



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

February 25, 2004

Lori Wrotenbery

Director

Oil Conservation Division

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

Administrative Order NSL-4957-A (SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your application (*administrative application reference No. pMES0-405639260*) dated February 6, 2004 filed on behalf of the operator, Apache Corporation ("Apache"); (ii) your letter dated February 10, 2004 with supplemental data to support this application; (iii) 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; (iv) your telephone conversation with Mr. Stogner late Monday afternoon, February 23, 2004; (v) your e-mail response to Mr. Stogner on February 23, 2004; (vi) Ms. Cindy McGee's e-mail with attachments on Tuesday, February 24, 2004; (vii) your e-mail correspondence with Mr. Stogner on Wednesday, February 25, 2004; and (viii) the Division's records in Santa Fe, including the file on Division Administrative Order NSL-4957 (SD): 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 NE/4 NW/4 (Unit C) 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 NW/4 of Section 16 is a single state lease 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.
- (3) This 40-acre Grayburg unit is currently simultaneously dedicated to Apache's: (i) State "C" Tract 12 Well No. 9 (API No. 30-025-35707) located at a standard oil well location 600 feet from the North line and 1850 feet from the West line of Section 16; and (ii) State "C" Tract 12 Well No. 13 (API No. 30-025-36095) located at a standard oil well location 330 feet from the North line and 2130 feet from the West line of Section 16.

(4) By Division Administrative Order NSL-4957 (SD), dated November 3, 2003, Apache was granted authorization to drill its State "C" Tract 12 Well No. 15 (API No. 30-025-36478) at an unorthodox infill oil well location 1240 feet from the North line and 1400 feet from the West line of Section 16 and to simultaneously dedicate this well to the subject 40-acre Grayburg unit.

(5) Apache now seeks to drill its State "C" Tract 12 Well No. 17 at an unorthodox infill oil well location within this 40-acre Grayburg unit 1310 feet from the North line and 2590 feet from the West line of Section 16.

(6) The NE/4 of Section 16 is a single state lease issued by the New Mexico State Land Office (State Lease No. B-1732-1) to Chevron U.S.A., Inc. ("Chevron"), operator of the following two affected standard 40-acre Grayburg units being encroached to the east:

(a) the NW/4 NE/4 (Unit B) of Section 16 which is currently dedicated to Chevron's Harry Leonard NCT-E Well No. 3 (API No. 30-025-06622), located at a standard oil well location 660 feet from the North line and 1980 feet from the East line of Section 16; and

(b) the SW/4 NE/4 (Unit G) of Section 16 which is currently dedicated to Chevron's Harry Leonard NCT-E Well No. 1 (API No. 30-025-06620), located at a standard oil well location 1980 feet from the North and East lines of Section 16.

(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, and the New Mexico State Land Office 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 "C" Tract 12 Well No. 17 in the following manner:

(a) 42.47% attributed to the Apache operated State "C" Tract 12 lease (State lease No. B-1557-1); and

(b) 57.53% attributed to Chevron's Harry Leonard NCT-E state lease (State lease No. B-1732-1).

(9) This allocation formula for the proceeds from Apache's proposed State "C" Tract 12 Well No. 17 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. pMES0-405639260*) for its proposed State "C" Tract 12 Well No. 17 to be drilled at an unorthodox oil well location 1310 feet from the North line and 2590 feet from the West line (Unit C) 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 "C" Tract 12 Well No. 17 is to be simultaneously dedicated, with the following three wells, to the NE/4 NW/4 (Unit C) of Section 16, being a standard 40-acre oil spacing and proration unit in the Penrose Skelly (Grayburg) Pool:

(a) Apache's existing State "C" Tract 12 Well No. 9 (**API No. 30-025-35707**) located at a standard oil well location 600 feet from the North line and 1850 feet from the West line of Section 16;

(b) Apaches existing State "C" Tract 12 Well No. 13 (**API No. 30-025-36095**) located at a standard oil well location 330 feet from the North line and 2130 feet from the West line of Section 16; and

(c) Apache's proposed State "C" Tract 12 Well No. 15 (**API No. 30-025-36478**) to be located at an unorthodox infill oil well location (approved by Division Administrative Order NSL-4957 (SD), dated November 3, 2003) 1240 feet from the North line and 1400 feet from the West line of Section 16.

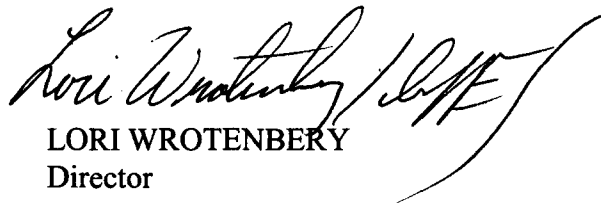
(3) The distribution of proceeds from Penrose Skelly (Grayburg) oil production from Apache's proposed State "C" Tract 12 Well No. 17 are to be allocated in the following manner:

(a) 42.47% attributed to the Apache operated State "C" Tract 12 lease (State lease No. B-1557-1); and

(b) 57.53% attributed to Chevron's Harry Leonard NCT-E state lease (State lease No. B-1732-1).

(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
File: NSL-4957 (SD)