

COST REDUCTION

Apache is requesting a hearing to permit commingling of oil and gas production from the Hawk B-1 lease wells with diverse ownership and allocate production to the wells based upon monthly well tests. An exception to 19.15.12.9 NMAC is necessary to prevent waste and promote conservation by utilizing the existing tank battery equipment to process oil and gas, thereby reducing the incremental investment capital that would be needed to install separate metering vessels for each well with diverse interests. An exception to 19.15.12.9 NMAC would also prevent waste and promote conservation by reducing the lease operating expense to maintain the number of individual test separators necessary for all wells with diverse ownership.

MARGINAL PRODUCTION

Most of the Hawk B-1 wells currently operate at a marginally economic level and keeping the operating cost at a minimum will allow the entire lease to have a much longer economic producing life. In turn this would result in ultimately recovering maximum reserves from this lease.

Without permission to commingle the oil and gas production from the Hawk B-1 wells with diverse ownership and allocate production based upon monthly well tests, an additional 8 production separators with related metering equipment would have to be purchased and installed at an estimated cost of at least \$320,000. The maintenance costs for the additional equipment would also negatively impact each well's economics. The net effect of the required additional capital and operating expenses would be a decrease in the economic life of the lease, and an increase in oil and gas reserves left in the ground.

BENEFICIAL USE OF FUEL

The fuel gas for the Hawk B-1 heater treater comes directly off of the free water knock out from the wells. This vessel is fired year round and benefits only the production from the Hawk B-1 Lease wells.

PREVENTION OF WASTE

An exception to 19.15.12.9 NMAC would prevent waste and promote conservation by utilizing the existing production facilities to process oil and gas. Utilizing the existing equipment would benefit all of the working interest owners in the Hawk B-1 lease by allowing them to recover reserves with less capital investment. Utilizing the existing equipment would benefit all royalty interest owners by decreasing the operating expense on the lease, thereby extending the economic life of the lease and increasing royalty payments. In summary, lower capital and lower operating expenses mean longer life and more royalties over the life of the lease.

FUTURE WELLS

Applicant also seeks authority to surface commingling future wells and add them to either its Hawk B-1 Federal Tank Battery or its Hawk B-1 Tank Battery.