



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

August 17, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Apache Corporation
Two Warren Place – Suite 1500
6120 South Yale
Tulsa, Oklahoma 74136-4224

Attention: Kara Coday

RE: NMOCD Correspondence Reference No. SD-04-07: Penrose Skelly (Grayburg) Pool (50350) development within Apache Corporation's existing standard 40-acre oil spacing and proration unit comprising the SW/4 SE/4 (Unit O) of Section 20, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico.

Dear Ms. Coday:

Reference is made to the following: (i) your letter dated July 23, 2004 (*Division administrative reference No. pSEM0-420926806*); and (ii) the records of the New Mexico Oil Conservation Division ("Division"), including the file on Division Administrative Order NSL-4830 (*administrative application reference No. pKRV0-300352546*).

The rules currently governing spacing, well locations, gas/oil ratio limitation, and allowables for the Penrose Skelly (Grayburg) Pool include, but not necessarily limited to:

- (a) Division Order No. R-199, issued in Case No. 390 on November 13, 1952; and
- (b) Division Rules 104.B and 505.A.

It is the Division's understanding that oil and casinghead gas production attributed to the Penrose Skelly (Grayburg) Pool within the above-described 40-acre unit is to be simultaneously dedicated to the following two Apache Corporation's wells:

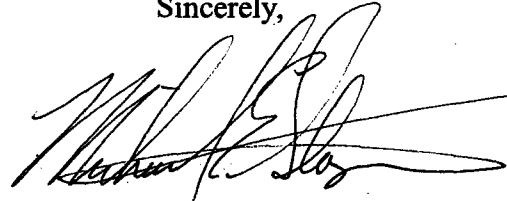
- (1) D. C. Hardy Well No. 6 (API No. 30-025-36114), located at an unorthodox oil well location (approved by Division Administrative Order NSL-4830, dated January 22, 2003) 330 feet from the South line and 1330 feet from the East line (Unit O) of Section 20; and
- (2) D. C. Hardy Well No. 7 (API No. 30-025-36378) recently drilled at a standard infill oil well location 990 feet from the South line and 2310 feet from the East line (Unit O) of Section 20.

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Furthermore, the provisions set forth in Division Administrative Order NSL-4830 shall remain in full force and affect until further notice.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", with a long horizontal flourish extending to the right.

Michael E. Stogner
Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division – Hobbs
James Bruce, Legal Counsel for Apache Corporation – Santa Fe
File: NSL-4830