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W. THOMAS KELLAHIN*
KAREN AUBREY†

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

JASON KELLAHIN (RETIRED 1991)

January 24, 1992

Mr. William J. LeMay
Oil Conservation Division
310 Old Santa Fe Trail, Room 206
Santa Fe, New Mexico 87501

HAND DELIVERED RECEIVED

Re: Application of Marathon Oil Company
for an Amendment to Division
Order R-9503, McDonald State A/C-1
Lease Waterflood Project, Lea County,
New Mexico.

JAN 24 1992
OIL CONSERVATION DIVISION

102143

Dear Mr. LeMay:

On behalf of Marathon Oil Company, please find enclosed our application seeking authority to increase the upper limit of the waterflood injection interval for Injection Wells #30 and #33 in the McDonald State A/C-1 Lease Waterflood Project, Lea County, New Mexico.

We request that this case be set on the next available Division Examiner's hearing docket now scheduled for February 20, 1992 at the Division Hearing Room, in Santa Fe, New Mexico.

By copy of this letter and application, sent certified mail, we are notifying all interested parties within a 1/2 mile radius of each of these two injection wells of their 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.

Very truly yours,



W. Thomas Kellahin

WTK/jcl/1trt123.092

cc: Thomas C. Lowry, Esq. (Marathon)
By Certified Mail-Return Receipt
All Parties on Exhibit "C" of Application

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

CASE No. 10443

IN THE MATTER OF THE APPLICATION
OF MARATHON OIL COMPANY FOR AN
AMENDMENT TO DIVISION ORDER R-9503
MCDONALD STATE A/C-1 LEASE WATERFLOOD
PROJECT, LEA COUNTY, NEW MEXICO.

RECEIVED

JAN 2 1972

OIL CONSERVATION DIVISION

A P P L I C A T I O N

Comes now MARATHON OIL COMPANY, by and through its attorneys, Kellahin, Kellahin & Aubrey and applies to the New Mexico Oil Conservation Division for an amendment to Division Order R-9503 to authorize the increase in the upper limits of the waterflood injection interval for injection wells No. 30 and No. 33 in the McDonald State A/C-1 Lease Waterflood Project, Lea County, New Mexico, and in support thereof states:

1. Marathon Oil Company ("Marathon") is the operator of the McDonald State A/C-1 Lease waterflood project located in the W/2 of Section 15 and the E/2, SE/4NW/4, and SW/4 of Section 16, T22S, R36E, Lea County, New Mexico, as shown on attached Exhibit A.

2. Marathon has initiated waterflood operations for this project in accordance with Division Order R-9503 issued on May 10, 1991, as shown on attached Exhibit B.

3. The approved waterflood injection interval for the project is the South Eunice Seven Rivers-Queen Pool, the top vertical limits of which is 100 feet above the top of the Queen formation and the bottom vertical limit of which is the top of the Grayburg formation except that certain injection wells, including injection wells No. 30 and No. 33, are currently limited to a top injection interval corresponding to the top of the Queen formation.

4. Division Order R-9503 further provided that Marathon may seek the determination of the Division for approval to inject above the top of the Queen in these currently limited injection wells.

5. Initial injectivity surveys conducted on Injection Wells No. 30 and No. 33, while inconclusive and subject to interpretation, may indicate the possibility that injection water may migrate vertically above the top of the Queen formation a total distance

not in excess of forty-vertical feet in each of these two injection wells.

6. That Division Order R-9503 currently limits the injection interval to the top of the Queen formation.

7. To avoid any dispute over or uncertainty about the injection interval actually being used in these two injection wells, Marathon has shut in these two injection wells pending a determination by the Division as to whether the possible failure to meet the vertical limitation as applied to either of these two injection wells will jeopardize any Jalmat Gas well within the area of review.

8. Marathon has opened the pay zones in the Seven Rivers and Queen formations in the Marathon producing wells Nos. 1, 3 and 4 in Section 15 and wells Nos. 3, 4, 8, 9, 10, 29 and 46 in Section 16 which will reduce reservoir pressure and the potential for injection water to encroach upon any Jalmat producing gas wells.

9. Marathon has obtained cement bond logs for the two subject injection wells which verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells.

10. The waterflood project is limited to a surface injection pressure limitation not in excess of the Division guideline of 0.2 psi per foot of depth which further reduces any potential risk to any Jalmat gas wells.

11. The vertical separation between the top possible injection interval in each subject injection well and the deepest known producing gas in the Jalmat gas wells is approximately sixty feet which is adequate to maintain isolation and separation between the waterflood project and the Jalmat gas wells.

12. Accordingly, Marathon seeks to expand the top vertical limit of the approved injection interval for injection wells No. 30 and No. 33 to be forty feet above the top of the Queen formation.

13. In accordance with Division notice requirements, copies of this application have been sent, certified mail return receipt, to those parties listed on Exhibit C notifying them that the Applicant requests that this matter be set for hearing on the Division Examiner's docket now scheduled for February 20, 1992.

WHEREFORE, Marathon requests that this matter be set on the Division Examiner docket and that after hearing, the application be approved to authorize an expansion in the approved injection interval for Injection Wells No. 30 and No. 33 to be not higher than forty feet above the top of the Queen formation in each of those wells.

Respectfully submitted,

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

W. Thomas Kellahin
Kellahin, Kellahin & Aubrey
P. O. Box 2265
Santa Fe, New Mexico 878504

and

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

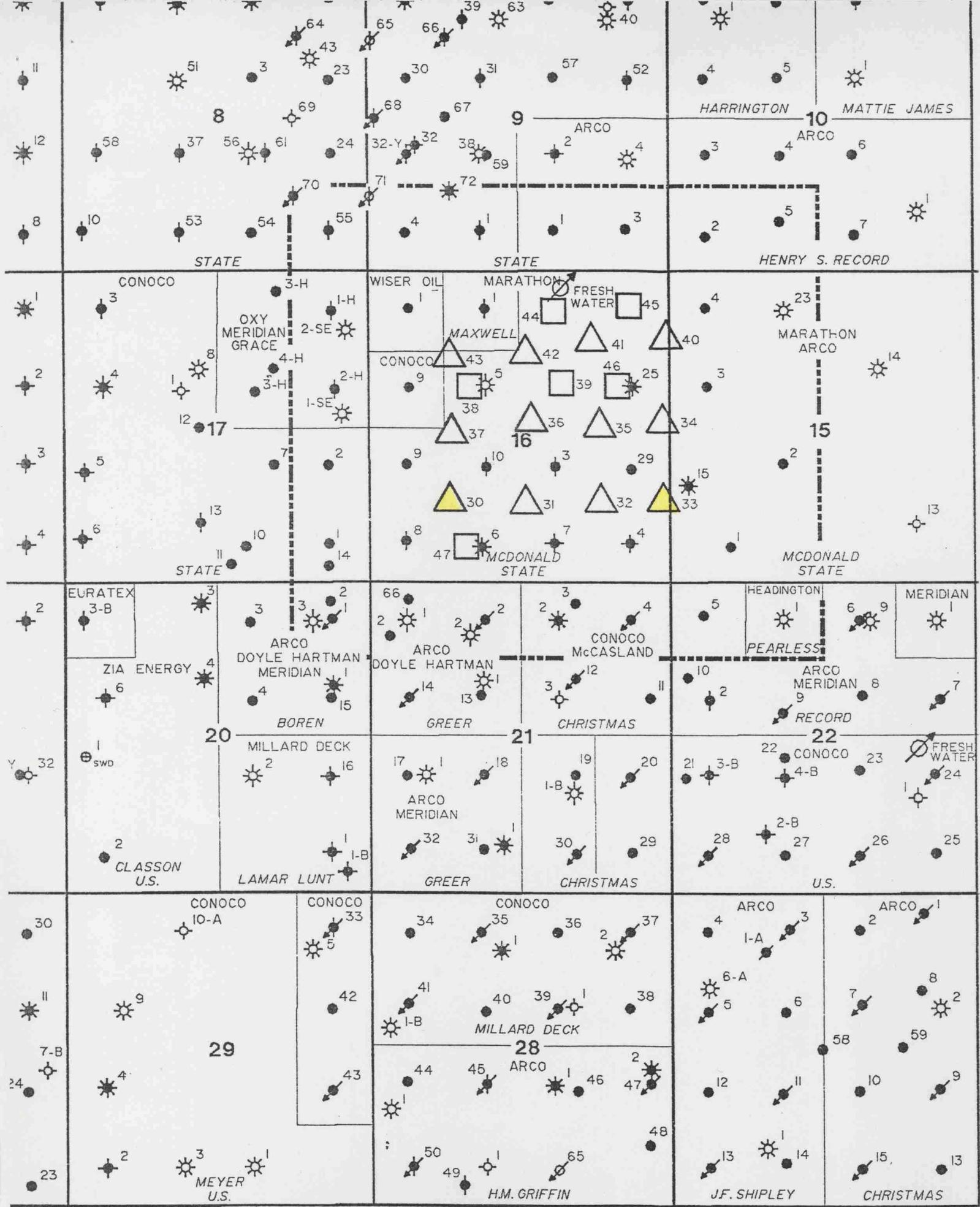


EXHIBIT "A"

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:

CASE NO. 10269
ORDER NO. R-9503

APPLICATION OF MARATHON OIL COMPANY
FOR A WATERFLOOD PROJECT AND TWELVE
UNORTHODOX INJECTION WELL LOCATIONS,
LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 21 and April 18, 1991 at Santa Fe, New Mexico, before Examiners Michael E. Stogner and Jim H. Morrow, respectively.

NOW, on this 10th day of May, 1991, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Marathon Oil, Inc., seeks authority to institute a waterflood project on its McDonald State A/C-1 Lease comprising the W/2 of Section 15 and the E/2, SE/4 NW/4, and SW/4 of Section 16, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, by the injection of water into the South Eunice Seven Rivers-Queen Pool through the perforated interval from approximately 3500 feet to 3850 feet in twelve injection wells, each to be drilled at unorthodox locations as further described in Exhibit "A" attached hereto and made a part hereof.

(3) At the March 21, 1991 hearing a representative of ARCO Oil and Gas Company entered an appearance in this matter. Further a representative of Doyle Hartman entered an appearance at the April 18, 1991 hearing. Both ARCO and Doyle Hartman have an interest in the Jalmat Gas Pool either within or immediately offsetting the proposed waterflood project area.

(4) The wells in the proposed project area are in an advanced state of depletion and should therefore be properly classified as "stripper wells."

(5) The proposed waterflood project is estimated to have the potential to recover 1.44 million barrels of additional oil which might not otherwise be recovered in the absence of a waterflood project; therefore said project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(6) While the applicant applied for authority to inject water under pressure in excess of the Division's guideline of 0.2 psi per foot of depth, at the hearing the applicant withdrew that request.

(7) The injection wells are to be newly drilled wells at unorthodox well locations approximately equal distances from offsetting producing wells in order to develop an effective and efficient well pattern. In order to accomplish this pattern, it is necessary to approve the unorthodox location of these injection wells as described on Exhibit "A" of this order.

(8) Prior to commencing the injection of water into the proposed Well Nos. 37 or 43, the operator shall obtain a lease line injection agreement with the offset operators for the W/2 NW/4 of said Section 16 and submit a copy of said agreement to the Division.

(9) The proposed waterflood injection interval for said project is proposed to be the South Eunice Seven Rivers-Queen Pool, the vertical limits of which extend from 100 feet above the top of the Queen to the top of the Grayburg formation; however, the applicant has requested that proposed water injection well Nos. 30, 31, 33, 34 and 40 be limited to injection into the Seven Rivers formation of said pool at this time due to their proximity to nearby Jalmat Gas wells.

(10) The McDonald State "WN" Well Nos. 15 and 23, currently operated by ARCO, are producing Jalmat Gas wells located in Unit L and Unit C, respectively, of Section 15, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico.

(11) In addition, Doyle Hartman currently oversees three temporarily abandoned Jalmat Gas wells: the Boren-Greer Gas Com Wells Nos. 1, 2, and 3 in Unit D and C of Section 21 and in Unit A of Section 20, both in Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, respectively.

(12) The base of the Jalmat Gas Pool in this area corresponds to the top of the South Eunice Seven Rivers-Queen Pool.

(13) To help ensure that water injection from the proposed waterflood project does not adversely affect the Jalmat Gas Pool in the areas described in Finding Paragraph Nos. (10) and (11) above the applicant hereby requests that the proposed injection Well Nos. 30, 31, 33, 34 and 40 be subject to the following special provisions:

- (a) the upper vertical limit of injection shall be the top of the Queen formation, as defined in the Marathon McDonald A/C-1 Well No. 29, located in Unit I of said Section 16, at a depth of 3695 feet RKB on the Dresser Atlas Compensated Neutron/Densilog dated March 27, 1977 and as defined in the Marathon McDonald A/C-1 Well No. 8, located in Unit M of said Section 16, at a depth of 3618 feet RKB on the Apollo Perforators Inc. Dual Spaced Compensated Neutron/GR/CCI Log dated September 19, 1990;
- (b) any hydraulic fracture treatment for these wells shall be tagged with radioactive tracer material and logged immediately after the fracture treatment to ensure that the fracture treatment and subsequent water injection are contained in the Queen formation;
- (c) the operator shall obtain cement bond logs to verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells;
- (d) the operator shall obtain initial injectivity surveys for these wells to verify that injection is being maintained within the top of the Queen formation;

(e) the potential pay zones in the Seven Rivers and Queen formations in the Marathon producing McDonald State A/C-1 Well Nos. 4, 29 and 46 in Section 16, and Well Nos. 3 and 4 in Section 15 shall be opened to help prevent injection water reaching the ARCO McDonald State "WN" Well Nos. 15 and 23 Jalmat Gas producing interval;

(f) Marathon shall make a concerted effort not to flood/water out any gas bearing zones in the lower 100 feet of the Seven Rivers formation of the Eunice South Pool and in the event Marathon desires to flood the lower 100 feet of the Seven Rivers formation, sufficient data as to residual oil saturation should be gathered to make certain such interval is not predominantly gas bearing;

(14) If the results of any survey or test performed on these injection wells show that the limitations of items 13(a) through 13(f) are not being met, Marathon may not commence or continue injection into the well or wells involved pending a determination by the Division Director whether the failure to meet the limitation will jeopardize either of the existing ARCO Jalmat Gas wells or any of the potentially active Hartman Jalmat Gas wells described above.

(15) The operator should take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape into other formations or onto the surface from injection, production or plugged and abandoned wells.

(16) Applicant submitted data on the proposed injection wells, water wells in the area, and all wells (including plugged wells) which penetrate the zone of interest within 1/2 mile of each of the proposed injection wells. This data shows that wells in the area are cased and plugged so as to protect fresh water and prevent fluid migration from the injection zone, and includes testimony indicating no evidence of open faults or any other hydrologic connection between the injection zone and the fresh water resources in the area.

(17) With the adoption of the special provisions of Paragraph (13) above, the proposed waterflood injection interval shows to be adequately isolated from any hydrocarbon productive formation above or below that interval and is further isolated from any potential fresh water sources.

(18) The injection wells or injection pressurization system for each well should be so equipped as to limit injection pressure at the wellhead to no more than 700 psi.

(19) Injection should be accomplished through 2 7/8-inch plastic-lined tubing installed in a packer set at approximately 100 feet above the uppermost perforated interval; the casing-tubing annulus should be filled with an inert fluid; and a pressure gauge or approved leak-detection device should be attached to the annulus in order to determine leaks in the casing, tubing or packer.

(20) Prior to commencing injection operations, the casing in each of the subject wells should be pressure-tested throughout the interval, from the surface down to the proposed packer-setting depth, to assure integrity of such casing.

(21) The Director of the Division should be authorized to administratively approve an increase in the injection pressure upon a proper showing by the operator that such higher pressure will not result in migration of the injected waters from its authorized injection interval.

(22) The operator should give advance notification to the supervisor of the Hobbs District Office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity pressure-test in order that the same may be witnessed.

(23) The subject application should be approved and the project should be governed by the provisions of Rules 702 through 708 of the Division Rules and Regulations.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Marathon Oil Company, is hereby authorized to institute a waterflood project on its McDonald State A/C-1 Lease, comprising the E/2, SE/4 NW/4 and SW/4 of Section 16 and W/2 of Section 15, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico by the injection of water into the South Eunice Seven Rivers-Queen Pool, through the perforated interval from approximately 3500 feet to 3850 feet in each of the injection wells shown on Exhibit "A" attached hereto and made a part hereof, EXCEPT that the water injected into the McDonald State A/C-1 Well Nos. 30, 31, 33, 34 and 40 shall be confined to not exceed the top of the Queen formation pending further order of the Division.

PROVIDED HOWEVER THAT, prior to commencing injection operations in injection wells Nos. 30, 31, 33, 34, or 40, the following special provisions shall apply:

- (a) the upper vertical limit of injection shall be the top of the Queen formation, as defined in the Marathon McDonald State A/C-1 Well No. 29, located in Unit I, Section 16, at a depth of 3695 feet RKB on the Dresser Atlas Compensated Neutron/Densilog dated March 27, 1977 and as defined in the Marathon McDonald State A/C-1 Well No. 8, located in Unit M of said Section 16, at a depth of 3618 feet RKB on Apollo Perforators Inc. Dual Spaced Compensated Neutron/GR/CCL Log dated September 19, 1990;
- (b) any hydraulic fracture treatments shall be allowed for these five injection wells only if the treatments are tagged with radioactive tracer material and the wells logged immediately after the fracture treatment to ensure that the fracture treatment and subsequent water injection are contained in the Queen formation;
- (c) the operator shall obtain cement bond logs to verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells;
- (d) the operator shall obtain initial injectivity surveys for these wells to verify that injection is being maintained within the top of the Queen formation;
- (e) the potential pay zones in the Seven Rivers and Queen formations in the Marathon producing McDonald State A/C-1 Well Nos. 4, 29 and 46 in Section 16 and Well Nos. 3 and 4 in Section 15 shall be opened to help prevent injection water reaching the ARCO McDonald State "WN" Well Nos. 13 and 23 Jalmat Gas producing interval;
- (f) Marathon shall make a concerted effort not to flood/water out any gas bearing zones in the lower 100 feet of the Seven Rivers formation of the South Eunice Oil Pool and in the event Marathon desires to flood the lower 100 feet of the Seven Rivers formation, sufficient data as to residual oil saturation will be gathered to make certain such interval is not predominantly gas bearing;

(2) If the results of any survey or test performed on these injection wells show that the limitations of ordering Paragraphs 1(a) through 1(f) are not being met, Marathon shall not commence or continue injection into the well or wells involved pending a determination by the Division, after notice and hearing, whether the failure to meet the limitation will jeopardize any of the Hartman or ARCO Jalmat Gas wells.

PROVIDED FURTHER THAT:

(3) If the results of any survey or test performed on these injection wells show that the limitations of ordering Paragraph 1(a) through 1(f) are not being met, Marathon shall not commence or continue injection into the well or wells involved pending a determination by the Division Director whether the failure to meet the limitation will jeopardize either of the ARCO Jalmat Gas wells.

(4) The injection wells herein authorized and/or injection pressurization system shall be so equipped as to limit injection pressure at the wellhead to no more than 700 psi.

(5) The unorthodox injection well locations are approved as described on Exhibit "A" of this order.

(6) Injection into said injection wells shall be through 2-7/8 inch internally plastic coated tubing, set in a packer which shall be located within 100 feet of the top perforations, and the casing-tubing annulus shall be loaded with an inert fluid and equipped with an approved pressure gauge or attention attracting leak detection device.

(7) Prior to commencing injection operations, the casing in the subject well shall be pressure-tested to assure the integrity of such casing in a manner that is satisfactory to the supervisor of the Division's Hobbs District Office.

(8) The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator that such higher pressure will not result in migration of the injected fluid from its authorized injection interval.

(9) The operator shall notify the supervisor of the Hobbs District Office of the Division in advance of the date and time of the installation of injection equipment and of the mechanical integrity pressure-test in order that the same may be witnessed.

(10) The operator shall immediately notify the supervisor of the Division's Hobbs District Office of the failure of the tubing, casing or packer, in said well or the leakage of water from or around said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

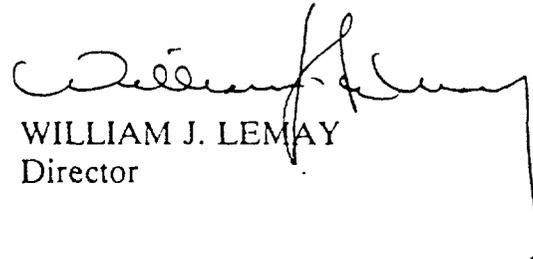
(11) The subject waterflood project is hereby designated the McDonald State A/C-1 Lease Waterflood Project and shall be governed by the provisions of Rules 701 through 708 of the Division Rules and Regulations.

(12) Monthly progress reports of the waterflood project herein authorized shall be submitted to the Division in accordance with Rules 706 and 1115 of the Division Rules and Regulations.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

S E

CASE NO. 10269
 ORDER NO. R-9503
 MARATHON OIL, INC.
 PROPOSED INJECTION WELL LOCATIONS
 McDONALD STATE A/C-1 LEASE
 ALL IN SECTION 16, TOWNSHIP 22 SOUTH, RANGE 36 EAST, NM1PM, LEA COUNTY, NEW MEXICO
 EXHIBIT "A"

WELL NUMBER	FOOTAGE LOCATION	UNIT LETTER	INJECTION INTERVAL
30	1390' FSL - 1260' FWL	L	Queen
31	1340' FSL - 2620' FWL	K	Queen
32	1340' FSL - 1260' FEL	I	Seven Rivers-Queen
33	1340' FSL - 10' FEL	I	Queen
34	2620' FSL - 25' FEL	I	Queen
35	2620' FNL - 1310' FEL	H	Seven Rivers-Queen
36	2620' FSL - 2630' FEL	J	Seven Rivers-Queen
37*	2620' FSL - 1330' FWL	K	Seven Rivers-Queen
40	1340' FNL - 25' FEL	H	Queen
41	1340' FNL - 1310' FEL	H	Seven Rivers-Queen
42*	1340' FNL - 2630' FEL	G	Seven Rivers-Queen
43*	1360' FNL - 1330' FWL	F	Seven Rivers-Queen

* Denotes Lease Line Injection Wells

EXHIBIT "C"

Offset Operators - McDonald State Account 1 Lease:

ARCO Oil and Gas Company
P.O. Box 1610
Midland, Texas 79702

Conoco, Inc.
P.O. Box 1959
Midland, Texas 79702

Meridian Oil Inc.
21 Desta Drive
Midland, Texas 79701

Doyle Hartman
P.O. Box 10426
Midland, Texas 79701

Headington Oil
7557 Rambler Road, Suite 1150
Dallas, Texas 75231

Dallas McCasland
P.O. Box 206
Eunice, New Mexico 88231

Surface Owners and Lessees:

State of New Mexico
c/o Commissioner of Public Lands
P.O. Box 1148
Santa Fe, New Mexico 87504

Dasco Land Corporation
P.O. Box 2454
Hobbs, New Mexico 88240

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

CASE No. 10443

IN THE MATTER OF THE APPLICATION
OF MARATHON OIL COMPANY FOR AN
AMENDMENT TO DIVISION ORDER R-9503
MCDONALD STATE A/C-1 LEASE WATERFLOOD
PROJECT, LEA COUNTY, NEW MEXICO.

RECEIVED

JAN 21 1982

A P P L I C A T I O N

OIL CONSERVATION DIVISION

Comes now MARATHON OIL COMPANY, by and through its attorneys, Kellahin, Kellahin & Aubrey and applies to the New Mexico Oil Conservation Division for an amendment to Division Order R-9503 to authorize the increase in the upper limits of the waterflood injection interval for injection wells No. 30 and No. 33 in the McDonald State A/C-1 Lease Waterflood Project, Lea County, New Mexico, and in support thereof states:

1. Marathon Oil Company ("Marathon") is the operator of the McDonald State A/C-1 Lease waterflood project located in the W/2 of Section 15 and the E/2, SE/4NW/4, and SW/4 of Section 16, T22S, R36E, Lea County, New Mexico, as shown on attached Exhibit A.

2. Marathon has initiated waterflood operations for this project in accordance with Division Order R-9503 issued on May 10, 1991, as shown on attached Exhibit B.

3. The approved waterflood injection interval for the project is the South Eunice Seven Rivers-Queen Pool, the top vertical limits of which is 100 feet above the top of the Queen formation and the bottom vertical limit of which is the top of the Grayburg formation except that certain injection wells, including injection wells No. 30 and No. 33, are currently limited to a top injection interval corresponding to the top of the Queen formation.

4. Division Order R-9503 further provided that Marathon may seek the determination of the Division for approval to inject above the top of the Queen in these currently limited injection wells.

5. Initial injectivity surveys conducted on Injection Wells No. 30 and No. 33, while inconclusive and subject to interpretation, may indicate the possibility that injection water may migrate vertically above the top of the Queen formation a total distance

not in excess of forty-vertical feet in each of these two injection wells.

6. That Division Order R-9503 currently limits the injection interval to the top of the Queen formation.

7. To avoid any dispute over or uncertainty about the injection interval actually being used in these two injection wells, Marathon has shut in these two injection wells pending a determination by the Division as to whether the possible failure to meet the vertical limitation as applied to either of these two injection wells will jeopardize any Jalmat Gas well within the area of review.

8. Marathon has opened the pay zones in the Seven Rivers and Queen formations in the Marathon producing wells Nos. 1, 3 and 4 in Section 15 and wells Nos. 3, 4, 8, 9, 10, 29 and 46 in Section 16 which will reduce reservoir pressure and the potential for injection water to encroach upon any Jalmat producing gas wells.

9. Marathon has obtained cement bond logs for the two subject injection wells which verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells.

10. The waterflood project is limited to a surface injection pressure limitation not in excess of the Division guideline of 0.2 psi per foot of depth which further reduces any potential risk to any Jalmat gas wells.

11. The vertical separation between the top possible injection interval in each subject injection well and the deepest known producing gas in the Jalmat gas wells is approximately sixty feet which is adequate to maintain isolation and separation between the waterflood project and the Jalmat gas wells.

12. Accordingly, Marathon seeks to expand the top vertical limit of the approved injection interval for injection wells No. 30 and No. 33 to be forty feet above the top of the Queen formation.

13. In accordance with Division notice requirements, copies of this application have been sent, certified mail return receipt, to those parties listed on Exhibit C notifying them that the Applicant requests that this matter be set for hearing on the Division Examiner's docket now scheduled for February 20, 1992.

Page 5

WHEREFORE, Marathon requests that this matter be set on the Division Examiner docket and that after hearing, the application be approved to authorize an expansion in the approved injection interval for Injection Wells No. 30 and No. 33 to be not higher than forty feet above the top of the Queen formation in each of those wells.

Respectfully submitted,

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W. Thomas Kellahin
Kellahin, Kellahin & Aubrey
P. O. Box 2265
Santa Fe, New Mexico 878504

and

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

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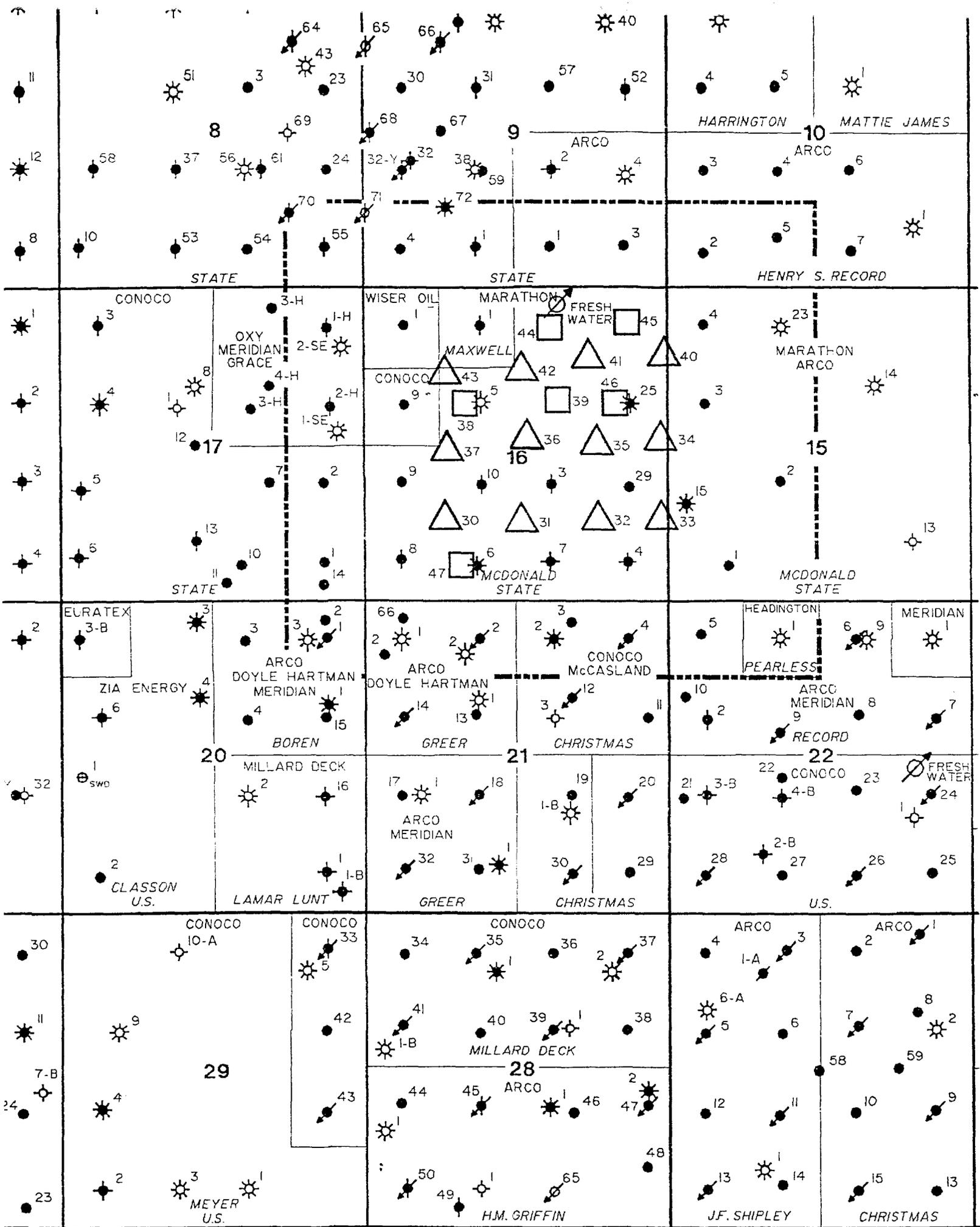


EXHIBIT "A"

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
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CONSIDERING:

CASE NO. 10269
ORDER NO. R-9503

APPLICATION OF MARATHON OIL COMPANY
FOR A WATERFLOOD PROJECT AND TWELVE
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ORDER OF THE DIVISION

BY THE DIVISION:

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NOW, on this 10th day of May, 1991, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Marathon Oil, Inc., seeks authority to institute a waterflood project on its McDonald State A/C-1 Lease comprising the W/2 of Section 15 and the E/2, SE/4 NW/4, and SW/4 of Section 16, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, by the injection of water into the South Eunice Seven Rivers-Queen Pool through the perforated interval from approximately 3500 feet to 3850 feet in twelve injection wells, each to be drilled at unorthodox locations as further described in Exhibit "A" attached hereto and made a part hereof.

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(10) The McDonald State "WN" Well Nos. 15 and 23, currently operated by ARCO, are producing Jalmat Gas wells located in Unit L and Unit C, respectively, of Section 15, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico.

(11) In addition, Doyle Hartman currently oversees three temporarily abandoned Jalmat Gas wells: the Boren-Greer Gas Com Wells Nos. 1, 2, and 3 in Unit D and C of Section 21 and in Unit A of Section 20, both in Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, respectively.

(12) The base of the Jalmat Gas Pool in this area corresponds to the top of the South Eunice Seven Rivers-Queen Pool.

(13) To help ensure that water injection from the proposed waterflood project does not adversely affect the Jalmat Gas Pool in the areas described in Finding Paragraph Nos. (10) and (11) above the applicant hereby requests that the proposed injection Well Nos. 30, 31, 33, 34 and 40 be subject to the following special provisions:

(a) the upper vertical limit of injection shall be the top of the Queen formation, as defined in the Marathon McDonald A/C-1 Well No. 29, located in Unit I of said Section 16, at a depth of 3695 feet RKB on the Dresser Atlas Compensated Neutron/Densilog dated March 27, 1977 and as defined in the Marathon McDonald A/C-1 Well No. 8, located in Unit M of said Section 16, at a depth of 3618 feet RKB on the Apollo Perforators Inc. Dual Spaced Compensated Neutron/GR/CCI Log dated September 19, 1990;

(b) any hydraulic fracture treatment for these wells shall be tagged with radioactive tracer material and logged immediately after the fracture treatment to ensure that the fracture treatment and subsequent water injection are contained in the Queen formation;

(c) the operator shall obtain cement bond logs to verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells;

(d) the operator shall obtain initial injectivity surveys for these wells to verify that injection is being maintained within the top of the Queen formation;

(e) the potential pay zones in the Seven Rivers and Queen formations in the Marathon producing McDonald State A/C-1 Well Nos. 4, 29 and 46 in Section 16, and Well Nos. 3 and 4 in Section 15 shall be opened to help prevent injection water reaching the ARCO McDonald State "WN" Well Nos. 15 and 23 Jalmat Gas producing interval;

(f) Marathon shall make a concerted effort not to flood/water out any gas bearing zones in the lower 100 feet of the Seven Rivers formation of the Eunice South Pool and in the event Marathon desires to flood the lower 100 feet of the Seven Rivers formation, sufficient data as to residual oil saturation should be gathered to make certain such interval is not predominantly gas bearing;

(14) If the results of any survey or test performed on these injection wells show that the limitations of items 13(a) through 13(f) are not being met, Marathon may not commence or continue injection into the well or wells involved pending a determination by the Division Director whether the failure to meet the limitation will jeopardize either of the existing ARCO Jalmat Gas wells or any of the potentially active Hartman Jalmat Gas wells described above.

(15) The operator should take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape into other formations or onto the surface from injection, production or plugged and abandoned wells.

(16) Applicant submitted data on the proposed injection wells, water wells in the area, and all wells (including plugged wells) which penetrate the zone of interest within 1/2 mile of each of the proposed injection wells. This data shows that wells in the area are cased and plugged so as to protect fresh water and prevent fluid migration from the injection zone, and includes testimony indicating no evidence of open faults or any other hydrologic connection between the injection zone and the fresh water resources in the area.

(17) With the adoption of the special provisions of Paragraph (13) above, the proposed waterflood injection interval shows to be adequately isolated from any hydrocarbon productive formation above or below that interval and is further isolated from any potential fresh water sources.

(18) The injection wells or injection pressurization system for each well should be so equipped as to limit injection pressure at the wellhead to no more than 700 psi.

(19) Injection should be accomplished through 2 7/8-inch plastic-lined tubing installed in a packer set at approximately 100 feet above the uppermost perforated interval; the casing-tubing annulus should be filled with an inert fluid; and a pressure gauge or approved leak-detection device should be attached to the annulus in order to determine leaks in the casing, tubing or packer.

(20) Prior to commencing injection operations, the casing in each of the subject wells should be pressure-tested throughout the interval, from the surface down to the proposed packer-setting depth, to assure integrity of such casing.

(21) The Director of the Division should be authorized to administratively approve an increase in the injection pressure upon a proper showing by the operator that such higher pressure will not result in migration of the injected waters from its authorized injection interval.

(22) The operator should give advance notification to the supervisor of the Hobbs District Office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity pressure-test in order that the same may be witnessed.

(23) The subject application should be approved and the project should be governed by the provisions of Rules 702 through 708 of the Division Rules and Regulations.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Marathon Oil Company, is hereby authorized to institute a waterflood project on its McDonald State A/C-1 Lease, comprising the E/2, SE/4 NW/4 and SW/4 of Section 16 and W/2 of Section 15, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico by the injection of water into the South Eunice Seven Rivers-Queen Pool, through the perforated interval from approximately 3500 feet to 3850 feet in each of the injection wells shown on Exhibit "A" attached hereto and made a part hereof, EXCEPT that the water injected into the McDonald State A/C-1 Well Nos. 30, 31, 33, 34 and 40 shall be confined to not exceed the top of the Queen formation pending further order of the Division.

PROVIDED HOWEVER THAT, prior to commencing injection operations in injection wells Nos. 30, 31, 33, 34, or 40, the following special provisions shall apply:

- (a) the upper vertical limit of injection shall be the top of the Queen formation, as defined in the Marathon McDonald State A/C-1 Well No. 29, located in Unit I, Section 16, at a depth of 3695 feet RKB on the Dresser Atlas Compensated Neutron/Densilog dated March 27, 1977 and as defined in the Marathon McDonald State A/C-1 Well No. 8, located in Unit M of said Section 16, at a depth of 3618 feet RKB on Apollo Perforators Inc. Dual Spaced Compensated Neutron/GR/CCL Log dated September 19, 1990;
- (b) any hydraulic fracture treatments shall be allowed for these five injection wells only if the treatments are tagged with radioactive tracer material and the wells logged immediately after the fracture treatment to ensure that the fracture treatment and subsequent water injection are contained in the Queen formation;
- (c) the operator shall obtain cement bond logs to verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells;
- (d) the operator shall obtain initial injectivity surveys for these wells to verify that injection is being maintained within the top of the Queen formation;
- (e) the potential pay zones in the Seven Rivers and Queen formations in the Marathon producing McDonald State A/C-1 Well Nos. 4, 29 and 46 in Section 16 and Well Nos. 3 and 4 in Section 15 shall be opened to help prevent injection water reaching the ARCO McDonald State "WN" Well Nos. 13 and 23 Jalmat Gas producing interval;
- (f) Marathon shall make a concerted effort not to flood/water out any gas bearing zones in the lower 100 feet of the Seven Rivers formation of the South Eunice Oil Pool and in the event Marathon desires to flood the lower 100 feet of the Seven Rivers formation, sufficient data as to residual oil saturation will be gathered to make certain such interval is not predominantly gas bearing;

(2) If the results of any survey or test performed on these injection wells show that the limitations of ordering Paragraphs 1(a) through 1(f) are not being met, Marathon shall not commence or continue injection into the well or wells involved pending a determination by the Division, after notice and hearing, whether the failure to meet the limitation will jeopardize any of the Hartman or ARCO Jalmat Gas wells.

PROVIDED FURTHER THAT:

(3) If the results of any survey or test performed on these injection wells show that the limitations of ordering Paragraph 1(a) through 1(f) are not being met, Marathon shall not commence or continue injection into the well or wells involved pending a determination by the Division Director whether the failure to meet the limitation will jeopardize either of the ARCO Jalmat Gas wells.

(4) The injection wells herein authorized and/or injection pressurization system shall be so equipped as to limit injection pressure at the wellhead to no more than 700 psi.

(5) The unorthodox injection well locations are approved as described on Exhibit "A" of this order.

(6) Injection into said injection wells shall be through 2-7/8 inch internally plastic coated tubing, set in a packer which shall be located within 100 feet of the top perforations, and the casing-tubing annulus shall be loaded with an inert fluid and equipped with an approved pressure gauge or attention attracting leak detection device.

(7) Prior to commencing injection operations, the casing in the subject well shall be pressure-tested to assure the integrity of such casing in a manner that is satisfactory to the supervisor of the Division's Hobbs District Office.

(8) The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator that such higher pressure will not result in migration of the injected fluid from its authorized injection interval.

(9) The operator shall notify the supervisor of the Hobbs District Office of the Division in advance of the date and time of the installation of injection equipment and of the mechanical integrity pressure-test in order that the same may be witnessed.

Case No. 10269
Order No. R-9503
Page No. 8

(10) The operator shall immediately notify the supervisor of the Division's Hobbs District Office of the failure of the tubing, casing or packer, in said well or the leakage of water from or around said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

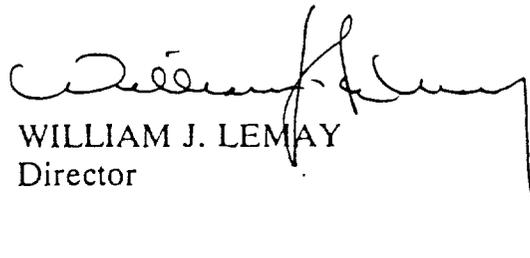
(11) The subject waterflood project is hereby designated the McDonald State A/C-1 Lease Waterflood Project and shall be governed by the provisions of Rules 701 through 708 of the Division Rules and Regulations.

(12) Monthly progress reports of the waterflood project herein authorized shall be submitted to the Division in accordance with Rules 706 and 1115 of the Division Rules and Regulations.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

SE

CASE NO. 10269
 ORDER NO. R-9503
 MARATHON OIL, INC.
 PROPOSED INJECTION WELL LOCATIONS
 McDONALD STATE A/C-1 LEASE
 ALL IN SECTION 16, TOWNSHIP 22 SOUTH, RANGE 36 EAST, NM1PM, LEA COUNTY, NEW MEXICO
 EXHIBIT "A"

WELL NUMBER	FOOTAGE LOCATION	UNIT LETTER	INJECTION INTERVAL
30	1390' FSL - 1260' FWL	L	Queen
31	1340' FSL - 2620' FWL	K	Queen
32	1340' FSL - 1260' FEL	I	Seven Rivers-Queen
33	1340' FSL - 10' FEL	I	Queen
34	2620' FSL - 25' FEL	I	Queen
35	2620' FNL - 1310' FEL	H	Seven Rivers-Queen
36	2620' FSL - 2630' FEL	J	Seven Rivers-Queen
37*	2620' FSL - 1330' FWL	K	Seven Rivers-Queen
40	1340' FNL - 25' FEL	H	Queen
41	1340' FNL - 1310' FEL	H	Seven Rivers-Queen
42*	1340' FNL - 2630' FEL	G	Seven Rivers-Queen
43*	1360' FNL - 1330' FWL	F	Seven Rivers-Queen

* Denotes Lease Line Injection Wells

EXHIBIT "C"

Offset Operators - McDonald State Account 1 Lease:

ARCO Oil and Gas Company
P.O. Box 1610
Midland, Texas 79702

Conoco, Inc.
P.O. Box 1959
Midland, Texas 79702

Meridian Oil Inc.
21 Desta Drive
Midland, Texas 79701

Doyle Hartman
P.O. Box 10426
Midland, Texas 79701

Headington Oil
7557 Rambler Road, Suite 1150
Dallas, Texas 75231

Dallas McCasland
P.O. Box 206
Eunice, New Mexico 88231

Surface Owners and Lessees:

State of New Mexico
c/o Commissioner of Public Lands
P.O. Box 1148
Santa Fe, New Mexico 87504

Dasco Land Corporation
P.O. Box 2454
Hobbs, New Mexico 88240

KELLAHIN, KELLAHIN AND AUBREY

ATTORNEYS AT LAW
EL PATIO BUILDING
117 NORTH GUADALUPE
POST OFFICE BOX 2265

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

W. THOMAS KELLAHIN*
KAREN AUBREY*

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

SANTA FE, NEW MEXICO 87504-2265

January 24, 1992

JASON KELLAHIN (RETIRED 1991)

Mr. William J. LeMay
Oil Conservation Division
310 Old Santa Fe Trail, Room 206
Santa Fe, New Mexico 87501

OIL CONSERVATION DIVISION

HAND DELIVERED

Re: Application of Marathon Oil Company
for an Amendment to Division
Order R-9503, McDonald State A/C-1
Lease Waterflood Project, Lea County,
New Mexico.

Case 10443

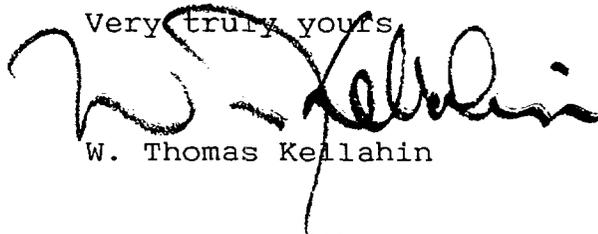
Dear Mr. LeMay:

On behalf of Marathon Oil Company, please find enclosed our application seeking authority to increase the upper limit of the waterflood injection interval for Injection Wells #30 and #33 in the McDonald State A/C-1 Lease Waterflood Project, Lea County, New Mexico.

We request that this case be set on the next available Division Examiner's hearing docket now scheduled for February 20, 1992 at the Division Hearing Room, in Santa Fe, New Mexico.

By copy of this letter and application, sent certified mail, we are notifying all interested parties within a 1/2 mile radius of each of these two injection wells of their 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.

Very truly yours,



W. Thomas Kellahin

WTK/jcl/ltrt123.092

cc: Thomas C. Lowry, Esq. (Marathon)
By Certified Mail-Return Receipt
All Parties on Exhibit "C" of Application

RECEIVED

FEB 23 1966

OIL CONSERVATION DIVISION

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

CASE No. 10443

IN THE MATTER OF THE APPLICATION
OF MARATHON OIL COMPANY FOR AN
AMENDMENT TO DIVISION ORDER R-9503
MCDONALD STATE A/C-1 LEASE WATERFLOOD
PROJECT, LEA COUNTY, NEW MEXICO.

A P P L I C A T I O N

Comes now MARATHON OIL COMPANY, by and through its attorneys, Kellahin, Kellahin & Aubrey and applies to the New Mexico Oil Conservation Division for an amendment to Division Order R-9503 to authorize the increase in the upper limits of the waterflood injection interval for injection wells No. 30 and No. 33 in the McDonald State A/C-1 Lease Waterflood Project, Lea County, New Mexico, and in support thereof states:

1. Marathon Oil Company ("Marathon") is the operator of the McDonald State A/C-1 Lease waterflood project located in the W/2 of Section 15 and the E/2, SE/4NW/4, and SW/4 of Section 16, T22S, R36E, Lea County, New Mexico, as shown on attached Exhibit A.

2. Marathon has initiated waterflood operations for this project in accordance with Division Order R-9503 issued on May 10, 1991, as shown on attached Exhibit B.

3. The approved waterflood injection interval for the project is the South Eunice Seven Rivers-Queen Pool, the top vertical limits of which is 100 feet above the top of the Queen formation and the bottom vertical limit of which is the top of the Grayburg formation except that certain injection wells, including injection wells No. 30 and No. 33, are currently limited to a top injection interval corresponding to the top of the Queen formation.

4. Division Order R-9503 further provided that Marathon may seek the determination of the Division for approval to inject above the top of the Queen in these currently limited injection wells.

5. Initial injectivity surveys conducted on Injection Wells No. 30 and No. 33, while inconclusive and subject to interpretation, may indicate the possibility that injection water may migrate vertically above the top of the Queen formation a total distance

not in excess of forty-vertical feet in each of these two injection wells.

6. That Division Order R-9503 currently limits the injection interval to the top of the Queen formation.

7. To avoid any dispute over or uncertainty about the injection interval actually being used in these two injection wells, Marathon has shut in these two injection wells pending a determination by the Division as to whether the possible failure to meet the vertical limitation as applied to either of these two injection wells will jeopardize any Jalmat Gas well within the area of review.

8. Marathon has opened the pay zones in the Seven Rivers and Queen formations in the Marathon producing wells Nos. 1, 3 and 4 in Section 15 and wells Nos. 3, 4, 8, 9, 10, 29 and 46 in Section 16 which will reduce reservoir pressure and the potential for injection water to encroach upon any Jalmat producing gas wells.

9. Marathon has obtained cement bond logs for the two subject injection wells which verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells.

10. The waterflood project is limited to a surface injection pressure limitation not in excess of the Division guideline of 0.2 psi per foot of depth which further reduces any potential risk to any Jalmat gas wells.

11. The vertical separation between the top possible injection interval in each subject injection well and the deepest known producing gas in the Jalmat gas wells is approximately sixty feet which is adequate to maintain isolation and separation between the waterflood project and the Jalmat gas wells.

12. Accordingly, Marathon seeks to expand the top vertical limit of the approved injection interval for injection wells No. 30 and No. 33 to be forty feet above the top of the Queen formation.

13. In accordance with Division notice requirements, copies of this application have been sent, certified mail return receipt, to those parties listed on Exhibit C notifying them that the Applicant requests that this matter be set for hearing on the Division Examiner's docket now scheduled for February 20, 1992.

Page 5

WHEREFORE, Marathon requests that this matter be set on the Division Examiner docket and that after hearing, the application be approved to authorize an expansion in the approved injection interval for Injection Wells No. 30 and No. 33 to be not higher than forty feet above the top of the Queen formation in each of those wells.

Respectfully submitted,



W. Thomas Kellahin
Kellahin, Kellahin & Aubrey
P. O. Box 2265
Santa Fe, New Mexico 878504

and

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

1trt123.092

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:

CASE NO. 10269
ORDER NO. R-9503

APPLICATION OF MARATHON OIL COMPANY
FOR A WATERFLOOD PROJECT AND TWELVE
UNORTHODOX INJECTION WELL LOCATIONS,
LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 21 and April 18, 1991 at Santa Fe, New Mexico, before Examiners Michael E. Stogner and Jim H. Morrow, respectively.

NOW, on this 10th day of May, 1991, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Marathon Oil, Inc., seeks authority to institute a waterflood project on its McDonald State A/C-1 Lease comprising the W/2 of Section 15 and the E/2, SE/4 NW/4, and SW/4 of Section 16, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, by the injection of water into the South Eunice Seven Rivers-Queen Pool through the perforated interval from approximately 3500 feet to 3850 feet in twelve injection wells, each to be drilled at unorthodox locations as further described in Exhibit "A" attached hereto and made a part hereof.

(3) At the March 21, 1991 hearing a representative of ARCO Oil and Gas Company entered an appearance in this matter. Further a representative of Doyle Hartman entered an appearance at the April 18, 1991 hearing. Both ARCO and Doyle Hartman have an interest in the Jalmat Gas Pool either within or immediately offsetting the proposed waterflood project area.

(4) The wells in the proposed project area are in an advanced state of depletion and should therefore be properly classified as "stripper wells."

(5) The proposed waterflood project is estimated to have the potential to recover 1.44 million barrels of additional oil which might not otherwise be recovered in the absence of a waterflood project; therefore said project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(6) While the applicant applied for authority to inject water under pressure in excess of the Division's guideline of 0.2 psi per foot of depth, at the hearing the applicant withdrew that request.

(7) The injection wells are to be newly drilled wells at unorthodox well locations approximately equal distances from offsetting producing wells in order to develop an effective and efficient well pattern. In order to accomplish this pattern, it is necessary to approve the unorthodox location of these injection wells as described on Exhibit "A" of this order.

(8) Prior to commencing the injection of water into the proposed Well Nos. 37 or 43, the operator shall obtain a lease line injection agreement with the offset operators for the W/2 NW/4 of said Section 16 and submit a copy of said agreement to the Division.

(9) The proposed waterflood injection interval for said project is proposed to be the South Eunice Seven Rivers-Queen Pool, the vertical limits of which extend from 100 feet above the top of the Queen to the top of the Grayburg formation; however, the applicant has requested that proposed water injection well Nos. 30, 31, 33, 34 and 40 be limited to injection into the Seven Rivers formation of said pool at this time due to their proximity to nearby Jalmat Gas wells.

(10) The McDonald State "WN" Well Nos. 15 and 23, currently operated by ARCO, are producing Jalmat Gas wells located in Unit L and Unit C, respectively, of Section 15, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico.

(11) In addition, Doyle Hartman currently oversees three temporarily abandoned Jalmat Gas wells: the Boren-Greer Gas Com Wells Nos. 1, 2, and 3 in Unit D and C of Section 21 and in Unit A of Section 20, both in Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, respectively.

(12) The base of the Jalmat Gas Pool in this area corresponds to the top of the South Eunice Seven Rivers-Queen Pool.

(13) To help ensure that water injection from the proposed waterflood project does not adversely affect the Jalmat Gas Pool in the areas described in Finding Paragraph Nos. (10) and (11) above the applicant hereby requests that the proposed injection Well Nos. 30, 31, 33, 34 and 40 be subject to the following special provisions:

(a) the upper vertical limit of injection shall be the top of the Queen formation, as defined in the Marathon McDonald A/C-1 Well No. 29, located in Unit I of said Section 16, at a depth of 3695 feet RKB on the Dresser Atlas Compensated Neutron/Densilog dated March 27, 1977 and as defined in the Marathon McDonald A/C-1 Well No. 8, located in Unit M of said Section 16, at a depth of 3618 feet RKB on the Apollo Perforators Inc. Dual Spaced Compensated Neutron/GR/CCI Log dated September 19, 1990;

(b) any hydraulic fracture treatment for these wells shall be tagged with radioactive tracer material and logged immediately after the fracture treatment to ensure that the fracture treatment and subsequent water injection are contained in the Queen formation;

(c) the operator shall obtain cement bond logs to verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells;

(d) the operator shall obtain initial injectivity surveys for these wells to verify that injection is being maintained within the top of the Queen formation;

(e) the potential pay zones in the Seven Rivers and Queen formations in the Marathon producing McDonald State A/C-1 Well Nos. 4, 29 and 46 in Section 16, and Well Nos. 3 and 4 in Section 15 shall be opened to help prevent injection water reaching the ARCO McDonald State "WN" Well Nos. 15 and 23 Jalmat Gas producing interval;

(f) Marathon shall make a concerted effort not to flood/water out any gas bearing zones in the lower 100 feet of the Seven Rivers formation of the Eunice South Pool and in the event Marathon desires to flood the lower 100 feet of the Seven Rivers formation, sufficient data as to residual oil saturation should be gathered to make certain such interval is not predominantly gas bearing;

(14) If the results of any survey or test performed on these injection wells show that the limitations of items 13(a) through 13(f) are not being met, Marathon may not commence or continue injection into the well or wells involved pending a determination by the Division Director whether the failure to meet the limitation will jeopardize either of the existing ARCO Jalmat Gas wells or any of the potentially active Hartman Jalmat Gas wells described above.

(15) The operator should take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape into other formations or onto the surface from injection, production or plugged and abandoned wells.

(16) Applicant submitted data on the proposed injection wells, water wells in the area, and all wells (including plugged wells) which penetrate the zone of interest within 1/2 mile of each of the proposed injection wells. This data shows that wells in the area are cased and plugged so as to protect fresh water and prevent fluid migration from the injection zone, and includes testimony indicating no evidence of open faults or any other hydrologic connection between the injection zone and the fresh water resources in the area.

(17) With the adoption of the special provisions of Paragraph (13) above, the proposed waterflood injection interval shows to be adequately isolated from any hydrocarbon productive formation above or below that interval and is further isolated from any potential fresh water sources.

(18) The injection wells or injection pressurization system for each well should be so equipped as to limit injection pressure at the wellhead to no more than 700 psi.

(19) Injection should be accomplished through 2 7/8-inch plastic-lined tubing installed in a packer set at approximately 100 feet above the uppermost perforated interval; the casing-tubing annulus should be filled with an inert fluid; and a pressure gauge or approved leak-detection device should be attached to the annulus in order to determine leaks in the casing, tubing or packer.

(20) Prior to commencing injection operations, the casing in each of the subject wells should be pressure-tested throughout the interval, from the surface down to the proposed packer-setting depth, to assure integrity of such casing.

(21) The Director of the Division should be authorized to administratively approve an increase in the injection pressure upon a proper showing by the operator that such higher pressure will not result in migration of the injected waters from its authorized injection interval.

(22) The operator should give advance notification to the supervisor of the Hobbs District Office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity pressure-test in order that the same may be witnessed.

(23) The subject application should be approved and the project should be governed by the provisions of Rules 702 through 708 of the Division Rules and Regulations.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Marathon Oil Company, is hereby authorized to institute a waterflood project on its McDonald State A/C-1 Lease, comprising the E/2, SE/4 NW/4 and SW/4 of Section 16 and W/2 of Section 15, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico by the injection of water into the South Eunice Seven Rivers-Queen Pool, through the perforated interval from approximately 3500 feet to 3850 feet in each of the injection wells shown on Exhibit "A" attached hereto and made a part hereof, EXCEPT that the water injected into the McDonald State A/C-1 Well Nos. 30, 31, 33, 34 and 40 shall be confined to not exceed the top of the Queen formation pending further order of the Division.

PROVIDED HOWEVER THAT, prior to commencing injection operations in injection wells Nos. 30, 31, 33, 34, or 40, the following special provisions shall apply:

- (a) the upper vertical limit of injection shall be the top of the Queen formation, as defined in the Marathon McDonald State A/C-1 Well No. 29, located in Unit I, Section 16, at a depth of 3695 feet RKB on the Dresser Atlas Compensated Neutron/Densilog dated March 27, 1977 and as defined in the Marathon McDonald State A/C-1 Well No. 8, located in Unit M of said Section 16, at a depth of 3618 feet RKB on Apollo Perforators Inc. Dual Spaced Compensated Neutron/GR/CCL Log dated September 19, 1990;
- (b) any hydraulic fracture treatments shall be allowed for these five injection wells only if the treatments are tagged with radioactive tracer material and the wells logged immediately after the fracture treatment to ensure that the fracture treatment and subsequent water injection are contained in the Queen formation;
- (c) the operator shall obtain cement bond logs to verify the integrity across the Jalmat, Queen and Seven Rivers formations in these injection wells;
- (d) the operator shall obtain initial injectivity surveys for these wells to verify that injection is being maintained within the top of the Queen formation;
- (e) the potential pay zones in the Seven Rivers and Queen formations in the Marathon producing McDonald State A/C-1 Well Nos. 4, 29 and 46 in Section 16 and Well Nos. 3 and 4 in Section 15 shall be opened to help prevent injection water reaching the ARCO McDonald State "WN" Well Nos. 13 and 23 Jalmat Gas producing interval;
- (f) Marathon shall make a concerted effort not to flood/water out any gas bearing zones in the lower 100 feet of the Seven Rivers formation of the South Eunice Oil Pool and in the event Marathon desires to flood the lower 100 feet of the Seven Rivers formation, sufficient data as to residual oil saturation will be gathered to make certain such interval is not predominantly gas bearing;

(2) If the results of any survey or test performed on these injection wells show that the limitations of ordering Paragraphs 1(a) through 1(f) are not being met, Marathon shall not commence or continue injection into the well or wells involved pending a determination by the Division, after notice and hearing, whether the failure to meet the limitation will jeopardize any of the Hartman or ARCO Jalmat Gas wells.

PROVIDED FURTHER THAT:

(3) If the results of any survey or test performed on these injection wells show that the limitations of ordering Paragraph 1(a) through 1(f) are not being met, Marathon shall not commence or continue injection into the well or wells involved pending a determination by the Division Director whether the failure to meet the limitation will jeopardize either of the ARCO Jalmat Gas wells.

(4) The injection wells herein authorized and/or injection pressurization system shall be so equipped as to limit injection pressure at the wellhead to no more than 700 psi.

(5) The unorthodox injection well locations are approved as described on Exhibit "A" of this order.

(6) Injection into said injection wells shall be through 2-7/8 inch internally plastic coated tubing, set in a packer which shall be located within 100 feet of the top perforations, and the casing-tubing annulus shall be loaded with an inert fluid and equipped with an approved pressure gauge or attention attracting leak detection device.

(7) Prior to commencing injection operations, the casing in the subject well shall be pressure-tested to assure the integrity of such casing in a manner that is satisfactory to the supervisor of the Division's Hobbs District Office.

(8) The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator that such higher pressure will not result in migration of the injected fluid from its authorized injection interval.

(9) The operator shall notify the supervisor of the Hobbs District Office of the Division in advance of the date and time of the installation of injection equipment and of the mechanical integrity pressure-test in order that the same may be witnessed.

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(10) The operator shall immediately notify the supervisor of the Division's Hobbs District Office of the failure of the tubing, casing or packer, in said well or the leakage of water from or around said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

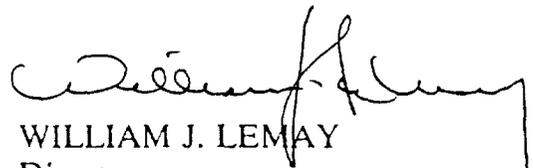
(11) The subject waterflood project is hereby designated the McDonald State A/C-1 Lease Waterflood Project and shall be governed by the provisions of Rules 701 through 708 of the Division Rules and Regulations.

(12) Monthly progress reports of the waterflood project herein authorized shall be submitted to the Division in accordance with Rules 706 and 1115 of the Division Rules and Regulations.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

S E 2 1 0 0 0 0

CASE NO. 10269
 ORDER NO. R-9503
 MARATHON OIL, INC.
 PROPOSED INJECTION WELL LOCATIONS
 McDONALD STATE A/C-1 LEASE
 ALL IN SECTION 16, TOWNSHIP 22 SOUTH, RANGE 36 EAST, NM1PM, LEA COUNTY, NEW MEXICO
 EXHIBIT "A"

WELL NUMBER	FOOTAGE LOCATION	UNIT LETTER	INJECTION INTERVAL
30	1390' FSL - 1260' FWL	L	Queen
31	1340' FSL - 2620' FWL	K	Queen
32	1340' FSL - 1260' FEL	I	Seven Rivers-Queen
33	1340' FSL - 10' FEL	I	Queen
34	2620' FSL - 25' FEL	I	Queen
35	2620' FNL - 1310' FEL	H	Seven Rivers-Queen
36	2620' FSL - 2630' FEL	J	Seven Rivers-Queen
37*	2620' FSL - 1330' FWL	K	Seven Rivers-Queen
40	1340' FNL - 25' FEL	H	Queen
41	1340' FNL - 1310' FEL	H	Seven Rivers-Queen
42*	1340' FNL - 2630' FEL	G	Seven Rivers-Queen
43*	1360' FNL - 1330' FWL	F	Seven Rivers-Queen

* Denotes Lease Line Injection Wells

EXHIBIT "C"

Offset Operators - McDonald State Account 1 Lease:

ARCO Oil and Gas Company
P.O. Box 1610
Midland, Texas 79702

Conoco, Inc.
P.O. Box 1959
Midland, Texas 79702

Meridian Oil Inc.
21 Desta Drive
Midland, Texas 79701

Doyle Hartman
P.O. Box 10426
Midland, Texas 79701

Headington Oil
7557 Rambler Road, Suite 1150
Dallas, Texas 75231

Dallas McCasland
P.O. Box 206
Eunice, New Mexico 88231

Surface Owners and Lessees:

State of New Mexico
c/o Commissioner of Public Lands
P.O. Box 1148
Santa Fe, New Mexico 87504

Dasco Land Corporation
P.O. Box 2454
Hobbs, New Mexico 88240