

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

NMOCD - ACOI- 105

IN THE MATTER OF MARATHON OIL CO.,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), the Director of the Oil Conservation Division ("OCD") and Marathon Oil Co. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring wells identified herein into compliance with the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 14021 for the wells identified in Exhibit "A," attached.
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.

B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....

....

(3) a period of one year in which a well has been continuously inactive."

5. The wells identified in Exhibit "A" are currently out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if no action is taken on the wells.
6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-3(A) defines "person" in relevant part as
"any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity..."

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit "A" are either out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with Rule 201.
4. Operator is a "person" as defined by OCD Rule 7.P(2) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring at least 17 of the wells identified in Exhibit "A" into compliance with OCD Rule 201 by August 10, 2006 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202.B(2) and filing a C-103 describing the completed work;
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.

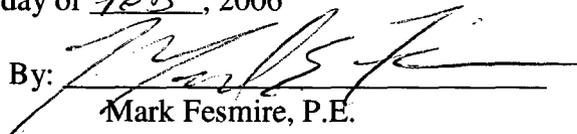
Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return 17 wells to compliance under the terms of this Order.

2. Operator shall file a compliance report by August 10, 2006 using the OCD's web-based on-line application, identifying each well returned to compliance, stating the date it was returned to compliance, and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status).
3. When the OCD receives a timely compliance report indicating that Operator has returned at least 17 of the wells identified in Exhibit "A" to compliance and verifies the accuracy of that report, the OCD shall issue an amendment to this Order giving Operator until February 10, 2007 to bring into compliance any wells identified on Exhibit "A" that remain out of compliance with Rule 201. OCD shall provide a copy of that amendment to Operator at Operator's address of record provided pursuant to OCD Rule 100.C.
4. If Operator fails to bring at least 17 of the wells identified in Exhibit "A" into compliance by August 10, 2006, or fails to bring the remaining wells identified in Exhibit "A" into compliance by February 10, 2007 under an amendment to this Order, Operator agrees to pay a penalty of \$1000 times the number of wells it failed to bring into compliance under its schedule during the applicable six month period. In the event the Operator encounters unanticipated circumstances that prevent it from meeting its goals for August 10, 2006 or February 10, 2007, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and serve the OCD's Enforcement and Compliance Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, the application shall be set for hearing. Once Operator pays the penalty or files an administrative application to request a waiver or reduction of the penalty, the OCD may, in its discretion, issue an amendment to this Order giving Operator until February 10, 2007 to bring into compliance any wells identified on Exhibit "A" that remain out of compliance with Rule 201.
5. Thirty days after the expiration of the term of this Order and any amendment to this Order, any wells on Exhibit "A" not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
6. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance 17 of the wells identified in Exhibit "A" by August 10, 2006 and if an amendment is issued to this Order giving Operator until February 10, 2007 to return the remaining wells identified

in Exhibit "A" to compliance, agrees to comply with the February 10, 2007 deadline;

- (c) agrees to submit a compliance report as required in Ordering Paragraph 2;
 - (d) agrees to pay penalties as set out in Ordering Paragraph 4 if it fails to return at least 17 of the wells identified in Exhibit "A" to compliance by August 10, 2006, and if an amendment is granted, to return the remaining wells identified in Exhibit "A" to compliance by February 10, 2007;
 - (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from this Order; and
 - (f) agrees that the Order and amendments to the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
7. This Order applies only to those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act.
8. The Oil Conservation Division reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.
9. This Order is effective February 10, 2006.

Done at Santa Fe, New Mexico this 8th day of Feb, 2006

By: 
Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

Marathon Oil Co. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

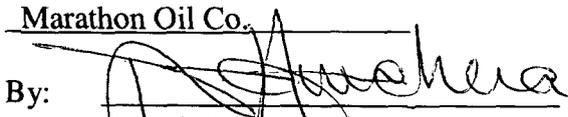
Marathon Oil Co.
By: 
Daniel R. Hanchera
Title: PB Asset Team Leader
Date: February 6, 2006

Exhibit "A" to Agreed Compliance Order for Marathon Oil Co.

Bone Flats 12 Federal Com No. 003

API # 30-015-28529

This well was put back to gas sales in November 2005. Marathon's production accounting group mistakenly reactivated and allocated production to the wrong well on the November C-115 report. This well will drop from the 'Inactive Well List' when the corrections are processed for November 2005. These amended reports will be filed with the December C-115 report in February 2006.

Elliot State No. 004

API # 30-025-05756

This well has been turned over to Triple 'N' Services for plugging. The C-103 Notice of Intent to P&A this well is pending filing with the NMOCD. Plugging operations on this well will begin in February or March 2006 depending on rig availability.

Indian Hills State Com No. 004

API # 30-015-27235

The Indian Hills State Com No. 4 is currently producing from the Cemetery Wolfcamp pool (74680). This new completion was added to the well in May 2005, but was not put on Marathon's C-115 report at that time. Marathon will file amended C-115 reports for the months of May 2005 through November with the December 2005 C-115 which is filed in February 2006. This well will clear the 'Inactive Well List' at that time.

Indian Hills Unit No. 016

API # 30-015-30703

The Indian Hills Unit No. 16 was acquired from Fasken Oil & Ranch. Marathon is evaluating options for this well. The well is open to the Atoka perforations, and we feel that the well could make an economic volume of gas production from this formation. In order to re-activate this well Marathon must install approximately one mile of new flow line. The line has been surveyed and Marathon will be filing for right of way approval for the flow line. Marathon is evaluating stimulation potential in the Atoka, and the possibility of commingling Atoka and Morrow. Marathon is also considering a Wolfcamp completion attempt. Because of the time necessary to secure flow line right of ways and evaluate data from Fasken this well will not be active before the February 13th deadline to comply with Rule 40. In order to ensure that reporting timing does not become a problem and in the event Marathon is unable to return this well to production in the Atoka or other reservoir before the August 10th deadline, Marathon would like to put this well on the list as one of three wells that will be deferred for compliance until after the August 10, 2006 deadline.

Marathon Section 17 State Com No. 002

API # 30-025-29941

The Marathon Section 17 State Com # 2 has potential for deeper production, but Marathon will need to secure rights in agreement with other lease holders before we can pursue that production, therefore this well will not be cleared before February 13, 2006 deadline to comply with Rule 40. The uncertainty of securing an agreement with other lease holders on this well necessitates that we ask that this well be allowed as one of the three wells deferred until after the August 10, 2006 deadline.

W. S. Marshall B No. 005

API # 30-025-06823

The Marshall B No. 5 has been turned over to Triple 'N' Services for plugging. A copy of the approved C-103 Notice of Intent to Plug is on file with the NMOCD. Plugging operations on this well will begin in February or March 2006 depending on rig availability.

McDonald State A/C 1 No. 007

API # 30-025-08927

After a review of Marathon's production accounting records it was determined that this well was being reported incorrectly as shut in. The well was in reality active from February 2002 to present. This error occurred during Marathon's conversion to the SAP accounting system. Marathon is in the process of reallocating and re-reporting production on this well from February 2002 to the present. Amended C-115 reports will be filed with Marathon's C-115 for December production filed in February 2006. The well will drop from the 'Inactive Well List' when that report is processed.

McDonald State A/C 1 No. 034

API # 30-025-31160

This well is an active injection well that was being reported incorrectly on Marathon's C-115 reports. The well was being reported with zero injection water due to a bad water meter at the wellhead. The water meter has been repaired and volumes are being recorded for January 2006. These January 2006 volumes will not appear on Marathon's C-115 report until January C-115 reports are processed in March 2006. The well will drop from the 'Inactive Well List' in March 2006 when the January 2006 C-115 report is processed.

McDonald WN State No. 015

API # 30-025-08914

The McDonald WN State No. 15 has been turned over to Triple "N" Services for plugging. The C-103 Notice of Intent to P&A this well is pending filing with the NMOCD. Plugging operations on this well will begin in February or March depending on rig availability.

North Indian Basin Unit No. 011

API # 30-015-28232

The North Indian Basin Unit No 11 was plugged and abandoned on 08/31/2004. The C-103 sundry notice is scanned to NMOCD's well file on the website, but the accompanying details were not scanned or possibly lost. The accompanying details for the C-103 are being re-sent to the NMOCD in Artesia with the request that this well be taken off the 'Inactive Well List'. The well should be off the list by the end of February 2006.

North Indian Basin Unit No. 16

API # 30-015-30703

The North Indian Basin Unit No. 16 had stopped producing gas or oil in October 2004. The well was still pumping to pull water off the formation from October 2004 through July 2005. However, this water production was not reported to the state on Marathon's C-115 report due to our production accounting group inactivating the well during the time when oil and gas had dropped off. The well was actually shut in for a five month period from August 2005 to January 2006. The well was never down for a one year period. Marathon plans to replace the pump and return this well to production in an attempt to draw down fluid levels in the formation in that area of Indian Basin field. The accounting errors have been corrected and the well added back to the C-115 report. The well will drop from the 'Inactive Well List' when Marathon's December 2005 C-115 is filed in February 2006.

North Indian Basin Unit No. 17

API # 30-015-28386

The North Indian Basin Unit No. 17 had stopped producing gas or oil in December 2004. The well was still pumping in an attempt to pull water off the formation from December 2004

through April 2005. It was shut down with a downhole failure for six months from April 2005 to November 2005 period. The well was never down for one year. The well was repaired and restarted the last half of November 2005. Marathon's production accounting group had also inactivated this well when it stopped producing oil and gas. This error has been corrected and the well will drop off the 'Inactive Well List' when Marathon's December 2005 C-115 is filed in February 2006.

North Indian Basin Unit No. 18

API # 30-015-28435

The North Indian Basin Unit No 18 has been turned over to Triple "N" Services for plugging. Triple "N" is in the process of drafting a plugging proposal and C-103 Notice of Intent to P& A for this well. Plugging operations on this well will begin in February or March 2006 depending on rig availability.

North Indian Basin Unit No. 20

API # 30-015-28384

Marathon plans to move ahead with deepening this well to the Morrow formation, in mid-year 2006 pending seismic evaluation and rig availability. These decisions will not take place before the February 13th deadline for compliance to Rule 40. Due to reporting timing and the work that needs to be completed, Marathon wishes to include this well as one of the three wells due after August 10, 2006.

North Indian Basin Unit No. 23

API # 30-015-28578

The North Indian Basin Unit No. 23 was deepened to the Morrow formation. Currently, the well is loaded up with water. Marathon intends to rod up the well and unload the well in order to produce gas from the Morrow formation. Marathon anticipates that this work will be completed before the February 13, 2006 deadline, but the timing of reporting for the well will not clear it from the 'Inactive Well List' in time to avoid compliance issues.

North Indian Basin Unit No. 25

API # 30-015-28857

Marathon has found a casing leak in this well. Our plans are to run a liner in the well and have it back on production by May 2006.

South Eunice Seven Rivers Queen Unit No. 102

API # 30-025-09013

The South Eunice Seven Rivers Queen Unit No. 102 has been turned over to Triple 'N' Services for plugging. The C-103 Notice of Intent to P& A is pending filing with the NMOCD on this well. Plugging operations on this well will begin in February or March 2006 depending on rig availability.

Stinking Draw No. 001

API # 30-015-27891

The Stinking Draw No. 001 was put back on production in December 2005. This well will drop it off the 'Inactive Well List' when Marathon's December 2005 C-115 report is filed in February 2006.

Stinking Draw No. 003

API # 30-015-27861

The Stinking Draw No. 003 was put back on production in December 2005. This well will drop it off the 'Inactive Well List' when Marathon's December 2005 C-115 report is filed in February 2006.

Bone Flats 12 Federal Com No. 6

API # 30-015-29192

The Bone Flats 12 Federal Com No. 6 is not currently shown on the 'Inactive Well List' due to a production accounting error, but it will return to the list when the November Amended C-115 report is filed in February 2006. This well is inactive and should be on the inactive well list at this time. However, a sundry notice was filed with the BLM on 01/31/2006 to extend the temporary abandon status on the well for one year. A copy of this filing was mailed to the NMOCD in Artesia on the same date. The timing of this filing may lead to the well not being cleared from the 'Inactive Well List' by the February 13, 2006 deadline. Therefore, the well is being added to this Agreed Compliance Order.