

**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. 14176
ORDER NO. R-12121-A**

**APPLICATION OF APACHE CORPORATION
FOR AN EXCEPTION TO DIVISION
ORDERS NO. R-9922-E AND R-12121 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 Orders No. R-9922-E and R-12121 to permit simultaneous dedication of the W/2 of Section 36, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico (the "Subject Unit"), a standard 320-acre spacing unit in the Indian Basin-Upper Pennsylvanian Associated Pool, to its proposed Lowe State Well No. 7 (API No. 30-015-36379), 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) Notwithstanding the prohibition of more than one well per quarter section provided in Order No. R-9922-E, Order No. R-12121, issued in Case 13202 on March 10, 2004, specifically authorizes the simultaneous dedication of the Subject Unit to the following two Indian Basin-Upper Pennsylvanian wells (the "Existing Wells"), both of which are located in the SW/4 of Section 36, as follows:

Lowe State Well No. 5 (API No. 30-015-30583), located 1650 feet from the South line and 2540 feet from the West line (Unit K) of Section 36; and

Lowe State Well No. 6 (API No. 30-015-33373) [also called the Lowe State Gas Com Well No. 6], located 660 feet from the South line and 990 feet from the West line (Unit M) of Section 36.

Order No. R-12121 further provides that:

No additional well shall be drilled, recompleted or produced in the Indian Basin-Upper Pennsylvanian Associated Pool within the W/2 of Section 36 during the time period in which the Lowe State Well No. 5 and Lowe State Gas Com Well No. 6 are being produced.

(5) Applicant now seeks permission, notwithstanding the prohibitory provision of Order No. R-12121, to simultaneously dedicate the Subject Unit to the Proposed Well, to be drilled to the Indian Basin-Upper Pennsylvanian Associated Pool in the Subject Unit at a location in the NW/4 of Section 36, being 660 feet from the North line and 730 from the West line (Unit D) 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) The Lowe State Well No. 1, formerly completed in the Upper Pennsylvanian in the NW/4 of Section 36, was producing gas at a rate of 750 mcf/day in 2003, when it was shut in (and later abandoned) due to mechanical failure, thus indicating that additional unproduced reserves exist in the NW/4 of Section 36.

(b) 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.

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

(d) The Proposed Well will be at a relatively favorable location, structurally, compared to the Existing Wells and the Lowe State Well No. 1, and will probably produce additional oil and gas reserves underlying the NW/4 of Section 36 that cannot be produced from the Existing Wells.

(e) 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.

(f) There are existing wells that offset the Subject Unit to the north that could, potentially, drain reserves from the NW/4 of Section 36.

(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) When Order No. R-12121 was issued, Marathon Oil Company, one of the offsetting operators, consented to the entry of that order allowing two wells in the SW/4 of Section 36 on the express condition that no well be allowed in the NW/4 of Section 36.

However, Marathon Oil Company, along with other offset operators, was notified of the filing of this Application, and neither objected nor entered an appearance in this case.

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

IT IS THEREFORE ORDERED THAT:

(1) Orders No. R-9922-E and R-12121 are hereby amended so that Apache Corporation may simultaneously dedicate a 320-acre unit comprising the W/2 of Section 36, Township 21 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 Lowe State Well No. 7 (API No. 30-015-36379), to be located 660 feet from the North line and 730 from the West line (Unit D) of Section 36;

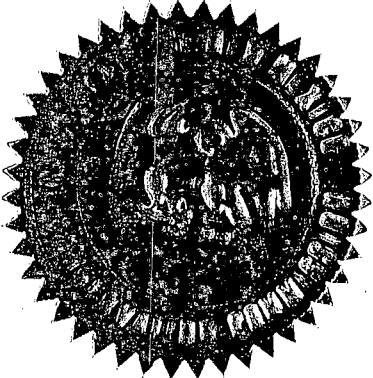
(b) Apache's existing Lowe State Well No. 5 (API No. 30-015-30583), located 1650 feet from the South line and 2540 feet from the West line (Unit K) of Section 36; and

(c) Apache's Lowe State Well No. 6 (API No. 30-015-33373) [also known as the Lowe State Gas Com Well No. 6], located 660 feet from the South line and 990 feet from the West line (Unit M) of Section 36.

(2) Except as amended hereby, Orders No. R-9922-E and R-12121 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

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

Mark E. Fesmire
MARK E. FESMIRE, P.E.
Director