

ABOVE THIS LINE FOR DIVISION USE ONLY

26536895

NEW MEXICO OIL CONSERVATION DIVISION - Engineering Bureau -

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS

Application Acronyms:

- [NSP-Non-Standard Proration Unit] [NSL-Non-Standard Location] [DD-Directional Drilling] [SD-Simultaneous Dedication] [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling] [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement] [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion] [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase] [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

- [A] Location - Spacing Unit - Directional Drilling [X] NSL [] NSP [] DD [X] SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement [] DHC [] CTB [] PLC [] PC [] OLS [] OLM [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery [] WFX [] PMX [] SWD [] IPI [] EOR [] PPR



[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or [] Does Not Apply

- [A] [] Working, Royalty or Overriding Royalty Interest Owners [B] [X] Offset Operators, Leaseholders or Surface Owner [C] [] Application is One Which Requires Published Legal Notice [D] [] Notification and/or Concurrent Approval by BLM or SLO [E] [] For all of the above, Proof of Notification or Publication is Attached, and/or, [F] [] Waivers are Attached -> 2/3 WAIVERS ATTACHED

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Statement of Understanding

I hereby certify that I, or personnel under my supervision, have read and complied with all applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common. I further verify that all applicable API Numbers are included. I understand that any omission of data, information or notification is cause to have the application package returned with no action taken.

Note: Statement must be completed by an individual with supervisory capacity.

WALTER DUEGASE Print or Type Name

WALTER DUEGASE Signature

Title

9/20/00 Date



P.O. Box 552
Midland, TX 79702-0552
Telephone 915/682-1626

September 19, 2000

Mr. Michael E. Stogner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87501

Re: Federal Indian Basin "C" Gas Com No. 2
860 feet FSL & 660 feet FEL
Section 29, T21S, R23E
Administrative Application of
Marathon Oil Company for approval
of an unorthodox Gas well location,
Eddy County, New Mexico.

Dear Mr. Stogner:

Marathon Oil Company hereby requests the administrative approval of an unorthodox gas well location for Marathon Oil Company's Federal Indian Basin "C" Gas Com No. 2 which is proposed to be drilled at an unorthodox gas well location 860' FSL and 660' FEL of Section 29, Township 21 South, Range 23 East, N.M.P.M., Eddy County, New Mexico, and to be simultaneously dedicated along with its Federal Indian Basin "C" Gas Com No. 1 (API #) to a standard 640-acre gas proration and spacing unit ("GPU") consisting of all of this section for production from the Indian Basin Upper Pennsylvanian Gas Pool. **See Enclosure # 1 (9 section locator plat).**

The acreage factor for this unorthodox location is 0.65 based on the average value of the productive acreage calculation method and the distance ratio calculation method but all affected parties have agreed to a lower negotiated acreage factor of **0.532**, which equates to a 46.8 % production penalty. This penalty factor is recommended by offset operators in order to protect their correlative rights.

The proposed acreage factor calculations are attached for your evaluation. This acreage factor is consistent with the acreage factor for the Conoco State Gas Com No. 2 (**State Lease w/ PF of 0.62**) which was drilled at 800' FSL and 800' FWL of section 2, T-22-S, R-23-E, off setting section 11 (**Federal lease w/ Marathon WI=100 %**). This proposed acreage factor is also consistent with the Indian Basin C No. 2 (**0.65**) which was drilled at 660' FWL and 990' FSL of Section 26-T-21-S, R-23-E, **OCD order No. R-10198-A**.

The proposed Federal Indian Basin "C" Gas Com Well No. 2 encroaches upon:

- (a) Section 32 which is a state lease and is operated by Texaco E&P as a 640-acre GPU containing two producing wells.
- (b) Section 28 which is a Federal lease operated by Kerr-McGee Oil & Gas Onshore LLC as a 640-acre GPU containing two producing wells.

- (c) Section 33 which is also a Federal lease operated by Chevron U.S.A. Production Company as a 640-acre GPU containing two producing wells.

Special rules and regulations for the Indian Basin Upper Pennsylvanian Gas Pool require wells to be spaced no less than 1,650' from outer boundaries and 330' from $\frac{1}{4}$, $\frac{1}{4}$ section lines.

Marathon desires to drill the Federal Indian Basin "C" Gas Com No. 2 at the proposed unorthodox well location for the following reasons:

- (a) The proposed Federal Indian Basin "C" Gas Com No. 2 is a replacement well for the Federal Indian Basin "C" Gas Com No. 1 which was drilled at 1700' FSL and 1550' FEL of Section 29, Township 21 South, Range 23 East, N.M.P.M., Eddy County, New Mexico. This well watered out in March 2000 due to water encroachment from the west side and is currently producing 300 MCFPD, which is 6200 MCFPD below this GPU's allowable of 6500 MCFPD.
- (b) This proposed location offers structurally higher position with a possibility of establishing water free flowing production.
- (c) The proposed location will also increase the chances of penetrating the Cisco Dolomite, which is prevalent in the south and southeast portion of this section. This dolomitic Cisco reservoir is not present in the Federal Indian Basin "C" Gas Com # 1 and is being drained by the offset producers. **See Enclosed cross-section.**

Marathon has obtained waivers of objection from Kerr-McGee Oil & Gas LLC and Chevron USA Inc., while Texaco agrees with the proposed penalty factor but wants Marathon to obtain a waiver from the State of New Mexico Land Office, since the State of New Mexico owns the minerals under section 32, T21S, R23E, Eddy County, New Mexico. Furthermore, Texaco requested Marathon to furnish Texaco with all well information, including, but not limited to, daily drilling reports, complete set of logs and all State and Federal permits and completion reports. Copies of Chevron and Kerr-McGee waivers are attached. Texaco's letter, which approves the penalty but requests waivers from Chevron, Kerr-McGee and the State Land Office, is also attached.

This application has been sent to Texaco on this date. **Copy attached.**

Please call me at 800-351-1417 if you have any questions or need any additional information.

Very truly yours,



Walter Duee
Marathon Oil Company

CC: Texaco E&P Inc.

MARATHON OIL COMPANY
ACREAGE FACTOR CALCULATION
FEDERAL Indian Basin "C" Gas Com No. 1 & 2

Marathon Oil Company is requesting that the NMOCD approve an acreage factor of 0.532 for gas allowable purposes. Marathon requests that this factor be applied to the unit located in section 29, T-21-S, R-23-E, Eddy County, New Mexico. This number is calculated by averaging the following methods:

1. **PRODUCTIVE ACREAGE** – Based on geologic evaluation, section 29 is estimated to have 577.85 productive acres:

$$577.85 \text{ acres} / 640 \text{ acres} = 0.90 \text{ (90 \% of section)}$$

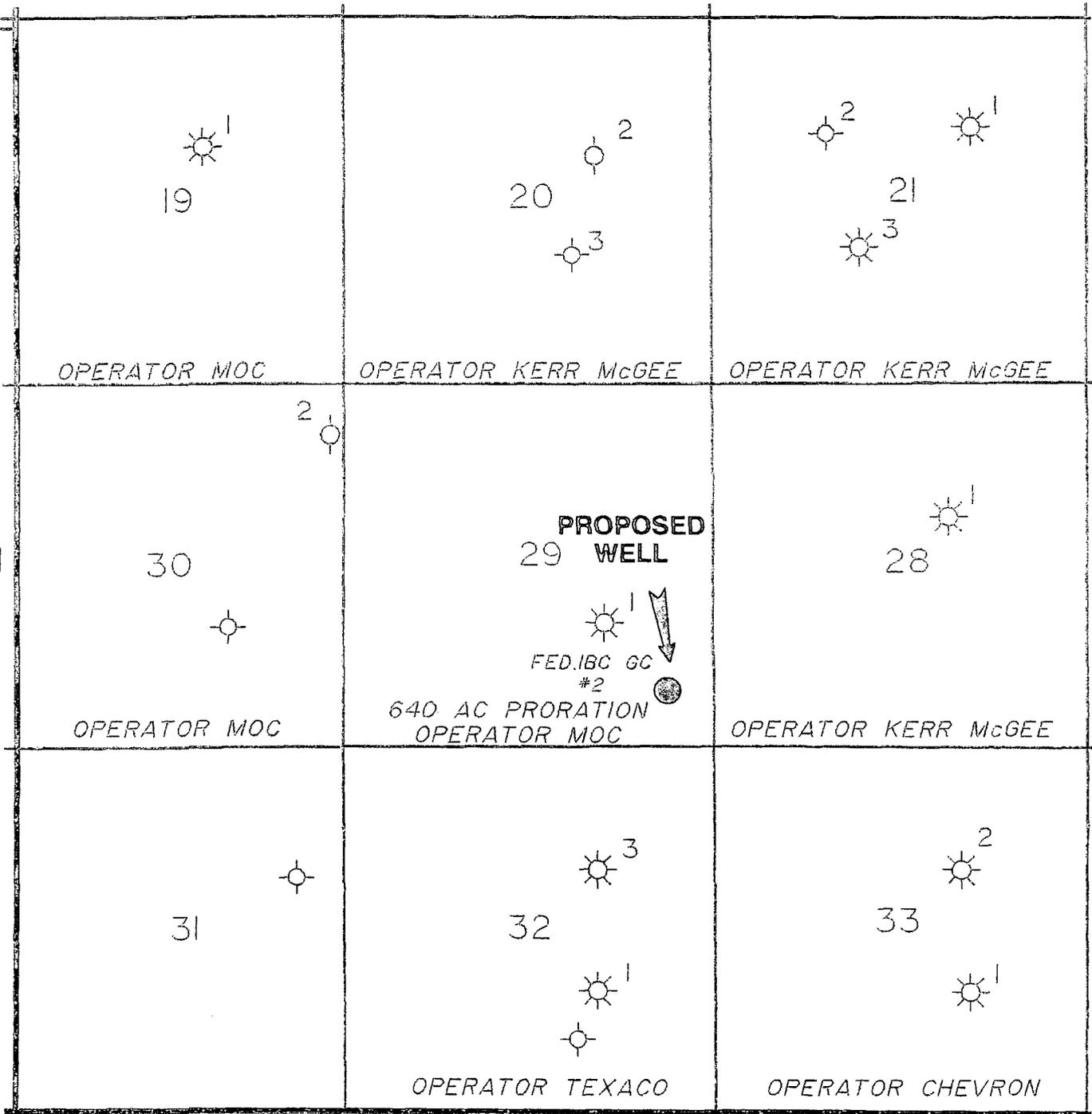
2. **DISTANCE RATIO METHOD** – The percent distance from the lease line for the proposed unorthodox location compared to a regular location:

$$660' / 1650' = 0.40 \text{ (40 \% of distance)}$$

The average of the two methods is 0.65 (65 % of allowable)

Negotiated Acreage Factor = 0.532 (53.2 % of allowable)

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R 23 E

MARATHON OIL COMPANY
MID-CONTINENT REGION

INDIAN BASIN FIELD
EDDY COUNTY, NEW MEXICO



Texaco Exploration and Production Inc.
Permian Business Unit

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

August 28, 2000

NM192330 - State of New Mexico Lease OG-5108
Section 32, T21S-R23E,
Eddy County, New Mexico
New Mexico "DF" State Com.

Marathon Oil Company
Attn: Syed Haider
P. O. Box 552
Midland, Texas 79702

Gentlemen:

We are in receipt of your letter, dated August 23, 2000, wherein Marathon has requested approval of an unorthodox well location for your Indian Basin "C" Gas Com No. 2 well to be located 860' FSL and 660' FEL of Section 29, T21S-R23E, Eddy County, New Mexico.

To our knowledge, Marathon has not requested for approval for the drilling of this location, as yet, from the New Mexico Oil Conservation Division.

This letter is to advise Marathon that Texaco will agree to grant you a waiver for the drilling of your Indian Basin "C" Gas Com No. 2 well, on the terms proposed in your letter, dated August 23, 2000, and subject to the following conditions:

- 1) Marathon will obtain a waiver from the State of New Mexico Land Office, since the State of New Mexico owns the minerals under Section 32, T21S-R23E, Eddy County, New Mexico.
- 2) Marathon, Kerr-McGee Oil & Gas Onshore, L.L.C. and Chevron U.S.A. Production Company all will agree, in writing, to grant Texaco a waiver for a reciprocal location in the NE/4 of Section 32.
- 3) Marathon will furnish Texaco with all well information, including, but not limited to, daily drilling reports, complete set of logs and all state and federal permits and completion reports.

If you have any questions, you may contact the undersigned at 688-4488 or Mr. Mike Cervantes at 688-4544.

Very truly yours,

Mike Mullins
Landman



Texaco Exploration and Production Inc.
Permian Business Unit

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

August 28, 2000

NM192330 - State of New Mexico Lease OG-5108
Section 32, T21S-R23E,
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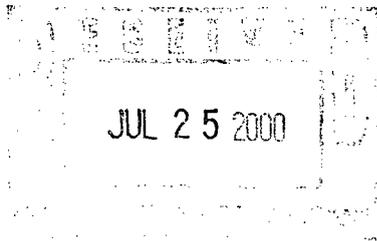
Very truly yours,

Mike Mullins
Landman

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
MICHAEL H. FELDEWERT
TANYA M. TRUJILLO

JACK M. CAMPBELL
1916-1999



COPY

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
FACSIMILE: (505) 983-6043
E-MAIL: law@westofpecos.com

July 25, 2000

HAND DELIVERED

Ms. Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco
Santa Fe, New Mexico 87505

7-25-00
Talked w/ Bill Carr
Will send me a copy of
the Marathon
request?
M.S.

**Re: Application of Marathon Oil Company for Unorthodox Well Location,
Eddy County, New Mexico.**

Ms. Wrotenbery:

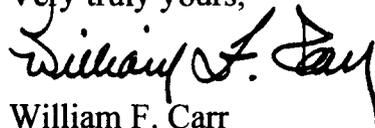
By letter dated July 10, 2000, Marathon Oil Company notified Texaco Exploration & Production, Inc. of its application for administrative approval of an unorthodox gas well location for its proposed Indian Basin "C" Gas Com Well No. 2 to be drilled 860 feet from the South line and 660 feet from the East line of Section 29, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico.

Ms. Lori Wrotenbery
July 25, 2000
Page 2

Texaco Exploration & Production Inc., an offset operator to the proposed unorthodox well location, objects to this application. Texaco requests that this application be set for hearing before a Division Examiner on August 24, 2000.

Your attention to this matter is appreciated.

Very truly yours,



William F. Carr
Attorney for Texaco Exploration
& Production Inc.

WFC/md

cc: Michael E. Stogner
Oil Conservation Division

Mike Mullins
Texaco Exploration & Production Inc.

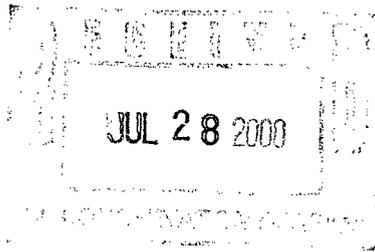
Syed Haider
Marathon Oil Company

W. Thomas Kellahin, Esq.
Kellahin & Kellahin, Esq.

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
MICHAEL H. FELDEWERT
TANYA M. TRUJILLO

JACK M. CAMPBELL
1916-1999



COPY

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
FACSIMILE: (505) 983-6043
E-MAIL: law@westofpecos.com

July 25, 2000

HAND DELIVERED

Ms. Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco
Santa Fe, New Mexico 87505

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Eddy County, New Mexico.***

Ms. Wrotenbery:

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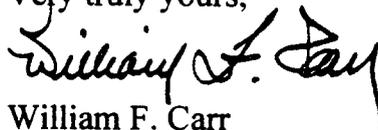
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OIL CONSERVATION DIV

Ms. Lori Wrotenbery
July 25, 2000
Page 2

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Your attention to this matter is appreciated.

Very truly yours,



William F. Carr
Attorney for Texaco Exploration
& Production Inc.

WFC/md

cc: Michael E. Stogner
Oil Conservation Division

Mike Mullins
Texaco Exploration & Production Inc.

Syed Haider
Marathon Oil Company

W. Thomas Kellahin, Esq.
Kellahin & Kellahin, Esq.

Mid-Continent Region
Production United States

rec 117



P.O. Box 552
Midland, TX 79702-0552
Telephone 915/682-1626

July 10, 2000

Texaco E&P
PO Box 3109
Midland, TX 79702

Re: Application of Marathon Oil Company for administrative approval of an unorthodox well location Eddy County, New Mexico.

Enclosed is a copy of a plat for a proposed well to be drilled by Marathon Oil Company seeking approval of an unorthodox well location for an Indian Basin Upper Pennsylvanian Gas Pool well to be drilled at 860' FSL and 660' FEL of Section 29, Township 21 South, Range 23 East, N.M.P.M., Eddy County, New Mexico. The proposed Indian Basin "C" Gas Com No. 2 is a replacement well for the Federal Indian Basin C Gas Com # 1 which was drilled at 1700' FSL and 1550' FEL of Section 29, Township 21 South, Range 23 East, N.M.P.M., Eddy County, New Mexico. This well watered out in March 2000. The objectives of the proposed unorthodox location is to avoid the encroaching water and to encounter additional productive dolomitic reservoir.

Special rules and regulations for the Indian Basin Upper Pennsylvanian Gas Pool require wells to be spaced no less than 1,650' from outer boundaries and 330' from 1/4, 1/4 section lines.

The acreage factor for this unorthodox location is 0.65 based on the average value of the productive acreage calculation method and the distance ratio calculation method. The proposed acreage factor calculations are attached for your evaluation. This acreage factor is consistent with the acreage factor for the Indian Basin C # 2 (0.65) which was drilled at 660' FWL and 990' FSL of Section 26-T-21-S, R-23-E, OCD order No. R-10198-A and with the acreage factor of the Yates Smith Federal # 2 (0.61) which was located at 480' FWL and 2049' FNL of Section 12, T-22-S, R-23-E, Eddy County, New Mexico, OCD order No. R-9487-B.

As offset operator, you are hereby notified of Marathon's intent to drill the proposed well. If you have an objection to this application, it must be filed in writing with the New Mexico Oil Conservation Division at its Santa Fe office within twenty days from the date of this letter.

Should you have no objections to this request, please signify by signing below and return one executed copy to me in the envelope provided. Should you have any questions, please contact me at 915-687-8444.

Very truly yours,

Syed Haider
Marathon Oil Company

A subsidiary of USX Corporation

Texaco E&P
Application of Marathon Oil Company for administrative
approval of an unorthodox well location Eddy County, New Mexico.
Page No. 2

I/WE AS OFFSET OPERATOR, WAIVE OBJECTION TO MARATHON'S INTENT TO
DRILL ITS FEDERAL INDIAN BASIN C GAS COM # 2 WELL AT 860' FSL AND 660'
FEL, SECTION 29, T-21-S, R-23-E, EDDY COUNTY, NEW MEXICO.

Texaco E&P

By: _____

Title: _____

Date: _____

**MARATHON OIL COMPANY
ACREAGE FACTOR CALCULATION
FEDERAL IBC GC # 1 & 2**

Marathon Oil Company is requesting that the NMOCD approve an acreage factor of 0.65 for gas allowable purposes. Marathon requests that this factor be applied to the unit located in section 29, T-21-S, R-23-E, Eddy County, New Mexico. This number is calculated by averaging the following methods:

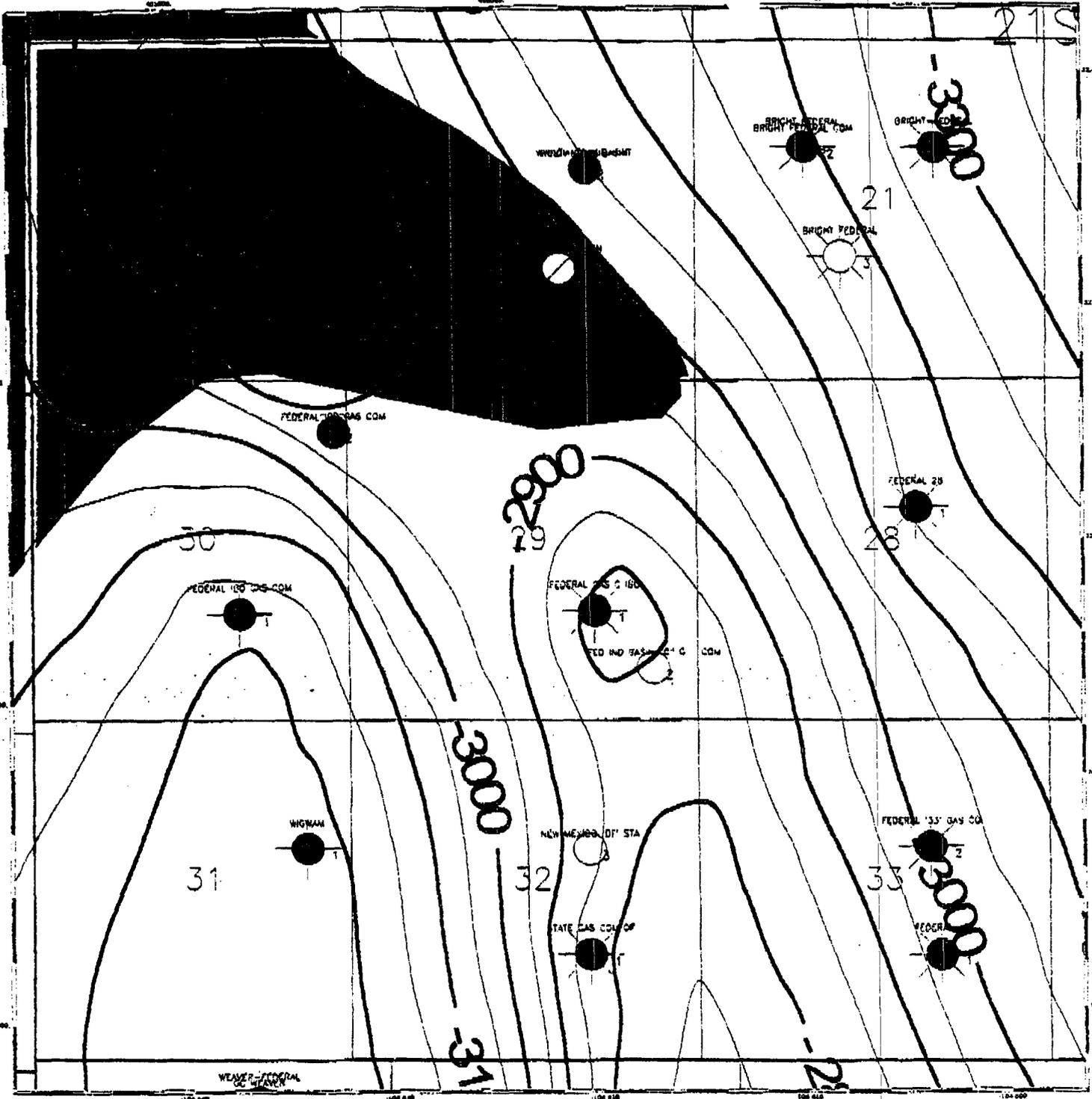
1. **PRODUCTIVE ACREAGE** – Based on geologic evaluation, section 29 is estimated to have 577.85 productive acres:

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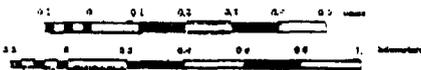
2. **DISTANCE RATIO METHOD** – The percent distance from the lease line for the proposed unorthodox location compared to a regular location:

$$660' / 1650' = 0.40 \text{ (40 \% of distance)}$$

The average of the two methods is 0.65 (65 % of allowable)



Scale 1:24000.



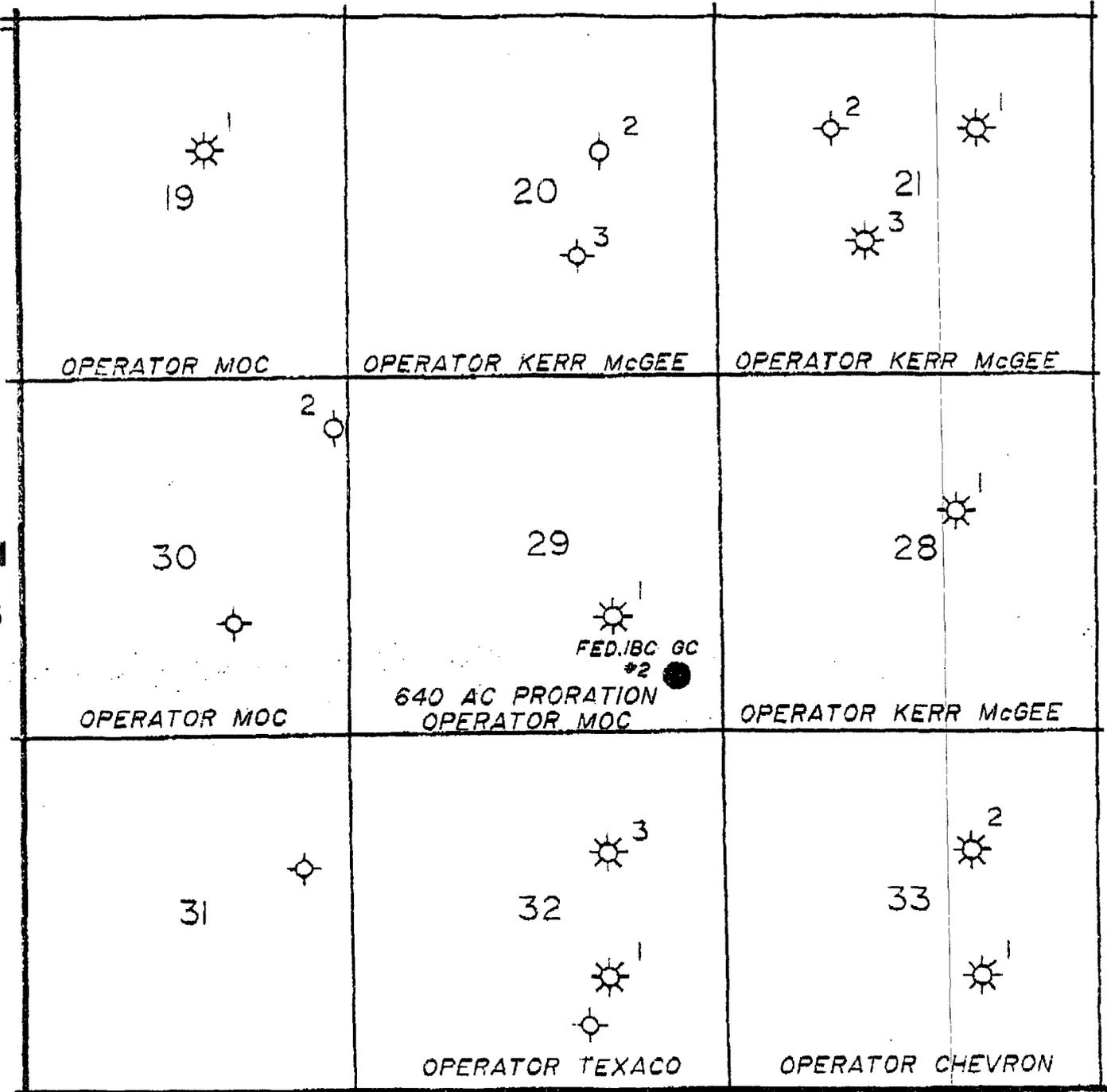
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Marathon Oil Company

INDIAN BASIN
SECTION 29, T21S, R23E
UPPER PENN. PRODUCTIVE AREA

SEDI RENTAJLAR	6/14/2000
1"=2000'	Scale 1:24000.
	2/23/20

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R 23 E

MARATHON OIL COMPANY
MID-CONTINENT REGION

INDIAN BASIN FIELD
EDDY COUNTY, NEW MEXICO