



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

June 2, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

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

Attention: Charles E. Kendrix
Engineering Technician
cekendrix@marathonoil.com

Administrative Order NSL-5384

Dear Mr. Kendrick:

Reference is made to the following: (i) your application that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on May 22, 2006 (**pTDS0-614252978**); and (ii) the Division's records in Hobbs and Santa Fe: all concerning Marathon Oil Company's ("Marathon") request for an unorthodox Grayburg oil well location for the existing South Eunice Water Supply Well No. 1 (**API No. 30-025-31733**), to be re-designated the South Eunice "26" State Well No. 1, located 1392 feet from the South line and 1818 feet from the East line (Unit J) of Section 26, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico. The NW/4 SE/4 of Section 16 is to be dedicated to this well in order to form a standard 40-acre oil spacing and proration unit for wildcat Grayburg oil production.

Your application for Chesapeake 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].

It is the Division's understanding from your application and from our records that Marathon initially drilled this well to a total depth of 4,699 feet in 1992 and completed it as water supply well in the San Andres formation with perforations from 4,158 feet to 4,599 feet for its South Eunice (Seven Rivers Queen) Unit Waterflood Project. Since this well is no longer needed in this capacity and has been shut in, Marathon is purposing to recomplete up-hole in the Grayburg formation in an attempt to establish oil production; however, pursuant to Division Rule 104.B (1) this location is considered to be unorthodox for the proposed standard 40-acre oil spacing and proration.

It is further understood that the E/2 of Section 26 comprises a single state lease issued by the New Mexico State Land Office (**State Lease No. A-02614**) with common mineral interests within the Grayburg interval in which Marathon is the leasehold operator; therefore, there are no adversely effected offsets to the subject 40-acre oil tract.

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By the authority granted me under the provision of Division Rule 104.F (2) the above-described unorthodox Grayburg oil well location for Marathon's South Eunice "26" State Well No. 1 is hereby approved.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire", followed by a long, sweeping horizontal flourish.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Hobbs
New Mexico State Land Office - Santa Fe