

Meeting of

Oil Conservation Division

Case No. 15316

Exhibit No. 1

First I would like to commend Apache's engineering team for their success at developing horizontal wells in the Yeso formation in this area. The experience Marbob had and other operators in this area led me to believe that the Apache approach versus vertical wells would not be as economic but they have achieved results far greater than I thought they ever would. Unfortunately I believe that what they have come to agreement with the BLM on this so called Mega-Comm would be bad precedent if approved by the OCD.

Attached to my handout (Exhibit A) is a map of the leases and wells which have been drilled and are proposed at this time to be drilled. As you can see the orientation fits well within existing lease boundaries, except in Section 4 where the wells will need to be communitized on a well by well basis or a project area be developed for approval by the appropriate regulatory authorities which would cover that section. I know from visiting with the BLM and Apache that one of the reasons stated for the Mega-Comm was to reduce the amount of facilities required. As the President of an operating company I certainly can understand that from both a cost perspective as well as a surface disturbance consideration but I believe the OCD has rules in place that would allow after notice, review and approval the surface commingling of wells to accomplish the same end result, which is currently being used by operators such as Devon to achieve that result. I am also well aware of the BLM's concern over surface disturbance given the fact that this area is home to the sand dune lizard. While personally I believe the BLM by removing thousands of acres from leasing and development North of here has created a chicken and lizard ranch which should allow for both species survival but if the protection of that species is critical in this area then the BLM and Apache should have followed already tried and approved methods of handling unique problems with unitization. The Big Eddy Unit was created to deal with the special issue of potash conflicts and if this species is that important in this area then the BLM and Apache should have followed the already recognized steps to receive approval.

The Mega-Comm in its current form, if approved by OCD, feels like the opening of Pandora's box. Even the agreement as it now stands brings concern as to how it will be applied. A copy is attached as Exhibit B. In visiting with Apache they believe the effective date is November 1, 2013 and that when they receive your blessing they will go in and reverse their current lease payments and reallocate them back to that date. But if you notice on page 3 of that agreement I have highlighted a section dealing with the effective date that states it is effective the date of first production from these leases or that date whichever is earlier. Production from these leases in the Yeso formation begin in 2009. Apache realizes that but has not gone back to the BLM requesting an amendment to the agreement clarifying the effective date. Likewise if oil prices decline more and Apache's capital budget is cut, the BLM could remove lands such as the N/2 of Section 3 from the agreement and Apache would be required to reverse and rebook all of the entries from the effective date (whatever that date truly is) to present. I am surprised that Apache would be willing to take that risk since it can be very difficult to get money back from overriding royalty owners that you are no longer paying.

To come directly to the point I should say that I believe OCD has worked diligently to provide frameworks for unorthodox locations, surface commingling, horizontal rules and unitization which would have allowed the BLM and Apache to achieve all of the objectives of both

organizations without creating a new concept for SE New Mexico which while if modified might work for this area. However the next variation of the concept and the following variation after that take OCD into waters that they probably would have just preferred to avoid given the fact the viable and reasonable, already approved rules that are available to the applicant.

Thank you for letting me appear before you today and I do thank Apache for trying to educate me and resolve the issue before the hearing. I do hope you ask them to include in the hearing record the names and addresses of all the parties they noticed for the hearing as I requested that several times from their attorneys and Apache themselves and they did not provide it. Thanks again.