

RED HILLS-BONE SPRING POOL
Lea County, New Mexico

Order No. R-10109, Adopting Special Operating Rules for the Red Hills-Bone Spring Pool, Lea County, New Mexico, April 26, 1994, as Amended by Order No. R-10109-A, October 31, 1995.

Application of Enron Oil & Gas Company for
Special Pool Rules, Lea County, New Mexico

CASE NO. 10943
Order No. R-10109

ORDER OF THE DIVISION

BY THE DIVISION: This cause came on for hearing at 8:15 a.m. on March 31, 1994, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 26th day of April, 1994 the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) By Division Order No. R-9792, dated December 3, 1992 and made effective December 1, 1992, the Division created and defined the Red Hills-Bone Spring Pool for the production of oil from the Bone Spring formation. The horizontal limits for said pool, as currently designated, comprise the NW/4 of Section 13, Township 25 South, Range 33 East, NMPM, Lea County, New Mexico.

(3) The Red Hills-Bone Spring Pool is currently governed by the general Statewide Rules and Regulations with development on standard 40-acre spacing and proration units each having a top unit depth bracket allowable of 410 barrels of oil per day and a limiting gas/oil ratio of 2,000 cubic feet of gas per barrel of oil which results in a casinghead gas allowable of 820 MCF per day. This depth bracket allowable was established and set by said Order No. R-9792 to correspond with the top-most perforation in the discovery well for the pool, being the Enron Oil and Gas Company Vaca "13" Federal Well No. 1 located in the NE/4 NW/4 (Unit C) of said Section 13 [see Finding Paragraph No. (7) on page 2 of said Order No. R-9792].

(4) The applicant, Enron Oil and Gas Company ("Enron"), seeks the promulgation of rules and operating procedures for the Red Hills-Bone Spring Pool including provisions for 80-acre spacing and proration units and designated well location requirements whereby wells can be no closer than 330 feet from the outer boundary of a spacing unit.

(5) According to the testimony offered at the hearing, Enron currently operates seven Bone Spring wells that are either located within the subject pool or its production can be attributed to the Red Hills-Bone Spring Pool. These seven wells are the only wells in the immediate area completed in the Bone Spring formation.

(6) The applicant presented production decline curves on all seven wells and the volumetric analysis indicates that each well is capable of draining in excess of 40 acres.

(7) The geological parameters presented in this matter also indicates that one well in this reservoir is capable of adequately draining an 80-acre area.

(8) The accumulation of evidence presented in this case justifies the establishment of 80-acre spacing for the Red Hills-Bone Spring Pool on a permanent basis.

(9) The proposed 330-foot set-back requirement is a departure from the established set-back requirements for pools with 80-acre development, which restricts well locations to an area of 150 feet radius of the center of either quarter-quarter section or lot in the unit. This 150 foot set-back requirement for 80-acre units was established to assure orderly development in a pool and to prevent the grouping of wells in corners where four 80-acre proration units converge.

(10) There was insufficient evidence presented in this matter to support the need for an exception to these established "150 foot" set-back requirements; therefore, this portion of the application should be denied.

(11) Approval of this application with the proposed alterations is in the best interest of conservation, will serve to protect correlative rights, will also serve to prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste.

IT IS THEREFORE ORDERED THAT:

(1) Effective May 1, 1994, special rules and regulations for the Red Hills-Bone Spring Pool, previously defined and classified, and currently consisting of the NW/4 of Section 13, Township 25 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby promulgated as follows:

**SPECIAL RULES AND REGULATIONS
FOR THE
RED HILLS-BONE SPRING POOL**

RULE 1. Each well completed or recompleted in the Red Hill-Bone Spring Pool or in the Bone Spring formation within one mile thereof, and not nearer to or within the limits of another designated Bone Spring pool, shall be spaced, drilled, operated and produced in accordance with the Special Rules hereinafter set forth.

RULE 2. (As Amended by Order No. R-10109-A, October 31, 1995.) Each well shall be located on a standard unit containing 80 acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of a governmental quarter section; provided however, that nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in that unit.

RULE 3. The Director of the Oil Conservation Division, hereinafter referred to as the "Division", may grant an exception to the requirements of Rule 2 without hearing when an application has been filed for a non-standard unit comprising one or more governmental quarter-quarter sections or lots, or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Lands Survey. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Director has received the application.

RULE 4. (As Amended by Order No. R-10109-A, October 31, 1995.) Each well shall be located no nearer than 330 feet to any governmental quarter-quarter section or lot.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. (As Amended by Order No. R-10109-A, October 31, 1995.) The allowable for a standard oil spacing and proration unit (79 through 81 acres) shall be subject to a special depth bracket allowable of 660 barrels of oil per day and a limiting gas/oil ratio of 2,000 cubic feet of gas per barrel of oil which results in a casinghead gas allowable of 1,320 MCF per day. In the event there are two wells on an 80-acre proration unit, the operator may produce the allowable assigned to the unit from both wells in any

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 2
Submitted by:
EOG RESOURCES, INC.
Hearing Date: September 29, 2011

(RED HILLS-BONE SPRING POOL - Cont'd.)

proportion. The allowable assigned to a non-standard oil spacing and proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres.

IT IS FURTHER ORDERED THAT:

(2) The locations of all wells presently drilling to or completed in the Red Hills-Bone Spring Pool or in the Bone Spring formation within one mile thereof, and not nearer to or within the limits of another designated Bone Spring pool are hereby approved; the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Division in writing of the name and location of the well within thirty days from the date of this order.

(3) Pursuant to Paragraph A of Section 70-2-18, NMSA (1978), contained in Chapter 271, Laws of 1969, existing wells in the Red Hills-Bone Spring Pool shall have dedicated thereto 80 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 80 acres to a well or to obtain a non-standard unit approved by the Division within sixty days from the date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said sixty-day limitation, each well presently drilling to or completed in the Red Hills-Bone Spring Pool or in its corresponding vertical limits as described in Decretory Paragraph No. (1), above, or within one mile thereof shall receive no more than one-half of a standard allowable for the pool.

(4) The special rules and regulations promulgated herein are hereby permanently established. In the event that further development of the subject pool demonstrates that 80-acre spacing is inappropriate, this case may be reopened at the request of any operator in the pool, or by the Division on its own motion.

(5) Jurisdiction of this cause 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.

RIO PUERCO-MANCOS OIL POOL
(Ceja Pelon Unit Rules Rescinded)
Sandoval County, New Mexico

Order No. R-9902-A, Rescinding the Operating Rules for the Ceja Pelon Unit in the Rio Puerco-Mancos Oil Pool, Sandoval County, New Mexico, Effective July 20, 1994.

In the Matter of Case No. 10714 Being Reopened Pursuant to the Provisions of Division Order No. R-9902 which Order Approved the Ceja Pelon Unit in the Rio Puerco-Mancos Oil Pool, Sandoval County, New Mexico, and Promulgated Temporary Special Operating Rules and Regulations within the Unit Area.

CASE NO. 10714 (Reopened)
Order No. R-9902-A

ORDER OF THIS DIVISION

BY THE DIVISION: This cause came on for hearing at 8:15 a.m. on July 7, 1994, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 20th day of July, 1994, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) By Order No. R-9902, issued in Case No. 10714 on June 23, 1993, the Division, upon application of The Gary Williams Company, approved the Ceja Pelon Unit Area in Sandoval County, New Mexico, and promulgated Special Operating Rules and Regulations regarding drilling and operating high angle/horizontal wellbores within the unit area.

(3) Pursuant to the provisions of Division Order No. R-9902, this case was reopened to allow the operator and interest owners within the unit the opportunity to appear and show cause why the Special Operating Rules and Regulations for the Ceja Pelon Unit should remain in effect.

(4) The Gary Williams Company and Samuel Gary & Associates appeared through legal counsel at the hearing but presented no evidence or testimony in this case.

(5) Counsel for the above-described parties stated that the horizontal drilling project within the Ceja Pelon Unit has not been successful and that the special operating rules and regulations are unnecessary and therefore should be rescinded.

(6) No other operator and/or interest owner appeared at the hearing.

(7) The Special Operating Rules and Regulations for the Ceja Pelon Unit, as promulgated by Division Order No. R-9902, should be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) The Special Operating Rules and Regulations for the Ceja Pelon Unit, as promulgated by Division Order No. R-9902, are hereby rescinded.

(2) Jurisdiction of this cause is hereby 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.