



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

December 29, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Marathon Oil Company
P. O. Box 3487
Houston, Texas 77253-3487

Attention: Brent Lockhart
bdlockhart@marathonoil.com

Administrative Order NSL-5151

Dear Mr. Lockhart:

Reference is made to the following: (i) your application (*administrative application reference No. pMES0-436236639*) dated December 3, 2004; and (ii) the records of the New Mexico Oil Conservation Division ("Division") in Hobbs and Santa Fe, including the files on Division Administrative Orders NSL-4830 (SD) and SD-04-07: all concerning Marathon Oil Company's ("Marathon") request for an unorthodox Grayburg replacement oil well location within a former standard 40-acre oil spacing and proration unit in the Penrose Skelly (Grayburg) Pool (**50350**) comprising the NW/4 SE/4 (Unit J) of Section 20, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico.

This application 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 the Division's understanding that initial development of Grayburg oil production within this 40-acre unit commenced in 1972 when Marathon re-completed the Dayton Hardy Well No. 3 (API No. **30-025-06689**), located at a standard oil well location 1980 feet from the South and East lines of Section 20. Penrose Skelly (Grayburg) oil production ceased in this well in January, 1995 when this zone was abandoned.

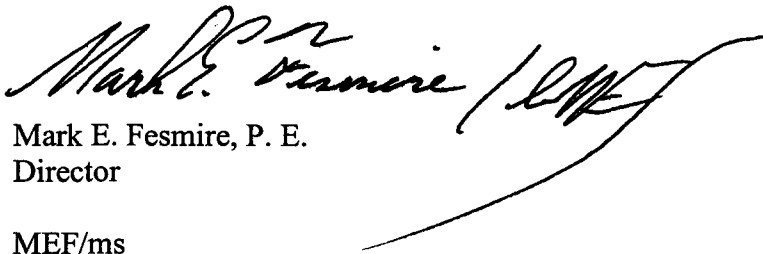
It is further understood that the N/2 SE/4 of Section 20 is a single fee lease (Dayton Hardy lease) with common mineral interests (working, royalty, and overriding royalty) in which Marathon is the leasehold operator; therefore, there are no adversely affected interests to the proposed 40-acre oil spacing and proration unit within the Penrose Skelly (Grayburg) interval.

Also, this unorthodox location is necessitated for geologic and engineering reasons in that this location is approximately equidistance to other offsetting Penrose Skelly (Grayburg) oil wells within this lease. This replacement well at the proposed unorthodox oil well location will enable Marathon to further develop and deplete the Grayburg reserves within this 80-acre lease that might not otherwise be recovered.

By the authority granted me under the provisions of Division Rule 104.F (2), the following described well to be drilled as a replacement Grayburg oil well within this former 40-acre unit at an unorthodox oil well location is hereby approved:

**Dayton Hardy Well No. 5
1800' FSL & 1500' FEL.**

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire" followed by a stylized flourish or set of initials.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Hobbs