



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

June 5, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

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

Administrative Order NSL-5385 (SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your application (*administrative application reference No. pTDS0-611844520*) dated April 28, 2006 and filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on behalf of the operator Apache Corporation; and (ii) the Division's records in Santa Fe: all concerning their request for an:

- (a) unorthodox "infill" oil well location within an existing standard 40-acre oil spacing and proration unit in the Penrose Skelly (Grayburg) Pool (**50350**); and
- (b) unorthodox oil well location in the Undesignated East Hare-San Andres Pool (**96601**).

Apache Corporation proposes to drill its **Southland Royalty "A" Well No. 25** at a location 170 feet from the North line and 1260 feet from the East line (Unit B) of Section 9, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico.

Your application for Apache Corporation has been duly filed under the provisions of Division Rules 104.F and 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

Production from the Penrose Skelly (Grayburg) Pool is to be included within an existing standard 40-acre oil spacing and proration unit comprising the NW/4 NE/4 of Section 9, which is currently dedicated to Apache Corporation's Southland Royalty "A" Well No. 7 (**API No. 30-025-06445**), located at a standard oil well location 660 feet from the North line and 585 feet from the East line of Section 9.

The proposed Southland Royalty "A" Well No. 25 will be the initial San Andres oil well within this same 40-acre oil spacing and proration unit.

It is the Division's understanding that such unorthodox location is necessitated for geologic and engineering reasons. Drainage from Grayburg wells within the immediate area is less than 40 acres, this location is approximately equidistance to other offsetting Penrose Skelly (Grayburg) oil production; therefore, the proposed infill oil well location will enable Apache Corporation to further develop and deplete the Grayburg reserves within the immediate area that might not otherwise be recovered.

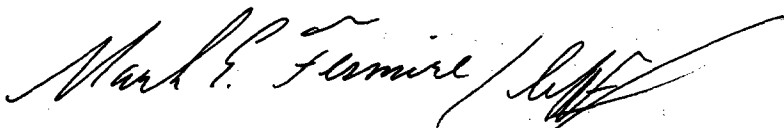
It is further understood that the 320-acre area comprising the SE/4 SW/4, NE/4 SE/4, and S/2 SE/4 of Irregular Section 4, and the NE/4 of Section 9, all in Township 21 South, Range 37 East, NMPM, Lea County, New Mexico, is a single fee lease (Southland Royalty "A" fee lease) with common ownership in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

By the authority granted me under the provisions of Division Rule 104.F (2) the above-described unorthodox: (i) infill Penrose Skelly (Grayburg) oil well location; and (ii) San Andres oil well location, for Apache Corporation's proposed Southland Royalty "A" Well No. 25 is hereby approved.

Further, both the existing Southland Royalty "A" Well No. 7 and proposed Southland Royalty "A" Well No. 25 are to be simultaneously dedicated to the subject 40-acre unit within the Penrose Skelly (Grayburg) Pool.

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

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs
