

**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:**

**CASE NO. 14177
ORDER NO. R-9922-F**

**APPLICATION OF APACHE CORPORATION
FOR AN EXCEPTION TO DIVISION ORDER
NO. R-9922-E TO PERMIT A THIRD WELL
ON A WELL UNIT, EDDY COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 21, 2008, at Santa Fe, New Mexico, before Examiners David K. Brooks and Terry Warnell.

NOW, on this 16th day of September, 2008, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.

(2) Apache Corporation ("Applicant" or "Apache") seeks to amend Order No. R-9922-E to permit simultaneous dedication of a standard 336.81-acre spacing unit in the Indian Basin-Upper Pennsylvanian Associated Pool consisting of Lots 1 and 2 and the S/2 NE/4 and SE/4 [the E/2 equivalent] of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico (the "Subject Unit"), to its proposed Concho State Well No. 11 (API No. 30-015-36378), in addition to two existing wells located in the Subject Unit and already producing from that pool.

(3) Spacing in the Indian Basin-Upper Pennsylvanian Associated Pool is generally governed by the Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Associated Pool, as most recently amended by Order No. R-9922-C, issued in Case 11484 on May 14, 1996, which provide for 320-acre units, with one well

permitted per 80-acre tract. However, Order No. R-9922-E, issued in Case 12782 on August 16, 2002, specifically provides that, as to the Subject Unit and other units therein described (the Second Extension), no more than one Indian Basin-Upper Pennsylvanian well shall be allowed per quarter section.

(4) There are two existing wells (the Existing Wells) located in the Subject Unit and producing from the Indian Basin-Upper Pennsylvanian Pool, one in each quarter section of the Subject Unit, as follows:

Concho State Well No. 6 (API No. 30-015-30925), located 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2; and

Concho State Well No. 8 (API No. 30-015-32413), located 1710 feet from the South line and 880 feet from the East line (Unit I) of Section 2.

(5) Applicant now seeks permission, notwithstanding the provision of Order No. R-9922-E limiting the number of wells in the Subject Unit to one per quarter section, to simultaneously dedicate the Subject Unit to the Proposed Well, to be drilled to the Indian Basin-Upper Pennsylvanian Associated Pool at a location in the NE/4 of Section 2, being 860 feet from the North line and 1900 from the East line (Unit B) of that section.

(6) Applicant appeared at the hearing through counsel and presented land testimony to the effect that the operators of all units in the Indian Basin-Upper Pennsylvanian Associated Pool and in the Indian Basin-Upper Pennsylvanian (Prorated) Gas Pool adjoining the Subject Unit, and all working interest owners in units adjoining the Subject Unit that are operated by Applicant, received actual notice of the filing of this application and of the hearing.

(7) Applicant further presented geological and engineering testimony to the effect that:

(a) This pool and the adjacent Indian Basin-Upper Pennsylvanian (Prorated) Gas Pool have been characterized by massive influx of water in recent years, but have continued producing gas at substantial rates, indicating the existence of "compartmentalized" reserves that cannot be drained over long distances.

(b) Pressure data and drainage calculations on existing wells in the vicinity support this conclusion.

(c) The Proposed Well will be at a relatively favorable location, structurally, compared to the Existing Wells and will probably produce additional oil and gas reserves underlying the NE/4 of Section 2 that cannot be produced from the Existing Wells.

(d) Although the wells in this vicinity are highly productive of both oil and gas, neither the Subject Unit nor any other Upper Pennsylvanian unit in the Indian Basin-Upper Pennsylvanian Associated Pool or the Indian Basin-Upper Pennsylvanian (Prorated) Gas Pool in this vicinity produces anywhere close to its allowable. Thus all of these units are "marginal" and are entitled to produce a maximum capability.

(e) There are existing wells that offset the Subject Unit to the north and west that could, potentially, drain reserves from the NE/4 of Section 2.

(8) No party other than Applicant appeared at the hearing or otherwise objected to this Application.

The Division concludes that:

(9) The simultaneous dedication of the Subject Unit to the Proposed Well and to the Existing Wells will, in reasonable probability, enable Applicant to produce reserves that could not otherwise be produced.

(10) Order No. R-9922-E limited wells in the Second Extension area, including the Subject Unit, to one well per quarter section in order to prevent units in the Indian Basin-Upper Pennsylvanian Associated Gas Pool from enjoying a competitive advantage compared to adjoining units in the Indian Basin (Prorated) Gas Pool by reason of the higher unit allowables in the Associated Pool. This consideration is not relevant as applied to the Subject Unit, since neither the Subject Unit nor any of the adjoining units produces at anywhere close to its maximum allowable.

(11) The granting of this Application will prevent waste and will not impair correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Order No. R-9922-E is hereby amended so that Apache Corporation may simultaneously dedicate a 336.81-acre unit comprising Lots 1 and 2 and the S/2 SE/4 and SW/4 [E/2 equivalent] of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, in the Indian Basin-Upper Pennsylvanian Associated Pool (33685) to the following three wells:

(a) Apache's proposed Concho State Well No. 11 (API No. 30-015-36378), to be located 860 feet from the North line and 1900 from the East line (Unit B) of Section 2;

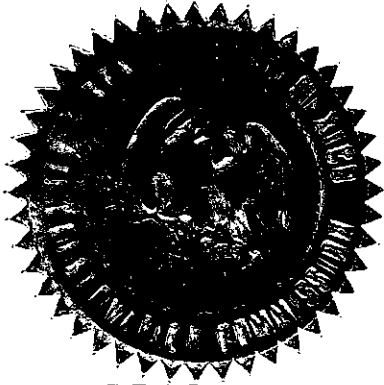
(b) Apache's existing Concho State Well No. 6 (API No. 30-015-30925), located 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2; and

(c) Apache's existing Concho State Well No. 8 (API No. 30-015-32413), located 1710 feet from the South line and 880 feet from the East line (Unit I) of Section 2.

(2) Except as amended hereby, Order No. R-9922-E shall continue in full force and effect.

(3) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "Mark E. Fesmire".

2 MARK E. FESMIRE, P.E.
Director