

PAUL BAGA PROFESSIONAL COURT REPORTERS

# OIL CONSERVATION

# EXHIBIT 1

CASE NO. 14183

**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION FOR  
THE PURPOSE OF CONSIDERING:**

**APPLICATION OF APACHE CORPORATION  
FOR COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.**

**Case No. 14,183**

**VERIFIED STATEMENT OF MICHELLE HANSON**

Michelle Hanson, being duly sworn upon her oath, deposes and states:

1. I am a landman for Apache Corporation, and have personal knowledge of the matters stated herein.
2. Pursuant to Division Rule 1210.A(1)(b), the following information is submitted in support of the application filed herein:
  - (a) No opposition to this application is expected because the mineral interest owners being pooled are (i) unlocatable, or (ii) have not responded to lease offers or well proposals.
  - (b) A plat outlining the spacing unit being pooled, and marking the location of the proposed well, is attached hereto as Exhibit A. Applicant seeks an order pooling all mineral interests from the surface to the base of the Drinkard formation underlying the NW $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 11, Township 20 South, Range 38 East, NMPM, to form a standard 40-acre oil spacing and proration unit for any and all formations or pools developed on 40-acre spacing within that vertical extent, including the House-Blinebry Pool and House-Tubb Pool. The unit will be dedicated to the Magnolia Well No. 2, to be drilled at an orthodox oil well location in the NW $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 11.
  - (c) The parties being pooled, their interests in the NW $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 11, and their last known addresses, are listed on Exhibit B.
  - (d) A copy of the proposal letter sent to the uncommitted mineral interest owners is attached hereto as Exhibit C.
  - (e) Interest owners who are not locatable are highlighted in yellow on Exhibit B. To attempt to locate these interest owners, Apache Corporation examined the Lea County records, telephone directories, records in the counties of the last known residences of the

Oil Conservation Division

Case No. \_\_\_\_\_

Exhibit No.   1





**Unleased Mineral Interest Ownership in the Magnolia #2**

<b>Name &amp; Address</b>	<b>Interest</b>	<b>Net Acres</b>
Robert Groves Howard, Jr. and Pamela K. Howard 3813 W Trevino Rd Hobbs, NM 88240-9276	3/256	0.46875
Thelma Marie Carlin 312 Walnut Ruidoso, NM 88345	3/256	0.46875
Sarah Elizabeth Carlin 1184 Merion Place Broomfield, CO 80020	3/256	0.46875
Bill Warrick Address Unknown	5/3200	0.0625
Overloade Ltd P.O. Box 148 Las Cruces, NM 88001	1/384	0.104166667
Ethel Cooper Address Unknown	1/224	0.178571429
Clarence A. Crook Address Unknown	1/224	0.178571429
Lloyd A. Crook Address Unknown	1/224	0.178571429
Ollie Mae Robinson Address Unknown	1/224	0.178571429
Willis R. Crook Address Unknown	1/224	0.178571429
Bruce Olin Crook Address Unknown	1/224	0.178571429
Fred D. Crook Address Unknown	1/224	0.178571429

**Total Unleased                      2.822916667**

EXHIBIT **B**



Central Region Land Department  
(918) 491-4900  
(918) 491-4854 (FAX)

August 13, 2008

MINERAL INTEREST OWNERS

RE: Proposal to Drill Magnolia #2 Well and  
Request to AMEND existing JOA  
330' FNL & 880' FWL  
Township 20 South, Range 38 East  
Section 11: NW/4 NW/4  
Lea County, New Mexico

Dear Interest Owner,

Apache Corporation ("Apache") hereby proposes the drilling of the Magnolia #2 Well to a total depth of 7,300' to test the Blinbry, Tubb and Drinkard formations. This well is to be located 330' FNL & 880' FWL in the NW/4 Section 11, T20S, R38E, Lea County, New Mexico. The estimated dry hole cost for this well is \$502,000 and the total completed well cost is approximately \$1,547,600. Enclosed for your review and further handling are two (2) copies of Apache's drilling and completion AFE. Said AFE contains an itemized breakdown of the estimated cost for the drilling and completion work for the Magnolia #2 well.

Apache also hereby proposes to amend the Contract Area to that certain Joint Operating Agreement dated March 1, 2008 to include the NW/4 NW/4 Section 11, T20S, R38E, Lea County, New Mexico for the recently proposed Magnolia #2 Well. This Joint Operating Agreement originally covered the SW/4 NW/4 Section 11, T20S, R38E, for the Magnolia #1 Well. As a result, the Contract Area will now cover the W/2 NW/4-Section 11, T20S, R38E, Lea County, New Mexico.

Except as herein provided, the Joint Operating Agreement dated March 1, 2008 shall remain in full force and effect in accordance with its terms and provisions, and the amendment proposed herein shall be effective as of March 1, 2008 and shall be binding as to each party, its successors or assigns, executing the same.

Should you elect not to participate in the drilling of the Magnolia #2 Well, please consider leasing your mineral interest to Apache by contacting either Doug Ferguson or Sharon Cornal at 432-684-4542 or P.O. Box 432, Midland, TX 79702. Should you consider leasing, Apache is offering a bonus of \$150 per net acre or \$50 minimum, whichever is greater, for a 3 year lease, with option to extend 2 years at \$100 per net acre, delivering 1/5 oil and gas royalty.

Please evidence your election of Apache's well proposal and request to amend the existing JOA on Page 2 of this letter and should you elect to participate in the well please execute one (1) copy of the enclosed AFE and return same, along with your election on Page 2, to the undersigned at your earliest convenience in the enclosed postage paid envelope provided for your convenience. Your immediate attention to this proposal will be greatly appreciated and should you have any questions concerning this matter, please do not hesitate contacting Kevin Mayes our Reservoir Engineer at (918) 491-4972 or the undersigned at (918) 491-4838.

Yours truly,

APACHE CORPORATION

A handwritten signature in cursive script that reads "Michelle Hanson".

Michelle Hanson  
Landman  
(918) 491-4854 fax  
[Michelle.hanson@apachecorp.com](mailto:Michelle.hanson@apachecorp.com)

EXHIBIT     C

**PROPOSAL TO DRILL:**

\_\_\_\_\_ The undersigned elects to **PARTICIPATE** in the drilling of the Magnolia No. 2 well as proposed above. Attached is an executed copy of Apache's AFE #TW-08-0490.

\_\_\_\_\_ The undersigned elects to go **NON-CONSENT** in the drilling and completing of the Magnolia #2 well as proposed above.

\_\_\_\_\_ The undersigned agrees to **LEASE** its mineral interest to Apache pursuant to the terms previously stated on Page 1 of this letter.

**REQUEST TO AMEND EXISTING JOA:**

\_\_\_\_\_ The undersigned elects to **AMEND** the existing JOA to include the NW/4 NW/4 Section 11 (Magnolia #2) as proposed above.

\_\_\_\_\_ The undersigned elects **NOT TO AMEND** the existing JOA to include the NW/4 NW/4 Section 11 (Magnolia #2) as proposed above.

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_



**DRILLING AND COMPLETION AFE**  
ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

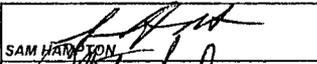
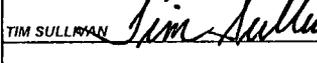
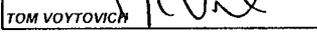
PROPERTY NO. 0		<input checked="" type="checkbox"/> EMS	<input type="checkbox"/> ITS	AFE NO. TW-08-0490	
COUNTY/STATE LEA, NM		DISTRICT PERMIAN WEST		DATE 08/13/08	
LEASE NAME MAGNOLIA		WELL NO. 2		FIELD HOUSE	
PROSPECT/LEASE # HOUSE		LEGAL / ZIP CODE SEC 11, T20S-R38E		<input checked="" type="checkbox"/> ORIGINAL SUPPLEMENT <input type="checkbox"/> - <input type="checkbox"/> - EXPLORATION <input checked="" type="checkbox"/> DEVELOPMENT <input type="checkbox"/> - PUD	
OPERATOR APACHE CORPORATION		APACHE WI 85.000000%			
OBJECTIVE DRINKARD - 7,300'		PROSPECT # NM4022			
FOCUS AREA NEW MEXICO		API # 0			
ESTIMATED PROJECT START DATE			ESTIMATED PROJECT COMPLETION DATE		
DESCRIPTION Drill, Complete, and Equip a 7,350' B-T-D well.					
(Closed Loop System) REVISED					

**INTANGIBLE DEVELOPMENT COSTS**

ACCT	DESCRIPTION	DRY HOLE	COMPLETION	SUPPLEMENT	TOTAL WELL COST
70002	AIR TRANSPORTATION	0	0	0	0
70003	BITS, COREHEADS AND REAMERS	22,000	1,000	0	23,000
70004	CASING CREWS	4,000	4,000	0	8,000
70005	CATERING AND GROCERIES	0	0	0	0
70006	CEMENT AND CEMENTING SERVICES	20,000	42,000	0	62,000
70009	COMPANY LABOR	0	0	0	0
70011	COMPANY SUPERVISION	1,000	7,000	0	8,000
70012	COMPANY VEHICLE EXPENSE	500	0	0	500
70019	CONTRACT DRILLING - DAYWORK @ \$13,800 /day	138,000	35,000	0	173,000
70020	CONTRACT DRILLING - FOOTAGE	0	0	0	0
70017	CONTRACT LABOR	9,000	10,000	0	19,000
70021	CONTRACT SUPERVISION	13,500	0	0	13,500
70022	DIRECTIONAL TOOLS	0	0	0	0
70025	DRILLING FLUIDS	10,000	0	0	10,000
65506	DRILLING OVERHEAD	7,750	0	0	7,750
70059	DRY HOLE PLUGGING	0	0	0	0
70031	EQUIPMENT RENTAL	25,000	23,000	0	48,000
70033	FILTRATION	0	0	0	0
70034	FORMATION STIMULATION	0	300,000	0	300,000
70035	FORMATION TESTING	0	0	0	0
70037	FUEL AND POWER	25,000	0	0	25,000
70039	GEOLOGICAL AND ENGINEERING	14,000	0	0	14,000
70040	GRAVEL PACK SERVICES	0	0	0	0
70045	INSURANCE	0	0	0	0
70046	LAND AND SITE RECLAMATION	40,000	0	0	40,000
70047	LEGAL AND CURATIVE	3,000	0	0	3,000
70049	LOGGING	20,000	15,000	0	35,000
70050	MARINE TRANSPORTATION	0	0	0	0
70054	OTHER INTANGIBLE	24,000	95,100	0	119,100
70064	RIG MOBILIZATION	20,000	0	0	20,000
70065	ROADS AND SITE PREPARATION	32,000	0	0	32,000
70069	SNUBBING/COIL TUBING UNIT	0	0	0	0
70073	TAX ON EQUIPMENT	0	0	0	0
70074	TRUCKING AND HAULING	7,500	7,500	0	15,000
70075	TUBING CONVEY PERFORATING	0	0	0	0
70076	TUBULAR INSPECTIONS	3,000	2,500	0	5,500
70077	WATER	15,000	5,000	0	20,000
70078	WELL SITE LOSS AND DAMAGES	7,500	0	0	7,500
	SUB-TOTAL INTANG. DEVELOPMENT COSTS	461,750	547,100	0	1,008,850

TANGIBLE MATERIAL COSTS

ACCT	DESCRIPTION	DRY HOLE	COMPLETION	SUPPLEMENT	TOTAL WELL COST
71001	ARTIFICIAL LIFT EQUIPMENT	0	88,000	0	88,000
71005	COMPRESSOR STATIONS	0	0	0	0
71006	CONDUCTOR CSG	7,000	0	0	7,000
71008	DEHYDRATION / AMINE UNITS	0	0	0	0
71012	FLOW LINES TO BATTERY	0	5,000	0	5,000
71017	HIGH PRESSURE KNOCK-OUT	0	0	0	0
71019	INTERMEDIATE CSG	0	0	0	0
71024	LINER HANGERS	0	0	0	0
71025	LINERS - DRILLING OR PRODUCTION	0	0	0	0
71007	ONSHORE PLATFORM	0	0	0	0
71032	OTHER SUBSURFACE EQUIPMENT	0	3,500	0	3,500
71033	OTHER SURFACE EQUIPMENT	0	12,500	0	12,500
71039	PRIME MOVER	0	3,000	0	3,000
71040	PRODUCTION CASING - 5-1/2" 17# J55 & 1000' L80LTC	0	98,750	0	98,750
71043	PUMPS	0	4,000	0	4,000
71045	SALES LINE	0	0	0	0
71046	SEPARATORS	0	20,000	0	20,000
71048	SUCKER RODS	0	24,000	0	24,000
71050	SURFACE CSG 1,600' - 8-5/8" 24# J55 STC @ \$17.39 + Tax	31,000	0	0	31,000
71051	TANK BATTERY	0	160,000	0	160,000
71052	TREATERS	0	20,000	0	20,000
71053	TUBING 2-7/8" 6.5# J-55	0	54,750	0	54,750
71056	WELLHEAD ASSEMBLY	2,250	5,000	0	7,250
	SUB-TOTAL TANGIBLE MATERIAL COSTS	40,250	498,500	0	538,750
	SUB-TOTAL INTANGIBLE COSTS (PAGE 1)	461,750	547,100	0	1,008,850
	GRAND TOTAL	502,000	1,045,600	0	1,547,600
	LESS OUTSIDE INTERESTS	75,300	156,840	0	232,140
	TOTAL NET COSTS	426,700	888,760	0	1,315,460

PREPARED BY		8/13/08 DATE
PREPARED BY		8/13/08 DATE
APPROVED BY		8.13 DATE
APPROVED BY		8/14/08 DATE
APPROVED BY		DATE
APPROVED BY		8/14/08 DATE

A.	GROSS ORIGINAL AFE AMOUNT	1,547,600
B.	APACHE ORIGINAL NET AFE AMOUNT	1,315,460
C.	NET ASSET TRANSFERS	
D.	TOTAL ORIGINAL NET AFE (LINE B PLUS LINE C)	1,315,460
E.	GROSS SUPPLEMENTS	0
F.	APACHE TOTAL NET AFE AMOUNT	1,315,460
	IN BUDGET	NOT IN BUDGET

Notice to Nonoperators: Costs shown on this form estimates only. Nonoperators should not consider these estimates as establishing any limit on monies which will be required to perform the proposed operation.

COMPANY	WORKING INTEREST	APPROVED BY	DATE

COMMENTS: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_