

Exh. 4



MODRALL SPERLING

L A W Y E R S

December 4, 2013

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VIA ELECTRONIC FILING

Ms. Jami Bailey, Director
Oil Conservation Division
1220 South St. Francis Drive
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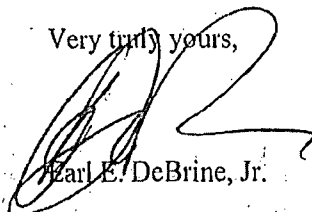
Re: Application of Apache Corporation for Retroactive Surface
Commingle and an Exception to the Metering Requirements
of Division Rule 15.12.10(C)(1) NMAC, Lea County, New
Mexico

Dear Ms. Bailey:

On behalf of Apache Corporation, please find enclosed our referenced
application which we request be set for hearing on the Examiner's docket now
scheduled for January 24, 2013.

Also enclosed is our proposed advertisement of this case for the
NMOCD docket.

Very truly yours,



Earl E. DeBrine, Jr.

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Enclosures

cc: Michelle Hanson
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PROPOSED ADVERTISEMENT

Case ____: Application of Apache Corporation for approval, retroactively, for surface commingling and an exception to the metering requirements of Division Rule 19.15.12.10(C)(1) NMAC, Lea County, New Mexico. Applicant, in the above-styled cause, seeks exceptions to allow for surface commingling and allocation of production by well tests, retroactively, to the date that oil and gas was first surface commingling for its wells located within its Hawk B-1 lease comprising the SE/4 and E/2 SW/4 of Section 8 and the S/2 and E/2 NW/4 of Section 9, Township 21 South Range 37 East, Lea County, New Mexico. In addition, Applicant seeks approval to add future wells to the Hawk B-1 Federal Tank Battery and/or the Hawk B-1 Tank Battery. The center of said area is located approximately 4 miles north from Eunice, New Mexico.

**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 APPROVAL, RETROACTIVELY, FOR SURFACE
COMMINGLING AND AN EXCEPTION TO THE
METERING REQUIREMENTS OF DIVISION RULE
19.15.12.10(C)(1) NMAC,
LEA COUNTY NEW MEXICO**

CASE NO. _____

APPLICATION

Comes now APACHE CORPORATION "Apache", by and through its attorneys, Earl DeBrine, Modrall Law Firm and W. Thomas Kellahin of Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division for approval, including retroactive approval, of the surface commingling of production for 34 wells located within its Hawk B-1 lease, comprising portions of Sections 8 and 9, Township 21 South Range 37 East, Lea County, New Mexico. Applicant, in the above-styled cause, in accordance with Division Rule 19.15.12 NMAC, is requesting surface commingling approval be made retroactive to the date that oil and gas production was first surface commingled from the Hawk B-1 lease, a lease containing lease line and non-consent wells, creating diversity in ownership. In addition, the applicant seeks, retroactively, to allocate production by monthly well tests in lieu of separately metering each well's production. Applicant also seeks authority to surface commingling future wells and add them to either its Hawk B-1 Federal Tank Battery or its Hawk B-1 Tank Battery.

In support of its application, Apache Corporation ("Apache"), states:

- (1) The Hawk B-1 Lease is currently operated by Apache and has a total of 34 wells, all as shown on the locator plat attached as Exhibit "A". Thirty-two of these wells are currently producing from either or both the Penrose Skelly-Grayburg (50350) and/or East Hare-San Andres (96601) Pools.

- (2) Production from these 32 wells is being processed, stored and commingled at the Hawk B-1 Tank Battery located in Unit K of Section 9. The two remaining wells on this lease, the Hawk B-1 Wells No. 69 and 70 are producing from the Wantz-Abo Pool (62700). Production from these wells is being processed, stored and commingled at the Hawk Federal B-1 Tank Battery located in Unit K of Section 9.
- (3) As a result of internal review of its operations on this lease, Apache has determined that through prior acquisitions, it has obtained wells in which surface commingling has been already occurring but it is unclear whether Division approval was obtained.
- (4) Therefore, Apache also requests that approval be made retroactive to the date that oil and gas was first surface commingling.
- (5) The Hawk B-1 #12 (Grayburg formation) and the Hawk B-1 #6 (San Andres formation) were being surface commingled at the time they were acquired by Apache effective April 1, 1999. Thereafter, Apache continued to surface commingle these wells and new wells on this lease, but failed to recognize that it needed to obtain Division approval to allocate production by monthly well tests in lieu of separately metering each well's production.
- (6) Apache's Hawk B-1 lease is a federal oil & gas lease, numbered NMNM-90161, consisting of the E/2 SW/4 and SE/4 of Section 8 and the E/2 NW/4 and S/2 of Section 9, T21S, R37E. Within this lease, Apache currently operates the following-described wells:
 - a. Twenty-five wells ("normal wells") with common ownership whose production is from either or both the Penrose Skelly-Grayburg Pool and/or the East Hare San Andres Pool whose production is taken to and stored on lease at the Hawk B-1 Tank Battery located in Unit K of Section 9.
 - i. Those specific wells are further identified on Exhibit "B" attached;
 - ii. The ownership for this group of wells is set forth on Exhibit "C" attached.
 - b. Six "leaseline" wells are located at approved unorthodox well locations "NSLs" near the outer boundaries of the Hawk B-1 lease having been drilled, completed and produced in accordance with Cooperative Well Agreements approved by the BLM and the working interest owners. Each Cooperative Well Agreement allows for each well to be drilled at an NSL within a 40-acre spacing unit within the Hawk B-1 lease, with common ownership, but the production is shared with the owners that are different within the offsetting leases that might be affected by that well's production.

These agreements allow for the sharing of production in such a way as to result in "diverse ownership" of that production. That production is also taken and stored on lease at the Hawk B-1 Tank Battery located in Unit K of Section 9.

- i. Those specific wells are further identified on Exhibit "D" attached;
 - ii. The ownership for each of these wells is diverse and different as set forth on Exhibit "E"
 - c. Two additional wells: (a) the Hawk B-1 #69 (leaseline well) (Wantz-Abo Pool ID-62700) at an approved unorthodox well location on the Hawk B-1 lease having been drilled, completed and produced in accordance with a Communitization Agreement approved by the BLM and the working interest owners that allow for the sharing of production in such a way as to result in "diverse ownership" of that production; (b) The Hawk B-1 #70 "normal well" was recently drilled to the Wantz Abo Pool. Production from the Hawk B-1 #69 well is separately metered before being surface commingled with production from the Hawk B-1 #70 well. Further, the production from both wells is taken and stored on lease at the Hawk Federal B-1 Tank Battery located in Unit K of Section 9.
 - i. Those specific wells are further identified on Exhibit "F" attached;
 - ii. The ownership for each of these wells is diverse and is set forth on Exhibit "G".
 - d. One non-consent well, the Hawk B-1 #55 (Penrose Skelly-Grayburg Pool), is located on the Hawk B-1 lease at a standard well location. The diverse ownership of this well is a result of certain working interest owners going non-consent in the drilling of the well. Consequently, the ownership of this well is diverse until payout. The production from this well is taken and stored on lease at the Hawk B-1 Tank Battery located in Unit K of Section 9.
 - i. This specific well is further identified on Exhibit "H" attached;
 - ii. The ownership for this well is diverse and is set forth on Exhibit "I".
- (7) **The Hawk B-1 and Hawk Federal B-1 Tank Battery Facility Diagram** is attached and shown as Exhibit "J".
- (8) **Affected Wellbores and Effect Date:** Attached to this application are Exhibits "B", "D", "F" and "H", which list the affected wellbores by well name and number and further provides the API number, the date that each well's production was first commingled at the surface, each well's current daily production rate and reference to any associated regulatory orders and/or agreements pertaining to a certain well.

- (9) **Notice:** Notice has been given to all interest owners in accordance with Subsection C of 19.15.12.10 NMAC. Attached, as Exhibit "C", "E", "G" and "I".
- (10) **Process Flow Through the Hawk B-1 Battery:** The Hawk B-1 battery currently consists of a free water knock out, a heater treater, two test separators, a fluid scrubber, two 500 bbl steel oil storage tanks, a LACT meter run, two water storage tanks and two gas sales meters along with associated piping and valves between vessels. Oil, water, and gas production enters the battery at the production header through individual well flow lines. The production stream from each well is then directed through either a common pool line or through one of two test lines by virtue of a valve system at the production header.
- (11) **Process Flow Through the Hawk Federal B-1 Battery:** The Hawk Federal B-1 battery currently consists of two 3-phase test separators, a gas scrubber, a heater treater, two 400 bbl steel oil storage tanks, two water storage tanks (same two water storage tanks as are mentioned in the Process Flow Through the Hawk B-1 Battery) and one common gas sales meter. Production from the Hawk B-1 #69 and Hawk B-1 #70 Abo wells both enter a common header system, which isolates each well from the other via a valve system. Each well's production first enters their own 3-phase separator where oil, gas & water are all individually metered by well. The two gas streams are then commingled and sent through a gas scrubber prior to a common gas sales meter. Oil production from the two separators is then commingled and sent through a common heater treater prior to storage in the common oil tanks before being trucked to sales. Water production from both separators is sent to the common water storage tanks prior to trucking to disposal. The heater treater is only fired during the colder months with gas from the common scrubber prior to sales.
- (12) **Apache's Monthly Allocation Method:**
- a. Each day, two wells are tested for a 24-hour period through one of two test separators that measure oil, water, and gas production. Oil is metered and then sent through the heater treater prior to storage in one of the two 500 BBL storage tanks. Periodically the oil is then sold through the LACT meter at the battery. Water is metered and then sent to one of two 500 BBL water tanks prior to pumping to disposal. Gas is metered through a meter run with an orifice plate prior to flowing through one of two gas sales meters.
 - b. All other wells (that are not in test on that day) are directed through the pool line to the free water knock out and the heater treater in order to separate the oil and gas for sales, and water for disposal.

- c. Oil and gas production volumes are then allocated back to each individual well based on the well tests that were recorded each month in proportion to the monthly oil and gas sales that were attributed to the Hawk B-1 battery.

(13) **Cost Reduction:** Apache is requesting a hearing to permit commingling of oil and gas production from the Hawk B-1 lease wells with diverse ownership and allocate production to the wells based upon monthly well tests. An exception to 19.15.12.9 NMAC is necessary to prevent waste and promote conservation by utilizing the existing tank battery equipment to process oil and gas, thereby reducing the incremental investment capital that would be needed to install separate metering vessels for each well with diverse interests. An exception to 19.15.12.9 NMAC would also prevent waste and promote conservation by reducing the lease operating expense to maintain the number of individual test separators necessary for all wells with diverse ownership.

(14) **Marginal Production:**

- a. Most of the Hawk B-1 wells currently operate at a marginally economic level and keeping the operating cost at a minimum will allow the entire lease to have a much longer economic producing life. In turn this would result in ultimately recovering maximum reserves from this lease. **Attached as Exhibit "K" is a production summary.**
- b. Without permission to commingle the oil and gas production from the Hawk B-1 wells with diverse ownership and allocate production based upon monthly well tests, an additional 8 production separators with related metering equipment would have to be purchased and installed at an estimated cost of at least \$320,000. The maintenance costs for the additional equipment would also negatively impact each well's economics. The net effect of the required additional capital and operating expenses would be a decrease in the economic life of the lease, and an increase in oil and gas reserves left in the ground.

(15) **Beneficial Use of Fuel:** The fuel gas for the Hawk B-1 heater treater comes directly off of the free water knock out from the wells. This vessel is fired year round and benefits only the production from the Hawk B-1 Lease wells.

(16) **Prevention of Waste:** An exception to 19.15.12.9 NMAC would prevent waste and promote conservation by utilizing the existing production facilities to process oil and gas. Utilizing the existing equipment would benefit all of the working interest owners in the Hawk B-1 lease by allowing them to recover reserves with less capital investment. Utilizing the existing equipment would

benefit all royalty interest owners by decreasing the operating expense on the lease, thereby extending the economic life of the lease and increasing royalty payments. In summary, lower capital and lower operating expenses mean longer life and more royalties over the life of the lease.

- (17) **Form C-107-B:** The applicant has attached a proposed Division Form C-107-B to this application as Exhibit "L".
- (18) **Future Wells:** Applicant also seeks authority to surface commingling future wells and add them to either its Hawk B-1 Federal Tank Battery or its Hawk B-1 Tank Battery.
- (19) **Hearing Date:** Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for January 24, 2013.
- (20) **In Summary,** Apache Corporation is seeking:

HAWK B-1 TANK BATTERY:

- (1) Surface commingling authority, retroactively to the date the wells were first commingled, for 32 wells producing from either or both the Penrose Skelly-Grayburg and East Hare-San Andres Pools on its Hawk B-1 Lease;
- (2) An exception to the metering requirements of Division Rule 19.15.12.10(C)(1) to allow allocation or production from diversely-owned wells on this lease by means of monthly well tests; and
- (3) Authority to add wells to this surface commingling approval at such time as new wells are drilled on the Hawk B-1 Lease. This may include wells drilled to the Penrose Skelly-Grayburg, East Hare-San Andres Pool, or other producing pools in this area.

HAWK FEDERAL B-1 TANK BATTERY:

- (1) Surface commingling authority, retroactive to the date the wells were first commingled, for the diversely owned Hawk B-1 Wells No. 69 and 70 producing from the Wantz-Abo Pool.
- (2) Since production from the Hawk B-1 Wells No. 69 & 70 are both being separately metered prior to commingling, an exception is requested only for surface commingling for the diversely owned wells, and no exception is requested for allocation by well tests.
- (3) Authority to add wells to this surface commingling approval at such time as new wells are drilled on the Hawk B-1 Lease. This may include wells drilled to the Penrose Skelly-Grayburg, East Hare-San Andres Pool, or other producing pools in this area.

WHEREFORE Applicant requests that this matter be set for hearing on January 24, 2013 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted,

MODRALL, SPERLING, ROEHL, HARRIS
& SISK, P.A.

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