



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

March 30, 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-5031 (SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your application (***administrative application reference No. pMES0-408557039***) dated February 6, 2004 filed on behalf of the operator, Apache Corporation ("Apache"); (ii) your e-mail on Monday morning, February 23, 2004; (iii) our telephone conversation late Monday afternoon, February 23, 2004; (iv) our e-mail correspondence on Wednesday, February 25, 2004; (v) your e-mail on Tuesday morning March 23, 2004 checking on the status of Apache's remaining applications in this area; (vi) my e-mail on Friday afternoon, March 26, 2004 requesting additional detailed information concerning the fee lease involved in this matter; (vii) your reply by letter, with attachments, on March 30, 2004; (viii) our e-mail correspondence on Tuesday afternoon, March 30, 2004; and (ix) the Division's records in Santa Fe: 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 SW/4 (Unit K) of Section 9, Township 21 South, Range 37 East, NMPM, Penrose Skelly (Grayburg) Pool (**50350**), Lea County, New Mexico.

The Division Finds That:

(1) All of Section 9 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 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 U.S.A., Inc. ("Chevron"), and BP America Production Company ("BP") each own undivided operating rights; and (ii) Apache is the leasehold operator.

(3) This 40-acre Grayburg unit is currently dedicated to Apache's Hawk "B-1" Well No. 26 (**API No. 30-025-35799**) located at a standard oil well location 1840 feet from the South line and 2000 feet from the West line of Section 9.

(4) Apache now seeks to drill its Hawk "B-1" Well No. 41 at an unorthodox infill oil well location within this 40-acre Grayburg unit 2590 feet from the South line and 2630 feet from the West line of Section 9.

(5) The 320-acre area in Lea County, New Mexico comprising the SE/4 SW/4, NE/4 SE/4, and S/2 SE/4 of Irregular Section 4, and the NE/4 of Section 9, all in Township 21 South, Range 37 East, NMPM, is a single fee lease (Southland Royalty "A" fee lease) with common ownership in which Apache is the single working interest owner and is the designated leasehold operator.

(6) The affected standard 40-acre Grayburg oil spacing and proration unit to the northeast in Unit "G" (SW/4 NE/4) of Section 9 that Apache's proposed Hawk "B-1" Well No. 41 is encroaching is currently dedicated to Apache's Southland Royalty "A" Well No. 10 (API No. 30-025-35514), located at a standard oil well location 1830 feet from the North line and 1980 feet from the East line of Section 9.

(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, 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 Hawk "B-1" Well No. 41 in the following manner:

- (a) 80.05% to be attributed to the subject Hawk "B-1" federal lease (U. S. government lease No. NM-90161); and
- (b) 19.95% attributed to the offsetting Southland Royalty "A" fee lease.

(9) This allocation formula for the proceeds from Apache's proposed Hawk "B-1" Well No. 41 serves to benefit all mineral interests (both cost bearing and non-cost bearing 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. pMES0-408557039*) for its proposed Hawk "B-1" Well No. 41 to be drilled at an unorthodox infill oil well location 2590 feet from the South line and 2630 feet from the West line (Unit K) of Section 9, 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 Hawk "B-1" Well No. 41 is to be simultaneously dedicated, with Apache's existing Apache's Hawk "B-1" Well No. 26 (API No. 30-025-35799) located at a standard oil well location 1840 feet from the South line and 2000 feet from the West line of Section 9, to the NE/4 SW/4 (Unit K) of Section 9, being a standard 40-acre oil spacing and proration unit in the Penrose Skelly (Grayburg) Pool.

(3) The distribution of proceeds from Penrose Skelly (Grayburg) oil production from Apache's proposed Hawk "B-1" Well No. 41 are to be allocated in the following manner:

- (a) 80.05% to be attributed to the subject Hawk "B-1" federal lease (U. S. government lease No. NM-90161) located in Section 9; and
- (b) 19.95% attributed to the offsetting Southland Royalty "A" fee lease also located in Section 9.

(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



MICHAEL E. STOGNER
Engineer/Hearing Officer

MS/mes

cc: New Mexico Oil Conservation Division - Hobbs
U. S. Bureau of Land Management - Roswell
U. S. Bureau of Land Management - Carlsbad