



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

March 25, 2004

Joanna Prukop
Cabinet Secretary
Acting Director
Oil Conservation Division

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

Administrative Order NSL-5024 (SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your application (*administrative application reference No. pMES0-408539665*) dated February 6, 2004 filed on behalf of the operator, Apache Corporation ("Apache"); (ii) our telephone conversation late Monday afternoon, February 23, 2004; (iii) your e-mail response on February 23, 2004; (iv) Ms. Cindy McGee's e-mail with attachments on Tuesday, February 24, 2004; (v) your e-mail correspondence with me on Wednesday, February 25, 2004; (vi) our telephone conversation on Thursday, February 26, 2004 concerning Occidental Permian Partnership's interest, or lack thereof, in this application; (vii) your e-mail and telefax responses Friday morning, February 27, 2004; (viii) your e-mail to me Tuesday morning March 23, 2004 checking on the status of Apache's remaining applications in this area; and (ix) the Division's records in Santa Fe, including the files on Division Administrative Orders NSL-5007 (SD), NSL-4956 (SD), and NSL-4954 (SD): all concerning Apache Corporation's request for an unorthodox oil well location within a standard 40-acre oil spacing and proration unit comprising the NE/4 NE/4 (Unit A) of Section 17, Township 21 South, Range 37 East, NMPM, Penrose Skelly (Grayburg) Pool (50350), Lea County, New Mexico.

The Division Finds That:

(1) All of Section 17 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 area comprising the E/2 NE/4 (Units A and H) and the NE/4 SE/4 (Unit I) of Section 17 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.

(3) The standard 40-acre oil spacing and proration unit in the Penrose Skelly (Grayburg) Pool comprising the NE/4 NE/4 (Unit A) of Section 17 within this lease does not currently have a producing well; however, from 1972 to April, 1999 Apache's Lockhart "A-17" Well No. 4 (**API No. 30-025-06639**), located at a standard oil well location 660 feet from the North and East lines of Section 17 was completed in and produced from the Penrose Skelly (Grayburg) Pool.

(4) Apache now seeks to drill its Lockhart "A-17" Well No. 9 as a replacement Grayburg oil well within this 40-acre unit at an unorthodox oil well location 110 feet from the North line and 80 feet from the East line of Section 17.

(5) The 958.25-acre area in Lea County, New Mexico comprising the SW/4 NE/4 and NW/4 SW/4 of Section 13, Township 20 South, Range 37 East, NMPM; Lot 1 of Section 30, Township 20 South, Range 38 East, NMPM; and Lots 3 and 6 of Section 4, the NE/4 SE/4 and S/2 SE/4 of Section 6; the E/2 SW/4 and SE/4 of Section 8; and the E/2 NW/4 and S/2 of Section 9, all in Township 21 South, Range 37 East, NMPM, is a single federal lease (Hawk "B-1") issued by the U. S. Bureau of Land Management (U. S. government lease No. NM-90161) with common ownership in which: (i) Apache, Chevron, and BP America Production Company ("BP") 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 north in Sections 8 and 9, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico that Apache's proposed Lockhart "A-17" Well No. 9 is encroaching are:

(a) the SW/4 SW/4 (Unit M) of Section 9, which is currently dedicated to Apache's: (i) existing Hawk "B-1" Well No. 19 (API No. 30-025-35796), located at a standard oil well location 660 feet from the South line and 425 feet from the West line of Section 9; and (ii) proposed Hawk "B-1" Well No. 40 (API No. 30-025-36533), to be located at an unorthodox infill oil well location [approved by Division Administrative Order NSL-4956 (SD), dated October 31, 2003, as corrected by order dated March 1, 2004] 1310 feet from the South line and 1280 feet from the West line of Section 9; and

(b) the SE/4 SE/4 (Unit P) of Section 8, which is currently dedicated to Apache's: (i) Hawk "B-1" Well No. 18 (API No. 30-025-35795), located at a standard oil well location 760 feet from the South line and 840 feet from the East line of Section 8; and (ii) proposed Hawk "B-1" Well No. 39 (API No. 30-025-36532), to be located at an unorthodox infill oil well location [approved by Division Administrative Order NSL-4954 (SD), dated October 31, 2003] 1200 feet from the South line and 80 feet from the East line of Section 8.

(6) The NW/4 of Section 16, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico 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 Apache is the lessee of record and leasehold operator. The affected standard 40-acre Grayburg oil spacing and proration unit to the east, being the NW/4 NW/4 (Unit D) of Section 16, in which the proposed Lockhart "A-17" Well No. 9 is encroaching, is dedicated to the two following described Apache operated wells:

(a) the existing State "C" Tract 12 Well No. 8 (API No. 30-025-35515), located at a standard oil well location 660 feet from the North line and 810 feet from the West line of Section 16; and

(b) its proposed State "C" Tract 12 Well No. 16 (API No. 30-025-36618), to be located at an unorthodox infill oil well location [approved by Division Administrative Order NSL-5007 (SD), dated March 1, 2004) 110 feet from the North line and 1310 feet from the West line 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, BP, 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 Lockhart "A-17" Well No. 9 in the following manner:

(a) 43.17% to be attributed to the subject Lockhart "A-17" federal lease (U. S. government lease No. NM-032096-A);

(b) 33.10% to be attributed to the offsetting State "C" Tract 12 lease (State lease No. B-01557-1); and

(c) 23.73% to be attributed to the offsetting Hawk "B-1" federal lease (U. S. government lease No. NM-90161).

(9) This allocation formula for the proceeds from Apache's proposed Lockhart "A-12" 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. pMES0-408539665*) for its proposed Lockhart "A-17" Well No. 9 to be drilled at an unorthodox oil well location 110 feet from the North line and 80 feet from the East line of Section 17, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico, and completed in the Penrose Skelly (Grayburg) Pool (50350), is hereby approved.

(2) The distribution of proceeds from Penrose Skelly (Grayburg) oil production from Apache's proposed Lockhart "A-17" Well No. 9 are to be allocated in the following manner:

- (a) 43.17% to be attributed to the subject 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) 33.10% to be attributed to the offsetting State "C" Tract 12 lease (State lease No. B-01557-1) located in Section 16, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico; and
- (c) 23.73% to be attributed to the offsetting Hawk "B-1" federal lease (U. S. government lease No. NM-90161) located in Sections 8 and 9, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico.

(3) 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



MICHAEL E. STOGNER
Engineer/Hearing Officer

MS/mes

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