



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

February 26, 2003

Lori Wrotenbery

Director

Oil Conservation Division

Marathon Oil Company
P. O. Box 552
Midland, Texas 79702-0552
Attention: Walter Dueease

Administrative Order NSL-4847 (BHL) (SD)

Dear Mr. Dueease:

Reference is made to the following: (i) your application filed with the New Mexico Oil Conservation Division ("Division") on January 27, 2002 (*Division application reference No. pKRV0-302840640*); and (ii) the Division's records in Santa Fe: 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 No. R-9922, as amended, 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 Hills Unit Well No. 38 to be drilled as a directionally drilled infill well to an unorthodox location within an existing standard 320-acre spacing and proration unit - Units C, D, E, F, K, L, M, and N (W/2 equivalent) of Section 29, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico.

This unit is currently dedicated to Marathon's:

(i) Indian Hills Unit Well No. 3 (API No. 30-015-10553), located 1980 feet from the North line and 1650 feet from the West line (Unit F) of Section 29, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico, and completed within the Indian Basin-Upper Pennsylvanian Associated Pool (33685) at a standard location; and

(ii) Indian Hills Unit Well No. 13 (API No. 30-015-30274), directionally drilled with bottom hole location 1662 feet from the South line and 1153 feet from the West line (Unit L) of Section 29, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico, and completed within the Indian Basin-Upper Pennsylvanian Associated Pool (33685) at a standard location.

It is our understanding the proposed Indian Hills Unit Well No. 38, because of US Bureau of Land Management (BLM) regulations about surface topography, will be spud at a location 2333 feet from the South line and 2020 feet from the East line (NW/4 SE/4) of Section 29, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico. It will then be drilled directionally to the Southwest, penetrating the top of the Upper Penn at 1198 feet from the South line and 2622 feet from the

West line of Section 29. The bottom hole location is planned at 965 feet from the South line and 2445 feet from the West line of Section 29. The proposed well will be unorthodox in that its point of entry into the Upper Penn and the bottom hole location will be closer than the standard setback distance of 660 feet from the Eastern outer boundary of the 320 acre "stand-up" spacing unit – W/2 equivalent of Section 29. It is our understanding that this bottom hole location was picked to optimize reservoir characteristics and to optimize distance between wells. It is also our understanding that the working interest ownership is identical in the W/2 and the E/2 of Section 29.

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.

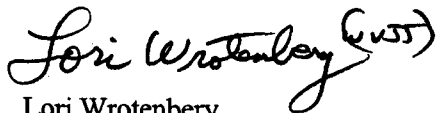
By the authority granted me under the provisions of Division Rule 104.F (2) and the applicable provisions of the special rules governing the Indian Basin-Upper Pennsylvanian Associated Pool, the above-described unorthodox location for the Indian Hills Unit Well No. 38 within the W/2 equivalent of Section 29 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 Indian Hills Unit Wells No. 3 and 13 and from this proposed Well No. 38. Furthermore, Marathon is permitted to produce the allowable assigned the subject 320-acre spacing and proration unit from all three (3) wells in any proportion.

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

Sincerely,



Lori Wrotenbery
Director

LW/wvjj/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management – Carlsbad
State Land Office – Santa Fe