

December 8, 2000

Marathon Oil Company
c/o **W. Thomas Kellahin**
P. O. Box 2265
Santa Fe, New Mexico 87504-2265

Telefax No. (505) 982-2047

Administrative Order NSL-3855-A (SD)

Dear Mr. Kellahin:

Reference is made to the following: (i) your application dated September 6, 2000 on behalf of the operator Marathon Oil Company ("Marathon"); and (ii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe, including the file on Division Administrative Order NSL-3855 (SD): all concerning Marathon's request for a second-infill gas well to be drilled at an unorthodox location within an existing 640-acre gas spacing and proration unit ("GPU") comprising all of Section 11, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico.

The Division Director Finds That:

(1) Marathon is proposing to drill its Smith Federal Well No. 3 at a location that is 1514 feet from the North line and 870 feet from the East line (Unit H) of Section 11;

(2) The Indian Basin-Upper Pennsylvanian Gas Pool currently comprises the following described area in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

Section 3:	W/2
Section 4:	All
Sections 8 and 9:	All
Section 10:	W/2
Section 15:	W/2
Sections 16 through 30:	All
Sections 32 through 35:	All
Section 36:	W/2

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

Section 19:	All
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TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

Section 1:	W/2
Sections 2 through 5:	All
Sections 8 through 11:	All

Section 12:	W/2
Section 13:	W/2
Sections 14 through 17:	All
Section 21:	N/2
Section 22:	All;

(3) The Indian Basin-Upper Pennsylvanian Gas Pool is a prorated gas pool currently governed by: (i) Division Rule 605; and (ii) the “*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*,” as promulgated by Division Order No. R-8170, as amended: which require standard 640-acre GPU's with wells to be located no closer than 1650 feet from the outer boundary of the GPU nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary;

(4) All of Section 11 is currently simultaneously dedicated to Marathon's: (i) Smith Federal Well No. 1 (**API No. 30-015-10567**), located at a standard gas well location 1650 feet from the North and West lines (Unit F) of Section 11; and (ii) Smith Federal Well No. 2 (**API No. 30-015-29789**), located at an unorthodox gas well location 1465 feet from the South line and 800 feet from the West line (Unit L) of Section 11;

(5) By Division Administrative Order NSL-3855 (SD), dated August 15, 1997, the Division authorized: (i) Marathon to its Smith Federal Well No. 2 at the above-described unorthodox gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool; and (ii) officially assigned this GPU an acreage factor of 0.73 for gas prorationing purposes, which assesses a 27% production penalty on Indian Basin-Upper Pennsylvanian Gas Pool production from this GPU; and

(6) The subject application for Marathon's proposed Smith Federal Well No. 3 has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Rule 2 (d) of the Indian Basin-Upper Pennsylvanian Gas Pool special rules and Division Rule 104.F (2), Marathon Oil Company ("Marathon") is hereby authorized to drill its proposed Smith Federal Well No. 3 as a second-infill gas well at an unorthodox location in the Indian Basin-Upper Pennsylvanian Gas Pool 1514 feet from the North line and 870 feet from the East line (Unit H) of Section 11, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico.

(2) The existing 640-acre gas spacing and proration unit (“GPU”) within the Indian Basin-Upper Pennsylvanian Gas Pool that comprises all of Section 11 is to be simultaneously dedicated to Marathon's: (i) existing Smith Federal Well No. 1 (**API No. 30-015-10567**), located at a standard gas well location 1650 feet from the North and West lines (Unit F) of Section 11; (ii) existing Smith Federal Well No. 2 (**API No. 30-015-29789**), located at an unorthodox gas well location (approved by Division Administrative Order NSL-3855 (SD) and dated August 15, 1997) 1465 feet from the South line and 800 feet from the West line (Unit L) of Section 11; and (iii) proposed Smith Federal Well No. 3, as described above.

It Is Further Ordered That:

(3) As prescribed by Division Administrative Order NSL-3855 (SD), Marathon is hereby permitted to produce the allowable assigned the subject GPU from all three wells in any proportion; **provided however**, total combined gas production from these three wells shall not exceed that volume assigned this GPU with its assessed acreage factor of 0.73.

(4) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management – Carlsbad
Walter Duecase - Marathon Oil Company, Midland
File: NSL-3855 (SD)