



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

February 27, 2004

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

Administrative Order NSL-5006 (SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your application (*administrative application reference No. pMES0-405758868*) dated February 6, 2004 filed on behalf of the operator, Apache Corporation ("Apache"); (ii) your e-mail to Mr. Michael E. Stogner, Engineer/Hearing Officer with the New Mexico Oil Conservation Division ("Division") in Santa Fe, on Monday morning, February 23, 2004; (iii) your telephone conversation with Mr. Stogner late Monday afternoon, February 23, 2004; (iv) your e-mail response to Mr. Stogner on February 23, 2004; (v) Ms. Cindy McGee's e-mail with attachments on Tuesday, February 24, 2004; (vi) your e-mail correspondence with Mr. Stogner on Wednesday, February 25, 2004; and (vii) the Division's records in Santa Fe: all concerning Apache Corporation's request for an unorthodox "infill" oil well location within an existing standard 40-acre oil spacing and proration unit comprising the NW/4 SW/4 (Unit L) of Section 16, Township 21 South, Range 37 East, NMPM, Penrose Skelly (Grayburg) Pool (50350), Lea County, New Mexico.

The Division Director Finds That:

(1) All of Section 16 is within the Penrose Skelly (Grayburg) Pool; an oil pool governed under Division Rule 104.B (1), 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.

(2) The N/2 SW/4 (Units "K" and "L") of Section 16 is a single state lease issued by the New Mexico State Land Office (State Lease No. B-85-16) with common ownership in which Apache is the lessee of record and leasehold operator.

(3) The standard 40-acre oil spacing and proration unit in the Penrose Skelly (Grayburg) Pool comprising the NW/4 SW/4 (Unit L) of Section 16 within this lease is currently dedicated to Apache's State "DA" Well No. 6 (API No. 30-025-34245), located at a standard oil well location 1980 feet from the South line and 810 feet from the West line of Section 16.

(4) Apache now seeks to drill its State "DA" Well No. 9 at an unorthodox infill oil well location within this 40-acre Grayburg unit 2579 feet from the South line and 265 feet from the West line of Section 16.

(5) The NW/4 of Section 16 is a single state lease (State "C" Tract 12) issued by the New Mexico State Land Office (State Lease No. B-01557-1) with common ownership in which: (i) Occidental Permian Partnership ("OXY") is the lessee of record; and (ii) Apache is the leasehold operator. The affected standard 40-acre Grayburg oil spacing and proration unit to the north, being the SW/4 NW/4 (Unit E) of Section 16, in which the proposed State "DA" Well No. 9 is encroaching, is dedicated to the three following described Apache operated wells:

(a) the existing State "C" Tract 12 Well No. 11 (API No. 30-025-35709) located at a standard oil well location 1980 feet from the North line and 330 feet from the West line of Section 16;

(b) the existing State "C" Tract 12 Well No. 12 (API No. 30-025-36115) located at an unorthodox infill oil well location [approved by Division Administrative Order NSL-4831 (SD), dated January 22, 2003] 1330 feet from the North line and 330 feet from the West line of Section 16; and

(c) its proposed State "C" Tract 12 Well No. 18 to be drilled at an unorthodox infill oil well location [approved by Division Administrative Order NSL-4831-A (SD), dated February 26, 2004] 2590 feet from the North line and 1270 feet from the West line of Section 16.

(6) The E/2 NE/4 (Units A and H) and the NE/4 SE/4 (Unit I) of Section 17, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico is a single federal lease (Lockhart "A-17") issued by the U. S. Bureau of Land Management (U. S. government lease No. NM-032096-A) with common ownership in which: (i) Apache and Chevron U.S.A., Inc. ("Chevron") each own undivided operating rights; and (ii) Apache is the leasehold operator. The two-affected standard 40-acre Grayburg oil spacing and proration units to the west in which the proposed State "DA" Well No. 9 is encroaching are:

(a) the SE/4 NE/4 (Unit H) of Section 17, which is currently simultaneously dedicated to Apache's: (i) Lockhart "A-17" Well No. 3 (API No. 30-025-06638), located at a standard oil well location 1980 feet from the North line and 660 feet from the East line of Section 17; and (ii) Lockhart "A-17" Well No. 6 (API No. 30-025-36101), located at an unorthodox infill oil well location (approved by Division Administrative Order NSL-4822, dated December 13, 2002) 1330 feet from the North line and 990 feet from the East line of Section 17; and

(b) the NE/4 SE/4 (Unit I) of Section 17, which is currently simultaneously dedicated to Apache's: (i) Lockhart "A-17" Well No. 2 (API No. 30-025-06637), located at a standard oil well location 1980 feet from the South line and 660 feet from the East line of Section 17; and (ii) Lockhart "A-17" Well No. 7 (API No. 30-025-36159), located at an unorthodox infill oil well location [approved by Division

Administrative Order NSL-4832 (SD), dated January 22, 2003] 2630 feet from the South line and 990 feet from the East line of Section 17.

(7) This request is based on geologic and engineering reasons in that this location is approximately equidistance to other offsetting Penrose Skelly (Grayburg) oil producers within the immediate area.

(8) Apache, OXY, Chevron, the New Mexico State Land Office, and the U. S. Bureau of Land Management have entered into a "cooperative lease/well agreement" providing for the allocation of proceeds of Penrose Skelly (Grayburg) oil production from Apache's proposed State "DA" Well No. 9 in the following manner:

(a) 30.05% to be attributed to the offsetting Lockhart "A-17" federal lease (U. S. government lease No. NM-032096-A);

(b) 24.90% to be attributed to the offsetting State "C" Tract 12 lease (State lease No. B-01557-1); and

(c) 45.05% to be attributed to the subject State "DA" lease (State lease No. B-85-16).

(9) This allocation formula for the proceeds from Apache's proposed State "DA" Well No. 9 serves to benefit all mineral interests within the Penrose Skelly (Grayburg) Pool to be impacted by this well's drainage.

(10) 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 Division Rule 104.F (2), of the New Mexico Oil Conservation Division's ("Division") Rules and Regulations, the administrative application of Apache Corporation ("Apache") (*administrative application reference No. pMES0-405758868*) for its proposed State "DA" Well No. 9 to be drilled at an unorthodox infill oil well location 2579 feet from the South line and 265 feet from the West line (Unit L) of Section 16, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico, and completed in the Penrose Skelly (Grayburg) Pool (50350), is hereby approved.

(2) For the Division's production reporting, prorationing, and well spacing purposes, Grayburg oil production from the above-described State "DA" Well No. 9 is to be simultaneously dedicated, with Apache's existing State "DA" Well No. 6 (API No. 30-025-34245), located at a standard oil well location 1980 feet from the South line and 810 feet from the West line of Section 16, to the NW/4 SW/4 (Unit L) of Section 16, being a standard 40-acre oil spacing and proration unit in the Penrose Skelly (Grayburg) Pool.

(3) The distribution of proceeds from Penrose Skelly (Grayburg) oil production from Apache's proposed State "DA" Well No. 9 are to be allocated in the following manner:

(a) 30.05% to be attributed to the offsetting Lockhart "A-17" federal lease (U. S. government lease No. NM-032096-A) located in Section 17, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico;

(b) 24.90% to be attributed to the offsetting State "C" Tract 12 lease (State lease No. B-01557-1) in Section 16; and

(c) 45.05% to be attributed to the subject State "DA" lease (State lease No. B-85-16).

(4) 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



LORI WROTENBERY
Director

LW/mes

cc: New Mexico Oil Conservation Division - Hobbs
New Mexico State Land Office - Santa Fe
U. S. Bureau of Land Management - Roswell