



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

May 27, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

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

Attention: Mark Mick
Operations Engineer
msmick@marathonoil.com

Administrative Order NSL-4977-A (BHL) (SD)

Dear Mr. Mick:

Reference is made to the following: (i) your application filed with the New Mexico Oil Conservation Division ("Division") on May 10, 2005 (*administrative application reference No. pSEM0-513044319*); and (iii) the Division's records in Artesia and Santa Fe, including the files on Division Administrative Orders NSL-1960, as amended, NSL-1960-A (SD), and NSL-4977 (BHL) (SD); all concerning Marathon Oil Company's ("Marathon") request for an exception to Rule 2 (b) of the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Associated Pool*", as promulgated by New Mexico Oil Conservation Division ("Division") Order Nos. R-9922, R-9922-A, R-9922-B, R-9922-C, R-9922-D, and R-9922-E and the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest New Mexico and Southeast New Mexico*," as promulgated by Division Order No. R-5353, as amended, for the proposed Indian Basin "32" State Well No. 9 (**API No. 30-015-34102**) to be drilled as an upper Pennsylvanian infill well to an unorthodox subsurface location within an existing standard 320-acre stand-up spacing and proration unit comprising the W/2 of Section 32, Township 21 South, Range 24 East, NMPM, Indian Basin-Upper Pennsylvanian Associated Pool (**33685**), Eddy County, New Mexico.

This unit is currently simultaneously dedicated to Marathon's:

- (i) Indian Basin "32" State Well No. 1-Y (**API No. 30-015-25133**), located at an unorthodox location (approved by Division Administrative Order NSL-1960, as amended) 1270 feet from the South line and 660 feet from the West line (Unit M) of Section 32; and
- (ii) Indian Basin "32" State Well No. 4 (**API No. 30-015-30618**), located at a standard location 660 feet from the North line and 810 feet from the West line (Unit D) of Section 32.

It is the Division's understanding the proposed Indian Basin "32" State Well No. 9, because of topographic reasons, will be spud at a surface location 1958 feet from the South line and 1652 feet from the East line (Unit J) of Section 32, and drilled directionally to the southwest to a targeted-bottomhole location at an approximate depth of 8,300 feet (TVD) 900 feet from the South line and 2150 feet from the West line (Unit N) of Section 32. The wellbore is expected to intersect the top of the Upper-Pennsylvanian interval between the depths of 7,680 feet (TVD), or 7,943 feet (MD) at an approximate location 1017 feet from the South line and 2309 feet from the West line (Unit N) of Section 32. The proposed well will be unorthodox in that the entire producing interval will be closer than the standard setback distance of 660 feet from the eastern boundary line of this stand-up 320a-acre unit. Further, this bottom-hole location has been chosen by Marathon to optimize reservoir drainage and minimize geological risk.

Furthermore, the proposed Indian Basin "32" State Well No. 9 serves to replace Marathon's Indian Basin "32" Well No. 8 (API No. 30-015-33163), located 1255 feet from the South line and 511 feet from the West line (Unit M) of Section 32, which well was spud in March, 2004 and later junked and abandoned after drilling only 800 feet. By Division Order NSL-4977 (BHL) (SD), dated January 8, 2004, the Division authorized Marathon to directional drill the Indian Basin "32" State Well No. 8 into the Indian Basin-Upper Pennsylvanian Associated Pool as an infill well in the W/2 of Section 32 to a targeted unorthodox bottom-hole location 950 feet from the South line and 2400 feet from the West line (Unit N) of Section 32.

The immediate application has been duly filed under the provisions of Division Rule 104.F and Rule 2 (c) of the Division's associated pool rules.

By the authority granted me under the provisions of Division Rule 104.F (2) and the applicable provisions of the special rules governing the Indian Basin-Upper Pennsylvanian Associated Pool, the above-described unorthodox sub-surface location for the Indian Basin "32" State Well No. 9 within the W/2 of Section 32, is hereby approved.

Further, the aforementioned well and spacing unit will be subject to all existing rules, regulations, policies, and procedures applicable to the Indian Basin-Upper Pennsylvanian Associated Pool.

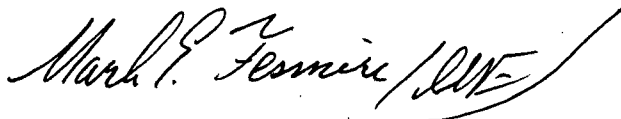
Marathon is hereby authorized to simultaneously dedicate production attributed to the Indian Basin-Upper Pennsylvanian Associated Pool from the aforementioned Indian Basin "32" State Wells No. 1-Y, 4, and 9. Furthermore, Marathon is permitted to produce the allowable assigned the subject 320-acre spacing and proration unit from all three wells in any proportion.

Division Administrative Order NSL-4977 (BHL) (SD) shall be placed in abeyance until further notice.

Finally, Marathon shall comply with all provisions of Division Rule 111 applicable in this matter.

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

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe
File: NSL-1960
NSL-1960-A (SD)
NSL-4977 (BHL) (SD)



F-1-NSL-1960

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Marathon Oil Company

P. O. Box 552

Midland, Texas 79702-0552

January 8, 2004

Lori Wrotenbery

Director

Oil Conservation Division

Attention: Steve Millican
(SMillican@MarathonOil.com)

Administrative Order NSL-4977 (BHL) (SD)

Dear Mr. Millican:

Reference is made to the following: (i) your application filed with the New Mexico Oil Conservation Division ("Division") on December 12, 2003 (**administrative application reference No. pMESO-400834538**); (ii) Mr. Mike Mick's telephone conversation with Mr. Michael E. Stogner, Chief Hearing Officer/Engineer with the Division in Santa Fe on Monday afternoon, January 5, 2004; and (iii) the Division's records in Santa Fe, including the files on Division Administrative Orders NSL-1960, as amended, and NSL-1960-A (SD): all concerning Marathon Oil Company's ("Marathon") request for an exception to Rule 2 (b) of the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Associated Pool*", as promulgated by New Mexico Oil Conservation Division ("Division") Order Nos. R-9922, R-9922-A, R-9922-B, R-9922-C, R-9922-D, and R-9922-E and the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest New Mexico and Southeast New Mexico*," as promulgated by Division Order No. R-5353, as amended, for its proposed Indian Basin "32" State Well No. 8 to be drilled as an upper Pennsylvanian infill well to an unorthodox subsurface location within an existing standard 320-acre stand-up spacing and proration unit comprising the W/2 of Section 32, Township 21 South, Range 24 East, NMPM, Indian Basin-Upper Pennsylvanian Associated Pool (33685), Eddy County, New Mexico.

This unit is currently simultaneously dedicated to Marathon's:

- (i) Indian Basin "32" State Well No. 1-Y (**API No. 30-015-25133**), located at an unorthodox location (approved by Division Administrative Order NSL-1960, as amended) 1270 feet from the South line and 660 feet from the West line (Unit M) of Section 32; and
- (ii) Indian Basin "32" State Well No. 4 (**API No. 30-015-30618**), located at a standard location 660 feet from the North line and 810 feet from the West line (Unit D) of Section 32.

It is our understanding the proposed Indian Basin "32" State Well No. 8, because of topographic reasons, will be spud at a surface location 1255 feet from the South line and 511 feet from the West line (Unit M) of Section 32, and drilled directionally to the east-southeast to a targeted-bottomhole location at an approximate depth of 8,300 feet (TVD) 950 feet from the South line and 2400 feet from the West line (Unit N) of Section 32. The wellbore is expected to intersect the top of the Upper-Pennsylvanian interval

between the depths of 7,400 feet to 7,600 feet at a point 966 feet from the South line and 2286 feet from the West line (Unit N) of Section 32. The proposed well will be unorthodox in that the entire producing interval will be closer than the standard setback distance of 660 feet from the eastern boundary line of this stand-up 320-acre unit. Further, this bottom-hole location has been chosen by Marathon to optimize reservoir drainage and minimize geological risk.

This application has been duly filed under the provisions of Division Rule 104.F and Rule 2(c) of the Division's associated pool rules.

By the authority granted me under the provisions of Division Rule 104.F (2) and the applicable provisions of the special rules governing the Indian Basin-Upper Pennsylvanian Associated Pool, the above-described unorthodox sub-surface location for the Indian Basin "32" State Well No. 8 within the W/2 of Section 32, is hereby approved.

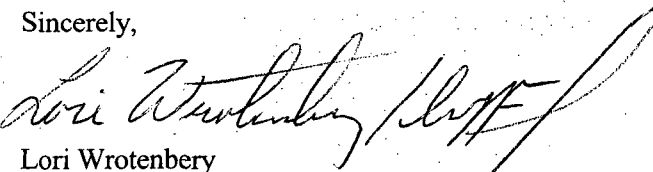
Further, the aforementioned well and spacing unit will be subject to all existing rules, regulations, policies, and procedures applicable to the Indian Basin-Upper Pennsylvanian Associated Pool.

Marathon is hereby authorized to simultaneously dedicate production attributed to the Indian Basin-Upper Pennsylvanian Associated Pool from the aforementioned Indian Basin "32" State Wells No. 1-Y, 4, and 8. Furthermore, Marathon is permitted to produce the allowable assigned the subject 320-acre spacing and proration unit from all three wells in any proportion.

Furthermore, Marathon is hereby authorized to simultaneously dedicate production attributed to the Indian Basin-Upper Pennsylvanian Associated Pool from the aforementioned Indian Hills Unit Wells No. 9, 12, 22, and 44. Furthermore, Marathon is permitted to produce the allowable assigned the subject 340.40-acre spacing and proration unit from all four wells in any proportion. Finally, Marathon shall comply with all provisions of Division Rule 111 applicable in this matter.

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

cc: New Mexico Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe
File: NSL-1960
NSL-1960-A (SD)
Mr. Mike Mick, Marathon Oil Company - Houston, TX (mfmick@marathonoil.com)