

NSL-5281(SD)

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

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Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

September 15, 2006

Apache Corporation
c/o **James Bruce**
P. O. Box 1056
Santa Fe, New Mexico 87504

Administrative Order NSL-5281-A (SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your application (*administrative application reference No. pTDS0-624330825*) filed on behalf of the operator, Apache Corporation ("Apache"), and submitted to the New Mexico Oil Conservation Division ("Division") on August 28, 2006; and (ii) the Division's records in Hobbs and Santa Fe, including the files in Division Cases No. 9230, 10052, and 13696 and on Division Administrative Order NSL-5281 (SD): all concerning Apache's request for an unorthodox "infill" oil well location within an existing standard 40-acre oil spacing and proration unit comprising the NW/4 SE/4 (Unit R) of Irregular Section 4, Township 21 South, Range 37 East, NMPM, North Eunice Blinebry-Tubb-Drinkard Pool (22900), Lea County, New Mexico.

The Division Finds That:

(1) Portions of Irregular Section 4 are within the North Eunice Blinebry-Tubb-Drinkard Pool; an oil pool governed under the "*Special Rules and Regulations for the North Eunice Blinebry-Tubb-Drinkard Pool*," as promulgated by Division Order No. R-8539-A/R-8541-B, issued in Case No. 10052 on November 9, 1987, which provides for 40-acre oil spacing and proration units and requires wells be located no closer than 330 feet to the outer boundary of such unit. Initially, by Division Order No. R-8539, issued in Case No. 9230 on November 9, 1987, the area in Irregular Section 4 comprising Lots 1, 8, 9, and 16 were ascribed into the newly formed North Eunice Blinebry-Tubb-Drinkard Pool. Just recently, by Division Order No. R-12538, issued in Case No. 13696 on April 28, 2006 and made effective on May 1, 2006, the North Eunice Blinebry-Tubb-Drinkard Pool was extended to include Lot 15, the S/2 SW/4, and the SE/4 of Irregular Section 4.

(2) The 160-acre area in Lea County, New Mexico comprising Lots 14 and 15, the NE/4 SW/4, and the NW/4 SE/4 of Irregular Section 4, is a single fee lease (Gulf Hill fee lease) with common ownership in which Apache is the single working interest owner and is the designated leasehold operator.

(3) By Division Administrative Order NSL-5281 (SD), dated September 26, 2005, Apache received authorization to drill its Gulf Hill Well No. 8 (**API No. 30-025-37983**) at an unorthodox oil well location within a standard 40-acre oil spacing and proration unit comprising the NW/4 SE/4 (Unit R) of Irregular Section 4 in the Blinebry Oil and Gas (**6660**), Tubb Oil and Gas (**60240**), Undesignated Drinkard (**19190**); and Wantz-Abo (**62700**) Pools 2630 feet from the South line and 2310 feet from the East line (Unit R) of Irregular Section 4. This administrative order also acknowledged that its Gulf Hill Well No. 8 would be an infill Blinebry oil well to its Gulf Hill Well No. 1 (**API No. 30-025-06401**), located at a standard oil well location within this 40-acre unit 1980 feet from the South and East lines of Irregular Section 4.

(4) Since the administrative order approving the unorthodox location for the Gulf Hill Well No. 8 was issued (September 26, 2005) prior to the above-described pool extension Order No. R-12538 (April 28, 2006), Division Administrative Order NSL-5281 (SD) should be amended to reflect these pool changes.

(5) At this time Apache seeks to drill its Gulf Hill Well No. 20 within this 40-acre North Eunice Blinebry-Tubb-Drinkard oil spacing and proration unit at an unorthodox infill oil well location 1330 feet from the South line and 1440 feet from the East line Unit R) of Irregular Section 4.

(6) The 320-acre area in Lea County, New Mexico comprising the SE/4 SW/4, NE/4 SE/4, and S/2 SE/4 of Irregular Section 4, and the NE/4 of Section 9, all in Township 21 South, Range 37 East, NMPM, is a separate fee lease (Southland Royalty "A" fee lease) with common ownership in which Apache is also the single working interest owner and is the designated leasehold operator.

(7) The three-affected standard 40-acre Blinebry-Tubb-Drinkard oil tracts to the east in Unit "Q", southeast in Unit "X", and south in Unit "W," all in Irregular Section 4, that Apache's proposed Gulf Hill Well No. 20 is encroaching are within the Southland Royalty "A" fee lease.

(8) This request is based on geologic and engineering reasons in that this location is approximately equidistance to other offsetting North Eunice Blinebry-Tubb-Drinkard oil producers within the immediate area.

(9) Apache's "cooperative lease/well agreement" for the proposed Gulf Hill Well No. 20 provides for the allocation of proceeds of North Eunice Blinebry-Tubb-Drinkard oil production from this well in the following manner:

- (a) 34.42% to be attributed to the subject Gulf Hill fee lease; and
- (b) 65.58% attributed to the offsetting Southland Royalty "A" fee lease.

(10) This allocation formula for the proceeds from Apache's proposed Gulf Hill Well No. 20 serves to benefit all mineral interests, including royalty and overriding royalty interests, within the North Eunice Blinebry-Tubb-Drinkard Pool to be impacted by this well's drainage.

(11) Approval of this application is in the best interest of conservation, will serve to prevent waste, protects correlative rights, exhibits sound engineering practices, and allows for the recovery of additional reserves that might not otherwise be produced.

It Is Therefore Ordered That:

(1) Pursuant to the "*Special Rules and Regulations for the North Eunice Blinebry-Tubb-Drinkard Pool*," as promulgated by Division Order No. R-8539-A/R-8541-B, issued in Case No. 10052 on November 9, 1987, and Division Rule 104.F (2) the administrative application of Apache Corporation ("Apache") (*administrative application reference No. pTDS0-624330825*) for its proposed Gulf Hill Well No. 20 to be drilled at an unorthodox infill oil well location 1330 feet from the South line and 1440 feet from the East line (Unit R) of Irregular Section 49, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico, and completed in the North Eunice Blinebry-Tubb-Drinkard Pool (**22900**), is hereby approved.

(2) For the Division's production reporting, prorationing, and well spacing purposes, North Eunice Blinebry-Tubb-Drinkard oil production from the NW/4 SE/4 of Irregular Section 4, being a standard 40-acre oil spacing and proration unit in the North Eunice Blinebry-Tubb-Drinkard Pool, is to be simultaneously dedicated to Apache's: (i) above-described Gulf Hill Well No. 20; (ii) Gulf Hill Well No. 1 (**API No. 30-025-06401**), located at a standard oil well location 1980 feet from the South and East lines of Irregular Section 4; and (iii) Gulf Hill Well No. 8 (**API No. 30-025-37983**), located at an unorthodox oil well location [approved by Division Administrative Order NSL-5281 (SD), dated September 26, 2005] 2630 feet from the South line and 2310 feet from the East line (Unit R) of Irregular Section 4.

(3) The distribution of proceeds from North Eunice Blinebry-Tubb-Drinkard oil production from Apache's proposed Gulf Hill Well No. 20 are to be allocated in the following manner:

(a) 34.42% to be attributed to the subject Gulf Hill fee lease; and

(b) 65.58% attributed to the offsetting Southland Royalty "A" fee lease.

(4) The third paragraph on page 2 of Division Administrative Order NSL-5281 (SD), be and the same is hereby amended to read in its entirety as follows:

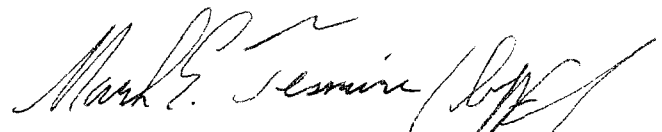
“By the authority granted me under the provisions of the *“Special Rules and Regulations for the North Eunice Blinebry-Tubb-Drinkard Pool,”* as promulgated by Division Order No. R-8539-A/R-8541-B, issued in Case No. 10052 on November 9, 1987, and Division Rule 104.F (2), the above-described unorthodox oil well location of Apache Corporation’s Gulf Hill Well No. 8 (**API No. 30-025-37983**) is hereby approved for the North Eunice Blinebry-Tubb-Drinkard Pool (**22900**) and Wantz-Abo Pool (**62700**)”.

(5) The forth paragraph on page 2 of Division Administrative Order NSL-5281 (SD), which reads, *“If after completion within the Blinebry and Tubb formations, production from either zone is classified as “gas,” the operator shall request an amendment to this order seeking such relief as deemed appropriate and in compliance with the special rules governing both prorated gas pools,”* is hereby deleted.

(6) The two amendments to Division Administrative Order NSL-5281 (SD) set forth above shall be entered effective as of May 1, 2006; all other provisions of Division Administrative Order NSL-5281 (SD) not in conflict with this order, shall remain in full force and effect until further notice.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



MARK E. FESMIRE
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Hobbs
File: Division Administrative Order NSL-5281 (SD)