

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]

- [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR

[D] Other: Specify _____

[2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or Does Not Apply

- [A] Working, Royalty or Overriding Royalty Interest Owners
 [B] Offset Operators, Leaseholders or Surface Owner
 [C] Application is One Which Requires Published Legal Notice
 [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is accurate and complete to the best of my knowledge. I also understand that no action will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

James Bruce
 Print or Type Name

Signature

Attorney for applicant
 Title

Date

jamesbruc@aol.com
 e-mail Address

2006 AUG 28 PM 12 48

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)

jamesbruc@aol.com

August 28, 2006

Hand Delivered

Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Mr. Stogner:

Pursuant to Division Rule 104.F(2), Apache Corporation applies for administrative approval of an unorthodox oil well location for the following well:

<u>Well Name:</u>	State DA Well No. 21
<u>Well Location:</u>	2530 feet FSL & 1240 feet FEL
<u>Well Unit:</u>	NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 16, Township 21 South, Range 37 East, N.M.P.M., Lea County, New Mexico

The well will test the Blinebry (Blinebry Oil and Gas Pool), Tubb (Tubb Oil and Gas Pool), and Drinkard (Drinkard Pool) formations, and applicant requests unorthodox location approval in all three zones. The Blinebry, Tubb, and Drinkard zones are expected to be oil productive.

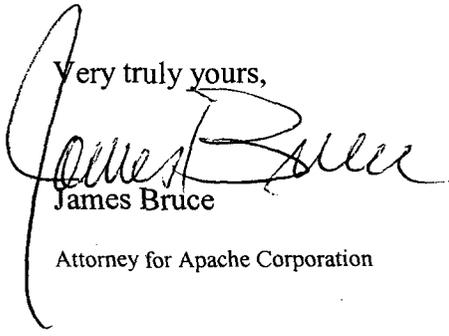
The application is based on geological and engineering reasons. A complete discussion, with exhibits, is attached as Exhibit A. The well is in the approximate center of existing Blinebry, Tubb, and Drinkard wells, and the proposed location will drain additional undrained reserves.

The well unit will be simultaneously dedicated (in the Blinebry and Drinkard formations) to the proposed well and to the existing State DA Well No. 1, located in Unit L of Section 16.

Exhibit B is a land plat. The location encroaches on the State C Tract 12 Lease, which covers the NW $\frac{1}{4}$ of Section 16. Apache Corporation is the sole working interest owner of both leases, and has entered into the Cooperative Well Agreement attached as Exhibit C. Production from the proposed well will be allocated between the two leases as set forth in Exhibit C. In addition, the State Land Office requires communitization, and the pertinent agreement submitted to the Land Office is attached as Exhibit D.

Please call me if you need any further information on this matter.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James Bruce". The signature is written in black ink and is positioned above the printed name.

James Bruce

Attorney for Apache Corporation

Application of Apache Corporation for administrative approval of an unorthodox well location:

40 acres – 2530 FSL & 1240' FWL
 Section 16, Township 21 South, Range 37 East, NMPM
 Lea County, New Mexico

PRIMARY OBJECTIVES: Blinebry, Tubb, and Drinkard

In support:

1. Apache Corporation (Apache) is the operator of the proposed **State DA #21** well (**Exhibit 1**).
2. The proposed unorthodox location encroaches toward the following wells which are, or have been, productive from various combinations of the Blinebry, Tubb, and Drinkard (**Exhibit 2**). **Exhibit 2** displays only those wells with a total depth equal to, or greater than, 5500', sufficient to penetrate at least part of the Blinebry, Tubb, and Drinkard interval. Production from the three reservoirs is assigned to individual Blinebry Oil and Gas, Tubb Oil and Gas, and Drinkard Pools, but downhole commingling is pre-approved pending submission of allocations to the Hobbs District Office.

API	Op.	Well	Loc	Pool	Cum O/G/W	Daily O/G/W
06625	Apache	State C Tract 12 #3	16-E	Blinebry Oil	7/57/4	0/0/0
06625	Apache	State C Tract 12 #3	16-E	Drinkard	190/600/6	0/0/0
06626	Apache	State C Tract 12 #4	16-F	Blinebry Oil	46/4754/14	5/118/22
06626	Apache	State C Tract 12 #4	16-F	Tubb Oil	18/400/20	1/45/1
06626	Apache	State C Tract 12 #4	16-F	Drinkard	211/2288/17	1/36/1
06616	Apache	State DA #2	16-K	Blinebry Oil	37/406/39	3/41/7
06616	Apache	State DA #2	16-K	Drinkard	196/1535/4	0/0/0
06615	Apache	State DA #1	16-L	Blinebry Oil	20/140/370	3/27/100
06615	Apache	State DA #1	16-L	Drinkard	194/417/6	0/0/0

MBO BOPD
 MMCFG MCFGPD
 MBW BWPD

3. Apache expects the proposed **State DA #21** to test as an oil well in each of the three reservoirs. Should any reservoir test gas, Apache will either gain the appropriate approvals from the OCD to produce or abandon the reservoir.
 - a) The State DA #4 well (Unit I) is placed in the Blinebry Gas Pool and is producing only a very marginal amount of gas from the Blinebry. **Exhibit 3** shows that it was given a non-standard "lay-down" 80 A perforation unit in March 1962.

Exhibit A

- b) State DA #4 is perforated high in the Blinebry reservoir where more gas would be expected. **State DA #21** is expected to be low (**Exhibit 4**) to other Blinebry oil wells in Section 16.
 - c) Apache's recently completion procedure has been to perforate the entire interval of both reservoirs, increasing the likelihood of oil.
4. The proposed **State DA #21** location of 2530' from south line and 1240' from west line is based upon drainage considerations.

a. **Geology**

The Blinebry, Tubb, and Drinkard Formations are members of the Yeso Group, Permian Leonardian in age. Fluid contacts, specifically Blinebry GOC at -2255 and Drinkard OWC at -3225, employed by Shell in the unitization hearing for the NorthEast Drinkard Unit, just to the east, were used in the petrophysical evaluation of the reservoirs.

All three formations are shallow marine carbonates, consisting primarily of dolomite. The Tubb has appreciable clastic content and the Drinkard can become limey toward its base. Anhydrite can occur throughout the interval. Pay zones are thin, erratically distributed, and separated by thick impermeable intervals. Porosity and permeability are low. Wells are not generally capable of draining a full 40 Acre spacing unit. In fact, Apache's calculations indicate drainage area usually approximates 20 Acres.

Apache routinely fracture stimulates perforations in each of the three formations then produces them commingled and allocates production based upon well tests. At this stage in the history of all three pools, economics will not permit development of individual reservoirs. Thus, pay from all three reservoirs must be considered for well proposals. A combined Blinebry, Tubb, Drinkard map extracted from a larger area map is, therefore, presented (**Exhibit 5**).

The reservoir was analyzed by mapping hydrocarbon pore volume (SoPhiH) (**Exhibit 5**) of the entire Blinebry, Tubb, and Drinkard interval. SoPhiH is the product of feet of net pay (H) times average porosity (PhiA) times oil saturation (So). The values were obtained as follows:

1. Net Pay was read from modern neutron-density logs which have contractor calculated cross-plotted porosity (XPhi) using a minimum of 5% and a maximum of 20%. Additionally, gamma ray (40 APIU in the Blinebry and Drinkard and 50 APIU in the Tubb) and water saturation (10% - 50%, using a standard equation with $a=1$ and $m=n=2$) cutoffs were also employed.
2. Average Porosity was calculated for intervals meeting those criteria.
3. Oil Saturation is the additive inverse of water saturation.

This analysis requires modern neutron-density and resistivity logs. Water saturations can be adequately estimated from offsetting modern wells, however many wells had to be excluded from analysis because of the vintage or type of porosity logs. SoPhiH isopach lines were modeled after cumulative production isopach lines where new well control is lacking. This procedure has proved successful for Apache in recent drilling in the area.

b. Drainage

The following table provides drainage areas calculated from the SoPhiH map and reserves of the offsetting wells. SoPhiH values are either from modern logs, or estimated from the grid. Wells with values determined from modern logs will be in bold, others are estimates from the grid.

				SoPhiH	Area	EUR	EUR
Op.	Well	Loc	Reservoir	Ft	A	MBO	MMCFG
Apache	State C Tract 12 #3	16-E	BTD	12.4	26	197	657
Apache	State C Tract 12 #4	16-F	BTD	14.2	31	277	7460
Apache	State DA #2	16-K	BTD	15.0	32	233	1945
Apache	State DA #1	16-L	BTD	14.0	34	214	560

The proposed **State DA #21** is a "true" 20 Acre infill location between existing Blinebry, Tubb, and Drinkard producers. It is approximately equidistant from those wells and is designed to recover reserves that cannot be recovered by the existing wells. The location was placed in the center of the vacant area between the existing wells, and then moved due to surface conditions and cultural obstructions.

Reserves for the proposed location were calculated by planimetering the undrained area of the SoPhiH isopach which lies under a drainage circle (the size of which is the average of the direct offset drainage areas) centered on the proposed location. Any competitive drainage is shared between the proposed well and the existing offset wells. The results are as follows:

				SoPhiH	Area	EUR	EUR
Op.	Well	Loc	Reservoir	Ft	A	MBO	MMCFG
Apache	State DA #21	16-L	BTD	13.7	14	125	1000

4. Notice

Apache is the operator and only working interest owner of the Blinebry, Tubb, and Drinkard wells toward which the proposed well will encroach. No other parties need to be notified.

State DA #21 is additionally a "leaseline" location. The two leases involved, State DA and State C Tract 12, are both New Mexico State leases. Apache will enter into an appropriate Lease Line Agreement before the well is spudded.

5. Approval of this application will afford the interest owners in these spacing units an opportunity to recover oil and gas which would not otherwise be recovered and to do so without violating correlative rights.

DISTRICT I
1625 N. FRENCH DR., BOBBS, NM 86240

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 86210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-102
Revised JUNE 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name STATE DA	Well Number 21
OGRID No.	Operator Name APACHE CORPORATION	Elevation 3465'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	16	21-S	37-E		2530	SOUTH	1240	WEST	LEA

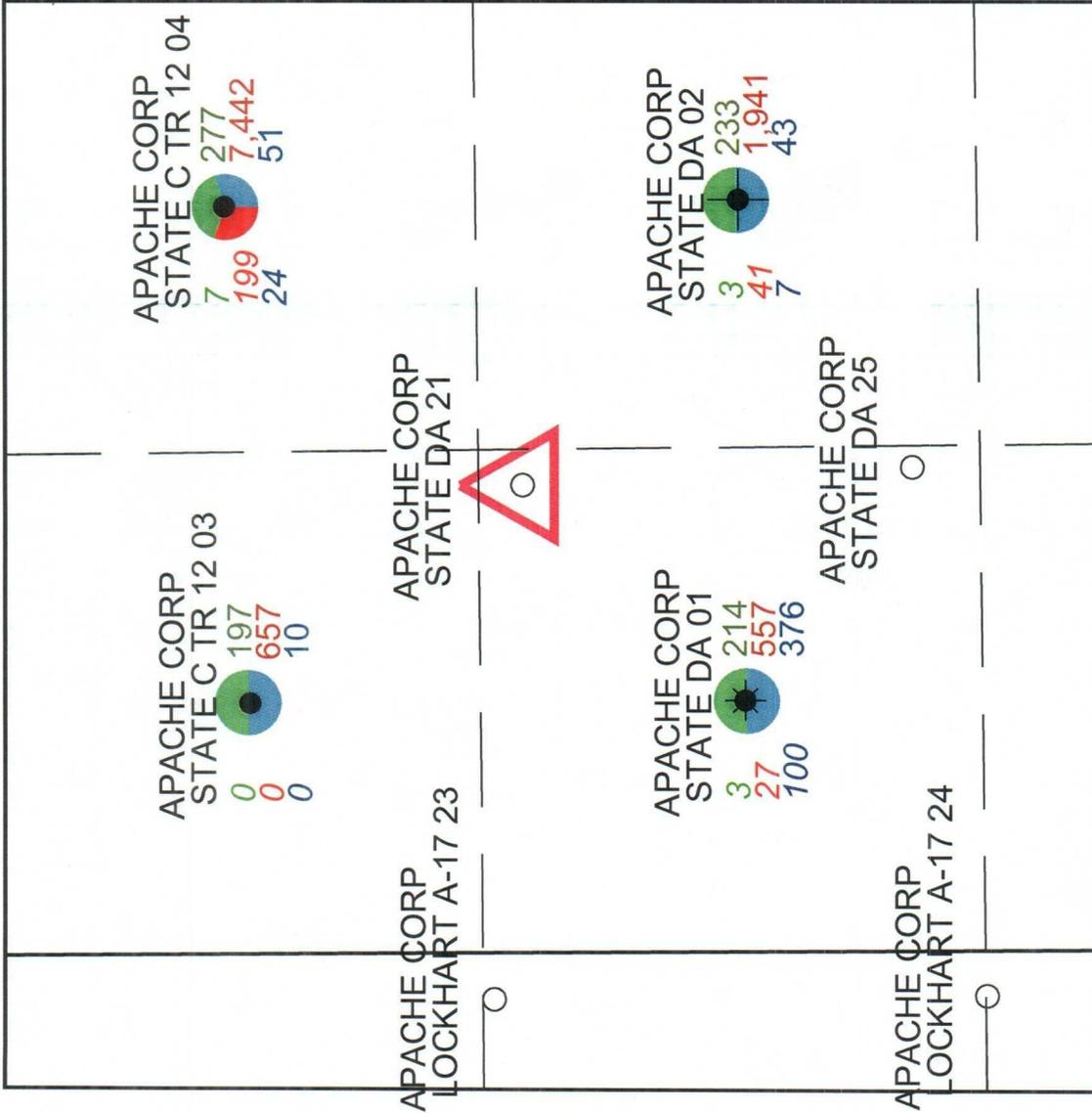
Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<p style="text-align: center;">GEODETTIC COORDINATES NAD 27 NME</p> <p style="text-align: center;">Y=539737.7 N X=858103.7 E</p> <p style="text-align: center;">LAT.=32°28'42.57" N LONG.=103°10'19.57" W</p>	<p>OPERATOR CERTIFICATION</p> <p><i>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</i></p> <p>Signature _____</p> <p>Printed Name _____</p> <p>Title _____</p> <p>Date _____</p>
	<p>SURVEYOR CERTIFICATION</p> <p><i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.</i></p> <p style="text-align: center;">DECEMBER 16, 2005</p> <p>Date Surveyed _____ JR</p> <p>Signature & Seal of Professional Surveyor</p> <p>Certificate No. GARY EDSON 12841 RONALD N. EDSON 3239</p>



Apache
CORPORATION
CENTRAL REGION

TWO WARREN PLACE, SUITE 1500
6120 SOUTH YALE
TULSA, OKLAHOMA 74136-4224

STATE DA 21

SEC 16-T21S-R37E
LEA COUNTY, NEW MEXICO

EXHIBIT 2

WELL INFORMATION

DATE: 2/10/06 DWG: CURTISIBTD NSLWELL (EX2)

NEW MEXICO
L CONSERVATION COMMISSION

EXHIBIT 3

Form C-128

Well Location and/or Gas Proration Plat

Date March 7, 1962

Operator Amerada Petroleum Corporation Lease State DA

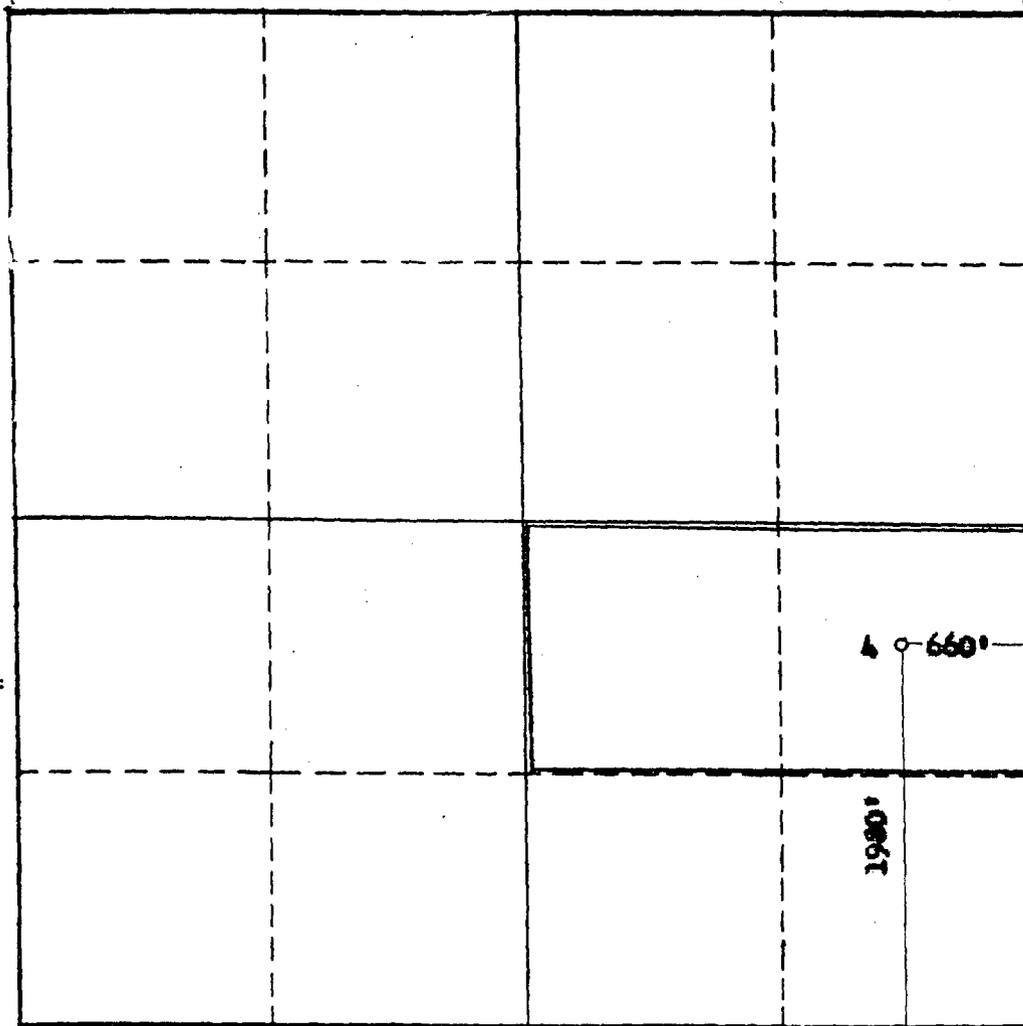
Well No. 4 Section 16 Township 21 S Range 37 E NME

Located 1900' Feet From S Line, 660 Feet From E L

Las County, New Mexico. G. L. Elevation 3466

Name of Producing Formation Blincy Pool Blincy Gas Dedicated Acreage 4

(Note: All distances must be from outer boundaries of Section)



NOTE

This section of form is to be used for gas wells only.



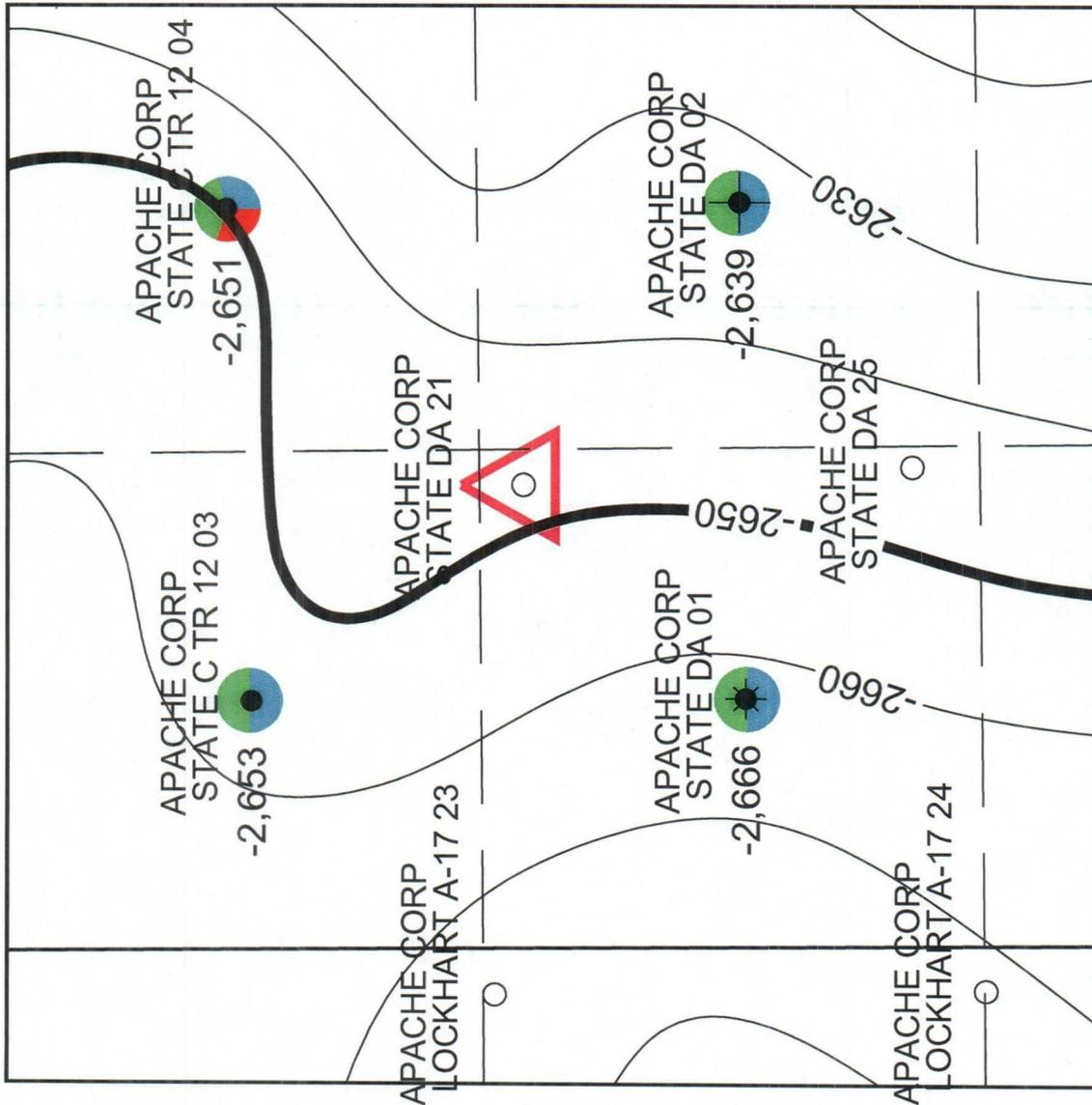
SCALE: 1"=1000'

1. Is this Well a Dual Comp. ? Yes No
2. If the answer to Question 1 is yes, are there any other dually completed wells within the dedicated acreage ? Yes No

Name D. C. Cappe
 Position District Superintendent
 Representing Amerada Petroleum Corporation
 Address Drawer "D", Monument, New Mexico

This is to certify that the above plat was prepared from field notes of actual survey made by me or under my supervision and that the same are true and correct to the best of my knowledge and belief.

Date Surveyed _____
 Registered Professional Engineer and/or Land Surveyor



WELL SYMBOLS

- Location Only
- Oil Well
- ☼ Gas Well
- Dry

POSTED WELL DATA

OPERATOR
WELL LABEL

TOP TUBB ●



TWO WARREN PLACE, SUITE 1500
6120 SOUTH YALE
TULSA, OKLAHOMA 74136-4224

STATE DA 21

**SEC 16-T21 S-R37E
LEA COUNTY, NEW MEXICO**

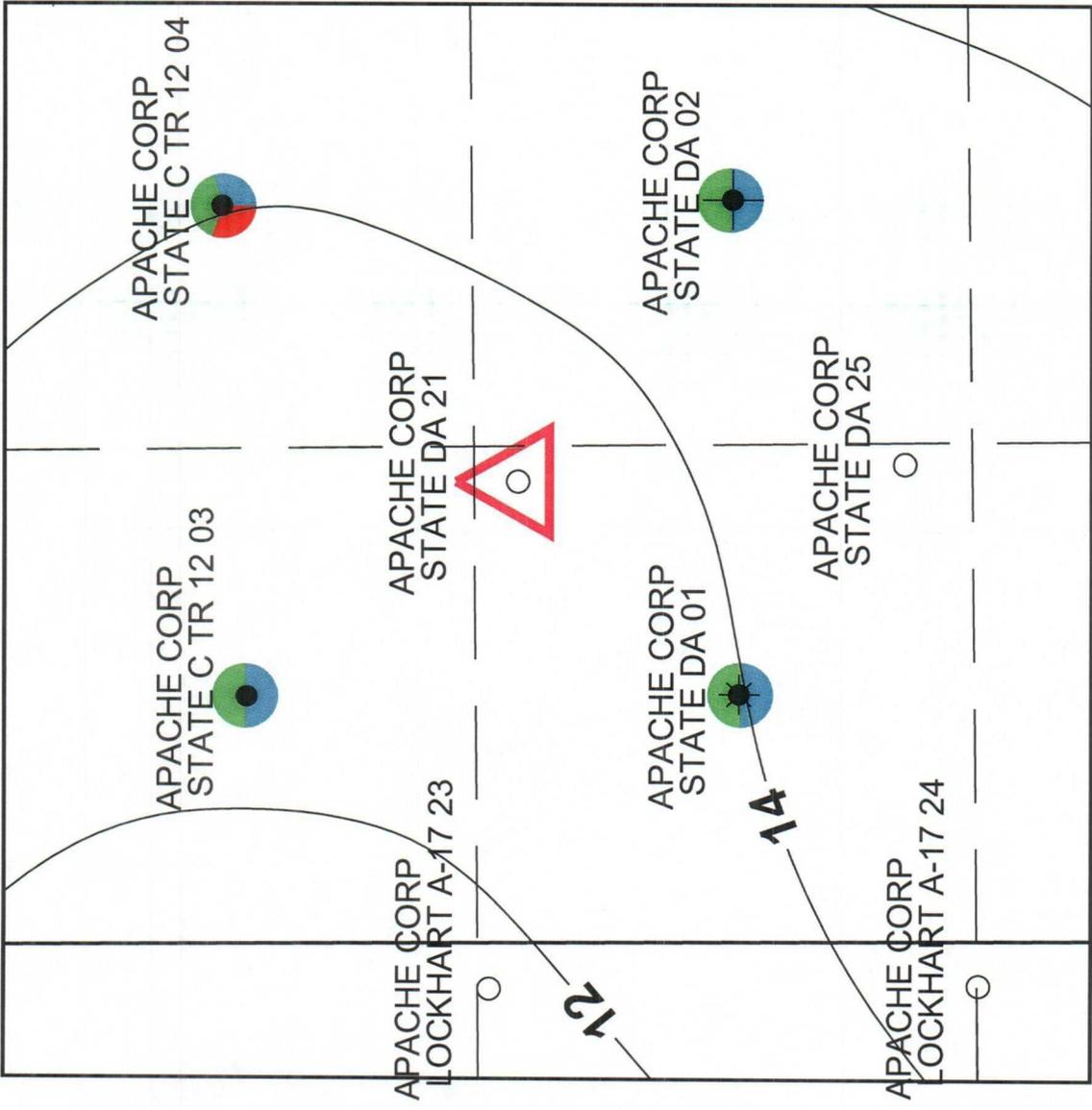
**EXHIBIT 4
STRUCTURE TOP TUBB**

DATE: 2/10/06

DWG: CURTIS\BTD NSL\WELL (EX2)

- BLINEBRY
- TUBB
- DRINKARD





WELL SYMBOLS

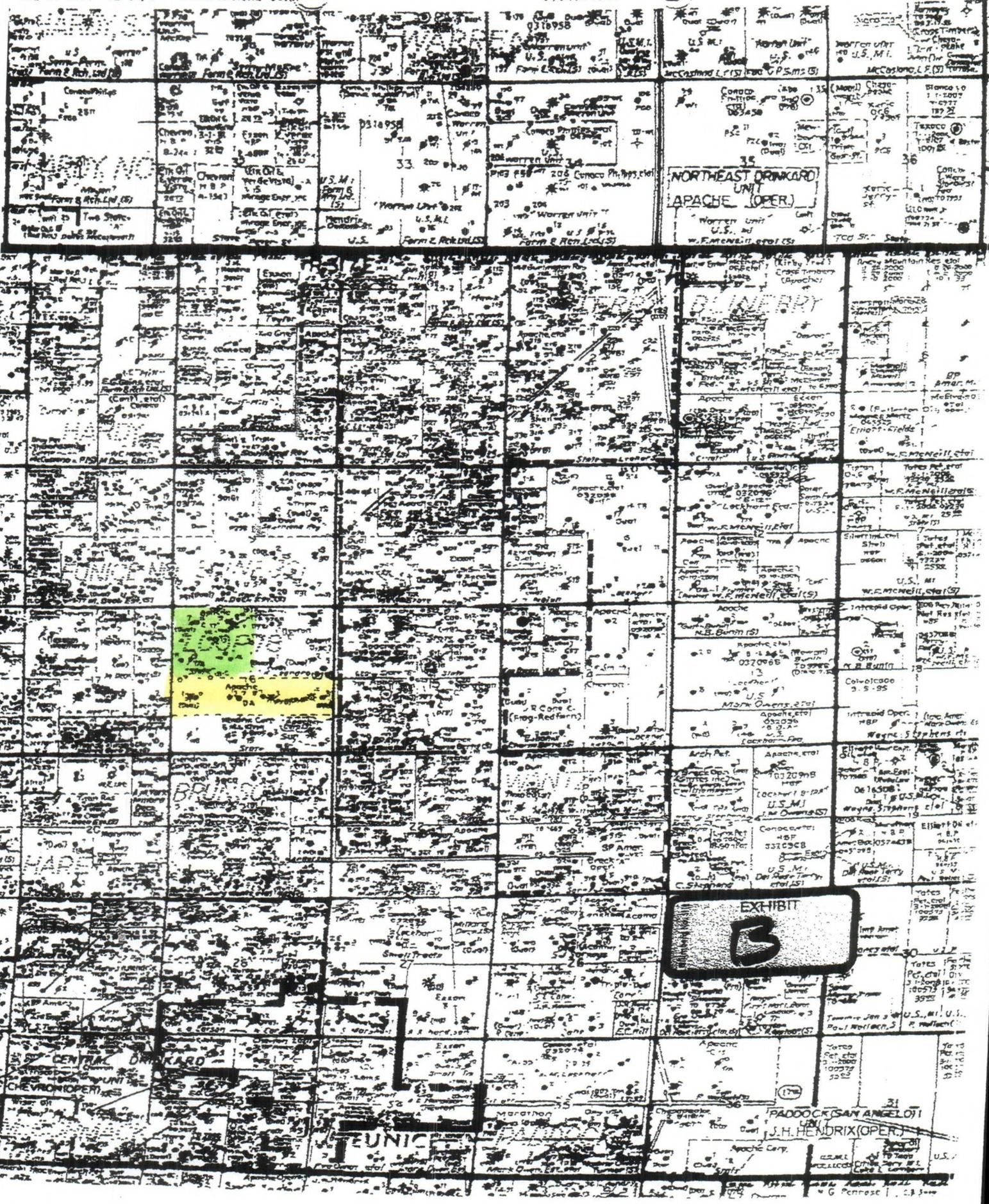
- Location Only
- Oil Well
- ☀ Gas Well
- ⊖ Dry

POSTED WELL DATA

OPERATOR
WELL LABEL

BTD SOPHIH •

	TWO WARREN PLACE, SUITE 1500 6120 SOUTH YALE TULSA, OKLAHOMA 74136-4224
	STATE DA 21 SEC 16-T21 S-R37E LEA COUNTY, NEW MEXICO
EXHIBIT 5 BTD SOPHIH	
DATE: 2/10/06	DWG: CURTIS/BTD NSL/WELL (EX2)



COOPERATIVE WELL AGREEMENT
(for the State DA #21 Well)

This Cooperative Well Agreement ("Agreement") is entered into and is effective as of May 1, 2006, **APACHE CORPORATION**, whose address is 6120 South Yale Avenue, Suite 1500, Tulsa, Oklahoma 74136 ("Apache"). Apache is sometimes hereafter referred to individually as "Party" and collectively as "Parties".

WITNESSETH:

WHEREAS, Apache is Operator of the following oil and gas leases in Lea County, New Mexico (hereinafter sometimes collectively referred to as the "Properties"):

1. **State DA Lease –**
Lessor: State of New Mexico NM B-85-16
Lessee: Los Angeles-New Mexico Oil Company
Date: July 28, 1928
Description: Insofar and only insofar as same covers the following-described land in Lea County, New Mexico:
Township 21 South, Range 37 East, N.M.P.M.
Section 16: NE/4NW/4N/2SW/4, NW/4NE/4N/2SW/4

2. **State C Tract 12 Lease –**
Lessor: State of New Mexico NM B-01557-2
Lessee: Stanolind Oil & Gas Company
Date: December 29, 1928
Description: Insofar and only insofar as same covers the following-described land in Lea County, New Mexico:
Township 21 South, Range 37 East, N.M.P.M.
Section 16: SE/4SW/4NW/4, SW/4SE/4NW/4

WHEREAS, Apache has 100% of the operating rights in and to the State DA Lease and the State C Tract 12 Lease; and

WHEREAS, the Parties desire to drill and complete the **State DA #21 Well** ("Cooperative Well") for the production of oil, gas and related hydrocarbons, insofar as it covers the Blinebry, Tubb and Drinkard formations, at a non-standard location encroaching on the lease line between the State DA Lease and State C Tract 12 Lease in Section 16 as described below; and

WHEREAS, the Parties desire to provide for the sharing of production from and the costs of drilling, completing and operating said **State DA #21 Well** as described hereinbelow.

NOW THEREFORE, the Parties hereby agree as follows:

1. **DESIGNATION AND RESPONSIBILITIES OF OPERATOR**

A. Apache is designated as operator ("Operator") of the **State DA #21 Well** for the purposes of this Agreement.

B. Operator shall drill, complete and operate the Cooperative Well for oil and/or gas production from horizons encountered from the surface of the earth down to and including the base of the Drinkard Formation as follows:

State DA #21 Well:

SURFACE LOCATION: 2530' FSL & 1240' FWL, Sec. 16, T21S-R37E,
Lea County, New Mexico,

PLANNED TOTAL DEPTH: 6,875 feet, but in no event below the base of the Drinkard Formation plus one hundred (100) feet for operational purposes only.

C. All charges and credits to the Joint Account for the Cooperative Well shall be borne, and production therefrom will be shared, including but not limited to charges, credits and production associated with recompletions of the Cooperative Well to horizons shallower than the Drinkard formation, by the below named Parties in the percentage shown opposite their name as follows:

Apache 100.00%

All other operations conducted on the lands described above will not be affected by this Agreement.

2. **TERM OF AGREEMENT**

This Agreement shall remain in full force and effect so long as such Cooperative Well continues to produce oil or gas or both, and for an additional period of ninety (90) days from cessation of all production; provided, however, if, prior to the expiration of such additional period, the Parties are engaged in drilling or reworking operations to restore production from the Cooperative Well hereunder, this Agreement shall continue in force and effect until such operations have been completed, with no cessation of more than 60 consecutive days, and if production results therefrom, this Agreement shall continue in full force and effect as provided herein. Upon cessation of the production of oil or gas or both, Operator shall plug and abandon the Cooperative Well in accordance with all rules and regulations of all governmental agencies having jurisdiction over the premises at the cost, risk, and expense of the Parties, and shall salvage all equipment in and on the well for the account of the Party(ies) that initially paid for said equipment. The termination of this Agreement shall not relieve any of the parties from any liability which has accrued hereunder prior to the date of such termination.

Notwithstanding anything to the contrary contained elsewhere in this Agreement if the actual drilling operations for the Cooperative Well are not commenced on or before June 1, 2007, then this Agreement shall immediately terminate and shall have no further force and effect.

3. **NON-PARTNERSHIP ELECTION**

A. Under no circumstances shall this Agreement be construed as creating a partnership, mining partnership or an association for profit between or among the Parties hereto. The liability of the parties shall be several and not joint or collective. Each Party shall be liable only for the costs incurred and the risks assumed by each respective Party in connection with the performance of this Agreement.

B. Notwithstanding any provisions herein that the right and liabilities of the Parties hereunder are several and not joint or collective or that this Agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the Parties hereto hereby elects to be excluded from the application of all the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of said Code and the regulation promulgated thereunder. Operator is authorized and directed to execute on behalf of each of the Parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United State or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the date required by Federal Regulations 1.761-2. Should there be any requirement that each Party hereto further evidence this election, each Party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each Party hereto further agrees not to give any notices or take any other action inconsistent with election made hereby. If any present or future income tax laws of the state or states in which the property covered by this Agreement is located, or any future income tax law of the United States, contain, or shall

hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of Subchapter K is permitted, each of the Parties hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the Parties hereto hereby states that the income derived by it from the operations under this Agreement can be adequately determined without the computation of the partnership taxable income.

4. **TRANSFER OF INTEREST**

If any instrument purporting to effectuate the sale, assignment, or transfer of any interest of a Party in or to the State DA Lease and/or the State C Tract 12 Lease does not expressly provide that such sale, assignment or transfer is made and accepted subject to this Agreement, the purported sale, assignment or transfer of any such interest shall be void.

5. **CLAIMS AND LAWSUITS**

A. If any Party is sued on an alleged cause of action arising out of operations covered by this Agreement, it shall give prompt written notice of the suit to the other Parties.

B. Operator may settle any single damage claim or suit arising from operations hereunder for any settlement amount not exceeding Thirty-Five Thousand Dollars (\$35,000), provided such payment is in complete settlement of such claim or suit.

C. If, in Operator's opinion, such claim or suit is not amenable to or susceptible of settlement, Operator may upon delegation of such authority by the remaining Parties supervise the administration of said claim or suit employing Operator's staff attorneys or other attorneys as it may see fit to do so. The fees and expenses of settlement and handling such claim or suit shall be charged to the Joint Account, provided no charge shall be made for services performed by the staff attorneys for any Party.

6. **TAKING PRODUCTION IN KIND**

Each Party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Cooperative Well, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any Party of its proportionate share of the production shall be borne by such Party. Any Party taking its share of production in kind shall be required to pay only for its proportionate share of such part of Operator's surface facilities which it uses. In the event one or more Parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines which on a day-to-day basis for any reason are not exactly equal to a Party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the Parties shall be in accordance with the Gas Balancing Agreement attached to the Cooperative Well Operating Agreement.

In the event any Party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Cooperative Well, Operator shall have the right, subject to the revocation at will by the Party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking Party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other Party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

7. **PRODUCTION ALLOCATION AND BURDENS ADMINISTRATION**

All royalties, overriding royalty interests, production payments, or similar lease burdens encumbering the Properties which are created and existing as of the effective date hereof are defined

as the Existing Burdens. Solely for the payment of such Existing Burdens, all oil, gas and related hydrocarbons produced from or allocated to the Cooperative Well shall be allocated to the Properties as follows:

State DA Lease	62.07%
State C Tract 12 Lease	37.93%

Each Party shall account for and administer its share of the Existing Burdens attributable to the State DA Lease and/or the State C Tract 12 Lease based on such Party's operating rights in said lease(s) insofar and only insofar as to the formation(s) being produced from the Cooperative Well. Further, each Party shall indemnify and hold harmless each other Parties for the payment of its share of such Existing Burdens.

Acceptance of the payment of such Existing Burdens by the owners thereof shall never be construed as approval or ratification of a pooling, unitization, or communitization of the State DA Lease and the State C Tract 12 Lease.

8. **MEASUREMENT**

Subject to the provisions of Paragraph 6, all oil produced from the Cooperative Well will be measured in accordance with the standard metering practice accepted by the State of New Mexico. The method used shall be checked for accuracy at least once every month. All gas separated from such oil shall be metered or determined from a well test(s) before delivery to the gas purchaser.

9. **TITLE**

This Agreement is not intended as a conveyance of any interest whatsoever in real property owned or controlled by the Parties, but is merely a contractual arrangement between the Parties to operate the Cooperative Well and share the production and costs thereof.

10. **NOTICES**

A. All notices authorized or required by this Agreement, unless otherwise specifically provided, shall be deemed to have been given when it is received by the Party to whom addressed if it is given in writing by Certified Mail, Return Receipt Requested, or telegram, postage or charges prepaid, and addressed to the Parties to whom the notice is given at the addresses listed above.

B. Each Party shall have the right to change its address at any time and from time to time by giving written notice thereof to the other Parties.

11. **PRE-COMMENCEMENT APPROVALS**

Notwithstanding anything to the contrary contained elsewhere in this Agreement, Operator shall not commence actual drilling operations for the Cooperative Well until a Communitization Agreement covering production from the Cooperative Well has been approved by the Commissioner of Public Lands of the State of New Mexico.

This Agreement is freely assignable and shall extend to and be binding on the successors legal representatives and assigns of the Parties hereto.

This Agreement may be executed in any number of counterparts, each of which shall be considered as an original for all purposes.

IN WITNESS WHEREOF, the Parties have caused the execution of this instrument to be effective on the date first above written.

APACHE CORPORATION

By: John Swain

Printed Name: John Swain

Title: Attorney In Fact

MS

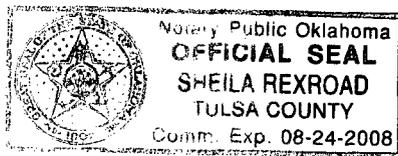
STATE OF OKLAHOMA §

§

COUNTY OF TULSA §

§

This instrument was acknowledged before me this 13th day of June, 2006, by John Swain, Attorney In Fact for Apache Corporation, a Delaware corporation, on behalf of said corporation.



Sheila Rexroad
Notary Public, State of Oklahoma

COMMUNITIZATION AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

STATE OF NEW MEXICO)
COUNTY OF LEA)

THAT THIS AGREEMENT [which is NOT to be used for carbon dioxide or helium] is entered into as of May 1, 2006 by and between the parties subscribing, ratifying or consenting hereto, such parties hereinafter being referred to as "Parties hereto";

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by the Legislature, as set forth in Sec. 19-10-53, New Mexico Statutes, Annotated, 1978, in the interest of conservation of oil & gas and the prevention of waste to consent to and approve the development or operation of State lands under agreements made by lessees of oil & gas leases thereon, jointly or severally with other oil & gas lessees of State Lands, or oil and gas lessees or mineral owners of privately owned or fee lands, for the purpose of pooling or communitizing such lands to form a proration unit or portion thereof, or well-spacing unit, pursuant to any order, rule or regulation of the New Mexico Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department where such agreement provides for the allocation of the production of oil or gas from such pools or communitized area on an acreage or other basis found by the Commissioner to be fair and equitable.

WHEREAS, the parties hereto, own working, royalty, or other leasehold interests or operating rights under the oil and gas leases and lands subject to this agreement, which leases are more particularly described in the schedule attached hereto, marked Exhibit "A" and made a part hereof, for all purposes; and

WHEREAS, said leases, insofar as they cover the Blinebry, Tubb and Drinkard formations (hereinafter referred to as "said formations") in and under the land hereinafter described cannot be independently developed and operated in conformity with the well spacing program established for such formation in and under said lands; and

WHEREAS, the parties hereto desire to communitize and pool their respective interests in said leases subject to this agreement for the purpose of developing, operating and producing hydrocarbons in the said formation in and under the land hereinafter described subject to the terms hereof.

NOW THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the undersigned as follows:

- EXHIBIT D -

1. The lands covered by this agreement (hereinafter referred to as the "communitized area") are described as follows:

Township 21 South, Range 37 East N.M.P.M.

Section 16: NE/4NW/4N/2SW/4, NW/4NE/4N/2SW/4, SE/4SW/4NW/4 and SW/4SE/4NW/4

Lea County , New Mexico

Limited to production from the **STATE DA #21**, located

2530' FSL & 1240' FWL of said Section 16.

containing 40.00 acres, more or less. It is the judgment of the parties hereto that the communitization, pooling and consolidation of the aforesaid land into a single unit for the development and production of hydrocarbons from the said formation in and under said land is necessary and advisable in order to properly develop and produce the hydrocarbons in the said formation beneath the said land in accordance with the well spacing rules of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and in order to promote the conservation of the hydrocarbons in and that may be produced from said formation in and under said lands, and would be in the public interest;

AND, for the purposes aforesaid, the parties hereto do hereby communitize for proration or spacing purposes only the leases described in Exhibit "A" hereto insofar as they cover hydrocarbons within and that may be produced from the said formation (hereinafter referred to as "Communitized Substances") beneath the above-described land, into a single communitization, for the development, production, operation and conservation of the hydrocarbons in said formation beneath said lands.

Attached hereto and made a part of this agreement for all purposes, is Exhibit A showing the acreage, and ownership (Lessees of Record) of all leases within the communitized area.

2. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leases described in Exhibit "A" hereto in the proportion that the number of surface acres covered by each of such leases and included within the communitized area bears to the total number of acres contained in the communitized area.

3. Subject to Paragraph 4, the royalties payable on communitized substances allocated to the individual leases and the rentals provided for in said leases shall be determined and paid in the manner and on the basis prescribed in each of said leases. Except as provided for under the terms and provisions of the leases described in Exhibit "A" hereto or as herein provided to the contrary, the payment of rentals under the terms of said leases shall not be affected by this agreement; and except as herein modified and changed or heretofore amended, the oil and gas leases subject to this agreement shall remain in full force and effect as originally issued and amended.

4. The State of New Mexico hereafter is entitled to the right to take in kind its share for the communitized substances allocated to such tract, and Operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.

5. There shall be no obligation upon the parties hereto to offset any well or wells situated on the tracts of land comprising the communitized area, nor shall the Operator be required to measure separately the communitized substances by reason of the diverse ownership of the separate tracts of land comprising the said communitized area; provided, however, that the parties hereto shall not be released from their obligation to protect the communitized area from drainage of communitized substances by wells which may be drilled within offset distance (as that term is defined) of the communitized area.

6. The commencement, completion, and continued operation or production of a well or wells for communitized substances on the communitized area shall be considered as the commencement, completion, continued operation or production as to each of the leases described in Exhibit "A" hereto.

7. The production of communitized substances and disposal thereof shall be in conformity with the allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State laws. This agreement shall be subject to all applicable Federal and State laws, executive orders, rules and regulations affecting the performance of the provisions hereof, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if compliance is prevented by or if such failure results from compliance with any such laws, orders, rules and regulations.

8. Apache Corporation shall be the Operator of said communitized area and all matters of operation shall be determined and performed by Apache Corporation.

9. This agreement shall be effective as of the date hereinabove written upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Commissioner of Public Lands, shall remain in full force and effect for a period of one year from the date hereof and as long thereafter as communitized substances are produced from the communitized area in paying quantities; provided, that this agreement shall not expire if there is a well capable of producing gas in paying quantities located upon some part of the communitized area, if such a well is shut-in due to the inability of the operator to obtain a pipeline connection or to market the gas therefrom, and if either: **(a)** a shut-in royalty has been timely and properly paid pursuant to the provisions of one of the State of New Mexico oil and gas leases covering lands subject to this agreement so as to prevent the expiration of such lease; or **(b)** each of the State of New Mexico oil and gas leases covering lands subject to this agreement is in its primary term (if a five-year lease), or in its primary or secondary term (if a ten-year lease), or is held by production from another well. Provided further, however, that prior to production in paying quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner of Public Lands with respect to any dry hole or abandoned well drilled upon the communitized area, this Agreement may be

terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production of communitized substances if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence. As to lands owned by the State of New Mexico, written notice of intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such production, and a report of the status of such operations shall be made by the Operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the State of New Mexico included in this agreement.

10. Operator will furnish the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and the Commissioner of Public Lands of the State of New Mexico, with any and all reports, statements, notices and well logs and records which may be required under the laws and regulations of the State of New Mexico.

11. It is agreed between the parties hereto that the Commissioner of Public Lands, or his duly authorized representatives, shall have the right of supervision over all operations under the communitized area to the same extent and degree as provided in the oil and gas leases described in Exhibit "A" hereto and in the applicable oil and gas regulations of the State of New Mexico.

12. If any order of the Oil Conservation Division of the New Mexico Energy Minerals and Natural Resources Department, upon which this agreement is predicated or based is in anyway changed or modified, then in such event said agreement is likewise modified to conform thereto.

13. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instruments, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

14. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

LESSEE OF RECORD AND

OPERATOR: APACHE CORPORATION

By: John Swain

John Swain, Attorney-in-Fact

Acknowledgment in a Representative Capacity

State of Oklahoma)
) SS
County of Tulsa)

This instrument was acknowledged before me on this 13 day of June, 2006, by John Swain, Attorney-in-Fact on behalf of Apache Corporation a Delaware Corporation.



Michelle Hanson

Notary Public, State of Oklahoma

My commission expires: 10/21/07

EXHIBIT A

To Communitization Agreement dated May 1, 2006, embracing the NE/4NW/4N/2SW/4, NW/4NE/4N/2SW/4, SE/4SW/4NW/4 and SW/4SE/4NW/4 of Section 16, Township 21 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

Operator of Communitized Area:

Apache Corporation

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease Serial No.: State of New Mexico NM B-01557-2

Lease Date: December 29, 1928

Lessor: State of New Mexico acting by and through its Commissioner of Public Lands

Original Lessee of Record: Stanolind Oil & Gas Company

Present Lessee of Record: Apache Corporation

Description of Land Committed:

Township 21 South, Range 37 East, Section 16: SE/4SW/4NW/4, SW/4SE/4NW/4

Number of Acres: 20.00

Royalty Rate: 12.5%

Name and Percent ORRI Owners: None

Name and Percent WI Owners: Apache Corporation (100%)

Tract No. 2

Lease Serial No.: State of New Mexico NM B-85-16

Lease Date: July 28, 1928

Lessor: State of New Mexico acting by and through its Commissioner of
of Public Lands

Original Lessee of Record: Los Angeles-New Mexico Oil Company

Present Lessee of Record: Apache Corporation

Description of Land Committed:

Township 21 South, Range 37 East, Section 16: NE/4NW/4N/2SW/4, NW/4NE/4N/2SW/4

Number of Acres: 20.00

Royalty Rate: 12.5%

Name and Percent ORRI Owners: None

Name and Percent WI Owners: Apache Corporation (100%)

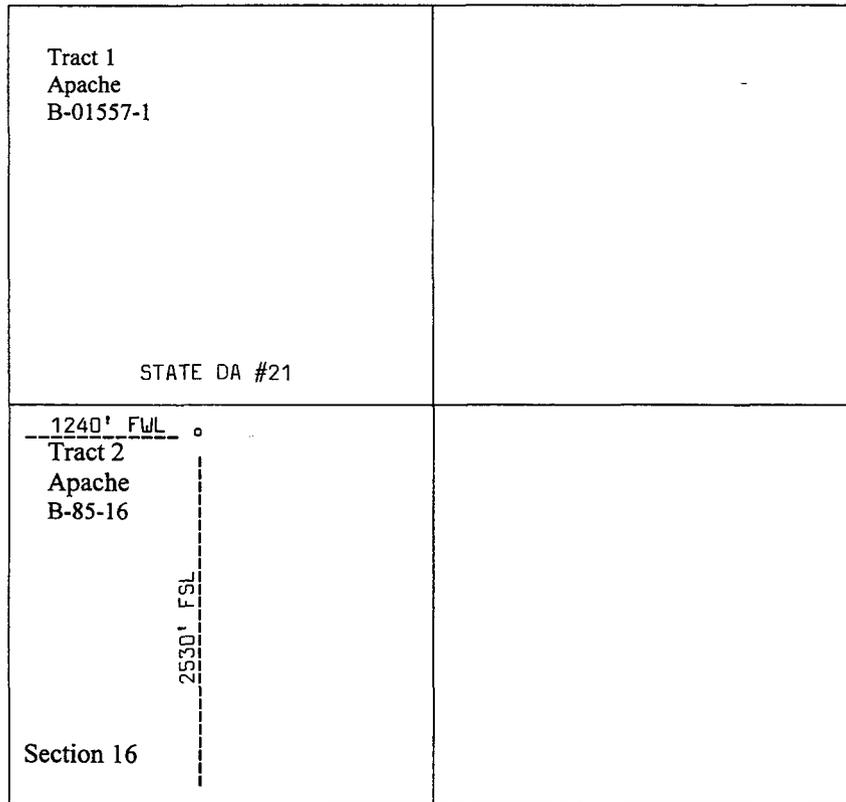
RECAPITULATION

Tract number	Number of Acres Committed	Percentage of Interest In Communitized Area
Lease No. 1	20.00	37.93%
Lease No. 2	20.00	62.07%

EXHIBIT "B"

To Communitization Agreement dated May 1, 2006

Plat of communitized area covering the NE/4NW/4N/2SW/4, NW/4NE/4N/2SW/4, SE/4SW/4NW/4 and SW/4SE/4NW/4 of Section 16, Township 21 South, Range 37 East, N.M.P.M, Lea County, New Mexico:



JAMES BRUCE
Attorney at Law
Post Office Box 1056
Santa Fe, New Mexico 87504
Telephone: (505) 982-2043
Fax: (505) 982-2151
jamesbruc@aol.com

DELIVER TO: Michael E. Stogner

COMPANY: Oil Conservation Division

CITY: Santa Fe, New Mexico

FAX NUMBER: (505) 476-3462

PAGES: 2 (including cover sheet)

DATE: 8/30/06

MEMO: Mike: I filed an NSL location for Apache on Monday, and the first page was incorrect (the footage is from the west line rather than the east line). A corrected page is enclosed.

CONFIDENTIALITY NOTICE

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**JAMES BRUCE
ATTORNEY AT LAW****POST OFFICE BOX 1056
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SANTA FE, NEW MEXICO 87501****(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)****jamesbruce@aol.com**

August 28, 2006

Hand Delivered**Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505**

Dear Mr. Stogner:

Pursuant to Division Rule 104.F(2), Apache Corporation applies for administrative approval of an unorthodox oil well location for the following well:

<u>Well Name:</u>	State DA Well No. 21
<u>Well Location:</u>	2530 feet FSL & 1240 feet FWL
<u>Well Unit:</u>	NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 16, Township 21 South, Range 37 East, N.M.P.M., Lea County, New Mexico

The well will test the Blinebry (Blinebry Oil and Gas Pool), Tubb (Tubb Oil and Gas Pool), and Drinkard (Drinkard Pool) formations, and applicant requests unorthodox location approval in all three zones. The Blinebry, Tubb, and Drinkard zones are expected to be oil productive.

The application is based on geological and engineering reasons. A complete discussion, with exhibits, is attached as Exhibit A. The well is in the approximate center of existing Blinebry, Tubb, and Drinkard wells, and the proposed location will drain additional undrained reserves.

The well unit will be simultaneously dedicated (in the Blinebry and Drinkard formations) to the proposed well and to the existing State DA Well No. 1, located in Unit L of Section 16.

Exhibit B is a land plat. The location encroaches on the State C Tract 12 Lease, which covers the NW $\frac{1}{4}$ of Section 16. Apache Corporation is the sole working interest owner of both leases, and has entered into the Cooperative Well Agreement attached as Exhibit C. Production from the proposed well will be allocated between the two leases as set forth in Exhibit C. In addition, the State Land Office requires communitization, and the pertinent agreement submitted to the Land Office is attached as Exhibit D.

Please call me if you need any further information on this matter.