



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

May 23, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Marathon Oil Company

P. O. Box 3487

Houston, Texas 77253-3487

Attention: Frank M. Krugh

finkrugh@marathonoil.com

Administrative Order NSL-5380 (SD)

Dear Mr. Krugh:

Reference is made to the following: (i) your initial application (*administrative application reference No. pTDS0-603047734*) submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on January 26, 2006 for an exception to Rule 3 (A) (1) of the "*Special Pool Rules for the Eumont Gas Pool*," as promulgated by Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, for Marathon Oil Company ("Marathon") to drill its Marshall "B" Well No. 11 at an unorthodox oil well location 2310 feet from the South line and 1310 feet from the West line (Unit L) of Section 27, Township 21 South, Range 37 East, NMPM, to test the Undesignated Eumont Gas Pool (22800), Lea County, New Mexico, within a standard 40-acre oil spacing and proration unit comprising the NW/4 SW/4 of Section 27; (ii) the Division's letter dated April 13, 2006 **denying** this application; (iii) your amended application (*administrative application reference No. pTDS0-613840653*) re-submitted to the Division on May 18, 2006 for the aforementioned Marshall "B" Well No. 11 to be drilled as an infill oil well in the Penrose Skelly (Grayburg) Pool (**50350**) within an existing standard 40-acre oil spacing and proration unit comprising the NW/4 SW/4 (Unit L) of Section 27; (iv) Ms. Sherilyn Bratton's telephone conversation with Mr. Michael E. Stogner, Staff Engineer with the Division in Santa Fe, on Thursday, May 18, 2006; (v) Mr. Stogner's conference call with Messrs. Dan Hanchera and John Kloosterman Tuesday morning, May 23, 2006; and (vi) the Division's records in Santa Fe and Hobbs as related to this application, which included an independent search by Mr. Stogner of records in the public domain (i.e. topographic maps, aerial photos, Google Earth®, and personal knowledge and familiarity of the immediate area.

Your application has been duly filed under the provisions of Division Rules 104.F and 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

This 40-acre Grayburg unit is currently dedicated to Marathon's Marshall "B" Well No. 8 (**API No. 30-025-06825**), located at a standard oil well location 2310 feet from the South line and 400 feet from the West line of Section 27.

It is the Division's understanding that the SW/4 of Section 27 comprises a single fee lease (Marshall "B" lease) with common mineral interest in which Marathon is the leasehold operator; therefore, there are no adversely effected offsets to the subject 40-acre tract within the Grayburg interval.

It is further understood that such 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 the Marshall "B" fee lease. Furthermore, topographic conditions further restricts placement of a drilling pad within the northern half of the SW/4 of Section 27. The proposed infill oil well location will enable Marathon to further develop and deplete the Grayburg reserves within this lease that might not otherwise be recovered.

By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox infill Grayburg oil well location for Marathon's proposed Marshall "B" Well No. 11 is hereby approved.

Further, both the existing Marshall "B" Well No. 8 and the proposed Marshall "B" Well No. 11 are to be simultaneously dedicated to the subject 40-acre unit.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs
Mr. Dan Hanchera, Marathon Oil Company – Houston, Texas (drhanchera@marathonoil.com)
Mr. John Kloosterman, Marathon Oil Company – Houston, Texas
W. Thomas Kellahin, Legal Counsel for Marathon Oil Company – Santa Fe