

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

July 1, 1997

HAND DELIVERED

11816

Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

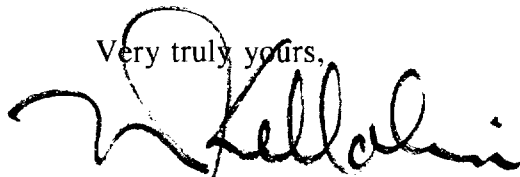
*Re: Application of Marathon Oil Company
for the Expansion of the South Dagger
Draw-Upper Pennsylvanian Associated Pool
and the Corresponding Contraction of the
Indian Basin-Upper Pennsylvanian Gas Pool,
approval of three non-standard proration units,
an unorthodox gas well location and apportionment
of allowables, Eddy County, New Mexico.*

Dear Mr. LeMay:

On behalf of Marathon Company, please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for July 24, 1997.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Marathon Oil Company
attn: Thomas C. Lowry, Esq.

PROPOSED ADVERTISEMENT

11816

CASE_____ Application of Marathon Oil Company for the Expansion of the South Dagger Draw-Upper Pennsylvanian Association Pool and the Contraction of the Indian Basin-Upper Pennsylvanian Gas Pool, approval of three non-standard 320-acre gas proration units, an unorthodox gas well location and apportionment of gas allowables, Eddy County, New Mexico. Applicant, in the above styled cause, seeks an order expanding the South Dagger Draw-Upper Pennsylvanian Associated Pool to include the E/2 of Sections 3, 10, and 15, Township 21 South, Range 23 East, Eddy County, New Mexico and the corresponding contraction of the Indian Basin-Upper Pennsylvanian Gas Pool to delete said acreage from that pool. Applicant also seeks the approval of three non-standard 320-acre gas proration and spacing units being the W/2 of Section 3 to be dedicated to the NIBU Gas Com Well No. 3; the W/2 of Section 10 to be dedicated to the NIBU Well No 1; and the W/2 of Section 15 to be simultaneously dedicated to the NIBU Gas Com Well No. 32 and to the Federal IBA Gas Com Well No. 1, and the apportionment of gas allowables therefor. Applicant further seeks the approval of an unorthodox gas well location for its NIBU Gas Com Well No. 3 located 2310 feet from the west line and 1650 feet from the south line of Section 3, T21S, R23E.

This acreage is located approximately 12 miles southwest of Seven Rivers, New Mexico.

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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

July 2, 1997

TO: ALL INTERESTED PARTIES ENTITLED TO NOTICE
OF THE HEARING OF THE FOLLOWING NEW MEXICO
OIL CONSERVATION DIVISION CASE:

11816

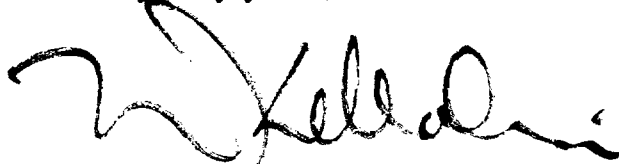
*Re: Application of Marathon Oil Company for expansion of the South
Dagger Draw-Upper Penn Associated Pool and the corresponding
contraction of the Indian Basin-Upper Penn Gas Pool, approval of
three non-standard proration units, an unorthodox gas well location
and the apportionment of allowables, Eddy County, New Mexico.*

On behalf of Marathon Oil Company, please find enclosed our referenced application which has been set for hearing on the New Mexico Oil Conservation Division Examiner's docket now scheduled for July 24, 1997. The hearing will be held at the Division hearing room located in Santa Fe, New Mexico.

As an interest owner who may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

Pursuant to the Division's Memorandum 2-90, you are further notified that if you desire to appear in this case, then you are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, July 18, 1997, with a copy delivered to the undersigned.

Very truly yours,



W. Thomas Kellahin

cc: BY CERTIFIED MAIL-RETURN RECEIPT REQUESTED
to all parties listed in application

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**APPLICATION OF MARATHON OIL COMPANY
FOR THE EXPANSION OF THE SOUTH DAGGER
DRAW-UPPER PENNSYLVANIAN GAS POOL AND
THE CONTRACTION OF THE INDIAN BASIN-UPPER
PENNSYLVANIAN GAS POOL, APPROVAL OF THREE
320-ACRE NON-STANDARD GAS PRORATION AND
SPACING UNITS, INCLUDING SIMULTANEOUS
DEDICATION, AN UNORTHODOX GAS WELL LOCATION
AND THE APPORTIONMENT OF GAS ALLOWABLES,
EDDY COUNTY, NEW MEXICO.**

CASE NO. _____

A P P L I C A T I O N

Comes now MARATHON OIL COMPANY, by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Division for an order expanding the South Dagger Draw-Upper Pennsylvanian Association Pool and contracting the Indian Basin-Upper Pennsylvanian Gas Pool, approval of three non-standard 320-acre gas proration units, an unorthodox gas well location and apportionment of gas allowables, Eddy County, New Mexico. Applicant, in the above styled cause, seeks an order expanding the South Dagger Draw-Upper Pennsylvanian Associated Pool to include the E/2 of Sections 3, 10, and 15, Township 21 South, Range 23 East, Eddy County, New Mexico and the corresponding contraction of the Indian Basin-Upper Pennsylvanian Gas Pool to delete said acreage from that pool. Applicant also seeks the approval of three non-standard 320-acre gas proration and spacing units being the W/2 of Section 3 to be dedicated to the NIBU Gas Com Well No. 3; the W/2 of Section 10 to be dedicated to the NIBU Well No 1; and the W/2 of Section 15 to be simultaneously dedicated to the NIBU Gas Com Well No. 32 and to the Federal IBA Gas Com Well No. 1, and the apportionment of gas allowables therefor. Applicant further seeks the approval of an unorthodox gas well location for its NIBU Gas Com Well No. 3 located 2310 feet from the west line and 1650 feet from the south line of Section 3, T21S, R23E.

and in support thereof states:

1. Marathon Oil Company is the operator of the following three standard 640-acre gas proration and spacing units within the current boundaries of the Indian Basin-Upper Pennsylvanian Gas Pool:

(1) all of Section 3, T21S, R23E simultaneously dedicated to the MOC-Comanche Federal "3" Well No. 1 and to the NIBU Gas Com Well No. 3;

(2) all of Section 10 simultaneously dedicated to the NIBU Well No. 1 and to the NIBU Well No. 30; and

(3) all of Section 15 simultaneously dedicated to the NIBU Gas Com Well No. 32 and to the Federal IBA Gas Com Well No. 1,

as set forth on Exhibit "A" attached.

2. The Cisco/Canyon formations are the principal productive formations within the area described in paragraph (1) above and are included within the current boundaries of the Indian Basin-Upper Pennsylvanian Gas Pool ("Indian Gas Pool") which provides, among other things, for 640-acre proration and spacing units with well locations to be not closer than 1650 feet to the outer boundary of said units.

3. The eastern boundary of each of these spacing units is also the current western boundary of the South Dagger Draw-Upper Pennsylvanian Associated Pool ("South Dagger Draw Pool").

4. South Dagger Draw-Upper Pennsylvanian Associated Pool's principal productive formations are also the Cisco/Canyon formations but its pool rules provide, among other things, for 320-acre proration and spacing units with well locations to be not closer than 660 feet to the outer boundary of said units.

5. Marathon has determined that the E/2 of Sections 3, 10 and 15 should be subject to the rules for the South Dagger Draw Pool while the W/2 of Sections 3, 10 and 15 should subject to the rules for the Indian Basin Pool.

6. In order to protect correlative rights, prevent waste and provide for a more orderly development of the Cisco/Canyon formations, it is necessary to do the following:

(a) contract the Indian Basin-Upper Pennsylvanian Gas Pool to delete the E/2 of Section 3, 10 and 15 from that pool;

(b) approve three non-standard 320-acre gas proration and spacing units ("GPU") being the W/2 of Section 3 to be dedicated to the NIBU Gas Com Well No. 3; the W/2 of Section 10 to be dedicated to the NIBU Well No. 1; and the W/2 of Section 15 to be simultaneously dedicated to the NIBU Gas Com Well No. 32 and to the Federal IBA Gas Com Well No. 1;

(c) the apportionment of gas allowables for the three non-standard GPUs including the retroactive adjustment to April 1, 1996 for the NIBU Gas Com Well No. 3, being the date that well should have been reclassified as non-marginal; and

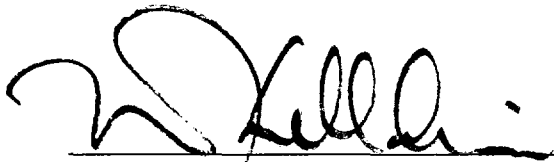
(d) the approval of an unorthodox gas well location for its NIBU Gas Com Well No. 3 located 2310 feet from the west line and 1650 feet from the south line of Section 3, T21S, R23E, NMPM.

7. The granting of this Application will not impair correlative rights of any owner within any of these existing 640-acre GPUs because those owners will continue to share in production from the applicable new 320-acre spacing units on the same proportional basis as they shared in production from the original 640-acre unit.

8. Notification of this application and request for hearing to be held on July 24, 1997 has been sent to the owners within each of these 640-acre gas spacing unit and to the offset operators to each said spacing unit as identified on Exhibit "B" attached.

Wherefore, Applicant requests that, after notice and hearing, this application be granted.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

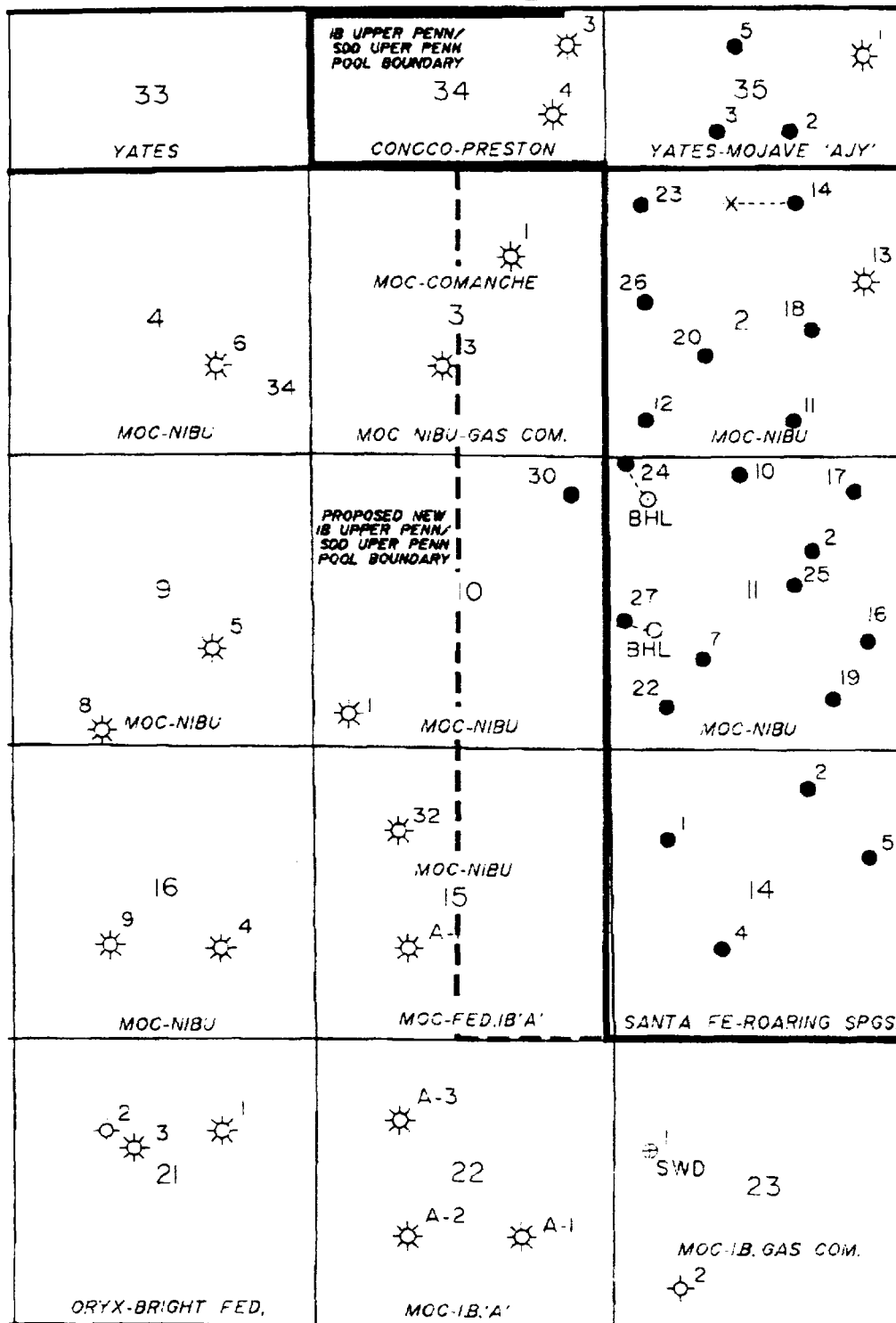
W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87501

Thomas C. Lowry, Esq.
Marathon Oil Company
P. O. Box 552
Midland, Texas 79702

ATTORNEYS FOR MARATHON OIL COMPANY

R 23 E

T
20 1/2
S



MARATHON OIL COMPANY
MID-CONTINENT REGION

**INDIAN BASIN FIELD
AREA**

EDDY COUNTY, NEW MEXICO

LEASE BASE MAP 8/96

10/15/11 MAP E/PL

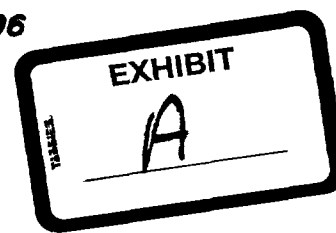


EXHIBIT "B"

**OPERATORS, IN SECTIONS WHERE THERE ARE NO
WELLS, AND WORKING INTEREST OWNERS IN
OFFSETS TO SECTIONS 3, 10 & 15, T-21-S, R-23-E**

**Santa Fe Energy Resources, Inc.
550 West Texas, Suite 1330
Midland TX 79701**

**Oryx Energy Company
P O Box 2880
Dallas, Texas 75221-2880**

**Yates Petroleum Corporation
105 South 4th Street
Artesia NM 88210**

**Yates Drilling Company
105 South 4th Street
Artesia NM 88210**

**ABO Petroleum Corporation
105 South 4th Street
Artesia NM 88210**

**Myco Industries, Inc.
105 South 4th Street
Artesia NM 88210**

OWNERS IN SECTIONS 3, 10, & 15, T-21-S, R-23-E

**Mary Jane Clingman
4416 McFarlin Blvd
Dallas TX 75205-1631**

**Southwest Royalties, Inc.
P O Box 11390
Midland TX 79702-8390**

**Sabine Royalty Trust
P O Box 830650
Dallas TX 75283-0650**

**The Hill Foundation
Wells Fargo Bank Colorado NA
Trust Natural Resources
P O Box 5825
Denver CO 80217-5825**

**First Century Oil, Inc.
P O Box 1518
Roswell NM 88202-1518**

**Thelma G. Thompson
P O Box 1576
Uvalde TX 78802-1576**

**Hugh E. Hanagan
P O Box 329
Roswell NM 88202-0329**

**Wallace and Vergine Gates Family Trust
Wallace and Vergine Gates Trustees
310 W Mescalero Apt 3
Roswell NM 88201-5830**

**Robert B Gates and Nada S Gates Trust
4943 Rustic Trail
Midland TX 79707-1420**

**Helen Gates Maxwell
218 Aldersgate Circle, Givens Ests.
Asheville NC 28803-2044**

**Virginia Gates Irish
7450 Olivetos Ave, Apt 154
La Jolla CA 92037**

**Sara S Jones
1203 Vernon Rd
Ardmore OK 73401-3653**

**C John McIntyre
732 Cloyden Road
Palos Verdes Estates CA 90274-18**

**Ann H Stromberg
274 San Luis Place
Claremont CA 91711-1746**

**Sarann Company
P O Box 2208
Ardmore OK 73402-2208**

**Vol L Boswell, Trustee Tag Trust B
of Ann Kennedy Winslow, Decd
2825 Skelly Dr Ste 825
Tulsa OK 74105-6521**

**Westway Petro
500 N Akard St - Lock Box 70
Dallas TX 75201-3320**

**T C & June B Stromberg Revtr7/10/80
T C & June B Stromberg Trustees
P O Box 2208
Ardmore OK 73402-2208**

**Jon Stromberg
7300 NW Expressway Suite 133
Oklahoma City OK 73132-1545**

**Mary Adele Stromberg Perry
72 Delmore
Hillsboro TX 76645-2357**

**Hanagan Properties
P O Box 1887
Santa Fe NM 87504-1887**

**Wheatley Trust Agency
First Natl Bank of Artesia, Agent
P O Drawer AA
Artesia NM 88211-7526**

**John W Gates & Jean M Gates
Revocable Trust
706 West Grand
Artesia NM 88210-1935**

**William H Stromberg Trust
William H Stromberg, Trustee
P O Box 1412
Ardmore OK 73402-1412**

**Mary Love Stromberg Trust
Mary Love Stromberg, Trustee
P O Box 1412
Ardmore OK 73402-1412**

**Robert L. Bergman
& Jacqueline R Bergman Revocable TR
Dated 4/20/88
2515 Gaye Drive
Roswell NM 88201-3424**

**William Douglass McCoy
19002 Redriver Pass
San Antonio TX 78259-3514**

**Michael Francis McCoy
7524 Kachina Loop
Santa Fe NM 87505-8425**

**Laura Ann McCoy Lindsey
512 Nootka Rd
Dexter NM 88230-9613**

**Brian Patrick McCoy
1708 Meadow Crest Lane
Mansfield TX 76063**

**Kerr Trust MBTO
J G Kerr Jr Trustee
P O Box 1554
Allen TX 75013-0025**

**Leif Olson
2208 Bedford
Midland TX 79701**

**Minerals Management Service
Royalty Management Program
P O Box 5810 TA
Denver CO 80217-5810**

**Commissioner of Public Lands
P O Box 791
Santa Fe NM 87504-0791**

**Nortex Corporation
1415 Louisiana Suite 3100
Houston TX 77002-7353**

**Parker & Parsley Development L.P.
P O Box 3178
Midland TX 79702-3178**

**Devon Energy Corporation (Nevada)
Kerr McGee Acquisition
20 N Broadway Suite 1500
Oklahoma City OK 73102-8260**

**Karen K Stark Barton
2628 SW 45th St
Oklahoma City OK 73119-4611**

**Mary Lou Gibbs
4115 E Zion
Tulsa OK 74115-3232**

**Edith Bevins
515 6th Ave N
Caldwell ID 83605-2962**

**Mary Jane Stark Henderson
347 Hillside Cir
Burleson TX 76028-5225**

**David L Stark
313 Balsam
Lake Jackson TX 77566-6121**

**Jack D Stark
RR 1 Box 15A
Fitzhugh OK 74843-9705**

**L M Stark
305 Frontera
Borger TX 79007-8076**

**Michael Ray Stark
10805 Highway 253
Fort Smith AR 72916-4115**

**W B Stark
RT 5 Box 328
Bartlesville OK 74003-9307**

**Deborah Ann Stark Wortham
RR 3 Box 531
Tuttle OK 73089-9558**

**Tessa Nicole Stark
Jerry D Stark Custodian
906 S Keeler
Bartlesville OK 74003-4743**