items 1 and/or 2 for additional services.Complete items 3, 4a, and 4b.Print your name and address on the reverse of this form so that we can return this card to you.Attach this form to the front of the mailpiece, or on the back if space does not permit.Write "Return Receipt Requested" on the mailpiece below the article number.The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to: Mr. Rusty Waters Louis Dreyfus Natural Gas Corp. 14000 Quail Springs Prkwy., Ste. 600 Oklahoma City, OK 73134		4a. Article Number P 245 774 703	
5. Received By: (Print Name)		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
6. Signature: (Addressee or Agent) X [Signature]		7. Date of Delivery 6-23	
		8. Addressee's Address (Only if requested and fee is paid)	

PS Form 3811, December 1994

Domestic Return Receipt

Thank you for using our Return Receipt Service.

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 11835 Exhibit No. — 7
Submitted By:
Marathon Oil Company
Hearing Date: August 21, 1997

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June 17, 1997
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- (b) Upon completion of the initial test well as a producer or dry hole, Marathon would have the recurring option, but not the obligation, to commence additional wells on New Mexico Oil Conservation approved proration units that include your acreage to establish oil and/or gas production under the captioned lands or land pooled therewith. If any such option is exercised, Marathon agrees to allow not more than 180 days to elapse between the completion of one well and the commencement of operations for any next well.
- (c) You will retain an overriding royalty interest equal to the difference, if any, between 25% of all oil and gas produced and the total of all royalty interests, overriding royalty interests and other burden or lawful claims upon production to which your leases may be currently subject, so that Marathon will be assigned a 75% net revenue interest in your lease(s) as to rights below a depth of 500' below the top of the San Andres formation to 100' below the total depth drilled, not to exceed the base of the Morrow formation. Such overriding royalty interest retained by you shall be subject to proportionate reduction.
- (d) Upon acceptance of our farmout proposal, you agree to furnish, at no cost to Marathon, title information such as copies of the leases covering the captioned lands, title opinions currently in your possession, title curative, letter agreements and any contracts currently in effect, etc.

Should the above general terms be acceptable to you, our formal Farmout Agreement will be provided under separate cover.

- (2) Sell a two year term assignment of all of your right, title and interest in the E/2 of Section 33, subject to title approval, for \$250 per net acre delivering an 80% net revenue interest to Marathon.

Your earliest response to this proposal would be greatly appreciated. If there are any questions, please call the undersigned at (915) 687-8490.

Very truly yours,



Tim B. Robertson
Advanced Landman

TBR:bk
Enclosure